

IBM Response to the European Commission Consultation on

Patents and Standards

A modern framework for standardisation involving intellectual property rights

Introductory remarks

IBM thanks the European Commission for the opportunity to provide input to this questionnaire on patents and standards. As a member of leading European and global standardisation organisations IBM is, and has been, actively involved in reviewing IPR policies and guidelines in order to adapt to new developments in the markets and in order to ensure continued availability of state-of-the-art technologies for standards development and best-of-class, high quality standards.

While IBM understands that the purpose of this consultation is to gather information on the topic and the identified detailed questions in a broad way, IBM assumes that the discussion about the interplay of patents and standards is taking place under the given availability of the EU Horizontal Guidelines. These Horizontal Guidelines are highly appreciated for setting the proper framework for the activities of standards setting organisations. They cover many of the issues raised in this questionnaire. IBM therefore wishes the responses given in this consultation to be understood as adding information, but generally supporting the Horizontal Guidelines as the legal document laying down the rules and requirements for patents in the context of standardisation.

It is IBM's further understanding that the Horizontal Guidelines provide high-level guidance with which standards bodies need to comply – and IBM does not see any issues with the European Standardisation Organisations in this respect. Any further detailed rules and procedures may be developed by the members of the respective standardisation organisations according to the consensus making processes of the respective organisation, i.e. in self-organisation of the industry and other stakeholders represented in the respective governing bodies of standardisation organisations.

It is a quality mark of European standardisation to have stable structures and processes in place, combined with innovative organisation set-up as in ETSI with its mixed model of direct membership and national representation. These processes work well and contribute to the strength and success of European standardisation.

Moreover, ETSI in particular has demonstrated the ability to adapt to new market developments in a flexible and effective way. However, a major aspect of

adaptation is the sustainability of modifications introduced into the respective process and policy documents. It is worth noting that reaching sustainable solutions may require time amongst the stakeholders for finding agreeable compromise solutions on the basis of a broad consensus.

Responses to High-Level 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?

In fields of software interoperability standards – that enable software products to talk with each other – SDO members have agreed to downplay patents. In other areas, such as radio frequency identification and semiconductor devices, companies who conclude that standardisation is a necessary or beneficial path may seek some recognition for their technical contribution. The FRAND approach provides a stimulus for stakeholders to contribute patented technologies to develop robust, widely adopted standards and a way to level the playing field with those who choose not to provide a similar level of innovative, state-of-the-art technologies. .

In general IBM believes the more complex products/systems/technology become the less likely a single company's product can span the entire system. This trend drives modularisation into components, which requires standardisation to make those interchangeable.

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?

IBM supports the way in which standardisation has been set up in Europe. While the legal framework established by European legislation lays down the basic rules for collaboration, most notably summarised in the Horizontal Guidelines, it is up to the stakeholders in self-organisation to establish the respective processes and policies in standards setting organisations. This basic principle in the European Standardisation System (ESS) has generally proven to be effective and allowed for constant adaptation to dynamically evolving markets and technologies, thus being a good ground for promoting innovation and the effective development of technical standards.

Standardisation in Europe is voluntary and decisions are made by consensus. Standards are developed following rules agreed to and key principles like

transparency, openness, impartiality, consensus, efficiency, relevance, consistency related to due process, consensus, balancing of stakeholder interests, and non-domination by a special interest, and the like. This includes patent policies developed in consensus by the stakeholders and which provide a basis and a common ground on which technical work takes place. On this basis, SDOs in Europe have been able to adapt to changing market needs with sustainable solutions and decisions.

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?

Disclosure of patents, patent policy, and licensing must balance value and importance of such disclosure and repeated updating of such disclosures against cost, resource, delay, potential risk, and impact on standards participation.

It is unrealistic to impose a corporate knowledge burden on the one or two individuals actively participating in the standardisation work. To require a corporation to broadly canvas employees for each draft of a standard is burdensome and counterproductive. Which individuals may be contacted, and when, is a topic within the purview of carefully considered SDO rules.

To promote prompt disclosure, an SDO policy might provide that there are no enhanced damages for infringement until the SEP is disclosed to the SDO, where the SDO has a disclosure requirement.

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?

Some proposed measures will inordinately impact standards and patents. For example, even if a transferee is unaware of an SEP or FRAND assurance, and is a bona fide purchaser without notice, some SDO policies may seek to “bind” that successor. The successor would be bound to unknown and unlimited number of implementers. In some policies, the SDO policy provides that the patent declarer “ensures” that the assurance flows to all successors. We are unaware of suggestions by others on how these results can be achieved with current and proposed policies. Where patents are bought and sold for numerous vital reasons (e.g. divesting assets or businesses, or entering new competitive fields), unduly disrupting this commercial flow that promotes competition and growth is counterproductive.

IBM has offered a solution involving the SDO recording, at a patent office(s), the licensing assurances it receives (as authorised by declarers) for identified declared patents. This is akin to recording land easements on the record. With patents, there is no official legal notice by recording, but it is at least something an SDO can do to address this issue rather than imposing obligations that are impractical for innovators to fulfil. Where courts have recognised transferee obligations where the transferee is aware of the assurance, this measure could benefit all stakeholders and promote transparency.

If you needed access to someone else's land parcel even if it is sold, would you prefer something on the land record or would you prefer the current owner's promise that he will tell the next owner who will tell the next owner of your interest?

Further measures that could improve the situation are (i) for patent offices to maintain up-to-date and searchable patent ownership registers; (ii) for the patent offices to provide a global ownership register; and (iii) for patent offices to promote disclosure by providing free recordation in an electronic register as in the USPTO.

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?

IBM participates in patent pools relating to standards. There are various benefits of such pools, for example, providing a focal point for patent licensing under largely uniform terms. Pools can reduce administration and negotiation costs for patent holders and potential licensees. Pool members may agree to accept lower fees to realise the benefits of the pool, which benefits implementers. Moreover, to avoid competition concerns, license terms are generally conservative. Also, because larger number of patents are licensed the risk of royalty stacking is reduced.

On the risk side, if rates are alleged to be unreasonable or if the pool seeks to enforce a license, individual members may be caught in a dispute or an alleged "abuse" where they do not have control over the pool's actions.

Regulators typically recognise the pro-competitive aspects of SEP pools. That should continue. Similarly, SDOs should seek balanced policies which recognise SEP licensor (including pool) interests without unwarranted licensing complications and restrictions.

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?

FRAND is a commitment by members of SDOs so that technical work in standardisation can take place with assurance of availability of patented technologies that may be included. All commercial discussion and negotiation, however, is deliberately kept outside of the realm of SDOs and are left to the market participants and bi-lateral interaction.

This is also why there is no definition for FRAND. FRAND is a concept which ensures both that licenses will be available and that innovators will receive compensation for their R&D efforts and for their protected technologies which they agree to contribute to standardisation. Setting actual royalty rates is for the market participants. An SDO over-prescribing "reasonableness" could adversely impact its effectiveness by discouraging parties from participating and contributing their advanced technologies to the standard. This would be especially true if the rules departed from case law precedent -- which could cause confusion as to what a proper negotiation would involve and which could also discourage standards and standard participation where marked risks and disadvantages attach to SEPs.

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?

ADR is worth considering but not widely adopted.

Various groups are looking at alternative dispute resolution, or ADR. There are benefits to arbitration – such as a potentially global resolution, potentially lower costs and greater speed, and some control over the process. However, ADR has been adopted by only a few standards bodies and numerous concerns have been raised regarding the procedures. There will always be instances where parties cannot agree on how to resolve disputes. Therefore, ADR should be a non-binding option.

Patent quality will improve standards environment. IBM has long supported enhanced patent examination quality to limit the number of unwarranted patents and disputes.

Procedures to review patents after they are granted may help address preliminary issues and lead to settlement or shortened litigation.

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?

SDO policies should promote negotiations rather than litigation and there are instruments to promote such an approach. For example, the filing of a lawsuit before engaging in meaningful negotiations should support the other party's choice of available venues for the court action. Similarly, an implementer who has not responded to an offer should not be supported in its choice of venue.

Premature antitrust or competition claims initiated by an implementer based on FRAND (which has not been determined) should not be allowed where the implementer objects to injunction before it has had a chance to operate under determined FRAND terms. While regulators may pursue competition claims, it seems unfair and unbalanced to allow an implementer to preclude SEP holders from seeking injunction while the SEP holder is attacked before it has an opportunity to comply with determined FRAND.

Responses to the more detailed questions

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

Q 1.1.1

Q 1.1.2

Q 1.1.3 Standardisation prevalence/complexity: In general, do you observe an increasing role of (any type of) standardisation in your fields of activity/interest? Are standards becoming more, or less, detailed and comprehensive? How does this trend impact on the functioning of the standardisation system?

There is an increasing trend for complex, meta-level standardisation activities like eMobility, Smart Grid, Smart Home, Smart Cities, etc. What can be observed, however, is that standards bodies use these system integrations for setting up high-level groups studying which standards are available, developing use cases etc. There is a high duplication of efforts on this level, since multiple standardisation organisations are setting up groups on the same topics. Moreover, policy makers are promoting this trend by encouraging standardisation organisations to get active in these areas.

This duplication trend causes problems to industry because there are only a limited number of experts available. Moreover, such meta projects do not help standardisation but bind resources on a meta level which may turn against the actual level of technology development and of specific technology standards

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 standardisation promote innovation equally well in these areas? Should standardisation be less specific by excluding those elements that are covered by patents?

The global standardisation ecosystem has found some balance between areas where patented technologies are of high importance to be included in standards for having innovative technologies available for exploitation and areas where the innovation is in the implementation of standards and where therefore stakeholders have agreed to downplay patents to some extent. The latter is, for instance, the case in the internet.

In general, for successful standardisation it is important to include patented technologies into standardisation. Only where technology innovations are included will standards be successful in promoting further innovation. Excluding

patented technologies from standardisation would result in second-class standard while what is needed is best-of-class.

The broadly applied concept of FRAND provides some stimulus for patent holders to contribute patented technologies and at the same time creates a proper balance with implementers' interests to have assurance on the availability of the respective technologies for licensing.

Q 1.2.1

Q 1.2.2

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?

The notion of justifying the inclusion of all patented features must be balanced against the added burden on members and SDOs in adding such a requirement. If there is a dispute between alternative technologies, there will likely be a discussion in which respective arguments will be offered. Accordingly, inclusion seems to be self-monitoring and does not warrant added paperwork. That said, if the SDO members see a bona fide need to explain why a specific technology was included or selected over another technology, the SEP justification may be made of record.

Q 1.2.4 Disputes over inclusion: Are you aware of legal disputes over a decision to include (or not) a patented technology into a standard? What were the main facts and what was the outcome of the dispute?

In Goldens Bridge v Motorola, 547 F.3d 266 (5th Cir 2009) in the US, a feature was listed as an option for a standard. The patent holder identified a SEP that allegedly covered the optional feature for announced specific licensing terms. Some SDO members considered the terms unreasonable. During revising the spec, the feature was deleted and the patent holder alleged a conspiracy to exclude the patented technology. The court found no conspiracy. Two other relevant US cases include In re ASSE (American Society of Sanitary Engineers), ¹a standards body refused to include an alternative valve in a plumbing standard without any technical basis.² In Indian Head, Inc. v. Allied Tube & Conduit Corp.,³ the US Supreme Court found that voting irregularities promoted a vote against including an alternative technology in a standard.

¹ 106 FTC 324 (1985)

² The FTC took issue with the SDO not considering the alternative because it was patented.

³ 486 U.S. 492, 498 (1988);

Questions on other links between standards and patent-protected technologies

First, the situation where a standard does not refer to any particular patented technology (in other words it is technologically neutral) but where the standard can in practice only be implemented by using one or more technologies that are patent-protected.

Second, the situation where a product implements a standard but also includes patent-protected technologies which cumulatively (1) cannot be designed around technically and (2) are so important to the customer that the product cannot be sold without the patent-protected technology.

The following questions aim at gathering your views on these two situations. It should be noted that both situations are structurally different from the situation otherwise covered in this public consultation. The patent holder will regularly not have consented to the link between the standard and its patented technology and will also not have given any licensing commitment. We therefore also ask on the patent holder's defences in this situation.

Q 1.3.1 Pertinence of these two situations: To your knowledge, has any of the two situations occurred? If yes, where and how often? In your answer, please explain in detail why the respective conditions specified above were fulfilled. What were the consequences?

With regard to the first specific scenario, the only instance we can suggest is the Innovatio case in the U.S. In that case, the court found claims to be essential where “enabling technology” not expressly described in the specification was included in a claim along with claim elements that were described in the specification. The enabling elements were allegedly needed to effectuate the standard.

The second scenario [“product cannot be sold without the patented feature”] seems directed to SEPs that drive demand for the overall product. This is an interesting topic which might suggest that “surveys” be used in determining the relative value and hence royalty rate for a SEP. We have not studied this issue and do not offer an opinion.

Q 1.3.2

Questions on "best rules and practices"

Q 2.1.1

Q 2.1.2 Trends and initiatives: The pertinent rules and practices are constantly evolving. Do you see any particular trends? What are recent improvement initiatives that you find promising or worthwhile of attention? Are there initiatives outside the SDO domain that you find helpful (e.g. patent quality initiatives by patent offices)?

IBM has long supported patent quality initiatives. IBM supported third party submissions of prior art, reasonable challenge procedures in the AIA, and more. Measures aimed at avoiding standards patent disputes over patents that should not have been granted benefits the standards community.

The new European Patent system – that is, the Unitary Patent and the new Unified Patent Courts (UPC) which are now being implemented – is as yet not tried and tested. There are concerns that, with bifurcation, this could lead to injunctions being issued before validity has been decided. This is a problem mainly when the standard for staying infringement proceedings is so high, that even where there is a reasonable likelihood of invalidity the infringement proceedings are not stayed. On the other hand, with consolidated proceedings, validity issues can delay and increase expenses. Also, there is a risk of forum shopping under the new system. Another concern is predictability in terms of filing and maintenance costs of the new system over the old. IBM strongly advocates that national patents remain in place as an option and that patentees can opt out patents from the UPC in a manner that neither penalises nor incentivizes opt outs. In time, the new system should gain confidence from the users.

In addition, actual implementing guidelines with regard to Non-Practising Entities are controversial and it is not yet clear how effective these will prove.

Q 2.1.3

Key issue 3 - Patent transparency

Q 3.1.1 Scope of transparency issue/Priority areas: Is there sufficient patent transparency in the fields of standardisation that are of interest to you? In which of these standardisation field(s) is patent transparency particularly good and in which field(s) is it insufficient? Please explain.

Standardisation organisations are constantly improving their patent databases where you can check on SEPs.

Some SDOs make patent information available publically while others may charge a fee to access standards and patent disclosure and policy information. In either case, it would be helpful if the information had some uniform form, format, and content.

ANSI and organizations in Europe [as noted in the EC Report] keep “master” lists of some information, which is helpful, but a common data format would be useful.

Q 3.1.2 Ex-ante transparency: In your experience, is there sufficient knowledge about the relevant patent situation during the discussions leading to the setting of standards? Have you experienced a situation

where a standard was decided based on significantly incorrect assumptions about the relevant patent situation? What were the causes of such incorrect assumptions and what were the consequences? Could all relevant stakeholders participate in the discussions?

One situation we note involves SEPs owned by Rambus and needed in a JEDEC standard, which resulted in considerable litigation. There was a question whether Rambus had a duty to disclose patent claims drafted after Rambus terminated SDO membership where the claims were added to an application disclosed before Rambus terminated. JEDEC and other SDOs have revised their policies following the Rambus case.

Q 3.1.3 Ex-post transparency: Either as licensor or as licensee, how do you initiate the licensing of the relevant patents? What are the means of identifying the relevant patents, the patent holders, the potential licensees, etc.? What are the respective costs of collecting information on the patent situation?

An implementer may become aware of SEPs when they study the standard's specification and find the SEPs on the SDO website for the spec. The implementer may then contact the owner listed by the SDO. If a patent has been transferred, presumably the listed owner or the patent office records can lead to the current owner. However, where there is no obligation to record, ownership may not be straightforward. Some patent offices are looking at, and IBM supports, requirements to record whenever a patent is transferred.

Perhaps, more typically, a SEP holder will notify an implementer of a SEP needed for a standard, based on information gathered by the SEP holder.

SEPs may also be uncovered during a broader cross-license negotiation (where they may or may not be recognized as SEPs).

Q 3.1.4 Non-transparent aspects: In those areas where you deem patent transparency insufficient, what aspects of the patent situation are insufficiently transparent: (1) existence of patents, (2) validity of patents, (3) essentiality of the patents for the pertinent standard, (4) ownership of the patents, (5) enforceability of the patents, (6) coverage of patent by existing licences/pass through and (7) others? Please explain.

Many "non-transparent" issues (validity, infringement, essentiality) are not known until a court or authorized tribunal decides them. Information is normally available in court records and in patent office files.

It is noted that patent ownership in Europe may not be straightforward. Are ownership records for a patent and its application stored in one database? It could be helpful to have a single updated database of European or international patent ownership.

In some countries licenses are recorded and, in others, there is no requirement to record and most companies do not record licenses.

The EC Report [5.2.4] discusses the publication of licensing information. Such publication may prompt discussions that impact competition (e.g. discussions of competitors' business plans and technology forecasts) and licensing may be chilled if details must be disclosed without judicial safeguards. An article by Nahoko Ono, "Avoiding Japanization: Lessons from Japanese Gridlock on the Patent Recordation System (2013)" discusses how requiring broad licensing information can chill patent transactions. The article notes licensor and licensee concerns with disclosing confidential terms (such as license scope) and suggests limiting information to patent number and grantor and grantee.

SDOs address the possible existence of SEPs with disclosure and licensing assurances.

Q 3.1.5

Q 3.1.6

Questions on the content of the declaration obligation

Q 3.2.1 Trigger of obligation: Patent declaration obligations could be triggered either by membership of a standard setting organization, or by participating in a specific standardisation project or by having directly suggested a (patented) technology for a draft standard. What are your views on the respective triggers (advantages, disadvantages)?

Generally, actual personal knowledge or awareness of an individual involved in a standardisation Working Group is reasonable, as opposed to imputing all the knowledge of a corporation to that individual.

Some SDOs impose a licensing obligation when a member joins. This involves risk for the member who may be committing IP it did not know of before the Working Group proceeded according to its charter. However, such upfront FRAND assurances for participants' SEPs allow the group to proceed with reduced concerns about later patent issues. As in other policy features, members must consider membership-triggered licensing obligations in a fair and open process – considering various stakeholders' interests and impact on the standards – if and when SDOs consider triggers in a policy.

Q 3.2.2

Q 3.2.3

Q 3.2.4 Costs of declaration: What are the costs involved in complying with an obligation to declare specific patents? What are the respective costs of (1) identifying patents and (2) informing the standard setting

organization? Would you search for patents in your own portfolio that relate to a standard, even when there is no obligation from the SDO patent policy? If yes, would your approach differ in process and thus in cost? Please be as specific as possible.

When joining a patent pool, parties may have a reason for searching for and identifying patents that help determine the pool member's share of incoming royalties. Absent a pool, incentives are less clear. A SEP holder might be interested in knowing which of its patents may be affected by participation in a royalty-free standards effort. But in a FRAND royalty context, the benefits of early voluntary investigation may be uncertain and the costs may be considerable (depending on the scope of obligation), especially as risks and limitations in enforcing SEPs have increased.

It is further noted that identifying patents would require dedicating and training skilled resource to study the spec (as it changes), identify [key] novel features in the hundreds of pages of spec, review the companies' patent portfolio against each such feature, and then find and review the world of technical alternatives for these features to determine essentiality. After this effort and disclosure, some competitors may then work to avoid the discloser's technology or form a competing patent strategy around those patents.

Q 3.2.5 Blanket declarations: Some standard setting organizations require their participants to declare that, in general, they hold essential patents over a standard without requiring that these participants identify each of these patents specifically. Do you believe that such declarations provide for enough transparency? Please justify your answer, where necessary distinguishing situations where you consider that this approach is sufficient from those where you do not.

We do not understand the value of a statement declaring that a participant may have SEPs,⁴ unless it accompanies a "licensing assurance." The EC Report and Consultation reference reasons for a "blanket disclosure" (without an assurance), however such a statement appears to raise a warning without providing any useful information.

A "blanket licensing assurance" may reduce the need for a disclosure obligation, especially where there is a royalty free commitment. That said, an SDO may have an interest in informing standards developers of potential SEPs and in informing implementers as to which of its patents a member believes are SEPs. In framing its policy, however, the SDO should weigh expected value of such disclosure against the added burden of disclosure on technology submitters who have already committed FRAND licenses.

⁴ While we follow the discussion in *EC Horizontal Guidelines* Sections 285 and 286, we do not understand the following premise: "It is also sufficient if the participant declares that it is likely to have IPR claims over a particular technology (without identifying specific IPR claims or applications for IPR)".

Q 3.2.6 Scope/detail: Where standard setting organizations require that patent holders identify the relevant patents individually, what information about the patent should be transmitted? Only the patent number or other aspects? What are the respective benefits and costs of requiring that the patent holder also (1) specifies to which part of the respective standard the declared patent belongs and/or (2) explains why the patent is relevant for the standard?

Most SDOs find it sufficient to identify the patent and the standard. Some SDOs require identification of the relevant (“infringing”) portion of the standard’s specification. There are various considerations regarding this more robust requirement. First, the disclosure burden expands if the claimed invention occurs in multiple portions of the specification and increases further if the patent holder must update the analysis multiple times. Second, disclosure is not a demand letter that urges implementers to take a license, but is intended as informative, so such details might not be warranted especially if the specification is still in flux. If a patent holder asserts a patent against another, the infringing portion of the standard’s specification will be discussed and the meaning of claim terms analysed. At such time, the expense is no longer based on speculation. Third, identifying the patent number enables standards developers and implementers to make their own assessment. If they have a question, details may then be discussed. Fourth, from the implementer side, providing details that may raise questions about the implementer “knowing” about infringement could affect its liability. Finally, at this early stage, details can trigger time-consuming disputes when parties may not wish to frame a litigation strategy. Added work and cost for each SEP may reduce the number of patents disclosed or declared, for good and ill.

In addition, some companies may readily disclose when there is just a “potential SEP” without conducting a “read” against the specification. For such small and large companies, requiring the more robust disclosure may inject new cost.

Q 3.2.7 Consequence of non-compliance: What should be the consequences if a patent holder has failed to comply with its declaration obligation (for the standard, for the patent holder, for licensing negotiations)? Should the respective standard setting organizations take action and what should this action be? Are the consequences of non-compliance sufficiently clear in your experience?

Various remedies exist when a SEP holder or implementer does not comply with the SDO policy or rules, for example litigation. SDOs should not and typically are not interested, nor have they the expertise, in addressing legal and licensing issues.

Where some SDOs do not actively engage patent practitioners in addressing patent policy issues and may not follow due process in their patent policy formation, there is a concern that provisions outlining consequences may be unworkable, unbalanced, oversimplified, or out of sync with existing law. This can

create confusion and may discourage participation in standards by SEP holders or implementers.

Some SDOs provide for default licensing modes when there is failure to disclose.

Questions on the quality of patent declarations

Q 3.3.1

Q 3.3.2 Updating requirement: Should declarants be asked to update their patent declarations at key events such as those mentioned above? What would be the respective advantages and disadvantages?

Updating can provide a fuller, more accurate patent picture, but updating is a moving target. Claims in an application (or even a patent) can change as can the standards specification and the available alternatives, all of which can affect essentiality. The burden is then multiplied where multiple standards and standards representatives are involved. Implementers can access most of the relevant information such as litigation outcomes, patent invalidation, and other patent office proceedings related to a patent, so spreading some of the chores may be appropriate.

As litigation and the EC Report [5.2.3] reflects, this can be a costly and time consuming effort. The mentioned estimates are quite high compared to the questionable benefit to preparing an essentiality package and repeatedly updating it.

The EC Report suggests there are “weak incentives not to disclose.” This is no longer the case. Contrasted to non-SEPs, SEPs may be subject to more limited injunction, FRAND assurances (including reciprocity limits and valuation limits in some SDOs), disclosure requirements and consequences, nearly pro forma anti-competition claims, and patent transfer obligations. Some of the potential benefits discussed in the EC Report seem weak. For example, updating information to facilitate cross-licensing is not compelling, in that the parties negotiating cross-licenses will discuss their respective SEPs and other key patents to seek maximum value for their portfolio.

Q 3.3.3 Check of declarations: Should the quality of patent declarations be submitted to a check by someone other than the declarant? Who should perform this check (peer review by members of the standard setting organization; standard setting organizations themselves; third parties on behalf of the standard setting organizations; patent offices; etc.)? What should be the scope of the check (essentiality for the standard; validity; enforceability; other)? Who should bear the cost of such a check? If you think the declarant should bear (part of) the cost, how can it be prevented that this creates an incentive to disrespect the declaration obligation?

What liability does the checker assume for errors? Most SDOs include a disclaimer for such liability. Many SDOs have limited budgets and focus on developing technical standards. Unfunded mandates that provide only nominal benefit but substantial burden on members should be considered with care.

It is further noted that the proposed services would be performed by lawyers at substantial fees.

There are measures already in place to challenge patent validity at patent offices – e.g. through third party observations, opposition or, in the UK, the UKIPO Opinions service. Typically the party who challenges the patent pays the costs, but the patent holder incurs legal costs in responding to the challenge.

Q 3.3.4 Essentiality check (in particular): Depending on your answer to the above question, how can the essentiality check be performed in practice? What are the average cost of checking essentiality (for third parties) and what could be done to minimize these costs? Do you see a set-up of such a check that is particularly cost and time efficient? How can it be avoided that this check creates incentives for not respecting the declaration obligation?

A check for non-essentiality might be easier when a dispute arises. That is, a search for an element in the SEP claim that is omitted from the standards specification may be considered, although “equivalents” and the Innovatio case in the U.S. [that defined SEPs broadly] complicate even that analysis. However this is implemented, it will still be costly, will be rarely warranted, and would be of limited value where the parties will likely disagree with the “checker’s” assessment if there is a dispute.

Costs for checking essentiality would depend on the number of claims in the patent(s) and how they may have been amended, which countries’ laws are to be considered, the frequency of checking, availability of prior art and alternative technologies (and in what languages), amount of expertise required for the technology (where complex technologies would cost more than simpler fields), specification changes, and SDO patent policy [changes] on SEPs. It is not clear how these factors may be lessened.

Questions on the handling of declared information

Q 3.4.1 Publication: Should standard setting organizations make the declared patent information publicly available? Do you see any impacts on the protection of personal data? Under what conditions would it be justifiable to restrict access or to charge for access?

See the ETSI IPR database as a good example.

Q 3.4.2

Q 3.4.3 Combining information: Some standard setting organizations combine declared information with information drawn from other sources, such as patent offices. What are your views on this? In what forms and to what fields of standardisation could this be expanded? What sources of information (in addition to patent offices) could be used and what types of information could be added?

ETSI is at the forefront on this. A key consideration in accumulating patent information is to consider who is looking for it for what purpose and where is the party likely to look. Someone looking for prior art or patent ownership would look at patent office records while a party investigating the patent landscape of a standard would likely look at the SDO website.

Exchanging information between entities can be very beneficial. For example, making standards specifications (and perhaps drafts) available for patent examiners to search can benefit both patent and standards communities. See Chapter 7 of NAS Report entitled "Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communication Technology on Global Standards" (2013) at http://www.nap.edu/catalog.php?record_id=18510

Questions on transparency improvements beyond the system of declarations

Q 3.5.1

Q 3.5.2 Public patent landscaping: Public patent landscaping in the context of standardisation would be an exercise where (1) patents that are relevant to the particular technological/product area to which the standard relates are identified and (2) this information is then shared with all interested parties. Do you see benefits of such public patent landscaping and in which areas would this be particularly useful? Who should perform this exercise (e.g. patent offices, commercial service providers, public authorities) and how could this exercise be financed?

This idea of landscaping was raised at ETSI years ago and was rejected.

While knowing about SEPs early on avoids future issues, financing the effort is a key concern. Who has sufficient interest to finance such efforts? Will the results be valuable enough to warrant the expense, recognising that patent searching still has limited confidence? Will the SDO review to see which patents are potential SEPs or just send inquiry letters to all holders of listed SEPs?

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

Q 4.1.1 Prevalence: How common is it, in your area of activity or interest, that standard essential patents are transferred? Are standard

essential patents transferred more, or less, often than other patents? Do you see any trend in the transfer rate? Do transfers usually concern individual patents or larger patent portfolios?

Patent transfer is an increasingly recognised part of corporate patent strategy and is often a significant factor in corporate development.

Essential and non-essential patents are transferred for a variety of reasons and in different contexts. A number of cases involving SEPs have considered the effect of transfer on prior FRAND assurances. [Cites available on request] Patents are also sold in bankruptcy. [Cites available on request.] Companies buy and sell patents alone or in the context of a business sale, such as mergers/acquisitions/divestitures.

The EC Report suggests that transfers and successive transfers represent a small number. However, in a number of major disputes, there were successive transfers of SEPs. [Cites available on request.]

The EU Horizontal Guidelines give relevant direction in Section 285

“285. To ensure the effectiveness of the FRAND commitment, there would also need to be a requirement on all participating IPR holders who provide such a commitment to ensure that any company to which the IPR owner transfers its IPR (including the right to license that IPR) is bound by that commitment, for example through a contractual clause between buyer and seller.”

An effective, traditional way to comply with this guidance may be the reservation of rights practice where a patent holder reserves rights in order to ensure that given commitments are kept regardless of the succession of ownership interest. If a party transfers with “a reservation to satisfy standards commitments,” future implementers can acquire the right from the current patent owner or from the original assuring party (who has reserved the right to grant licenses) even if the current owner will not grant the license. Reservations are the typical way of achieving this type of result and, in effect, subjecting or binding transferees to the original licensing commitment.

Q 4.1.2 Issues and consequences: In your experience, what are the typical issues that arise in the context of transfers of standard essential patents? Are such transfers leading to more or less fragmentation of SEP ownership? Are these transfers leading to more or less disputes/litigation? What is their impact on royalty rates for the transferred patents and on the total royalty rate for all patents essential for a standard?

SEPs in bankruptcies raise significant issues. A German insolvent company Qimonda AG wanted to sell off its patents and terminate existing licenses, where some of the licensed patents were SEPs. While courts upheld licensee rights in this case, a more universal and certain solution would be useful. That is, licensees should be allowed to preserve existing patent licenses even if the

licensor enters bankruptcy outside the US – that is, all jurisdictions should follow the US model of license preservation if they do not already.

The Qimonda matter is being resolved with a settlement in which Infineon has purchased the QAG patents and will not challenge existing licenses. Nonetheless, a more certain resolution would be desirable.

An insolvent SEP holder that terminates licenses and its FRAND license assurance by sale in bankruptcy is an aggravated form of patent hold-up. IBM and numerous other companies (from Europe, the US, and Asia) were cross-licensees that received QAG termination letters.

Patent transfers can have a salutary effect on standards implementers, as when a party outside the standard sells to a standards participant who has an applicable FRAND commitment.

The Nortel bankruptcy involved thousands of patents, some of which were alleged to be SEPs. In an auction, a consortium of companies under the name Rockstar purchased the portfolio. Rockstar has, in turn, transferred the patents to related entities in the corporate family, to individual members of the consortium, and to third parties. Some of the third parties do not assert patents while others do so aggressively. The per patent value, in this case, was influenced by various factors.

Google acquired Motorola Mobility patents, which was also affected by unique factors.

Q 4.1.3 Non-practising entities: Have you encountered transfers of standard essential patents to entities that do not produce or market products including the technologies covered by these standard essential patents? What particular consequences have you observed?

Regarding patent transfers to non-practicing entities (NPEs), under current US law, it is especially difficult for NPEs to secure an injunction and it is also difficult to secure an injunction where the patent holder has assured a FRAND license. NPEs may, however, seek exclusion orders from the ITC and may seek injunctive relief in other countries. However, in a non-NPE matter, an ITC exclusion order granted to Samsung was vetoed by the US Trade Representative, who advised the ITC that the SEP and FRAND issues should be developed before granting the order.

In various instances, where NPEs knew that patents acquired were covered by a FRAND assurance, those assurances were enforced by the courts against NPE transferees. [Cites available on request.]

Q 4.2.1

Q 4.2.2

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?

SDOs can, to the extent practical, for each identified SEP, record licensing assurances in patent office "assignment databases." This can be done electronically in the USPTO at no charge. This does not impose any formal legal effect on future transferees (and implementers)⁵, but is a measure SDOs can take to publicise an assurance. The measure can be enhanced if other patent offices have similar records and practices.

Consider the patent office recording as analogous to an easement (or encumbrance) filed at the land office in which I let you walk across my land, and that easement is recorded and hence "attached" to the property. Unlike land records, there is no formal legal mechanism for filing the licensing assurance and no guarantee that the transferee sees the recorded assurance. However, the recordation can be a helpful measure as to transferees who review the record.

It is noted that SDOs may need authorization from the SEP holder to record, but that can be part of the licensing assurance. SDOs may also state that the recordation is not an SDO obligation, in order to avoid potential liability.

Q 4.2.4 License of right: Have you been involved in the use of a License-of-Right system? What benefits and risks are, in your opinion and experience, linked with this? Are there important differences across national jurisdictions that reduce the reliability of License-of-Right provisions?

License-of-Right (LOR) is an interesting approach inside and outside standards. In return for reduced maintenance fees or accelerated processing, a party agrees (at time of patent issuance, in some countries even before issuance) to grant reasonable licenses to those who request one. Letting a court determine what is reasonable if parties disagree is a useful analog in reviewing standards issues. LOR reduces the risk of injunctions for patents subject to that assurance. On the other hand, the concept of LOR is not "precise" enough as it is a license offer to any third party and cannot be limited to implementers of certain standard only.

Key issue 5 - Patent pools related to standardisation

Q 5.1.1 Q 5.1.2 Q 5.1.3 Q 5.1.4

⁵ In *Fujitsu v Tellabs*, a patent holder who disclosed and licensed SEPs to others, did not inform an implementer [defendant] that the patent was subject to a FRAND assurance. That information was discovered late in the trial. If recorded, the implementer would be aware of the assurance when it checked the patent records.

Q 5.1.5 Costs of pool creation: What are the costs involved (do you have estimates)? What do these costs depend on? How are they usually (pre-) financed?

Will one of the pool members administer the licensing function or will a third party be selected? Is the administrator familiar with the technical field of the standard – do they administer pools in related fields? These factors can affect costs.

Q 5.2.1 Decision to participate in pool: What factors influence a patent holder's decision to participate in a pool or not?

Some of the following factors in participating in a pool may also be useful in the 5.1 series of questions.

What would be a company's anticipated financial return if in pool v. outside pool.

What algorithm is used for sharing royalties?

Who will the other participants be? This determines (i) who the company can get a license from through the pool, (ii) who is outside the pool and may compete with the pool for royalties they set, (iii) whether there is a common vision on how to respond to various contingencies, and (iv) how the pool may be governed.

How does a company feel about not having control over how its patents are licensed and possibly enforced?

What are the terms of the pool's license agreement, including reciprocity from licensees?

Competition and antitrust issues (based on how the pool is formed and whether there is a review letter from a regulator)?

Cost of participating in pool and cost of having patents included in the royalty sharing. Who decides whether a patent is included as an SEP or not?

How close is the pool to the organization (e.g. SDO) that selects technology for the standard? Is there a concern that the organization that sets the standard then licenses it under royalties and terms it sets?

Can or must the company license its SEPs outside the pool, if requested?

Are there other pools for the same standard? Is that pool more beneficial or competitive?

Q 5.2.2 Incentives for pool participation: How can this balance be influenced positively? What incentives can be provided by public authorities and/or standard setting organizations to increase patent pool participation?

Regulators can suggest safe harbour rules for standards patent pools.

Regulators can review pool practices to avoid later antitrust or competition issues.

SDOs rarely consider how policies can affect pools. Some SDOs are defining algorithms for determining FRAND in ways that pools may likely violate.

These policy restrictions may be significant if (i) a pool participates in an SDO, and (ii) if members in the pool are also standards participants whose SEPs may be subject to the SDO policy.

Consider the following examples.

1. An SDO that directs a member to value its SEPs in light of all other SEPs in the standard may have an issue with a pool and/or its members. Pools generally do not focus on patents outside their portfolios; they typically set a cumulative royalty for the pools' patent assets and set up rules for splitting revenues. This typical pool model approach may be at odds with an SDO policy that directs participants to consider other patents.

2. Some SDOs urge a royalty based on the smallest saleable infringing unit. However, pools conveniently base royalties on a product [e.g. encoder or player] or item [software product title] sold, not the smallest saleable unit associated with each patent claim. Once again, a prescriptive SDO Policy could render a pool with numerous patents and patent holders an unwieldy and costly endeavour.

These "principles," as noted earlier, are in flux as courts and regulators look for practical and workable approaches that promote innovation and competition.

Some of the foregoing points apply more generally to non-pool licensors as well.

Q 5.3.1

Q 5.3.2

Q 5.3.3 Role of public authorities: What contribution can public authorities make to facilitate patent pool creation? What role could publicly owned patents play? Are there specific features of non-EU legal systems that could be useful also in the EU? Under what conditions and to what purpose would public financial support be beneficial?

Private pools have been formed and succeeded when promoted by parties and markets.

Questions on the understanding of and experience with "fair" and "reasonable"

The first set of questions relates to your understanding of the terms "fair" and "reasonable" and your practical experience with these

concepts. Methodologies for defining FRAND discussed in the literature are for example:

- **definition by reference to the incremental value of the technologies adopted in the standard in comparison to alternative technologies that were rejected;**
- **definition focusing on the value of the technology before the standard was adopted;**
- **definition by reference to the market value of similar transactions outside of the standardisation context;**
- **definition by reference to the actual transactions relevant to a given standard (if possible) or similar standards.**

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?

Some reflections:

1. *"Reasonableness" relies on numerous factors and, as reflected in the introduction to this question, can be based on varied algorithms.*
2. *SDOs that over-prescribe "reasonableness" and set policy contrary to legal precedent, as fundamental legal principles are being developed, is counterproductive, confusing and discouraging to innovator participation.*
3. *Royalties should be based on economic value of the patented invention and should not increase or decrease merely because the invention is included in a standard.*
4. *The negotiation of a licensing fee remains outside of the SDO and is reached in bi-lateral negotiations between the patent holder and the potential licensee based on legal, factual, economic, and business considerations that take into account the FRAND assurance.*

Q 6.1.2

Q 6.1.3 Time required for negotiations: In your experience, how long does it take, on average, to negotiate FRAND terms? What does the length of negotiations depend on? Is it more or less difficult/fast to reach an agreement on FRAND terms and conditions for standard essential patents licenses compared to other similar patent licensing deals?

Multiple factors affect the time required for negotiations including the number of patents, whether both parties have applicable SEPs, whether the negotiation is limited to SEPs and a specific standard, how acclimated the parties are to licensing patents and the willingness and ability of parties to negotiate a license,

whether others have already taken a license, whether some form of injunctive relief or some other incentive is available to prompt negotiations, how clearly the patents read on the standard or product, the technology complexity, and the business environment. Location of licensee can also be an issue in various respects.

Generally, licenses are not limited to SEPs, but look to address companies' needs and interests for their products and services.

Q 6.1.4 Initial offer or outcome: Do the terms "fair" and "reasonable" relate to the initial offer of the patent holder or to the actual outcome of negotiations? Are you aware of FRAND adjudication cases where there was a large difference of terms and conditions between the last offers of the licensor on the one hand and the last offer of the licensee on the other?

In one case [Cite available on request], a judge referred to opening offers being "in the ballpark" and not being necessarily FRAND.

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?

As compared to individual licensors, patent pool members (i) have lower administration and licensing costs, (ii) have access to SEPs of other pool members, (iii) normally benefit from lower royalties when it is an implementer as well as a SEP holder, and (iv) have antitrust concerns. These factors may reduce rates and possibly make licensing terms more licensee-favourable. Rates may also be lower to avoid negotiations.

In assessing reasonableness of royalties sought by licensor, the licensing fees charged by the prospective licensee to third parties, for inventions of similar value in like technologies, may be relevant.

Q 6.2.1

Q 6.2.2 Unilateral ex-ante disclosure: Would you welcome a larger role for unilateral ex-ante disclosure of licensing terms in order to facilitate the licensing of SEPs? What form could it take? How should SDO mechanisms be shaped to facilitate this instrument? Should they be mandatory or voluntary? Should the disclosure only concern the most restrictive terms?

From an implementer perspective, ex ante licensing information can assist in product planning and strategy. From a patent holder perspective, there are practical concerns with this approach. Early on, companies may not know which

of their patents may be needed for the standard, how important or valuable the patents are compared to others' SEPs, what rates will other SEP holders be setting, how widely the standard may be adopted, and generally what the market will look like. Some contend that ex ante will push up rates given these uncertainties and will drive defensive patent holders into setting terms and engaging in licensing – which they may not have otherwise – which could add costs to implementers. In a voluntary consensus mode urged by members, the Next Generation Mobile Networks Alliance [NGMN] tried to predict royalties for LTE4 with disclosures from various companies – the process became somewhat complicated.⁶

A policy requiring participants to specify maximum terms ex ante has been adopted by the SDO VITA, after an episode in which licensing terms for SEPs were disclosed just prior to a standards announcement.

As an innovator and implementer, IBM understands both perspectives of ex ante disclosure.

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 SDO 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?

Royalty pricing terms should be negotiated by the parties and not upfront by the SDO. Some parties may prefer running royalties, while others might prefer a lump sum. Why should an SDO mandate a running royalty contrary to party interests, especially where the forms are convertible to a large extent? Similarly, the end product may be a convenient royalty base for licensing as noted by a court recently. [Cite available on request.]

Q 6.3.1 Advantages of portfolio licensing: What are the advantages of portfolio licences respectively for the patent holder and for the implementer? How important is the so-called "freedom to operate" or "patent peace" between companies? Please cover in your answer also issues of scope (e.g. geographic scope, product scope, inclusion of future patents).

SDOs should not disrupt time-tested, pro-competitive cross-licensing that

⁶ See article at <http://www.investorvillage.com/uploads/82827/files/LESI-Royalty-Rates.pdf>

promotes freedom of action and freedom of contract. Portfolio licensing benefits both parties with certainty and convenience. For the patent holder, it need not enforce and price each individual SEP and, as with a pool, can achieve efficiencies and more uniformity in licensing. For the implementer, it can avoid being licensed under a few patents and then discover that there are other SEPs being asserted by the same patent holder or its affiliates. As in a pool, the package license can cover the entire standard or perhaps the entire product.

A licensee might secure a license to identified SEPs, and not the portfolio, in order to seek lower royalties. However, such a licensee runs the risk of infringing other SEPs and facing a new infringement.

Q 6.3.3 Cross-licenses: What are the advantages of cross-licensing? What problems arise? How do the concepts "fair" and "reasonable" apply to cross-licensing?

In practice, parties to a cross-license will determine the respective values of their portfolios (involving SEPs alone or otherwise) and provide for balancing payments according to their assessments. If the parties are bargaining at arm's length, the FRAND aspects will be built into the agreement.

Q 6.4.1 Pertinence and impacts: In your experience how common is royalty stacking and in which areas of past, ongoing, or planned standardisation does it exist or will it likely occur? What problems arise in such situations? How do individual companies deal with such situations and what are the (financial) costs?

Two views of stacking have developed. Under a theoretical or hypothetical view, the stack includes SEP royalties that could be sought. Under an actual view, the stack includes only SEPs under which royalties are paid. [Cites available on request] In the first instance, the SEP holder may realize a small fraction of SEP value and the licensee has a windfall. In the second instance, the implementer might face substantial fees as more licensors appear. A middle ground could be considered, for example a variable royalty rate based on the number of actual bona fide licenses entered by the licensee for the standard.

Q 6.4.2

Q 6.4.3 Method for allocating value: In order to improve methods to deal with royalty stacking and for adjudicators to find proportionate FRAND value, what are best ways to allocate value between patent holders of a given standard? How can the proliferation of patent applications in case of simple patent counting be avoided?

Stacking presumably will involve granted patents rather than patent applications. Patent counting can provide tiered values (as done in some pools) based on

various indicia, such as the number of patent counterparts (in various countries). Such measures are not certain and should be applied judiciously.

Q 6.5.1

Q 6.5.2

Q 6.5.3

Q 6.5.4

Q 6.6.1 Definition in practice: In your opinion, what is the best definition of the non-discrimination principle? What aspects of non-discrimination do you find important? Is there sufficient clarity on what non-discrimination means and how it is to be applied in practice? Does the non-discrimination principle relate to the initial offer of the patent holder or the actual outcome of negotiations? Does it relate to an offer isolated to a single standard or to multiple standards? Do you consider that the non-discrimination principle creates obligations on the (potential) licensee?

Non-discrimination does not mean identical. Some cases [Cite available on request] have discounted relationship between licensor and licensee as a factor in determining FRAND.

Q 6.6.2

Q 6.6.3 Justification for discriminations: Are there any reasons why individual implementers could be excluded from the obligation to license to (reciprocity)? What would justify different terms and conditions for FRAND licenses?

An NPE licensor might not opt for a reciprocal license. However, a licensor who plans to or might ever implement the standard would rarely forfeit its right to a license back.

Timing could affect terms. According to Sir Robin Jacob [former UK judge], taking a license before litigation (and before validity and infringement have been established) may justify a different rate from the party who litigates resulting in the SEPs being found valid and infringed.

Q 6.6.4 Cash-only/cash-equivalent: One idea discussed in the standardisation community in order to make licensing terms comparable in cases, where non-cash elements such as cross-licenses are used with some implementers, is to foresee that a cash-only offer is made. What is your opinion on this? Should this idea apply only in some instances and, if so, in which? Should this be a genuine self-binding offer or would a cash equivalent estimation of non-cash components be preferable?

As noted in the EC Report, in order to prevent SEP holders from seeking a license, out or in, that includes non-standard patents, some contend a licensee should always be allowed to demand a license for cash-only. As stated in the EC Report: "If the licensee has the option to choose a F/RAND cash price, but instead chooses to cross-license, then clearly it is better off... Licensees should have the option of licensing individual SEPs on a cash-only basis."

A licensee implementer (who may have no FRAND obligation) can then, with its SEPs, enjoin or stop the licensor from practicing the standard! This result is anti-competitive, is manifestly unjust, will certainly drive innovators away from the standard, and will place non-SDO members in an advantageous position over those who join and commit to license.

Any concern with a requirement to license non-standard patents in (or in return) can be addressed less bluntly, without a cash-only approach.

See also response in Question 6.3.3 regarding arms length cross-licenses being self-regulating.

Q 6.6.5

Key issue 7 - Patent dispute resolution

Q 7.1.1

Q 7.1.2

Q 7.1.3

Q 7.1.4

Q 7.2.1 Usefulness of alternative dispute resolution: In your experience, does ADR currently play an important role in resolving SEP disputes? Is it regularly considered/discussed when SEP disputes arise? Do you see any trend in its prevalence?

Some SDOs discuss "arbitration" in their policies. We are not aware of arbitration actually being used in SEP matters.

Q 7.2.2

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

There seems to be consensus that voluntary arbitration is preferred over mandated arbitration, if arbitration is to be considered. ADR may be more appropriate for some cases than others. Complex cases involving many patents

and issues may be difficult for abbreviated ADR proceedings, especially where numerous witnesses are required.

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?

See answer to general question 7 above. Moreover, parties can select arbitrators so that expertise and experience may be better achieved. Forum shopping is reduced and more uniform proceedings can be specified.

Q 7.2.5 Difficulties and costs: What are the main difficulties and costs for parties in agreeing to and setting up a given dispute resolution mechanism? What do the costs depend on? Do rules on ADR differ between jurisdictions and does this create problems?

Some concerns include:

Counsel must learn new procedures published by the arbitration group, adding costs.

Parties may have to tailor rules to their specific case, especially where the arbitration organization does not have rules specifically for FRAND and standards situations, which will involve attorney cost and uncertainty in procedure.

Some ADR proceedings last as long as litigation and are not as cost-effective as predicted.

For some arbitrated issues, judgment must be authorised/enforced by a court, for example, where national laws only allow courts to address patent validity.

There is generally no appeal, although some groups are considering what issues/errors may be opened to appeal.

Is the result applicable to other parties and/or is the outcome confidential? While one typical benefit of arbitration is that it applies to only the parties involved, some question whether the results of FRAND disputes should be made public. If made public, results from an abbreviated process may apply across the industry.

There may also be a question about what patent laws are followed by the arbitrator – does the arbitrator look at different laws in each jurisdiction for the validity and infringement of each patent?

Are there language issues – that is, in which language is the proceeding conducted?

Of special import, does a company want its portfolio value dependent on an abbreviated process?

Q 7.3.1

Q 7.3.2 Role of SDOs: To what extent and how should SDOs be involved in the creation and provision of alternative dispute resolution mechanism? Should procedural aspects be further defined in SDOs in order to facilitate the use of ADR?

Assuming arbitration is voluntary and authorised by the SDO, the SDO may suggest ADR providers.

Q 7.3.3

Q 7.3.4 Voluntary/mandatory: What are the benefits and risks of making ADR mandatory for the resolution of SEP disputes? What consequences would this have for participation in standardisation, for licensing negotiations and for the implementation of a standard? If ADR would be made mandatory: Should it be linked to membership in SDOs, or to the fact of contributing a patented technology to a standardisation process, or other? Should there be an opt-in/opt-out possibility at the declaration stage? Should ADR replace litigation completely or should it be a mandatory step (e.g. mediation) before litigation?

While some contend that arbitration is quicker and less expensive, it is not trusted by many. Sophisticated issues are condensed, the certainty and precedence of a court are absent, the qualifications of the arbitrator are harder to assess, the procedures of the arbitration and association and whatever rules the SDO might impose may not benefit the company. The lack of discovery may reduce costs but may also limit access to vital information. Accordingly, there are concerns with binding arbitration that is mandatory and precludes litigation.

Q 7.4.1 Specificities of ADR for SEP disputes: Which particular features should ADR mechanisms have in order to be (more) suitable for SEP disputes? What would constitute an ADR mechanism "tailor-made for SEP disputes"?

WIPO is drafting some procedures for SEP ADR.

An American Bar Association [ABA] Committee is reviewing ADR and arbitration relating to SEPs. EC might contact Jorge Contreras at University of Utah.

Q 7.4.2

Q 7.4.3 Procedure: What procedural issues have you experienced in relation to ADR for SEP disputes? What procedural features are particularly important for resolving SEP disputes? What degree of procedural discretion should be left to the arbitrator? Should there be an appeals procedure and if so, in what form?

How would arbitration address Markman [claim term analysis] issues and errors, and expert testimony relevance?

Courts have different views on how the claims are interpreted – plain meaning or dictionary meaning, meaning based on the patent specification and prosecution history, what the skilled artisan would understand, etc. If an arbitrator decides based on a manifestly wrong view of the patent claim, or if there is no factual basis for rates, or if the arbitrator relies on untrustworthy witnesses, should there be an appeal? Some in the standards community do not allow for injunction until a court opinion passes the first level (or all levels) of appeal. But for an arbitrator, injunctive relief is available after the arbitrator decides.

Q 7.4.4

Q 7.4.5

Q 7.4.6 Forms of ADR: Are there forms of decision making by the arbitrator that you consider particularly suitable for SEP disputes? If so, in what situations and why? Is the concept of baseball arbitration, where the arbitrator resolves the dispute by choosing either the offer of the patent holder or the offer of the implementer, a practical form to settle SEP disputes?

Baseball arbitration is inapt at least where the law of SEP damages is developing and where issues are more nuanced than binary or numeric. For example, if patent validity or infringement are at issue in assessing a royalty, a likelihood percentage of the patent holder prevailing on these issues might be appropriate.

Mediation prior to arbitration or litigation may be useful if the parties agree to it.

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?

SDOs should not virtually immunise unwilling implementers from injunctive relief. Courts can assess whether negotiations are in good faith toward FRAND. See comments above on general Question 8.

In any event, prior to formalising changes, SDOs should consider if and how the policy could be rolled back if/when adverse consequences result from policy changes.

The notion that drafting and revising patent policy is “governance” and need not comply with due process, non-domination by one group, consensus, openness,

and the like is problematic. Where patent policy is integrally involved with standards development, excluding the patent policy development process from traditional fairness and due process requirements raises concerns.

SDOs should avoid extreme positions that artificially depress patent royalties and unreasonably limit patent enforcement.

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?

Various measures already limit enforcement of SEPs with injunction: (i) being awarded an injunction where there is a FRAND commitment is very difficult (compared to the past and compared to non-SEP circumstances)[Cites available on request]; (ii) awarding attorneys fees to prevailing parties is available (or has become more available) in various countries; (iii) severe fines apply against SEP holders in various jurisdictions for patent abuse, which may include FRAND violation; and (iv) damages may be assessed for business injury resulting from improperly enforced SEP injunctions.

Also, a SEP holder who violates FRAND or improperly seeks injunction may encounter difficulties in having its technology selected for future standards. Further, if the SEP holder needs SEPs held by Licensee(s), the SEP holder rate for its patents may/should help inform the reciprocal rates charged for the SEP holder's license in.

Q 8.3

Q 8.4 Consequences of banning injunctions: Are you aware of national jurisdictions that have banned injunctions based on standard essential patents or that have restricted injunctions even against unwilling implementers (court cases or legislative changes)? Did this impact on the licensing negotiations, on the royalty rates and/or on the risk of getting no remuneration at all? How did patent holders reacted in these jurisdictions?

Courts recognise that, even in the standards FRAND context, banning injunctions is inapt. [Cite available on request]. Factors such as implementer refusal to negotiate, refusal to comply with adjudicated FRAND terms, refusal to grant appropriate reciprocity, and inability to pay royalties have been cited as potential reasons to allow injunction to be filed. The granting of exclusionary relief should consider equitable factors such as adequacy of money damages, irreparable harm to the SEP holder, balance of interest, and public interest. A patent licensed at XX EUROS today (in a standardised product) should not necessarily, under SDO, court, or regulator measures, be increased or decreased to YY EUROS

tomorrow (for that product) merely because the patent holder joins an SDO and the patent is a SEP – agreeing to offer FRAND should not automatically impact patent value.

Q 8.5 Awareness among stakeholders: In your experience, is there sufficient awareness among standardisation participants of the recent EC antitrust decisions cited above? What role can standard setting organizations play in ensuring awareness of these antitrust decisions? On what aspects of the issue as such would you welcome additional guidance, if any?

The patent community is aware of the two EC decisions but has not heard detailed discussions.

We wish to raise a point in the Samsung matter. The “Commitment” [in Section (A)(1) on page 1] which allows either party to invoke a cross license by virtue of Samsung’s FRAND commitment is not understood. If it means that Samsung must take a license back on the licensee’s SEPs, that premise is contrary to all SDO policies of which we are aware and hence creates a new obligation that sets a problematic model.

First, while a FRAND licensor may wish to have a license back, it is not clear why it should be forced to take a license back. In various discussions in the EC Report, great concern is expressed over forcing licensees to take a license it does not want. To the extent that the Consent Decree allows the licensee to “invoke” a reciprocal license onto the licensor, there is an unprecedented imbalance. “Forced reciprocity” runs counter to ETSI policy and ITU policy and all other policies which allow the licensor to condition its license on reciprocity but do not require the licensor to take a license back. Second, this measure will create a Hobson Choice for licensors. A licensor who does not check the “reciprocity” box could be precluded from seeking a license back, which can drive licensor out of business when licensee pursues an injunction under its SEPs. [See the EC Report Section on injunctions]. But, under the forced reciprocity option, a licensor who does check the reciprocity box can be forced to take a license back. That is, even if licensor agrees to license its SEPs for a cash fee that is FRAND, the licensee can reject that and insist on a cross-license if the licensor checked the box. This can enable the implementer to raise numerous claims and issues to delay and hamper the licensor in satisfying its FRAND assurance. In both options, licensor interests are scuttled, their incentive to innovate is depleted, and innovators and patent holders are urged outside the standard and away from a malleable FRAND commitment. This seems anathema to a robust standards industry.