Comments of the Licensing Executives Society (USA and Canada), Inc.
to the
"Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject To Voluntary F/RAND Commitments"

Introduction

The Licensing Executives Society (USA & Canada), Inc. ("LES") appreciates the opportunity to provide comment on the *Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject To Voluntary F/RAND Commitments* ("Draft 2021 Statement").

LES acknowledges the benefits that derive from policies that promote equitable, efficient, and pro-competitive commercialization of standardized technologies that are protected by patent. Carefully crafted, balanced policies diminish opportunistic conduct by both innovators and technology users, and promote innovation and technology commercialization through good faith negotiation and implementation of mutually beneficial, meritorious F/RAND licenses.

Those dual objectives have been very effectively met by the *2019 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* ("2019 Statement"). Innovation and economic activity thrive where property rights are respected, and legal regimes are equitable, durable, and predictable. Gratuitous changes in law and policy hinder innovation and economic growth, and are thus to be avoided. Proponents of substantive change must provide compelling evidence that existing law and policy are materially defective, that change is needed, and that the proposed change would remedy the specified defect. LES finds no such evidence associated with the Draft 2021 Statement, and therefore urges that the 2019 Statement be retained without substantive revision or repeal.

Even if such change were shown to be warranted, the underlying objectives of an open, equitable, free-market economy should be maintained. The interests of both innovator and implementer must be balanced. History has shown this is best achieved through our longstanding legal tradition of freedom of contract, and by leaving specific tactics and terms in the hands of those best suited to assess them. The Draft 2021 Statement, while laudatory in ambition, proposes an unduly prescriptive regime that restricts the freedom of contract. The Draft 2021 Statement would better balance the interests of innovator and implementer by considering, and, as appropriate, implementing, the observations and recommendations that follow.

General Principles

LES submits that certain principles should be kept in mind when analyzing the current licensing landscape and dynamics:

i. The Licensing Industry Is Best Positioned to Police Itself: The Draft 2021 Statement would take the unprecedented step of imposing on the industry a singular, and often ill-suited, negotiation framework. LES strongly recommends removing it. There is no basis in U.S. law or industry practice for such a framework. It is unprecedented for the Antitrust Division to dictate commercial practices in a non-enforcement policy statement. As the world's largest

professional association devoted to technology licensing, LES speaks with extensive expertise and authority. Top-down, regulatory mandates for intricate business processes and market-oriented negotiations are, at best, misplaced; and more likely damaging to the intricate balance struck between innovators and implementers by both the patent system and longstanding consensus-oriented institutions like Standards Development Organizations (SDOs).

Rather than a top-down, regulatory approach, as proposed by the Draft 2021 Statement, LES supports an industry-led, bottom-up approach. This was exemplified by the successful SDOs that, through concerted and integrated industry action, gave rise to the wireless communications sector, and the resulting myriad consumer benefits. The rapid rise and enormous benefits of this industry were made possible by the prevailing respect for intellectual property rights secured by patents, duly enforced by courts, and subject to orderly exchange in sophisticated, commercially significant, and socially beneficial transactions.

The industry is more informed and better positioned to structure negotiations and craft commercial exchanges of rights that are beneficial to the individual parties as well as society as a whole. The Draft 2021 Statement acknowledges that other frameworks or practices exist. Several organizations promote industry-led fora to discuss possible avenues to streamline licensing negotiations, even negotiations based on F/RAND commitments.

LES itself is an ANSI-accredited standards developer. Through the LES Standards initiative, LES is developing voluntary, consensus-based, open, business-process standards for intellectual capital management, including F/RAND negotiations. To the extent that the Government would like to have a role in those discussions, as it is encouraged to do by OMB Circular A-119, LES welcomes the participation of representatives of U.S. Government agencies (as well as any other Government) to the activities of LES Standards[1].

ii. The Inventors Constitutional Right to Exclude Must be Preserved: The U.S. Constitution affords Congress the power to grant inventors the exclusive right to their discoveries. U.S. Constitution, Art. I, Sect. 8, cl. 8. Congress has exercised that power by giving patent owners recourse through injunctive relief. Title 35 U.S.C. § 283. The right to exclude – and the corollary of injunctive relief – is fundamental to the patent grant. No empirical study has shown that a patent owner requesting or receiving injunctive relief on a finding of a defendant's infringement has resulted either in consumer harm or in slowing the pace of technological innovation[2].

A legal system that would apply a peculiar legal standard to standard essential patents is inconsistent with the statute, and finds no precedent in patent law. It would undermine U.S. interests internationally as it would support the proposition that other nations could

[1] LES acknowledges that the USPTO and NIST are already following those activities, and LES is greatly appreciative of their interest and support.
[2] See, for example, here and here.

likewise arbitrarily deny remedies for infringement of U.S. technologies that they wish to copy or devalue.

The patent owner's right to *seek* an injunction for infringement is expressly conferred by law (35 U.S.C. § 283), and cannot be negated by administrative action. The *grant* of an injunction, on the other hand, is fact-specific, and left somewhat to the discretion of an Article III court. Courts are well equipped to determine the circumstances under which an injunction should issue, and when monetary damages are instead sufficient. Moreover, a prospective licensee who negotiates in good faith need not worry about an injunction being granted; but a patent owner cannot be precluded from seeking one.

From this point of view, the 2019 Statement provides business certainty and clarity with regard to seeking and granting of injunctions, and rightly points to the legal framework under which all patent owners and licensees, including those involved with standard essential patents subject to a F/RAND commitment, operate under.

iii. The 2013 Policy Statement Was Not a Statement of Law: The *2013 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* ("2013 Statement") was not a statement of existing law, despite the efforts of some commentators to misrepresent it as such.

Similarly, the Draft 2021 Statement is fundamentally not a statement on antitrust enforcement policy. To the extent that the Draft 2021 Statement will be further pursued, this should be clarified.

iv. All Patents Are Entitled to a Presumption of Validity: Issued U.S. patents are entitled to a statutory presumption of validity. 35 U.S.C. § 282 ("A patent shall be presumed valid."). To afford certainty and predictability, federal agencies are presumed to have discharged their duties competently. The work of USPTO patent examiners is likewise entitled to deference, and should not be diminished or devalued. Therefore, all duly issued patents are presumed valid without any need to reinforce or restate this obvious fact. Doing so – that is, appending "valid and enforceable" to the word "patent" throughout the Draft 2021 Statement – misleads the reader and undermines confidence in the U.S. patent system. It goes without saying that a patent proven to be invalid or unenforceable, cannot give rise to liability. Thus, the qualification is unnecessary, and should be removed throughout.

Questions and LES' Answers

LES offers the following observations and recommendations in response to select questions.

1. *Should the 2019 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments be revised?*

No. The 2019 Statement has proven to be effective and properly balanced in encouraging a healthy ecosystem. The interests of both patent owners and implementers – and ultimately consumers –are taken into account, and properly balanced.

Economic activity thrives where there is consistency, continuity, and predictability. The 2019 Statement well serves those goals, particularly with regard to injunctive relief, and it rightly supports a legal framework in which both patent owners and licensees, including those involved with standard essential patents subject to a F/RAND commitment, can invest in and reliably operate under. Therefore, the 2019 Statement should remain in effect substantially as it is.

However, if the 2019 Statement were to be revised, LES recommends clarifying that any new statement does not negate the policy positions of the 2019 Statement, but rather complements those views of the U.S. Government with evolved guidance and recommendations. Similarly, the 2019 Statement was not intended to entirely supersede the 2013 Statement. On the contrary, it complemented the 2013 Statement by clarifying certain aspects that had been misinterpreted.

2. *Does the draft revised statement appropriately balance the interests of patent holders and implementers in the voluntary consensus standards process, consistent with the prevailing legal framework for assessing infringement remedies?*

In general, the Draft 2021 Statement accounts for views and positions of all participants in the standard development ecosystem. In particular, it recognizes the need for good faith by both licensors and licensees. Hold-out is a growing problem, both in the U.S. and abroad, and policy recommendations by the U.S. Government will have a global impact, with foreign regulators following their lead. The 2021 Draft Statement acknowledges the risks of hold-out, *e.g.*, diminished participation in standards development, reduced investment in technology development, and less disclosure of technological solutions by resort to trade secret protections. All of this ultimately works to the detriment of consumers. Thus, it is important to acknowledge the deleterious effects of such bad faith behavior.

Additionally, it is crucial to recognize the basic rights associated with any patent, that is, the right to exclude. A F/RAND commitment, according to and depending on the patent policy of the relevant SDO, does not negate that fundamental right of the patent owner, including access to justice and statutory remedies, *e.g.*, the seeking of injunctions. Willing licensees negotiating in good faith have nothing to fear. However, the mere seeking of an injunction and having a court determine whether such an injunction should be granted is a fundamental right codified in U.S. patent law. The 2021 Draft Statement should clarify that a F/RAND commitment does not alter that fundamental right of patent owners, and therefore does not create second-class patents for those protecting technology that is essential to a technology standard.

The unity of the patent system is sacred, and breaking such unity could potentially open the door to other countries following suit in a number of other innovation areas, creating via regulation, different classes of patents.

4. *In your experience, has the possibility of injunctive relief been a significant factor in negotiations over SEPs subject to a voluntary F/RAND commitment? If so, how often have you experienced this?*

   Under current precedent, injunctions are difficult to obtain. Although the right to seek an injunction is sacrosanct, the grant of an injunction is not automatic. Courts carefully review the facts and weight the appropriate factors. However, in the absence of reliable resort to the Constitutional and statutory right to exclude, *i.e.*, an injunction, there is little to discourage hold-out. That creates an uneven playing field during negotiations. In other words, it encourages opportunistic behavior by potential licensees. This is sometimes referred to as efficient infringement. Incentives to take a license are somewhat limited: Monetary damages are often insufficient (see: https://www.iptalks.eu/blog/litigation-is-inadequate-to-address-hold-out/), and patents are not self-enforcing. Moreover, even the prospect of enhanced damages for willful infringement, being remote under recent precedent, fails to attract the attention of unwilling licensees. Thus, it has been said that efficient infringement in the current climate is almost a fiduciary duty to shareholders.

   Furthermore, unwilling licensees often end up paying the F/RAND rate even after years of litigation. Under these circumstances, hold-out can be a successful strategy.

6. *Are small business owners and small inventors impacted by perceived licensing inefficiencies involving SEPs? If so, how can licensing be made more efficient and transparent for small businesses and small inventors that either own, or seek to license, SEPs?*

   Small businesses and individual inventors represent the lifeblood of the innovation ecosystem. They often participate as innovators owning patents, implementers using patented technology, or both. They are often the disruptors, and they produce an outsized portion of innovation. Too often small businesses are only identified as potential users of patented technology, forgetting the many innovative small businesses that participate in the development of technology, the development of standards, and the licensing of intellectual property they own.

8. *What other impacts, if any, would the draft revised statement have on standards-setting organizations and contributors to the standards development process?*

   By failing to recognize the impact of standards contributors to society, and their right to recoup their investments, the Draft 2021 Statement risks a chilling effect on investment by the U.S. industry in the development of fundamental and strategic technology standards. Such a chilling effect can negatively affect U.S. leadership in standards development, and will work to the advantage of other countries who are aggressively promoting investment in the standardization of high-tech areas such as 5G and artificial intelligence.

9. *The draft revised statement discusses fact patterns intended to indicate when a potential licensee is willing or unwilling to take a F/RAND license. Are there other examples of willingness or unwillingness that should be included in the statement?*

    i. The Draft 2021 Statement must make it clear that "seeking" an injunction is a fundamental right of a patent owner, while courts and tribunals should answer the question, based on the facts of the case, as to whether such injunction should be granted. The 2019 Statement clarifies this fundamental aspect of patent law. As such, this Draft 2021 Statement appears unnecessary.

    ii. Issued patents are presumed valid. The terms "valid and enforceable" appended to the term "patent" creates confusion and is redundant. These terms should be removed throughout the document.

    iii. The Draft 2021 Statement fails to recognize that unreasonably delaying the negotiation by a potential licensee is a sign of bad faith. On the contrary, the Draft 2021 Statement leaves the door open for an implementer to hold out by requesting more and more information, without any constructive effort to advance the negotiation. The Draft 2021 Statement should make it clear that there is a line between reasonable requests by the implementer to evaluate the offer and delaying tactics by constantly requesting more information without the intention to advance the discussion towards a license.

    iv. The Draft 2021 Statement fails to recognize that non-disclosure agreements (NDAs) are common practice in any commercial discussion, including licensing negotiations. NDAs protect both the licensor and the licensee, and the refusal to conclude an NDA can be a sign of unwillingness.

10. *Have prior executive branch policy statements on SEPs been used by courts, other authorities, or in licensing negotiations? If so, what effect has the use of those statements had on the licensing process, outcomes, or resolutions?*

    The 2013 Statement was, unfortunately, misinterpreted by several regulators outside the U.S., and the Draft 2021 Statement also risks misinterpretation. The U.S. Government should avoid providing misleading policy that could lead other countries to use it as inspiration to promote their industrial policy to the detriment of the U.S. industry and / or to establish barriers to trade.

11. *Are there resources or information that the U.S. government could provide/develop to help inform businesses about licensing SEPs subject to a voluntary F/RAND commitment?*

    As mentioned above, LES, through the LES Standards initiative, is currently developing voluntary, consensus-based, open, business-process standards for intellectual capital management, including F/RAND negotiations. To the extent that the Government would like to have a role in those discussions, and in fact as encouraged to do so by OMB Circular A-119, LES welcomes the participation of representatives of U.S. Government agencies to the activities of LES Standards.

About LES USA & Canada

LES is a non-partisan, non-profit, volunteer-driven professional society devoted to speeding innovation to market. For over 50 years, LES has been the premiere professional society devoted to promoting innovation and public well-being by bringing innovation more promptly from lab to market through intellectual property transactions and prudent intellectual capital management practices. LES members represent all industries, from high technology to pharma/biotech. Our nearly 2,000 members are business executives, entrepreneurs, lawyers, accountants, university technology transfer officers, and inventors. We represent licensors as well as licensees. In short, we represent all sides in all sectors of the innovation economy. We are a member society of the Licensing Executives Society International (LESI), a global community of 8,000 licensing professionals committed to predictable, reliable, and durable intellectual property rights, and to promoting the business of intellectual property.

LES is the global leader in developing IP-related business process standards, career development, and certification to enhance the quality, efficiency, and ethics in commercial transactions involving intellectual property.

Because of its broad and diverse membership, and its specialized role in facilitating IP-related commercial transactions, LES is uniquely positioned to provide informed commentary on the licensing of standard essential patents subject to voluntary F/RAND commitments. As the largest professional organization for technology licensing professionals, LES speaks with significant authority about licensing practices and norms throughout the innovation economy.