JOINT COMMENTS OF THE AMERICAN BAR ASSOCIATION SECTIONS OF ANTITRUST LAW, INTELLECTUAL PROPERTY LAW, INTERNATIONAL LAW, AND SCIENCE & TECHNOLOGY LAW ON REVISIONS TO THE KOREA FAIR TRADE COMMISSION’S REVIEW GUIDELINES ON UNFAIR EXERCISE OF INTELLECTUAL PROPERTY RIGHTS

October 30, 2015

The views stated in this submission are presented jointly on behalf of these Sections only. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and therefore may not be construed as representing the policy of the American Bar Association.

The Sections of Antitrust Law, Intellectual Property Law, International Law, and Science & Technology Law (together, the “Sections”) of the American Bar Association (“ABA”) respectfully submit these comments to the Korea Fair Trade Commission (“KFTC”) regarding possible revisions to its Review Guidelines on Unfair Exercise of Intellectual Property Rights (“IP Guidelines”). The Sections appreciate the opportunity to submit these comments and the substantial effort that the KFTC is making in considering improvements to the IP Guidelines. The Sections are available to provide additional comments, or participate in consultations with the KFTC, as the KFTC deems appropriate. The Sections’ comments reflect the expertise and experience of their members with competition law, its intersection with intellectual property law, and the underlying economic principles.

Executive Summary

The Sections urge the KFTC to be more explicit throughout the IP Guidelines that an antitrust violation involving IPR will be assessed under the rule of reason, excepting in cases of horizontal price fixing or market allocation unrelated to an efficiency-enhancing integration. The Sections are concerned that the cumulative results of the IP Guidelines may be that the holder of any important patent or collection of patents may be required to grant a license on terms deemed fair by the KFTC or face penalties even if the patent owner has made no promise or undertaking to offer such terms.

The IP Guidelines define “standard essential patents” (“SEPs”) in Section I.3.A(6) as “patents used to implement standard technologies” so that a license of the patents is needed to produce “products or provide[] services in need of the standard technologies claimed by the patents,” and define “standard technologies” to include “technologies actually used widely as the standard in the relevant technology area.” The Sections suggest that the definition of SEPs be revised to refer only to patents used to implement standards as to which the patent holder has made or was required to make a commitment to license patents essential to implementing the standard.

The Sections suggest that Section II.2.C of the IP Guidelines more expressly indicate that any conclusion of market dominance will be reached only after a case-by-case factual analysis.

1 These comments are based on a translation of the IP Guidelines, eng.ftc.go.kr/bbs.do?command=getList&type_cd=62&pageId=0401.
including in the case of SEPs. Particularly in light of the concerns regarding the concept of innovation markets, the Sections suggest that the IP Guidelines include a reservation that if the KFTC cannot reasonably identify the firms with the required capability to engage in the relevant research and development and the incentive to do so, it will not attempt to define an innovation market.

The Sections respectfully urge the KFTC to exercise its authority under Article 3-2(1)1 of the Monopoly Regulation and Fair Trade Act (“MRFTA”) to regulate prices with the utmost caution.

The Sections respectfully submit that careful consideration should be given to whether the “nondiscriminatory” aspect of contractual “fair, reasonable and non-discriminatory” (“FRAND”) obligations would be best enforced as a contractual matter or whether competition-law remedies are required. The Sections respectfully suggest a careful approach to any potential application of the MRFTA to alleged breaches of FRAND.

The Sections suggest that before any refusal to license be considered a violation of the MRFTA, the KFTC find that (1) the entity seeking access cannot practically or reasonably work around the IPR, and (2) compelled access would further the legitimate interests of consumers.

As general matter, the Sections respectfully suggest that the terms and conditions of a license should generally be left to the parties’ arms’ length negotiations and the IP Guidelines avoid prescribing terms for the parties. Terms and conditions of a license relating to choice of law and venue should generally be left to the parties’ arms-length negotiations, as that would reflect the result of the market instead of regulation.

With respect to licensing restraints, the KFTC should consider the amount of innovation that would have occurred in the absence of the licensing restraint. A broad per se prohibition on non-exclusive or even exclusive grantbacks would unnecessarily chill innovation without a countervailing increase in consumer welfare.

The Sections respectfully recommend that the KFTC revise Section III.4 to clearly state that it will apply a rule-of-reason or effect-based analysis under which the benefits of a patent pool are weighed against the potential anticompetitive harms.

With respect to remedies, the IPR right to exclude does not imply that an injunction should issue in all cases of infringement. The Sections respectfully recommend that the IP Guidelines be revised to provide greater guidance as to how a litigation would be determined to be “objectively … not valid in terms of social norms” and an antitrust violation under Section III.2.C. Implementing an “objectively baseless” standard that is based on a reasonable litigant’s expectation of success on the facts and law applicable to a particular case, rather than reference to “social norms” would more clearly delineate the boundaries of sham litigation.

The Sections respectfully suggest that until there is more concrete data regarding IPR infringement litigation by patent-assertion entities (“PAEs”), the KFTC take a cautious approach to applying the MRFTA in this area, and consider carefully whether and how any proposed measures aimed at addressing possibly problematic conduct by PAEs may affect operating companies that make legitimate efforts to enforce their patents.
General Comments

United States courts and antitrust authorities view intellectual property ("IP") laws and the antitrust laws as complementary. Both seek to promote innovation and to enhance consumer welfare.\(^2\) While the Sections commend the adoption of the rule of reason analysis in much of the IP Guidelines, the Sections suggest that this be stated more expressly, and that the KFTC not include presumptions of illegality except in the cases of price fixing or market allocation by competitors. The Sections urge the KFTC to be more explicit throughout the IP Guidelines that an antitrust violation involving IPR will be assessed under the rule of reason, excepting in cases of horizontal price fixing or market allocation. Such an approach aligns with U.S. competition law.

In addition, while Article 59 the MRFTA provides that the MRFTA “shall not apply to any act deemed to be an exercise of rights under the” IPR laws, the IP Guidelines provide in Section II.2.A that the MRFTA will apply when the “exercise goes against the original purpose of the intellectual property rights policies.” The IP Guidelines imply that actions that are “distorting the order in the relevant market”\(^3\) or result in “distorted market structures”\(^4\) or refusals to license where it may be “difficult to secure alternative supply channel for the patented technology”\(^5\) may be considered outside the ambit of Article 59 and thus a violation of the MRFTA. The Sections are concerned that such exceptions to Article 59 could be interpreted to provide the basis for compulsory licensing with few clear limits. The cumulative results of the IP Guidelines may be that the holder of any important patent or collection of patents may be required to grant a license on terms deemed fair by the KFTC or face penalties even if the patent owner has made no promise or undertaking to offer such terms.

Section I.3.A(6) (Standard Essential Patents)

The IP Guidelines define SEPs in Section I.3.A(6) as “patents used to implement standard technologies” so that a license of the patents is needed to produce “products or provide[] services in need of the standard technologies claimed by the patents,” and contains several provisions relating to SEPs, including regarding the market power of SEPs,\(^6\) the exercise of SEPs,\(^7\) and injunctive relief for SEPs holders.\(^8\) The Sections recognize that conduct relating to SEPs for standards developed by standards development organizations (“SDOs”) may appropriately be subject to close scrutiny. However, the IP Guidelines define “standard technologies” to include...

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\(^2\) Atari Games Corp. v. Nintendo of Am., Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990) (“The aims and objectives of patent and antitrust laws … are actually complementary, as both are aimed at encouraging innovation, industry, and competition.”).

\(^3\) E.g., IP Guidelines §II.1.

\(^4\) Id.

\(^5\) Id. §III.3.B(2)[note].

\(^6\) Id. §II.2.C.

\(^7\) Id. §III.5.A.

\(^8\) Id. §III.5.B.
“technologies actually used widely as the standard in the relevant technology area.”

There is little reason to subject de facto standards to the more stringent requirements that may be appropriate for collaboratively set standards adopted by SDOs, unless the holder of an essential patent for a de facto standard has made commitments to license its IPR to implement the standard. The Sections suggest that the definition of SEPs be revised to refer only to patents used to implement standards as to which the patent holder has made or was required to make a commitment to license patents essential to implementing the standard.

Section II.2.C (Market Dominance)

Section II.2.C of the IP Guidelines defines “Market Dominance” including in the context of SEPs. United States law generally defines “market power” as “the ability to profitably maintain prices above, or output below, competitive levels for a significant period of time.”

“Monopoly power is the power to control prices or exclude competition.” These definitions apply equally in the IPR context in the U.S.

The U.S. Supreme Court held in Illinois Tool Works Inc. v. Independent Ink, Inc., that although a patent confers a right to exclude others from the use of the covered technology, subject to traditional factors used in determining the availability of an injunction, a patent cannot be presumed to confer market power in an antitrust sense. The U.S. IP Licensing Guidelines similarly state that the U.S. agencies “will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.”

The first step in assessing whether a particular IPR confers market dominance is usually to examine the relevant product markets and relevant technology markets. Where there are a number of substitutes for a given IPR, market dominance is unlikely to exist. On the other hand, in some circumstances, the standardization of technology might mean that substitutes are limited or not available, though this must be determined on a case by case basis after evaluating the relevant

9 Id. §I.3.A(5).


11 E. I. du Pont de Nemours & Co., 351 U.S. at 391. “Monopoly power is an essential element of any violation of Sherman Act Section 2. The requisite finding of ‘monopoly’ power under Section 2 requires ‘something greater’ than a finding of market power under Section 1.” ABA SECTION OF ANTITRUST LAW, MARKET POWER HANDBOOK: COMPETITION LAW AND ECONOMIC FOUNDATIONS 19-20 (2d ed. 2012) (footnotes omitted) [hereinafter ABA MARKET POWER HANDBOOK].


14 U.S. IP LICENSING GUIDELINES, supra note 10, § 2.2.

15 Id. at §§ 2.2, 3.2.2.
The absence of available substitutes may be indicative, though not conclusive, as to market dominance. The ultimate test for market dominance (monopoly power) under U.S. law is whether an entity has the power in a relevant market to control prices or exclude competition. This test is applied on a case-by-case basis, in light of all the facts and circumstances.\footnote{Ericsson, Inc. v. D-Link Sys., 773 F.3d 1201 (Fed. Cir. 2014) ("Because the standard requires that devices utilize specific technology, compliant devices necessarily infringe certain claims in patents that cover technology incorporated into the standard.") (alteration in original)}

As with other IPRs, the ultimate test for market dominance (monopoly power) of a SEP under U.S. law, is whether the entity has the power as a result of holding the SEP to control prices or exclude competition. And as with other IPRs, this test must be applied on a case-by-case basis, in light of all the facts and circumstances.\footnote{Eastman Kodak Co. v. Image Tech. Servs., 504 U.S. 451, 466-67 (1992) ("Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. This Court has preferred to resolve antitrust claims on a case-by-case basis, focusing on the particular facts disclosed by the record.") (internal quotes and citations omitted). See U.S. IP LICENSING GUIDELINES, supra note 10, §§ 3.1 (“The Agencies will focus on the actual effects of an arrangement, not on its formal terms.”), § 3.4 (“Application of the rule of reason generally requires a comprehensive inquiry into market conditions.”). See also ABA MARKET POWER HANDBOOK, supra note 11 at 20 (“A Section 2 plaintiff can prove monopoly power by proffering direct evidence of the defendant’s ability to control price or to exclude competition. Consistent with this approach, courts also have relied on evidence of the defendant’s actual inability to control prices or to exclude competition to reject a claim that the defendant possesses market power.”) (emphasis in original, footnotes omitted).} As noted above, the Sections suggest that Section II.2.C more expressly indicate that any conclusion of market dominance will be reached only after a case-by-case factual analysis, including in the case of SEPs.

Some in the U.S. have expressed concern that, to the extent that implementers are locked in to the technology of a standard, SEP holders could obtain supracompetitive royalties through “patent holdup.”\footnote{See, e.g., Microsoft Corp. v. Motorola, Inc., 795 F.3d 1024, 1030-31 (9th Cir. 2015) ("[B]ecause SSO standards often incorporate patented technology, all manufacturers who implement a standard must obtain a license to use those standard-essential patents (‘SEPs’). The development of standards thereby creates an opportunity for companies to engage in anti-competitive behavior. Most notably, once a standard becomes widely adopted, SEP holders obtain substantial leverage over new product developers, who have little choice but to incorporate SEP technologies into their products. Using that standard-development leverage, the SEP holders are in a position to demand more for a license than the patented technology, had it not been adopted by the SSO, would be worth."); Ericsson, Inc. v. D-Link Sys., 773 F.3d 1201 (Fed. Cir. 2014) ("Patent hold-up exists when the holder of a SEP demands excessive royalties after companies are locked into using a standard."). See also Bill Baer, Ass’t. Atty. Gen. for Antitrust, Reflections on the Role of Competition Agencies When Patents Become Essential, Address Before the 19th Annual International Bar Association Competition Conference (Sept. 11, 2015), [hereinafter Baer IBA Remarks], available at www.justice.gov/opa/file/782356/download. The Sections note, however, that no U.S. court has found antitrust liability on a SEP hold-up theory, although cases on that issue are pending. Cf. Rambus Inc. v. FTC, 522 F.3d 456 (D.C. Cir. 2008) (FTC failed to prove exclusionary conduct).} From the competition law perspective, the question remains whether the patent holder has the power to control prices or exclude competition in a relevant market. In many cases, SEPs are subject to contractual FRAND obligations. When an enforceable FRAND obligation applies, the ability of the patent holder to raise prices or exclude competition may be constrained,
mitigating the risk of actual hold-up. The actual market situation, including the specific contractual FRAND obligation and the rules of the particular SDO, should be examined when evaluating any allegation of monopoly power or dominant market position. Other factors may also affect the dynamics of the relevant market.

Some believe that imposing a competition law sanction for the mere breach of a contractual commitment represents a misapplication of competition law, which focuses on harm to the competitive process. On the other hand, some have expressed concern that the breach of the FRAND licensing commitment can give rise to competition law concerns. While there are


21 Cf. Ericsson, 773 F.3d at 1230 (“Trial courts should also consider the patentee’s actual RAND commitment in crafting the jury instruction.”).


23 Rambus, 522 F.3d at 466 (“an otherwise lawful monopolist’s end-run around price constraints, even when deceptive or fraudulent, does not alone present a harm to competition in the monopolized market”).

pending cases where this is being considered, no U.S. court decision has yet found circumstances where a competition law violation has occurred.

**Section II.3.A(3) (Innovation Markets)**

Under U.S. law, the competitive effects of IPR licensing arrangements and related conduct are often evaluated in the context of the relevant markets for the products or services incorporating the technology at issue. The assessment of the market affected by the conduct does not differ from that in cases not involving IPR. The evaluation turns on the effect of the conduct on the prices and output in the product or service markets, and the assessment begins with an understanding of those markets.

For patents generally, the relevant market may be defined by the set of goods and technologies that are reasonably interchangeable with the technology at issue. To the extent that the data permits, the U.S. agencies identify relevant markets through the use of the hypothetical monopolist test. Under this test, the agencies will “identify the smallest group of technologies and goods over which a hypothetical monopolist of those technologies and goods likely would exercise market power—for example, by imposing a small but significant and nontransitory price increase.”

To the extent that the data does not allow the use of a hypothetical monopolist test, or where the technology at issue is licensed or used in ways that are not readily quantifiable in monetary terms, the U.S. agencies will seek to delineate the relevant market by looking at other relevant factors, such as whether there are other technologies and goods and services that buyers could use instead of the technology at issue at a cost comparable to the technology at issue.

The IP Guidelines note that, in other cases, the markets affected by the conduct may be innovation markets, and the 2014 amendments to the IP Guidelines added a discussion of communication/1206ftcwirelesscom.pdf (“Interoperability standards can create enormous value for consumers by increasing competition, innovation, product quality and choice. However, incorporating patented technologies into standards also has the potential to distort competition by enabling SEP owners to negotiate high royalty rates and other favorable terms, after a standard is adopted, that they could not credibly demand beforehand, conduct known as ‘patent hold-up’.”); see also, e.g., Statement of the Federal Trade Commission, In the Matter of Robert Bosch GmbH, FTC File Number 121-0081, (Nov. 26, 2012), at 3, [hereinafter FTC Statement – Bosch] available at www.ftc.gov/sites/default/files/documents/cases/2012/11/121126boschcommissionstatement.pdf (“when such a breach [of FRAND commitment] tends to undermine the standard-setting process and risks harming American consumers, the public interest demands action rather than inaction from the Commission”); Federal Trade Commission Response to Commentators, In the Matter of Motorola Mobility LLC and Google Inc., File No. 121 0120, Docket No. C-4410 (July 23, 2013), at 2, [hereinafter FTC Response – Motorola] available at www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolaletter.pdf (“the breach of a FRAND commitment risks substantial harm to the competitive process and consumers”).

25 See U.S. IP Licensing Guidelines §3.2.


27 Id.

28 Id.
innovation markets in Section II.3.A(3). Under the U.S. IP Licensing Guidelines, an innovation market “consists of the research and development directed to particular new or improved goods or processes, and the close substitutes for that research and development. The close substitutes are research and development efforts, technologies, and goods that significantly constrain the exercise of market power with respect to the relevant research and development, for example by limiting the ability and incentive of a hypothetical monopolist to retard the pace of research and development. The Agencies will delineate an innovation market only when the capabilities to engage in the relevant research and development can be associated with specialized assets or characteristics of specific firms.”

Where an innovation market is at issue, the evaluation turns on the effect of the conduct on competition “to develop new or improved goods or processes.” Nonetheless, as to innovation markets, the U.S. IP Licensing Guidelines are clear that if a U.S. agency “cannot reasonably identify the firms with the required capability and incentive, it will not attempt to define an innovation market.” Particularly in light of the concerns regarding the concept of innovation markets, the Sections suggest that the IP Guidelines include a similar reservation.

Section III.3.A (Cost for Grant of License)

Section III.3.A of the IP Guidelines addresses royalties. In general, competition policy should not prohibit a monopolist from charging the highest prices that it can obtain for its products and its IPRs. It is axiomatic that the “charging of monopoly prices, is not only not unlawful, “it is … what attracts ‘business acumen’ [and] induces risk taking that produces innovation and economic growth.”

To achieve a balance between innovation and protection of competition, therefore, monopoly prices should only be unlawful if they result from other unlawful conduct. As the U.S. Assistant Attorney General for the Antitrust Division most recently stated: “[w]e 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.”

29 Id. at §3.2.3 (footnote omitted).
30 Id.
31 Id. at §3.2.3, Ex. 3.
32 The Sections are aware of no reported antitrust cases or enforcement actions relating to the licensing of IP in innovation markets. See ABA Section of Antitrust Law, Market Definition in Theory and Case Studies, ch. XII (ABA Publishing 2012).
Thus, the Sections respectfully urge the KFTC to exercise its authority under Article 3-2(1)1 of the MRFTA to regulate prices with the utmost caution. The Sections note that when U.S. courts have been called upon to evaluate reasonable royalties (generally in patent infringement or contract cases), they commonly have used the “hypothetical negotiation” framework. A modified version of this framework has also been applied in the FRAND context.

Section III.3.A(2) prohibits “unfairly imposing discriminatory royalty rates.” Price discrimination has played a very small role in U.S. antitrust law in recent decades because, under some circumstances, conduct such as price discrimination can enhance consumer welfare. Refusals to license or licensing to different parties on different terms may serve legitimate, procompetitive ends. Therefore, only such conduct that eliminates or restricts competition without justification should be considered violations of the MRFTA.

Section III.3.A(3) prohibits “unfairly demanding royalty, including royalty for the portion of the licensed technology not used.” The accompanying note indicates that “calculating royalty by including the royalty for using competing enterprisers’ technology is likely to be determined to be unfair.” The Sections suggest that the IP Guidelines be revised to clarify the situations that these provisions address.

Section III.3.A includes as an example of a violation a patent bearing on a technical standard for which a commitment had been made to license implementers of the standard on a non-discriminatory basis. In the context of SEPs, many SDOs require SEP holders to make contractual FRAND commitments. The “nondiscriminatory” aspect of FRAND “signifies that the licensor must not refuse to license different parties who are similarly situated on materially similar terms.”


37 See Ill. Tool Works Inc., 547 U.S. at 44-45 (“while price discrimination may provide evidence of market power, particularly if buttressed by evidence that the patentee has charged an above-market price for the tied package … it is generally recognized that it also occurs in fully competitive markets”).

38 With respect to FRAND-encumbered SEPs, there is currently a debate in the United States as to whether a breach of the non-discrimination (“ND”) prong of a FRAND commitment without more constitutes an antitrust violation.

39 ABA Standards Development Manual, supra note 20 at 22.
This requirement may be satisfied by offering “one version of the license to any and all Implementers. However, given that different Implementers may want different license scopes or have different consideration to offer in return, ‘nondiscriminatory’ does not mean that the terms of all licenses offered or granted must be identical.”

The Sections respectfully submit that careful consideration should be given to whether the “nondiscriminatory” aspect of FRAND would be best enforced as a contractual matter or whether competition-law remedies are required. If the latter, then the MRFTA would presumably apply and discrimination would be an issue only where it eliminates or restricts competition without justification.

Section III.3.B (Refusals to License)

The U.S. antitrust enforcement authorities have given much thought to the appropriate competition law approach to unilateral refusals to license IPR. They have concluded that “[a]ntitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.” The very “essence” of an IPR is the right unilaterally to exclude. The refusal “to grant a license because the patentee’s unfair terms were not accepted” (Section III.3.B(3)), without more, should be little basis for finding a violation of competition law.

Moreover, there appears to be a general concern that manufacturers have access to desirable technology, so that limitations on such access are generally suspect. The IP Guidelines state that “[c]ompetition in the relevant market is highly likely to be limited … when the intellectual property is recognized as powerful technology such as an essential element necessary for production.” Under the IP Guidelines, the “[a]ct of unfairly refusing to grant a license,” or “demanding excessive consideration” for a license may violate the MRFTA, “especially … when the technology, for which the license was refused, is an essential element in business activities,” or “when the technology, like a technical standard, has great influence on the relevant market.” These provisions appear to apply to all patents that are found to be “essential” or of “great

40 Id.
42 Id. at 6.
43 See, e.g., Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215 (1980) (“[T]he essence of a patent grant is the right to exclude others from profiting by the patented invention.”); Stewart v. Abend, 495 U.S. 207, 228-29 (1990) (“[A] copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work.”).
44 With respect to FRAND-encumbered SEPs, there is currently a debate in the United States as to whether a refusal to license a FRAND-encumbered SEP without more constitutes an antitrust violation.
45 IP Guidelines ¶II.3.B.(2).
influence.” Even as to patents not deemed “essential” or of “great influence,” the IP Guidelines specifically provide that the “[a]ct of refusing to grant a license for unjust purposes such as refusing to grant a license because the patentee’s unfair terms were not accepted” is a potential MRFTA violation.47 Thus it appears any patent holder who refuses to grant licenses except on supposedly “unfair” terms may be penalized, and that the only way to avoid such penalties is to grant licenses to all on “fair” terms. This would effectively impose FRAND commitments on all patents. The Sections do not believe that FRAND commitments should be applied absent the voluntary undertaking of the IPR holder. The Sections are concerned that the cumulative results of these provisions are that the holder of any important patent or collection of patents may be required to grant a license, on terms deemed fair by the KFTC, or face penalties.

Applying the essential facilities doctrine to IPRs would substantially impinge upon IPR holders’ core right to exclude, create disincentives for competitors to develop their own competing IPR, and create long term disincentives to innovate in general. The U.S. Supreme Court has made it clear that it will treat unilateral refusal-to-deal claims with great skepticism, stating that courts should be very cautious in recognizing exceptions to the general rule that even monopolists may choose with whom they deal.48 The Court in Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP49 explained that the exception recognized by the Court in Aspen Skiing Co. v. Aspen Highlands Skiing Corp.50 was “at or near the outer boundary of Section 2 liability,”51 and stated that the Court had “never recognized” the doctrine of essential facilities, although it declined “either to recognize or to repudiate” the doctrine.52 Broadly applied, the doctrine potentially supplants market economics and “requires antitrust courts to act as central planners, identifying

47 Id. §III.3.B.(3).
49 Id.
51 Trinko, 540 U.S. at 409-10.
52 Id. at 411. While there have been consent decrees in situations involving unilateral refusals to license and some decisions have been issued in situations involving unilateral refusals to license, the U.S. Court of Appeals for the Federal Circuit, which specializes in intellectual property law issues, 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). See also Dawson Chem. Co., 448 U.S. at 215 (“Compulsory licensing is a rarity in our patent system.”); see also U.S. Dep’t of Justice & Fed. Trade Comm’n., Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (Antitrust Enforcement and IPR) at 32 (2007) (“[A]ntitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.”). In Image Technical Servs. v. Eastman Kodak Co., 125 F.3d 1195, 1218-19 (9th Cir. 1997) the U.S. Court of Appeals for the Ninth Circuit held that that although “a monopolist’s desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers,” the presumption did not apply if the justification was pretextual, and in that case the employee responsible for the refusal to deal had testified that patents “did not cross his mind.” The Ninth Circuit’s focus on an IP owner’s subjective intent has been rejected by other U.S. courts. See Schor v. Abbott Labs., 457 F.3d 608, 613 (7th Cir. 2006); Independent Service Orgs., 203 F.3d at 1327.
the proper price, quantity, and other terms of dealing – a role for which they are ill-suited.” The essential facilities doctrine has rarely been used in the jurisdictions where it exists, and has never been used in the patent context in a decided case anywhere in the world. The Sections suggest that before any refusal to license be considered a violation of the MRFTA, the KFTC find that (1) the entity seeking access cannot practically or reasonably work around the IPR, and (2) compelled access would further the legitimate interests of consumers.

The situation with respect to SEPs is different. In many SDOs, SEP holders are required to make contractual FRAND commitments, often as a quid pro quo for the inclusion of their IPR in the standard. By making a FRAND commitment, a SEP holder substantially modifies its right to refuse to license its IPR, limiting the circumstances in which it may refuse to grant a license or obtain injunctive relief. Subject to the specific terms of the FRAND commitment, SEP holders may have a contractual obligation to make licenses available on FRAND terms. To the extent such a contractual obligation exists, there is no need to resort to the essential facilities doctrine to

53 Trinko, 540 U.S. at 407-08.


55 See USG OECD Statement, supra note 20 at 13; FTC Response – Motorola, supra note 2 at 2. See also Microsoft Corp. v. Motorola, Inc., 795 F.3d 1024 (9th Cir. 2015); In re Innovatio IP Ventures, LLC Patent Litig., 921 F. Supp. 2d 903 (N.D. Ill. 2013); Ericsson, Inc. v. D-Link Sys., 773 F.3d 1201 (Fed. Cir. 2014) (FRAND contracts upheld); DOJ/PTO POLICY STATEMENT, supra note 20; USTR Veto, supra note 20; TSAG Contribution; Baer IBA Remarks, supra note 19 (“the ability of F/RAND-encumbered patent holders to get an injunction in U.S. federal courts has been appropriately limited” and similar limitations have been applied to exclusion orders in the ITC.). See also ABA STANDARDS DEVELOPMENT MANUAL, supra note 20 at 49-50.

56 It is important to examine the actual terms of the FRAND commitment. Ericsson, Inc. v. D-Link Sys., 773 F.3d at 1231.

57 See Microsoft Corp. v. Motorola, Inc., 795 F.3d 1024 (9th Cir. 2015) (FRAND contract enforced, enforcement of German injunction enjoined, and FRAND royalties determined); In re Innovatio IP Ventures, LLC Patent Litig., 921 F. Supp. 2d 903 (N.D. Ill. 2013); Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998 (N.D. Cal. 2013) (enforcing FRAND contract and granting preliminary injunction against enforcement of ITC exclusion order). See ABA STANDARDS DEVELOPMENT MANUAL, supra note 20 at 49 (“The Patent Holder must offer a license to a prospective Implementer upon request. If the Implementer and the Patent Holder do not agree on terms, the Implementer has three choices: (1) it can discourage the SDO from adopting the Standard if the Standard has not yet been adopted; (2) it can choose not to implement the Standard; or (3) it can implement the Standard without a license. If the Implementer chooses to implement the Standard without a license, the Patent Holder may in turn choose to sue the Implementer for patent infringement and seek all available remedies. The Implementer may rely on any applicable defense to infringement such as invalidity or noninfringement, and may also rely on other legal theories arguing that the license terms did not comply with the SDO’s Licensing Commitment (e.g., they were not RAND).”.

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ensure access to SEPs. SEP holders retain the right to obtain injunctive relief in limited circumstances, such as where the alleged infringer refuses to accept a license on FRAND terms.\(^{58}\)

In some instances, the FTC has brought claims under Section 5 of the FTC Act for alleged breaches of FRAND commitments by SEP holders. These claims were settled by consent orders.\(^{59}\) There is no U.S. judicial precedent finding an antitrust violation for alleged breaches of FRAND.

**Limitations and Conditions in Licenses; Grantbacks**

Sections III.1.B and III.3.D(7) address reverse licenses and grantbacks, while Sections III.3.C and III.3.D list license terms that would violate the MRFTA, including “terms that are unjust due to limiting the volume, territory, period, etc. of the license with respect to the license grant-related product…or technology,” “unfairly giving discriminatory limitation on the volume, areas, period, etc. of the license related to the Contract Product or Contract Technology,” and “unjust conditions” such as “unfairly restricting the selling price or resale price of Contract Product without due reasons,” “unfairly forcing the purchase of raw materials,” “restriction on the persons to whom a licensee may sell Contract Product” and “unfairly restricting the trade of competing products.”

As general matter, the Sections respectfully suggest that the terms and conditions of a license should generally be left to the parties’ arms’ length negotiations and the IP Guidelines avoid prescribing terms for the parties. Under U.S. antitrust law, the basic standard is whether a particular conduct has anti-competitive effects. The U.S. agencies do not consider the “reasonableness” of terms in a business arrangement, unless those terms have an adverse impact on competition.\(^{60}\) The conduct is examined to determine “whether it harms competition among entities that would have been actual or likely potential competitors in the absence of the arrangement.”\(^{61}\)

Depending on the circumstances, reverse licenses or grantbacks (Sections III.1.B, III.3.D(7)) can have pro-competitive or anti-competitive effects.\(^{62}\) The Sections note that grantbacks can be procompetitive in many cases. They can “provide a means for the licensee and

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\(^{58}\) *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331 (Fed. Cir. 2014); DOJ/PTO POLICY STATEMENT, supra note 20 at 6 (addressing situations where injunctions may or may not be appropriate); USTR Veto, supra note 20 (same).


\(^{60}\) IP Licensing Guidelines § 3.1; DOJ/FTC 2007 IP Report, supra note 41 at 102. “Intellectual property is … neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.” U.S. IP Licensing Guidelines § 2.1.

\(^{61}\) U.S. IP Licensing Guidelines § 2.3 Ex. 1.

\(^{62}\) IP Licensing Guidelines ¶5.6 (“Grantbacks can have procompetitive effects, especially if they are nonexclusive …. Grantbacks may adversely affect competition, however, if they substantially reduce the licensee’s incentives to engage in research and development and thereby limit rivalry in innovation markets.”).
the licensor to share risks and reward the licensor for making possible further innovation based on or informed by the licensed technology, and both promote innovation in the first place and promote the subsequent licensing of the results of the innovation.” On the other hand, grantbacks can have anticompetitive effects in some cases, e.g., where (1) the scope of the grantback extends far beyond the scope of the underlying patent, (2) the grantback is used to conceal or foster a cartel arrangement among the licensed participants, or (3) the grantback may substantially reduce the licensee’s incentives to engage in research and development and thereby limit competition in innovation markets.

It is generally accepted that non-exclusive grantbacks are more likely to be procompetitive than exclusive grantbacks because the latter may chill the incentive and the ability to innovate. However, exclusive grantbacks are not necessarily anticompetitive. The Sections believe the KFTC should weigh an exclusive grantback’s potential to chill innovation against the “but for” world; in other words, the KFTC should consider the amount of innovation that would have occurred in the absence of the licensing restraint. A broad per se prohibition on non-exclusive or even exclusive grantbacks would unnecessarily chill innovation without a countervailing increase in consumer welfare.

With respect to some of the other specific terms identified in the IP Guidelines, the Sections offer the following comments. Bundling (Section III.3.D(5)) can have procompetitive effects. The U.S. antitrust agencies have concluded that package licenses of IPR “may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation.” Because of the possibility for efficiencies, the U.S. enforcement agencies have concluded that they would, in the exercise of their prosecutorial discretion, prosecute tying involving IPRs only where the arrangement has an adverse effect on competition in the market for the tied product and the efficiencies of the arrangement do not outweigh its anticompetitive effects. Nonetheless, conditioning the licensing of IPR on the purchase of another IPR or other good or service may violate the antitrust laws.

63  Id., § 5.6.
64  Id.
65  See, e.g., Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) (exclusive grantback provision was not per se unlawful).
66  In the U.S., courts require proof that the effect of an exclusive grant back is anticompetitive. See, e.g., Transparent-Wrap Mach. Corp., 329 U.S. 637; Hull, 704 F.2d 1195.
67  U.S. IP LICENSING GUIDELINES, supra note 10, § 5.5; DOJ/FTC 2007 IP Report, supra note 41, Chap. 3. Moreover, the U.S. Federal Circuit Court of Appeals, with exclusive appellate jurisdiction over patent disputes, has concluded that portfolio licenses including SEPs might not be patent misuse, provided that the patents actually are found to be essential to the same standard. See, e.g., U.S. Phillips Corp. v. Int’l Trade Comm’n, 424 F.3d 1179 (Fed. Cir. 2005).
68  U.S. IP GUIDELINES § 5.3. In some cases, tying might affect competition in the market for the tying product by discouraging entry. United States v. Microsoft Corp., 253 F.3d 34, 92-95 (D.C. Cir. 2001).
In a typical portfolio license agreement, a licensor will license its patents portfolio for an agreed term. Portfolio cross licenses are a commonly used industry practice for those seeking to reduce transaction costs and avoid unnecessary infringement litigation. It may sometimes be appropriate to view the portfolio, or “bundle,” as one single “product,” in which case there is no “bundling” at all. The U.S. Court of Appeals for the Federal Circuit, which has exclusive nationwide appellate jurisdiction over patent infringement cases, has noted that:

If a patentholder has a package of patents, all of which are necessary to enable a licensee to practice particular technology, it is well established that the [patentholder] may lawfully insist on licensing the patents as a package and may refuse to license them individually, since the group of patents could not reasonably be viewed as distinct products. It concluded that “the group of patents essential to practice a particular technology or standard generally may be viewed as a unified product.” On the other hand, if in fact a group of patents is not “essential to practice a particular technology or standard” then a forced license of the group may violate antitrust laws.

Choice of Law

Section III.3.D.9 provides that the “act of prescribing arbitration rules, arbitration body, governing law, etc. applicable to the termination of contracts or resolution of disputes that are unfavorable to one particular party to trade” may be a violation of the MRFTA. No U.S. court has held the identification of a choice of governing law or venue provision to be a violation of antitrust law. United States courts enforce agreements identifying a choice of governing law and venue, and such provisions do not raise antitrust concerns. In fact, while some earlier lower court decisions in the U.S. have found contract clauses providing for arbitration of antitrust claims unenforceable, the U.S. Supreme Court made it clear in Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc. that parties may agree to arbitrate antitrust claims. Terms and conditions of a license relating to choice of law and venue should generally be left to the parties’ arms-length negotiations, as that would reflect the result of the market instead of regulation. Moreover, arbitration of disputes between parties to a contract can offer significant benefits in terms of time, cost, efficiency, and subject matter expertise. For these reasons, private agreements to arbitrate are encouraged in the U.S. under the Federal Arbitration Act, but parties are entitled to retain access to the courts.

70 U.S. Phillips Corp. Int’l, 424 F.3d at 1196; see also HOVENKAMP, IP AND ANTITRUST, supra note 67, § 22.3b at 22–13-15 (“Even copyrights or patents that do not necessarily block one another can be thought of as a single product for tying purposes if they are never or only rarely seen licensed individually in what appears to be a competitive market.”).

71 U.S. Phillips Corp. Int’l, 424 F.3d at 1196; see also, e.g., Int’l Mfg. Co. v. Landon, 336 F.2d 723, 729-30 (9th Cir. 1964).

72 U.S. IP LICENSING GUIDELINES, supra note 10, § 5.3.


Section III.4 (Patent Pools and Cross Licenses)

The Sections commend the KFTC for recognizing the potential procompetitive benefits of patent pools. Patent pools that allow for independent licensing of the patents in the pool are unlikely to be anticompetitive simply by virtue of their nature as a pool. Patent pools can create efficiencies by combining complementary technologies, disseminating patents to interested potential licensees, reducing transaction costs, clearing blocking positions of certain technologies, and avoiding expensive infringement litigation.

However, the Sections are concerned with Section III.4’s focus on the potential use of patent pools to “unfairly” exercise patent rights, listing several types of behaviors that are “likely to be determined as unjust.” The Sections respectfully recommend that the KFTC revise this provision to clearly state that it will apply a rule-of-reason or effect-based analysis under which the benefits of a patent pool are weighed against the potential anticompetitive harms.

Patents and Technology Standards

Section III.5.A addresses “Exercise of Patent Rights Relevant to Standard Technology in General.” Section III.5.A(1) provides that “acts of unfairly agreeing to conditions limiting the price, volume, regions, counterparts, and technology improvement of the trade” are “likely to impede fair trade in the relevant market.” The Sections encourage the KFTC to further clarify that it evaluates the circumstances described in this Section under the rule of reason, not as per se violations, where the restraints at issue can be expected to contribute to an efficiency-enhancing integration of economic activity. Only naked restraints on price or output and market division between horizontal competitors that do not contribute to such an efficiency-enhancing integration should be condemned as illegal per se.

Section III.5.A(2) provides that “[a]cts of unfairly not disclosing information of patents applied for or registered in order to increase the possibility of being designated as a standard technology or to avoid prior consultations on the conditions of granting a license” are “likely to impede fair trade in the relevant market.” Cases in the United States that have addressed antitrust liability for non-disclosure have arisen in situations involving allegations that: (1) a patent holder or applicant is an active voting participant in an SDO; (2) the SDO has a published written policy that creates certain disclosure obligations as a condition of participation; (3) the patent holder or applicant fraudulently or intentionally breaches the SDO’s disclosure obligations; (4) after adoption of the standard, the patent holder or applicant asserts its essential patents against implementers of mandatory portions of the standard; (5) but for the patent holder’s or applicant’s failure to disclose, a different technology would have been incorporated into the standard; and

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75 See, e.g., U.S. IP LICENSING GUIDELINES § 5.5.
76 Id.
77 See, e.g., DOJ/FTC 2007 IP Report, supra note 41 at 62-85 (summarizing U.S. agency guidance on pools as of 2007); U.S. IP LICENSING GUIDELINES, supra note 10, §§ 3.4, 5.5.
78 U.S. IP LICENSING GUIDELINES, supra note 10, § 3.4.
79 As the U.S. Court of Appeals explained in Rambus Inc. v. FTC, 522 F.3d 456, 464-67 (D.C. Cir. 2008), if the SDO would have standardized the technology even if the SEP holder had disclosed its intellectual property, then the SDO would have lost “only an opportunity to secure a [F]RAND commitment from [the
(6) the patent holder’s or applicant’s conduct causes or is likely to cause an adverse effect on competition in the relevant market.\textsuperscript{80}

Section III.5.A(3) provides that “[a]cts of avoiding or circumventing licensing on FRAND terms to strengthen market dominance or exclude competitors” are “likely to impede fair trade in the relevant market.” Again, the Sections encourage the KFTC to further clarify that it evaluates such circumstances under the rule of reason, not as per se prohibitions.

\textbf{Standards and FRAND}

A FRAND commitment is often analyzed as a contract between the SEP holder and the SDO to which the FRAND commitment is made, and may be enforceable by those implementing the standard as third party beneficiaries of the contract. FRAND commitments have been enforced in contract-law actions, and as defenses to claims of patent infringement.\textsuperscript{81}

The U.S. courts and competition agencies have expressed concern regarding the competition law implications of FRAND violations, and the FTC has used its unfair competition authority under Section 5 of the FTC Act to restrict the use of SEP injunctions.\textsuperscript{82} However, to date no court in the U.S. has found that a breach of a FRAND obligation or the mere act of seeking of an injunction against a SEP implementer constitutes an antitrust violation.

There is a general consensus in the U.S. that FRAND commitments place enforceable limits on the ability of SEP holders to obtain injunctions.\textsuperscript{83} The U.S. Department of Justice has taken the position that injunctive relief on FRAND-encumbered SEPs should be granted only in rare circumstances.\textsuperscript{84} When FRAND commitments are appropriately enforced, opportunities for “patent hold-up” are reduced.\textsuperscript{85}

SEP holder]. But loss of such a commitment is not a harm to competition from alternative technologies in the relevant markets. . . . Indeed, had [the SDO] limited [the SEP holder] to reasonable royalties and required it to provide licenses on a nondiscriminatory basis, we would expect to see less competition from alternative technologies, not more; high prices and constrained output tend to attract competitors, not to repel them.” \textit{Id.} at 467 (internal citation omitted).

\textsuperscript{80} See, e.g., \textit{Rambus Inc.}, 522 F.3d at 464-67; \textit{Dell Computer Corp.}, 121 F.T.C. 616 (1996) (complaint and consent order).

\textsuperscript{81} \textit{Microsoft Corp. v. Motorola, Inc.}, 795 F.3d 1024(9th Cir. 2015); \textit{In re Innovatio IP Ventures, LLC Patent Litig.}, 921 F. Supp. 2d 903 (N.D. Ill. 2013); \textit{Realtek Semiconductor Corp. v. LSI Corp.}, 946 F. Supp. 2d 998 (N.D. Cal. 2013).

\textsuperscript{82} \textit{Microsoft Corp. v. Motorola, Inc.}, 795 F.3d 1024, at 1030-1031(9th Cir. 2015) (“The development of standards thereby creates an opportunity for companies to engage in anti-competitive behavior.”); FTC Response – Motorola, \textit{supra} note 24; see also FTC Statement – Bosch, \textit{supra} note 24 (“While not every breach of a FRAND licensing obligation will give rise to [US competition law] concerns, when such a breach tends to undermine the standard-setting process and risks harming American consumers, the public interest demands action rather than inaction from the Commission.”).

\textsuperscript{83} \textit{See supra} note 57.


\textsuperscript{85} \textit{See Baer IBA Remarks, supra} note 19.
Just as concerns have been expressed about the possibility of “patent hold-up,” there is also the potential for licensees to refuse to negotiate in good faith, engaging in “reverse hold-up” or “hold out.” Indeed, William Baer, Assistant Attorney General for Antitrust, has stated that:

We have seen recent examples where companies that simply would like to pay a lower royalty or obtain access to important patented technology, look to enforcement by antitrust authorities to achieve this goal for them by whatever means necessary. As I remarked at the front end of this talk, it is hard to justify antitrust intervention in a basic commercial dispute. If there is no bad conduct by the patent holder, no improper use of enhanced market power, but rather an assertion of lawful patent rights, competition enforcers need to stand down…Otherwise we are penalizing lawful innovation.

In light of the foregoing, the Sections respectfully suggest a careful approach to any potential application of the MRFTA to alleged breaches of FRAND.

Section III.5.B (An Injunction Filed by Holders of Standard Essential Patents)

Under U.S. law, the determination as to whether to grant an injunction in a patent infringement dispute is governed by the factors set out by the U.S. Supreme Court in *eBay Inc. v. MercExchange, L.L.C.* Specifically “a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.” Application of this test is case-by-case and fact-dependent. Thus, the IPR right to exclude does not imply that an injunction should issue in all cases of infringement.

Regarding injunctive relief in the context of SEPs, an important consideration is whether the SEP holder has given a contractual FRAND commitment which would be a factor that may modify the right to exclude. The Court of Appeals for the Federal Circuit has stated that, while there is no per se rule that injunctions are unavailable for SEPs, “FRAND commitments are certainly criteria relevant to [the issue of] entitlement to an injunction.” According to the Federal Circuit, under the *eBay* analysis, “[a] patentee subject to FRAND commitments may have difficulty establishing irreparable harm. On the other hand, an injunction may be justified where

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86 Certain 3G Handsets, supra note 22 at ii, 51-54, 66, 68; Tsai & Wright, supra note 22 at 182 & n.76; Wright & Ginsburg, supra note 22 at 8-9 & n.20.
87 Baer IBA Remarks, supra note 19.
89 *Id.* at 391 (internal citation omitted).
90 See *id.* at 393-94 (rejecting “broad classifications” and “categorical rule[s]” in awarding or denying injunctions).
91 *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331 (Fed. Cir. 2014). See also *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024 (9th Cir. 2015).
an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”

The DOJ and the U.S. Patent and Trademark Office issued a joint statement that, consistent with the judicial decisions cited above, cautioned that “[i]n some circumstances, the remedy of an injunction or exclusion order may be inconsistent with the public interest.” However, the agencies also noted that: “This is not to say that consideration of the public interest factors set out in the statute would always counsel against the issuance of an exclusion order to address infringement of a F/RAND-encumbered, standards-essential patent.” No court in the U.S. has found that the mere act of seeking of an injunction against a SEP implementer constitutes an antitrust violation. However, the FTC issued a complaint against Google and Motorola Mobility (“Respondents”) in June 2013 alleging that the seeking of injunctive relief by Respondents against competing device manufacturers that were willing licensees constituted an unfair method of competition under section 5 of the FTC Act. The complaint was settled by a Consent Order without the FTC having found a violation of section 5 of the FTC Act. Under the terms of the Consent Order, Respondents agreed that they would not seek injunctive relief for infringement of patents that are actually SEPs until they have made a binding offer to license their SEPs that includes all material commercial terms and an offer to enter into either a court adjudication or, if so elected, binding arbitration to set the FRAND terms of such a license, and have not received the potential licensee’s agreement to either offer within a timeframe set out in the Consent Order. Licensees may contest any terms of the license in such a proceeding, including whether a license is actually required. Respondents are also permitted to seek injunctive relief where the potential licensee (1) is outside the jurisdiction of U.S. district courts, (2) has stated that it will not license the SEPs on any terms, (3) refuses to enter a license agreement on terms set by a court or through binding arbitration, or (4) does not confirm that it will provide the Respondents with a license to its SEPs on FRAND terms.

Apple Inc., 757 F.3d at 1332.  
DOJ/PTO POLICY STATEMENT, supra note 20 at 6.  
Id. at 7. See also USTR Veto, supra note 20 (disapproving exclusion order on FRAND grounds); 2011 FTC Report, supra note 34 at 235 ("Courts should give careful consideration under each of eBay’s four factors to the consequences of issuing an injunction prohibiting use of patented technology incorporated into an industry standard. Whether the patent owner made a RAND commitment will also be relevant to the injunction analysis."). See also ABA STANDARDS DEVELOPMENT MANUAL, supra note 20 at 49-50 (setting forth similar considerations for determining an appropriate remedy where a license was not reached under a FRAND commitment).

Some U.S. courts have held that contract law precludes a SEP holder from seeking an injunction against a SEP implementer if the SEP holder has not first offered a license on FRAND terms. Microsoft Corp. v. Motorola, Inc., 696 F.3d 872 (9th Cir.2012); Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998 (N.D. Cal. 2013).

Patent Assertion Entities and Exercise of Patent Rights by Filing Suits

Section III.7 of the IP Guidelines address “Exercise of Patent Rights by NPEs” and Section III.2 is titled “Exercise of Patent Rights by Filing Suits.” Section III.2 properly recognizes the potential for patent infringement suits to be used in an abusive manner, and lists several examples of litigation that are “highly likely” to be determined as abuses and violations of the MRFTA.

The Sections respectfully recommend that the IP Guidelines be revised to provide greater guidance as to how litigation would be determined to be “objectively … not valid in terms of social norms” and an antitrust violation under Section III.2.C. Where the Noerr-Pennington doctrine applies, lawsuits to enforce legal rights, including IPR, may not be the subject of an U.S. antitrust claim unless the suit is a sham. As the IP Guidelines recognize, the costs and burdens of patent litigation, separate from the outcome of that litigation, can in some circumstances be injurious to competition. Therefore, to the extent a petitioner’s actions are “a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor,” application of the antitrust laws would be justified.

The U.S. Supreme Court held in Professional Real Estate Investors v. Columbia Pictures Industries that a lawsuit is not a sham that may be subject to a claim of antitrust violation if a reasonable litigant could realistically expect a favorable outcome. Only if a court determines that a suit is objectively baseless should it then examine the “litigant’s subjective motivation” to determine whether the lawsuit is a mere cover for “an attempt to interfere directly with the business relationships of a competitor.” And even if a lawsuit is a sham, “an underlying antitrust violation must still be established.”

Implementing a similar “objectively baseless” standard that is based on a reasonable litigant’s expectation of success on the facts and law applicable to a particular case, rather than reference to “social norms” would more clearly delineate the boundaries of sham litigation. Ultimately, such a standard would serve a dual purpose – discouraging the abuse of litigation and

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100 E.R.R. Presidents Conference, 365 U.S. 127, 144 (1961). See also, e.g., Zenith Elecs, LLC v. Sceptre, Inc., 2015 U.S. Dist. LEXIS 33661, *18, 2015-1 Trade Cas. (CCH) P79,065 (C.D. Cal. Feb. 5, 2015) (“Non-sham and objectively reasonable lawsuits are generally protected petitioning activity, and cannot alone constitute an antitrust violation under the Noerr-Pennington doctrine. However, ‘otherwise protected litigation can be a part of an ‘anticompetitive scheme’ claim’ if the court finds that ‘the other aspects of the scheme independently produce anticompetitive harms.’”) (internal citations omitted).


102 Id. at 60-61.

103 FTC STAFF REPORT, ENFORCEMENT PERSPECTIVES ON THE NOERR-PENNINGTON DOCTRINE 17 n.76 (2006), available at www.ftc.gov/sites/default/files/documents/reports/ftc-staff-report-concerning-enforcement-perspectives-noerr-pennington-doctrine/p013518enfperspectnoerr-penningtondoctrine.pdf. The Sections also note that, under U.S. law, actions such as filing an infringement suit based upon a patent known to be acquired deceptively (Section III.2.A) or based upon an invalid patent or a patent known not to have been infringed (Section III.2.B) are also antitrust violations only if the requisite adverse impact on competition is demonstrated to have resulted from the lawsuit.
governmental process for anticompetitive purposes while preserving the proper use of patent infringement suits as an enforcement of patent rights.

Officials in the U.S. have heard troubling stories about abusive IPR infringement litigation, including by PAEs. In an effort to develop a better understanding of how PAEs impact innovation and competition, in September 2014, the FTC initiated a study to gather information from approximately 25 PAEs and 15 other entities asserting patents in the wireless communications sector, that is ongoing. The Sections respectfully suggest that until there is more concrete data, the KFTC take a cautious approach to applying the MRFTA in this area, and consider carefully whether and how any proposed measures aimed at addressing possibly problematic conduct by PAEs may affect operating companies that make legitimate efforts to enforce their patents.

In addition, the IP Guidelines provide that “when other patentees which are not NPEs do the [same] activities [prohibited for NPEs], it is also highly likely to be judged as exceeding the rightful extent of patent rights.” This would appear to apply to all patents the provisions referring specifically to NPEs. While the additional prohibitions imposed on PAEs may be appropriate, they seem excessive for patents generally.

**Conclusion**

The Sections appreciate the KFTC’s consideration of our comments on the IP Guidelines as it considers revisions to them.

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104 While the IP Guidelines refers to Non-Practicing Entities (NPEs), NPEs may include entities that are generally not troublesome. For example, some patent owners specialize in developing technology and then transferring the technology to others to develop and bring to market. Research universities are prominent examples of such NPEs. The subset of NPEs that generate concerns is PAEs, which are generally defined as entities with a business model based primarily on buying patents and then attempting to generate revenue by asserting them against businesses that are already practicing the patented technologies.


106 Prior to the FTC’s initiation of its PAE study, in December 2012, the DOJ and FTC hosted a workshop that included speeches and presentations by regulators, economists, and high-tech industry participants, with discussion and debate about the effect of PAEs and whether and how the antitrust laws should be brought to bear on PAE activity. Transcripts, videos, written comments, and other materials from the workshop are available at www.ftc.gov/news-events/events-calendar/2012/12/patent-assertion-entity-activities-workshop.

107 IP Guidelines §III.7[note].