

AIPLA

American Intellectual Property Law Association

April 9, 2018

VIA EMAIL: PA0A00@jpo.go.jp
Legislative Affairs Office
General Coordination Division
Policy Planning and Coordination Department
Japan Patent Office
3-4-3 Kasumigaseki
Chiyoda-ku Tokyo 100-8915, Japan

**Re: AIPLA Comments on the JPO Guide on Licensing Negotiations
Involving Standard Essential Patents of March 9, 2018.**

Dear Sirs/Madams:

I. Generally

The American Intellectual Property Law Association (“**AIPLA**”) welcomes this opportunity to submit these comments to the Guide to Licensing Negotiations Involving Standard Essential Patents (SEPs) (“**Guide**”), which was published for comments on March 9, 2018 by the Japanese Patent Office (“**JPO**”).

AIPLA, headquartered in the United States, is the largest association of intellectual property practitioners in the United States, having about 13,500 members who are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent and other intellectual property law in jurisdictions throughout the world.

AIPLA takes very seriously, and regularly comments on, issues concerning the development, protection, commercialization, and licensing of intellectual property rights (“**IPR**”). AIPLA’s views on standards-setting generally, and standard setting organizations’ (“**SSOs**”) IPR policies specifically, have supported and emphasized the need for sensible transparency, flexibility, and incentives for broad participation in standards-setting activities by all stakeholders—i.e., users of standards and also owners of intellectual property whose technology may be included in standards based on the consensus of interested stakeholders. Consistent with this position, AIPLA has explained the importance of strong IPR protection in connection with standards-setting, so innovators will have the incentives to invest in the development of technologies and contribute such technologies to standards-setting efforts.

It is in this context that AIPLA offers these comments regarding the Guide. AIPLA does not comment on every issue covered by the Guide, and our decision not to do so should not be interpreted as agreement with an issue presented by the Guide.

A. Scope

AIPLA appreciates JPO's desire to provide the public with educational materials regarding the developing area of SEPs. Such education is particularly useful for those in industries that traditionally have not dealt with SEPs, but now benefit from introducing next-generation Internet connected products that use patented technology and technical standards from the information and communication technology ("*ICT*") industry. Such convergence of ICT technology with other everyday technology often is referred to as the internet of things ("*IoT*").

Fortunately, there is a wealth of educational materials already available today—and still growing—on SEPs. AIPLA itself is an international organization whose mission includes a commitment to public education and raising public awareness in all aspects of intellectual property law.¹ Among other things, AIPLA regularly has sponsored educational programs on SEPs from both domestic and international points of view. AIPLA's Standards & Open Source Committee holds regular monthly meetings for members to discuss SEPs and recent developments. And AIPLA is not alone. There are several other professional organizations that provide educational opportunities on SEPs. Further, law firms, academics and others also regularly publish or present on developing SEP issues. Indeed, an internet search of the term "standard essential patent" produces a substantial number of educational resources on SEPs.

SEPs are, first and foremost, patents. The scope, validity, enforceability, available remedies and value of an SEP or any other patent must be determined based on the particular law and market of the specific country that issued the patent. Further, competition authorities who have considered SEPs do so based on procedures and competition law of their particular country that can be substantially different from other countries. Understanding the country-by-country distinction between patents and patent enforcement, therefore, is critical.²

Further, the legal rights and remedies available when confronting patent issues within a specific country can differ significantly depending on the particular patents, products, parties and circumstances presented. Thus, although education materials such as JPO's proposed Guide may make its readers more familiar with general SEP issues than they otherwise may have been, a party facing actual SEP issues prudently should seek the advice of learned counsel about the particular circumstances presented before taking action.

Also, any attempt to regulate royalty fees would need to take into account the complete, and often complex, commercial relationship between the parties. The royalty fees agreed to in license agreements are often the result of complex and multifaceted commercial negotiations between the parties addressing far broader cross licenses, portfolio licenses, and other business issues between specific parties. Fundamentally, all licensing terms have value, whether in monetary or non-monetary terms, and negotiating parties cannot consider monetary terms in isolation. Consideration of royalty fees should be broad and flexible enough to permit

¹ See AIPLA Strategic Plan (<https://www.aipla.org/about/who/Pages/AIPLA-Strategic-Plan.aspx>)

² Patents are necessarily territorial rights granted by individual governments and any action by any government entity should not infringe on the right of each sovereign country to govern the exercise of IPR within their borders.

consideration of all aspects of the license agreement. Along this line, the complexity of valuation is reflected by the landmark U.S. case, *Georgia Pacific v U.S. Plywood*, 318 F.Supp 1116 (SDNY 1970) affirmed at 446 F2d 295. In the *Georgia Pacific* case, 15 factors may be considered in determining reasonableness. Recent courts have found additional factors or algorithms that may be appropriate for standard essential patents while some *Georgia Pacific* factors may be not applicable to standard essential patents.

AIPLA does not believe that government entities should prescribe guidelines or fix SEP royalties. Rather, AIPLA supports a SSO traditional approach of leaving specific licensing terms to negotiations of the parties with no substantive limit or required calculation method as long as the resulting terms are consistent with the patent owners licensing commitment—e.g., reasonable and nondiscriminatory. AIPLA, therefore, commends JPO for stating that its Guide is not binding and does not present a recipe for determining licensing terms.

Based on the foregoing, AIPLA has a few concerns and recommendations concerning JPO's proposed Guide.

First, AIPLA is concerned that the fact that JPO has published and endorsed the Guide may lead some in industry to put more weight on the Guide than intended. We appreciate and commend JPO for stating in the Guide that it is not prescriptive, binding on anyone or a recipe for negotiating and determining SEP licensing terms. Nonetheless, we are concerned that the stature of the Guide as a JPO endorsed publication may lead some to take the position in licensing negotiations or elsewhere that the JPO Guide is “the way” to negotiate SEP licenses or presents a strong safe harbor for negotiation positions. AIPLA, therefore, recommends that JPO expressly state that the Guide should not be given undue weight or priority over other public and private educational resources about SEPs.

Second, and related to the above, AIPLA is concerned that some in industry may consult only the JPO Guide before taking action on SEP issues. As discussed above, rights and remedies concerning SEPs vary on a country-by-country basis and the particular patents, products, parties and circumstances presented. AIPLA, therefore, recommends that JPO expressly state that the Guide is no substitute for advice from learned legal counsel and that prudent readers will seek such advice before taking action on SEP issues.

Third, AIPLA is concerned that the Guide statements that it is not prescriptive, binding or a recipe for SEP licensing is undermined by many instances within the Guide that indicate certain actions are required by one party or another. For example, many times the Guide makes statements about what actions a party “should” do, and the word “should” inadvertently may lead a reader to believe that such action is required. AIPLA, therefore, recommends that JPO review the text of the Guide to change mandatory terms like “should” to more permissive language, such as “may”, or otherwise revise the language to ensure that a party may not pull specific language from the JPO Guide to argue that a party is required to take certain action.

B. U.S. Law Perspective

In its discussion of a process for negotiating a license for SEPs subject to a FRAND commitment, JPO notes that “around the world,” “limitations are consistently imposed on the exercise of the right to seek an injunction against implementers who have responded in good faith.”³ The draft then suggests that under U.S. law, seeking an injunction may be restricted under the Supreme Court’s decision in *eBay v. MercExchange*⁴, as well as principles of contract and competition law. This section misstates the extent to which U.S. law restricts the right of SEP owners who have made a FRAND commitment to seek an injunction, and thus suggests a greater degree of global consensus on these issues than exists.

With regard to patent law, JPO is correct that *eBay* provides the standard that courts apply to determine if an injunction is available as a remedy for patent infringement. *EBay* provides a flexible fact-based framework that courts are required to apply in determining whether injunction relief should be granted.⁵ *EBay* does not restrict that right to merely ask a court for relief—including injunctive relief. In *Apple Inc. v. Motorola Mobility Inc.*, the Court of Appeals for the Federal Circuit expressly held that the *eBay* framework applies equally to SEPs subject to a FRAND commitment. Reviewing a lower court decision, the Federal Circuit stated that “to the extent that the district court applied a *per se* rule that injunctions are unavailable for SEPs, it erred. While Motorola’s FRAND commitments are certainly relevant to its entitlement to an injunction, we see no reason to create, as some *amici* urge, a separate rule of analytical framework for addressing injunctions for FRAND-committed patents. The framework laid out by the Supreme court in *eBay*...provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general.”⁶

With regard to contract law, JPO is correct that some U.S. courts have found that seeking an exclusion order may constitute breach of an SEP owner’s FRAND assurance or have enjoined execution of an injunction during the course of a FRAND determination trial. However, as with application of the *eBay* standard, courts evaluating breach of contract claims apply a fact-specific analysis, not a black-letter rule. Moreover, U.S. courts have never required that parties follow a particular negotiating framework to comply with their FRAND commitment or to avoid an injunction. The district court’s decision in *Realtek v. LSI*, cited at footnote 26 of the JPO draft, does not hold, as the parenthetical suggests, that in all circumstances, “seeking injunctive relief before offering a license on FRAND terms is a breach of contractual obligations.”⁷

And importantly, unless the underlying claim is a sham, seeking an injunction has not given rise to antitrust liability in the United States. While courts may decline to issue an injunction, and may in limited circumstances find that enforcement of an injunction

³ JPO Guide to Licensing Negotiations involving Standard Essential Patents Draft at 17.

⁴ *eBay Inc. v. MercExchange, LLC.*, 547 U.S. 388 (2006).

⁵ *Id.* at 391.

⁶ *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-1332 (Fed. Cir. 2014).

⁷ JPO Guide to Licensing Negotiations involving Standard Essential Patents Draft at note 6, *citing Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998 (N.D. Cal. 2013).

would constitute a breach of contract, unless a court finds that the underlying claim is a sham (objectively and subjectively baseless), merely filing a lawsuit and asking a court to provide a particular form of relief (e.g., an injunction) is protected by the First Amendment to the United States Constitution and cannot be grounds for an antitrust or unfair competition law claim.⁸ U.S. Federal Trade Commission's negotiated consent agreement in *Google v. Motorola* matter does not show otherwise and JPO's reliance on this matter to support a broader global consensus is misplaced.⁹ This was a negotiated consent agreement with the Federal Trade Commission executed in association with the conclusion of a broader investigation into Google's search engine business that has never been endorsed by a court and lacks precedential value.¹⁰

Indeed, this negotiated consent has been expressly rejected by current U.S. antitrust agency leadership as a statement of U.S. law or policy. In a series of recent speeches, the United States Assistant Attorney General for Antitrust, Makan Delrahim, has provided an overview of current competition policy towards the exercise of rights to SEPs. The AAG states that competition agencies have gone too far "in the direction of accommodating the concerns of technology *implementers* who participate in standard setting bodies, and perhaps risk undermining incentives for IP *creators*, who are entitled to an appropriate reward for developing break-through technologies."¹¹ He distances himself from the joint DOJ/PTO statement on remedies for standard-essential patents that the *Realtek* court embraces, and that JPO also cites in its draft Guide. AAG Delrahim points to this statement as an example that "competition policy has focused too heavily on the so-called unilateral hold-up problem, often ignoring what fuels dynamic innovation and efficiency."¹² He also aligns himself with the views of Acting Federal Trade Commission Chairman Maureen Ohlhausen to criticize the FTC's negotiated consent agreement in *Google/MMI*, which the *Realtek* court also

⁸ *Prof'l Real Estate Inv'rs, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56 (1993) (Unless the underlying claim is both objectively and subjectively baseless, antitrust liability cannot be premised on merely asking a court for relief.); *TCL Commc'ns Tech. Holdings, Ltd. v. Telefonaktienbolaget LM Ericsson*, 2016 US Dist. LEXIS 140566 at *7-10 (C.D. Cal. 2016) (finding Plaintiff lacks standing to pursue its unfair competition law claim because any injury it may have suffered flowed solely from the plaintiffs efforts to enforce its rights in courts, including by seeking injunctions and exclusion orders, and the *Noerr-Pennington* doctrine "provides absolute immunity for statutory liability for conduct when petitioning the government for redress."); *see also Apple Inc. v. Motorola Mobility Inc.*, 886 F.Supp.2d 1061, 1066 (W.D. Wis. 2012) ("...the *Noerr-Pennington* doctrine provides Motorola immunity from Apple's antitrust and unfair competition claims premised on Motorola's patent infringement litigation and from Apple's claims for declaratory judgment, to the extent that those claims are premised on a theory of antitrust or unfair competition.")

⁹ JPO Guide to Licensing Negotiations involving Standard Essential Patents Draft at 18, n. 39.

¹⁰ *See Press Release, Google Agrees to Change Its Business Practices to Resolve FTC Competition Concerns In the Markets for Devices Like Smart Phones, Games and Tablets, and in Online Search; Landmark Agreements Will Give Competitors Access to Standard-Essential Patents; Advertisers Will Get More Flexibility to Use Rival Search Engines* (Jan. 3, 2013), <https://www.ftc.gov/news-events/press-releases/2013/01/google-agrees-change-its-business-practices-resolve-ftc>.

¹¹ Makan Delrahim, Assistant Att'y Gen., Antitrust Div., U.S. Dep't. of Justice, TAKE IT TO THE LIMIT: RESPECTING INNOVATION INCENTIVES IN THE APPLICATION OF ANTITRUST LAW, Remarks as Prepared for Delivery at the USC Gould School of Law's Center for Transnational Law and Business Conference (Nov. 10, 2017) <https://www.justice.gov/opa/speech/file/1010746/download> ("AAG November 2017 Remarks"); *see also* Makan Delrahim, Assistant Attorney General, Antitrust Division, U.S. Dep't of Justice, THE "NEW MADISON" APPROACH TO ANTITRUST AND INTELLECTUAL PROPERTY LAW, Remarks as Prepared for Delivery at University of Pennsylvania Law School (March 16, 2018) <https://www.justice.gov/opa/speech/file/1044316/download>.

¹² *Id.* at 6, *citing to* U.S. Dep't of Justice & U.S. Patent & Trademark Office, "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments" (Jan. 8, 2013).

relies on to supports its decision, and the JPO cites to support a global consensus that simply does not exist.”¹³

The current draft would benefit from characterizing the relationship between patents, competition, and standards as cooperative rather than “conflicting regimes, as matters of both U.S. competition policy and economics.” Patents provide the owner with the right to exclude others from using the patented technology. That patent is likely to confer market or monopoly power only in cases where there is meaningful market demand for the patented technology and no close substitutes are available. The U.S. Supreme Court has recognized that, as a matter of competition law, there is no presumption that a patent confers such market power and each case must be evaluated on its own facts. The same holds true for patents incorporated into standards, where there may be competing standards for implementers to employ. In addition, it may be misleading to describe patents and standards as in tension. Strong patent rights are necessary to incentivize risky investment in the new technologies needed to drive complex technical standards forward and the owners of standard-essential patents have an interest in the broad diffusion of standards to recoup their investment.

II. Specifically

A. Step 1: Offer by Rights Holder of Licensing Negotiation

Patent holders are not “required to prove the infringement”. Infringement is not “proved” in negotiations. It would, however, be reasonable to expect a patent holder to substantiate at least examples of its claims of infringement. Also, patent holders are not “required” to provide claim charts. Claim charts for exemplary claims of exemplary patents may be useful to the parties in negotiations.

B. Step 3: Specific Offer by Rights Holder of FRAND Terms

Step 3 provides that a patent holder may exhibit bad faith by “presenting an initial offer that is unreasonable on its face”, but Step 4 has no parallel element. In fairness, implementers’ actions that may be viewed as bad faith should include “presenting a counteroffer that is unreasonable on its face.”

C. Step 5: Rejection of Right Holders of Counteroffer / Settlement of Disputes in Courts or through ADR (II.A.5)

Disputes occur primarily due to disagreements over royalty rates, as well as disagreements over the royalty base on which such rates would be applied. They can occasionally include disputes as to whether a given patent is standard-essential. In the stage of standard promulgation, such disputes have on occasion led to delays in promulgation, and therefore delays in implementation. In addition to such delays, in general such disputes may lead to decreased consumer choice and increased

¹³ AAG November 2017 Remarks at 7. n. 17, *citing* Hon. Maureen K. Ohlhausen, *The Elusive Role of Competition in the Standard-Setting Antitrust Debate*, 20 STAN. TECH. L. REV. 93 (2017). (“The Elusive Role of Competition”) The Acting FTC Chairman has long criticized the negotiated consent agreement in Google/MMI as a misuse of the Commission’s stand-alone Section 5 authority that was out of step with traditional U.S. antitrust principles because it “presented no theory of harm to the competitive process” and only a conclusory treatment of “market power and anticompetitive effects” that evidenced a “lack of analytical rigor. *The Elusive Role of Competition* at 139.

marketplace costs. Given the broad differences in the circumstances under which such issues arise, in what patent claims cover, and in what a reasonable royalty may be, we do not recommend any particular methodology/mechanism for resolving such disputes.

D. Basic Approach (III.A.1)

FRAND Includes Non-Monetary Consideration. AIPLA cautions against too great a focus on royalty rates as presented, because FRAND agreements may not be limited to only monetary royalty rates, but may also include substantial non-monetary terms and conditions. A FRAND agreement permits the parties to agree to reasonable terms, which can include non-royalty compensation, such as reciprocal licensing, defensive suspension provisions or any other consideration that the particular parties to a FRAND agreement agree to exchange. A determination of what constitutes a FRAND rate depends not only on all of the other terms and conditions that the relevant parties must negotiate as part of a license or cross-license involving SEPs, but also on whether SEPs alone are to be licensed, or whether they are to be licensed by the SEP owner along with its other patents or IPRs. Indeed, AIPLA is unaware of a formula or other detailed framework that can value an SEP outside of the specific transaction at issue. License agreements may, and often do, provide other consideration than payment of royalties. The consideration that a patent holder and implementer would find appropriate in negotiating a FRAND-based license may vary and often is not limited to monetary consideration.

No Specific Formula. AIPLA is unaware of a formula or other detailed framework that can value an SEP outside of the specific transaction at issue. Rather, license terms often vary for different licensees because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses and other business relations between specific parties. FRAND obligations are a representation of a patentee's willingness to license its technology to willing counterparties, and do not, standing alone, contain any other express substantive limitations on royalties associated with the licensing of SEPs, provided that the ultimate terms are "reasonable." Because a FRAND commitment does not define "reasonable" terms for licensing SEPs, existing and developing patent law for calculating a "reasonable royalty" provides guidance, at least with respect to pure monetary licensing terms.

Flexible Bilateral License Negotiation. AIPLA supports SSOs' traditional approach of not establishing specific licensing terms, including monetary terms, which should be left to the negotiations of the parties. Fundamentally, all licensing terms have value, whether monetary or non-monetary terms, so negotiating parties cannot consider monetary terms in isolation. Patent holders may want to seek royalties, but they also may want the ability to expand design freedom through reciprocal licensing requirements and defensive suspension provisions. Thus, an SSO participant could agree to license patents essential to implement a standard in return for a reciprocal licensing commitment from the implementer of the standard.

E. Royalty Rate (Rate) (III.A.3)

Patent Law Guidance on "Reasonable Royalty." Because the FRAND commitment does not define "reasonable" terms for licensing SEPs, existing and developing patent law for calculating a "reasonable royalty" provides guidance, at least with respect to

pure monetary licensing terms. Contract language that reference terms of art used in patent law, like the words of FRAND commitments, indicate that the parties intended for patent law to apply in interpreting the agreement.

No Set Royalty Base. As discussed above, what constitutes FRAND terms, including a FRAND royalty, depends on a myriad of factors. The parties should be free to utilize whatever combination royalty rate and royalty base fits their circumstances, as long as the ultimate reasonable royalty—i.e., combination of royalty rate and royalty base—is based on the value that the patented technology adds to the licensed products.

No Royalty Cap. FRAND should be sufficiently flexible to permit patentees and implementers to negotiate specific license terms tailored to their unique interest, relationships and business models, and certainly does not establish any cap on the royalties or license fees that may be charged in connection with standards-essential IPR claims. The concept of capping royalties on a product is derived from royalty stacking concerns. Generally, these are speculative, theoretical concerns unsupported by actual evidence. Royalty calculations should be based on evidence, not speculation. Indeed, the proliferation of standards is strong evidence that implementers have not faced significant obstacles in obtaining the required licenses to implement standards. AIPLA is not aware of any evidence that the possibility of royalty stacking has inhibited access to or the adoption of any standard. The fact that a standard may incorporate a large number of patented technologies does not, in and of itself, support the devaluing of those patents to the level most advantageous for implementers. If a patentee has contributed a valuable piece of technology to the standard, the SSO IPR policies explicitly intended to preserve a reward of adequate compensation for that contribution—regardless of the number of other SEPs that may also contribute to the standard.

Accordingly, AIPLA believes that royalty caps are artificial and arbitrary limitations on SEP holders' ability to receive adequate compensation for their inventions, which risks harming effective standards development. Moreover, it would undermine the incentives that patent holders generally, and SEP holders specifically, must have to make the risky investments necessary to create new technologies that can then be made available for standardization to the benefit of users of such technology and consumers.

III. Comments for Clarification

A. *Need for creating this Guide (I.A.)*

From the Guide	AIPLA Comment
<p>“...rights holders may declare patents as SEPs even...in the application phase...as well as when they are not truly essential to the implementation of the standard.”</p>	<p>The foregoing text might benefit from minor clarification. Patent holders typically do not declare that their patents are SEPs but rather disclose patents with subject matter that they believe are or may become essential. In fact, they are encouraged to do so by SSOs during development of the standard and before they could be evaluated for essentiality. Also, instead of “as well as...implementation of the standard” it might be more accurate to say “even though such patents may later be determined non-essential.”</p>

B. *Step 5: Rejection of Right Holders of Counteroffer / Settlement of Disputes in Courts or through ADR (II.A.5)*

From the Guide	AIPLA Comment
<p>“a rights holder may choose several patents to bring to court. On the other hand, arbitrations are able to settle disputes over many patents all at once.”</p>	<p>Unless the court limits the action to specific patents, it is unclear why arbitration can address a large volume of patents (albeit in an abbreviated time) while a court cannot. Frequently, courts consider cases that involve numerous patents or portfolios, especially in the standards context. It is true that a court may look at sample patents or families, but how would an arbitrator determine portfolio value if it did not adopt such a methodology to assess hundreds of patents?</p>

<p>Page 18, Footnote 35, "...a contract between rights holder and the SSO (a third-party beneficiary)"</p>	<p>It is understood that the third party beneficiary is the implementer and not the SSO.</p>
<p>Page 18, Footnote 36.</p>	<p>This footnote should be explained or revised. The main text discusses limitations on injunctive relief from various jurisdictions. In the UK, the "Principle of Proportionality" is referenced. It might be helpful to explain what that principle states. Does "proportionality" limit access to injunction? Or does "proportionality" merely mean what is fair to the parties? In any event, the last sentence of footnote 36 should be clarified in that the first part of the sentence provides that third parties can invoke FRAND but the second part indicates that it would be "disproportionate" if an injunction was not granted. While the second part tracks the court's decision, it is unclear how it fits with the main text and remainder of the footnote.</p>


C. Essentiality/Validity/Infringement of Patent (III.A.4.c)

From the Guide	AIPLA Comment
<p>"The number of existing patent changes over time. Patent rights which duration expires and patent rights which are newly registered are taken into consideration in licensing negotiations."</p>	<p>It might be preferable if the Guide stated that such patents "may be taken into consideration..." There are many ways to address such patents if the parties wish to. However, the parties may choose not to engage in a predictive analysis and not forecast patent issuances, invalidations, acquisitions, and the like, and may wish to set forth terms that apply for a specified period of time.</p>

IV. Conclusion

Again, AIPLA appreciates the opportunity to provide these comments. Please contact us if you would like us to provide additional information on any issues discussed above.

Sincerely,

A handwritten signature in black ink that reads "Myra H. McCormack". The signature is written in a cursive style with a large initial "M".

Myra H. McCormack
President
American Intellectual Property Law Association