U.S. CHAMBER OF COMMERCE

AmCham China
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The U.S. Chamber of Commerce and the American Chamber of Commerce in China Joint Comments to the National Development and Reform Commission on the Guideline on Intellectual Property Abuse (Draft for Comments)

February 2016

The U.S. Chamber of Commerce (the Chamber) and the American Chamber of Commerce in China (AmCham China) respectfully submit these comments to the National Development and Reform Commission (NDRC) on its Guidelines on Intellectual Property Abuse that were issued for public comment on December 31, 2015. We appreciate NDRC's continued transparency as it develops these guidelines, and we would welcome the opportunity to participate in consultations with NDRC on these and other Antimonopoly Law (AML) issues in the future. Our two organizations' members have deep expertise dealing with the relationship between competition policy and intellectual property rights (IPR), and would be happy to share their experiences.

General Comments

China is in the process of transforming into an innovative, knowledge-based economy. Indeed, in its *Proposals on the 13th Five Year Plan*, the Central Committee of the Communist Party stressed that innovation will be a critical concept for the 2016-2020 time period. To become an innovative economy that encourages risk taking and technological advancement, companies need a strong and predictable intellectual property (IP) system. This IP system must rest on the basic principle that IP is a right to exclude all others from commercially benefiting from it[1], and the right, should the IP owner desire to license the IP to others, to determine the rates for and other terms of the license. We continue to be concerned about provisions that would endorse the essential facility doctrine, and impose antimonopoly sanctions, for refusals to license IP. At a minimum, refusals to license should not be actionable unless a voluntary commitment by the patent holder to license its patent has been breached. We at the Chamber and AmCham China are also concerned by regulatory approaches that seek to convert the right to establish license terms limited only by market forces into a right to receive whatever payment the government deems appropriate given its industrial policy de jure. It is imperative that in finding any violation of the Antimonopoly Law (AML), consumer harm be the prerequisite, regardless of the market share of a company, and that any such harm be found to exceed any procompetitive benefits, including innovation incentives that the conduct at issue creates. Generally, the right to exclude competitors from access to IP should not be enough to violate the AML as such rights are inherent in IP laws and their underlying policies. The U.S. Department of Justice and U.S. Patent and Trademark Office have explained the proconsumer benefits of a patent holder excluding others from practicing patent inventions:

> The patent system promotes innovation and economic growth by providing incentives to inventors to apply their knowledge, take risks, and make investments in research and development and by publishing patents so that others can build on the disclosed knowledge with further innovations. These efforts, in turn, benefit society as a whole by disseminating knowledge and by providing new and valuable technologies, lower prices, improved quality, and increased consumer choice.

We respectfully recommend that the exclusionary right of IP be added to the preface of the Guidelines as a governing principle to be generally respected.

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[1] E.g. Patent Law of the People's Republic of China, Art. 11; WTO Agreement on the Trade-Related Aspects of Intellectual Property Rights, Art. 28.

The Chamber and AmCham China also believe the analytical framework for assessing whether restrictive provisions in intellectual property licenses constitute unlawful monopoly agreements under AML Article 13 should focus on whether the particular license terms restrict competition that would have occurred in the absence of the license. If a license does not restrict competition that would have occurred anyway in its absence, the license either enhances competition or is completely neutral, and therefore cannot harm consumers. If the license *does* restrict competition that would have occurred in its absence, further analysis must be undertaken to determine whether the restriction is material enough to have an adverse effect on consumers.[2]

An approach that prohibits restrictions on licensing simply because it is possible to imagine a license that creates more competition, is likely to serve as a disincentive to license and thereby lead to less, rather than more, competition. If companies are put at risk of violating the AML for not granting broader rights that would create even more competition, they may find it preferable not to grant a license at all.[3] In other cases, companies will demand higher royalty rates in order to compensate for the loss of business experienced by granting broader rights than they would prefer to grant. By focusing on whether the license restricts pre-existing competition, the NDRC Guidelines can prevent anti-competitive conduct that harms consumers without discouraging procompetitive licensing activities that result in broader licensing and broader diffusion of intellectual property. Therefore, we suggest that NDRC make it clear in the preamble to the Guidelines or in Section 1 that a critical principle guiding enforcement actions is whether the conduct at issue has eliminated or restricted competition that would have existed in its absence.

Detailed Comments

Section 1

Section I lacks a section that describes when and how an Antimonopoly Enforcement Authority will initiate an investigation or antimonopoly analysis. Specifically, it would also be helpful to indicate how the burden of proof is allocated in an agency investigation. In the U.S., for example, the courts have identified a series of evidentiary burden shifting mechanisms. Initially, the government must make the demonstration that (i) the conduct by a dominant firm was of a type that is potentially unlawful and, (ii) such conduct could reasonably cause an anticompetitive effect that would outweigh any procompetitive effects. The defendant must then produce evidence rebutting the government's case. After the defendant has presented its rebuttal, the government has the ultimate burden of proof. This allocation of burdens ensures that the process is not arbitrary, does not initiate too many or too few investigations, and that there is sufficient evidence at every stage of the investigation so that its continuation is justified. Such procedural discipline is essential, as the process can be both extensive and costly to all parties involved.

Section I (ii) Defining Relevant Market

The Chamber and AmCham China are glad to see that "relevant innovation market" was removed as a potential category for defining relevant market. This term was unclear and caused confusion.

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[2] That analysis could consider the relevance of whether a voluntary commitment to license on FRAND terms has been made.

[3] *See* European Commission, Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements ¶ 212 ("TTBE Guidelines"), 2014/C 89/03, available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XC0328(01)&from=EN ("If the licensor could not prevent licensees from operating in fields where it exploits the technology itself or in fields where the value of the technology is not yet well established, it would be likely to create a disincentive for the licensor to license or would lead it to charge a higher royalty."); U.S. IPR Guidelines ¶ 3.3 (limitations on licensed rights "may also increase the licensor's incentive to license, for example, by protecting the licensor from the competition in the licensor's own technology in a market niche that it prefers to keep to itself.").

Section I (iii) 2 Analysis of Eliminating and Restricting Competition

The Chamber and AmCham China have a serious concern that a party exercising its exclusive rights may impact all of the factors listed in Section 1 (iii) 2, especially if the relevant market is defined narrowly. The patented technology extends the borders of useful information by its disclosure to the public, and incentivizes competitors to develop competing innovations. Ironically, however, the more valuable and basic the invention, the more likely it is to trigger the factors listed in Section 1 (iii) 2.

IPRs are exclusive property rights. The lawful exercise of such rights will often result in the exclusion of infringing products from the marketplace. That is the natural and expected result of the exercise of IPRs. Such exercise, without more, should not raise any concerns under competition law. The Chamber and AmCham China recommend that section I (iii) 2 be revised to make clear that the mere exercise of an IPR will not raise concerns under the AML unless the particular conduct has been demonstrated to restrict or eliminate competition *beyond the right to exclude that is inherent in the IPR*.

Section II (i) 2 Patent Pool

Section II (i) 2 regarding patent pools is unclear what entity will be responsible for an AML violation, the entity managing the patent pool or the members of the patent pool. We recommend that the Guidelines clarify what entity will be responsible for any patent pool-related AML violation.

Section II (i) 3 Cross License

We are concerned that Section II (i) presumes that cross-licenses among competitors are anticompetitive. The practice of cross-licensing is common in the information communication technologies (ICT) industries, and has contributed to the highly innovative track record of these industries. In these industries, it is very common for companies to enter into cross-licenses with competitors. Because each party to these licenses is both a licensor and a licensee, the cross-licenses by definition implement a grant back.

Cross-license agreements in the ICT industries are typically very broad. Many cover the entire patent portfolios of the parties and even patents to be issued within a specified future period, called a capture period, either without any limitation or subject to some field of use or other reasonable limitations. The purpose of these licenses is to give companies design freedom, which means that companies are free to innovate without fear that their innovations may infringe the cross-licensing party's patents. Non-exclusive grant backs rarely if ever can be a source of harm to competition.

The ICT industries have been characterized by a very high degree of innovation. Cross-license agreements have played an important role in promoting innovation in these industries by enabling companies to engage in broad research and development efforts without fear of infringing cross-license partners' patents.

As mentioned in our general comments, the key competition concern for cross-licenses is if they include restrictions that would eliminate or restrict *pre-existing* competition between the firms, or are made exclusive, in a way that inhibits the parties from future innovations. In addition, the second factor listed in Section II(i)3 as a consideration in analyzing whether cross-licensing may eliminate or restrict competition is ambiguous and potentially overbroad. That factor focuses on whether a cross-license constitutes a barrier to entry to the access of a third party into the relevant market. However, the mere existence of legitimate IPRs may constitute a barrier to entry, which is not itself anticompetitive, but rather reflects the long-standing recognition that the long-term consumer benefits resulting from increased innovation will outweigh any harm from diminished competition in the short-term. The fact that two companies license their IPR to each other neither erects new entry barriers nor reduces the barriers to entry that may exist by virtue of the companies' possession of legitimate IPRs. While a cross-license agreement could erect barriers to third parties' entry if

the parties agree not to license their IPRs to third parties, this potential anticompetitive effect is already covered by the first factor listed in Section II(i)3, which focuses on whether the cross-license is exclusive and moreover, a license that includes exclusivity may result in more than the patent holder implementing the patented inventions. It is therefore unclear what specific practice is targeted by the second factor. To the extent that this factor targets something beyond a restriction on licensing IPRs to third parties, it would be overbroad and potentially could result in erroneous findings that legitimate, procompetitive cross-licensing arrangements are restrictive of competition.

Section II (i) 4 Standard Making

We recommend that NDRC presume that standard-setting is procompetitive, and creates limited competition concerns. Standard-setting creates efficiency by promoting interoperability across products, enhances consumer welfare and enables the creation of new products and services.

Therefore we recommend that this section be revised to make clear that there is no intention to discourage legitimate standard setting. In particular, we recommend that in the absence of abuse of SSO procedures to exclude competitors, or conduct among competitors to use the SSO as a cover for price-fixing or other hard-core anticompetitive conduct, the Guidelines should make clear that activities by SSOs will be evaluated under a rule of reason analysis that recognizes the procompetitive benefits of legitimate standard-setting.

The Guidelines are particularly problematic for private standards-setting, where a limited group of firms attempt to create a market through establishment of a standard, without restricting other firms to compete by establishing alternative standards. The first factor listed in Section II(i)4 focuses on whether a standard-setting activity excludes other specific business operators. The second factor focuses on whether the standard-setting excludes specific undertakings' relevant solutions.

We acknowledge and strongly support the value of openness and transparency as mechanisms to prevent governments from influencing closed standard development activities to produce discriminatory standards that implement their industrial policies. In fact, contrary to established international trade requirements, some governments are supporting the development of national standards and technical regulations to promote domestic technologies at the expense of foreign technologies, thus protecting their markets. The WTO Agreement on Technical Barriers to Trade (hereinafter "TBT Agreement") is meant to address such situations. For example, only standardization bodies that are completely open and transparent can develop international standards. SECOND TRIENNIAL REVIEW OF THE OPERATION AND IMPLEMENTATION OF THE AGREEMENT ON TECHNICAL BARRIERS TO TRADE, G/TBT/9 (13 December 2000), Annex 4. Moreover, domestic standards and technical regulations (i) cannot be "*prepared*, adopted or applied with a view to or with the effect of creating unnecessary obstacles to trade" (TBT Agreement, Art. 2.2, Annex 3, Para. E (emphasis added)); and (ii) must be based on relevant international standards that have been developed in an open manner (TBT Agreement, Art. 2.4). In addition, standardization bodies, especially those supported or controlled by a governmental body, "shall accord treatment to products originating in the territory of any other Member of the WTO no less favourable than that accorded to like products of national origin…." TBT Agreement, Annex 3, Para. D. In brief, the TBT Agreement prohibits WTO members from influencing SSOs to use standards and technical regulations in a discriminatory way by, for example, excluding certain business operators or technologies. The Chamber and AmCham China strongly support consistent application and all necessary enforcement of these TBT requirements whenever a WTO member directly or indirectly controls or supports domestic SSO activity.

From a competition policy perspective, the approach in addressing exclusionary conduct by SSOs is different and should focus on whether the anticompetitive effects from that conduct outweigh any pro-competitive benefits. This approach of using a rule of reason analysis is especially important when SSO activity is purely private, with no governmental influence at all to skew the outcome. So, if the first factor listed in Section II(ii)4 is intended to mean that every standard development effort should allow every interested person to

participate and make contributions, the Chamber and AmCham China are concerned that it could discourage legitimate and beneficial standards development efforts by private companies. It is very common for standards development work to be undertaken by working groups of a limited number of private companies (without any government involvement whatsoever), which then either adopt the standards for themselves or, more commonly, pass them on in draft form to a larger group of companies in an established SSO. It is well recognized that limitations on participation rights by purely private SSOs may be necessary for the orderly and efficient development of standards. In this regard, consider the European Commission's decision in *X/Open*,[4] which states:

> "The aims of the [standards] Group could not be achieved if any company willing to commit itself to the Group objectives had a right to become a member. This would create practical and logistical difficulties for the management of the work and possibly prevent appropriate proposals being passed. The way in which access to the Group is limited is indispensable to the attainment of the positive objectives of the Group."[5]

The Commission reached this conclusion even though "non-members as opposed to members cannot influence the results of the work of the group and do not get the know-how and technical understanding relating to these results which the members are likely to acquire."[6] It recognized that "The practical difficulties of bringing together representatives of the members with authority to commit their companies without endless discussions increase considerably with the number of members."[7] In brief, applying a rule of reason analysis to activities of purely private SSOs that are not fully open ensures that they are legitimate, and that any anticompetitive effects resulting from the exclusion of some business operators are outweighed by the pro-competitive benefits they can and often do produce.

The second factor in Section II(i)4 focuses on whether the standard-setting excludes specific undertakings' relevant solutions. This factor also has the potential to reach legitimate standards development efforts by purely private companies with no industrial policy agenda as dictated by the government or related entities. For the same reason that it may be impractical to allow every interested company to participate actively in the development of standards, it may be impractical to consider every proposal that a third party may wish to proffer for inclusion in a standard. Standards development involves consideration of numerous individual technological components, and a single standard often incorporates hundreds or even thousands of specific technological aspects. For example, there are several thousand declared SEPs for the LTE wireless telecommunications standard. In this context, an obligation to consider and include every third party's proposal could result in significant delays in the adoption of standards that produce the benefits NDRC has recognized in the preamble to Section II(i)4. An even greater concern would arise if the second factor is intended to mean that the exclusion of a particular solution is competitively problematic, as standard-setting necessarily involves the selection of particular solutions and the rejection of others.

Of course, there may be exceptional circumstances in which standard-setting may be used as an anticompetitive mechanism for excluding new and innovative technologies that threaten incumbent suppliers' market position.[8] In general, however, the risk of exclusion of this nature is low where participants in standards development include different groups of stakeholders. For example, where participants include

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[4] OJ [I987] L 35/36.

[5] *Ibid.* ¶ 45.

[6] *Ibid.* ¶ 32.

[7] Ibid. ¶ 45.

[8] For example, in the U.S. Supreme Court case of *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988), a group of incumbent producers of electrical conduit manipulated the standard-setting process to exclude an improved type of conduit from the National Electrical Code as unsafe, even though a professional panel of the organization had previously deemed the new product safe. As a result of the adoption of the National Electrical Code as a mandatory standard by governmental entities, this resulted in the exclusion of the improved type of conduit.

both manufacturers of components, such as semiconductor chips, and the final products that incorporate these components, the final product manufacturers would have an interest in preventing component manufacturers from agreeing on a standard that would raise their costs.[9]

The Chamber and AmCham China recognize that if government support is provided to an SSO, it may be given as a way to exclude foreign business operators or their technologies from the standard being subsidized. But as noted earlier, the TBT Agreement can and should be used to address these types of situations.

Based on our comments above, the Chamber and AmCham China respectfully suggest that the Commission combine the first two factors to focus on whether the standard-setting process excluded a particular type of stakeholder *so as to bias the standard-setting process to the detriment of consumers or to the detriment of long-term innovation*. Rather than focusing solely on the excluded stakeholder or technology, this combined factor we propose would also focus on and require consumer harm per longstanding competition principles. The proposed combined factor could read as follows: "Whether the standard development process excluded a type of stakeholder, such as suppliers or purchasers of a standardized product, so as to bias the standard-setting process to the detriment of consumers."

Within the draft Guidelines, some other areas remain unclear. For example, item four in this section uses the phrase "necessary and reasonable restriction mechanism," which is unclear. We therefore suggest that this item either be deleted or clarified.

As mentioned in our comments above on Section II (i) 2 on patent pools, it is unclear what entity will be responsible for an AML violation in standard making, the standards developing organization or the undertakings trying to establish the standard. We recommend that the Guidelines clarify what entity will be responsible for a standard making-related AML violation.

Section II (ii) 3 Non-assertion clause, III (ii) 4 Prohibition against challenge/litigation

The use of non-assertion clauses or prohibitions against challenges and litigation may, in some cases, have procompetitive benefits by reducing transactions costs and preventing excessive litigations, and are common among licensing arrangements. Many jurisdictions have declared such clauses as generally unenforceable (unless they are part of a settlement involving the subject patents).

For example, the European Commission (EC) addresses the validity of non-assertion clauses in its Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (TTBE). In the Guidelines, the EC states that "licensees are normally in the best position to determine whether or not an intellectual property right is invalid. *In the interest of undistorted competition and in accordance with the principles underlying the protection of intellectual property, invalid intellectual property rights should be eliminated. Invalid intellectual property stifles innovation rather than promoting it*."[10] The EC recognizes an exception to this principle in connection with settlement agreements, for which it analyzes non-assertion clauses on a case-by-case basis. Outside this context, preventing licensees from challenging patent validity necessarily leads to the perpetuation of invalid patents, and results in the imposition of royalties to license patents to which patent holders have no legitimate claim.

In the United States, the U.S. Supreme Court has held that provisions in license agreements prohibiting

[9] In *Allied Tube*, the incumbent interests manipulated participation in the vote on the standard by recruiting outsiders to vote and paying for their participation. But for the participation of these outsiders in the vote, the improved conduit would have been approved.

[10] European Commission, Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, 2014/C 89/03, ¶ 134 (cited below as "TTBE Guidelines") (emphasis added).

challenges to the validity of licensed patents are generally unenforceable in the U.S. as a matter of contract[11], although such provisions may be enforceable where they are part of a settlement of litigation involving the subject patent(s). "[T]he holder of a patent should not be insulated from the assertion of defenses and thus allowed to exact royalties for the use of an idea that is not in fact patentable or that is beyond the scope of the patent monopoly…"[12] The U.S. antitrust agencies, for their part, have stated that "invalid patents impair competition, and as a matter of patent policy, challenges to their validity are encouraged."[13] According to those agencies, "public policy strongly favors ridding the economy of invalid patents, which impede efficient licensing, hinder competition, and undermine incentives for innovation."[14] However, a non-assertion clause has not been found to constitute an antitrust violation or patent misuse in the United States.

In light of the above, we recommend that the additional factors be added to Section II(ii)3, including:

(i) The reasonableness of the non-challenge clause in the context of the particular license agreement (including its scope), and
(ii) Whether such a contractual provision is likely to eliminate or restrict competition in the Chinese market.
(iii) Whether there are other parties with an interest in challenging the validity of the patents (including current licensees, potential licensees other competitors, etc.) that are not subject to similar restrictions.

Section II (ii) 4 Other Restrictive Clauses

NDRC appropriately acknowledges that limitations on the rights granted in a license generally tend to improve efficiency and promote implementation of the relevant IP. However, the factors established in the draft Guidelines for determining whether such limitations eliminate or restrict competition lack an important overarching principle without which entirely legitimate license restrictions may be deemed anti-competitive. Specifically, as noted earlier, the Chamber and AmCham China suggest that the most critical factor in analyzing limitations on the scope of licensed IPR is whether the license agreement restricts competition that likely would have occurred in the absence of the license. This principle encourages the licensing of IP by permitting IPR holders to grant limited rights to exploit their intellectual property that might not otherwise be licensed.

The procompetitive benefits of permitting undertakings to grant limited rights to exploit their intellectual property is broadly recognized. For example, the European Commission explains in its Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (TTBE): "If the licensor could not prevent licensees from operating in fields where it exploits the technology itself or in fields where the value of the technology is not yet well established, it would be likely to create a disincentive for the licensor to license or would lead it to charge a higher royalty."[15] Similarly, the U.S. antitrust enforcement agencies recognize that limitations on the exercise of licensed IPR tend to "increase the licensor's incentive to license, for example, by protecting the licensor from competition in the

[11] *See Lear, Inc. v. Adkins*, 395 US 653, 670-71 (1969).
[12] *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 349-50 (1971).
[13] U.S. DEP'T OF JUSTICE AND THE FEDERAL TRADE COMMISSION, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION at Ch. 4.II.B (2007)[hereinafter "DOJ/FTC 2007 IP Report], available at www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf [hereinafter DOJ/FTC 2007 IP Report]. (citations omitted).
[14] *Id.*
[15] European Commission TTBE Guidelines ¶ 212.

licensor's own technology in a market niche that it prefers to keep to itself."[16] The U.S. IPR Guidelines also state, in the context of an example involving field of use and territorial limitations on a licensee's use of the licensed IP, that "[t]he key competitive issue raised by the licensing arrangement is whether it harms competition among entities *that would have been actual or likely potential competitors in the absence of the arrangement*."[17]

The factors listed in the draft Guidelines might not help undertakings know how to comply with the Guidelines because they do not identify the nature of the competitive concern that they seek to address. A focus on restrictions on competition that likely would have occurred absent the license would provide a coherent framework for analyzing limitations on the use of licensed IP and enhance the Guidelines' predictability and clarity.

Section II (iii) Exempted IP Agreements

We welcome the addition of safe harbor exemptions in Section II (iii) of the Guidelines; however, we are concerned that the Guidelines state that exemptions do not apply if the conduct falls within Articles 13 or 14 of the AML. Both of these provisions in the AML include the catch-all clause "other monopoly agreements as determined by the Antimonopoly Enforcement Authorities", which has the potential to cover any horizontal or vertical agreements or restrictions, and thus would potentially render the safe harbor exemptions meaningless. The Department of Justice and Federal Trade Commission IP Guidelines limit the scope of their exemptions to practices that "are facially anticompetitive", meaning that they are merely a cover for per se violations (e.g. hard-core cartel conduct). We recommend that the Guidelines take a similar approach, and automatically exclude application of the safe harbor provisions of Section II (iii) only where the conduct amounts to price-fixing or to a market allocation agreement among competitors.

Section III (i) Determination of Market Dominant Position

The Chamber and AmCham China recommend that an important additional factor for determining market dominance is whether the firm has the ability to control prices or to restrict entry into the relevant market in light of contractual and legal limitations on remedies available to patent holders.

Sections III (ii) 1 Licensing IPRs with Unfairly High Royalties, III (ii) 4 Charge on Expired/IPRs, and III (ii) 6

We are concerned with items in the Guidelines related to unfairly high royalties and charging on expired IPRs. The first factor—whether the royalty rate is "obviously discrepant with the value of the IP" is an arbitrary standard that creates uncertainty in the market and will chill licensing in China. Rarely do antitrust enforcement agencies outside of China deem price regulation an appropriate role for an antitrust authority. Assistant Attorney General (AAG) Bill Baer made remarks at the 19th Annual International Bar Association Competition Conference on the issue of royalty rates in September 2015. AAG Baer noted that:

> "We are skeptical when manufacturers complain to us about high royalty rates in the absence of bad conduct. We don't use antitrust enforcement to regulate royalties. That notion of price controls interferes with free market competition and blunts incentives to innovate. For this reason, U.S. antitrust law does not bar "excessive pricing" in and of itself. Rather, lawful monopolists are perfectly free to charge monopoly prices if they choose to do so. This approach promotes innovation from rivals or new entrants drawn by the lure of large rewards."

[16] U.S. Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property, ¶ 2.3 (1995) (cited below as "U.S. IPR Guidelines").
[17] U.S. IPR Guidelines ¶ 2.3, Example 1 (emphasis added).

Regarding charges on expired IPRs, including as a factor whether package licenses allow for the collection of royalties on expired or invalid patents fails to recognize the essential characteristics and efficiencies of package licenses, namely that they significantly reduce transaction costs and increase efficiency by providing rights to a broad portfolio, and certainty and flexibility to the licensee. Moreover, in many portfolio licenses, patents may be added to the license without an accompanying increase in the royalty rate. The parties enter into such package licenses with a clear understanding of the parties that, while some patents may expire or even be held invalid during the term of the license agreement, the value of the protections offered by a broad package license that protects the licensee from infringement actions for any patents in the licensed portfolio that might be infringed continues. Moreover, to premise antitrust liability on such a natural aspect of portfolio or package licenses (that is, that some patents that were valid and enforceable at the time that the license was entered into will expire during the course of the patent license agreement's term), would risk many of the efficiencies underlying portfolio licensing in the first instance by essentially requiring patent-by-patent identification, analysis, valuation and enforcement.

Portfolio licensing is an effective tool to provide legal certainty, reduce transaction costs, minimize patent disputes, and promote investment and innovation. U.S. antitrust law has long recognized the procompetitive benefits of portfolio licensing, including in the seminal package copyright license at issue in Broadcast Music.[18] There the Court specifically understood that package licensing addressed the IPR owners' need for "a reliable method of collecting for the use of their [intellectual property]," and that the efficiency gains were significant because "[i]ndividual sales transactions in this industry are quite expensive, as would be individual monitoring and enforcement." In their IP Guidelines (Section 5.5), the Federal Trade Commission and Department of Justice Antitrust Division have also recognized that package licenses to IPRs "may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation."

To the extent that the Guidelines imply that royalty rates must be constantly adjusted or re-negotiated every time a patent in the licensed portfolio expires or is found invalid, would make portfolio licensing impossible, and harm both Chinese licensors and licensees. If the licensee is concerned about the risk of patents expiring or some patents being declared invalid, they can seek to negotiate a shorter term patent license agreement (PLA), recognizing that shorter term PLAs will increase transaction costs and certainty over the long terms.

To avoid damaging the desirable practice of portfolio licensing by risk of antitrust liability, we recommend the following addition to the draft Guidelines:

"(5) Whether business operators knowingly charge royalties on IPRs that, at the time the patent license is entered into, have expired or been finally declared to be invalid IPRs.

The inserting of these words would offer some acknowledgment of the procompetitive benefits of portfolio licensing and be consistent with the antitrust principle that a party should not be punished for conduct it was unaware of committing.

We also recommend that item six be deleted, as this factor is vague and results in uncertainty.

Section III (ii) 2 Refusal to license

We continue to have serious concerns about a provision that would endorse a broad essential facility doctrine, and impose antimonopoly sanctions, for refusals to license IP. The essential facility doctrine has

[18] *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc., 441 U.S. (1979)* (provided the licensor is willing to negotiate and grant licenses for individual works at the request of a licensee)

been applied only very sparingly to unilateral and unconditional refusals to license.[19] At a minimum, refusals to license should not be actionable unless a voluntary commitment by the patent holder to license its patent has been breached. In those limited cases in the United States, contract law has been used for resolving breaches of voluntary licensing commitments, and antitrust authorities have not been put in the position of having to set the price in the market. Thus, a violation of a specific voluntary commitment to license the patents should be a necessary, although not entirely sufficient, factor in finding a violation.

The Chamber and AmCham China are very concerned that factors listed in the draft Guidelines would allow virtually any unilateral refusal to license to be characterized as an abuse of IPR, depending on how the factors are applied. The existing factors might be interpreted broadly and there is no guidance on how to weigh or otherwise apply them, and to what degree they must be considered by officials. It would be a perverse result for NDRC to deem that the most important and valuable innovations are, by reason of their value, essential facilities that the innovative owner must license at artificially low rates (factor 2), as that would undermine innovation incentives that are essential to generate the types of technological breakthroughs that the Chinese Government appropriately seeks and is encouraging undertakings to develop. It would also be ironic to characterize a refusal to license as anti-competitive and impose compulsory licensing simply because the licensee was unwilling to pay royalties (factor 4) determined through the operation of market forces. Such refusal to license challenges may well prompt parties to invest their resources in endeavors for which remuneration is less likely to be constrained by incentive-stifling government regulation.

It is important as well that factors that are listed not produce contradictory or inconsistent results between similar licensing transactions if applied together. For instance, and as specified in Guidelines, either IP can be reasonably substituted (one of the factors) or the IP is essential to compete in the relevant market (another factor), but it cannot be both at the same time. Furthermore, in addition to considering the damage to the IP holder from a compulsory license, new guidelines should also make clear that heavy consideration will be given to the negative impact that a finding that IP constitutes an essential facility will have on incentives of the business community as a whole to invest in innovation activities, as well as the adverse effect that such a finding will have on IPRs generally.

We would also like to note that if the market is defined as the molecule, the innovative drug company who is the IP owner of the molecule will always be "dominant" without licensing to others, and thus may be forced to license the IP to others if "refuse to license" in this context could be found as abusing the dominant market position under the Guidelines. A significant risk of such finding may also coerce the IP owner to license the IP.

So we suggest in Section III (ii), with regard to the "factors to consider" when deciding whether the IP owner has justified reasons to refuse to license, to include the following point to address this issue, such as the below:

Additional factors should also include industries where significant investment in R&D is normally required to obtain innovative products, such as the pharmaceutical industry. For instance, a situation in which a party is found to have a "dominant market positon" due to an underlying patent covering an aspect of a very specific innovative product.

Neither China's Patent Law nor TRIPS allows broad compulsory licensing of IP deemed essential to compete and innovate. Both Article 11 of China's Patent Law and Article 28 (and related provisions) of the WTO

[19] To our knowledge, there have been only a handful of cases in the European Union involving compulsory licensing. In the United States, the U.S. Court of Appeals for the Federal Circuit, which has exclusive jurisdictions over patent appeals from trial courts, has stated that there is "no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent." *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322, 1326 (Fed. Cir. 2000).

Agreement on Trade-Related Aspects of Intellectual Property Rights vest in IP holders strong and broad rights to exclude others from using their IP. Neither Article 11 of China's Patent Law nor Article 28 (and related provisions) of TRIPS distinguish between the essentiality of the IP that the PRC WTO members are obligated to protect. In other words, a broad essential facility doctrine as reflected in existing Section III(ii)2 is inconsistent with both China's Patent Law and international law that is binding on the PRC government. To the extent new guidelines promote such inconsistency, it would not only be unjustified, but also create confusion and uncertainty, in addition to undermining investment and innovation. In order to continue to encourage investment and innovation in China, we recommend that Section III(ii)2 be narrowed significantly so that it is more consistent with at least the European approach, which we understand NDRC is well aware of and that this approach has been applied only in a few "exceptional cases".

Section III (ii) 4 Imposing Unreasonable Trading Conditions

On item three of Section III (ii) 4, we would like to note that restricting a counter party from using competing products and technologies is a common practice in franchising. We recommend that the Guidelines should not preclude such business relationships.

On item four in Section III (ii) 4, we would like to reiterate that in a portfolio of patents, the parties typically expect new patents to enter and older patents to expire in the portfolio. The parties may build this in to the rates, and may include provisions to address large changes. Otherwise, especially where the portfolio is sizable and includes patents from several jurisdictions, repeatedly tracking all the assets in numerous licensing arrangements is burdensome, largely unworkable, costly, and of limited benefit. We recommend limiting item four to the scenario "for which payment is inappropriate under the law". The statute of limitations may allow an entity to claim rights for a patent that is expired, because infringement of the patent occurred before it expired. This example should not be a violation. This should also be the case if the patent found invalid is on appeal.

On item one in Section III (ii) 4, limiting the trading behaviour of a trading counterpart within a certain industry or a certain geographic scope is common license practice. It is unclear how to avoid item one, within commonly practiced area of licensing.

Section III (ii) 5 Discriminative Treatment

We welcome the changes to the December version of the Guidelines from the October version regarding "discriminatory treatment." However, we emphasize that, the use of different terms and conditions in IPR licenses should not be a matter of competition law concern. Even in the case of FRAND encumbered SEPs, where a specific commitment is made to license on non-discriminatory terms, any differences in terms should be analysed using a rule of reason analysis to determine whether there is a restriction to competition.

Moreover, we also would like to highlight that if NDRC disagrees with our position that NDRC in its AML enforcement role should not mandate specific terms as a regulatory manner for discriminatory licensing. For instance, it is a common business practice for a patentee to consider its relationship with the licensee (e.g. customer, partner, or competitor) as a factor in determining the terms of the transaction. (A widely recognized U.S. case Georgia Pacific v U.S. Plywood lists "relationship" as a "reasonableness" factor.) Even for the licensees having the same relationship with the patent owner, the "tiers" or the licensee may differ, which will result in different transaction terms. For example, one company may be a wholesaler, whereas another is a retailer; or one may sell chips, while another sells boards that contain chips. Portfolio assets may also vary among potential licensees. For example, Competitor A has no patents to license back, Competitor B agrees to license back but has a small portfolio, and Competitor C agrees to license back its large portfolio. It is reasonable that the licensor impose different license fees on the three competitors. The pro forma use of "non-discrimination" will undermine the vitality and value of patents and may be counterproductive.

From a practical perspective, it is unclear how "discriminatory" treatment will be defined. Licenses are complex and tend to have many substantial and subtly differing terms across parties, making it difficult to compare equality of treatment. Licenses include terms ranging from field of technology licensed, term or license, geographical scope, scope of license back, parties licensed and licensing, termination (including defensive termination) provisions, flow-down of rights provisions to spin-offs, acquisition provisions, cure provisions, audit and notice provisions, applicable law, alternative dispute resolution, and definition of terms. Any of these terms may have an effect on the parties and their treatment can affect royalty fees. Parties should be free to negotiate licensing terms, and not be confined by antimonopoly laws and related regulations, rules, and guidelines. Trying to control or standardize the terms will adversely affect both parties. As an example, a licensee may propose reducing the technical field, territory, or patents licensed under the agreement to reduce the royalty, while the licensor might want to limit the reciprocal license to increase the royalty. Compromises depend on each party's priorities, which naturally vary between negotiations.

We would like to note that stressing "equal treatment" may also force disclosure of confidential business and commercial information that may harm competiveness. For example, licensors may be required to disclose critical confidential business information when distinguishing licensees. As another example, licensee A can determine where licensee B plans to sell its products by demanding to know and acquire the same geographic scope in its license as the license with B.

When a patent holder has committed to license on a non-discriminatory basis and other entities rely on that promise, a breach of that commitment may form a basis for legal action in competition enforcement when the practice has been determined to have unreasonably restricted competition. However, extending this premise to patents generally is not appropriate.

Section III (ii) 6 Injunctive Relief

The Chamber and AmCham China support the view that seeking injunctive relief should never be viewed as a per se antitrust violation. There may be circumstances where the seeking of injunctive relief, even by SEP-holders subject to FRAND commitments, is reasonable and justifiable, such as where there has been an objective determination by the relevant adjudicatory body or mutually agreed arbitration process that the prospective licensee is unwilling to negotiate or take a license on FRAND terms. Moreover, although the Chamber and AmCham agree with the basic analytical approach of this section as applied to FRAND-committed Essential Patents, with the caveats noted in the first sentence, we note that courts also have proven capable of making these determinations under the principles of contract and IP law, and equity. In addition, the section is overbroad with respect to SEPs that are not subject to a FRAND commitment. SEP holders whose SEP is not subject to a FRAND commitment should have the right to seek injunctions without any special limitations if their royalty and other terms are not accepted by a potential licensee.