Alcatel-Lucent response to the European Commission's Questionnaire "Patents and Standards - A modern framework for standardisation involving intellectual property rights"

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Key issues 1 and 2 – Scope of standardisation involving patents; best rules and practices

Q 1.1.1 Fields of standardisation involving patents: To your knowledge, in which technological areas and/or fields of on-going standardisation work are patents likely to play an increasingly important role in the near future? What are the drivers behind this increase in importance?

A 1.1.1

Communication technology permeates our society and continues to enable many innovative applications and services. For example, driverless cars require in-car communication between many components as well as communication with other cars and the environment (roads, signs, pedestrians, etc.). It is quite obvious that communications external to a car necessitate standards that all vehicle manufacturers, road designers and local authorities can adhere to in order to ensure compatibility among a host of vendors and maximize safety in the vehicular eco-system. Energy/power transmission is another area where interoperability between different types of systems (fossil fuel, wind, solar, etc) requires (at least) regional standards with the accompanying control/communication protocols to enable smart grid functionalities. These are just two examples.

Q 1.1.2 Trends and consequences: Do you see a general trend towards more/less standards involving patents? Are there any practical consequences of this trend? Are business models changing?

A 1.1.2

To the extent societal needs drive the innovation engine of various industries, the use of more advanced and patented technologies is inevitable in products, especially those developed under the umbrella of standardization. Returning to the above examples of standardised future technologies, there is no reason for innovators not to patent their inventions in the hope of being able to recoup their R&D investment. Consequently, patenting frequency is likely to bear a correlation to the foregoing R&D investment.

Q 1.1.4 Standardisation in support of innovation: Do you consider that standardisation involving patents contributes to innovation and to the uptake of new technologies? If so, in which areas? Would technologically neutral standardization promote innovation equally well in these areas? Should standardisation be less specific by excluding those elements that are covered by patents?

A 1.1.4

Standardization involving patents is a major incentive for long-term fundamental research, as long as fair compensation for licenses of standard-essential patents is ensured. Products developed in response to standardization need to have longevity in market demand and hence are conducive to incorporating iterations of new technologies that may come about from long-term research. To enable and support such research activities, enterprises have been and are increasingly relying on appropriate monetary returns from the use of their patented technologies to produce the next breakthroughs. Without these two critical elements of standardization and remuneration, much fundamental research is likely to be abandoned in favour of a business model favouring short-term development to help bring already-existing technology to market.

If standard-essential patents are devalued, the following trends could also be expected: (1) more technology would be retained in trade secret form and hence the patent law goal of sharing

inventions with society would be defeated; (2) mutually-incompatible proprietary solutions may become more predominant again.

With less standardization, companies with large "ecosystems" can implement their own proprietary solutions and require manufacturers to comply. Such companies control access to their ecosystems and thus can impose severe terms for licenses to their interfaces - or discriminate in deciding who will obtain access.

It is generally not possible to have standardization excluding systematically patented technologies. In particular, in the case of standard specifications intended to guarantee interoperability between vendors or operators, the level of detail required makes it almost impossible.

Q 1.2.2 Criteria for inclusion decision: What should be the criterion/criteria to use when deciding on whether or not to base a standard on a patented technology and/or to include a further patent-protected technology into a standard? How can a possible cost and benefit analysis be done? What could be used as benchmarks?

Q 1.2.3 Process for deciding on inclusion: Who should take the decision of including (or not) patented technologies into a standard? Should the entity suggesting the patented technology for inclusion be asked to justify the inclusion? If so, what elements should be covered, at minimum, in the justification?

A 1.2.2/1.2.3

The value of a patented technology is largely determined by its acceptance in the market place, regardless whether it is included in a standard or not. What has worked well in the standardization system is to judge a technology by its technical merits by experts qualified to do so, namely the standards participants. Conducting an economic benefit analysis in the absence of concrete data (namely prior to standardization) is not a fruitful exercise. It is also possible that different standards and proprietary solutions arise to provide compelling and competing technology options for the same problem or market demand – for example, the plethora of video codecs.

Some entities may choose to offer their patented technologies for free (from royalty payments) in order to win acceptance into a standard. However, unless such offering has technical merits equal to or superior to other alternatives, the end users will not benefit from the selection of that technology.

The foregoing describes the procedure typically applied in SSOs today. It is not clear how introducing any more prescriptive steps could improve the complex discussions already taking place in SSOs. Instead, the introduction of more detailed requirements for considering patent issues would likely prolong and delay the standardization process itself.

The way of working over the last 20 years in the telecommunication industry has proven to be part of the catalyst that has lead to the impressive development and roll out of the internet and of fixed and wireless broadband access.

It is clear that the cost for incorporating standardised technologies in devices such as smartphones and tablets has not restricted their proliferation. On the contrary, technologies used to enable connectivity allow such devices to sell at whatever prices end-users are willing to

pay. For example, the current standardization practices and patent licensing terms have not prevented companies like Apple from entering the market and succeeding. Without standardized technologies, the market of smartphones and tablets would not be what it is today. We do not see a need for any major changes to this successful standardisation process.

Q 2.1.1 Best rules and practices: A variety of rules and practices govern standardisation involving patents. Which elements of these rules and practices are working well and should be kept and/or expanded? Which elements on the other hand can be improved? Would you consider it helpful if standard setting organizations would be more explicit about the objectives of their patent policies?

A 2.1.1

SSO rules and practices differ across industry sectors and different regions of the world. A detail, one-size fits all approach is not realistic and not workable. However, in order for standards to be interoperable worldwide, it is critical to have some consistency in the general approach that is not dependent on specific jurisdictions. This is especially important for SSOs that have come to rely on standards developed by other SSOs to complement their own standards.

A common principle for ensuring that patents do not hold-up standardization is the commitment given by standardization participants to FRAND/RAND licensing, which requires each participant that holds an essential patent to agree to negotiate licenses with implementers if its patented technology is included in a standard. Some SSOs have an additional principle addressing patent disclosure, which can be encouraged or required. Where patent disclosure is required, SSOs are careful to balance the burden of disclosure with a stipulation that no patent search is required of the patent holder. To ensure standards can be promulgated even when the ownership of a particular patent changes, a third principle is generally observed where a FRAND/RAND commitment is required to run with the transfer of a standard essential patent. The commitment of an owner of a standard essential patent towards the SSO is comprised of these three elements.

Generally, SSOs incorporate these three principles into their policy documents but do not provide detailed prescriptive steps on how to negotiate licenses to use patented technologies. At this level, many SSOs can operate comfortably with each other, knowing that patented technologies in their respective standards are assured to be available depending on bilateral negotiation between the parties involved. Given the fact-specific nature of commercial negotiations and differing laws in various jurisdictions, it will be very difficult to achieve consensus among industry players to include more prescriptive steps in SSO policies.

Key issue 4 – Transfer of standard essential patents (SEPs)

Q 4.2.2 Specific rules: In your area of interest, are there specific rules governing SEP transfers and what is your experience with them? Where there are no specific rules, would you see a need for such rules? What should be their objectives (achieving transparency about ownership, providing legal/business certainty, reducing litigation risks, facilitating smooth licensing process, fostering research and innovation activity, etc.)?

A 4.2.2

In 2013, a new Clause 6.1bis was added to ETSI IPR Policy. It specifies that FRAND licensing undertakings shall be interpreted as encumbrances that bind transferees, and further requires that SEP transferors contractually bind the transferee to the FRAND undertaking, and obligate the transferee to similarly bind future transferees. The ETSI IPR Guide was also revised in 2013 to reflect the new policy language.

Q 4.2.3 Transfer of FRAND commitment: How can it be ensured that the new owner of the transferred SEP is bound by the FRAND licencing commitment given by the initial owner? What can standard setting organizations do in this regard? What do the sellers of the SEPs need to do? Should the licencing terms (including royalty rates) practiced by the initial owner influence the interpretation of the concept of "FRAND" for the new owner?

A 4.2.3

The ETSI transfer provision addressed under A 4.2.2 features both the “encumbrance approach” and the “contractual approach”. It is not clear what standard setting organisations could do in addition, given that they have no legislative powers over the Member States or the EU.

Key issue 6 – Notions of "fair", "reasonable" and "non-discriminatory"

Q 6.1.1 Notions "fair" and "reasonable": How, in your view, should the terms "fair" and "reasonable" be understood? Which of the above methodologies do you consider particularly appropriate, which other methodologies do you find important and what could be an appropriate mix of references?

A 6.1.1

The "value" of a technology is determined by the market alone. Therefore, it is not practicable to focus on the "value of the technology before the standard was adopted" as this assumes a demand and a market presence for the concerned technology even before its inclusion in the standard – an unrealistic assumption at least in the ICT context. The incremental value approach is based on the assumption that the rejected technology continues to compete with the included technology and that the two can be compared, an equally unrealistic assumption. Rather, the determination of "fair and reasonable" or "reasonable" royalties should start from reliable benchmarks such as existing license agreements concluded by the patent holder with third parties in respect of the same or comparable technology.

Q 6.1.5 Other methods of ensuring reasonableness of licensing terms and conditions: Can patent pool prices for a given standard be a proxy for FRAND terms and conditions? What are the limits of the use of patent pools as a proxy? How can bias coming from such a method be avoided?

A 6.1.5

The decision to join a patent pool is determined by a multitude of factors, including the patent holder's business and licensing model in respect of the concerned technology. For instance, a patent holder may have entered a pool, accepting a miniscule royalty rate in exchange for business opportunities generated by the proliferation of the pool technology. Therefore, the pool rates have very limited value as a reference. Especially, it would be inappropriate and unfair to apply the pool rate to patents relating to the same technology but not voluntarily submitted to the pool, or to patents covering a different technology.

Q 6.2.1 Existing guidance: To your knowledge, what guidance on FRAND definition already exists (regulators, standard setting organizations, courts)? Which of this guidance do you consider as particularly useful? Would you welcome additional guidance? If so, on what specific aspects of FRAND?

A 6.2.1

(F)RAND license terms should be determined by bilateral negotiations by the parties closest to the facts, i.e., the patent holder and the potential licensee, or, in case of dispute, by courts or arbitrators. Regulators and standard setting organizations should not attempt to codify existing court decisions from particular jurisdictions.

Q 6.2.3 Ex-ante setting of parameters: Alternatively, would it be efficient to set FRAND parameters - within the limits of competition law - at the beginning of discussions of a technical committee within or outside an SSO in order to facilitate the future FRAND licensing? Such parameters could be: the royalty base (at end product or component level, if component what component (s)), royalty type

(lump sum, per unit price, percent value of a product/component). What other parameters could be discussed upfront to make licensing more practical, without violation of competition rules?

A 6.2.3

The setting of “parameters” such as the royalty base and royalty type would unduly interfere with the bilateral negotiation between technology buyers and sellers and deprive the patent holder of the opportunity to shape its own licensing practices and FRAND offers. It should also be understood that licensing negotiations generally involve large numbers of patents from both sides and very different interests, such as timing, product exposure, and risk appetite. For these reasons, it is best to leave the negotiations to the participants involved.

Key issue 7 – Patent dispute resolution

Q 7.2.2 Target areas: Which situations/external factors render an alternative dispute resolution mechanism particularly useful? In what areas of patent based standardisation would ADR be particularly useful?

A 7.2.2

ADR is particularly useful where the dispute involves a multitude of patents and spans several jurisdictions - both factors are characteristic of patent disputes in the ICT industry. Most national courts would decline jurisdiction to determine infringement of, or set royalty rates for, foreign patents, leading to costly patent-by-patent, country-by-country serial and parallel litigation. The right to appeal on substantive issues should be provided for in ADR forums, particularly when the interests of the parties is great.

Q 7.2.3 Suitable forms of ADR: What form of ADR (mediation, arbitration, other) do you consider suitable for what type of conflict?

A 7.2.3

Arbitration is a viable forum to ultimately resolve disputes, but could be preceded by mediation of limited duration.

Q 7.2.4 Benefits of ADR: What are the benefits of alternative dispute mechanisms applied to SEP disputes respectively for patent holders and/or patent users? What are the most important conditions to ensure that these benefits materialize?

A 7.2.4

Patent holders could benefit from timely setting of a royalty rate while avoiding expensive litigation; patent users could more quickly secure legal certainty and freedom to operate, avoiding possible injunctions which could severely disrupt their operations and strain customer relations. Patent users, too, could save in litigation costs. In matters involving significant interests for the parties, a right to appeal an arbitration award on substantive matters could be attractive for many parties.

Key issue 8 – Unwilling implementers and injunctions

Q 8.1 Defences for patent holder: What needs to be done to ensure that holders of standard essential patents have effective means of obtaining appropriate remuneration for their patents and to defend themselves against implementers who are unwilling to pay royalties or who delay payment of such royalties? What can standard setting organizations do in this regard?

A 8.1

SEP holders have adequate remedies under patent law for obtaining FRAND compensation. SSOs may require that SEP holders and implementers both negotiate in good faith, but SSOs should not ban or unduly limit the SEP holders' legal remedies, as this would distort the balance between the SEP holder and the implementer in the FRAND negotiation. The suspension or prohibition of a SEP holder's recourse to injunctions against a recalcitrant implementer would strip the SEP holder of its most essential legal remedy without giving anything in exchange. The consequence of a ban on injunctions would be a distorted negotiation situation where there is no incentive for the implementer to negotiate. Instead, the implementer in such circumstances is incentivized to force the SEP holder to litigate.

Q 8.2 Protection against abuses: How can it be ensured (at the same time) that injunctions based on standard essential patents are not abused to either exclude companies from implementing a standard or to extract unfair, unreasonable or discriminatory royalties from them?

A 8.2

Negotiations are driven by both parties' interest in concluding a license agreement providing legal certainty and FRAND compensation. This facilitates the widespread adoption of the standard that benefits the implementer while adequately rewarding the patent holder. Competition law does not seem ideally suited to resolve what are essentially commercial and patent law disputes over the meaning of a FRAND royalty rate or the extent to which injunctions are appropriate when a licensee of a standard-essential patent does not appear to be willing to pay a reasonable royalty.

Fortunately, it has become clear that a real market analysis has to be made before competition law may be invoked. "I share the view … that the fact that an undertaking owns a SEP does not necessarily mean that it holds a dominant position within the meaning of Article 102 TFEU, and that it is for the national court to determine, on a case-by-case basis, whether that is indeed the situation." Advocate General's opinion, Huawei v. ZTE, Case C-170/13 (20 Nov. 2014), paragraph 57. In other words, the key question of whether a SEP-holder, or for that matter any patent-holder, has a dominant market position by virtue of such holding, must be considered before an agency or a court can intervene using competition law powers.

We applaud the policy adopted by the European Commission: "SEP-based injunctions should be available when there is an unwilling licensee." Motorola/Samsung Memo, 29 April 2014. The Advocate General agreed with this policy in his opinion. Huawei v. ZTE, paragraph 50. EU competition law formally recognizes that the possibility of an injunction may be needed to balance the negotiation power between a FRAND-compliant SEP-holder and an "unwilling" licensee. Without this possibility, efforts to obtain compensation are likely to be futile and mired

in implementer “hold-out” and the incentive for standardization participants to contribute their innovation will wither away.