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George Mason University antitrust institute submits comments on NDRC's draft IP abuse guidelines

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IN BRIEF
MLex Summary: US-based George Mason University School of Law's global antitrust institute has filed a comment responding to China's National Development and Reform Commission's draft guidelines on abuse of intellectual property rights. The comments urged the NDRC to recognize an IPR holder's core right to exclude as a legal use of IPRs, and to incorporate the "but-for" approach taken by the US antitrust agencies. It also recommended the NDRC not to apply the "unfairly high" pricing provision to IPRs.

The statement follows:

Overall, we urged the NDRC to recognize throughout its Draft Guideline an IPR holder's core right to exclude as a "legitimate" or "legal" use of IPRs, and to incorporate the "but-for" approach taken by the U.S. antitrust agencies of comparing the competitive impact of the IPR use against what would have happened in the "but for" world in the absence of a license.

With respect to specific provisions, we reiterated our prior recommendation not to apply the Anti-Monopoly Law's "unfairly high" pricing provision to IPRs, yet also recommended that, in the alternative, should the NDRC retain this provision, at the very least it should be revised to (1) explicitly recognize that "reasonable" compensation should reflect the risk-adjusted break-even price; and (2) state that, in determining whether a particular royalty is "unfairly high," the NDRC will calculate a reasonable royalty as a minimum floor baseline using the hypothetical negotiation framework from U.S. patent damages law. It's essential to keep in mind that, under U.S. patent law, a reasonable royalty calculation using the hypothetical negotiation framework sets a minimum royalty; the patentee should have the opportunity to prove, in addition, its lost-profits as part of its damages, which would seem to be equal to the profits denied by the "unfairly high" pricing provision. We emphasized that the goal of a reasonable royalty calculation is to replicate the market reward for the invention in the absence of infringement, and explained that comparable licenses are often the best available evidence of the market value of the patent.

With respect to charging for expired patents, we strongly urged the NDRC not base an AML violation on the existence of expired patents in a portfolio, explaining that it would be impractical, if not impossible, for portfolio owners to constantly renegotiate licenses (or provide updated patent lists) every time an IPR in a licensed portfolio expires or, conversely, every time new IPR is added to the portfolio, both of which occur commonly. Portfolios include patents with a variety of expiration dates and the parties to the license take the variety of expiration dates into account when negotiating a price.

With respect to injunctive relief, we reiterated our prior recommendation that the NDRC not create an AML sanction for the mere seeking of injunctive relief and, in the alternative, recommended that, at the very least, it should limit liability to situations in which there is proof that a FRAND-assured SEP holder has engaged in patent holdup, i.e., that the patent holder used the threat of injunctive relief to demand supra-competitive royalties that are not consistent with prior commitments by the SEP holder. We also recommended that it should at the very least adopt a safe harbor from AML liability similar to that adopted by the European Court of Justice in Huawei v. ZTE. Namely, a safe harbor for an SEP holder that (1) prior to initiating an infringement action, alerts the alleged infringer of the claimed infringement and specifies the way in which the patent has been infringed; and (2) after the alleged infringer has expressed its willingness to conclude a license agreement on FRAND terms, presents to the alleged infringer a specific, written offer for a license, specifying the royalty and calculation methodology. The ECJ then put the burden on the alleged infringer to “diligently respond” to that offer, “in accordance with recognized commercial practices in the field and in good faith,” by promptly providing a specific written counter-offer that corresponds to FRAND terms, and by providing appropriate security (e.g., a bond or funds in escrow) from the time at which the counter-offer is rejected and prior to using the teachings of the SEP. This approach is necessary to take into account the conduct of both the patentee and the accused infringer when considering whether to impose an AML sanction.

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