



January 25, 2019

Mr. Finch Fulton
Deputy Assistant Secretary for Transportation Policy
US Department of Transportation
1200 New Jersey Ave, SE
Washington, DC 20590

Re: Docket No. DOT-OST-2018-0210 (*Notice of Request for Comments on V2X Communications*)

Dear Mr. Fulton:

The Fair Standards Alliance (FSA) thanks the U.S. Department of Transportation for this opportunity to submit comments in response to its Notice relating to V2X Communications. We write to address specifically the interoperability issues between and among V2X technologies that DoT raises in Questions 3-6. To achieve such interoperability, the use of standardized wireless communication technologies (e.g., Wi-Fi, LTE, Bluetooth, etc.) may be required. One of the key concerns in this regard is whether innovators, including in the automotive sector but also far beyond, can obtain licenses to standardized technologies on fair terms, and when needed can build on those standards to bring innovative products to consumers around the globe. The FSA recommends that, in order to achieve the full potential of V2X communications interoperability and functionality, the DoT should ensure that the owners of the intellectual property that underlie communications technologies are not able to hold up innovation and V2X rollout.

The Fair Standards Alliance includes a broad mix of small and large companies deeply engaged on technology and standard essential patent (SEP) issues. Our industry signatories come from diverse verticals, including telecommunications, automotive, software, semiconductor and technology. Collectively we own well in excess of 300,000 patents and patent applications, spend more than 100 billion in R&D, and employ more than 1 million people.

Today's technology standards often are based on and utilize standard essential patents (SEPs). The owners of these patents voluntarily commit to license their IP on fair, reasonable and non-discriminatory (FRAND) terms when engaging in standardization activities. We believe that abuses related to SEPs – particularly in connection with wireless telecommunications technologies – can dramatically undermine incentives to innovate, and can harm consumers as well as market-participants in a wide variety of US industries. Such abuses also have become increasingly expensive and time-consuming for companies to address.

We recommend that DoT institute as conditions on the use of its grant funds several provisions to limit the potential for SEP abuse. DoT should mandate that participants in V2X markets overseen by DoT expressly agree to abide by FRAND commitments, as they have been construed and applied by the US courts, including to (i) seek compensation based on the value of the patent only (not on the entire end product); (ii) provide a license to any company that is

willing to pay royalties on FRAND terms; and (iii) forego injunctive relief except where monetary compensation cannot be obtained.

We elaborate below on three key components of SEP abuse.

1. Seeking to Obtain Compensation for SEPs that Goes Beyond the Value of the Own Invention Constitutes an SEP Abuse, and Harms Innovation:

Technical standards are both the product of, and a facilitator for, important innovations. Many of our signatories actively contribute their patented technologies to standards, and actively participate in the standards development process. Our innovations in these “upstream” processes are valuable and important contributions, and we recognize that we must abide by our FRAND commitments to standard-setting bodies.

Likewise, many of our signatories develop “downstream” innovations that incorporate standardized technologies. A car might include a GPS chip to provide real-time mapping capabilities. A warehouse might include a wireless sensor as part of its inventory management processes. In all of these scenarios, the downstream innovators *create added value* that uses standardized protocols, but which is not within the scope of the SEPs relevant to the standards.

In other words, innovation occurs throughout the value chain, and innovations at each “level” provide their own contributions to the US economy and to consumer welfare. But SEP abuse can damage the value chain by unfairly seeking to co-opt value created by others at other levels of the supply chain. Such usurpation disrupts downstream innovation and harms the US economy.

Under established US law, applicable since at least the 1800s, patent owners are entitled to obtain compensation based on the value of their own inventions.¹ The same is true for SEPs; as the U.S. Court of Appeals for the Federal Circuit has noted, “[a]s with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention.”² But SEP abuse occurs, for example, when SEP owners seek to obtain compensation based *not* on the value of their own invention, but rather based on the *added value* contributed by downstream users and innovators. A patentee’s market power can be significantly increased where a patent is incorporated into a standard, and this can allow the patentee to “extract higher royalties or other licensing terms” than the market would otherwise bear.³ In 2011, the Federal Trade Commission

¹ See *Garretson v. Clark*, 111 U.S. 120, 121, 4 S.Ct. 291, 28 L.Ed. 371 (1884) (patent royalties must be limited to the value of the patented technology).

² *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1231-32 (Fed. Cir. 2014).

³ Joint Report of U.S. Dep’t of Justice and Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007) (“Joint Report”), at 35-36, available at <http://www.justice.gov/atr/public/hearings/ip/222655.pdf>; see also *see also* Federal Trade Commission, Brief of Amicus Curie Federal Trade Commission in Support of Neither Party, U.S. Court of Appeals for the Federal Circuit Case Nos. 2012-1548 and 2012-1549 (Dec. 4, 2012) (“The problem of patent hold-up can be particularly acute in the standard-setting context, where an entire industry may be locked into a standard that cannot be avoided without infringing or obtaining a license for numerous (sometimes thousands) of standard-essential patents.”).

(FTC) unanimously agreed that such concerns, also referred to as ‘patent holdup’, can “delay innovation” and otherwise harm US consumers.⁴

As reflected in prior agency and court authorities, an SEP does not increase in value when a third party develops its own innovative downstream use for the standard; this is simply a corollary to the common sense notion that patents rights do not reward inventors for devices or innovations that were not invented or patented by the patent owner. If an innovator wishes to patent downstream technology, and has developed a patentable invention covering downstream uses of standards, US law permits it to do so. But SEP owners that do *not* patent downstream inventions should not be treated as if they had done so. That would amount to unjust enrichment, and serve only to dis-incentivize innovation.⁵

To encourage innovation at all levels of the supply chain, the FRAND promise must be upheld, and FRAND royalties based on the value of the patented invention, not on the added value of new and innovative downstream technologies developed by third parties. In the transportation industry, this entails that royalties should not seek to include value associated with cars, trucks, or related services, but rather should be based on the value of the incorporated components that substantially implement the relevant SEPs.

2. Refusals to License Undermine FRAND:

SEP abuse can also occur where a SEP holder refuses to grant licenses to market participants. The US courts have been consistent in rejecting such conduct:

- “To mitigate the risk that a SEP holder will extract more than the fair value of its patented technology, many standard-setting organizations require SEP holders to agree to license their patents on ‘reasonable and nondiscriminatory’ or ‘RAND’ terms. Under these agreements, an SEP holder cannot refuse a license to a manufacturer who commits to paying the RAND rate.”⁶
- “[The patent owner], in its declarations to the [SSO], promised to ‘grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions to use the patented material necessary’ to

⁴ Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* at 234.2 (2011).

⁵ The US Court’s narrow “Entire Market Value” (EMV) exception has little if any applicability in the context of complex technology products and associated standards. To benefit from the EMV exception “[i]t is not enough to merely show that the [patented technology] is viewed as valuable, important, or even essential to the use of the [product]. Nor is it enough to show that a [product] without [the patented technology] would be commercially unviable.” *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67-72 (Fed. Cir. 2012). Rather, the EMV rule must not be applied absent evidence that the infringing feature “alone motivates consumers to purchase” the downstream product. *Id.* It is difficult to imagine a scenario where a single patented technology alone is responsible for the EMV of a device implementing a complex, industry-developed standard – many of which involve hundreds or thousands of declared SEPs. That a single SEP might “alone motivate consumers to purchase” an automobile, a smartphone or a warehouse would, to put it mildly, seem rather unlikely.

⁶ *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1030 (9th Cir. July 30, 2015).

practice the [] standards. This language admits of no limitations as to who or how many applicants could receive a license....”⁷

- “[T]he licensor’s established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention [is not relevant for SEPs]. [...] Because of [the patent owner’s] RAND commitment [...] it cannot have that kind of policy for maintaining a patent monopoly.”⁸
- “[The SSO’s] policy, in fact, plainly states that any willing licensee is entitled to license [an SEP declarant’s] intellectual property at a FRAND rate.”⁹
- If a SEP holder could discriminate against modem chip suppliers, a SEP holder could embed its technology into a cellular standard and then prevent other modem chip suppliers from selling modem chips to cellular handset producers. Such discrimination would enable the SEP holder to achieve a monopoly in the modem chip market and limit competing implementations of those components”¹⁰

When SEP owners renege on their obligation to license some companies, it can create negative effects throughout the supply chain. For example, suppliers who are the most familiar with the relevant standards and who wish to obtain direct licenses, so that their customers are protected (and in some cases, so that they can comply with their indemnity obligations), have been refused licenses by some SEP holders. This can leave downstream customers – in one particularly egregious case, retail shops and hotels¹¹ – to negotiate with the patent owner in an extremely inefficient licensing model.

3. Injunctions Should Be Available Only in Limited Circumstances:

The ability of an SEP holder to threaten a good-faith implementer with an injunction distorts licensing negotiations to the detriment of that implementer and the market. As a general rule, injunctions should be unavailable unless a patent holder can establish that it was “irreparably harmed” as a result of the defendant’s use of its patents, and that other court-ordered remedies, such as monetary compensation, are insufficient to address the patent holder’s injury.¹² As such, injunctions usually may be restricted where the patent holder has a policy or history of offering licenses; such licensing policies may provide evidence that the patent holder is not irreparably harmed by another’s use of its patents, such that monetary compensation will be sufficient. As

⁷ *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012).

⁸ *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1230 (Fed. Cir. 2014).

⁹ *Apple Inc. v. Qualcomm, Inc.*, U.S. District Court Case No. Case No. 3:17-cv-00108-GPC-MDD (N.D. Cal Sept. 7, 2017), Order Denying Anti-Suit Injunction.

¹⁰ *Fed. Trade Comm’n v. Qualcomm Inc.*, No. 17-CV00220-LHK, 2018 WL 5848999 at *12-13 (N.D. Cal. Nov. 6, 2018 (internal citations omitted)).

¹¹ *In re Innovatio IP Ventures, LLC Patent Litig.*, Case No. 11-C-9308, 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013).

¹² *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (for injunctive relief “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”).



such, “a patentee subject to FRAND commitments may have difficulty establishing irreparable harm” such that an injunction often will be unavailable.¹³ However, given the current international transportation industry, some patent owners may seek injunctions in foreign jurisdictions as a way to compel abusive licenses to US patents. We encourage DoT to ensure that these tactics do not interfere with US implementation of V2X technologies.

Again, we thank the DoT for considering our views and perspectives, and hope that we can assist the DoT’s analysis and deliberations as the process proceeds. If you have any questions regarding this submission, please feel free to contact Robert Pocknell, Chair of the Fair Standards Alliance, at information@fair-standards.org.

Sincerely,

Fair Standards Alliance (FSA)

¹³ *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014) (RAND commitment may make it difficult for plaintiff to establish *eBay* factors such as irreparable harm).