The U.S. Chamber of Commerce and the American Chamber of Commerce in China Joint Comments to the State Administration of Industry and Commerce on the Guideline on Intellectual Property Abuse (Draft for Comments 7th Version)

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 State Administration of Industry and Commerce (SAIC) on its draft Guidelines on Intellectual Property Abuse (draft Guidelines) that were issued for public comment on February 4, 2016.

The Chamber and AmCham China have many members with a large presence in China and a strong interest in the regulations and guidelines affecting their operations. Consequently, we strive to provide substantive feedback that reflects the broad interest of the business community to China's antitrust agencies at every opportunity afforded. 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.

I. General Comments

The Chamber and AmCham China recognize SAIC's efforts on earlier drafts of the draft Guidelines and the Rules on the Prohibition of Abuses of Intellectual Property Rights (IPR). We have submitted comments on most of these drafts.

While we are encouraged that the Article 1 of the draft Guidelines acknowledges that intellectual property rights (IPR) grants exclusive rights to rights holders, we continue to be concerned about provisions that would endorse an essential facility doctrine (Article 22 and 24), 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, and taking into account any harm to innovation incentives that restrictions on the conduct at issue would create. Generally, the exercise of 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. In the U.S. Antitrust Guidelines for the Licensing of IP explain the proconsumer benefits of IP protection:

> The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare. The intellectual property laws provide incentives for innovation and its dissemination and commercialization by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression. In the absence of intellectual property rights, imitators could more rapidly exploit the efforts of innovators and investors without compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers. The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.[1]

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 imposes 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,

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[1] "Antitrust Guidelines for the Licensing of Intellectual Property," United States Department of Justice and Federal Trade Commission (April 6, 1995), available at https://www.justice.gov/atr/antitrust-guidelines-licensing-intellectual-property#N_8_

[2] That analysis should 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

companies will demand higher royalty rates in order to compensate for the loss of business or revenue incurred by granting broader rights than they would prefer to grant. By focusing on whether the license restricts pre-existing competition between the parties, the draft 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. We acknowledge and appreciate SAIC including this point in its analytical framework for a rule of reason analysis set out in Chapter 1 and also in Article 12, but we strongly recommend that SAIC make it clear in the preamble to the draft 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 the absence of the license.

II. Detailed Comments

Chapter I General Provisions

It would 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.

Article 4 Basic principles of anti-monopoly enforcement in the IPR field

In article 4 item four, the Chamber and AmCham China recommend that if the exercise of IPRs has positive effect outweighing the negative effects, then the State Council AMEA "shall not prohibit", rather than the current "may not prohibit" such exercise.

Article 5 Methods and steps of analysis

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."); United State Department of Justice and the Federal Trade Commission, "Antitrust Guidelines for the Licensing of Intellectual Property," ¶ 3.3 (April 6, 1995) [hereinafter U.S. IPR Guidelines"] (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.").

In Article 5 item 2, the Chamber and AmCham China recommend that any analysis to identify the competitive relationship between/among undertakings to an IP-related agreement consider the competitive relationship that would have existed in the absence of the license agreement. By focusing on whether the license restricts pre-existing competition among the parties, the draft 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.

Article 6 Elements of Analysis

Article 6 currently contains no guidance on how to weigh the listed elements, thus creating unpredictability and uncertainty. Moreover, the last element on the list (item 9) is open ended, allowing the agency to insert its own subjective competitive assessment. Item 9 in Article 6 should be deleted because its open ended nature provides no guidance or transparency as to what these "other elements" may entail, thus creating unnecessary uncertainty and chilling innovation and robust competition. If and when SAIC decides other factors should be considered in evaluating the exercise of IPR, the guidelines easily can be updated.

Article 6 is also unclear in how the 4 conditions at the end of the article will be weighed, and whether all four conditions should all be met. Therefore the Chamber and AmCham China recommend amending "provided the above positive impact meets the following conditions," to say "the following conditions should be considered to determine whether the exercise of IPRs has or possibly produces a positive impact on competition."

Article 6 item 2 (of the second number list) requires that restrictive conducts be "indispensable" to producing positive impact. "Indispensable" is too restrictive and should focus instead on whether a practice is "reasonably necessary" for achieving these goals. The indispensability standard could be interpreted to mean that an IPR holder must use the least restrictive means to achieve the legitimate objectives of promoting innovation or improving efficiency regardless of the practicality or cost of such means.

In the U.S., the antitrust agencies' "general approach in analyzing a licensing restraint under the rule of reason is to inquire whether the restraint is likely to have anticompetitive effects and, if so, whether the restraint is *reasonably necessary* to achieve procompetitive benefits that outweigh those anticompetitive effects."[4] Therefore, the Chamber and AmCham suggest "indispensable" be changed to "reasonably necessary."

Article 7 Scope

The Chamber and AmCham China propose deleting "If any abuse of IPRs beyond the borders of the People's Republic of China produces the effects of excluding or restricting

[4] U.S. IPR Guidelines, ¶ 3.4 (emphasis added).

competition on domestic markets, the Guidelines herein shall apply." This provision is too broad and, if implemented as is, would lead to inconsistent exercises of jurisdiction by competition agencies on complex transactions with cross-border impacts. Both the U.S. and EU ~~use a~~ have both adopted narrower effects-based jurisdictional tests. The U.S. test is whether the foreign conduct has a "direct, substantial, and reasonably foreseeable effect" on "trade or commerce which is not trade or commerce with foreign nations." Foreign Trade Antitrust Improvements Act, 15 U.S.C. § 6a(1). The EU test is whether the conduct "will have an immediate and substantial effect in the Community." Case T-102/96 *Gencor v Commission* [1999] ECR II-753, §90. The Chamber recommends that SAIC refine and narrow the language of Article 7 so that it is more similar to the EC and U.S. tests used to determine whether to assert jurisdiction over foreign conduct.

On a related note, SAIC may also want to clarify that any fines imposed pursuant to Article 46 of the AML will be based on revenue generated in China by the targeted undertaking as opposed to revenue generated more broadly. Right now, AML Article 46 does not specify the base that will be used to calculate fines. Again, to be consistent with other mainstream competition systems, SAIC should base any fines only on the extent of any domestic injury.

Article 8 Overarching principles

Under the U.S. IPR Guidelines, technology markets and innovation markets will not be delineated and analyzed unless the goods markets are inadequate for the assessment of competitive effects (the EU has similar rules that are used only in a limited number of cases where it may be useful and necessary to also define innovation markets). The Chamber and AmCham recommend adding a statement: "The product market will be analyzed first and where the product market is insufficient, only then will technology and innovation markets be used."

Article 10 Relevant technology market

In the second paragraph of Article 10, calculating market share by using the "total royalty income on such relevant technology market" is not a useful approach, as it would not give a good estimate of market power in the relevant market. For example, in a relevant technology market, some involved technologies have not been licensed but could be licensed in the future, so the royalty income of such technologies does not exist at the time when calculating the market share. Nor do greater royalties mean a firm has a greater ability to raise price or restrict output.

It is also unclear what "IPRs that can take place of such IPR" means in the last sentence of the same paragraph. We suggest amending it as "alternative technologies" as only a technology could substitute for another technology that implements the same or similar function.

Article 11 Relevant innovation market

The Chamber and AmCham China note that the definition of "innovation market" is unclear. Furthermore, it is difficult to understand how the AMEA will determine dominant market position in the relevant innovation market, and how it will analyze the competition relationship in such a market. In China, there is no previous case that can help readers of this guideline understand the concept of "relevant innovation market."

As such, we suggest that Article 11 be deleted to avoid bringing uncertainty to the normal exercise of IPR.

Article 12 Overall provisions of IPR-related monopolistic agreements

The Chamber and AmCham China are pleased that SAIC has adopted an analytical framework for analyzing competition that would exist in the absence of a license or agreement. We are also encouraged that SAIC has proposed analyzing all suspected IP-related monopolistic agreements under rule of reason.

We recommend that SAIC further clarify the meaning of "potentially compete." It is unclear how to determine "potentially compete," as any party could theoretically compete with another party in the future. We suggest that SAIC explain and clarify the factors that could be used to determine the "potentiality" under this article, and how these factors should be used to analyze the "potentiality."

Article 13 Price restrictions between competitors

In regards to fixing IPR royalty rates between competitors, it is important to determine that the IP actually compete with each other. For a competitive relationship to exist, the IPR should be substitutes rather than just complements.

In paragraph two the definition of "indirect price restrictions" is unclear. We suggest that SAIC clarify the meaning of "indirect price restrictions," so as not to restrict companies freedom to negotiate royalty rates in IPR licensing deals based on negotiations.

Article 14 Production restriction among competitors

The Guidelines should respect the freedom of IPR holder's and licensees to determine the most desirable mechanism for calculating royalties, and should not be subject to undue limitation, provided that the license does not eliminate pre-existing competition between the parties. For example, a patent holder may adjust the royalty payment based on the volume a licensee is authorized to sell.

Article 15 Market segmentation among competitors

We suggest that SAIC take into account the fact that IPRs are national in scope, and so licensing just under Chinese patents, but not other patents, is not a market segmentation agreement. A license that is limited to one country, and prohibits manufacture or sale in an unlicensed country is a normal result of the fact that IPRs are national in scope. This type of restriction should not be considered to be a market division between competitors.

Article 19 Pricing restriction among non-competitors

The Chamber and AmCham China are unclear about the definition of "indirect price restrictions," and recommend SAIC clarify its meaning. It is common business practice in IPR licensing deals to determine the royalty based on negotiation between the licensor and licensee as a kind of contracting freedom that should be respected.

Article 20 Geographic and client restrictions between non-competitors

Field of use and licensed territory are common features in license agreements. It is not unusual for a licensor to license specific technical or geographic areas, enabling the use of a technology to either geographical or product markets not served by the licensor's own business. This benefits consumers and should not be considered anti-competitive. Moreover, IPRs are national in scope, and therefore granting a license to an IPR in one country but not another is a normal result of that fact and should not normally be viewed as a geographic restriction.

Article 21 Safe harbor rules for IPR-related monopolistic agreements

Article 21 (1) provides a kind of safe harbor where parties in a competitive relationship together have no more than a 20% market share or "…there are four or more alternative technologies that are controlled by other undertakings independently and are reasonably available." However, requiring 4 other alternative technologies seems extremely high. There is no similar arrangement in U.S. or EU legislation and practice. There is also the question as to why the number of substitutable technologies is set at 4, and not 3 or 5? Even meeting these conditions does not provide an exemption, since the conduct/agreement can still be challenged if there is evidence that the agreement would eliminate or restrict competition

Article 22 Determination and assumption of the dominant market position

The Chamber and AmCham China recommend that the clause "whether the IPR is essential to access to downstream market by relevant undertakings" be deleted from Article 22. We note that neither the European Commission nor the U.S. antitrust agencies make reference in their respective IP guidelines to the concept of an essential facility in discussing market definition and the determination of dominance or market power.

Owning a patent should not be deemed as a factor to determine whether the undertaking has a dominant market position. Rather, the activities of exercising IPR should be considered in assessing whether there is an abuse of dominance. Furthermore, relying on this factor alone could often make any standard-essential patent holder dominant, regardless of actual power to control price or restrict competition. A full analysis of all relevant factors should be required before determining whether an undertaking has a dominant market position.[5]

Article 23 License IPRs at unfair high royalty

We are concerned with items in the draft Guidelines related to unfairly high royalties and charging on expired IPRs. The first factor—whether the royalty rate is "inconsistent to contribution of its IPR to the value of products" is an arbitrary standard that is extremely difficult to calculate 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) of the Antitrust Division of the U.S. Department of Justice 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."

Regarding royalties claimed or collected that exceed previous royal levels (factor 2), each license deal has its own circumstances and market situation that could affect the royalty. Market situations may change over time. Therefore, a simple comparison with historic royalties should not be a basis to determine "unfairly high royalties."

Regarding charges on expired IPRs (factor 4), 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

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5 *See generally* TTBE Guidelines, *supra* note 4; U.S. IPR Guidelines.

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.[6] 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 draft 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:

"(4) 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 are concerned that factor 5 presumes that cross-licenses and grant-backs are anticompetitive. The practice of cross-licensing is common in the information

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[6] *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)

communication technologies (ICT) and many other 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.

We would also like to note that factor 6 could be misconstrued to find that a licensor is misusing the right to sue or to seek injunctive relief and thus be subject to an antitrust investigation if the licensee does not accept the price proposed by the licensor and the licensor sues the licensee for injunctive relief. Injunctive relief and the right to sue for infringement are legitimate rights of IPR owners that should not be unreasonably forbidden. Other factors such as whether the licensee is a willing licensee and negotiates in good faith with the licensor, whether there is a specific FRAND commitment, etc. should be considered.

Article 24 Refusal to license IPRs

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 been applied only very sparingly to unilateral and unconditional refusals to license.[7] 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

[7] To our knowledge, there have been only a handful of cases in the European Union involving compulsory licensing. These cases imposing a duty to license have addressed non-inventive IPR, such as television program schedules or zone maps for data reporting, as well as certain arbitrary information, such as certain communication protocols necessary to interface with a dominant operating system. 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).

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 SAIC 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 1), 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. 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. 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.

Neither China's Patent Law nor the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement 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 Agreement on TRIPS 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 Article 24 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 Article 24 be narrowed significantly so that it is more consistent with at least the European approach, which has been applied only in a few "exceptional cases".

Article 25 IPR-related tying

The Chamber and AmCham recommend that Article 25 paragraph 3 include the following factor: whether tying leads to obtaining a dominant position in the tied product market. This factor is mentioned in subparagraph 2 at the end of the article, but should also be added as a key factor in paragraph 3.

Article 26 IPR-related attached unreasonable terms

On Article 26 (II) the Chamber and AmCham China would like to note that 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. But 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.*"[8] 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 challenges to the validity of licensed patents are generally unenforceable in the U.S. as a matter of contract[9], 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…"[10] 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."[11] 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."[12] However, a non-assertion clause has not been found to constitute an antitrust violation or patent

8 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).

9 *See Lear, Inc. v. Adkins*, 395 US 653, 670-71 (1969).

10 *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 349-50 (1971).

11 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 [hereinafter DOJ/FTC 2007 IP Report]. (citations omitted).

12 *Id.*

misuse in the United States.

On Article 26 item 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 4 to the scenario "for which payment is inappropriate under the law". Moreover, 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 Article 26 item 5, we would like to refer you to our comments on cross licensing in Article 23.

On Article 26 item 6, forcing or prohibiting a counter party from doing a transaction with a third party may be justifiable in some cases. For example, a trademark licensor may require the licensee to use raw material from a specified vendor (or require the licensee not to use raw material from a specified vendor) to ensure product quality. This is a common practice and should not be subject to AML review.

Article 26 item 7 should be deleted as the catch-all clause will cause uncertainty.

Article 27 IPR-related discriminatory treatment

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 an unreasonable restriction to competition.

Moreover, we also would like to highlight that if SAIC disagrees with our above position, then SAIC 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 could be required to disclose critical confidential business information when distinguishing licensees which disclosure could have harmful effects on competition in the relevant market. As another example, licensee A could inappropriately demand to know the geographic scope of the patent holder's license with B, which would disclose competitively-sensitive information to licensee A.

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.

Article 28 Monopoly behaviors relating to development and implementation of standards

Competition laws, and implementing rules and guidelines should not dictate licensing terms for any patents, including SEPs where the patent holder has not expressly agreed to the SSO's licensing terms due to its voluntary participation in the SSO's standard setting activities, or expressly consented to some or all of their technology being incorporated into a standard.

Language in item 1 of Article 28 of the draft Guidelines relating to the liability of SEP holders *for failure* to disclose their SEPs, when SSOs require disclosure, should be limited to patent holders who (i) voluntarily participate in standard setting activities, (ii) have an affirmative obligation to disclose "essential IPR" as defined under the policies of the relevant SSO,[13] (iii) knowingly hold "essential IPR" and intentionally fail to disclose such information to the SSO, (iv) after having a duty to disclose, asserting the undisclosed "essential IPR" that has been determined to be, in fact, essential to the standard, against standard implementers once the standard is finalized to receive non-FRAND compensation; and (v) cause an adverse effect on competition in the relevant market as a result of their concealment of relevant information about the SEPs that they assert against standard implementers.

Disclosure obligations should not apply to patent holders that do not participate in the standards-development process or to patents that the patent holder does not reasonably believe may be or may become SEPs.[14] Such disclosure obligations are too broad and burdensome.[15] Finally, the requirement for disclosure should be consistent with the practices of SSOs. Some SSOs have companies as members; others have individuals as members. For SSOs where individuals are members, the actual knowledge requirement is based on the knowledge of the individual participating in the standardization process and not on corporate knowledge. Any AML liability based on a failure to disclose should only apply to the intentional, bad faith failure to disclose essential patents that are within the actual knowledge of the individual acting for a member of the SSO and is participating in the standardization process; it should not impute knowledge based on what might have been discovered had the company engaged in a costly search and review of all of its patents.

We also note that Article 28 item 1 of the draft Guidelines refers to a SEP holder as "waiving its patent rights". We are not clear as to what is intended by this provision or which rights are contemplated being waived. In any event, the U.S. Chamber and AmCham China do not endorse the absolute view that a SEP holder that, under the prescribed conditions, seeks injunctive relief necessarily violates competition laws. Similarly, if following an adjudication of a FRAND dispute a court finds that the SEP holder has complied with its FRAND obligations then it is also entitled to reasonable compensation.

Finally, it is unclear whether the undertaking's behavior will be deemed as an AML violation only when it performs all 1-4 behaviors listed in Article 28, or when it performs any of the 1-4 behaviors. Furthermore, the second paragraph of Article 28 states "such behaviors **will** exclude or restrict competition." This sounds as though it is a *per se* violation, whereas other articles—including articles 23, 24, and 26—use the word "may"

13 We would note that many SSOs do not require disclosure of "essential IPR," but instead simply require that any essential IPR held by members be licensed on F/RAND terms.

14 Most SSOs do not require members to do exhaustive patent searches, as such a search and review would be unreasonably burdensome to many companies.

15 This is especially true if patent searches are required, which we assume is not the case.

or “should be.” The Chamber and AmCham China recommend consistent wording to avoid confusion.

Article 29 Patent pool

Patent pools can provide efficiencies by solving problems created by overlapping patent rights, or a patent thicket, and leading to faster adoption of new technologies. They reduce transaction costs by providing “one stop shopping” for those want to manufacture products using the patents, instead of requiring negotiations with each patent owner. Pools also preserve the incentives for inventors to commercialize their existing innovations and to undertake new, potentially patentable research and development See Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, *in* 1 Innovation Policy and the Economy 119, 120 (Adam B. Jaffe et al. eds., 2000). The Chamber and AmCham recommend changes to these guidelines to preserve these benefits.

In item 1, the presumption that restrictions on licensing outside of the patent pool are anti-competitive may be overbroad. For example, some patent pools preclude members from joining other pools for the same standard (which could result in the patent holder receiving multiple payments for the same patent). Such a limitation may well be reasonable. To clarify this potential overreach, perhaps the presumed anti-competitive conduct could be modified to only reach restrictions that prohibit a patent owner who has contributed a patent to the pool from negotiating an individual license.

Item 3 presumes that sharing sensitive information and acting upon it is anti-competitive by itself. This is not necessarily the case. Patent pool participants may need to share “sensitive” information and act upon it in order to determine the royalty rate or to market the pool. The breadth of this section could also cause problems when the pool participants are trying to determine how to address infringers or reluctant licensing prospects. The Chamber recommends narrowing this presumed unlawful activity to sharing and acting upon information for specific anticompetitive purposes, namely price fixing for products, dividing markets among competitors, limiting production, and excluding certain competitors, rather than for legitimate purposes such as determining royalty rates. The Chamber and AmCham are also unclear what SAIC means by “tempt the licensee” in item 3. In addition, the Chamber and AmCham China would like to note that it is often reasonable for a patent pool to provide for non-exclusive grant back of technical improvements, so that the licensee cannot hold-up the pool members and the other licensees. Therefore, a rule of reason analysis should be applied in those situations.

On item 6, the idea that it is an AML violation for the pool to charge a higher royalty than the total of individual royalties on each patent is potentially problematic. If licensees are free to get a license from each pool member separately, then there should be no problem with whatever rate the pool charges. Although normally, the pool license is less expensive than negotiating individual licenses, there is no reason why the pool should not be able to reap the benefit of some of the efficiencies of a pool license, particularly given that there are expenses in establishing and managing a pool. The guideline's approach would also seem to require a calculation of the royalties that would be charged by each pool member separately, which would be hard to determine.

In the second to last paragraph of Article 29, it is unclear what "unimportant" patents means and how it will be determined. It is also unclear if "invalid" means non-compliant with the patent law. The Guidelines should clarify the meaning of "invalid."
The final paragraph Article 29 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.

Item 7 establishes a catch-all provision which creates uncertainty. We suggest item 7 be deleted.

Article 31 Legal liability

The Chamber and AmCham suggest that not all IP abuse determinations warrant compulsory license under patent law, and it should only be available when AMEA specifies that as an appropriate remedy in its determination.