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United States Department of Justice
950 Pennsylvania Avenue, N.W.
Washington, D.C. 20530

United States Patent and Trademark Office
600 Dulany Street
Alexandria, VA 22314

National Institute of Standards and Technology
101 Bureau Drive
Gaithersburg, MD 20899

AUTM's Comments on the 2021 Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (Docket ID Number: ATR-2021-001)

AUTM is the non-profit leader in efforts to educate, promote and inspire professionals to support the further development of academic research that drives innovation and changes the world. Our community is comprised of more than 3,000 members who work in more than 800 universities, research centers, hospitals, businesses and government organizations around the globe. AUTM's members are primarily from academic settings (67%). 15% are practicing attorneys and 5% are from industry. Some 22% of our members are international. AUTM appreciates the opportunity to provide input on the above-referenced draft policy statement (the "2021 Draft Statement").

AUTM members in academic settings are focused on advancing early-stage inventions and other technologies to the marketplace primarily through licensing to partners (i.e., implementers). Between 2011 and 2020 (the most recent decade for which we have data), our skilled professionals filed over 150,000 patents for academic inventors and over 17,000 in 2020 alone. Between 2011

and 2020 our U.S. members negotiated over 60,000 intellectual property license agreements on behalf of U.S. universities and academic research institutions, and in 2020 alone over 8,000 such license agreements. Thus, AUTM has valuable insights and an important voice with respect to licensing matters and the proper remedies when agreed upon terms cannot be reached or are violated. We applaud the Department of Justice (DOJ), the United States Patent and Trademark Office (USPTO), and the National Institute of Standards and Technology (NIST) (collectively, the "Agencies") for their efforts to set forth a policy that maintains America's global technological superiority in order to provide a high level of national security and a robust economy for her citizens.

Preliminary Matters to Establish the Context for AUTM's Input

First, in the interest of transparency, it is noteworthy that AUTM's members do not license many inventions covered by standard essential patents ("SEPs"). The vast majority of the licenses AUTM members' institutions execute involve patents that have yet to be put forward as potentially standards-essential. The inventions AUTM members license are typically at too early a stage of development such that their applicability to an emerging standard has yet to be determined.

But, from the perspective of AUTM's members, that fact is irrelevant. When it comes to license negotiations and remedies for patent infringement or breach of the license, patents are patents. As a policy matter, whether to promote competition within America or to maintain her global technological superiority, it does not matter whether a patent is a SEP. There ought not be special rules or treatment for SEPs vs. non-SEPs when it comes to negotiating the terms of a license or the available remedies under patent or contract law.

Thus, under these circumstances, we need not differentiate between the two (2) types of patents. AUTM, therefore, directs its comments to the first three (3), more general questions from the Agencies. We note also for completeness that we support the data collection called for in questions 4 through 11 and urge that, at a minimum, the Agencies take no further action on the 2021 Draft Statement until such data is collected.

Next, AUTM believes that patents are not now and have never been anti-competitive. AUTM strongly believes that patents promote competition. They do so by facilitating the investments necessary to develop non-infringing substitute products and to introduce them into the marketplace where they will compete with existing products for adoption (or incorporation into a standard) resulting in, *inter alia*, tangible downward price pressure.

To properly appreciate the pro-competitive nature of patents, one must be sure to carefully and properly define the scope of the market in which the good or service resides. The proper market scope most often consists of a number of related products any of which could serve as a viable

substitute for the other. It rarely, therefore, consists of a single product or service. As such it is improper to blanketly ascribe the term "monopoly" to any circumstance where only a single supplier of a particular product or service exists. The determination requires a deeper analysis.

Competition does not require multiple suppliers of a specific product or service. As long as there is at least one substitute product available, competition will ensue even if there is only one supplier of any particular product or service (e.g., one covered by one or more patents).

Those who argue that patents are anti-competitive and lead to higher prices are not defining the scope of the market properly. They are failing to include related products or services that serve as reasonable substitutes as constituting the true market and, instead, are defining it as a specific product or service covered by a particular patent. Of course, the price of a specific product or service would fall (or at least not continue to rise) if the particular patent(s) covering it no longer exist (i.e., it expired or was invalidated) and multiple suppliers could supply that exact product or service.

But that narrow definition misses the forest for the trees. It creates a misperception that leads to bad policy. With such a narrow scope, the options to foster competition and lower prices in the marketplace are extremely limited. The only real option under this view is to eliminate the patent and, as such, patents immediately become the villain. However, in that scenario, the downward price pressure is relatively small because there is very little product differentiation among the "competing" products and thus there is very little incentive, let alone need, to lower prices. But the policy damage is done. Because of the misperception, policies are implemented that weaken the patent system causing great harm to U.S. technological superiority with very little, if any, of the expected benefits (i.e., noticeably lower prices).

Real, impactful downward price pressure, on the other hand, manifests when viewing the scope of the market more broadly. The broader scope allows for the presence of multiple non-infringing substitute products being available with differentiating features that result in products and services lining up at multiple price points based on the value end-users place on the different features. More importantly, however, once a true technological disruption among the substitute products or services (i.e., breakthrough features creating a next generation product) occurs that is when the price of the 1st generation products or services falls precipitously as end-users migrate to the next generation versions. This dynamic process then repeats itself over and over across all manner of goods and services throughout the economy resulting in rapid and significant technological progress while allowing end-users to partake in it of their own volition deciding for themselves when to move to the next generation product or service according to their individual preferences and available resources.

Patents are key to this process continuously repeating itself. Without strong (certainty of eligible subject matter, reliable, enforceable) patent rights, the non-infringing substitute products never come to market because the investment required to get them there will not be made. No rational

investor will invest if he or she knows that others can copy the specific product or service with impunity. There is no way to calculate the net present value of such a development project if the investors cannot estimate the annual revenues because the lack of a strong patent rights results in potentially unlimited suppliers claiming market share.

Thus, in reality, patents are not the villain, they are the hero. In other words, with the proper market definition, the correct perception of patents being promoters of competition is realized and bad policy can be avoided.

AUTM's Comments

Question #1 – Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (the "2019 Statement")

No, the 2019 Statement should not be revised. It should remain the Agencies' position. As we argued above and as set forth in the 2019 Statement, there ought not be "a special set of legal rules that limit remedies for infringement of standards-essential patents subject to a F/RAND commitment."[1] The 2021 Draft Statement moves to establish exactly such special rules by stating that "monetary remedies will usually be adequate to fully compensate the SEP holder for infringement"[2] and [w]here 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."[3]

Question #2 – Balancing the Interests of Patent Holders and Implementers

No, the Draft Revised Statement does not appropriately balance the interests of patent holders (innovators) and implementers in the voluntary consensus standards process. The 2019 Statement does.

Readily available injunctions, consistent with the prevailing legal framework, are necessary for the proper balance between innovators and implementers. Without the threat of an injunction, the system is out of balance in favor of the implementers. Taking away such an important enforcement mechanism, creates a disincentive for implementers to negotiate a license because, if they are found to infringe, they are no worse off than if they had voluntarily taken a license.

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[1] U.S. Dep't of Justice, U.S. Pat. & Trade Off. and Nat'l Inst. of Stds and Tech., *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/Rand Commitments* 1-8, 6 (December 19, 2019).
[2] U.S. Dep't of Justice, U.S. Pat. & Trade Off. and Nat'l Inst. of Stds and Tech., *Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/Rand Commitments* 1-11, 8 (December 6, 2021).

[3] *Id*. at 9.

In other words, if found to infringe in the absence of readily available injunctions, the implementers may continue making, using and/or selling the patented good or service. They can continue generating revenue. They merely have to pay a small percentage of said revenue to the innovators which is what they would be doing if they had taken a license in the first place. They are no worse off for not taking a license. In fact, they are better off for having delayed the payments. But, if they are not found to infringe or the suit is never brought for any one of myriad reasons, the implementers pay nothing. Thus, when injunctions are not readily available, the expected value of implementers' license payouts is significantly lower.

This "ask for forgiveness" or "let's wait and see if we get caught" approach harms the innovators. If forced to sue, the innovators will have had to go through a costly litigation in order to get compensated. However, innovators are typically much smaller entities (e.g., startups, small/medium entities) with not nearly the resources that the implementers have so the innovators are disproportionally harmed by the cost of the litigation. So much so that they often forgo it which is just what the implementers are hoping for. Injunctions create the threat of zero revenue for the implementers and thus serve as a powerful incentive for them to ask for permission and help to make the license negotiations arm's length without a systematic advantage for either party.

It is at this point in the argument that the implementers cry foul and claim, without any evidence, that injunctions place the system out of balance in favor of the innovators. We argue later that favoring innovators is exactly what is needed but, for now, let's explore the implementers' complaint at face value.

The concern here is that it leads to the so-called "hold-up" scenario; where the innovator refuses to license the technology to the implementer lest the implementer pay an exorbitant royalty rate among other components of license consideration. The term "hold-up" is meant to conjure images of Jesse James robbing banks during the days of the Wild West. The hyperbolic imagery aside, "hold-up" is a myth and the argument in favor if it is sophomoric.

The reality is that innovators have a vested interest in licensing their technologies. Academic innovators have a very strong vested interest that approaches an obligation when federal research dollars are involved. SEP holders have contractual commitments to the standards development organization (SDO). In all cases, it is contrary to the innovators' interests to not license their technologies. Licensing is how they generate revenue and/or a return on investment. No license means no revenue to fund education, operations or further research. The innovator, thus, has every incentive in the world to get a deal done. It cannot afford to allow promising technologies to sit on the shelf becoming obsolete every minute of every day it remains there. Tough, fair, evenly matched negotiations do not hold-up make, and we should not be making policy based upon a theoretical concept.

The above notwithstanding, however, to truly promote competition in the American economy, the Agencies should move beyond pure balancing to an equilibrium that actually elevates the interests of the innovators. The Agencies' policy statement should create a clear downhill interest gradient from innovators to implementers. The reason being that innovation is a process, a one-way process. It begins with the innovators and flows in only one direction into the marketplace through the implementers. A clear downhill interest gradient in favor of innovators will ensure they have sufficient incentives to continuously create the next generation technology or the next breakthrough technology. Without such a clear downhill interest gradient, the flow of innovation will cease, just like the flow of fluid through a pipe without a pressure gradient. Elevating the interests of the innovators can be achieved by restoring order to patent subject matter eligibility and codifying, at a minimum, the presumption of irreparable harm upon the finding infringement such that injunctions might be more readily available.

Question #3 – Anticompetitive Extension of Market Power Beyond the Patent Scope

The 2019 Statement created no concerns about the potential for extension of market power beyond appropriate patent scope. Market power is the ability of an economic agent to affect the equilibrium price in a market such that a monopoly supplier could have unchecked pricing power. Patent scope is established by the claims. When the claim scope is in dispute, typically manifesting during infringement litigation, the court will construe the claims and establish their scope.

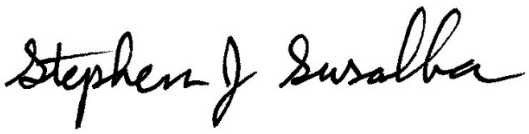
We interpret the concern here as being that, by virtue of being standards-essential, the patent holder will have market power and use it in an anti-competitive manner toward an implementer, perhaps via patent hold-up and beyond the scope of the claims. AUTM believes there are safeguards in place to render this this concern unfounded and that these safeguards were undisturbed by the 2019 Statement.

For example, any innovator who contributes a technology to a standard has not only a contractual obligation to license it to implementers on terms set forth by the SDO (e.g., F/RAND) but also, as discussed above, a strong pecuniary incentive to do so regardless of whether it is standard essential. Moreover, if an innovator would attempt to enforce its patents beyond their proper scope, the implementer would repel such attempts swiftly via counterclaims in any infringement suit or via the filing of a declaratory judgment action. The critical point here being that these remedies have always been available to implementers and neither the 2019 Statement nor 2021 Draft Statement, for that matter, attempts to limit the remedies available to implementers. The statements are instead focused on remedies available to innovators.

Conclusion

AUTM again wishes to thank the Agencies for taking a leadership role in ensuring that competition within America's economy remains as robust as ever. Competition makes us better as individuals and as a nation. America's innovation ecosystem is the engine of that competition, and the patent system is the engine's most important component. We must ensure that the engine is running at peak efficiency and the correct policy on licensing and remedies will go a long way to making it a reality so that America will enjoy sustained increases in economic growth, the standard of living and high-paying job creation for all of its citizens.

Sincerely,



Stephen J. Susalka, Ph.D
Chief Executive Officer