

COMMENTS ON DRAFT POLICY STATEMENT ON LICENSING NEGOTIATIONS AND  
REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY  
F/RAND COMMITMENTS

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Submitted by

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I write to provide comments regarding the December 6, 2021 Draft Policy Statement (hereafter the Draft Statement).<sup>1</sup> I am an economist who has spent considerable time researching innovation, patents, and technology standards. I have published research on these topics in books and in leading journals in economics.

1. I am concerned that the Draft Statement risks damaging the carefully balanced system of technology standardization. This policy change would endanger economic incentives for invention, innovation, and technology standardization for United States companies. The result would be impairment of economic development and economic growth in the United States and reductions in international trade and investment opportunities for United States companies.

2. The proper role of antitrust policy should not involve intervention in routine private contractual negotiations over licensing of Intellectual Property (IP). IP licensing negotiations should only draw antitrust scrutiny if there is evidence of anticompetitive conduct or negative effects on competition. The Draft Statement, however, indicates general antitrust policy interest in the trajectory, resolution, and outcomes of such licensing negotiations. The Draft Statement concludes: “[t]he Agencies encourage parties engaged in SEP licensing negotiations to reach consensus on F/RAND terms or on a path to determine disputed F/RAND terms or related issues, including by seeking an alternative dispute resolution mechanism or judicial F/RAND determination in a mutually agreeable forum.”<sup>2</sup>

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<sup>1</sup> Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject To Voluntary F/Rand Commitments, December 6, 2021, The U.S. Patent & Trademark Office (USPTO), the National Institute of Standards and Technology (NIST), and the U.S. Department of Justice, Antitrust Division (DOJ), Washington, D.C..  
<https://www.regulations.gov/docket/ATR-2021-0001>

<sup>2</sup> Draft Statement, at 11.

3. Although the Draft Statement takes account of the interests of patent holders and implementers, it does not strike an appropriate balance between those interests. Rather, the Draft Statement would harm both patent holders and implementers by limiting IP rights and decreasing incentives for technology standardization. The Draft Statement would alter the balance through an interventionist approach to licensing of IP.

4. Based on the IP policies of many Standards Development Organizations (SDOs), holders of Standard Essential Patents (SEPs) make commitments to license on terms that are fair, reasonable and non-discriminatory (FRAND). FRAND commitments are clearly defined by three main institutions.<sup>3</sup> First and foremost, the vast number of licensing agreements between SEP holders and implementers define FRAND commitments. Second, standards organizations define FRAND commitments, typically describing them in a general fashion and deferring to private licensing agreements to specify the particulars of FRAND commitments. Finally, courts help specify the meaning of FRAND commitments when patent disputes arise, although negotiated license agreements far outnumber legal disputes.

5. The opportunity to seek injunctive relief through the courts is an important aspect of enforcing IP rights of patent holders and is consistent with FRAND commitments. The Draft Statement seeks to place conditions on injunctive relief that go far beyond the already stringent conditions established by the courts. According to the Draft Statement “[w]here a potential licensee is willing to license and is able to compensate a SEP holder for past infringement and future use of SEPs subject to a voluntary F/RAND commitment, seeking injunctive relief in lieu of good-faith negotiation is inconsistent with the goals of the F/RAND commitment.”<sup>4</sup> A potential licensee claiming to be willing to license and able to compensate a SEP holder for past infringement and future use of SEPs is not sufficient if the potential licensee engages in hold-out and does not negotiate in good faith.

5. The Draft Statement recognizes problems arising from bad faith negotiation by potential licensees.<sup>5</sup> However, the Draft Statement would create an obstacle course for SEP holders seeking remedies for infringement. Such limitations on enforcement of IP rights of SEP holders will encourage infringement and hold-out in negotiations. This will not only make

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<sup>3</sup> Daniel F. Spulber, Licensing Standard Essential Patents with FRAND Commitments: Preparing for 5G Mobile Telecommunications, 2020, *Colorado Technology Law Journal*, 18(1), pp. 79-159, [http://ctlj.colorado.edu/wp-content/uploads/2021/02/18.1\\_4-Spulber-4.2.20.pdf](http://ctlj.colorado.edu/wp-content/uploads/2021/02/18.1_4-Spulber-4.2.20.pdf).

<sup>4</sup> Draft Statement, at 4.

<sup>5</sup> Draft Statement, at 4. (“At the same time, when standards implementers are unwilling to accept a F/RAND license or delay licensing negotiations in bad faith, these strategies can lessen patent holders’ incentives to participate in the development process or contribute technologies to standards voluntarily.”)

commercialization of invention more difficult but will diminish incentives to invent and innovate.

6. The Draft Statement improperly defines “opportunistic conduct” as SEP holders seeking higher compensation than they would have obtained prior to standardization. According to the Draft Statement, “[o]ppportunistic conduct by SEP holders to obtain, through the threat of exclusion, higher compensation for SEPs than they would have been able to negotiate prior to standardization, can deter investment in and delay introduction of standardized products, raise prices, and ultimately harm consumers and small businesses.”<sup>6</sup> This approach to IP licensing incorrectly presumes that patent royalties are increased by standardization. In practice, inventors often develop the patented technology during the standardization process, reflecting inventive effort and investment needed to create technological change. SEPs represent technological contributions that help make technology standards possible, rather than simply obtaining approval from standards organizations. The value of SEPs in the marketplace reflects the economic value of their technological contributions.

7. The Draft Statement suggests that an SEP holder engages in good-faith negotiation by making a “good-faith FRAND offer.”<sup>7</sup> This is too stringent a criterion for good-faith licensing negotiation. It is widely recognized that FRAND commitments involve licensing on terms that are FRAND rather than making FRAND offers at every stage of the negotiation. Requiring every offer to be FRAND would impede normal IP licensing negotiations.

8. The DOJ raises the following questions: “Will the licensing considerations set forth in the draft revised Statement promote a useful framework for good-faith F/RAND licensing negotiations? In what ways could the framework be improved? How can any framework for good-faith negotiations, and this framework in particular, better support the intellectual property rights policies of standards-setting organizations?”<sup>8</sup> According to the Draft Statement “Where a SEP holder has made a voluntary F/RAND commitment, the eBay factors, including the irreparable harm analysis, balance of harms, and the public interest generally militate against an injunction.”<sup>9</sup> The Draft Statement seeks to apply more stringent criteria for injunctions than those set forth in *eBay*.<sup>10</sup> In this regard, the Draft Statement relies on *Apple Inc. v. Motorola, Inc.*<sup>11</sup> The Draft Statement would serve to limit access to injunctive relief, which would diminish the IP rights of inventors and reduce incentives for implementers to participate in IP licensing negotiations.

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<sup>6</sup> Draft Statement, at 4.

<sup>7</sup> Draft Statement, at 5.

<sup>8</sup> <https://www.justice.gov/opa/pr/public-comments-welcome-draft-policy-statement-licensing-negotiations-and-remedies-standards>

<sup>9</sup> Draft Statement, at 9.

<sup>10</sup> *eBay Inc. v. MercExchange, L. L. C.*, 547 U.S. 388 (2006).

<sup>11</sup> *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014),

9. Antitrust policy should not be used to regulate patent license negotiations, whether or not patents are SEPs subject to FRAND commitments. Rather, patent license negotiations should continue to take place within the context of private bargaining in the competitive marketplace, IP rules established by SDOs, and court decisions. For this reason, the Draft Statement should not seek to provide a framework for good-faith F/RAND licensing negotiations, nor should antitrust establish such frameworks. The DOJ should avoid making rules that would limit injunctions, specify offers by SEP holders, or advise inventors and implementors on how to conduct IP license negotiations. Negotiation between patent holders and technology implementers alleviates a broad range of concerns about inefficiencies in royalties and terms of license agreements.<sup>12</sup>

10. The policies outlined in the Draft Statement will weaken protections for the IP rights of patent holders in the United States. This will diminish incentives for invention and innovation, which will impact economic growth and development in the United States. Failure to adequately protect the IP rights of inventors will diminish incentives for inventors in the United States and in other countries to seek patents in the United States. Patents are the foundation of the market for technology, providing the basis for commercialization of new technologies.<sup>13</sup> Patents are important for entrepreneurs because they help to attract investment in startups and new firms. Patents and other intangible assets are a major part of the market value of corporations.

11. The policies outlined in the Draft Statement could decrease incentives for technology standardization. Technology standardization is critical for invention and innovation. Protection of IP rights of SEP holders is necessary for creative companies to develop and contribute technologies to standards organizations.<sup>14</sup> Standards organizations establish, adopt, disseminate, and coordinate technology standards in almost every industry.<sup>15</sup> There are over one thousand standards organizations, which develop hundreds of thousands of standards affecting almost every part of the economy of the United States.

12. Protecting the IP rights of SEP holders is important for participation in international trade by United States companies. Technology standardization helps overcome barriers to international

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<sup>12</sup> Daniel F. Spulber, Antitrust Policy toward Patent Licensing: Why Negotiation Matters, 2021, Minnesota Journal of Law, Science and Technology, Vol. 22, No. 1, pp. 83-161, <https://scholarship.law.umn.edu/mjlst/>.

<sup>13</sup> Daniel F. Spulber, 2021, *The Case for Patents*, World Scientific Publishing Company.

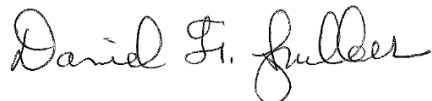
<sup>14</sup> Justus Baron and Daniel F. Spulber, Technology Standards and Standard Setting Organizations: The Searle Center Database, 2018, *Journal of Economics & Management Strategy*, 27:3, Fall, pp. 462-503, <https://doi.org/10.1111/jems.12257>.

<sup>15</sup> Daniel F. Spulber, Standard Setting Organizations and Standard Essential Patents: Voting and Markets, 2019, *The Economic Journal*, Journal of the Royal Economic Society, 129(619), April, pp. 1477–1509, <https://doi.org/10.1111/eoj.12606>.

trade that result from Non-Tariff Measures (NTMs).<sup>16</sup> Such technical barriers to trade restrict the ability of United States companies to sell their products in other countries. Technology standardization helps to harmonize and reduce these types of trade regulations.

13. The major policy shifts in Draft Statement will have sweeping economic effects but are not motivated by any economic necessity. There are no specific economic events or considerations that justify policy changes represented by the Draft Statement. There is no pressing need to revise the 2019 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments. There are no specific problems or issues that call for revision of the 2019 Statement. The 2019 Statement represents a careful and measured approach with coordination and contributions by the USPTO, NIST, and the DOJ. Given the economic concerns about the proposed policy changes, I would recommend continuation of the policies contained in the 2019 Statement.

Respectfully submitted,

A handwritten signature in cursive script that reads "Daniel F. Spulber".

Daniel F. Spulber

Submitted at:

<https://www.regulations.gov/docket/ATR-2021-0001>

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<sup>16</sup> The International Classification of Non-tariff Measures (NTMs),  
[https://unctad.org/system/files/official-document/ditctab2019d5\\_en.pdf](https://unctad.org/system/files/official-document/ditctab2019d5_en.pdf)