

Intellectual Ventures' Response to European Commission Questionnaire re: Patents and Standards

Background

European Commission's Goals

The Commission must ensure that the single market functions efficiently. Harmonization standards help to promote efficiency in the market, and therefore standardization systems must function efficiently.

Many standards involve technology protected by patents. Efficient licensing of these patents is therefore crucial to ensuring the success of the standard while providing a fair return for the innovator.

Standardization and the protection of IP also promote other objectives of the EU such as innovation and development.

Rules governing the licensing of standard essential patents (SEPs) must give the innovator a fair return on investment while also allowing users of the standard fair access at a reasonable cost.

The Commission is now assessing whether it needs to address the issue in a dedicated initiative.

Questions

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?
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?
3. **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?
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?
5. Patent pools combine the complementary patents of several patent holders for licensing out under a combined licence. 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?

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?
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?
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 **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?

Outline of Response

1. Fields of Standardization

Question: 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?

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?

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?

2. Current Rules and Practices of Standardization

Question: 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?

- SSOs must balance many legitimate interests in order to create standards that can succeed in the marketplace, and the proliferation of beneficial standards reflects the success that most SSOs have had in meeting this challenge.
- Any efforts to modify the rules and practices that govern SSOs should recognize the great success that SSOs have had to date in bringing innovative products to consumers at low cost, and ensure that each individual SSO maintains the flexibility to implement rules and practices that best suit the specific needs and circumstances of its members and their customers. Imposition of “one-size-fits-all” rules would threaten the ability of individual SSOs to create standards in the most efficient and effective manner. Each SSO must choose rules that will balance the goal of ensuring the speedy and low cost development and deployment of products that implement the standards with the need to encourage participation in the standard-setting process. If SSO rules excessively favour IP owners, the costs of product introduction may increase, and firms may be loathe to develop and sell products that implement the standard because of fear of IP litigation. In contrast, if SSO rules excessively disfavour IP owners, IP owners are less likely to participate in the standards development process, denying the SSO and standards implementers access to the best technology or -- even worse -- subjecting them to the costs and burdens of IP litigation because IP owners did not participate in the standards development process and thus had no opportunity to declare their IP and no obligation to comply with the SSO’s rules regarding licensing commitments.
- Whatever approach each SSO takes, it is critically important that each SSO clearly communicate the rules applicable to participating IP owners (and to their successors in interest). Regardless of the actual policies chosen, nobody benefits from unclear rules, which prompt litigation and needlessly raise the costs of both IP owners and standards implementers.

3. Patent Transparency

Question: 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?

Background

Position of the European Commission as set forth in its 2013 Patents and Standards Report

- Lack of transparency raises search, negotiation, and dispute resolution costs on both sides.
- The risk of opportunistic behavior of the other side exists both for patent holders as well as patent users.
- The SEP declaration system and the databases used for this purpose are the cornerstone of SSO efforts to increase patent transparency.
- These systems currently have a number of limitations, such as a limited level of detail of patent declarations, a limited accuracy in terms of validity, essentiality and enforceability of the declared patents, and no mechanism to ensure the updating of their content.
- Proposed solutions to increase transparency include:
 - Updating patent declarations at certain key events such as the adoption of the standard, the granting of the SEP, the invalidation or expiry of the SEP, and the transfer of ownership
 - More precise and thus informative patent declarations, notably as regards information to substantiate essentiality
 - Checking essentiality of declared patents as a matter of routine
 - Entering licensing information in an SSO database
 - Limiting the use of blanket disclosures
 - Notification of transfer of SEP ownership by recordation
 - Increased collaboration between SSOs and patent offices

- Transparency is best ensured by the adoption by each SSO of a clear, well-defined IP policy.
- The interested parties within any given SSO are in the best position to determine the appropriate IP policy and the appropriate form and degree of disclosure of IP holdings, which may vary from industry to industry and technology to technology.
- It is equally important to factor in the behaviour and conduct of implementers as well as patent holders. For example, transparency may not be improved by solely requiring more complete disclosure from patent owners without correspondingly requiring due diligence on the part of standards development participants intending to implement a standard.
- Should implementers be allowed to claim they are willing to negotiate and accept a FRAND license and simultaneously participate in a lawsuit claiming the SEP is not infringed, invalid and/or unenforceable?
- While implementers should be free to make business decisions, e.g., implementing a standard without requesting a license or refusing a SEP license offer claiming that the declared SEP is invalid, should those business decisions incur similar business risks as a patent owner incurs, for example, in deciding whether to participate in standards development activities and/or on what terms to make SEP licenses available to implementers?

4. Transfers of SEPs

Question: 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?

Background

Position of the European Commission as set forth in its 2013 Patents and Standards Report

- FRAND commitments made by the initial SEP owners are often too vague to effectively bind subsequent owners.
- Subsequent owners, therefore, may demand higher royalties, threaten injunctions, and engage in patent holdup.
- SEP transfers also contribute to the lack of transparency regarding ownership
- Proposed solutions include:
 - Define or strengthen SSO rules that bind subsequent owners
 - Promote use of a License-of-Right system to ensure that commitments to license SEPs are tied to the patent itself
 - And as mentioned in the section on transparency, notification of transfer of SEP ownership by recordation

- Potential conflicts or controversies surrounding the transfer of patents can be reduced by the adoption by each SSO of a clear, well-defined IP policy.
- The interested parties within any given SSO are in the best position to determine the appropriate IP policy and the appropriate provisions related to transfer of patents. Appropriate rules may vary from industry to industry and technology to technology.

5. Patent Pools

Question: Patent pools combine the complementary patents of several patent holders for licensing out under a combined licence. 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?

Background

Position of the European Commission as set forth in its 2013 Patents and Standards Report

- Patent pools help to mitigate transaction costs and royalty stacking.
- Concerns with competition law limited the use of patent pools until relatively recently
- To avoid competition law issues pools should only include complementary patents, not substitutes, the patents should be essential, and patent owners must be free to license out their patents directly.
- Patent pooling is still not widely practiced in most areas where SEPs play an important role
- While pools are a voluntary mechanism, there is still a lot to be gained if pool creation and pool participation could be further promoted
- Proposed solutions:
 - Strengthen the relation between SSOs and pools.
 - Providing incentives to SEP holders to participate in pools
 - Encouraging entities such as universities and SMEs to participate in pools

- Determining whether patents proposed for inclusion in a pool are essential and whether pooled patents are substitutes or complements is often difficult and time consuming and can be expensive if an outside expert is utilized. It is not clear that the time and expense of evaluating the essentiality of patents proposed for inclusion in a pool is merited.

6. FRAND

Question: 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?

Background

Position of the European Commission as set forth in its 2013 Patents and Standards Report

- FRAND has large number of dimensions, including the following
 - The allowed royalty rates and royalty bases
 - Whether licensing can be made subject to reciprocity conditions - and which conditions exactly
 - Whether licensing can be made subject to reciprocity bundling other SEPS or non-SEPs
 - Whether the patent owner is entitled to seek injunction in case of infringement
 - Whether the initial offer of the SEP owner should be FRAND or whether this only applies to the outcome of the process
- While most if not almost all SSO IPR policies have FRAND as their central element in the policy, almost none defines how this principle is to be interpreted
- Reasonable should typically mean the royalties that the patent holder could obtain in open, up-front competition with other technologies, not the royalties that the patent holder can extract once other participants are effectively locked in to use technology covered by the patent
- Discussion on the appropriate base is far from closed because using the value of the product seems unfair when the standard constitutes only a small feature of the product versus when it constitutes the main feature of the product (e.g. a WiFi key versus a tablet with WiFi capabilities). Using a smallest identifiable component approach would likely encourage implementers to make identifiable components increasingly smaller to reduce license fees.
- Proposed solutions:
 - Provide greater clarity of reasonable royalties under FRAND terms
 - Provide greater clarity of the royalty base

- Intellectual Ventures agrees that determining what is “fair” and “reasonable” in the context of FRAND has a large number of dimensions and may raise difficult questions with regard to determining the proper royalty base and other terms and conditions customarily negotiated by a licensor and licensee.
- Imposition of “one-size-fits-all” FRAND definitions and principles would threaten the ability of individual SSOs to create standards in the most efficient and effective manner, and would discourage the participation of both IP owners and standards implementers, thus limiting the value of the resulting standards, or possibly preventing the creation of standards altogether.

7. Litigating SEPs and Dispute Resolution

Question: 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?

Background

Position of the European Commission as set forth in its 2013 Patents and Standards Report

- SEPs are substantially more likely to be litigated than non-essential patents.
- One reason for the increased risk of litigation is a lack of transparency on ownership and essentiality.
- A second reason is that some Non-Practicing Entities pursue a more aggressive strategy than vertically integrated companies.
- A third reason is that FRAND conditions are not always clear, and in the case of cross-licensing the owner of the SEP may want to leverage its position to obtain cross-licenses on non-SEPs.
- Finally, the transfer of SEPs may result in a situation where FRAND conditions are not adhered to by the transferee.
- Proposed solutions:
 - Greater transparency of SEP ownership and essentiality.
 - Introducing alternative dispute resolution mechanisms for SEPs.
 - Clarifying FRAND principles.

- Many disputes about SEPs could be mitigated by the adoption by each SSO of a clear, well-defined IP policy.
- The interested parties within any given SSO are in the best position to determine the appropriate IP policy.
- Individual SSOs may decide to utilize alternative dispute resolution mechanisms, which can often be more effective and efficient than litigation. However, Intellectual Ventures believes that the decision to use such mechanisms is best left to the participants in the SSO or parties to the dispute.

8. Protecting Holders and Users of SEPs

Question: 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?

Background

Position of the European Commission as set forth in its 2013 Patents and Standards Report

- Recent decisions of the European Commission clarify that it may be a violation of competition law to seek an injunction against a willing licensee after having given a FRAND licensing commitment.
- The lack of knowledge about portfolios and essentiality of patents may also enable so-called Patent Sharks or Trolls to aggressively extort SEP adopters, requiring them to pay for an alleged infringement of one of their patents or be subjected to an injunction, a problem known as patent hold-up
- Small, financially constrained holders of SEPs may also be subject to a problem known as reverse hold-up. This occurs when an SEP implementer uses the threat of litigation to bargain for a royalty that is substantially below the value of the holder's contribution. Because the holder is under FRAND commitments, the implementer typically threatens a suit claiming that the holder's offer is non-FRAND.
- Proposed solutions:
 - Greater transparency of SEP ownership and essentiality.
 - Introducing alternative dispute resolution mechanisms for SEPs.
 - Clarifying FRAND principles.

- Requests for injunctive relief, whether in regard to SEP disputes or any other legal dispute, are reviewed by courts under well-established standards designed to balance the interests of each party and of the public. Whether or not an injunction is appropriate is a heavily fact-specific determination that is appropriately decided on a case-by-case basis.
- Any effort to impose a strict rule denying injunctive relief for patents subject to a SSO FRAND obligation can discourage the participation of IP owners in the standard-setting process.
- The questions should solicit information that would help to separate out theoretical problems from problems that actually occur in practice so that we can collectively identify possible solution to existing problems. In doing so, it is important to understand the complexity of "real-life" transactions involving patent transfers and license negotiations. IV believes that many large patent owners that participate in the development of standards have had tremendous difficulty in tracking their standards-related patent commitments and as a result the question of how to enforce such commitments is an extremely complex matter that deserves careful study. Similarly, IV believes that the form and content of licenses vary greatly from license-to-license because the parties' interests vary from deal to deal even with regard to the same patent portfolio. Attempts to define "FRAND" to date are over-simplistic and are not likely to result in any additional clarity in practice.