

## Comments on Draft Policy Statement on Licensing Negotiations and Remedies for Standard-Essential Patents

We are professors of law, economics, business, and policy who work in areas related to intellectual property, antitrust, and innovation. We write to express our support for the USPTO/NIST/Justice Department December 6, 2021 Draft Policy Statement. The Statement takes a reasonable, balanced approach to the interests of patent owners and implementers. It returns to long-standing administration policy that was overturned during the Trump administration.

The Draft Policy Statement properly rejects the 2019 statements that inaccurately suggested so-called “patent holdout” was a problem but patent holdup was not. Empirical evidence and economic theory reject that claim, as Mark Lemley, Carl Shapiro, and others explain in detail. Carl Shapiro & Mark A. Lemley, *The Role of Antitrust in Preventing Patent Holdup*, 168 U. PA. L. REV. 2019 (2020), available at: [https://scholarship.law.upenn.edu/penn\\_law\\_review/vol168/iss7/5](https://scholarship.law.upenn.edu/penn_law_review/vol168/iss7/5); Jorge Contreras, *Much Ado About Holdup*, 2019 U. Ill. L. Rev. 875, <https://www.illinoislawreview.org/wp-content/uploads/2019/08/Contreras.pdf>. Michael Carrier, *New Statement On Standard Essential patent Relies on Omissions, Strawmen, and Generalities*, <https://news.bloomberglaw.com/ip-law/insight-new-statement-on-standard-essential-patents-relies-on-omissions-strawmen-generalities>. Instead, the Draft Policy Statement properly treats a FRAND commitment as an enforceable promise. It follows the common-sense rule in *eBay v. MercExchange*, noting that a patent owner who voluntarily commits to license patents on FRAND terms

generally has no need to seek injunctive relief. Efforts by patent owners to seek injunctions despite their FRAND commitments are a major contributor to patent holdup, and they undermine the value of having a FRAND commitment in the first place. Enforcing FRAND commitments and preventing parties from undermining them is important in its own right. But it is also the best way to avoid the need for antitrust intervention.

The Draft Policy Statement also provides important guidance to both parties and standard-setting organizations with regard to how to resolve disputes over what a FRAND commitment means. Having a neutral party to resolve that dispute if necessary is also critical. It can be an arbitrator or court, or perhaps a government royalty board. The recommendations regarding good faith negotiation on both sides and the recommendation to use arbitration are both well-grounded and provide a helpful framework to resolve FRAND disputes without promoting patent holdup. Lemley and Shapiro have similarly recommended that standard-setting organizations use arbitration to resolve these disputes. Mark A. Lemley & Carl Shapiro, *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents*, 28 Berkeley Technology Law Journal 1135 (2013).

Parties often take radically different positions on what royalties are reasonable. In the Microsoft-Motorola dispute, for example, the parties' proposals varied by three orders of magnitude, with Motorola seeking more than two billion dollars and Microsoft proposing only a few million. *Microsoft Corp. v. Motorola Inc.*, 795 F.3d 1024 (9<sup>th</sup> Cir. 2015). Having clear standards for determining what royalty proposals are

reasonable helps discipline unreasonable behavior by both sides and pushes the parties towards a reasonable middle ground. The Draft Policy Statement is consistent with the recommendations of Jorge Contreras. Jorge Contreras, *A Framework for Evaluating Willingness of FRAND Licensees*, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3810703](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3810703). Notably, the Draft Policy Statement appropriately protects the interests of patentees by ensuring that the FRAND commitment applies only to willing licensees, consistent with the recommendations of Contreras, Lemley & Shapiro, and others.

In short, the Draft Policy Statement is a welcome return to a reasonable, balanced, and evidence-based policy around standard-essential patents. It will contribute to greater predictability and will encourage both new innovation and reasonable implementation of that new innovation.

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