

"Public consultation on patents and standards: A modern framework for standardisation involving intellectual property rights"

1 INTRODUCTION

- 1.1 This is the response of InterDigital, Inc, ("InterDigital"), to the questions and issues raised in the European Commission's "Patents and Standards" study of 2013 and its public consultation on patents and standards referenced above.
- 1.2 This response also briefly outlines InterDigital's business model and its experience and contribution in standards setting.

InterDigital's history of investing in research

- 1.3 InterDigital was founded in 1972 with the objective of developing advanced wireless technologies. It became a publicly traded company in 1981, and is now a significant commercial research and engineering organisation. In 2013, the company's total revenues were \$325.4 million. While InterDigital has engaged in various product initiatives since its founding, over 80% of InterDigital's current revenue is derived from licensing patents developed by the company's scientists and engineers.
- 1.4 InterDigital does not manufacture devices (although it builds its own test systems). Instead the company focusses on innovation through advanced research, often collaborating or partnering with other research-focussed organisations on specific projects.
- 1.5 InterDigital is actively engaged in and committed to long-term research. For instance, it employs nearly 200 research level engineers at its facilities in the USA, Canada and the UK.

InterDigital's participation in standardization

- 1.6 InterDigital's engineers look at the challenges of current technology to identify future issues which will require solutions.
- 1.7 InterDigital undertakes research at a more fundamental level than most manufacturers, partnering with many universities in research that is not directly product-oriented. The company has therefore made, and continues to make, a unique contribution to standardization, playing an important role for a company that bridges academic and commercial approaches.
- 1.8 Through its membership in ETSI, InterDigital has been involved in standardization since the formation of 3GPP in 1998. InterDigital is also involved in several other SDOs, including ITU, IEEE, TIA, IETF and OMA.
- 1.9 Standards development operates at the leading edge of technology. Within the process, there is strong competition amongst top engineers from the leading companies in the world to identify and

develop the best possible technical solutions, enabling new and better products. This competition promotes innovation, giving rise to significant inventions (not just those which are finally adopted within the standard), and driving up the overall quality of the standard itself. Total industry investment in standardization is huge. InterDigital itself has invested more than \$900 million in research and development since 2000.

InterDigital's business model

- 1.10 For InterDigital this long-term investment in working alongside, but in competition with, other leading innovators participating in SDOs has created a "virtuous circle" in which InterDigital's licensing income from sales of devices is re-invested in further research.
- 1.11 InterDigital's participation in the development of standards including 2G, 3G, 4G and 5G, has helped to drive forward the capabilities of networks and devices which are constantly being improved, creating demonstrable societal benefits and opportunities.
- 1.12 That InterDigital has been able to succeed with this business model is due to (a) its foresight in identifying the challenges which lie ahead in wireless development, and (b) its ability to develop solutions to those challenges by virtue of the quality of its research. However this business model carries significant risk, as such long-term investment decisions commit substantial resources to particular research projects, and there can be no certainty that a given research project will ultimately result in technology which is adopted in the standard.
- 1.13 InterDigital's business model is predominantly based on its ability to obtain licensing income. The company now owns more than 12,000 issued patents and more than 8,000 pending patent applications. The inventions in nearly 90% of these patents have been made at and developed by InterDigital.
- 1.14 As a research-focussed company, InterDigital has advocated and supports improvements to the patent system through better funding of the US Patent and Trademark Office ("USPTO"), so that only true inventions are recognised with patents. InterDigital believes that the entire system benefits when all parties involved in a discussion do so with confidence that the patents involved have been carefully examined and that the underlying innovations warrant patent protection.

InterDigital's licenses and significant areas of current research

- 1.15 InterDigital has concluded numerous licenses with sophisticated licensees without litigation. Many of the company's licenses are to companies that also participate in standardization efforts, with InterDigital's licensees comprising many of the world's most successful technology brands and manufacturers of wireless equipment, including Samsung, HTC, Nokia, Sony/Sony Ericsson, Ericsson, Fujitsu, Blackberry (formerly Research in Motion), Panasonic, Pantech, Pegatron, Toshiba, NEC and Sharp.
- 1.16 Today, InterDigital is actively working on innovations relevant to 5G and other key technologies, such as bandwidth management (specifically, aggregating, segmenting and managing bandwidth, from both the device and the operator perspective). The company is also working on significant

research projects in relation to spectrum aggregation, integrating TV white space and other spectrum resources into a comprehensive system, and on standards-based machine-to-machine communications. These technologies lead towards the development of dynamic networks which intelligently manage spectrum resource, achieving efficiencies that will greatly increase system capacity and flexibility, so enabling networks to accommodate the rapidly growing demand for wireless services.

- 1.17 In particular, InterDigital is participating in two awarded consortium projects within the EU's Horizon 2020 programme and is a partner in core 5GPPP submissions.
- 1.18 Further details about InterDigital may be found in its annual report for 2013 (Form 10-K) filed at the US Securities and Exchange Commission¹.

2 THE KEY ISSUES

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?

- 2.1 InterDigital notes that 5G mobile communications and continued development of the Internet of Things (IoT) are among the most important new technologies, and are poised to unlock new applications and opportunities for companies, public organizations and consumers. The development of both technologies, from a research perspective, is contingent on a strong standards platform supported by the goal of licensing revenue.

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?

- 2.2 The development of wireless communication standards at ETSI and elsewhere continues to be an extraordinary success. The technical development driven by these standards organizations has created systems that have quite literally changed the world in just a few years. The impact of that work cannot be over-estimated, and it is critical that SDOs should not be diverted from encouraging technical development at the current pace.
- 2.3 At ETSI and certain other SDOs, rules governing the incorporation of patented technologies into standards are intended to ensure that members indicate as early as reasonably possible whether they are willing to make their SEPs available on FRAND terms. This prevents the possibility of so-called "patent ambush" by a technology owner. If a member indicates that it is not prepared to grant licences on FRAND terms, some SDOs (including ETSI) have explicit procedures for addressing the non-availability of licences. This approach has generally been successful in addressing concerns of "patent holdup" (the leveraging of the sunk costs of implementers in

¹ <http://ir.interdigital.com/secfiling.cfm?filingID=1405495-14-10>.

designing and producing standard-compliant products to force the payment of unreasonable royalties). Whilst it is of concern in principle, there is scant evidence that patent hold-up actually occurs in practice, at least in the mobile telecommunications device industry, notwithstanding that the engineering solutions proposed for standardization are routinely subject to patent rights.

- 2.4 It has been suggested that the notification and declarations system at SDOs such as ETSI is not ideal and creates a problem in the context of patent licensing, because the number of patents which are in fact essential is smaller than the number which are notified as potentially so.
- 2.5 However, ETSI's disclosure rules were never intended to create databases of patents which are established to be essential. Members are required to draw to ETSI's attention any patents that might be essential to a proposal if it were adopted, with members' declarations made on the basis of their present belief that the disclosed patent may be or may become essential. The basis for declaration is intended to ensure that members identify their licensing intentions and their potentially essential patents as early as reasonably possible, preferably before development of the relevant standard is complete.
- 2.6 The need for early and broad disclosure is reinforced by the views expressed by antitrust authorities in several jurisdictions that a failure to disclose patents at an early-enough stage in the development of the standard, and the assertion of non-disclosed patents after the adoption of the standard, may constitute an unlawful anticompetitive practice, which could result in the imposition of fines and other sanctions. This threat of possible future antitrust challenge provides a clear incentive for patent holders to err on the side of disclosure when evaluating whether they have patents or patent applications that may be or may become SEPs as the relevant standard evolves, though the ultimate form of that standard may be unknown at the time of disclosure.
- 2.7 This means that the list of patents disclosed to ETSI as "potentially essential" in accordance with the policy may provide a useful starting point in identifying patents which may be SEPs, but the list may not be determinative as to which patents are *actually* SEPs.
- 2.8 In practice, any disparity between the number of patents disclosed in accordance with the ETSI IPR Policy and the number of patents which are essential to a particular standard is addressed by various aspects of licensing practice, as explained further below.

Patent transparency seems particularly important to achieve efficient licensing and to prevent abusive behaviour. How can patent transparency in standardization 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?

- 2.9 InterDigital's practise has always been to comply fully with the IPR policies of the SDOs of which it is a member. Thus, in accordance with the ETSI IPR Policy, InterDigital has a long history of disclosing to ETSI those patents and patent applications that the company believes may be or may become essential to ETSI's telecommunication standards.
- 2.10 InterDigital considers that it is unlikely that a robust database of patents that have passed some further test as to their likely essentiality could realistically be compiled or maintained. To

determine the question of whether a patent is technically essential requires very detailed comparison of the standard with the patent claims, and highly specialised technical and legal knowledge. Ultimately the question of whether a patent is actually essential can only be answered by a court of law or other adjudicatory body. In litigation such determinations may require days of argument and evidence. When one considers the number of patents which are notified to ETSI, the different legal requirements for issuing patents in various jurisdictions, and the scale and technical complexity of the standard itself, even a database which relied on a non-definitive third party assessment would appear to be a gargantuan and cost-prohibitive task. Any such database would always be out of date because the standard and the notified patents and patent applications are in constant flux. Moreover, InterDigital believes that such an approach would provide minimal benefits, as some implementers are likely to continue to contest essentiality and validity in national courts regardless of any third-party determination.

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?

- 2.11 InterDigital continues to support ETSI's policy of requiring that members transferring FRAND-encumbered patents ensure that the transferee and future successors are bound by the FRAND obligations (see for instance Article 6.1bis of the ETSI IPR Policy). From InterDigital's experience of the industry, a large portion of transfers of patents notified to SDOs occur between members of those SDOs, who are bound by the rules of membership.
- 2.12 InterDigital also notes that the Final Report of the Study on Patents & Standards found that "transfers increase SEP concentration in around 80% of cases, thereby reducing transaction costs and royalty stacking in the market for SEP licenses"², and that this effect is at its strongest in the telecommunications sector. It therefore seems that transfers of FRAND-encumbered patents within the telecommunications sector have resulted in far fewer problems than has perhaps been perceived.

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?

- 2.13 InterDigital focusses on innovation through advanced research, and does not compete on the downstream markets for sales of terminal units. It therefore has no incentive to discriminate in its licensing practices in favour of or against any device manufacturers. Rather, InterDigital derives the majority of its revenue from patent licensing, and it reinvests a substantial portion of its profits in funding new research and development. As a result, the company's business and ability to

² Final Report of the Study on Patents & Standards, page 264.

continue to innovate depends upon successfully concluding licenses with manufacturers of standards-compliant devices.

- 2.14 As noted at paragraph 1.8 above, InterDigital is a long-standing participant in ETSI and other SDOs, and one of its goals is that its contributed technologies are accepted into the standards of those SDOs. Many of the companies making that determination in technical working groups are the same companies with which InterDigital will seek to conclude license agreements.
- 2.15 Lastly, each successive generation of technologies generally results in InterDigital negotiating amendments or extensions to its existing license agreements. Therefore, as a long term participant in the standards development process – spanning the development of 2G, 3G, 4G and now 5G standards – InterDigital depends on maintaining a reputation as an innovative force which contributes valuable technologies to standards and that licenses its technologies on terms which are indeed FRAND.
- 2.16 InterDigital's approach to FRAND is built upon its experience and long-term involvement in the licensing of its intellectual property. It believes that arms-length bilateral negotiations on a fair and informed basis with many licensees over many years provide a good indication of what FRAND terms may comprise. Licensees are sophisticated and understand that FRAND must fairly and adequately compensate the patent holder while not allowing excessive royalties attributable merely to the monopoly power gained by inclusion of the patented technology in the standard, or "lock in". Licensees also understand their own cumulative royalty burden. Collectively, the body of licenses and years of experience helps to shape what is FRAND in a particular instance.
- 2.17 In that spirit, InterDigital seeks to negotiate in good faith to tailor the structure of the license to the licensee's particular needs and circumstances, while maintaining consistency with its overall licensing programme.
- 2.18 InterDigital has successfully negotiated 3G licenses with a large number of sophisticated entities which have substantial experience evaluating the quality of patents, negotiating licenses and entering into license agreements covering potentially essential patents. This experience provides the company with support that the terms and conditions offered for 3G licenses are consistent with its FRAND obligations. This conclusion is further supported by the fact that two administrative law judges in two different administrative proceedings before the US International Trade Commission ("ITC") concluded, after examining all of InterDigital's license agreements and the history of the company's negotiations with the respondents in those cases, that InterDigital's licensing practices were indeed consistent with FRAND.
- 2.19 In only a very small number of cases has InterDigital been required to engage in litigation in circumstances where, after several years of attempted negotiations, a party has been unwilling to conclude a license on FRAND terms.
- 2.20 In sum, InterDigital believes that FRAND royalties should foremost reflect a market-based valuation of the portfolio to be licensed. The company does not believe that a FRAND commitment should ever be interpreted as limiting the freedom of both licensors and licensees to determine the type and structure of a license that furthers the licensee's commercial goals,

provided that the licensor receives adequate and fair remuneration for the use of its licensed patents.

- 2.21 InterDigital believes that it is fair and efficient to calculate royalties on worldwide sales. Wireless products are designed to be compliant with industry standards that are adopted and used worldwide. Once a company has worldwide patent coverage, it is unlikely that a mobile wireless product will be fully designed, sourced, manufactured, assembled, marketed, distributed, sold, and used, without infringing that company's patents in one or more jurisdictions. Therefore, it is reasonable and commonplace to use worldwide sales as a royalty base, even though no company has patents in every country in the world.
- 2.22 Some SDOs, driven by the interests of certain implementers, have sought to modify their IPR policies to artificially suppress the patent royalties which users may be required to pay, such as by encouraging that royalties be assessed based on the value of the smallest saleable unit (SSU) incorporating the patented technologies. As a general matter, InterDigital believes there to be a real risk that SDOs, particularly those primarily influenced by implementers, will adopt anti-competitive IPR policies that force royalty ranges below FRAND levels. This will result in inadequate returns for SEP holders, which will lead to diminished investment in the long-term high-risk research that has driven standardization activities, to the detriment of consumers and the quality of future standards.
- 2.23 Moreover, SDOs that adopt IPR policies with the implicit aim of suppressing royalties threaten to disrupt long-standing, market-driven and efficient licensing practices in certain industries. For example, in the market for mobile phones, licenses have almost invariably been concluded using a royalty base at the handset level. There are many reasons why the industry has settled upon using the handset price, rather than the chipset price, as the royalty base in this industry, and InterDigital does not believe that SDOs should seek to adopt IPR policies that will interfere in arm's length negotiations and undermine innovation incentives.
- 2.24 In the longer term InterDigital believes that a key aspect to the FRAND concept is that it allows for flexibility in the licence structure. No two licensees are identical, and the range of uses for wireless communications technology will continue to grow as its capabilities increase, as noted above. The adoption of fixed methods for assessing compensation will damage the ability to accommodate many different kinds of licensees and many types of use. To date, the flexibility afforded by the FRAND concept has worked well wherever both parties have negotiated in good faith.

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?

- 2.25 From InterDigital's perspective, there has been an insufficient focus on the need to provide adequate and fair remuneration to the developers of technologies incorporated into standards. It is a fundamental principle that owners of IPRs are entitled to adequate and fair rewards for use of their inventions. Without the prospect of such remuneration, technology developers will not make the long-term and high-risk investments necessary for continuing innovations.

- 2.26 ETSI's Rules of Procedure recognize that this fundamental principle applies in the context of technologies adopted into standards by making clear that one of the primary policy objectives of ETSI's IPR Policy is that:

"IPR holders whether members of ETSI and the Affiliates or third parties, should be adequately and fairly rewarded for the use of their IPRs in the implementation of Standards and Technical Specifications".³

- 2.27 Further, ETSI's IPR Policy FAQs elaborate on the primary policy objective of ensuring adequate and fair remuneration to SEP holders by stating that it is the responsibility of each implementer to contact directly the patent holder and to obtain permission to use patents declared as essential.⁴
- 2.28 However, notwithstanding the policy requirement that users of the standard should negotiate in good faith with SEP holders to obtain FRAND licenses, some implementers have been unwilling to do so. InterDigital considers that the failure by some implementers to negotiate in good faith with SEP holders is one of the roots of disputes regarding the licensing of SEPs.
- 2.29 As a general observation, InterDigital believes that most implementers of standards acknowledge that FRAND is a "two way street", and recognize the importance of respecting the IPR of SEP holders and negotiating in good faith toward FRAND licenses.
- 2.30 However, InterDigital considers that there are some recalcitrant implementers that seek to avoid paying FRAND royalties for their use of SEPs for as long as possible, all the while selling standard-compliant devices in the market that are infringing the many SEPs that form the basis of the standard. In addition to depriving SEP holders of appropriate remuneration for their innovations, a refusal by an implementer of the standard to enter into good faith negotiations can also be potentially disruptive to the market, as it can unfairly create a temporary competitive advantage for that implementer, and may lead others to take a similar approach in future.
- 2.31 In those situations where agreement on the terms of a FRAND licence cannot be reached, litigation before national courts has serious limitations. First, national courts are not well equipped to handle royalty rate determinations involving the licensing of portfolios comprising thousands of patents. Second, as courts apply national laws they are not in the best position to analyse and set royalty rates on patents in other jurisdictions. Third, court proceedings concerning even a very limited number of patents are very expensive, complex and time-consuming and outcomes are uncertain. For all these reasons court proceedings are a highly inefficient approach to obtaining agreement on the terms of a worldwide portfolio licence of SEPs. However, they remain the only non-consensual recourse for either party.
- 2.32 InterDigital is now exploring whether binding arbitration can provide an alternative and efficient mechanism having the required scope to determine the FRAND terms of a worldwide portfolio

³ See ETSI Rules of Procedure of 30 November 2011, paragraph 3.2.

⁴ ETSI IPR Policy FAQs (CX-3860C). See, in particular, answers 4 and 6.

license. InterDigital is currently in the midst of such an arbitration proceeding with Huawei, following a settlement agreement between the companies to resolve nearly all of the pending litigation between them by submitting the licensing dispute to a binding arbitration procedure that will result in a license agreement regarding InterDigital's portfolio of patents which are the subject of the license. InterDigital hopes that its experience with this arbitration process will provide it with insights into the extent to which binding arbitration can become another effective tool for resolving FRAND licensing disputes.

- 2.33 Of course, the use of binding arbitration requires the agreement of both parties, which means that the implementer of the standard must commit to actually entering into a license agreement and paying FRAND royalties on the relevant patent portfolio.

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 injunctions 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?

- 2.34 While the theoretical threat of patent hold-up in the context of licensing patents declared potentially essential to standards has attracted much attention, InterDigital considers that insufficient attention has been directed to the very real issue of "reverse patent hold-up" or "licensee hold-out".
- 2.35 InterDigital believes that reverse patent hold-up poses a significant threat to the competitive environment in downstream markets, to the climate for continued investment in R&D (and in particular by technology companies such as InterDigital), and ultimately to the innovation ecosystem that has provided huge benefits to consumers and the global economy.
- 2.36 Companies engaging in significant research efforts incur tremendous sunk costs and risks in developing technologies with the hope that they may form part of the next generation of standards. Investment in research begins many years before a standard is adopted, and even after adoption it is usually several more years before the first products implementing that standard are brought to market and technology owners begin to receive royalty payments for the use of their patents.
- 2.37 These long lead times entail substantial risk. There are many examples of standards that were never successfully commercialized, with WiMax being a prominent case in point. There is also the very real risk that technological solutions developed by companies such as InterDigital will not be selected for incorporation into the standard. The significant sunk costs incurred by InterDigital in research investments many years before a standard is adopted make it a ripe target of opportunistic patent hold-out by licensees who seek to obtain valuable and necessary technology for below its fair market value.
- 2.38 For such opportunistic standards implementers, there is a strong incentive to delay taking a license for as long as possible, not only to take advantage of the weak position of technology

owners who have incurred significant sunk costs, but also to gain a competitive advantage vis-à-vis their competitors who have already entered into license agreements.

- 2.39 These opportunistic companies also recognize that they can take advantage of inadequacies in the legal systems that allow them to engage in such delays with little adverse consequence, since, even after a full adjudication, they may ultimately expect to be required to pay no more than a FRAND royalty.
- 2.40 Concerns regarding opportunistic implementers shifting licensing negotiations in their favor by engaging in “hold-out” have been expressed by the US administration. For example, the joint policy statement issued by the US Department of Justice and the USPTO acknowledged that:

“We recognize that the risk of a refusal to license decreases where the putative licensee perceives a cost associated with delay and increases where the putative licensee believes its worst-case outcome after litigation is to pay the same amount it would have paid earlier for a license”⁵ (emphasis added); and

“...if a putative licensee refuses to pay what has been determined to be a F/RAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee’s obligation to fairly compensate the patent holder”⁶ (emphasis added).

- 2.41 Similarly, the US Federal Trade Commission has previously stated that:

“[w]hile a FRAND commitment requires the patent holder to engage in good faith negotiations for a license agreement, the implementer is not free to abuse and delay that negotiation process to avoid paying royalties”⁷ (emphasis added).

- 2.42 The US Trade Representative has also acknowledged that:

“technology implementers also can cause potential harm by, for example, engaging in “reverse hold-up” (“hold-out”), e.g. by constructive refusal to negotiate a FRAND license with the SEP owner or refusal to pay what has been

⁵ United States Department of Justice and United States Patent & Trademark Office, “Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments”, 8 January 2013.

⁶ *Ibid.*

⁷ Letter of the United States Federal Trade Commission, Re: In the Matter of Motorola Mobility LLC and Google Inc. File No. 121 0120, Docket No. C-4410, dated 23 July 2013.

determined to be a FRAND royalty”⁸ (emphasis added).

- 2.43 In addition to these concerns, InterDigital notes the concerns that Administrative Law Judge Theodore R. Essex expressed in the U.S. International Trade Commission regarding the hold-out strategy deployed by the respondents in *In the Matter of Certain Wireless Devices With 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868⁹

"These Respondents chose take (sic) the actions that led to the allegation of infringement rather than follow ETSI policy for obtaining a license. ... The Respondents create, outside of the framework of the ETSI agreement a situation where they use the technology that may be covered by the patent, without having licensed it. This puts pressure on the IPR owner to settle, as the owner is not compensated during a period of exploitation of the IP by the unlicensed parties. The ETSI IPR policy requires companies that wish to use the IPR covered by the agreements to contact the owner of the IP, and take a license. By skipping this step, the companies that use the IPR in violation of the policy are able to exert a pressure on the negotiations with the IPR holder to try to make the agreement in the lower range of FRAND, or perhaps even lower than a reasonable FRAND rate. They also are able to shift the risk involved in patent negotiation to the patent holder. By not paying for a FRAND license and negotiating in advance of the use of the IPR, they force the patent holder to take legal action. In this action, the patent owner can lose the IPR they believe they have, but if the patent holder wins they gets (sic) no more than a FRAND solution, that is, what they should have gotten under the agreement in the first place. There is no risk to the exploiter of the technology in not taking a license before they exhaust their litigation options if the only risk to them for violating the agreement is to pay a FRAND based royalty or fee. This puts the risks of loss entirely on the side of the patent holder, and encourages patent hold-out, which is as unsettling to a fair solution as any patent hold up might be" (emphasis added).

- 2.44 In this context, InterDigital welcomes the emphasis that Advocate-General Wathelet has placed upon the requirement for timely negotiations between patent holders and implementers to conclude licenses on FRAND terms; *"negotiations must be opened (and concluded) quickly, given that the infringer is using the teaching of a SEP (without paying for it)"¹⁰.*
- 2.45 Faced with a hold-out strategy, the possibility of seeking an injunction against an unwilling licensee is the only means by which SEP holders can bring such a party to the negotiating table.

⁸ Letter of the United States Trade Representative to the Chairman of the United States International Trade Commission, dated 3 August 2013.

⁹ Initial Determination *In the Matter of Certain Wireless Devices With 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868 (pp.113-114)

¹⁰ Case C-170/13 *Huawei v ZTE* ECLI:EU:C:2014:2391, Opinion 20 November 2014, footnote 55.

Most courts in Europe take a cautious approach to the question of preliminary injunctions for FRAND-encumbered patents. For instance in the Netherlands, the District Court of the Hague refused a preliminary injunction where it considered that the patent holder had not met its obligation to make a FRAND offer¹¹. In Advocate General Wathelet's Opinion referred to above, he concludes that it is an abuse of dominant position to seek a prohibitory injunction under a SEP where the implementer is willing but the patent holder has not complied with its obligation to offer FRAND terms. However, it follows that if an implementer refuses to enter into a license while the SEP holder has negotiated in good faith toward a license on FRAND terms, the implementer should not be shielded from invocation of the SEP-holder's right to exclude.

- 2.46 A prohibition on injunctions for FRAND-encumbered patents, or imposing extraordinary hurdles before such remedies can be sought against unwilling, opportunistic prospective licensees would, InterDigital believes, have significant adverse effects on the remuneration of the SEP holders. This would lead to diminished investment in research and a reduction in innovation - to the detriment of standards development and ultimately the consumer. A balanced safe harbour approach for willing licensees is a reasonable provision, and InterDigital has made proposals in that regard at ETSI; however SEP holders need to be able to seek injunctive relief against those prospective licensees which prove unwilling to negotiate in good faith.
- 2.47 SDOs could therefore assist in ensuring that innovators are adequately and fairly remunerated by requiring that implementers engage in good faith and timely negotiations with SEP holders for a FRAND license on a portfolio basis, and supporting SEP holders' right to seek injunctive remedies against those companies which do not meet that obligation.

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¹¹ *Samsung v Apple*, 14 October 2011.