

August 20, 2015

The Honourable Martine Dagenais
Associate Deputy Commissioner
Advocacy and Economic Analysis Directorate
Competition Bureau
50 Victoria Street
Gatineau, Quebec
K1A 0C9

Via email: consultation.pi/ip.consultation@bc-cb.gc.ca

**Re: AIPLA Comments on Updated Draft Version
Of Intellectual Property Enforcement Guidelines**

Dear Ms. Dagenais:

The American Intellectual Property Law Association (“AIPLA”) welcomes this opportunity to submit comments on the June 9, 2015, updated draft version of the Competition Bureau’s Intellectual Property Enforcement Guidelines (“IPEG”).

AIPLA is a national bar association of approximately 14,000 members who are primarily lawyers engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective global laws and policies that stimulate and reward invention while balancing the public’s interest in healthy competition, reasonable costs, and basic fairness.

Generally speaking, AIPLA’s views on intellectual property rights under standard-setting agreements requiring fair, reasonable, and non-discriminatory (“FRAND”) licensing terms have emphasized the need for transparency and flexibility, and for broad participation in standards-setting activities. The stakeholders in this context include users of standards as well as owners of intellectual property whose technology may be included in standards based on the consensus of interested stakeholders. Consistent with this position, AIPLA has noted the importance of strong IPR protection in connection with standards-setting to preserve the incentives to invest in the development of technologies and contribute such technologies to standards-setting efforts.

Balancing Standard Setting and IP Rights

To ensure that such incentives remain strong, the IPR policies adopted by Standards-Setting Organizations (“SSOs”) should not impose or be interpreted as imposing constraints on patent owners’ rights, except to the extent specifically set forth in a particular SSO policy. Accordingly, we appreciate the acknowledgement in §7.3 of the IPEG that “[f]irms make large investments in research and development and are entitled to seek rewards to compensate them for their efforts.”

Indeed, participants in standards development can represent many different interests, depending on a myriad of factors. Some firms invest in research and development and contribute patented technology to the standards development process. These firms may choose to license their patents to implementers and users as a way of generating revenue for further research and development. Other firms may use their patent portfolios defensively by entering into cross-licenses in order to protect their products that incorporate standardized technology where the sale of such products creates revenue for further research and development. Still other firms may decide not to invest in research and development, but instead to rely on products and services that utilize the standardized technology to support their business models. As many firms support all of these business models, the lines demarcating the interests among various stakeholders may blur. It is therefore important that competition policies with respect to standards-essential patents (“SEPs”) balance all of the interests among the various stakeholders.

The Bureau also recognized in §7.3 that potential patent licensees may take advantage of FRAND commitments by “holding out” for low royalties. In fact, this “holding out” behavior may be more of a problem than “holding up” behavior by SEP owners since SEP owners would risk their future their participation in standards development. In addition, §7.3 uses the term “hold up” to refer to attempts at collecting license fees or royalties for a patented technology included in the standard. However, §7.3 should also recognize the patent holder’s exercise of its legitimate right to realize a reward for its effort in developing innovative technologies, even in connection standardization.

Thus, there are passages in the draft IPEG that may be misconstrued as a departure from the appropriate balance of interests, and we suggest that the Bureau consider the following recommended modifications.

1. The Baseline for Measuring Competitive Effect

The basic reasons for granting limited IP rights—to stimulate and promote the public disclosure of inventions by rewarding those who undertake the risks associated with inventing¹—play a critical role in preserving the underlying incentives for successful standardization. SSOs therefore recognize the value of including patented technology in standards, even if the patent owner will have a variety of legal remedies for uses that fall outside the terms of a standards agreement.

¹ See, e.g., *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974) (noting that patent laws promote scientific progress “by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development”).

The size of patent portfolios can make it difficult for an SSO participant to determine whether it has a patent that might read on a standard that is eventually adopted. For that reason, it sometimes may happen that a patent that “should” have been disclosed is not disclosed. However, the availability of alternative technologies when a disclosure might have been made can weigh against claims of competitive harm. As the U.S. IP Licensing Guidelines have noted, “antitrust concerns may arise when a licensing arrangement harms competition among entities that would have been actual or likely potential competitors in a relevant market *in the absence of the license*.”²

Section 7.3 and Example 15 of the IPEG discuss the relevance of available alternative technologies, but only in connection with a limited issue: whether standard-compliant products have current market power in a relevant product market. Thus, with respect to “alternative technical standards or technologies that gizmo producers could turn to as a substitute for the SDO standard,” the IPEG states: “If alternatives did not exist, or if switching costs were prohibitively high, the Bureau would likely conclude that Firm A increased its market power in the technology markets that include its non-disclosed patented technologies.”

The discussion in this section, however, does not explicitly discuss the need to evaluate practical and reasonably available alternatives to the patented technology *at the time the standard was established*. The relevance of this issue can be inferred from the importance of causation in the discussion that immediately follows: “The Bureau would also look to determine whether competition would be harmed in the market for gizmos that implement the standard. This analysis would determine whether consumers of gizmos would likely pay higher prices due to manufacturers of standard-compliant gizmos facing increased costs of accessing the standard.”

It would be helpful for the Bureau to explicitly state the need to evaluate whether equivalent technologies were available on more favorable terms at the time the standard was established. Otherwise, the IPEG may diminish the positive contribution that patented technology can bring to standardization. Any short-term effect of higher prices occurring during the limited term of an intellectual property right should be offset by access to patented technology, which can lower market entry costs and ideally create a virtuous cycle of dynamic competition.³

2. Injunctions

Although a FRAND commitment is a representation of an SEP holder’s willingness to license its technology to willing licensees, it is not a blanket waiver of the right to seek injunctive relief. There may be circumstances in which injunctive relief should remain available, as where the patentee, for example, has offered a FRAND rate and the licensee has refused. Of course, the patentee will not necessarily be entitled to injunctive relief in all situations, and a court should consider questions of equity, such as whether the patentee has honored its representations.

In §7.3 and in Example 18, the IPEG notes a variety of situations in which it may be appropriate for a firm that has made a FRAND licensing commitment to seek an injunction against an

² U.S. DEPARTMENT OF JUSTICE AND FEDERAL TRADE COMMISSION ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY §3.1 (1995) (footnote omitted, emphasis added).

³ EC Communication, “An Industrial Property Rights Strategy for Europe,” COM (2008) 465/3, at 3.

infringing party. It refers to situations where a prospective licensee refuses to pay a royalty determined by a court or arbitrator to be FRAND, or where the prospective licensee refuses to engage in licensing negotiations.

However, injunctive relief might also be appropriate where an infringer effectively refuses to negotiate in good faith, or takes unreasonable positions, or prolongs negotiations for an unreasonably long time while other licensees are paying FRAND royalties. For example, if the cost of a license is not what an IPR user decides it wants to pay, the IPR user may simply use the technology without paying and then later allege a FRAND violation by the IPR holder.

In such situations, it would be against good public policy to deny patent holders the full range of enforcement options provided by the patent law of the relevant jurisdiction. Moreover, the availability of injunctive relief is a matter of discretion for the tribunal hearing a complaint, and such discretion should accommodate the concerns of unfair competition. We suggest the Bureau modify the IPEG accordingly.

3. Joint Discussion of Licensing Terms

It would also be helpful for the IPEG to encourage balance and parallelism for joint discussions to develop licensing terms. The IPEG notes “the concern that the collective discussion *among IP holders* may result in naked agreements on licensing terms.” [Emphasis added.] The IPEG might also discuss the risk that collective discussions among implementers could result in a market with only one buyer. In general, both patent holders and standards implementers should be cautioned to guard against collusion that undermines legitimate interests of IPR holders and standards implementers.

4. De Facto Industry Standards

We respectfully suggest modifying the position set forth in §4.2.2., supporting a special action by the Attorney General with respect to IPRs where de facto industry standards have been found. Although the IPEG states that this step would be rare, it also suggests that the Bureau would take this step “if the refusal to license the IP is stifling further innovation.”

SSOs typically require a contractual FRAND commitment as part of the standardization process. Imposing FRAND obligations on patent holders absent such a commitment—merely because the use of their technology by third parties has become widespread—may raise serious concerns. It may well be that the original invention became a de facto industry standard because it achieved a fundamental breakthrough, and that the further innovations that are allegedly stifled would be only minor improvements.

We respectfully suggest that it should not be the role of competition agencies, whether through guidelines or otherwise, to impose compulsory licensing in such circumstances, especially when the unintended consequences may negatively impact the intended beneficiary of the effort—i.e., innovation and competitiveness.

5. *Availability of Contractual Remedies*

Largely missing from the IPEG is any discussion of whether competition law should intervene where there are adequate contractual remedies for the alleged conduct.

Promises to disclose patents or to license on FRAND terms are enforceable under contract law, which in turn looks to the intent of the parties. That intent generally reflects the necessary balance between (1) the innovators' incentives to invest in R&D and contribute to standards development and (2) the implementers' access to technologies under reasonable terms.

The traditional SSO approach of leaving the definition of FRAND terms to bilateral negotiations generally has been successful. Thousands of FRAND license agreements have been reached through such a process. To invoke competition law as a way to resolve disputes in this context without first determining if contract remedies are unavailable or inadequate could disrupt the balance of interests that standards agreements attempt to strike.

6. *Reasonable Licensing*

We are unaware of a formula or specific framework that can value an SEP outside of a specified transaction. Rather, license terms often vary for different licensees because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses, and other business issues between specific parties. Although the FRAND commitment represents a representation of a patentee's willingness to license its technology to willing counterparties, it does not, standing alone, contain any other express substantive limitations on the licensing of SEPs, provided that the ultimate terms are "reasonable."

However, it is important in all cases that FRAND compensation be closely tied to the patented technology, and not to a value for something that the patent holder did not invent or claim in its patent. As the U.S. Court of Appeals for the Federal Circuit recently stated: "The patentee's royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented technology. [This is] necessary to ensure that the royalty award is based on the incremental value that the patented *invention* adds to the product, not any value added by the standardization of that technology."⁴ 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.

We support 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 in monetary or non-monetary terms, and negotiating parties cannot consider monetary terms in isolation.

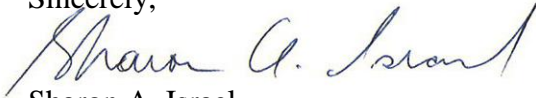
⁴ *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1231-32 (Fed. Cir. 2014) (emphasis in original).

In addition, 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.

* * * * *

AIPLA appreciates the opportunity to provide these comments and would be pleased to answer any question these comments may raise. We thank you in advance for your consideration of these views.

Sincerely,

A handwritten signature in cursive script that reads "Sharon A. Israel".

Sharon A. Israel

President

American Intellectual Property Law Association