

September 26, 2016

Federal Trade Commission (FTC)
Office of Policy Planning
600 Pennsylvania Avenue, NW
Washington, DC 20580

United States Department of Justice (DOJ)
Legal Policy Section, Antitrust Division
950 Pennsylvania Avenue, NW
Washington, DC 20530-0001

VIA EMAIL – ATR.LPS.IPGuidelines@usdoj.gov

RE: Multi-Company Response to DOJ/FTC Consultation re Licensing Guidelines

Dear Agency Representatives,

We write in response to the FTC and DOJ (together, the “Agencies”) August 12, 2016 request for public comment regarding the proposed updates to the Antitrust Guidelines for Licensing of Intellectual Property (the “Guidelines”). We thank you for this opportunity to provide our perspectives and input on the Agencies’ proposed updates, and the important issues that they address.

The signatories below represent a broad cross-section of industry interested in development and deployment of innovative technologies. We include chipmakers, device makers and technology developers that create, utilize and rely on a variety of standardized and non-standardized technologies. Collectively, we spend tens of billions of dollars (US) annually in research, development and related areas, and hold more than one hundred thousand patents. We each have an interest in continued innovation and the development of next-generation technologies, and in the continued viability of the ecosystem for development and deployment of patented innovations. We and our advisors may regularly consult the Guidelines as part of our intellectual property licensing efforts, and we share the Agencies’ conclusion that, by and large, the Guidelines have stood the test of time.

We appreciate the Agencies’ efforts to provide transparent guidance regarding issues specific to competition and licensing matters. While we do not endeavor to comment on each of the extensive issues addressed in the Guidelines or the Agencies’ proposed updates, we wish to express our support and gratitude for the Agencies’ thoughtful approach and guidance on these important issues.

1. Wording Issue and Clarification:

We offer just one modest suggestion regarding the wording of the proposed updates to the Guidelines, to avoid potential misinterpretation. Specifically, we note the addition in Section 2.3 of text addressing incentives to invest in technology development. While we generally agree with the Agencies' approach that licensing can support incentives to invest, we are concerned with any potential for misinterpretation that might suggest valuation of an invention based primarily on development costs, rather than the value and usefulness of the patented invention. In other words, the amount of investment made by an individual or company in its development efforts may not be a fair measure of the value of resulting technological developments and corresponding patents. As the US Courts have noted, when valuing patents, it is important to set royalties based on the value of what the inventor has created – no more and no less.¹ Accordingly, we respectfully suggest the following clarification to Section 2.3: “Licensing can allow an innovator to capture returns ~~from its investment in making and developing an~~ **based on the value of its** invention through royalty payments from those that practice its invention, thus providing an incentive to invest in innovative efforts.”

2. SEP Matters:

As noted above, the signatories below represent a broad cross-section of industry. Accordingly, and in addition to our interest in innovation and licensing generally, we likewise are interested in the continued development and deployment of next-generation standards. We recognize that standard essential patent (SEP) issues, and associated promises to license on fair, reasonable and non-discriminatory (FRAND) terms, are not expressly addressed in the draft Guidelines. We note, however, that there is already substantial guidance on these issues provided by the Agencies and US Courts, and agree with the Agencies previously-expressed concerns regarding the special circumstances attendant to SEP licensing, and potential “hold up” or other abuses that can arise in connection with SEP licensing. We support the following principles in SEP matters, consistent with guidance from the Agencies and relevant U.S. case law:

- SEP hold up is a real, documented and empirical problem; it raises serious competition issues and can interfere with the effective development and deployment of standardized technologies.²

¹ See, e.g., *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014) (royalties should be calculated based only on the value of the patented technology itself, not based on unpatented value or technologies); *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (providing methodology for valuation based on claimed scope of patent, exclusive of unpatented features).

² Statement of the Federal Trade Commission, *In the Matter of Robert Bosch GmbH*, FTC File Number 121-0081 (“While not every breach of a FRAND licensing obligation will give rise to [US competition law] concerns, when such a breach tends to undermine the standard-setting process and risks harming American consumers, the public interest demands action rather than inaction from the Commission.”); Fed. Trade Comm’n, *Brief of Amicus Curie Federal Trade Commission in Support of Neither Party*, U.S. Court of Appeals for the Federal Circuit Case Nos. 2012-1548 and 2012-1549 (Dec. 4, 2012) (“The problem of patent hold-up can be particularly acute in the standard-setting context, where an entire industry may be locked into a standard that cannot be avoided without infringing or obtaining a license for numerous (sometimes thousands) of standard-essential patents.”); *Microsoft Corp. v. Motorola, Inc.*, 795 F. 3d 1024,

- SEP injunction threats can violate FRAND and associated competition law obligations. In the event of a dispute, the national courts can resolve infringement, validity, royalty and other related disputes, and award amounts that may be deemed appropriate in view of the patent owner’s FRAND obligation, without the need for injunction threats.³
- FRAND royalty demands should be focused only on the patented technology, and not seek compensation for (i) the value of standardization itself (e.g., the value of the industry’s agreement to build devices in one way rather than another), or (ii) unpatented items or downstream combinations.⁴
- SEP licensors subject to FRAND obligations should not refuse licenses or otherwise discriminate against certain types of implementers.⁵

1052 (9th Cir. 2015) (“The very purpose of the RAND agreement is to promote adoption of a standard by decreasing the risk of hold-up.”); *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014) (“Patent hold-up exists when the holder of a SEP demands excessive royalties after companies are locked into using a standard.”); *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012) (“Many SSOs try to mitigate the threat of patent holdup by requiring members who hold IP rights in standard-essential patents to agree to license those patents to all comers on terms that are ‘reasonable and nondiscriminatory,’ or ‘RAND.’”).

³ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (requiring showing of irreparable harm and insufficiency of monetary damages prior to issuance of injunction); *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014) (a FRAND licensing promise will generally make it difficult for a patentee to establish irreparable harm based on another’s use of the patented technology).

⁴ *Garretson v. Clark*, 111 U.S. 120, 121 (1884) (“The patentee . . . must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative...”); *CSIRO v. Cisco Systems, Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015) (royalties “must reflect the value attributable to the infringing features of the product, and no more”); *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014) (an SEP holder may not capture the “value added by the standardization of [its] technology” and royalty analysis should focus on apportioning the technological value of the patent from its hold-up value as part of a standard). *See also, e.g., LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (addressing patent valuation based on scope of claimed technology, excluding unclaimed aspects of a downstream product); Joseph Farrell, John Hayes, Carl Shapiro, and Theresa Sullivan, *Standard Setting, Patents, and Hold-Up*, 74 Antitrust L.J. 603 (2007), available at http://eml.berkeley.edu/~farrell/ftp/FHSS_ALJ_2007.pdf (FRAND commitment is designed to ensure that royalties are based on the value of the patented technology before it is incorporated into a standard).

⁵ *See, e.g., Microsoft Corp. v. Motorola, Inc.*, 795 F. 3d 1024, 1031 (9th Cir. 2015) (“Under [RAND] agreements, an SEP holder cannot refuse a license to a manufacturer who commits to paying the RAND rate.”); RAND obligation includes “requirement to negotiate license with all seekers.”); *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014) (“[T]he licensor’s established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention [is not relevant for SEPs]. ... Because of [the patent holder’s] RAND commitment ... it cannot have that kind of policy for maintaining a patent monopoly.”); *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012) (FRAND commitment admits of no limitation as to who or how many applicants could receive a license); Federal Trade Commission Response to Commentators, *In the Matter of Motorola Mobility LLC and Google Inc.*, File No. 121 0120, Docket No. C-4410 (July 23, 2013) (“By making a FRAND commitment, a SEP holder voluntarily chooses to license its SEPs to *all implementers* of the standard on fair and reasonable terms.”) (emphasis added). *See also, e.g.,* Renata Hesse, US Department of Justice, *Six Small Proposals for SSOs Before Lunch*, available at <http://www.justice.gov/atr/public/speeches/287855.pdf>

While the Agencies have not, at this time, specifically addressed issues relating to SEPs in the Guidelines, US case law has carefully addressed some of the significant topics associated with SEPs, such as injunctions, royalties, public interest,⁶ and discriminatory refusals to license. There are pending cases in US courts involving SEPs, including cases raising antitrust issues, that may shed additional light on the interplay between SEPs, patent law, and antitrust.⁷ Moreover, the Agencies, via enforcement efforts as well as Agency reports, have provided certain additional guidance in recent years.⁸ SEP issues can be significant and important matters for Agency oversight. Continued court development, agency enforcement oversight, and agency policy activities, may assist in providing further guidance to industry participants. We recognize and appreciate the Agencies' positive efforts to curb SEP abuses.

("[A] patent holder who participates in the standard-setting activities and makes a F/RAND licensing commitment is implicitly saying that she will license the patent claims that must be used to implement the standard to *any licensee* that is willing and able to comply with the licensing terms embodied in the commitment.") (emphasis added); European Commission, *Horizontal Guidelines (Communication from the Commission – Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements)*, OJ 2011 C11, ¶¶ 285-287 ("In order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to *all third parties* on fair, reasonable and non-discriminatory terms. [...] FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license ... after the industry has been locked-in to the standard.") (emphasis added).

⁶ *Microsoft v. Motorola*, 795 F. 3d 1024, 1052 (9th Cir. 2015) ("a RAND commitment 'must be construed in the public interest because it is crafted for the public interest.'"); Statement of the Federal Trade Commission, In the Matter of Robert Bosch GmbH, FTC File Number 121-0081 ("While not every breach of a FRAND licensing obligation will give rise to [US competition law] concerns, when such a breach tends to undermine the standard-setting process and risks harming American consumers, the public interest demands action rather than inaction from the Commission.").

⁷ See, e.g., Complaint, *Asus Computer Int'l v. InterDigital, Inc.*, No. 15-cv-1716 (N.D. Cal. Apr. 15, 2015); Answer, Affirmative Defenses and Counterclaims, *InterDigital Tech. Corp. v. Pegatron Corp.*, No. 15-cv-2584-LHK (N.D. Cal. Aug. 3, 2015); Complaint, *Microsoft Mobile, Inc. v. InterDigital, Inc.*, Case No. 15-cv-723-RGA (D. Del. Aug. 20, 2015).

⁸ In the Matter of Robert Bosch GmbH, FTC File Number 121-0081, Docket No. C-4377 (Apr. 23, 2013) (Decision and Order), available at https://www.ftc.gov/sites/default/files/documents/cases/2013/04/130424_robertboschdo.pdf; In the Matter of Motorola Mobility LLC and Google Inc., File No. 121 0120, Docket No. C-4410 (July 23, 2013) (Order and Decision), available at https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724_googlemotorolado.pdf; Statement of Suzanne Munck, Chief Counsel for Intellectual Property, Fed. Trade Comm'n, *Standard Essential Patent Disputes and Antitrust Law: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. 7 (2013), available at www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-trade-commission-concerning-standard-essential-patent-disputes-and/130730standarlessentialpatents.pdf; U.S. Dep't of Justice and U.S. Patent and Trademark Office, *Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments*, at 6 (2013), available at http://www.uspto.gov/about/offices/ogc/Final_DOJ; Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (2011), at 184-185, available at <http://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf>; Fed. Trade Comm'n & U.S. Dep't of Justice, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, at 2 (2007), available at <https://www.ftc.gov/reports/antitrust-enforcement-intellectual-property-rights-promoting-innovation-competition-report>; Hesse, *Six Small Proposals for SSOs Before Lunch*, *supra*.

3. Conclusion:

We thank the Agencies for their engagement on the important matters addressed in the Guidelines, and for the opportunity to submit our perspectives. We would be pleased to make ourselves available in the event that the Agencies have any follow up questions regarding this submission.

Sincerely,

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