

February 13, 2015

European Commission
Directorate-General Enterprise and Industry
Rue Joseph 11
1000 Brussels
Belgium

via email: ENTR-SEP@ec.europa.eu

Re: AIPLA Response to Questionnaire on Patents and Standards

Dear Sirs/Madams:

The American Intellectual Property Law Association (“AIPLA”) appreciates the opportunity to submit this letter in response to the European Commission request for public comment on the interplay between standardization and intellectual property rights (“IPR”) such as patents. This letter responds to a Questionnaire published on October 14, 2014.

AIPLA is a national bar association with approximately 15,000 members who are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA’s members represent a diverse spectrum of individuals, companies, and institutions, and who are involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent and other intellectual property law in jurisdictions throughout the world, and do so quite extensively in the European Union, and they do so on behalf of both owners and users of intellectual property.

AIPLA takes very seriously and regularly comments on issues concerning the development, protection, commercialization, and licensing of IPR. This includes when such issues arise in the standards-setting context. Indeed, recognizing the growing importance of IPR in the context of standards setting, we formed several years ago a committee to monitor and address, among other things, intellectual property issues that may arise in connection with the development or adoption of industry standards. Our views on standards-setting generally, and standard-setting organizations’ (“SSOs”) IPR policies specifically, have supported and emphasized the need for transparency, flexibility, and incentives for broad participation in standards-setting activities by all stakeholders. Those stakeholders would include not only users of standards, but also owners of intellectual property whose technology may be included in standards based on the input of interested stakeholders. Consistent with this position, AIPLA has stressed the importance of strong IPR protection in connection with standards-setting so that innovators will have the

incentives to invest in the development of technologies and contribute such technologies to standards-setting efforts.

AIPLA is not registered in the EU Transparency Register. You may contact us by correspondence to the following:

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Please find below AIPLA's responses to particular questions raised in the Questionnaire.

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Key Issue 1: Standardisation involving patents is common in the telecommunication industry and in the consumer electronics industry. Which other fields of standardisation comprise patent-protected technologies or are likely to do so in the future?

Many fields of technology currently include standardization with patent-protected technologies, and many more are likely to do so in the future.

Key Issue 2: 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?

Rules and practices that are working well include those that allow IPR owners and users—i.e., licensees—generally free to negotiate all the terms of their licenses. This allows the parties to strike the right balance and advance their respective business goals in particular circumstances. For example, freely negotiated terms enable IPR owners to realize market-driven financial rewards for their inventive investments. They also allow licensees to enjoy similarly market-driven financial rewards from the use of IPR-protected technology in the development and sale of their own products and services, and in their own development of follow-on technology, which may depend upon or complement the invention made available through such licensing. Such licensing freedom is key to the evolution of technology and for facilitating competition. SSO IPR policies which leave the negotiation of FRAND terms to the standard-essential patent (“SEP”) holder and each potential licensee, an approach AIPLA supports, facilitate licensing freedom. The traditional SSO approach of leaving the definition of FRAND terms to bilateral negotiations has been enormously successful.

Such flexibility to allow individual IPR holders and licensees to negotiate the license terms is necessary given the different perspectives at which IPR holders approach and value their IPR. This is based on a myriad of factors. For example, some companies invest in research and development and contribute IPR-protected technology into the standards-development process. These companies may choose to license their IPR to implementers and users to generate revenue for further research and development. Alternatively, firms may use their IPR portfolios defensively, e.g., they may enter into cross licenses to protect their products that incorporate standardized technology where the sale of such products creates revenue for further research and development. Other companies do not invest in research and development, but rather rely on products and services that use the standardized technology to support their particular businesses. Other companies may invest heavily in research and development in order to manufacture and sell a better, more innovative product and are not focused on patent monetization. Still other firms may support all of these business models, and, accordingly, the demarcation line among these various stakeholders may blur.

AIPLA does not support legislative, regulatory, judicial, or administrative action that would require all SSOs to adopt a single prescribed intellectual property rights/licensing and disclosure policy, but favors SSOs having the flexibility to formulate their own policies and procedures. After careful negotiation among many skilled lawyers representing varied and disparate interests, well-known SSOs have not all reached the same conclusions and have not all agreed to adopt the same IP policy approaches. Indeed, the patent policies of any two different SSOs could be quite different, but each SSO's policy could be optimal for that organization and its membership. It is counterintuitive to believe that the same patent policy provisions or framework would somehow serve as the right balance for all SSOs in light of the differences in technology and industry, and that the memberships in disparate SSOs may be comprised of different businesses, individuals, and public entities, each with their own unique goals and interests.

Key Issue 3: Patent transparency seems particularly important to achieve efficient licensing and to prevent abusive behaviour. How can patent transparency in standardisation be maintained/increased? What specific changes to the patent declaration systems of standard setting organizations would improve transparency regarding standard essential patents at a reasonable cost?

AIPLA favors the practice by SSOs of making information relating to the SSOs' standards development as well as their intellectual property rights/licensing and disclosure policies clear and publicly available. Despite the increasing number of proposals regarding patent disclosure and licensing commitments in the context of standards setting generally, few have been made to ensure that SSOs' patent policies and related information are clearly stated and made publicly available. Fundamental improvements could be made by publishing clearly stated patent policies and patent information, voluntarily submitted by patentees. It is critical that the rules are unambiguous and clearly understood by all stakeholders.

SSOs generally share a common goal. SSOs seek to avoid developing a standard that cannot be implemented because a participant in the standards-development process holds a blocking IPR

that it refuses to license or refuses to license on reasonable terms. Affected parties benefit from clear and unambiguous policies that clearly delineate the “rules of the road.” For example, implementers of standards may wish to avoid infringement by seeking appropriate licenses, and should know and understand the relevant IPR policy or the declarations process of the SSO. Similarly, contributors of IPR should have a certainty of understanding so they do not expose themselves to the potential that through, for example, unawareness or misunderstanding of an SSO’s IPR policy, they are challenged as having waived important rights, or are accused of serious violations such as antitrust violations or fraud under applicable law.

To address this concern, most SSOs typically require participants in the standards-development process to follow rules concerning IPR disclosure and licensing commitments. The IPR disclosure rules typically specify when and how an IPR owner participating in the standards development process should disclose its IPR. Rules regarding IPR licensing commitments typically refer to situations in which an IPR owner declares its willingness to offer a license or undertakes a commitment to license particular IPR to implementers of the standard on certain terms and conditions, typically reasonable and non-discriminatory (RAND). AIPLA understands that under a typical policy, either as a result of explicit language or by implication, the specific terms of a license remain to be agreed upon between the owner of the IPR and the implementer of the standard.

Certain attributes of the process promote sound and effective standards. These attributes include open and transparent processes that permit all stakeholders to participate, clear and balanced rules and policies that are written and publicly available, and publication of IPR information voluntarily submitted by IPR owners. Ensuring clarity of policies, however, is best achieved through consensus policies of the SSOs. This will allow specific factors and issues relating to the full range of stakeholders’ interests in particular industries, or relating to specific technologies, to be accommodated. We are not suggesting that SSOs should follow a single patent policy. To do so would constrain the flexibility that has benefited standards for decades. SSOs and their members are in the best position to review their patent policies and to determine what, if any, changes should be made.

SSO Governance Documents. One area that may not receive much attention involves SSOs’ governance documents. Many SSOs provide a basic level of transparency to such foundational documents as their articles of incorporation, bylaws, and antitrust and intellectual property rights policies. Yet others either do not make their governance documents available, or make them difficult to find. Further, some SSOs do not provide more complete access to additional documentation, such as patent self-declarations, which may identify patents with potentially essential patent claims and/or may include patent licensing commitments. This information can be crucial for patentees who wish to participate in the standards-setting effort and for entities that desire to implement the standards, especially since this information will differ from one SSO to the next.

Avoid Over-Burdensome Disclosures. It is important to note that a disclosure requirement, depending on how it is phrased, can be exceedingly burdensome to any sized patent owner, and particularly a large, institutional patent owner. The vast majority of well-known SSOs do not require members to disclose “relevant” IP at all. Rather, they more commonly seek disclosure of patents likely to include “necessary” or “essential” patent claims.

For example, to the extent that a given disclosure requirement would require a member to search its patent portfolio on a regular basis, the administrative overhead of this obligation may be a sufficient basis for a large, institutional patent owner to decide not to join the SSO. The process is further complicated when the claims are in pending applications and are subject to change, or when the standards are in draft form and are themselves subject to later changes. Standards evolve dynamically, and whether a patent claim is essential to, or may be essential to, a standard may change over time as the standard is being developed. It may be difficult, therefore, for a patent holder to be able to determine whether a patent “reads on” a standard. Further, holders of large portfolios may be unable to know, much less undertake a rigorous analysis of specific claim language, whether any of their patents will “read on” a draft standard as it changes. Of course, this says nothing of the cost that such a requirement would impose. An organization with a large patent portfolio would have to employ a team of patent lawyers to make a comprehensive review of the portfolio in connection with each modification to a standard.

If disclosure requirements are deemed too onerous, innovators who may have the most to contribute to the development of a standard may refuse to participate or contribute. Limiting the disclosure requirements to those potentially essential patents that the individual participating is personally aware of is a common way to balance the interests of all stakeholders. AIPLA acknowledges that some patent policies prohibit patent holders from intentionally shielding their representatives from knowledge about the patent holder’s portfolio for the purpose of avoiding a patent disclosure obligation. We suggest that a disclosure policy may have a provision that a patent search is not required, and that only potentially essential patents that the individual who is an active participant or contributor is individually aware of must be disclosed.

Protect Confidentiality Issues. Because of confidentiality issues, many SSOs only require or encourage disclosure of issued patents and published patent applications. Companies may resist disclosing confidential information related to unpublished patent applications, especially when a standard is still under development and patent claims may or may not remain potentially essential. AIPLA suggests that disclosure be limited to issued patents and published patent applications, and may also include unpublished patent applications to the extent that disclosure of confidential information related to the unpublished patent application is not required.

No Required Disclosure of Third-Party SEPs. No party should be obligated to disclose a third party’s potentially essential patent. Parties should not be expected to make statements against their own interests. When a potential implementer states that a third party owns essential patent claims, that potential implementer is arguably admitting to infringement upon implementation of the standard.

Key Issue 4: Patents on technologies that are comprised in a standard are sometimes transferred to new owners. What problems arise due to these transfers? What can be done to prevent that such transfers undermine the effectiveness of the rules and practices that govern standardisation involving patents?

Implementers investing in products that use the standard want to know that they can rely on licensing commitments, including those made by predecessors in interest. AIPLA recommends that, when drafting a standard, SSOs and participants consider whether a patent holder's declared licensing obligation includes a provision that such obligation shall be binding on itself and future patent owners. Further, we recommend that SSOs' IPR policies should encourage that such obligations survive transfer to new owners (including successors in interest through bankruptcy proceedings) and have such a provision in exemplar declarations.

Key Issue 5: Patent pools combine the complementary patents of several patent holders for licensing out under a combined license. Where and how can patent pools play a positive role in ensuring transparency and an efficient licensing of patents on technologies comprised in standards? What can public authorities and standard setting organizations do to facilitate this role?

No comment.

Key Issue 6: Many standard setting organizations require that patents on technologies included in their standards are licensed on "fair", "reasonable" and "non-discriminatory" (FRAND) terms, without however defining these concepts in detail. What principles and methods do you find useful in order to apply these terms in practice?

AIPLA is unaware of a formula or other detailed framework that can value an SEP outside of the specific transaction at issue. Rather, license terms often vary for different licensees because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses and other business relations between specific parties. Although the FRAND commitment represents a representation of a patentee's right to refuse to license its technology to willing counterparties, it does not standing alone contain any other express substantive limitations on the licensing of SEPs, provided that the ultimate terms are "reasonable."

However, it is important in all cases that FRAND compensation be closely tied to the patented technology, and not to value that the patent holder did not invent or claim in its patent. As the U.S. Court of Appeals for the Federal Circuit recently stated: "The patentee's royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented technology. [This is] necessary to ensure that the royalty award is based on the ... value that the patented invention adds to the product, not any value added by the standardization of that technology."¹

¹ *Ericsson, Inc. v. D-Link Systems, Inc.*, Fed. Cir., No. 2013-1625 (2014).

Patent Law Guidance on “Reasonable Royalty.” Because the FRAND commitment does not define “reasonable” terms for licensing SEPs, existing and developing patent law for calculating a “reasonable royalty” provides guidance, at least with respect to pure monetary licensing terms. Contract language that reference terms of art used in patent law, like the words of FRAND commitments, indicate that the parties intended for patent law to apply in interpreting the agreement.

Flexible Bilateral License Negotiation. AIPLA supports SSOs’ traditional approach of not establishing specific licensing terms, including monetary terms, which should be left to the negotiations of the parties. Fundamentally, all licensing terms have value, whether monetary or non-monetary terms, so negotiating parties cannot consider monetary terms in isolation. Patent holders may want to seek royalties, but they also may want the ability to expand design freedom through reciprocal licensing requirements and defensive suspension provisions. Thus, an SSO participant could agree to license patents essential to implement a standard in return for a reciprocal licensing commitment from the implementer of the standard.

The importance of maintaining incentives to innovate that lead to patents does not change simply because the patent owner has made a FRAND commitment with respect to SEPs.

Key Issue 7: In some fields standard essential patents have spurred disputes and litigation. What are the causes and consequences of such disputes? What dispute resolution mechanisms could be used to resolve these patent disputes efficiently?

Disputes occur primarily due to disagreements over royalty rates, as well as disagreements over the royalty base on which such rates would be applied. They can occasionally include disputes as to whether a given patent is standard-essential. In the stage of standard promulgation, such disputes have on occasion led to delays in promulgation, and therefore delays in implementation. In addition to such delays, in general such disputes may lead to decreased consumer choice and increased marketplace costs. Given the broad differences in the circumstances under which such issues arise, in what patent claims cover, and in what a reasonable royalty may be, we do not recommend any particular methodology/mechanism for resolving such disputes.

Key Issue 8: How can holders of standard essential patents effectively protect themselves against implementers who refuse to pay royalties or unreasonably delay such payment? How can it be ensured that injunctive relief based on standard essential patents are not used to (a) either exclude companies from implementing a standard or (b) to extract unreasonable, unfair or discriminatory royalties?

Although the FRAND commitment is a representation of a SEP holder's willingness to license its technology to willing licensees, it is not a waiver of the right to injunctive relief. There may be circumstances in which injunctive relief should remain available, for example, when the patentee

has offered a FRAND rate and the licensee has refused to negotiate. Similarly, the patentee is not necessarily entitled to injunctive relief in all situations, and the court should consider the equities, including whether or not the patentee has honored its representations.

The availability of injunctive relief in appropriate circumstances is an important way that SEP holders can protect themselves against implementers who continuously refuse to pay FRAND royalties or unreasonably delay payment. Blanket unavailability of injunctive relief would discourage SEP holders from participating in an SSO if participation would cause them to lose their enforcement rights. There are legitimate circumstances under which SEP holders may be justified in not agreeing to license terms demanded by a potential licensee (for example, where the potential licensee expressly or constructively refuses to accept FRAND terms), and it is against good public policy to deny the availability of injunctive relief in these circumstances. A mere allegation by a potential licensee that the patent owner has refused to make or accept a FRAND offer should not preclude the patent owner from seeking injunctive relief and proving that injunctive relief is appropriate because its offer of a FRAND license was rejected.

Further, either party may appeal the court's ruling, including the determination of a FRAND rate or the availability of injunctive relief. The appellant should not be considered to have violated a FRAND representation or refused a FRAND offer until a final judgment has been entered, following resolution of any appeal or the time to appeal has expired. If necessary, the trial court or court of appeals may stay an injunction pending appeal and may consider the equities in deciding whether or not to, and the terms on which it would, lift any such stay. SSOs remain free to limit injunctive relief in their IPR policies. Absent an express waiver of the right to injunctive relief set forth in an SSO's policy, or an express representation by the patentee that they will not seek injunctive relief, a FRAND commitment should not automatically preclude injunctive relief. Rather, as in other cases, the court should consider the equities of the particular situation in determining whether or not injunctive relief is appropriate.²

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AIPLA appreciates the opportunity to provide these comments in response to the Questionnaire on patents and standards. We would welcome the opportunity to further engage with the European Commission on any issues discussed above.

Sincerely,



Sharon A. Israel

President

American Intellectual Property Law Association

² For a discussion of these injunction issues from many perspectives, see *Motorola v. Apple*, 757 F.3d 1286 (Fed. Cir. 2014).