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Electronically submitted to:

ATR.LPS.IPGuidelines@usdoj.gov

Munich, 26 September 2016

Dear Madam / Sir,

Antitrust Guidelines For the Licensing of Intellectual Property: Proposed Update To the 1995 Guidelines Issued by the U.S. Department of Justice and the Federal Trade Commission (*Revised Guidelines*)

Thank you for the opportunity to submit comments regarding the proposed Revised Guidelines. Fraunhofer-Gesellschaft (Fraunhofer)[1], as Germany's and Europe's largest industrial research organisation with very strong cooperation ties with the United States of America, including through

[1] Fraunhofer undertakes applied research of direct utility to private and public enterprise and of wide benefit to society. With a workforce of over 23,000 and an annual research budget of €2 billion, the Fraunhofer-Gesellschaft is Europe's biggest organization for applied research, and currently operates a total of 67 institutes and research units. The organization's core task is to carry out research of practical utility in close cooperation with its customers from industry and the public sector. In this way the Fraunhofer-Gesellschaft shapes the innovation process in Germany and drives forward the development of key technologies. The organization's research focuses on the needs of people in the areas of healthcare, security, communication, mobility, energy and the environment. Fraunhofer's international sites and its representative offices act as a bridge to the regions of greatest importance to scientific progress and economic development. See also http://www.fraunhofer.de/en/about-fraunhofer/mission.html

its subsidiary Fraunhofer USA, welcomes the opportunity to contribute to this important review and discussion.

Fraunhofer welcomes the restatement of General Principles in the proposed Revised Guidelines.

Through Fraunhofer's engagement in international industrial research cooperation, and participation in a number of international standard setting organisations, Fraunhofer is also pleased to see that the Revised Guidelines do not seek to deal with standard essential patents as a 'stand alone' category of patents.

It is respectfully observed that a consistent approach by the United States' Government to the protection of standard essential patents has previously been lacking, which became most obvious from the Department of Justice (DoJ) Business Review Letter (BRL) regarding the revised IEEE IP Policy and the IEEE application for reaccreditation with ANSI.

For the following reasons, it is considered that this DoJ BRL addressed issues (and therefore appeared to endorse positions) beyond the remit of a BRL, drawing conclusions which are inconsistent with the US Government's international obligations through its membership of the World Trade Organisation and is inconsistent with stated law of the United States. The consequence is that the latest IEEE Patent Policy reflects the promotion of business models that suppress intellectual property (IP) rights and IP value – effectively, a commercial term sheet benefiting infringing companies that now forms part of the policy of this technical standards body.

This approach may benefit infringing company shareholders in the short term. It is unsustainable for an innovation system and incorrectly alters the rule of law, fundamental legal rights, and balance existing at international level regarding IP owner rights and the societal contract that exists with IP users through the TRIPs Agreement.

The bias reallocation of risk and reward between IP owners and IP users within the IEEE is now such that international technology development is being negatively impacted, and many companies and technology developers are opting out of the participation with SSOs with IEEE-like rules. Such consequences are not seen to be pro-competitive, or supported by competition law policy.

A brief analysis comparing the IEEE policy with the position of IP owners under European and US law, shows:

1. There is evidence SSO IP policies work well. There is no evidence that the IEEE Patent Policy required change. The IEEE policy alters or removes fundamental legal rights (for example, protection and enforcement of IP rights, access to justice, freedom to operate a business). The changes are based on a false and bias presumption – a presumption not recognized at law unless asserted and proven by cogent evidence on a case-by-case basis

(see US cases *Ericsson v. D-Link* (2014) and *CSIRO v. Cisco* (2015). The policy removes the legal burden for an infringer to prove through admissible evidence any allegation made regarding royalty stacking, patent holdup and appropriate method of calculating license fees.

2. A FRAND[2] undertaking makes IP accessible through a negotiated license on fair, reasonable and non-discriminatory terms. It requires good faith negotiation between the parties to conclude a license: Huawei v. ZTE (2015). The IEEE policy requires access to IP on specified conditions favorable to potential licensees and IP infringers. These entities may also prolong negotiations for a license through merely stating that they are 'willing' to take a license.

3. There is unfounded and sustained bias in the IEEE policy regarding the negotiation of a license fee, which fails to take into account the value of IP through the entire global supply chain.

4. Damages, like fees for an IP license, are determined on a case-by-case basis.

   There is no one method of determining damages or IP license fees; there is and can never be such a rule: *CSIRO v. Cisco* (at 1303), holding that the adoption of a rule proposed by Cisco (in particular one which requires parties to adopt the smallest saleable practicing unit) is untenable; also *Ericsson v. D-Link* (2014, at 1226). European and Member State law also recognizes that there are a number of legitimate methods for calculating IP license fees: see the *European Commission Technology Transfer Block Exemption Regulation* (calculate royalties based on final product base where licensed technology relates to an input incorporated into a final product; see also *EU Guidelines Art 101* para 8-9, which provides that parties are able to take into account a number of elements for determining license fees including the incentive to innovate and sunk investments on R&D costs.

[2] See http://www.cencenelec.eu/News/Policy_Opinions/PolicyOpinions/EssentialPatents.pdf, which states at paragraph 9 of the Executive Summary that, 'FRAND has no precise pricing content, but instead is a "comity device" designed to promote good faith negotiation between patent owners and prospective licensees'.

5. The IEEE Patent Policy effectively makes injunctive relief unavailable to IP owners, removing (all) value of the IP asset. European law recognizes protection and enforcement of property rights and the right of access to justice: see for example *Huawei v. ZTE*, and Article 17 of the *Charter of Fundamental Rights of the European Union*. US law also recognizes the right to seek injunctive relief, with such matters being determined on a case-by-case basis through the exercise of a court's discretion (*eBay* decision (2006)). The discretion of a court should remain unfettered, acknowledging that court's decisions regarding injunctive relief will take place through a public policy lens.

Should fundamental rights be altered, experience demonstrates that this will make the operating environment regarding standards unpredictable, unstable and non-inclusive. This is to the detriment of users and beneficiaries of the ecosystem – governments, legal systems, businesses and citizens alike. For these reasons, Fraunhofer humbly submits that it is unwarranted and inappropriate for the Revised Guidelines to seek to separately deal with standard essential patents.

Closing Remarks

There is significant dialogue regarding intellectual property enforcement at an international level, as well as at Nation State and European level.

Fraunhofer is of the view that there exist established principles and norms creating the basis for international business and global innovation. Fraunhofer encourages continual broad engagement between standard setting organisations, patent offices, international IP and trade organisations, along with business and research organisations, and competition law regulators. This multi-disciplinary engagement assists in providing the appropriate contextual framework when aiming towards a fair and competitive environment for a sustainable and thriving innovation system for the benefit of society as a whole.

We hope that the **above** comments are of assistance to your review process.

Fraunhofer would welcome the opportunity to further contribute to this important discussion, as and when the opportunity arises.

Yours sincerely

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