

Advocacy and Economic Analysis Directorate
Competition Bureau
50 Victoria Street
Gatineau, Quebec
K1A 0C9

31 December 2018, Munich

Sent via online feedback form

Dear Madam / Sir,

Comments on the Intellectual Property Enforcement Guidelines

We commend the Canadian Competition Bureau (the 'Bureau') for its continued national and international engagement with a broad range of stakeholders regarding the Intellectual Property Enforcement Guidelines (the 'Guidelines'). We express our thanks regarding the opportunity to submit comments in response to the Bureau's public consultation which was opened on the 1 November 2018.

Fraunhofer-Gesellschaft (Fraunhofer)¹, as Germany's and Europe's largest industrial research organisation with very strong cooperation ties with Canada and Canadian enterprise, including as a holder of standard essential patents recognised by standardisation organisations such as ETSI, DVB and IEEE, and as a member of these organisations in addition to the ITU and ANSI, now welcomes the opportunity to contribute to this discussion.

Fraunhofer's mandate is to work with government and industry, for societal benefit. Fraunhofer is therefore placed in a unique and privileged position to work across all sectors, with all forms of intellectual property, and with all business models - making a contribution that is independent and scientifically excellent. Fraunhofer's reputation rests on its integrity, in all respects.

We have previously engaged with the Canadian Competition Bureau during the 2015 public consultation relating to draft updates to the Guidelines. In the context of the current consultation process, after having reviewed the 2018 Draft Guidelines, Fraunhofer respectfully requests that the Canada Competition Bureau revisit certain aspects of the Guidelines, 'in light of experience, changing circumstances and court

¹ Fraunhofer undertakes applied research of direct utility to private and public enterprise and of wide benefit to society. With a workforce of over 25,000 and an annual research budget of €2,3 billion, the Fraunhofer-Gesellschaft is Europe's largest organization for applied research, and currently operates a total of 71 institutes and research units. The organization's research focuses on the needs of people in the areas of healthcare, security, communication, mobility, energy and the environment. Fraunhofer's international sites and its representative offices act as a bridge to the regions of greatest importance to scientific progress and economic development. See also <https://www.fraunhofer.de/en/institutes/international/north-southamerica/fraunhofer-canada.html> for specific details of Fraunhofer's activities in Canada.

decisions² and issue a further public consultation in relation to Section 7.4 (Collaborative Standard Setting and Standard Essential Patents). The following comments highlight various relevant international developments, including court cases and previous forecasting, pertinent to this request. Fraunhofer considers that the international landscape demonstrates that conduct issues or concerns set out in Section 7.4 of the Guidelines are effectively addressed through recourse to national courts on a case-by-case basis.³

The Guidelines state that, '[f]irms may make large investments in research and development and are entitled to seek royalties to recover the value of their investment'. Fraunhofer respectfully submits that the Guidelines should not also be linked to unproven assumptions such as patent hold up, hold out or royalty stacking, or dilute a fundamental right to protect property.⁴ Regardless of the jurisdiction in which a FRAND licence to standard essential patents is concluded, it does appear – at least when comparing US, European and German laws – that a common basis for understanding the framework of FRAND in its full context for international communications technology appears to have international law as its foundations and international commercial norms pertinent to a particular transaction as the guiding touchstones. This is not to discount the role of competition or antitrust law in relation to this form of intellectual property – naturally these national laws regarding conduct will apply to such licence negotiations, as do all other national laws. It is the foundations and touchstones for both intellectual property and international business which give those involved in international trade certainty.

A. General Comments

1 Proposed approach to collaborative standard setting and standard essential patents

The Bureau has noted that the field of collaborative standard setting and standard essential patents is rapidly evolving and that the Bureau is open to reviewing this section of the Guidelines based on emerging developments. As stated above, Fraunhofer considers it timely to undertake a further review.

Technology itself continues to evolve, the fundamental foundations upon which this is based remain constant and firm. This is the case whether one looks at technology based on standard essential patents through a scientific, legal or commercial lens.

² Paragraph 197 of the Guidelines.

³ In the USA, for example, see *Core Wireless Licensing S.a.r.l v. LG Electronics, Inc. and LG Electronics Mobilecomm U.S.A., Inc.*, Case No. 2:14-cv-912-JRG; *SRI International Inc. v. Cisco Systems Inc.*, Civ. No. 13-1534-SLR, and *St Lawrence Communications LLC v. ZTE Corp. et al* E.D. Tex. Case No. 2:15-cv-349-JRG. Fraunhofer is not aware of Canadian case law touching upon matters raised in Section 7.4 of the Guidelines.

⁴ The European Court of Justice has delivered 'some important decisions on the protection of intellectual property, [and] has decided in conflict between two concurrent rights in favour of the protection of intellectual property even against the right to property to goods.' See ECJ, Joined Case C-414/99 to C-416/99, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others*, [2001] ECR I-8691 (Judgment of 20 November 2001), cited in Commentary of the Charter of Fundamental Rights of the European Union, at page 169, available at: <http://let-131-198.uab.es/CATEDRA/images/experts/COMMENTARY%20OF%20THE%20CHARTER.pdf>.

New technologies are based on scientific foundations dating back centuries. If we are to look at the development of wifi, for example, this is reliant upon mathematical equations developed by Scottish physicist James Clerk Maxwell dating back more than 150 years. Without these solid and proven foundations, wifi would not be stable, and its reliance and applications uncertain. Without these solid scientific foundations, there is a plethora of other scientific and technological developments that would not have been: radio, x-rays, and mobile communications to name a few.

Moving to a legal and commercial lens, the **below** diagram illustrates the broad framework of legal instruments that are considered when standard essential patents are licensed. The starting point for any consideration of rights is the primary sources, such as the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), along with other international treaties and conventions. These international instruments are then transposed into national law and case law to form the core contextual framework for any governmental policy. Moving away from these solid foundations is expected to create legal uncertainty that impacts upon the rule of law, and an undermining of a dynamic and competitive free market economy.

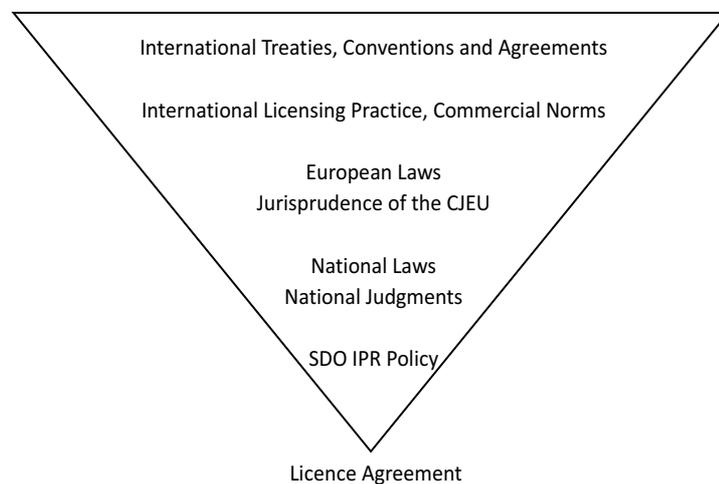


Diagram 1 – Consideration of Legal Instruments and Commercial Norms when SEPs are licensed

Inherently, licensing of standard essential patents involves the interconnecting of intellectual property law (derived from international instruments), commercial law (potentially deriving from international law and international trade norms), and national or regional competition law.

The current Guidelines appear to create an imbalance for parties engaged in negotiations for access to intellectual property (IP) – in particular, patents which have been determined to be standard essential patents. With respect, if both parties to such a negotiation are unable to sit at the bargaining table with fundamental rights and obligations intact, there is a bias which has been introduced which will operate to the unfair disadvantage of the other party and potentially distort the market.

As has been confirmed by case law during the past recent years, there is no presumption operating at law which enables such a bias to be created or maintained as a general status quo. If there are to be any allegations of conduct which could not be described as being in good faith, such as patent hold up, royalty stacking or patent hold out, then those allegations are to be assessed on a case-by-case basis and supported by cogent evidence. Should the Guidelines be based on the proposition that there is a systemic problem of any 'not good faith' conduct as listed above, then

this will introduce an underlying bias at policy level which is not based on any empirical evidence. We refer the Bureau in particular to the hypothetical examples provided in Section 7.4, as well as statements which appear anomalous to the open standards system.⁵ Collectively, these elements of the Guidelines appear inconsistent with the base premise that ownership of a patent (including a standard essential patent) does not grant market power. Under European and US competition law for instance, there is no presumption that intellectual property (IP) creates market power in the antitrust context⁶ or that enforcing an IP right is an abuse of market power⁷. 'There is [also] no implication that there is an inherent conflict between intellectual property rights and [...] competition rules. Indeed, both bodies of law share the same basic objective of promoting consumer welfare and an efficient allocation of resources.'⁸ In Euopre, this is confirmed in the decision of the Court of Justice of the European Union decision in *Huawei Technologies Co. Ltd v. ZTE Corp. and ZTE Deutschland GmbH*.⁹

With respect, Fraunhofer considers that fundamental rights and obligations which exist for both parties should not and cannot be altered through a policy statement. To do so will likely lead to a dilution of property rights and give rise to disproportionately higher risks for R&D investments, and negatively impact the maintenance of legal certainty, market participation, and global innovation. Patent holders must remain on equal footing to patent users during licensing negotiations. This is the position adopted in the

⁵ Participation in standardisation is voluntary and is not premised upon the requirement that technology included in a standard be contributed on a FRAND basis.

⁶ See the U.S. Department of Justice and the Federal Trade Commission *Antitrust Guidelines for the Licensing of Intellectual Property* (12 January 2017), in particular the General Principles set out on page 2, section 2.2, available at <https://www.justice.gov/atr/IPguidelines/download>; *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* issued by the U.S. Department of Justice and the Federal Trade Commission (April 2007) at Chapter 2, available at: <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf>.

For case law regarding the seeking of injunctions, see the US Supreme Court in *EBay Inc. et al, Petitioners v. Mercexchange LLC* 547 US 388 (2006); available at <https://supreme.justia.com/cases/federal/us/547/388/opinion.html>. See also 35 USC 154(a)(1), 261, and 283. Refer also to *Weinberger v. Romero-Barcelo* 456 US 305 (1982). See also the European Commission *Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements*, in particular at paragraphs 3, 6, 7-9, and the remainder of Section 2, available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XC0328%2801%29&from=EN> (the 'EU Guidelines').

⁷ See Bostyn, Sven and Petit, Nicolas, Patent=Monopoly: A Legal Fiction (December 31, 2013). Available at SSRN: <http://ssrn.com/abstract=2373471> or <http://dx.doi.org/10.2139/ssrn.2373471>

⁸ See the European Commission Guidelines to Article 101 TFEU, at paragraph 7.

⁹ Case C-170/13 dated 16 July 2015, available at <http://curia.europa.eu/juris/document/document.jsf?jsessionid=9ea7d0f130d56dcb57f245c14a50b55394be437b2660.e34KaxiLc3eQc40LaxqMbN4ObN8Te0?text=&docid=165911&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=129069>. See in particular Paragraphs 1– 8, and Paragraphs 46 – 67, of the judgment.

European Commission¹⁰ and its Members States and the US Department of Justice Antitrust Division.¹¹

2 Observations on the international environment for standard setting organizations

In recent years, the underlying legal aspects relating to international technical standards have come to the fore in terms of quality of patents essential to a standard, and licensing of these. In regard to the latter (licensing), the interoperability of competition law and intellectual property law has been explored and debated, particularly in the context of international commercial negotiations regarding standard essential patents and – where applicable – what might constitute fair, reasonable and non-discriminatory (FRAND) terms.

There is empirical evidence available which supports the conclusion that the international standard setting system is operating well, that technology standards are deployed with great success, and that the ability to take legal action to enforce intellectual property rights (including the ability to apply for injunctive relief) is not thwarting commercial and globally competitive enterprise.¹²

In a few, extreme cases, commercial negotiations have not progressed and there has been resort made to courts and perhaps alternate dispute mechanisms in order to determine relevant fair, reasonable and non-discriminatory (FRAND) terms. At times, competition law regulators have become involved in this small number of cases.

Of the many 1000s of standard essential patent licences successfully negotiated and in place, this small number of extreme cases have unfortunately (often combined with intense lobbying) led to the distortion of the aim of standard setting organisations and FRAND commitments. These commitments relate to the rights and obligations of IP owners and licensees alike when participating in the relevant market.

This distortion appears to be negatively impacting on innovation and adding to the cost of legitimately engaging in research and development and commercial enterprise, ultimately to the disadvantage of consumers and society generally. This is particularly the case in the area of electronics and information technology, which relies on standardisation and on-going return on investment to ensure societal advancement, interconnectivity and global competitiveness.

¹⁰ The European Commission adopted the [IP package on enforcement](#), which includes the [Communication, 'Setting out the EU approach to Standard Essential Patents'](#), in November 2017

¹¹ See <https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-19th-annual-berkeley-stanford>, “Telegraph Road: Incentivizing Innovation at the Intersection of Patent and Antitrust Law.”

¹² See Blind, K. et al, *Study on the Interplay between Standards and Intellectual Property Rights (IPRs): Final Report*, April 2011, at page 61; available at <https://publications.europa.eu/en/publication-detail/-/publication/bd1599b5-1e41-427a-9d3a-7dba070c9f87>; Mallinson K, *Submission of Information, Industry Analysis and Opinions on Patents and Standards: Response to DG Enterprise/DG GROWTH request for comments on the matter of “a modern framework for standardisation involving intellectual property rights”* February 2015; available at: <http://www.wisearbor.com/speeches-and-publications/>; ‘Injunctions for Standard-Essential Patents: Justice is not Blind’ by Camesasca, Langus, Neven and Treacy, 2013, *Journal of Competition Law & Economics*, 9(2), 285–311.

We further note that electronics and information technology are not only important in their own right, but as platform technologies for a growing number of other industry sectors.

B. High Level Comments on the Guidelines

Fraunhofer respectfully considers that:

1. The Bureau's approach is generally consistent with subsection 79(5) of Canada's *Competition Act*.

Subsection 79(5) of Canada's *Competition Act* provides:

For the purpose of this section, an act engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under the Copyright Act, Industrial Design Act, Integrated Circuit Topography Act, Patent Act, Trade-marks Act or any other Act of Parliament pertaining to intellectual or industrial property is not an anti-competitive act.

In this regard, the Bureau 'acknowledges that the mere exercise of an IP right is not an anti-competitive act for the purposes of the abuse of dominance provision'. In 'the very rare circumstances set out in section 32 [Powers of Federal Court where certain rights used to restrain trade]', the [...] exercise of an IP right might raise a competition issue where such exercise is not supported by the underlying objectives of IP law and Competition law.

The Bureau has referred to these latter circumstances as a 'mere exercise of an IP right'. It is arguable that this is not a 'mere exercise of an IP right', as one must have regard to the broader legal system in which the IP owner operates – and is therefore subject to all other elements of the law. This has been highlighted in the Opinion of Wathelet in *Huawei v. ZTE* (refer below).

2. Standard Essential Patents are Property Assets

The Introduction to the Guidelines states:

*The special characteristics of IP have made it necessary in many instances for governments to develop laws that confer property rights to IP comparable to those for other kinds of private property.*¹³

Importantly, **a standard essential patent is a patent, which is property**. There are a number of countries whose laws consistently hold that there should be no differentiation between IP and other property rights, and there should be no interference with the protection of property. It is noted, for example, in the Charter of Fundamental Rights of the European Union, that intellectual property – including standard essential patents – is property and is afforded all guarantees of the right to the property set out in paragraph one of Article 17 of the Charter. The second paragraph of Article 17 of the Charter specifically deals with the protection of intellectual property, 'taking into consideration an increasing importance of the protection of intellectual property in general, and in the EC law in particular'.¹⁴

¹³ See <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03935.html#section1>

¹⁴ See *Commentary of the Charter of Fundamental Rights of the European Union*, at page 168.

It is further noted that Article 9 of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights¹⁵ states that:

Member States shall ensure that the judicial authorities may, at the request of the applicant:

*(a) issue against the alleged infringer an interlocutory injunction intended to prevent any imminent infringement of an intellectual property right
[...]*

This same Directive does not affect the application of the rules of competition law, and at the same time seeks to ensure full respect for intellectual property in accordance with Article 17(2) of the Charter of Fundamental Rights of the European Union (Human Rights Charter).¹⁶

Relatedly, the Opinion of Advocate General Wathelet, delivered on 20 November 2014, Case C-170/13 also confirms that in Europe, patents and the subgroup of standard essential patents are subject to the normal general (civil) and intellectual property laws of the relevant jurisdiction.¹⁷ This is confirmed in the decision of the Court of Justice of the European Union decision in *Huawei Technologies Co. Ltd v. ZTE Corp. and ZTE Deutschland GmbH*.¹⁸

US court decisions also adopt the position that the general law applies to patents and there is no general rule in favour of (and therefore nor against) the seeking of injunctive relief to protect property (in this case being in the form of patents) Injunctive relief is therefore at the discretion of the court, and its decision is to be based on the facts of the case before it.¹⁹

Fraunhofer considers it incorrect to assume that the right to, or the seeking of, an injunction automatically constitutes patent hold up and a breach of section 79 of the Competition Act. Indeed, it has been noted that there is a 'positive correlation between the strengthening of the IP system and subsequent economic growth'.²⁰

There is no special, set rule which can be applied to standard essential patents. Again, we refer the Bureau to the EC Guidelines cited in footnote 8, where it states²¹:

¹⁵ OJ 2004 L 157, at page 45; available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32004L0048R%2801%29>. Relatedly, see Article 10 of this Directive, entitled 'Corrective Measures'.

¹⁶ See paragraphs (12) and (32) of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, *ibid.*

¹⁷ See paragraphs 7, 8 and 9 of this Opinion; available at <http://curia.europa.eu/juris/document/document.jsf?text=&docid=159827&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=628931>.

¹⁸ Case C-170/13 dated 16 July 2015, available at <http://curia.europa.eu/juris/document/document.jsf?sessionid=9ea7d0f130d56dcb57f245c14a50b55394be437b2660.e34KaxiLc3eQc40LaxqMbN4ObN8Te0?text=&docid=165911&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=129069>.

See in particular Paragraphs 1– 8, and Paragraphs 46 – 67, of the judgment.

¹⁹ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

²⁰ *Measuring the Economic Impact of IP Systems*, WIPO, 2007. Refer also to document referenced at footnote 15.

²¹ See the European Commission Guidelines to Article 101 TFEU, at paragraph 3.

The standards set forth in these guidelines must be applied in the light of the circumstances specific to each case. This excludes a mechanical application. Each case must be assessed on its own facts and these guidelines must be applied reasonably and flexibly.

Regarding administrative actions by competition authorities, these relate to rare actions which are determined on the basis of specific fact situations, and the agreements reached between the parties and the authorities in those cases cannot be considered to be the 'norm'.

Fraunhofer requests caution against adopting exceptional and extreme cases as the norm for the licensing of standard essential patents, or any IP. Fraunhofer also requests caution regarding the removal of the jurisdiction or discretion of a court to determine a case based on the relevant parties' own specific circumstances or making assumptions on patent hold up which do not exist at law. In reviewing Article 7.4 of the Guidelines, Fraunhofer humbly submits, should this Section remain, that the focus not rest of IP owners, and more adequately take conduct association with patent infringement into consideration.

Fraunhofer notes that, in still relatively rare cases, the holder of a standard essential patent may refuse to grant access to a standard essential patent without reasonable justification even though a FRAND undertaking is given, and also seek an injunction. In such circumstances, a court may not grant an injunction. There are a number of general equitable principles which could apply in such a scenario: 'He who seeks equity must do equity' (that is, a court will refuse to assist anyone whose cause of action is founded on his or her own misconduct towards the other party)²². In this regard, Fraunhofer maintains that each case must be assessed on its own facts. **The notion of a willing licensee has been addressed in in other jurisdictions.** In the case of *Huawei v. ZTE*²³, the referring court to the Court of Justice of the European Union acknowledged that:

- (a) '[...] the fact that the infringer was willing to negotiate and the proprietor of [the patent] was prepared to grant licences to third parties ought not be sufficient to constitute an abuse of a dominant position', as 'an appropriate and fair balance has to be struck in relation to all the legitimate interest of the parties [...]'²⁴;
- (b) '[...] the exercise of a statutory right cannot, in itself, constitute an abuse of a dominant position, for characterisation as such requires other criteria to be satisfied. For that reason, it is not satisfactory to adopt, as a criterion of such an abuse, the notion of the infringer's 'willingness to negotiate', since this may give rise to numerous interpretations and provide the infringer with too wide a freedom of action. In any event, if such a notion is to be held to be relevant, certain qualitative and time requirements must be imposed in order to ensure that the applicant for the licence is acting in good faith.'²⁵
- (c) The applicant for a license is to act in good faith²⁶;

²² See, for example, <http://legal-dictionary.thefreedictionary.com/%22He+who+seeks+equity+must+do+equity.%22>

²³ *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH* (Case C-170/13, 2015) (*Huawei v ZTE*). See in particular paragraphs 28 – 38.

²⁴ See *Huawei v ZTE*, paragraphs 36 and 37.

²⁵ See *Huawei v ZTE*, paragraph 38.

²⁶ See *Huawei v ZTE*, paragraph 38.

- (d) the holder of a standard essential patent is in the best position to determine FRAND²⁷; and
- (e) a licence should be in place before use of a standard essential patent, or an infringer ought to provide security until a licence is in place²⁸.

In terms of negotiating a licence to standard essential patents, the Court of Justice of the European Union sought to maintain a balance of rights for the holder of a standard essential patents and those requiring a license to the standard essential patent by observing the usual elements of international trade. Communication of an offer to a potential licensee /alleged infringer, having acceptance or a counter-offer received by the licensor within a reasonable time, and either a conclusion of an agreement (again within a reasonable time) or the infringer agreeing to place money in escrow until such time as a licence agreement is concluded. International commercial norms are also acknowledged as relevant for the scope and type of license which may be concluded. To prohibit or make it overly burdensome to obtain injunctive relief once an alleged infringer has been put on notice by the patent holder could constitute a non-tariff barrier to trade or undermine the right to undertake business.

Fraunhofer further suggests that the Bureau acknowledge broader, **internationally accepted and objective legal and commercial criteria, such as acting in good faith in accordance with usual commercial norms and practices and in a reasonable time frame** (which, for most of the standard essential patents and relevant markets, means promptly or without delay²⁹, depending on the commercial window of opportunity for exploiting the relevant SEP).

The utilisation of good faith negotiations has been confirmed as guiding touchstones for trade, whether it be domestic, regional or international. Within FRAND, which is an undertaking to make IP accessible through a negotiated licence on fair, reasonable and non-discriminatory terms, it is expected that both the licensor and licensee will utilise good faith negotiations when finalising licensing discussions. It is in this regard important to note that litigation is not the usual setting in which good faith negotiations occur and so principles arising from a litigious or investigatory context should not be put forward as a basis for good practice for licensing.

Good faith negotiations between the parties are imperative in concluding a licence.³⁰ This is because FRAND cannot be singularly defined, with meaning being given to the FRAND principles by specific facts surrounding any licensing negotiation. It is well known and understood that FRAND does not only refer to royalty rates or licence fees – rather FRAND refers to all the terms and conditions of the licence, and imposes rights and obligations on both the licensor and potential licensee.

²⁷ See *Huawei v ZTE*, paragraph 38.

²⁸ See *Huawei v ZTE*, paragraph 38.

²⁹ Guidance might be drawn at international level regarding compensation for the use of one's property by another and timeliness of compensation. General principles of international law require that compensation for the use of another's property – including patents - is generally considered to require prompt, adequate and effective compensation. It is noted that Article 17 of the Charter of Fundamental Rights of the European Union expresses compensation as needing to be fair and timely: see *Commentary of the European Charter of Human Rights*, at page 166.

³⁰ *Huawei v ZTE*, paragraph 71.

In so far as FRAND relates to licence fees, FRAND is not a pixel point but refers to a range³¹. The wholistic approach required for assessing FRAND is recognised by the European Commission in its Communication, 'Setting out the EU approach to standard essential patents'³² and the United States in the 2017 update of the joint FTC/DoJ Antitrust Guidelines for the Licensing of Intellectual Property³³. FRAND requires an assessment of the entirety of the transaction, and of the conduct of both parties.

Fraunhofer considers that the normal competition law framework operates well, along with other areas of law. **To fundamentally alter the rights of IP owners through the Guidelines would not create clarity; rather, it would create uncertainty about many issues facing technology developers and other related businesses**, such as:

- (a) retroactively adding cost to doing business;
- (b) making property rights unenforceable; and
- (c) the legal landscape and whether it changes again (including how).

3. The Broader Innovation Ecosystem

Improvements to the standard essential patents being developed in standard setting organisations includes initiatives to improve the quality of standards and the development of interoperable systems which cater to and are for the benefit of a global market. Cooperation with other relevant entities (such as patent offices and trade organisations) complements the work of standard setting organisations and assists with improving standards, the quality of IP deemed essential for standards, and quality of information and reporting by IP owners. Involvement and opinion of the Canadian Intellectual Property Office in reviewing the Guidelines would be encouraged, if this has not already occurred.

4. Consistency with the policies of international standards bodies.

Part 7.4 of the Guidelines incorrectly assumes that all contributors to standards provide a FRAND undertaking. Indeed, Example 15 in the Guidelines deals with a situation where an SDO requires a FRAND undertaking. A fundamental touchstone of the standards setting system is that it is voluntary. To discard this fact distorts the reality and disregards the legal rights of contributors to standards or holders of standard essential patents. There is no standard rule that the holder of a SEP must provide a FRAND undertaking.

Indeed, a technical standards body will always prefer to take the best available technology for a standard based on merit. An example of this is the technology incorporated into the IEEE 802.11 standard without a corresponding RAND commitment being in place.³⁴ In recent years, it has been demonstrated that the voluntary nature of submitting a FRAND or RAND undertaking is observed by SDOs,

³¹ See Nicolas Petit, IBC Presentation 'Abuse of Dominance – Huawei and Post Danmark', available at <https://de.slideshare.net/NicolasPetit6/ibc-slides-petit-abuse-of-dominancehuawei-and-post-danmark>).

³² Available at: https://ec.europa.eu/growth/industry/intellectualproperty/patents/standards_en,

³³ Available at: <https://www.justice.gov/atr/guidelines-and-policystatements-0/2017-update-antitrust-guidelines-licensing-intellectualproperty>.

³⁴ For example, CSIRO gave no RAND undertaking to the IEEE its standard essential patents forming part of the for 802.11g, n and ac standards.

and the best available technology arising by virtue of international technological cooperation forum is selected based on merit.

If one again has regard to the SDO IEEE, for example, various companies have determined not to provide a RAND assurance pursuant to its 2015 Patent Policy due to its being based upon a bias assumption of patent hold up and royalty stacking.³⁵ From information available, figures indicate that between January 1 2016 and May 20 2018, the IEEE accepted 22 letters of assurance (LoAs)³⁶ submitted in relation to the Wifi (802.11) standard. 14 of these 22 LoAs were blanket negative LoAs (64%), thus relating to dozens if not hundreds of patents. The IEEE subsequently approved the standards for which these negative LOAs were submitted, such as 802.11ah and 802.11ai.³⁷

If one looks to the ETSI Intellectual Property Rights Policy, Article 8.1.2(a) has specific provision for ETSI Counsellors to consider the inclusion of technology in a standard for which no FRAND undertaking is provided.

A further element to note regarding the hypothetical is that the rules and practices of standard development organizations (SDOs) and patent pools forbid commercial negotiation and price sharing information to take place between participants within these fora. Commercial negotiations are outside the mandate and the realm of SDOs and patent pools.

Fraunhofer suggests that the Guidelines do not seek to cater for standard essential patents, which may or may not be the subject of a FRAND undertaking, and which may or may not remain part of a standard (given that standards are not static and do change).

5. Maintaining the legal status quo

The Guidelines could perhaps better serve the international technology standard community, consumers and society if they kept the operating environment in conformity with international obligations, international law, and international technology licensing in a balanced way. Balance would mean that both the patent holder and the potential licensee are to act in good faith, are to act promptly given the rapidly changing market conditions for IP incorporated into markets, and there should

³⁵ By way of background, in February 2015 IEEE approved the reform of its IP policy, in an attempt to define “Reasonable And Non-Discriminatory” (“RAND”) terms. More specifically, the IEEE has adopted an IP Policy which devalues IP by:
(a) restricting an IP owner’s right to protect its intellectual property;
(b) directing the attach point for licence fee calculation the smallest saleable compliant implementation; and
(c) seeking to implement a regime of license to all (which would be a form of compulsory licensing which does not reflect international commercial practice).

³⁶ Letters of Assurance (LoAs) are declarations submitted by the patent owners, which clarify their willingness to license the patents on terms defined by IEEE if the patented technology is incorporated in the standard. There are positive and negative LoAs: a positive LoA is submitted by a right holder willing to license the patent right on RAND terms defined by IEEE, while a negative LoA is submitted when the right holder is unwilling to license the patent on the RAND terms defined by IEEE.

³⁷ Unfortunately, the new LoA does not permit customization in order to present licensing terms to the market through this mechanism, and no other communication channel was provided by the IEEE to inform the market of licensing terms for this standardised technology.

be no blanket ban on protecting IP regardless of whether it is a patent or some other form of IP. Regarding what might constitute FRAND, the IP owner should continue to receive adequate and fair reward, as defined by the particular circumstances of a negotiation, and the entirety of the transaction is to be considered.

It is Fraunhofer's respectful view that the protection of intellectual property should not be dealt with under the abuse of dominant position.

Any overstatement of competition law has the effect of distorting the intellectual property law landscape and those governments which are signatories to TRIPs and other international conventions or treaties at risk of breaching their obligations. Indeed, the Assistant Attorney General (AAG) of the US DoJ Antitrust Division has expressed the view that:

there is a growing trend supporting what I would view as a misuse of antitrust or competition law [...] to police private commitments that IP holders make in order to be considered for inclusion in a standard [...] posing] a serious threat to the innovative process.³⁸

Fraunhofer suggests that the Guidelines remove the special section on standard essential patents, including the examples which are based on incorrect or non-normative bases for the international licensing of standard essential patents, as:

- a. the Guidelines would otherwise sufficiently deal with matters arising in relation to SEPs, as well as other forms of IP;
- b. inconsistencies could arise with international obligations, norms and practices; and
- c. it does appear to be in support of the legal and policy aims, or technology and business communities involved in, the setting of international standards.

B. Moving Forward

There is significant dialogue on the subject matters raised in the Guidelines at an international level, and Fraunhofer is actively participating in these other discussions.³⁹

Governments should indeed be responsive and set out pathways for the future which reduce non-tariff barriers to market entry, however it is not considered that this includes being reactive to market participants who fail to observe good international commercial practice. To this end, Fraunhofer encourages continual broad engagement between standard setting organisations, patent offices, international IP and trade organisations, along with business and research organisations, and competition law regulators. This multi-disciplinary engagement assists in providing the appropriate contextual framework when aiming towards a fair and competitive environment for high quality international technical standards.

In this regard, Fraunhofer requests the Bureau to consider opening for public comment

³⁸ Makan Delrahim, 'Take it to the limit: Respecting innovation incentives in the application of antitrust law' (November 2017)

³⁹ We are also keeping a watching brief on relevant court decisions, initiatives of SSOs and Patent Offices, and opinions of Governments and the European Commission.

Section 7.4 of the Guidelines and consequently revising these provisions so that they are better aligned with foundational legal rights and obligations, and established principles and norms creating the basis for international business and global innovation.

Fraunhofer would welcome the opportunity to further contribute to this important discussion, as and when the opportunity arises.

Yours sincerely

Stefanie Mielert
Legal Corporate Governance
Fraunhofer Gesellschaft