COMMENT OF THE GLOBAL ANTITRUST INSTITUTE, ANTONIN SCALIA LAW SCHOOL, GEORGE MASON UNIVERSITY, ON THE JAPAN PATENT OFFICE'S TENTATIVE GUIDELINES ON LICENSING NEGOTIATIONS INVOLVINGS SEPS

November 10, 2017

This comment is submitted in response to the Japan Patent Office's (JPO) invitation to contribute to Guidelines for Negotiations involving Standard Essential Patents (SEPs). We appreciate the opportunity to comment and commend the JPO for its transparency and willingness to consider input from disinterested analysts. We submit this comment based upon our extensive experience and expertise in antitrust law and economics generally, and specifically with respect to the intersection of intellectual property and antitrust.[1]

GENERAL COMMENTS

While there are several types of recommendations for the Guidelines,[2] our comments will focus upon whether and when antitrust or competition law principles should impose limits upon licensing negotiations involving SEPs. It is unclear how violations of the Guidelines might relate to antitrust violations. We recommend that the JPO clarify the relationship between the Guidelines' SEP licensing provisions and the application of substantive Japanese antitrust law by, for example, clarifying that

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[1] The Global Antitrust Institute (GAI), a division of the Antonin Scalia Law School at George Mason University (Scalia Law), is a leading international platform for economic education and research that focuses upon the legal and economic analysis of key antitrust issues confronting competition agencies and courts around the world. University Professor Joshua D. Wright, Ph.D. (economics), is the Executive Director of the GAI and a former U.S. Federal Trade Commissioner. John M. Yun, Ph.D. (economics), is the Director of Economic Education, Associate Professor at Scalia Law, and former Acting Deputy Assistant Director in the Bureau of Economics, Antitrust Division, at the U.S. Federal Trade Commission. Professor of Law Douglas H. Ginsburg is a Senior Judge, United States Court of Appeals for the District of Columbia Circuit, Chairman of the GAI's International Board of Advisors, and a former Assistant Attorney General in charge of the Antitrust Division of the U.S. Department of Justice. Associate Dean for Research and Faculty Development and Professor of Law Bruce H. Kobayashi, Ph.D. (economics), is a GAI Senior Scholar and Founding Director. Tad Lipsky is the Director of the Competition Advocacy Program, Adjunct Professor at Scalia Law, and a former Acting Director in the Bureau of Competition at the U.S. Federal Trade Commission.

[2] *See, e.g.*, Letter from J. Gregory Sidak, Chairman, Criterion Econ., to Legislative Affairs Office, Gen. Coordination Div., Japan Patent Office (Nov. 1, 2017) (discussing, among other things, appropriate licensing negotiation methods).

deviation from the Guidelines will not be treated as presumptive or conclusive proof of an antitrust violation.[3] Guidelines, after all, are not regulations.

First, it is important to recognize that the question whether antitrust limits are desirable in the realm of SEP negotiations requires an analysis of whether other bodies of law are already deterring inefficient conduct. In the case of SEP licensing negotiations, contract law is generally sufficient to provide optimal deterrence for breach of a license commitment, rendering additional antitrust sanctions unnecessary.[4] From an economic perspective, legal rules governing SEP negotiations should optimally deter inefficient or anticompetitive conduct. In the U.S., contract law provides efficient legal rules, which minimize the social costs incurred from over- or under-deterrence and minimize administrative costs. Imposing special rules, including antitrust sanctions, for SEP owners who breach contractual commitments is economically unsound policy.[5] The most likely consequence of imposing additional sanctions, beyond the contract negotiated between standards development organizations (SDOs) and SEP holders, will be over-deterrence and a decreased participation in SDOs.[6]

There are also market mechanisms in place that constrain a SEP owner's decision to engage in holdup. Reputational and business costs deter repeat players from engaging in holdup. Patent holders also often enjoy a first-mover advantage if their technology is adopted as the standard. The incentives of SEP owners and implementers to negotiate efficiently minimize the risk of opportunism. Given these considerations, any liability theory that would require an SEP owner to prove that an accused infringer

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[3] More generally, where conduct is efficient or otherwise correctible through contract law or another legal scheme, departures from the Guidelines should not carry negative connotations under Japanese antitrust law. *See generally* Bruce H. Kobayashi & Joshua D. Wright, *Federalism, Substantive Preemption, and Limits on Antitrust: An Application to Patent Holdup*, 5 J. COMPETITION L. & ECON. 469 (2009) (discussing the superiority of contract law to evaluate the legality of licensing negotiations involving the standard setting process).

[4] *See* Bruce H. Kobayashi & Joshua D. Wright, *The Limits of Antitrust and Patent Holdup: A Reply to Cary, et al.*, 78 ANTITRUST L.J. 505 (2012).

[5] *See* Douglas H. Ginsburg et al., *The Troubling Use of Antitrust to Regulate FRAND Licensing*, 10 COMPETITION POL'Y INT'L ANTITRUST CHRON. NO. 1 (Oct. 2015); Benjamin Klein, *Market Power in Antitrust: Economic Analysis After Kodak*, 3 SUP. CT. ECON. REV. 43, 62-63 (1993) ("Antitrust law should not be used to prevent transactors from voluntarily making specific investments and writing contracts by which they knowingly put themselves in a position where they may face a 'hold-up' in the future . . . . [C]ontract law inherently recognizes the pervasiveness of transactor-specific investments and generally deals with 'hold-up' problems in a subtle way, not by attempting to eliminate every perceived 'hold-up' that may arise.").

[6] *See* Luke Froeb et al., *Patent Hold Up and Antitrust: How a Well-Intentioned Rule Could Retard Innovation*, 60 J. INDUS. ECON. 249 (2012).

is an unwilling licensee threatens to deter participation in standard setting, particularly if an accused infringer can prove its willingness to take a license simply by agreeing to be bound by terms determined in a neutral adjudication.

Moreover, prohibiting an SEP owner from getting injunctive relief against an infringing implementer would create an incentive for implementers to engage in reverse holdup and holdout and puts SEP holders at a disadvantage that reduces the rewards to, and therefore can only discourage, both innovation and participation in standard setting. Indeed, without injunctive relief, holdout may actually reduce both innovation and standardization,[7] as the recent experience of the IEEE confirms.[8] Importantly, injunctions issue only upon a court order, minimizing the risk of any unwarranted harm to an implementer.

Second, it is equally important to understand that seeking injunctions on SEPs can be part of the normal competitive process and, again, does not require special antitrust limitations. The ability to seek an injunction is an essential right for SEP holders when negotiating licensing agreements. The credible threat of an injunction provides an SEP holder with an avenue to recoup the value added by its patents and maintains the incentive to innovate. This is critical because, when an injunction is unavailable, an unscrupulous or judgment-proof infringer can force the SEP holder to accept a rate below the value of the patent. Prohibiting injunctions will reduce the procompetitive benefits realized from standardized technologies, ultimately causing

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[7] *See* Joanna Tsai & Joshua D. Wright, *Standard Setting, Intellectual Property Rights, and the Role of Antitrust in Regulating Incomplete Contracts*, 80 ANTITRUST L.J. 157 (2015) (finding SSO bylaws generally do not prohibit SEP holders from seeking injunctions).

[8] Ron D. Katznelson, Presentation at IEEE GLOBECOM 2015: Decline in Non-Duplicate Licensing Letters of Assurance (LOAs) from Product/System Companies for IEEE Standards (updated Mar. 30, 2016), https://works.bepress.com/rkatznelson/80/ (noting the decline in letters of assurance under new IEEE patent policy); Letter from Lawrence F. Shay, Exec. Vice President of Intellectual Prop., InterDigital, Inc., to David Law, Patent Comm. Chair, IEEE-SA Standards Bd. (Mar. 24, 2015), http://wpuploads.interdigital.com.s3.amazonaws.com/uploads/2015/03/Letter-to-IEEE-SA-PatCom.pdf ("InterDigital will not make licensing assurances under the new policy; and will instead make alternative licensing assurances, on a case-by-case basis, that are consistent with the goals of driving technology adoption while ensuring fair compensation for research success."); Letter from Gustav Brismark, Vice President, Strategy & Portfolio Mgmt., Ericsson AB, to Eileen M. Lach, Gen. Counsel & Chief Compliance Officer, IEEE (Oct. 21, 2014), http://www.mlex.com//Attachments/2015-10-26_5P338037F7HPVP5L/rand-terms.pdf ("Consequently, it appears that, moving forward, Ericsson would not be able to submit any [Letters of Assurance] under the terms of the proposed new IEEE-SA policy."); Letter from Irwin Mark Jacobs, Founding Chairman & CEO Emeritus, Qualcomm, to Dr. Roberto Boisson de Marca, President & CEO, IEEE (Nov. 19, 2014), http://www.advancingengineering.org/irwin-jacobs.

harm to consumers. Further, imposing antitrust sanctions for seeking injunctive relief will only serve to further reduce incentives to innovate and deter SEP holders from participating in the standard setting process. The U.S. courts have recognized these principles; every decision that has addressed the rights of an SEP owner to seek or enforce an injunction against an infringing implementer has done so under contract principles.[9]

Where antitrust limits are considered on top of existing contract and patent remedies for undesirable conduct, the European Court of Justice's approach in *Huawei v. ZTE* offers a second-best approach, crafting a safe harbor from antitrust liability.[10] Specifically, an SEP holder should be free from liability if (1) prior to initiating an infringement action, the SEP holder 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, the SEP holder presents to the alleged infringer a specific, written offer for a license, specifying the royalty and calculation methodology. The Court appropriately placed the burden upon the alleged infringer to "diligently respond" to the SEP holder's 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 implementing the SEP.[11] The Court also recognized that SEP holders have "the right to bring an action for prohibitory injunction or for the recall of products," and made clear that the SEP holder's right cannot be limited, except in particular and exceptional circumstances.[12] Importantly, the Court's decision recognizes concerns about reverse holdup, stating that the Court will not tolerate infringers' "delaying tactics."[13]

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[9] *See, e.g.*, Realtek Semiconductor Corp. v. LSI Corp., 2013 WL 2181717, at *7 (N.D. Cal. May 20, 2013); Verdict Form at 3, Microsoft v. Motorola, Case No. C10-1823JLR (Sept. 4, 2013) (the jury found that Motorola's conduct in seeking injunctive relief violated its duty of good faith and fair dealing with respect to its contractual commitments to the IEEE and the ITU); Apple v. Motorola, Inc., 869 F. Supp. 2d 901, 913-14 (N.D. Ill. 2012); Microsoft Corp. v. Motorola, Inc., 696 F.3d 872, 884-85 (9th Cir. 2012).

[10] Case C-170/13, Huawei Technologies Co. v. ZTE Corp. (July 16, 2015), http://curia.europa.eu/juris/document/document.jsf?text=&docid=165911&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=603775.

[11] *Id.* ¶¶ 66-67.

[12] *Id.* ¶¶ 65-66, 71.

[13] *Id.* ¶ 65.

SUMMARY AND CONCLUSION

In sum, we strongly encourage the JPO to avoid imposing antitrust law sanctions for seeking or enforcing injunctive relief because it is likely such a sanction will reduce incentives to innovate and deter SEP holders from participating in standard setting, thereby depriving consumers of the significant procompetitive benefits of standardized technologies.[14] However, should the JPO decide to impose antitrust sanctions for seeking or enforcing injunctive relief, it should consider adopting the "safe harbor" approach taken by the European Court of Justice in *Huawei v. ZTE*.

We appreciate the opportunity to comment and would be happy to respond to any questions the JPO may have regarding this comment.

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[14] *See* Douglas H. Ginsburg, Taylor M. Owings, & Joshua D. Wright, *Enjoining Injunctions: The Case Against Antitrust Liability for Standard Essential Patent Holders Who Seek Injunctions*, ANTITRUST SOURCE 1, 5-6 (Oct. 2014) (explaining, among other things, that the law of contracts is sufficient to provide optimal deterrence); *see also* Kobayashi & Wright, *supra* note 4.