ABA Comments on KFTC's IPR Guidelines

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Background

The American Bar Association has almost 400,000 members, organized into dozens of constituent entities such as sections, fora etc. focused on different areas of law. Four of the ABA sections are the Sections of Antitrust Law, Intellectual Property Law, International Law, and Science & Technology Law.

One of the key missions of ABA Sections is to participate in the formation of legal policy. One of the ways that the Sections do this is by developing comments on proposed laws and regulations. These comments, submitted under what the ABA calls blanket authority, represent the policy positions of the co-sponsoring Sections only, not of the ABA as a whole. The Antitrust Law and International Law Sections have for many years jointly submitted comments on all aspects of competition law and policy to jurisdictions around the world, from the European Commission to the Singapore Competition Commission.

The Sections submit comments from the perspective of sharing the long experience that the United States has had with competition law and policy enforcement. The Sherman Act, the basic U.S. antitrust statute, was enacted in 1890. In the 126 years since, the U.S. has accumulated experience which may be useful to newer competition law regimes. During this time, U.S. antitrust enforcers dealt with a wide range of challenges, from breaking up immense cartels that dominated the U.S. economy, such as the legendary Standard Oil trust, to reverse payments in patent settlements and the activities of patent assertion entities. The Sections' comments reflect the experience of their members, which include academics, enforcers, economists, and practitioners, those who represent primarily plaintiffs as well as those who represent primarily defendants, and those who represent intellectual property holders and those who represent IP licensees.

Nonetheless, the state of a country's economy affects its law, particularly competition law. Many of the early, key U.S. Supreme Court decisions interpreting the Sherman Act involved huge cartels that affected substantial portions of the U.S. economy, such as the Standard oil trust, the railroad trust, and the meat packing cartel. These are cases that are unlikely to occur today in the U.S., substantially precisely because of this early law enforcement and because of changes in the U.S. economy in the last 120+ years.

A reflection of this factor may be the following anecdote. A renowned U.S. antitrust professor was invited to give a talk at the celebration of the 5th anniversary of the enactment of a country's first competition law. After his talk, there was Q&A. Two of the questions that the professor was asked are: (1) how do you protect your witnesses in competition law cases; and (2) how do you prevent your judges from being bribed? These two questions were beyond the learned professor's experience; he had been an antitrust practitioner early in his career. The questions are also likely beyond the experience of U.S. antitrust practitioners generally. On the other hand, it's unclear that the questions would have been beyond the experience of antitrust practitioners in the U.S. 120 years ago.

This interplay between changes in the economy and the evolution of the antitrust law may be playing out in jurisdictions around the world, perhaps especially at the IP-antitrust interface. Certainly the balancing in the U.S. between fostering innovation and ensuring public access to innovation, and the approach of U.S. antitrust law to IP, has evolved over time. Some of the evolution perhaps occurred as a result of the shift of the U.S. from being primarily an IP-taker in the 18th and 19th Centuries, to significantly an IP-giver today. Some of this evolution can be seen in other jurisdictions, currently perhaps even in China.[1]

In the area of antitrust IP regulations and guidelines, the ABA Antitrust and International Law Sections jointly, often also with the IP and the Science & Technology Law Sections, submitted comments to many jurisdictions, including to the European Commission Competition Directorate regarding its Technology Transfer Block Exemption Regulation & Guidelines, and to Canada's Competition Bureau regarding its IP enforcement guidelines. In Asia, the Sections submitted at least four sets of comments to China regarding IP antitrust guidelines and regulations, two to its State Administration for Industry & Commerce, and two to its National Development & Reform Commission, as well as comments in the area of the IP-antitrust interface to other entities, including the Supreme People's Court. In April 2016 the Sections submitted comments to India's Ministry of Commerce & Industry on its Department of Industrial Policy & Promotion's Discussion Paper on Standard Essential Patents & their Availability on FRAND terms. Earlier the Sections had submitted comments to the Japan Fair Trade Commission on its IP guidelines.

In particular, the Antitrust Section, the IP Section, International Law and the Science & Technology Law Section jointly submitted two sets of comments to the Korea Fair Trade Commission on its Review Guidelines on Unfair Exercise of IPR under Korea's Monopoly Regulation and Fair Trade Act ("MRFTA"). In the first set of comments,[2] submitted in October 2015, the Sections suggested revisions that might be made in the guidelines. In the second set of comments,[3] submitted in January 2016, the Sections considered the proposed revisions in the guidelines that the KFTC had published in December 2015 for comment, and suggested further revisions that may be beneficial. Given the range of perspectives among the members of the working groups that drafted these comments, and the fierce negotiations that went into determining the language of the comments, the comments submitted to the KFTC fairly represent what might be called the center of gravity of views on these issues in the U.S. competition and IP communities.

The Four ABA Sections' Comments

There were significant discussion in the Sections' comments about seven areas: goal of the IPR Guidelines; applicable legal standard to IPR; market dominance; compulsory licensing; technical standards; patent assertion entities; contract termination and dispute resolution. In some of those areas the comments suggest some material substantive adjustments, in other areas the comments offer some refinement. The KFTC's revised IPR Guidelines reflect in some important areas the four Sections'

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[1] See, e.g., D. Daniel Sokol & Wentong Zheng, "FRAND (and Industrial) in China," Cambridge Handbook of Technical Standardization Law, Vol. 1: Antitrust and Patents (Jorge L. Contreras, ed., 2017 (New York: Cambridge Univ. Press)) forthcoming.
[2] http://www.americanbar.org/content/dam/aba/uncategorized/international_law/aba_sal-sipl-sil-sst_kftc_ip_guidelines_comments_final.authcheckdam.pdf (English).
[3] http://www.americanbar.org/content/dam/aba/uncategorized/international_law/aba_sal-sipl-sil-sst_kftc_ip_guidelines_comments_final.authcheckdam.pdf (Korean and English).

comments.

Goal of the IPR Guidelines

Comment: The goal of such IPR guidelines should be to promote competition and establish guidelines for determining the presence of abuse of dominance or a cartel.

Revised Guidelines I.1: "The purpose of these Guidelines is to enhance the consistency and predictability of law enforcement and promote free and fair competition …"

The Guidelines had earlier stated that the purpose was to "promote fair trade practices". The revisions bring the Guidelines closer to what the Sections consider to be the appropriate purpose, that of promoting competition and establishing guidelines for determining abuse of dominance or existence of cartels.

Legal Standard

Comment: The Guidelines should be more explicit throughout that the rule of reason applies, except in cases of horizontal price fixing or market allocation.

Licensing restraints:

> Comment: The amount of innovation that would have occurred in the absence of the licensing restraint should be considered.
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> Revised Guidelines III.1.B, III.3.C, III.3.D(1)-(8): Unchanged

Sections III.1.B and III.3.D(7) of the IP Guidelines address reverse licenses and grantbacks, and Sections III.3.C and III.3.D(1)-(6),(8) 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 suggested that the terms and conditions of a license should generally be left to the parties' arms' length negotiations and the IP Guidelines should avoid prescribing terms for the parties.

Particularly in the case of grantbacks, a broad per se prohibition on non-exclusive or even exclusive grantbacks would unnecessarily chill innovation without a countervailing increase in consumer welfare. Depending on the circumstances, reverse licenses or grantbacks can have pro-competitive or anti-competitive effects. Grantbacks can "provide a means for the licensee and 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, such as 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 exclusive grantbacks may chill the incentive and the ability to innovate. 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.

With respect to some of the other specific terms identified in the IP Guidelines, bundling can have procompetitive effects, but may also have an adverse effect on competition in the market for the tied product and the efficiencies of the arrangement may not outweigh its anticompetitive effects.

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.

Patent pools & cross licenses

> Comment: Section III.4 should be revised to clearly state that the KFTC will apply a rule-of-reason, effects-based analysis under which the benefits of a patent pool and cross-licenses are weighed against the potential anticompetitive harms. Section III.4.B should also be revised so that conditions (1) to (3) of Section III.4.A do not apply to cross-licenses.
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> Revised Guidelines III.4.: Unchanged

The Sections considered the mingled treatment of cross licenses with patent pools to be inappropriate. Most cross-licenses, especially bilateral ones, have little in common with patent pools involving standard essential patents ("SEPs") under "fair, reasonable and non-discriminatory" ("FRAND") commitments, and should not be subject to the conditions of § III.4.A of the IP Guidelines that are directed towards such patent pools.

In particular, it makes little sense to state that cross-licensing may exceed the rightful extent of the patent right if it involves:

1 – the act of unfairly agreeing on the conditions limiting price, volume, regions, counterparties, technical improvement;

2 – unfairly rejecting the grant of license to non-participants in the pool or concluding a license agreement with non-participants on discriminatory conditions; or

3 – unfairly inducing other enterprises to share knowledge, experience, technical achievement etc. that those enterprises have obtained independently.

As the IP Guidelines recognize, patent pools may be procompetitive. 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 recommended that this provision be revised to clearly state that a rule-of-reason or effect-based analysis will be applied, under which the benefits of a patent pool are weighed against the potential anticompetitive harms.

Market dominance

Comment: The Guidelines should more clearly state that market dominance will be determined on a case-by-case basis.

Revised Guidelines II.2.C: Unchanged

The Sections suggested 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, including in the case of SEPs. They suggested that there should not be a special definition of market dominance in the IP context and that the holding of IP does not necessarily mean the holding of market power.

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 supra-competitive royalties through "patent holdup." 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 standard development organization ("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.

The Sections are aware of no reported antitrust cases or enforcement actions relating to the licensing of IP in 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."[4]

Particularly in light of the concerns regarding the concept of innovation markets, the Sections suggested that the IP Guidelines also 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 in which to determine market dominance.

Compulsory license

Comments: The Sections expressed concern that cumulative effect of guidelines is compulsory licensing.

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

[4] U.S. Dept of Justice & Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property §3.2.3 Ex. 3 (1995).

by the KFTC or face penalties even if the patent owner has made no promise or undertaking to offer such terms.

Refusals to license

> Comment: The Sections expressed concern about the adoption of the essential facilities doctrine and suggested inclusion of limiting principles.
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> Revised Guidelines III.3.B: Adopts more limiting principles

Article 59 of the MRFTA provides that the MRFTA "shall not apply to any act deemed to be an exercise of rights under the" IPR laws. However, the IP Guidelines provide in Section II.2.A that the MRFTA will apply when the IPR "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" or result in "distorted market structures" or refusals to license where it may be "difficult to secure alternative supply channel for the patented technology" may be considered outside the ambit of Article 59 of the MRFTA and thus a violation of the MRFTA. The Sections were concerned that such exceptions to Article 59 could be interpreted to provide the basis for compulsory licensing with few clear limits.

The revised IP Guidelines retain the language regarding "distorting the order in the relevant market" or resulting in "distorted market structures".

With respect to refusals to license, 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" (as provided in Section III.3.B(3) of the IP Guidelines), without more, should be little basis for finding a violation of competition law.

However, there appears to be a general concern reflected in the IP Guidelines that manufacturers have access to desirable technology, so that limitations on such access are generally suspect. Beyond admonitions about patents that are deemed "essential" or of "great influence", the IP Guidelines specifically provide in §III.3.B.(3) 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. Thus it appears any patent holder who refuses to grant licenses except on ostensibly "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 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.

In the case of SEPs, 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 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.

Therefore, the Sections suggested that before any refusal to license be considered a violation of the MRFTA, the KFTC must find that (1) the entity seeking access cannot practically or reasonably work around the IPR, (2) compelled access would further the legitimate interests of consumers, and (3) there are extraordinary factors present that warrant deviation from the fundamental right of a patent holder to decide whether and, if so, to whom and on what terms, to license its patent. Moreover, the Sections suggested that the note to § III.3.B(2) of the IP Guidelines be revised to add the factor of "whether the effect of such refusal is to restrict or eliminate competition in a relevant market," as well as the factor set forth in Article 3-2 of the MRFTA of substantially impairing consumers' interest.

The revised IP Guidelines did add some more limiting principles in this respect.

Price regulation

> Comment: The Sections urged caution and restraint in exercising authority under MRFTA Art. 3-2(1)1.
>
> Revised Guidelines II.2.B., III.3.A., III.7: Unchanged

The Sections recognized that the MRFTA contains prohibitions against excessive pricing, and urged caution and restraint in exercising authority under MRFTC Article 3-2(1)1, because in their view it is antithetical to competition enforcement to regulate prices. In general, competition policy should not prohibit a monopolist from charging the highest prices that it can obtain for its products and its IPRs.

As the late Justice Scalia wrote for the U.S. Supreme Court in the Trinko case, 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 & economic growth."[5] The former U.S. Assistant Attorney General for the Antitrust Division, Bill Baer, recently stated that the "notion of price controls interferes with free market competition and blunts incentives to innovate. "[6] The current acting Assistant AG for the Antitrust Division, Renata Hesse, recently stated that "antitrust regimes really need to be careful not to use those kinds of remedies, where the remedy isn't related to a competition law problem, but it's related ultimately to industrial policy."[7]

To achieve a balance between innovation and protection of competition, monopoly prices should only be unlawful if they result from other unlawful conduct.

Section III.3.A(2) of the IP Guidelines prohibits "unfairly imposing discriminatory royalty rates." However, 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.

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[5] Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 407 (2004).

[6] 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), available at www.justice.gov/opa/file/782356/download.

[7] Matthew Newman, Antitrust agencies should be wary of 'excessive pricing' cases in patent disputes, Hesse says (June 17, 2015), available at http://mlexmarketinsight.com/landing-pages/antitrust-agencies-wary-excessive-pricing-cases-patent-disputes-hesse-says.

Section III.3.A(3) of the IP Guidelines 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 suggested that the IP Guidelines be revised to clarify the situations that these provisions address.

Technical Standards

A significant factor in the Sections' comments regarding technical standards is that SDOs in the U.S. are overwhelmingly private organizations, with little if any government involvement. As a result, the practices of SDOs in the U.S. vary substantially, and are influenced by the particular industries and histories involved. For example, while many U.S. SDOs require FRAND commitments from holders of SEPs, many other SDOs require only disclosure by IPR holders of potential SEPs and of their intent regarding the licensing of the SEPs to standard implementers. In some cases, the holder of the potential SEPs may voluntarily commit to offer royalty-free licenses or set forth the specific terms under which it will license any SEPs. In other cases, the holder of the potential SEPs may make a FRAND commitment.

As in other areas involving IP, the Sections suggested that the exercise of patent rights relevant to standard technology in general be evaluated 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.

As to non-disclosure of patents during the standard development process, cases in the U.S. 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 (6) the patent holder's or applicant's conduct causes or is likely to cause an adverse effect on competition in the relevant market.

The Sections' comments on the provisions of the IP Guidelines relating to standards focus on three areas, that of the definition of standards that are subject to special rules beyond the rules applicable to all IPR, the definition of standard essential patents that are subject to special rules, and the treatment of SEPs that are encumbered by FRAND commitments.

De jure v. de facto

Comment: De facto standards and de jure standards should be treated under different standards.

Revised Guidelines I.3.(5): "Standard Technologies" mean technologies designated by government, standardization bodies, enterprise organizations, a group of enterprises possessing technology of the same type, etc. as standard technology in specific technology areas.

The Sections suggested that de facto and de jure standards should be distinguished from each other.

The concept of de facto standards is not recognized in U.S. law. De facto technical standards, those technologies that become standard because they succeeded in the market place, are treated under U.S. law just like any other IP. 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. De jure technical standards, those technologies that become standard because they are adopted by an SDO, may appropriately be treated under different standards, because they may achieve a market position that is not solely the result of competition.

The revised Guidelines, by defining standards that are subject to special rules to be only de jure standards, establishes this distinction between de facto and de jure standards under the MRFTA.

Standard essential patents

Comment: The Sections suggested that the definition of SEPs should be revised to "patents that contain claims that are essential to produce products or provide services that implement standard technologies, and that the patent holder has made been required to make an affirmative commitment to license such claims on Fair Reasonable and Non-Discriminatory (FRAND) terms."

Revised Guidelines I.3.(6): "Standard Essential Patents" are patents that are essential to produce products or provide services that implement standard technologies and that are subject to a voluntary commitment to license on Fair Reasonable And Non-Discriminatory (FRAND) terms.

Consistent with the approach to de facto standards, the Sections also urged that SEPs should be defined to be only those patents that are essential to a standard adopted by an SDO and that are subject to a FRAND commitment.

The Revised Guidelines establishes that definition of SEPs.

FRAND

Comment: The Sections suggested that careful consideration should be given to whether the "nondiscriminatory" aspect of contractual FRAND obligations would be best enforced as a contractual matter or whether competition law remedies are required.

Revised Guidelines III.5.A.(5): Unchanged

FRAND commitments have been enforced in the U.S. in contract-law actions, and as defenses to claims of patent infringement. There is no U.S. judicial precedent finding an antitrust violation for alleged breaches of FRAND.

When FRAND commitments are appropriately enforced, opportunities for "patent hold-up" are reduced. There is also the potential for licensees to refuse to negotiate in good faith, engaging in "reverse hold-up" or "hold out."

Thus the Sections suggested a careful approach to any potential application of the MRFTA to alleged breaches of FRAND. The MRFTA would presumably apply, and discrimination would be an issue, only where it eliminates or restricts competition without justification.

Patent Assertion Entities ("PAEs")

Comment: Until there are more concrete data regarding IPR infringement litigation by PAEs, a cautious approach should be taken to applying the MRFTA in this area, and there should be careful consideration of whether and how any proposed measures aimed at addressing possibly problematic conduct by PAEs may affect operating companies or independent inventors that make legitimate efforts to enforce their patents.

Revised Guidelines III.7.: Unchanged

The Sections use the term PAEs instead of non-practicing entities ("NPEs"), because PAEs is the subset of NPEs that may be problematic. PAEs are generally defined as entities with a business model based primarily on acquiring patents and then attempting to generate revenue by asserting them against businesses that are already practicing the patented technologies. There are many NPEs that clearly raise little or no competition concerns, such as research universities that hold substantial patent portfolios as the result of faculty research.

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 urge caution with respect to PAEs while there is still little concrete information regarding their activities and impact.

Also, 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.

Termination & dispute resolution

Termination, choice of law & venue

Comment: Such contractual terms should be left to negotiation by the parties.

Revised Guidelines: Deleted

As general matter, the Sections suggested that the terms and conditions of a license should be left to the parties' arms' length negotiations and the IP Guidelines should avoid prescribing terms for the parties. Terms and conditions of a license relating to choice of law and venue that are the result of the parties' arms-length negotiations 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.

More generally, § III.2 of the IP Guidelines rightly recognizes the potential for patent infringement suits to be used in an abusive manner. The Sections suggest that Implementing a criterion of "objectively baseless" 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 governmental process for anticompetitive purposes while preserving the proper use of patent infringement suits for enforcement of patent rights. Moreover, even if a lawsuit is a sham, an underlying antitrust violation must still be established.

Remedies

> Comment: Greater guidance would be helpful as to how a litigation, including one seeking injunctive relief from alleged infringement, would be determined to be "objectively … not valid in terms of social norms" and an antitrust violation under Section III.2.C.
>
> Revised Guidelines III.2.C.: Unchanged

With respect to remedies, the Sections recognize that the IPR right to exclude does not imply that an injunction should issue in all cases of infringement.

In the context of standards, to date 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. On the other hand, there is a general consensus in the U.S. that FRAND commitments place enforceable limits on the ability of SEP holders to obtain injunctions.

Conclusion

It is very encouraging that the KFTC's revised IPR guidelines reflect the ABA Sections' comments in some crucial areas, including the statement of the goal of the Guidelines, the definitions of the term "standards" and SEPs that are subject to special rules under the Guidelines, and the approach to contractual terms relating to termination and dispute resolution.