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IPR 'no-challenge' clauses are practical, ex-FTC official says - SEP Symposium Taipei

PaRR Confirmed

- Lack of 'no-challenge' clause can lead to patent holdout, Wong-Ervin says
- Recent IPR antitrust guidelines in Asia lack examples
- TIPO director says balance between IP enforcement, antitrust law important

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Charging expired patents and including "no-challenge" clauses in patent licensing agreements is “a matter of practicality” and should not be viewed as antitrust violations, according to Koren Wong-Ervin, former senior IP counsel to the US Federal Trade Commission.

Speaking at a panel during the International Symposium on Standards, SEPs, and Competition Laws in Taipei today (4 March), Wong-Ervin said IPR no-challenge clauses have gained increasing attention from certain antitrust regulators. The symposium was organized by National Taiwan University and sponsored by nine institutions including Taiwan’s Intellectual Property Office and **Qualcomm**.

Wong-Ervin also said that despite a recent “proliferation” of IPR-related antitrust guidelines in Asia, concrete examples explaining how antitrust agencies should apply these principles are lacking.

The China National Development and Reform Commission’s (NDRC) recent draft Anti-Monopoly Guidelines on Abuse of Intellectual Property Rights pointed out that no-challenge clauses may raise competition concerns in certain situations, as previously reported.

Wong-Ervin, who is currently director of antitrust at George Mason University in Fairfax, Virginia, said that to facilitate licensing of large portfolios, licensors often include no-challenge clauses in agreements and sometimes portfolios include expired patents. Negotiated royalties already take into account some patents in a large portfolio that may be invalid or may have expired, she said. Without a no-challenge clause, patent holders could face litigation in bad faith from licensees and patent “hold-out”, she added.

“Encouraging a licensee to challenge the validity of individual licensed patents invites opportunistic litigation by the licensee so as to delay paying the IPR holder the agreed-upon royalty for the use of the many more valid patents in its licensed portfolio,” Wong-Ervin said.

However, Su-hua Lee, an associate professor of law at National Taipei University, said whether no-challenge clauses are appropriate may depend on whether the patent in question is standard essential.

Lee said imposing no-challenge clauses on standard-essential patents licensing could lead to competition issues such as refusal to license.

During the same panel, Wong-Ervin and two other US antitrust and IPR specialist argued that regulators should help ensure freedom of patent licensing to encourage innovation and minimize antitrust enforcement in the intellectual property sector.

David Kappos, former director of the US Intellectual Property Office and a partner at Cravath, Swaine & Moore, said he does not believe SEPs would lead to licensing holdup or that FRAND (fair, reasonable and

non-discriminatory) licensing is broken, calling such viewpoints "myths".

“If you want to be an innovation leader and set the stage for long-term growth, you cannot buy into toxic myths,” he said. “Such myths will take your policy and your country into a dead end.”

David Evans, chairman of Global Economics Group, said antitrust regulators should be mindful that companies complaining about patent abuses are often “rent seekers” who want to achieve a lower royalty rate such as they would otherwise not obtain on the open market.

Taiwan’s Fair Trade Commission (TFTC) is handling several high-profile patent abuse cases, including an ongoing investigation focusing on Qualcomm’s licensing practices, as previously reported.

Acting as the moderator at the panel, Mei-hua Wang, director general of Taiwan’s Intellectual Property Office, said Taiwan has many information and communications technology companies facing constant royalty requests from foreign patent holders. It is important to find “balanced solutions” related to IPR negotiations, she said.

Shang-Jyh Liu, dean of Taiwan’s National Chiao Tung University’s School of Law, said the problem of royalty stacking and patent thicket exists and there is room for administrative and judicial intervention when patent disputes arise. Taiwan’s antitrust regulator should not get involved in calculating what the fair royalty rates are, but it should definitely intervene when there are questions over whether a royalty calculation methodology is fair, he said.

- Agencies
  - National Development and Reform Commission (NDRC)
  - US Federal Trade Commission (FTC)
  - Taiwan Fair Trade Commission (TFTC)