The Japan Patent Office (JPO) *Guide to Licensing Negotiations Involving Standard Essential Patents*, Comment of the Global Antitrust Institute, Antonin Scalia Law School, George Mason University

April 9, 2018

This comment is submitted in response to the Japan Patent Office's (JPO) draft Guide to Licensing Negotiations Involving Standard Essential Patents ("Guide"). We appreciate the opportunity to comment and offer our submission based upon our extensive experience and expertise in antitrust law, regulation, privacy, and economics.[1]

Introduction

With this Guide, given the ongoing legal and academic debates regarding the merits of various SEP licensing provisions, *e.g.*, the use of injunctive relief, the JPO understandably attempts "to offer an explanation of what actions…[are] more likely to be recognized as 'negotiating in good faith'."[2] While the Guide does not aim to be legally binding, nor to present "recipes" to be used in licensing negotiations, it does provide a number of examples of what the JPO considers to be in good or bad faith. What is absent, however, is a discussion of the central role that standard-setting organizations (SSOs) play, not only in setting standards, but also in establishing polices governing how licenses are to be negotiated and contracted.

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[2] Guide, at 4.

The Nature of SSOs

In order to provide guidance regarding sound practices for the licensing of intellectual property, it is necessary to have a firm grasp of the incentives facing SSOs. Without this understanding, one might improperly view an SSO's policies (or its lack of a policy) on a particular subject as a deficiency that needs to be corrected – whether by government guidance or even regulation—rather than as a considered decision of the SSO. In other words, "it is impossible, and likely counter-productive, to talk about the relative efficiency of one set of rules or another without first understanding the underlying contracting process."[3]

SSOs play a crucial role in an innovation-driven economy by developing, supporting, and setting interoperability and performance standards.[4] There are hundreds of SSOs across a range of industries including telecommunications, electronics, and the Internet.[5] Some prominent examples are the Institute of Electrical and Electronics Engineers (IEEE), which develops standards for telecommunications, information technology, and power generation; the European Telecommunications Standards Institute (ETSI); and the American National Standards Institute (ANSI).

Fundamentally, SSOs are economic platforms. Platforms can be defined in a multitude of ways but, essentially, a platform brings together two or more groups so they can interact directly.[6] Platforms almost always entail network effects, whether direct or indirect. Indirect or cross-group network effects create an incentive for the platform to increase the size of the various groups while also balancing the often conflicting incentives of the groups through

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[3] Joshua D. Wright, Comm'r, Fed. Trade Comm'n, Remarks at the Center for the Protection of Intellectual Property Inaugural Academic Conference: *SSOs, FRAND, and Antitrust: Lessons from the Economics of Incomplete Contracts* 3 (Sept. 12, 2013) https://www.ftc.gov/sites/default/files/documents/public_statements/ssos-frand-and-antitrust-lessons-economics-incomplete-contracts/130912cpip.pdf.

[4] *See*, *e.g.*, U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 33 n.1 (2007), http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.

[5] *See*, *e.g.*, Standard Settings Organizations and Standards List, http://www.consortiuminfo.org/links/ for a list of SSOs and standards in a variety of fields.

[6] Andrei Hagiu and Julian Wright define a platform using the criteria of (i) direct interaction and (ii) each group is affiliated with a platform in some manner (typically through platform-specific investments). *See* Andrei Hagiu & Julian Wright, *Multi-Sided Platforms*, *International Journal of Industrial Organization* 43 (2015).

governing policies and procedures.[7] The standards that emerge from the process structured by these policies and procedures make products less costly for firms to produce and more valuable to consumers.[8] Thus, an SSO effectively acts as a facilitator between innovators and implementers, resulting in increased levels of exchange and, ultimately, increased gains from trade and enhanced rates of innovation.

Just as ride-hailing platforms such as Uber and Lyft compete for both drivers and passengers, SSOs compete with each other for both innovators and implementers. This competition can explain why an SSO adopts (or does not adopt) certain policies. Josh Lerner and Nobel laureate Jean Tirole have pointed out that there may be significant differences among SSOs:

> [A] firm seeking to get a technology adopted as a new standard frequently faces a choice of three or four SSOs from which it could seek certification. In making a choice between existing SSOs, or between new and existing organizations, the prestige of the body is an important consideration … SSOs also differ in the extent of requirements regarding the disclosure and licensing of intellectual property.[9]

In order to establish a successful platform, an SSO must implement policies that attract both innovators and implementers. Again, this is no different than other prominent platforms that need to attract all the distinct participating groups, such as Airbnb (property owners and tourists), OpenTable (restaurants and diners), eBay and Amazon (buyers and third-party sellers). As ETSI states in its own Policy Objectives: "[T]he ETSI IPR POLICY seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPRs."[10] On this point, while the JPO correctly notes the need "to achieve a balance between the interests of rights holders and implementers with respect to negotiation

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[7] *See* Jean-Charles Rochet & Jean Tirole, *Platform Competition in Two-Sided Markets*, *Journal of the European Economic Association* 1, 990-1029 (2003).
[8] *See* Bruce H. Kobayashi & Joshua D. Wright, *Intellectual Property and Standard Setting*, in AM. BAR ASSOC., HANDBOOK ON THE ANTITRUST ASPECTS OF STANDARDS SETTING (2d ed. 2011).
[9] Josh Lerner & Jean Tirole, *A Model of Forum Shopping*, 96 AM. ECON. REV. 1091, 1094-1095 (2006); *see also* Mark Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889 (2002).
[10] ETSI Rules of Procedure, 37 (Nov. 29, 2017) https://portal.etsi.org/directives/38_directives_feb_2018.pdf.

procedures and methods of calculating royalty rates,"[11] there is no mention of the role that SSOs play in striking this balance for themselves. More fundamentally, the goal of "balance" should be understood with reference to the objectives of the particular platform, not as some universal axiom of "fairness" between the parties in bargaining.

SSOs themselves must seek this balance due to often conflicting incentives of their participating groups. Innovators are interested in protecting their intellectual property rights, having their technology widely adopted, and receiving a sufficient return on their investment. Implementers are interested in access to the latest technology, assurance that an adopted technology will be widely implemented (in order to avoid being locked-in with the wrong technology—colloquially, "betting on the wrong horse"), and paying only reasonable royalties. SSOs will implement policies to balance these interests as it seeks to increase the size of both groups. If an SSO has few participating innovators, it will create a negative cross-group effect that will make the platform less attractive to implementers. With fewer implementers a platform will have even greater difficulty attracting innovators. The opposite holds as well: As more innovators are attracted to a platform, it will attract more implementers—which, in turn, will attract more innovators.

Of course, some standards arise outside of any SSO. For example, HTML (hypertext markup language) is a transformational innovation that later became a widely adopted standard, but it originated from the ideas and effort of a small group of researchers, academics and computer enthusiasts (most prominently Tim Berners-Lee, whose original proposal to adopt HTML was rejected by CERN, the leading European nuclear research agency). Yet both innovators and implementers voluntarily participate in SSOs because SSOs offer reduced search costs, reduced contracting costs, and greater overall certainty—which can be described as "transaction cost" savings. How does an SSO achieve this? By designating a given patent as a standard essential patent (SEP) SSOs reduce the uncertainty associated with the adoption of a particular technology and facilitate interoperability, which, in turn, can offer significant

[11] Guide, at 3.

consumer benefits—particularly for industries with network effects, where the value of a product or service increases as more users adopt that product or service.

Of course, SSOs are not a panacea for resolving all licensing disputes. Licensing conflicts involving SEPs inevitably do arise. Among other key differences in the perspectives of different groups, innovators are concerned about hold-out while implementers are concerned about hold-up. Other issues such as (i) what does or does not constitute a FRAND royalty rate and (ii) whether a refusal to license at the component level is a violation of FRAND can also lead to breakdowns in licensing negotiations.

Because of these disputes, there is no shortage of calls to "reform" SSOs.[12] The proponents generally fail to realize that SSO policies, such as those that require FRAND terms but do not specify what they are or how to identify them, are incomplete for a reason. If SSOs start to tip the balance in favor of one group over another, *e.g.*, by requiring that innovators offer component-level licensing, this will likely reduce participation in the SSO and, in turn, reduce the level of exchange and lower the gains from trade.[13] To the extent that SSO

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[12] *See, e.g.*, Kai-Uwe Kuhn, et al., *Standard Setting Organizations Can Help Solve the Standard Essential Patents Licensing Problem*, CPI ANTITRUST CHRON., Winter 2013, Vol. 3., No. 1 (Special Issue), at 1, 4–5; Renata Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Remarks as Prepared for the ITU-T Patent Roundtable, *Six "Small" Proposals for SSOs Before Lunch* (Oct. 10, 2012), www.justice.gov/atr/public/speeches/287855.pdf; Renata Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Address at ANSI Intellectual Property Rights Policy Committee Meeting, *The Antitrust Division and SSOs: Continuing the Dialogue* (Nov. 8, 2012), www.justice.gov/atr/public/speeches/288580.pdf. Regarding these calls for reform, Commissioner Joshua Wright has noted, "Many policymakers and academics have developed strong priors that SSO contracts are inherently inefficient due to their incompleteness, and in particular, the ambiguity of the FRAND commitment and lack of precision concerning when injunctive relief is permitted. Based upon these priors, certain policymakers and academics often argue that the SSO contracting process is broken and requires additional legal machinery to afford potential licensees and consumer greater protection. I do not believe that conclusion—or many of the policy measures suggested or already adopted—follows from the relevant economic principles or, when economic theory offers conflicting predictions, the available empirical evidence" Wright Remarks, *supra* note 3 at 3-4.

[13] The U.S. Department of Justice's Antitrust Division made recommendations for SEP policies of SSOs perceived as favoring implementers. After these recommendations were adopted by the Institute of Electrical and Electronics Engineers (IEEE), numerous major SEP holders explicitly stated that they were refusing to make SEP commitments under the new policy due to its unbalanced nature, and such commitments declined in fact. In addition, IEEE meeting minutes report a slowed rate of development for the affected standard following the policy changes. For more detailed discussion and citations to supporting material, see Comment of the Global Antitrust Institute, Antonin Scalia Law School, George Mason University, on the Communication From the Commission on Standard Essential Patents for a European Digitalised Economy at 3-4 & nn.12-14 (Apr. 28, 2017)

governance and polices are increasingly burdensome to the participants, they will seek other avenues to reach licensing agreements—even going to the marketplace outside any SSO to establish *de facto* standards. Consequently, the incompleteness of many SSO terms is often/? a virtue and not necessarily a vice.[14] It is a well-established economic result that incomplete contracts can lead to efficiency gains.[15] Thus, insisting on greater precision for permissible licensing terms within the rules of an SSO can lead, under certain conditions, to greater inefficiency and, ultimately, a lower rate of innovation.

The Role of Guidelines

In this respect, the Guide laudably does not suggest specific practices and policies for SSOs to adopt. The Guide does, however, offer recommendations in the form of examples of good and bad faith. We urge the utmost caution on moving forward with these examples because there is no reliable indication that SSO policies are inefficient or that SSOs are unable to resolve disputes as they arise.[16] This is not to suggest that SSOs cannot improve their governance and policies. The relevant question is not whether SSOs are making tradeoffs by balancing the interests of innovators and implementers; they are. The issue is whether there is a reason to believe that the balance is systematically wrong or the result of a market failure. Absent evidence to this effect, we recommend restraint in advancing recommended policies or terms or offering examples of terms that would indicate either good or bad faith.

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https://sls.gmu.edu/gai/wp-content/uploads/sites/27/2016/07/GAI-Comment_EC-Standards-Roadmap_4-28-17_FINAL.pdf.

[14] *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, 170 (2015) ("Overall, we find that contractual incompleteness and ambiguity of IPR policies persists over time, despite many revisions, refinements, and adjustments to IPR policies. In particular, although we observe considerable changes to some IPR policy terms, ambiguity, especially with respect to F/RAND licensing terms, tends to persist across SSOs and within an SSO over time.").

[15] *See*, *e.g.*, Benjamin Klein, *Why Hold-Ups Occur: The Self-Enforcing Range of Contractual Relationships*, 34 ECON. INQUIRY 444, 447 (1996); Benjamin Klein, et al., *Vertical Integration, Appropriable Rents, and Competitive Contracting Process*, 21 J. L. & ECON. 297 (1978).

[16] Joanna Tsai and Joshua Wright find that "SSOs have proven to be dynamic institutions. In response to threats of patent holdup, many have adopted and modified a number of contractual provisions to reduce its incidence. Most have also made changes to SSO policies to compete for membership. One major category of SSO contractual innovations to mitigate patent holdup involves patent disclosure rules. A second category is IPR licensing terms, such as the Fair/Reasonable and Non-Discriminatory (F/FRAND) commitment" (Tsai & Wright, *supra* note 14, at 158).

There are other sound reasons for caution and restraint in attempting to formulate any set of guidelines for licensing negotiation and terms. Notably, no single model or guidance document is likely to solve the various issues facing disparate SSOs. Different SSOs are structured differently, operate in different ways, and impose different rules regarding disclosure and licensing of SEPs. In addition, the range of standards and technologies involved in SSO activity is great, reflecting the diverse industries, products and services concerned.

Moreover, the legal approaches taken with regard to SEP licensing obligations vary by jurisdiction, and are rapidly evolving as courts, government agencies, scholars and other legal and economic experts consider the diverse and growing number of legal disputes regarding SEP licensing. The specific legal constraints that apply or should apply to the conduct of the various parties (licensors, licensees) involved in license negotiations, license agreements, and related disputes can be determined only on the basis of a careful analysis of the specific facts and circumstances that characterize any particular situation.

The Guide states that it “aims to enhance transparency and predictability, facilitate negotiations between rights holders and implementers, and help prevent or quickly resolve disputes concerning the licensing of standard essential patents” (Guide at 1). Given the enormous variety of situations to which the Guide might be applied, however, and the dynamic and evolving character of the applicable laws in numerous jurisdictions, it is doubtful whether the Guide can do more than indicate in a general or illustrative way the types of questions that may arise in SEP licensing. The Guide seems to recognize this limitation, stating that it “is not intended to be prescriptive” and “does not present ‘recipes’ which can be used to automatically calculate the appropriate royalty rate.” Guide at 4.[17]

While the GAI applauds this cautionary approach, for all the reasons identified above, we believe it is important to give these warnings greater prominence, clarity and force. As the

[17] The Guide also asserts that it “is not legally binding and does not forejudge future judicial rulings,” but is intended to “summarize issues concerning licensing negotiations based on the current state of court rulings, the judgment of competition authorities, [and] licensing practices, etc.” *Id*.

Guide reflects, the legal constraints applicable to any specific situation are determined ultimately by courts of law interpreting applicable statutes and any binding regulations. The Guide should state this prominently at the beginning and advise clearly that parties involved in SEP licensing negotiations should seek and obtain the advice of qualified counsel based on their own unique needs and circumstances, and that nothing in the Guide can take precedence over an authoritative determination of the law as applied to specific situations in court proceedings. The Guide should avoid any use of terms suggesting that it is mandatory, such as statements as to what parties "should" do in particular situations.[18]

The Guide also contains a number of potential mischaracterizations of the applicable law in certain important SEP licensing situations. As indicated more specifically below, these should be corrected so as to avoid any possibility that readers of the Guide who are involved in SEP licensing matters could be misled about the legal consequences of their statements and actions. These potential inaccuracies likely reflect the speed with which common understandings of the economic realities of standard setting and SEP licensing of rapidly improving technologies are evolving. It is extremely difficult to formulate guidelines in such circumstances, and it would be undesirable to adopt guidance based on a "snapshot" of a vast, complex and rapidly evolving commercial, technical, and legal ecosystem. This is why we

[18] The Guide contains many such statements, which contradict the various caveats regarding the informational nature of the Guide, and should be eliminated or modified – for example, by changing "should" to "might" or "may, depending on circumstances." Guide at 3 ("those elements that should be considered to achieve a balance between the interests of rights holders and implementers"); *Id*. at 5 ("actions which each of the parties should take at each stage of the licensing negotiations"); *Id*. at 6 ("the scope of information that the parties should submit at each stage of the negotiation and the period given to make a response . . . the rights holder is required to prove the infringement by providing to the implementer"); *Id*. at 9 ("the implementer should not leave that offer unanswered but instead should respond to the offer in good faith"); *Id*. at 13 ("the rights holder should specifically explain why the offer is on FRAND terms . . . explain its calculation sufficiently for the implementer to objectively understand that the terms and conditions presented satisfy the FRAND obligation"); *Id*. at 14 ("the implementer should indicate specific grounds demonstrating that its counteroffer is on FRAND terms"); *Id*. at 19 ("key points that should be considered so that negotiations under FRAND conditions are conducted efficiently"); *Id*. at 20 ("which entities in the manufacturing supply chain should be parties to negotiations . . . or should participate in the licensing negotiations"); *Id*. at 25 ("parties should address whether they will be considering a license that will be limited to particular regions . . . [and] should consider whether the implementer is operating or selling products in multiple regions throughout the world"); *Id*. at 26 ("care should be taken to prevent this from turning into a delaying tactic"); *Id*. at 30 ("a calculation base suitable for each individual case should be adopted"); *Id*. at 36 ("Implementers should take full account of these factors"); *Id*. at 36-37 ("similarly situated licensees should not be treated differently.").

strongly recommend that the Guide state prominently and unequivocally that, in view of rapidly evolving market, technology and legal developments, it is not intended to be prescriptive or to inhibit the adoption of any specific licensing practice.

Specific Comments

Section I.A.

While phrased in general terms, the second paragraph contains statements that should be amended to reflect more recent and sophisticated approaches to the competitive analysis of SEPs. By referring to "[p]atents granting monopoly to a technology as a reward for innovative effort," the Guide appears to suggest that there is some likely or necessary correlation between possession or control of a patent and the possession of a "monopoly." "Monopoly" is a very specific term in antitrust law. Firms that are judged to have a "monopoly" are subject to substantial restrictions on their unilateral competitive freedom and are potentially liable to severe antitrust remedies. Modern economic analysis, adopted in recent judicial decisions, recognizes that it is always an empirical question whether any particular patent – including an SEP – actually bestows monopoly or even market power on the owner.[19] While valid and enforceable patents grant exclusive control of the claimed technology (subject to the boundaries defined by law), control does not imply any monopoly power unless (1) both the technology itself and the products and services made available through that technology lack reasonable substitutes (price, quality, and other characteristics considered), and (2) no other market circumstances (such as a FRAND commitment or regulatory control of the relevant technology or the applications that embody it) negate any such power.

[19] U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY, § 2.2. (Jan. 12, 2017); Illinois Tool Works Inc. v. Independent Ink, Inc., 547 U.S. 28 (2006); *see also* Bruce H. Kobayashi (2008), "Spilled Ink or Economic Progress? The Supreme Court's Decision in Illinois Tool Works v. Independent Ink," *Antitrust Bulletin* 53, 5-33 ("The Court's recognition that patents do not necessarily confer antitrust market power is consistent with the broad consensus that has developed that views patents and intellectual property rights as distinct from monopolies" at 6) and Joshua D. Wright, *Missed Opportunities in* Independent Ink, *Cato Supreme Court Review* 347 (2006) ("Rather than conferring market power, a patent merely allows a firm to exclude competitors from selling identical products. Patents do not ensure that the firm does not compete against a significant number of substitutes, but guarantee that those substitutes will be imperfect.").

Similarly, the second paragraph identifies a "conflict" between patents and standards. Since patents grant exclusive rights while competition laws identify exclusivity as a practice with potential anticompetitive effects in certain defined circumstances, there may be some intuitive appeal to the idea that there is a conflict. The appearance of a conflict, however, is superficial. Aided by more sophisticated economic analysis, modern precedents and scholarship recognize that patent law and competition law are in fundamental harmony: Both are intended to maximize economic productivity by shaping private market incentives that result in vigorous competition and continuing innovation.[20] The more modern and sophisticated economic analysis recognizes that effective enforcement of patent rights is fully consistent with vigorous competition and should not be abridged by competition laws in the mistaken belief that technology dissemination – when it occurs via derogation of patent rights – will stimulate competition. Any contrary view suffers from misplaced focus on the apparent procompetitive effect of increased short-term rivalry made possible by technology dissemination. In the more comprehensive picture, derogation of patent rights inflicts more serious economic harm in the form of reduced incentives for investment in innovation and thus more limited competition in the longer run.

Paragraph 4 materially overstates the degree to which "guiding principles" are "beginning to emerge" with regard to the antitrust consequences of SEP licensing. Although guidance documents on this subject have been issued recently by the European Commission and by the Japan Fair Trade Commission, that guidance acknowledges that it remains subject to the authoritative determination of the law by the relevant courts. (Indeed, the Guide itself contains a similar disclaimer in Section I.B.). Judicial decisions are constantly emerging, and the state of the law is evolving and dynamic. Therefore, there is a danger that the Guide will suggest that a particular set of principles is government-approved or is meant to be permanent, which in fact may not prove correct in light of emerging judicial rulings. The Guide should state

[20] *See, e.g.*, U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION, at 1 (2007).

unequivocally that the ultimate source of authoritative and relevant guidance remains statute law and regulations, as interpreted by courts.

A key example includes the statement in paragraph 4, to the effect that "injunctions are permitted only in limited situations" due to "hold-up" concerns. This miscasts the law in several significant jurisdictions – including the U.S. and the EU – where the usual principles for granting injunctive relief apply to an application for an injunction against the infringement of SEPs.[21] Any other result would be a sharp departure from accepted equitable principles, due to the recognition that "hold-out" by a recalcitrant SEP implementer is as much a concern as is "hold-up" by an SEP holder. The Guide somewhat understates the recognition now given by judicial decisions in other jurisdictions to the possibility of "hold-out."

Paragraph 7 mentions that Patent Assertion Entities ("PAEs") "are also parties to SEP disputes." Recently a number of major jurisdictions have studied PAEs intensively[22] but the emerging evidence seems to indicate that PAEs are involved in only a small proportion of SEP disputes.[23] Accordingly, it may be preferable to omit this reference to PAEs, as it may suggest inordinate concern with an insignificant category of SEP controversies.

Section I.B.

The first paragraph asserts that the Guide "may also be relevant to non-FRAND SEPs as well as commercially essential patents." Aside from this assertion, the Guide focuses exclusively on SEPs subject to FRAND commitments and does not further mention commercially essential patents. We recommend omission of this reference, for several reasons: The legal constraints

[21] See Douglas H. Ginsburg, et al., *Enjoining Injunctions: the Case Against Antitrust Liability for Standard Essential Patent Holders Who Seek Injunctions*, The Antitrust Source, 1-7 (Oct. 2014).

[22] FED. TRADE COMM'N, PATENT ASSERTION ENTITY ACTIVITY: AN FTC STUDY (2016), https://www.ftc.gov/reports/patent-assertion-entity-activity-ftc-study; Joint Research Ctr., Eur. Comm'n, JRC103321, Patent Assertion Entities in Europe (Nikolaus Thumm & Gary Gabison eds., 2016), https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/patent-assertion-entities-europe-their-impact-innovation-and-knowledge-transfer-ict-markets.

[23] *See* FED. TRADE COMM'N, Patent Assertion Entity Activity, *supra* note 22 at 136 (Stating that less than 1% of study patents – i.e., patents owned by a PAE – were subject to a FRAND commitment to an SSO).

that may be appropriate for licensing of SEPs that are not subject to FRAND commitments are substantially less than those applicable to FRAND-committed SEPs. Consequently, a set of principles developed with a focus on FRAND-committed SEPs would not be appropriate for SEPs lacking any FRAND commitment. As for "commercially essential patents," this term is not widely recognized and may not be capable of a simple and objective definition. Identifying the precise differences between SEPs and "commercially essential patents," and developing appropriate guidance for the latter in light of those differences, would involve additional layers of complexity and thus engender additional uncertainty regarding applicable legal obligations.

The statement in paragraph 4—that the Guide "does not present 'recipes' which can be used to automatically calculate the appropriate royalty rate"—deserves greater prominence and emphasis. Royalty rates for SEP licenses should be determined by the outcome of a private, commercial bargaining process, constrained by any lawful commitments due to the rules of a relevant SSO. The factors that influence the process and its outcome are numerous and diverse, and are unlikely to be susceptible to prediction with any precision using any set of general criteria. Moreover, the legal constraints applicable to parties engaged in bargaining over an SEP-license will be based on applicable statutes and regulations to the particular facts and circumstances. It is doubtful that any prospective agency Guide could anticipate and prescribe the range of negotiating approaches or tactics that could be considered lawful for future negotiations.

While we note the JPO's statement of intent to make the Guide a "living" document in order to accommodate the evolution of the law in this field, there is a serious question whether any agency is positioned to devote the effort that would be required to remain current on the numerous judicial decisions affecting the field of SEP licensing in multiple jurisdictions around the world. The law applicable to the determination of FRAND royalty rates and the calculation of damages for infringement of FRAND-committed SEPs is still evolving. As such, it may make sense to shift focus from trying to assure constant updating of a "living" document towards simply leaving the possibility open in the future to creating a new Guide to replace this one.

Section II.A.3.

Section II.A.3. provides that "[A patentee's p]resenting an initial offer that is unreasonable on its face" may constitute "bad faith." In contrast, the Guide says nothing about a licensee counter offer that is "unreasonable on its face." Courts have issued injunctive relief for infringement of FRAND-committed SEPs where the infringers at issue were found to be "unwilling licensees" (see following discussion). To assure balance between licensor and licensee positions, and to recognize equivalent concerns regarding licensee "hold out" as well as licensor "hold up," the Guide should provide corresponding examples for each position.

One recent example is the March 2017 Beijing Intellectual Property Court's decision in *IWNCOMM v. Sony*, in which the court found that the defendant implementer willfully delayed and was otherwise at fault during the six years of negotiations. The court's finding was based upon, among other things, the implementer's repeated insistence on patent claim charts after the SEP holder had already provided sufficient documents for the implementer to determine whether its products infringed the relevant SEPs. Similarly, in India the Delhi High Court has issued a number of interim injunctions in favor of Ericsson based upon findings that the implementers in those cases had engaged in a number of "delaying tactics," such as "raising repetitive issues and queries" and refusing to execute license agreements "on one pretext or the other," even after receiving claim charts and other detailed information from Ericsson. Another example is *St. Lawrence v. Vodafone*, in which Germany's Dusseldorf Higher Regional Court affirmed the lower court's grant of an injunction on the ground that the implementer failed to make a counteroffer or declare its willingness to negotiate in a timely manner. Finally, in *Unwired Planet v. Huawei*, the UK High Court of Justice (Patents) granted an injunction against Huawei, concluding that Huawei's refusal to offer an unqualified undertaking (*i.e.*, its refusal to accept a worldwide license) before trial and judgment warranted an injunction (albeit one which was stayed on terms pending appeal). Each of these cases is an example of a judicial attempt to recognize and consider the various risks of both "hold out" and "hold up" conduct in SEP licensing.

Section II.A.5. (Exercise of Rights to Seek Injunctions)

The Guide states that "competition authorities around the world suggest that demanding an injunction against an entity that is willing to obtain a license on FRAND terms may be a violation of Competition Law." For this proposition the Guide cites *Google v. Motorola* (U.S. Federal Trade Commission, 2013), among other authorities. It is important to note that this case was based not upon an antitrust statute but solely upon the unique "unfair methods of competition" authority contained in Section 5 of the Federal Trade Commission Act. More important still, the case was resolved by a consent decree, which is an agreed upon non-judicial resolution of a pending enforcement agency matter. While consent decrees certainly have their place in antitrust enforcement, they are not the law; indeed, they hinder the development of actual legal precedents.[24] Accordingly, we recommend omitting the citation to this case.

Moreover, the statement in the Guide does not reflect sound economic analysis on the issue of hold-up and injunctions.[25] Additionally, the statement does not reflect the current views of the U.S. federal antitrust enforcement agencies on this issue.[26] The trend in judicial

[24] *See* Joshua D. Wright & Douglas H. Ginsburg (2016), *The Costs and Benefits of Antitrust Consents*, George Mason Law & Economics Research Paper No. 16-42 and Joshua D. Wright & Douglas H. Ginsburg (2013), *Antitrust Settlements: The Culture of Consents,* in *William E. Kovacic: An Antitrust Tribute—Liber Amicorum*, Vol. 1, February 2013.

[25] *See, e.g.,* James Ratliff & Daniel L. Rubinfeld (2013), *The Use and Threat of Injunctions in the Rand Context*, *Journal of Competition Law and Economics* 9, pp. 1-22 (2013) ("If used judiciously by the courts, the threat of the imposition of an injunction can serve, when needed, to move patent disputes towards resolution. Whether through bargaining between the parties or by judicial determination, it is hoped that the resolution of these disputes will achieve a reasonable balance between the valued interests of innovator-patentees, while at the same time supporting the creation and development of standard-setting organizations and rewarding the technological and marketing investments of innovator-licensees" at 22); *see also, e.g.,* Luke Froeb, et al., "Patent Hold Up and Antitrust: How a Well-Intentioned Rule Could Retard Innovation," *Journal of Industrial Economics* 60, 249-273. The paper examines the complexity in designing solutions to the hold-up problem where a damages remedy imposed through antitrust enforcement could retard the level of innovation.

[26] The Acting Chairman of the FTC, Maureen Ohlhausen, has pointedly criticized the *Google v. Motorola* decree as inconsistent with U.S. antitrust law precisely because it appears to penalize a patent holder for seeking an injunction for infringement. *See* Maureen K. Ohlhausen, *The Elusive Role of Competition in the Standard-Setting Antitrust Debate*, 20 STAN. TECH. L. REV. 93 (2017), https://www.ftc.gov/system/files/documents/public_statements/1229923/20-1-3-ohlhausen-antitrust-debate.pdf. Additionally, the U.S. Assistant Attorney General for Antitrust, Makan Delrahim, has also rejected antitrust attacks on SEP patent holders for seeking injunctive relief: "[A] violation by a patent holder of an SSO rule that restricts a patent-holder's right to seek injunctive relief should be appropriately the subject of a contract or fraud action, and rarely if ever should be an antitrust violation. Patents are a form of property, and the right to exclude is one of the most fundamental bargaining rights a property owner possesses. Rules that deprive a patent holder from

authority also is to the effect that injunction applications by SEP owners are not presumptively or typically subject to antitrust attack. A leading decision to this effect is Huawei v. ZTE, European Court of Justice, Case C-170/13, Judgment of July 16, 2015.

The Guide also appears inconsistent on whether insistence on a non-disclosure agreement (NDA) in a licensing negotiation constitutes evidence of "bad faith." The bad faith example on p. 9 ("Claiming that they [the rights holders] will not provide claim charts to the implementer unless they conclude a confidentiality agreement") appears inconsistent with the example on p. 12 ("[Implementer] Refusing to conclude a confidentiality agreement, while demanding the rights holder to provide claim charts"). NDAs are a common practice in license negotiations for a SEP, in part because they are generally very important to the parties. Accordingly, the Guide should be amended to clarify that a party's insistence on an NDA would rarely, if ever, constitute evidence of bad faith. Again, however, because the particular legal consequences of any particular negotiation strategy – including a party's positions and actions in negotiating an NDA – are highly dependent on the facts of the specific situation, parties should be advised to seek legal counsel regarding their particular circumstances.

Conclusion

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

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exercising this right – whether imposed by an SSO or by a court – undermine the incentive to innovate and worsen the problem of hold-out. After all, without the threat of an injunction, the implementer can proceed to infringe without a license, knowing that it is only on the hook only for reasonable royalties" (Makan Delrahim, Assistant Att'y Gen., Antitrust Div., U.S. Dep't. of Justice, *Take It to the Limit: Respecting Innovation Incentives in the Application of Antitrust Law*, Remarks as Prepared for Delivery at the USC Gould School of Law's Center for Transnational Law and Business Conference (Nov. 10, 2017) at 3, https://www.justice.gov/opa/speech/file/1010746/download.)