November 6, 2023

Via Electronic Submission
The Honorable Katherine K. Vidal
Under Secretary of Commerce for Intellectual Property and Director
of the United States Patent and Trademark Office
600 Dulany Street
Alexandria, VA 22314

Re: Docket No. PTO-C-2023-0034

Dear Director Vidal,

The Council for Innovation Promotion (C4IP) submits this response to the September 11, 2023, request for comments on the Joint ITA-NIST-USPTO Collaboration Initiative Regarding Standards. C4IP appreciates the opportunity to provide detailed comments on this critical issue from the perspective of a bipartisan coalition dedicated to promoting strong and effective intellectual property rights that drive innovation, boost economic competitiveness, and improve lives everywhere.

As an overarching matter, C4IP believes the current environment for standard-essential patents (SEPs) in the United States works well to incentivize the substantial investments required to develop cutting-edge standardized technologies. However, there are several areas where modest improvements could help strengthen the ecosystem, as detailed below.

Overview of Domestic Landscape

American companies invest heavily in developing technologies before standards are set, with no guarantee their technologies will become part of international standards. While standardization has undoubtedly furthered progress by promoting widespread interoperability, the standards-setting process leaves open the critical question of how to compensate innovators who contribute to these standards. Recent proposals in other countries suggest that it would be best to allow courts or regulators to set rates rather than let negotiations happen on the free market.

However, there should be concern about whether courts or regulators can accurately assess the value of a new technology. Sustained investments in technologies that become part of standards are essential. The priority should be making sure that these investments will continue in the future, which depends on innovators being able to obtain appropriate compensation and license payments in a timely fashion from those who implement the technology.

The current system incentivizes negotiation on the free market, and agreements reached under this paradigm are vastly superior to a court-made judgment of a royalty. Judges or regulators only have access to limited briefing materials and occasionally amicus briefs when required to establish a reasonable royalty or affirm a jury's assessment. The risk of a judge or regulator over- or under-valuing inventive contributions to a standard is high.

Accordingly, the best course of action is to foster the conditions that encourage successful negotiations on the free market. Strong patent rights, backed by injunctive relief, support an ecosystem that brings licensees and licensors to the table. At present, C4IP does not see compelling evidence demonstrating systemic problems with innovators and implementers reaching an agreement on fair, reasonable, and non-discriminatory (FRAND) licensing terms and conditions. While some disputes inevitably arise, litigation rates related to SEPs have notably declined over the past decade, suggesting the overall system is working relatively smoothly in the large majority of cases.[1]

Isolated disagreements culminating in court proceedings often represent good-faith differences in how each party believes FRAND principles should apply to a specific situation, not prima facie evidence of a fundamentally flawed system. Indeed, if anything is needed to improve the U.S. landscape for standard-essential patents, it is recognizing that injunctive relief is unquestionably a proper remedy if negotiations between innovators and implementers break down or are not being conducted in good-faith. This is largely the direction the courts have been heading in, which establishes the appropriate framework for a resolution to be reached while avoiding hold-out by implementers.

The landscape presents a well-functioning FRAND licensing marketplace in the United States that should be preserved, not dramatically reconfigured based on outlier disputes.

1 Dr. Justus Baron, et al., *Empirical Assessment of Potential Challenges in SEP Licensing*, European Commission (2023), https://www.lexisnexisip.com/wp-content/uploads/2023/09/Empirical-Assessment-of-Potential-Challenges-in-SEP-Licensing.pdf.

Small and Medium-Sized Entities

To this point, the September 11, 2023, Federal Register notice questioned whether there are legitimate concerns regarding the ability of small and medium-sized entities (SMEs) to navigate SEP licensing.

From the implementer's perspective, no compelling empirical evidence suggests that SMEs routinely face unreasonable licensing demands or are subjected to excessive litigation. Academic research has concluded that SMEs neither expect to have to license SEPs nor feel shut out from standards development.[2] In fact, major patent holders frequently appear to seek portfolio licenses from large implementers higher in the supply chain, obviating the need to pursue licenses from SMEs further downstream. C4IP encourages rigorous data gathering by the Commerce Department before assessing whether SME implementers require regulatory intervention.

C4IP does, however, recognize challenges for SMEs that are contributors to standards relevant to obtaining licenses and enforcing patents if necessary. Due to resource constraints, these smaller enterprises can struggle to effectively enforce their patents against unwilling licensees, creating potential incentives for unlawful hold-out. C4IP believes tailored policy solutions should focus on empowering SME innovators to obtain fair compensation rather than imposing additional restrictions on them.

There are several constructive measures policymakers could pursue toward this end. For instance, educational programs could help SME innovators better understand effective strategies for licensing and enforcement. The Department of Commerce could also consider facilitating voluntary initiatives -- like publication of anonymized royalty rate data or setting up a consolidated clearinghouse that links to standard-setting organizations (SSOs) -- to provide smaller innovators enhanced transparency into potential licensing partners' expectations.

Policymakers should also explore mechanisms for encouraging efficient private market solutions like pro-competitive patent pools that streamline licensing for willing licensees across essential patent portfolios. These patent pools have emerged organically in critical standards and, so long as they adhere to FRAND commitments, should be supported as a free-market approach to this licensing issue.

Overall, the policy environment should empower SME innovators through market-oriented solutions rather than imposing additional burdens upon them.

2 Elisabeth Opie, *International Standards: Helping SMEs Punch Above Their Weight* (June 19, 2023), https://ssrn.com/abstract=4484325 or http://dx.doi.org/10.2139/ssrn.4484325.

Standard-Setting Organizations

Towards that end, C4IP cautions the Department of Commerce against providing direct guidance to SSOs. The complex technical dynamics surrounding standardized technologies generally render rigid policy pronouncements counterproductive, with fair and reasonable disagreements among experts on optimal approaches. Moreover, a decade of fluctuating policies on SSO guidance from different presidential administrations has bred more confusion than clarity.

At a minimum, any guidance must acknowledge SSOs' need for flexibility to craft bespoke solutions tailored to their specific technical contexts and member expectations. Reflexively inserting policymakers into intricate private standardization processes risks doing more harm than good. In our assessment, policymakers' current measured role in supporting balanced SSO deliberations, backed by courts serving as a general backstop on disputes, represents the prudent equilibrium.

Concerning Developments Abroad

C4IP does have serious concerns about the efforts by some foreign governments to set global FRAND licensing rates and conditions, which arguably oversteps the appropriate scope of their authority. Particularly troubling in our coalition's estimation are components of the European Union's proposal regulating SEPs.[3] From a procedural perspective, global stakeholders were not adequately consulted during the EU's drafting process despite the proposal's self-professed global aspirations.[4] These unilateral policies could impact innovators worldwide, not just companies within EU member nations.

The closed-door process raises red flags about the proposal's validity, as does the resulting substance. The proposed mandatory methodologies for calculating aggregate royalty caps apply a rigid, one-size-fits-all framework that inappropriately threatens to skew licensing negotiations in implementers' favor. In particular, apportioning royalties based on the total number of SEPs in a standard rather than careful analysis of each patent's technical contribution risks severely undervaluing seminal pioneering inventions.[5] This could chill future investments in developing foundational technologies. By limiting innovators' leverage to obtain licenses on FRAND terms in a timely manner, the legislation also risks enabling abusive hold-out

3 *See, e.g., Questions and Answers on Standard Essential Patents*, European Commission (April 27, 2023), https://ec.europa.eu/commission/presscorner/detail/en/QANDA_23_2457.

4 *See, e.g.,* Foo Yun Chi, *Nokia Says Draft EU Patent Rules One-Sided, Will Undermine Europe*, Reuters (April 25, 2023), https://www.reuters.com/business/media-telecom/nokia-says-draft-eu-patent-rules-one-sided-will-undermine-europe-2023-04-25/.

5 Nick Schuneman, *The Proposed EU SEP Regulations: A Quiet Move Toward a Top-Down World?* McDermott Will & Emery (June 7, 2023), https://www.mwe.com/insights/the-proposed-eu-sep-regulations-a-quiet-move-toward-a-top-down-world/.

conduct by delaying implementers and consuming resources that are better directed toward innovation.

C4IP is similarly troubled by Chinese courts' efforts to assert authority over global disputes well outside their jurisdictional reach. For example, injunctions prohibiting parties from pursuing litigation in other countries represent an impermissible overextension. More broadly, China is contemplating compulsory licensing frameworks with the same fundamental flaws as the EU approach.[6] These efforts unilaterally impose licensing rules with extraterritorial impact, representing an inappropriate usurpation of authority. Sovereign jurisdictions like the United States should be allowed to tailor patent policies to their own national interests.

Call to Action

C4IP believes the U.S. government should clearly communicate its strong objections to these foreign interferences through all available channels. Public statements from Department of Commerce Secretary Raimondo condemning extraterritorial rate setting have been encouraging.[7] C4IP strongly recommends additional high-profile messaging and active engagement from the PTO.

The United States should also activate its robust overseas diplomatic assets to underscore these concerns. The Department of Commerce's Intellectual Property Attachés stationed in Brussels and Beijing are well-positioned to emphatically convey U.S. resistance to foreign policies contradicting the legitimate authority of the American patent system within our borders. If necessary, the United States could potentially initiate a new treaty or protocol under existing international agreements like the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) explicitly delineating territorial sovereignty over patent policy. But

6 *Chinese Court Releases Guidelines for SEP-Related Disputes*, O'Melveny (May 23, 2018), https://www.omm.com/resources/alerts-and-publications/alerts/chinese-court-releases-guidelines-for-sep-related-disputes?sc_lang=zh-CN#:~:text=Most%20significantly%2C%20the%20SEP%20Guidelines,to%20licenses%20with%20international%20reach.

7 *A Review of the President's Fiscal Year 2024 Funding Request for the Department of Commerce*, hearing before S. Comm. on Appropriations, Subcomm. on Commerce, Justice, Science, and Related Agencies, 118th Cong. (April 26, 2023) (quoted below), https://www.appropriations.senate.gov/hearings/a-review-of-the-presidents-fiscal-year-2024-funding-request-for-the-department-of-commerce.

> Senator Coons (D-DE): "I have real concerns about the European Commission's new SEP regulations...And if it goes in a certain direction, that resolution will just validate China's abuse of royalty setting practices and harm our patent owners. There may be room to engage with the European Commission to discuss the unintended, let's hope, consequences of their regulation. I just wondered what your position is on this regulation and whether you'll work with me to communicate the potential harm to our global competitiveness if this is adopted by our European partners."
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> Commerce Secretary Gina Raimondo: "Yeah, we share your concerns. I think we very much share your concerns and I will follow up with you. I had a team in Brussels last week expressing our concerns. And I'll be in Sweden in a few weeks for the US-EU Trade and Technology Council. I will put this in our discussion."

under no circumstances should foreign governments have the authority to set global rates and usurp U.S. patent policy.

While modest refinements could reinforce the domestic SEP licensing ecosystem, the current flexible, market-oriented environment in the United States is working well to fuel innovation by both established enterprises and SMEs. However, the United States must do more to counter attempts by foreign countries to control our domestic patent policies. C4IP urges the Department of Commerce to formalize and amplify U.S. resistance to such foreign overreach through all diplomatic and political channels.

C4IP appreciates your thoughtful consideration of these comments and your work to safeguard the country's innovation ecosystem.

Sincerely,

Frank Cullen
Executive Director
Council for Innovation Promotion (C4IP)