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EUROPEAN COMMISSION  
DG Growth  
B - 1049 Brussels  
Belgium

By email to [ENTR-SEP@ec.europa.eu](mailto:ENTR-SEP@ec.europa.eu)

Re: European Commission Consultation on Patents and Standards

### **Respondent Profile**

Please find hereafter the information requested in the consultation:

- Submitting organization: Microsoft Corporation
- Type of respondent: Enterprise
- Location of headquarters: 3460 157<sup>th</sup> Avenue NE, Redmond, WA USA 98052
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- EU Transparency Register Number: 0801162959-21

Dear Sirs/Madams:

We appreciate the opportunity to provide comments in connection with this Consultation.

Microsoft plays a dual role in standardization activities. We actively contribute innovative technology to standardization related to computing hardware, software and associated devices, the Internet and its infrastructure, consumer electronics devices, and telecommunications systems. We also are an active implementer of standards. Microsoft products also support a very large number of standards that are formulated by a broad diversity of standards bodies. Ultimately, both of these roles are deeply informed by the market, and in particular by feedback on the way customers use ICT products and services in their day-to-day lives.

Information and communications technology ("ICT") standards help address interoperability needs in an increasingly connected world. These standards are promulgated by hundreds of standards-setting organizations ("SSOs") that have been formed in response to the evolution of different technologies, changing market conditions and diverse stakeholder needs. These SSOs have differing structures, standards development processes and IPR policies.

One area where there is some consistency among most SSOs is a widespread recognition of the need to address competition law concerns that arise when patented technology is included in collaboratively-developed standards. Consequently, most ICT SSOs have an IPR policy that seeks FRAND-based licensing commitments from participating patent holders in an effort to mitigate the risk of patent “hold-up”. As competition regulators continue to highlight the need for SSOs to clarify the effect of a FRAND licensing commitment, it would be helpful for such clarifications to be generally consistent.

Our more focused responses to the general issues covered in the Consultation are below.

### **Consultation Issue 1 (Overall Landscape)**

*Standardization 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?*

We believe that machine-to-machine communication is an emerging area of focus with regard to standardisation work. The further integration of connectivity and communications technology into more traditional product sectors will vastly expand the implementation and impact of ICT standards.

There also may be increasing standardisation work involving patents in the area of security-related technology, specifically cryptography and biometrics. Another such area appears to be the field of energy generation and storage (e.g., fuel cells and smart grid technology).

Among other things, the Consultation asks how SSOs’ technical committees decide what patented technology to include in a standard. Most ICT standards will have many standard essential patents (“SEPs”) that arise by virtue of the often lengthy (sometimes hundreds of pages) and technically-complex text that describes what is required in order to conform to the standard.

In our experience, technical committees generally do not review patent statements (much less any actual patents listed) that have been submitted to the SSO in connection with the standard being developed. Most of the time engineers work collaboratively on the text of the technical document without specifically debating the merits of including specific patented technology, largely because (a) they are engineers, not attorneys, (b) they are under pressure to complete months/years of work and finalize the lengthy text of the standard, and (b) they do not want to be “tainted” with knowledge of other companies’ patented technology. Under the rules of many SSOs, the technical committee is not requested to consider a possible patent issue unless the SSO receives a patent licensing statement to the effect that the patent holder likely has related SEPs and will not agree to license them on FRAND or FRAND-RF terms.

In its Consultation, the European Commission refers to two other links between patents and standards:

- “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.”

With regard to the first scenario, the issue seems to be focusing on what is deemed to be “essential” for the implementation of the standard developed at an SSO. For many SSOs, the term (a) is not defined or (b) is clarified to mean that the patented technology would be technically necessary in order to conform to the standard.<sup>1</sup> If a patent meets this criteria (whether or not the standard “refers” to the patented technology), then it would be essential and the relevant SSO’s IPR policy would apply.

Some SSOs define essentiality more broadly to include “commercially” necessary or essential patents. Generally this refers to patents that are not technically essential, but cover technology that is the only commercially feasible means of implementing the standard. While it is not always easy to determine whether a patent is technically essential, in practice it is much more difficult to determine whether a patent is “commercially essential” to the standard. This is because “commercial essentiality” depends on: 1) predictions about the future costs of designing around a particular patent during implementation, and 2) assumptions regarding the degree to which such costs would exceed the financial or commercial benefit of implementing the standard, making implementation commercially unfeasible.

For obvious reasons, the actual costs of designing around a patent and the future commercial benefits of implementing a particular standard are very difficult to predict *ex ante*, even for prospective implementers (who are in the best position to predict their own costs and benefits). Any such prediction is necessarily based on assumptions not just regarding the cost of a design-around, but also about the overall costs of implementing the standard in a product as well as implementers’ future production costs, likely market share, and anticipated profit margin with respect to the implementing product. Patent holders, who lack information regarding implementers’ product costs and commercial plans, are in a far worse position to predict the development costs and anticipated profits of third-party implementers, making it extremely difficult (and often literally impossible) for a patent holder to assess whether a particular patent in its portfolio is “commercially essential” (thereby potentially triggering obligations under the

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<sup>1</sup> For example, the ETSI IPR Policy (see <http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>) defines “ESSENTIAL” as follows:

“ESSENTIAL” as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL.

relevant IPR policy). For these reasons, we believe that the better approach is to limit the definition of “essentiality” to technical essentiality.

The second scenario described further above focuses on 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.” In other words, in this scenario the patent-protected technologies have nothing to do with a standard promulgated by an SSO; the patents here cover proprietary inventions.

We have serious concerns about imposing or inferring the existence of FRAND licensing commitments with regard to such patent-protected technologies. Under this scenario, the patent at issue is not essential to implementation of *a standard*, but instead is deemed to be essential to marketability of *a product*. This much broader notion of “commercial essentiality” has nothing to do with standard-setting or implementation of a standard, but instead focuses on a product’s ability to satisfy consumer preferences for specific features or technologies that are not the subject of (and are often completely unrelated to) the standard or its technical implementation.

In effect, this broader notion of “commercially essential” is completely divorced from the standards context and encompasses any non-standardized feature or technology that drives consumer demand in a particular product market. In most cases, the consumer demand for such features and proprietary technologies would exist irrespective of the standard or its implementation. For this reason, so-called “commercial essentiality” applied to non-SEPs conflates SEPs, which are subject to a FRAND commitment as a limitation on the assertion of patents with collaboratively conferred market power, with non-SEPs which have no such limitations. In doing so, it inappropriately blurs the important line between (1) the role, scope and framework of collaborative standards development within an industry (which can, absent safeguards, raise legitimate competition concerns), and (2) the individual development of innovative, proprietary technology by companies that allows them to offer superior products that better satisfy the needs of their customers (which does not implicate the same types of concerns).

Companies make the choice to participate in voluntary, collaborative standards-setting with competition law constraints associated with FRAND-encumbered SEPs. It would be wholly inappropriate, and also bad policy, to apply those same constraints outside of the standards-setting context to a patent holder’s successful, proprietary, patented technology -- just because competitors want it. This would unjustifiably undermine the fundamental tenants of patent law, reduce firms’ ability to compete based on differentiating technologies, and ultimately lead to less choice and fewer innovative products for consumers.

We understand the need for, and importance of, FRAND licensing commitments in the standardization context where competing companies and other stakeholders develop a standard through collaborative efforts. As noted by Fiona Scott-Morton when she was the Deputy Assistant Attorney General For Economic Analysis at the U.S. Department of Justice (Antitrust Division):

“One question that I have been asked is, ‘What’s so special about standard essential patents versus other patents?’ Standard essential patents achieve their status through the collective action at the SSOs. Harm can occur when companies come together and bestow market power on each other by agreeing on a common technology. F/RAND commitments are

designed to reduce occurrences of opportunistic or exploitative conduct in the implementation of standards. It is these commitments, along with other things, that make competition authorities more comfortable with these collective decisions. In reviewing these collaborations we ask whether the net effect of the joint activity is good for consumers. If the F/RAND commitments are so vague and ill-defined as to have little meaning, then consumers may not realize all the benefits of the standard, which may be efficient and create new products and services due to the patent holders' exercise of market power, which may result in higher prices, less product choice and less investment in the overall network.

All truly essential patents for a successful standard inherently have market power. We believe declared SEPs can be a powerful weapon, perhaps enhanced by over declaration, and can be used to harm competition through holdup.”<sup>2</sup>

However, the holders of proprietary patents that are not SEPs subject to a FRAND commitment under an SSO's IPR policy have not agreed to give up any of the rights they may have to exploit their patents commercially and exclude others from infringing such patents. The strength of such non-SEPs does not stem from the collaborative efforts at a SSO, and therefore does not implicate the same competition law concerns. As Scott-Morton further noted:

“Note that non-SEPs can also be used to hold up licensees. If the licensee has already invested in a product and faces costs to designing around the patent, the licensor can extract some of the licensee's investment, not just the value of his IP. But this is an issue that arises out of the power that a patent gets when it is issued, which may or may not be market power in a competition law sense. However, notice that the holdup power of the non-SEP owner does not stem from a collective decision by competitors. Rather, it springs only from a single innovation deployed unilaterally by its owner. This is the difference that causes F/RAND encumbered SEPs to be of concern to competition authorities including the Department of Justice.” (Emphasis added.)”<sup>3</sup>

It is our understanding that this analysis is shared by other competition authorities, including DG Competition. As noted in the European Commission, Competition Policy Brief, “Standard-essential patents” dated June 2014:

“Standards frequently make reference to technologies that are protected by patents. A patent that protects technology essential to a standard is called a standard-essential patent. It is impossible to manufacture standard-compliant products such as smartphones or tablets without using technologies covered by one or more SEPs. SEPs are different from patents that are not essential to a standard (non-SEPs), such as design patents, for example, which protect the design features of an invention. This is because, generally,

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<sup>2</sup> See “The Role of Standards in the Current Patent Wars” presented by Fiona Scott-Morton at the Charles River Associates Annual Brussels Conference: Economic Developments in European Competition Policy on December 5, 2012 (available at <http://www.justice.gov/atr/public/speeches/289708.pdf>).

<sup>3</sup> *Id.*



companies can invent alternative solutions that do not infringe a non-SEP (whereas they cannot design around a SEP).”<sup>4</sup>

This point is further echoed in the Report by the International Telecommunication Union (ITU) entitled “Understanding patents, competition & standardization in an interconnected world” released 1 July 2014<sup>5</sup>:

“It is important to note that these ‘proprietary specifications’ are not the same as collaboratively-developed standards, and the owner of any related patents is not subject to the specific licensing constraints (such as ‘RAND’, which will be discussed later).”

The collaborative nature of standardization is a key factor in terms of the need for, and imposition of, FRAND licensing assurances. It is this collaboration that implicates the related competition law concerns. In the absence of this collaborative process, it would be inconsistent with the principles underlying FRAND commitments for a company to argue that any competitor’s proprietary feature or patented technology that is viewed as highly desirable by consumers (meaning that it is a successful, proprietary invention) must be shared with all competing manufacturers as if it were a FRAND-encumbered SEP in connection with a standard.

### **Consultation Issue 2 (SSO Best Practices)**

*A variety of rules and practices govern standardisation involving patents. Which elements of these rules and practices are working well and should be kept and/or expanded? Which elements on the other hand can be improved?*

SSOs have adopted a broad diversity of standards-setting procedures and policies. These different SSOs’ approaches often seek to address the diversity of technologies, market conditions and stakeholder needs. SSOs can be of different sizes, adopt different degrees of formality in terms of their processes, and represent different approaches with regard to participation, transparency, consensus and IPR issues. We see value in many of these different governance processes and procedures.

As noted above, one area where we see some general consistency – and a need for consistency – is in connection with SSOs rules and policies adopted largely to address competition law concerns. As noted by the Deputy Assistant Attorney General, U.S Department of Justice (Antitrust Division):

However, collaborative standard-setting does not come without some risks to competition. In particular, when a standard incorporating patented technology (owned by a participant in the standard-setting process) becomes established, switching may become difficult and expensive. This lock-in may cause that particular technology to gain market power. Patent holders may seek to take advantage of that market power by engaging in one form of patent hold-up, such as excluding a competitor from a market or obtaining an unjustifiably higher price for its invention than would have been possible before the standard was set. This

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<sup>4</sup> Available at [http://ec.europa.eu/competition/publications/cpb/2014/008\\_en.pdf](http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf).

<sup>5</sup> Available at [http://www.itu.int/en/ITU-T/Documents/Manual\\_Patents\\_Final\\_E](http://www.itu.int/en/ITU-T/Documents/Manual_Patents_Final_E)

type of hold-up raises particular concerns when alternative technologies could have been included in the standard before it was set. Patent hold-up can cause other problems as well—it may induce users to postpone or avoid incorporating standardized technology in their products. Consumers could also be harmed when companies implementing the standard pass on increased royalties by raising prices.

To reduce the occurrence of such opportunistic conduct, most standards bodies have adopted patent policies that seek commitments from participants to license the patents they own that are essential to the standard (standard-essential patents) on “reasonable and non-discriminatory” (RAND) in the United States or “fair, reasonable, and non-discriminatory” (FRAND) terms in Europe and other jurisdictions.<sup>6</sup> (Emphasis added.)

Many SSOs have been responsive to changes in their environment and the overall standards ecosystem, including issues raised by competition authorities, and have reviewed and revised their processes to address related needs.<sup>7</sup>

One area where SSOs adopt different approaches is with regard to the disclosure of possible SEPs and licensing commitments. The IPR policies of most arguably more formal SSOs and many consortia are **disclosure-based**<sup>8</sup> policies. Under these types of IPR policies, participating companies generally are required or encouraged to disclose either (a) patents they hold that are likely to contain patent claims that will be essential to implementing the final standard or (b) the fact that they likely hold such patents (but without identifying specific patents). The disclosing participant is then typically requested to declare its intention with regard to licensing such essential claims. If specific patents were disclosed, then the licensing commitment usually will apply to just the essential claims in the identified patents. In the case of a patent holder disclosing more generally that it likely will have essential claims, the licensing commitment generally will apply to any and all essential claims the patent holder has vis-à-vis the final standard. (As described in more detail *infra*, we believe that these all-inclusive licensing commitments provide greater safeguards to implementers than detailed disclosures of possibly essential patents.) Typically the patent holder also has the option to declare that it will not license its SEPs on FRAND or FRAND-RF terms.

Some SSOs have adopted **participation-based** IPR policies. Under this type of IPR policy, a participating company undertakes a FRAND licensing commitment for any essential claims it may have vis-à-vis the final standard just by joining the SSO or by joining a technical committee of the SSO. Sometimes the automatic commitments are FRAND-RF, as is the case with the popular USB standard and the W3C standards. Standardisation efforts under a participation-based IPR policy typically are scoped very narrowly.

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<sup>6</sup> See Remarks by Renata Hesse, Deputy Assistant Attorney General, U.S. Department of Justice (Antitrust Division) entitled “Six ‘Small’ Proposals for SSOs Before Lunch”, October 10, 2012 (available at <http://www.justice.gov/atr/public/speeches/287855.pdf>); see also European Commission, Competition policy brief, Issue 8, June 2014 (available at [http://ec.europa.eu/competition/publications/cpb/2014/008\\_en.pdf](http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf)).

<sup>7</sup> For example, a number of SSOs updated their IPR policy to address the “transfer” issue after competition authorities raised concerns about the need to have new owners of FRAND-encumbered SEPs agree to honor the FRAND commitment. (See discussion of the “transfer” issue *infra*.)

<sup>8</sup> Final Report on Patents and Standards as published on 25 March 2014, page 40.

Participation-based IPR policies may also require or encourage patent disclosure, although many do not because all participants already have committed to license whatever essential claims they have vis-à-vis the final version of the standard on at least FRAND terms. Participation-based policies, however, often include safeguards for participants to opt out or exclude certain essential claims by disclosing the patents containing those essential claims so that the automatic commitment will not apply to them. This is to provide an important safeguard in the event that a patent holder's competitor seeks to contribute that patent holder's patented technology and the patent holder is not willing to license that technology on FRAND or FRAND-RF terms (depending on the SSO).

We note that the European Commission recognized the diversity among SSOs in terms of their organizational structures and processes in its Guidelines on Horizontal Cooperation Agreements ("Horizontal Guidelines").<sup>9</sup> At the same time, these Guidelines clarify those common elements SSOs should include in their IPR policies in order to mitigate the risk of anti-competitive conduct.<sup>10</sup>

One area where further clarity may be very helpful relates to the effect of a FRAND licensing commitment. A number of competition regulators have encouraged SSOs to clarify whether (and if so, under what circumstances) a holder of a FRAND-encumbered SEP can seek injunctive relief, and to provide some high-level principles to help assess what is "reasonable and non-discriminatory". See Remarks by Renata Hesse, Deputy Assistant Attorney General, U.S. Department of Justice (Antitrust Division) entitled "*Six 'Small' Proposals for SSOs Before Lunch*", October 10, 2012;<sup>11</sup> Article by Kai-Uwe Kuhn, Fiona Scott Morton and Howard Shelanski (who were then the chief economists for DG Competition, Department of Justice (Antitrust Division) and FTC respectively) entitled "*Standard Setting Organizations Can Help Solve the Standard Essential Patents Licensing Problem*".<sup>12</sup>

### **Consultation Issue 3 (Patent Transparency/Disclosure)**

***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?***

Where SSOs' IPR policies require or permit a blanket assurance from participants that any of their patents essential to a standard will be licensed to implementers on FRAND terms, we are not convinced that increasing obligations relating to disclosure of specific patents will be beneficial to the standardization community to the extent that it would justify the increased resulting costs to participants and SSOs. It is important to balance the advantages of increased transparency with the disadvantages of the costs resulting from the requirement to assess, provide and update specific patent-by-patent information in multiple SSOs. Moreover, we believe that obtaining effective

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<sup>9</sup> Guidelines on the applicability of Art. 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements (2011/C 11/01), para. 279.

<sup>10</sup> Horizontal Guidelines, para. 278-291.

<sup>11</sup> Available at <http://www.justice.gov/atr/public/speeches/287855.pdf>.

<sup>12</sup> Available in CPI Antitrust Chronicle, March 2013 (Special Issue).



FRAND licensing commitments from participating patent holders generally provides more value and safeguards to implementers than lists of patents (which frequently include patents that are not valid and essential to the standard).

In our experience, the disclosure of specific patents that might be essential to the standard under development is of limited value. A key consideration is how this information would be used. In many SSO, most standards participants (who generally are engineers) are instructed by the SSOs and their companies to focus on the text and the technical issues to be resolved in the standard setting process. In general, specific patents and patent disclosure statements are not discussed by the authors of the standard during the specification development process. In practice, most FRAND patent disclosures do not trigger discussions in technical committees, and committees tend not to change course as a result of disclosures.<sup>13</sup> As set forth in the ETSI Guide on IPRs:<sup>14</sup>

“Specific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI. Technical Bodies are not the appropriate place to discuss IPR Issues. Technical Bodies do not have the competence to deal with commercial issues. Members attending ETSI Technical Bodies are often technical experts who do not have legal or business responsibilities with regard to licensing issues. Discussion on licensing issues among competitors in a standards making process can significantly complicate, delay or derail this process.” (Emphasis added.)

Many SSOs encourage the disclosure of patents that might end up being essential early in the process, in part to determine if there will be any blocking patents where the patent holder will not agree to license implementers on FRAND or FRAND-RF terms.<sup>15</sup> However, this naturally creates the likelihood of “over-disclosure” because the text of the standard will continue to change until it becomes finalized, and any related patent licensing commitments typically only apply to essential patent claims that read on the final version of the standard.

Another challenge with disclosures of specific patents stems from the costs that a company will incur in determining whether it has any patents that likely will read on the standard. Most SSOs’ IPR policies do not require patent holders to undertake any (much less multiple) searches of their patent portfolios to assess whether they have any possible SEPs. Disclosure, when it is required, generally is linked to an awareness of the likelihood of possible SEPs by the participating engineer, who then typically will consult with the company’s legal department (as patents are legal documents). Even then, a company will have to expend considerable resources evaluating its patent portfolio (which can include tens of thousands of patents and patent applications) against the evolving text (often hundreds of pages) of a draft standard. If disclosures are required to be updated, then this cost is repeated multiple times.

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<sup>13</sup> This may be different, however, in FRAND-RF SSOs, or in FRAND-based SSOs that are attempting to create royalty-free standards. In those situations, non-royalty-free patent disclosures or patent exclusions tend to be extremely disruptive as the SSOs are often not equipped to address the issues raised by a commitment that is not royalty-free. In our view it would therefore overburden SSOs and technical committee participants if they were required, on top of agreeing on the various technical issues, to make determinations regarding related patent issues.

<sup>14</sup> Available at <http://www.etsi.org/images/files/IPR/etsi-guide-on-ipr.pdf>.

<sup>15</sup> One situation where there may be value in requiring the disclosure of specific information is when a participating patent holder notifies the SSO that it is not willing to license implementers on FRAND or FRAND-RF terms.

Such increased disclosure obligations also are difficult because essentiality may be defined differently by different SSOs. Assessments of essentiality are not easy or without significant costs. There also may be further complicating factors – what if a patent likely reads on an option in the standard?

Furthermore, under the terms of the IPR policy, it needs to be taken into consideration that the licensing commitment usually only applies to those claims in the patent that end up being essential or necessary in order to implement the standard. If a patent holder discloses specific patents (but “misses” some), any related licensing commitment would only apply to those disclosed patents that end up being essential.<sup>16</sup> Many SSOs permit a patent holder to disclose that it likely holds patents that will have essential claims without disclosing specific patents. If the patent holder then makes a FRAND-type of licensing commitment, then this commitment will apply to any and all essential patent claims that it has vis-à-vis the final standard. Many companies see greater value in knowing that other companies’ SEPs are covered by a licensing commitment than in seeing detailed, very lengthy lists of patents that may (or may not) end up being valid and essential.

Even if such “blanket” disclosures provide for arguably limited transparency regarding specific possible SEPs, Microsoft considers them important to ensure broad participation in the standard setting process and broad availability of FRAND licenses. Both aspects should ultimately lead to a situation in which as many patent holders as possible are bound by a FRAND commitment and, therefore, competition within the framework of the standard is (as far as possible) not hindered by patents which are not subject to such commitments.

This is especially true when it is not clear what the value is in requiring patent holders to disclose each and every possible or likely SEP. Given the uncertainties that will continue to exist with any disclosures (such as the changing nature of patent applications and the text of the standards), it is virtually impossible (without incurring unjustifiable costs) to make definitive, specific and fully accurate patent-by-patent disclosures. In addition, as noted before, engineers – as instructed by the SSOs and the engineers’ employers – typically avoid reviewing information about other company’s patents and technical committees generally do not use this information.

Accordingly, the value of disclosure may be mostly in knowing who owns possible SEPs and that these patent holders will license their SEPs on FRAND or FRAND-RF terms as opposed to knowing all of the individual, disclosed potential SEPs. It is our impression that many companies would prefer to give (and have the benefit of other companies giving) broad licensing commitments that ensure access on FRAND terms and related limitations on asserting these SEPs instead of receiving detailed information on each possible individual SEP.

#### **Consultation Issue 4 (Transfer of FRAND-Encumbered SEPs)**

*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*

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<sup>16</sup> We would note that competition law may separately apply to disclosure requirements and licensing obligations independent of the relevant SSO’s IPR policy.

*transfers undermine the effectiveness of the rules and practices that govern standardisation involving patents?*

Transfers of FRAND-encumbered SEPs in connection with ICT standards have become more common as part of the overall active marketplace for the sale of ICT patents. Many of the transactions listed in the Final Report on Patents and Standards concern ICT-related SEPs.<sup>17</sup>

There seems to be a general consensus in the standardization community for the principle that FRAND licensing commitments, once made, should stay “attached” to the relevant SEPs even if such SEPs are transferred to a new owner. Competition authorities have expressed concerns that, if this were not the case, then the original licensing commitment may no longer serve its purpose to help minimize the risk of possible anti-competitive conduct.

For example, as noted in the U.S. Department of Justice and U.S. Patent & Trademark Office Policy Statement on Remedies For Standards-Essential Patents Subject to Voluntary F/RAND Commitments (January 8, 2013):

“Moreover, this type of hold-up may be exacerbated when patents are sold or otherwise transferred by their owners. If F/RAND licensing obligations do not travel with a transferred patent, the potential for hold-up from the network effects of a standard may be substantially increased. For this reason, we believe that F/RAND commitments should bind subsequent patent transferees. See Renata B. Hesse, Deputy Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, Six “Small” Proposals for SSOs before Lunch: Remarks as Prepared for the ITU-T Patent Roundtable (Oct. 10, 2012), <http://www.justice.gov/atr/public/speeches/287855.pdf>.”<sup>18</sup>

The U.S. Federal Trade Commission took a similar position in connection the *N-Data* case (*In the Matter of Negotiated Data Solutions LLC*).<sup>19</sup> In *N-Data*, the FTC commenced an action against a transferee company even though the relevant SSO’s IPR policy was silent on the “transfer” issue. As noted by the FTC in its public Statement:

“The Complaint in this matter alleges that N-Data reneged on a prior licensing commitment to a standard-setting body and thereby was able to increase the price of an Ethernet technology used by almost every American consumer who owns a computer.... But if N-Data’s conduct became the accepted way of doing business, even the most diligent standard-setting organizations would not be able to rely on the good faith assurances of respected companies. The possibility exists that those companies would exit the business, and that their patent portfolios would make their way to others who are less interested in honoring commitments than in exploiting industry lock-in.... There is little doubt that N-Data’s conduct constitutes an unfair method of competition.... We also have no doubt that the type of behavior engaged in by N-Data harms consumers. The process of establishing a standard displaces competition; therefore, bad faith or deceptive behavior that undermines the process may also undermine competition in an entire industry, raise prices to consumers,

<sup>17</sup> Final Report on Patents and Standards as published on 25 March 2014, pages 68, 121 and 191.

<sup>18</sup> Available at <http://www.justice.gov/atr/public/guidelines/290994.pdf>.

<sup>19</sup> The full record can be found here: <http://www.ftc.gov/enforcement/cases-proceedings/051-0094/negotiated-data-solutions-llc-matter>.

and reduce choices.”<sup>20</sup>

The European Commission similarly has encouraged SSOs to include a provision in their patent policies pursuant to which the transferring SEP holder would have to seek to bind the new owner to any existing FRAND licensing commitment:

“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.”<sup>21</sup>

While we believe that proper interpretation of applicable law should require that FRAND commitments “travel” with FRAND-encumbered patents, we also support the efforts that a number of prominent SSOs have undertaken to revise their IPR policy to explicitly address the transfer issue. This includes IEEE,<sup>22</sup> ETSI<sup>23</sup> and ITU-T/ITU-T/ISO/IEC.<sup>24</sup> In each of these policies, a patent holder who has made a FRAND commitment with regard to a SEP must take action (such as including a provision in the transfer agreement) to ensure that the new owner agrees to be bound by that commitment.

These policies leave it up to the patent holder to devise the text of such a provision in the transfer agreement; they do not require it to identify specific SEPs or specific commitments. Such a requirement would be very challenging and expensive, especially if the transfer agreement includes a significant number of patents. Furthermore, the patent holder may be participating in many SSOs and may have made many general commitments to license whatever SEPs it has vis-à-vis the final version of a number of standards on FRAND or FRAND-RF terms. As noted earlier, there are a number of reasons why “blanket” commitments can be effective and of value.

### **Consultation Issue 5 (Patent Pools)**

*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?*

There are a very small number of patent pools compared to the number of ICT standards. While pools often have proved to be an effective licensing approach, it is doubtful that they will provide a universal solution. We believe that they should remain a voluntary option.

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<sup>20</sup> Available at <http://www.ftc.gov/sites/default/files/documents/cases/2008/01/080122statement.pdf>.

<sup>21</sup> See Horizontal Guidelines (para.285).

<sup>22</sup> See <http://standards.ieee.org/develop/policies/index.html>.

<sup>23</sup> See <http://www.etsi.org/index.php/about/iprs-in-etsi>.

<sup>24</sup> See <http://www.itu.int/en/ITU-T/ipr/Pages/default.aspx>.



## Consultation Issue 6 (“Reasonable” Terms)

*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?*

There are a growing number of court decisions that provide guidance on how parties and courts should determine appropriate compensation for the holder of a FRAND-encumbered SEP. We believe that reasonable compensation should be based on the value of the SEP as an invention apart from its inclusion in the standard. This is necessary to avoid any “lock-in” or “hold-up” effects. In addition, what is “reasonable” must take into consideration the “patent stacking” implications when there are many SEPs that read on a standard.

These concepts are supported by a number of courts and authorities, including the following:

- “[A] RAND commitment should be interpreted to limit a patent holder to a reasonable royalty on the economic value of its patented technology itself, apart from the value associated with incorporation of the patented technology into the standard.” (*Microsoft Corp. v. Motorola, Inc.*, Findings of Fact And Conclusions of Law, April 25, 2013, at ¶74.) (United States District Court, Western District of Washington) (Emphasis added.)
- “Although the standard-setting process has many potential benefits for consumers, there are dangers. After a standard is established, for example, every manufacturer of compliant products must use the technology stated in the standard. If one particular company owns a patent covering that technology, however, the standard will effectively force all others to buy that company’s technology if they want to practice the standard. This requirement allows the company to charge inflated prices that reflect not only the intrinsic value of its technology, but also the inflated value attributable to its technology’s designation as the industry standard.” *In re Innovatio IP Ventures, LLC Patent Litigation*, MDL Docket No. 2303, Case No. 11 C 9308 (December 27, 2013, United States District Court, Northern District of Illinois) (Emphasis added).
- “Many SSOs require that a firm make a licensing commitment, such as a FRAND commitment, in order for its patented technology to be included in a standard. SSOs have this policy because the incorporation of patented technology into a standard induces market reliance on that patent and increases its value. After manufacturers implement a standard, they can become ‘locked-in’ to the standard and face substantial switching costs if they must abandon initial designs and substitute different technologies. This allows SEP holders to demand terms that reflect not only the ‘value conferred by the patent itself,’ but also ‘the additional value – the hold-up value – conferred by the patent’s being designated as standard-essential. The FRAND commitment is a promise intended to mitigate the potential for patent hold-up. In other words, it restrains the exercise of market power gained by a firm when its patent is included in a standard and the standard is widely adopted in the market.” (FTC’s Analysis of Proposed Consent Order to Aid Public Comment relation to the Consent Order entered with Google and Motorola) (Emphasis added.)

- “When a patented technology is incorporated in a standard, adoption of the standard eliminates alternatives to the patented technology. Although a patent confers a lawful monopoly over the claimed invention, *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456, 60 S. Ct. 618, 84 L. Ed. 852, 1940 Dec. Comm'r Pat. 758 (1940); *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1018 (7th Cir. 2002), its value is limited when alternative technologies exist. See *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 10 n.8, 78 S. Ct. 514, 2 L. Ed. 2d 545 (1958) (‘Often the patent is limited to a unique form or improvement [\*\*36] of the product and the economic power resulting from the patent privileges is slight.’); see also *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 44, 126 S. Ct. 1281, 1292, 164 L. Ed. 2d 26 (2006) (‘[A] patent does not necessarily confer market power.’). That value becomes significantly enhanced, however, after the patent is incorporated in a standard. *Rambus, No. 9302, 2006 FTC LEXIS 60, [slip op.] at 35*. Firms may become locked in to a standard requiring the use of a competitor's patented technology. The patent holder's IPRs, if unconstrained, may permit it to demand supracompetitive royalties. It is in such circumstances that measures such as FRAND commitments become important safeguards against monopoly power. See Daniel G. Swanson & William J. Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power*, 73 *Antitrust L.J.* 1, 5, 10-11 (2005).” (*Broadcom v. Qualcomm*, 501 F.3d 297, 313-14 (3d Cir. 2007) (Emphasis added.)
- “As with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention. *Garretson*, 111 U.S. at 121; see also *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 617 (1912) (“[Plaintiff] was only entitled to recover such part of the commingled profits as was attributable to the use of its invention.”). When dealing with SEPs, there are two special apportionment issues that arise. First, the patented feature must be apportioned from all of the unpatented features reflected in the standard. Second, the patentee’s royalty must be premised on the value of the patented feature, not any value added by the standard’s adoption of the patented technology. These steps are necessary to ensure that the royalty award is based on the incremental value that the patented invention adds to the product, not any value added by the standardization of that technology.” (*Ericsson v. D-Link*, Fed. Cir. 2014) (Emphasis added.)
- “FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and conditions. In particular, FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees.” *European Commission: Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements*, para. 287. “Compliance with Article 101 by the standard-setting organisation does not require the standard-setting organisation to verify whether licensing terms of participants fulfil the FRAND commitment. Participants will have to assess for themselves whether the licensing terms and in particular the fees they charge fulfil the FRAND commitment. Therefore, when deciding whether to commit to FRAND for a particular IPR, participants will need to anticipate the implications of the FRAND commitment, notably on their ability to freely set the level of their fees.” *Id.*

at para. 288 “In case of a dispute, the assessment of whether fees charged for access to IPR in the standard-setting context are unfair or unreasonable should be based on whether the fees bear a reasonable relationship to the economic value of the IPR. In general, there are various methods available to make this assessment. In principle, cost-based methods are not well adapted to this context because of the difficulty in assessing the costs attributable to the development of a particular patent or groups of patents. Instead, it may be possible to compare the licensing fees charged by the company in question for the relevant patents in a competitive environment before the industry has been locked into the standard (ex ante) with those charged after the industry has been locked in (ex post). This assumes that the comparison can be made in a consistent and reliable manner. *Id.* at para. 289. (Emphasis added, footnotes omitted.)

- “This provision [a Reasonable Rate “shall mean appropriate compensation ... excluding the value, if any, resulting from the inclusion of [the patent claim’s] technology in the IEEE standard”] aligns with generally accepted goals of RAND commitments, namely, providing the patent owner with appropriate compensation, while assuring implementers that they will not have to pay any hold-up value connected with the standardization process..... This provision reduces the possibility that a patent holder that has made an IEEE RAND Commitment could hold up implementers of a standard and obtain higher provides (or more favorable terms) for its invention than would have been possible before the standard was set.” *The U.S. Department of Justice (Antitrust Division) Business Review Letter to Michael A. Lindsay dated February 2, 2015 (“DOJ BRL Letter”) at 11-12.*<sup>25</sup>

We appreciate that this list does not comprise cost-based methods to determine a FRAND rate. Cost-based methods are not suitable to determine a FRAND rate. First of all, it is difficult to attribute costs to the development of a particular patent or groups of patents. Moreover, the costs required for the development of a particular patent or groups of patents do not necessarily provide an indication for the value of the invention. Therefore, any assessment of FRAND compensation based on the notion of a fair return on investment is flawed. As noted by the authorities cited above, it is the value of the invention that is decisive, not the efforts involved in the research and development process.

Microsoft is involved in the well-known dispute with Motorola at the District Court for the Western District of Washington (Case No. C10-1823JLR), in which the jury decided that Motorola breached its contractual obligation to offer a FRAND licence to Microsoft by requesting a royalty rate of 2.25 % of the price of the end product. The Court ultimately decided on a RAND royalty rate of 0.555 cents per unit for Motorola’s H.264 SEP portfolio and a RAND royalty rate of 3.471 cents per unit (for Xbox products) respectively 0.8 cents per unit (for all other Microsoft products) for Motorola’s 802.11 SEP portfolio, which was a minute fraction of what Motorola had demanded.

Parallel litigation took place in Germany. In these proceedings General Instrument asserted two allegedly standard essential patents. During the first instance proceedings, the court inter alia required Microsoft to stay the parallel nullity proceedings. Such a stay would be a necessary

<sup>25</sup> Available at <http://www.justice.gov/atr/public/busreview/311470.pdf>.

prerequisite for a valid competition law based licence defence.<sup>26</sup> Microsoft considered (inter alia) this waiver of a nullity attack to be in contradiction with the requirement of a fair and reasonable royalty. Without the possibility to have the validity of the SEP reviewed, SEP holders could otherwise extract royalty payments for patents which are in fact invalid.

Microsoft therefore welcomes the position of the European Commission as expressed in the context of similar enforcement activities regarding SEPs by Motorola against Apple: *“The Commission also found it anticompetitive that Motorola insisted, under the threat of the enforcement of an injunction, that Apple give up its rights to challenge the validity or infringement by Apple’s mobile devices of Motorola SEPs. Implementers of standards and ultimately consumers should not have to pay for invalid or non-infringed patents. Implementers should therefore be able to ascertain the validity of patents and contest alleged infringements.”*<sup>27</sup>

SSOs could provide guidance in their IPR policies as to factors to be taken into account when FRAND parameters are determined.

Another aspect of FRAND licensing is the notion of reciprocity. We support the statement by the U.S. Department of Justice suggesting that SSOs could:

*“Give licensees the option to license F/RAND-encumbered patents essential to a standard on a cash-only basis and prohibit the mandatory cross-licensing of patents that are not essential to the standard or a related family of standards, while permitting voluntary cross-licensing of all patents...”*<sup>28</sup>

In the DOJ BRL, the U.S. Department of Justice noted that a proposed revision to the IEEE patent policy “prohibits licensors from demanding licensees to applicants’ patents that are not essential to the same standard as part of their licensing terms and from forcing an applicant to take a license to patent claims that are not essential to that referenced standard. These prohibitions will reduce the possibility that a holder of a RAND-encumbered patent could leverage that patent to force a cross-license of, among other things, a potential licensee’s differentiating patents and limit the potential for anticompetitive tying.”<sup>29</sup>

Moreover, as further noted in the U.S. Government’s Contribution to the ITU-T TSAG meeting last June:

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<sup>26</sup> Regional Court Mannheim, decision dated 2 May 2012, published in BeckRS 2012, 11804.

<sup>27</sup> Press-release IP/14/489, published on 29 April 2014 in the context of its decision which found that Motorola Mobility’s seeking and enforcement of an injunction against Apple before a German court on the basis of a smartphone standard essential patent (SEP) constituted an abuse of a dominant position prohibited by EU antitrust rules.

<sup>28</sup> See Remarks by Renata Hesse, Deputy Assistant Attorney General, U.S. Department of Justice (Antitrust Division) entitled “Six ‘Small’ Proposals for SSOs Before Lunch”, October 10, 2012 (available at <http://www.justice.gov/atr/public/speeches/287855.pdf>).

<sup>29</sup> DOJ BRL at 15.



“The U.S. contribution covers four elements. These four elements neither require nor encourage portfolio licensing unless it is mutually agreeable to the patent holder and potential licensee.”<sup>30</sup>

The European Commission similarly noted in its June 2014 Policy Brief on SEPs:

“SEPs can, however, confer significant market power on their holders. Once a standard has been agreed and industry players have invested heavily in standard-compliant products, the market is *de facto* locked into both the standard and the relevant SEPs. This gives companies the potential to behave in anti-competitive ways, for example by ‘holding up’ users after the adoption of the standard by excluding competitors from the market, extracting excessive royalty fees, setting cross-licence terms which the licensee would not otherwise agree to, or forcing the licensee to give up their invalidity or non-infringement claims against SEPs.”<sup>31</sup> (Emphasis added.)

As noted by Joaquín Almunia, then-Vice President of the European Commission responsible for Competition Policy, “one of the potential competition issues we investigated in the *Google/Motorola* merger was whether, post-merger, the threat of injunctions could be used by Google to extract patent cross-licences from competitors on terms they would otherwise not have agreed to.” <http://www.itu.int/en/ITU-T/Workshops-and-Seminars/patent/Pages/agenda.aspx>. As further noted in paragraph 107 of the Commission’s decision to approve this merger:

“Depending on the circumstances, it may be that the threat of injunction, the seeking of an injunction or indeed the actual enforcement of an injunction granted against a good faith potential licensee, may significantly impede effective competition by, for example, forcing the potential licensee into agreeing to potentially onerous licensing terms which it would otherwise not have agreed to. These onerous terms may include, for example, a higher royalty than would otherwise have been agreed. Another concern would be that the SEP holder may force a holder of non-SEPs (56) to cross-license those non-SEPs to it in return for a licence of the SEPs. (57) (Emphasis added.)

Footnote 57: The Commission notes that a SEP holder is generally considered as entitled to condition a cross-licence from the counter-party to that counter-party’s SEPs reading on the same standard. For instance, ETSI’s IPR Policy provides that “The above undertaking [FRAND commitment] may be made subject to the condition that those who seek licenses agreed to reciprocate” See paragraph 6.1 of Annex 6 (ETSI IPR Policy) of the ETSI Rules of Procedure, 8 April 2009. See Google’s memorandum of 26 January 2012 on how Google intends to implement the FRAND promises encumbering Motorola’s SEPs post-transaction, paragraph 2.1.”

Accordingly, we believe that broad cross-licensing or “portfolio” licensing can have significant value to both parties and that they should be permitted to negotiate such as license if both parties voluntarily agree to do so. However, if an implementer does not want to expand the scope of the

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<sup>30</sup> Available at <http://www.nist.gov/standardsgov/upload/T13-TSAG-C-0043-A1-r1-E.pdf>.

<sup>31</sup> European Commission, Competition policy brief, Issue 8, June 2014.

license in this way, then the SEP holder who has given a FRAND licensing commitment for its SEPs in a specific standard cannot insist on it.

### **Consultation Issue 7 (Dispute Resolution)**

*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?*

In our experience, the validity and value of the SEP are the most disputed areas with regard to SEPs. Litigation history has shown that a very high percentage of SEPs, when challenged, are found to be invalid and/or not infringed. An implementer of a standard must be accorded the right to challenge the validity of an asserted SEP.

We therefore support the position of the European Commission as expressed in the context of similar enforcement activities regarding SEPs by Motorola against Apple:

“The Commission also found it anticompetitive that Motorola insisted, under the threat of the enforcement of an injunction, that Apple give up its rights to challenge the validity or infringement by Apple's mobile devices of Motorola SEPs. Implementers of standards and ultimately consumers should not have to pay for invalid or non-infringed patents. Implementers should therefore be able to ascertain the validity of patents and contest alleged infringements.”<sup>32</sup>

Furthermore, the value of SEPs (and therefore the appropriate royalty rate) is often heavily disputed between the SEP holder and the implementer of the standard.

From our knowledge, ADR currently does not play an important role in resolving SEP disputes. However, since arbitration proceedings are usually held under strict confidentiality, arbitration could unknowingly be more common than expected.

We support parties availing themselves of an ADR process if they agree to do so, as well as agreeing on the related process. However, we would be concerned if parties were required to use such a process in the context of resolving SEP disputes. Most importantly, ADR (due to its confidential nature) would not result in the development of a body of case law. Such case law is a key mechanism to provide guidance to the parties with respect to their negotiations and FRAND terms. Furthermore, an assessment of non-infringement, invalidity or unenforceability should become of public record and effect *inter omnes* (invalidity). A court would, moreover, likely have more options to gather relevant information, e.g. by hearing witnesses or accessing other information than typically is available in an ADR process. Finally, the costs of ADR proceedings are not necessarily lower than the costs of litigation in court, and ADR proceedings also may take just as long.

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<sup>32</sup> Press-release IP/14/489, published on 29 April 2014 in the context of its decision which found that Motorola Mobility's seeking and enforcement of an injunction against Apple before a German court on the basis of a smartphone SEP constituted an abuse of a dominant position prohibited by EU antitrust rules. See [http://europa.eu/rapid/press-release\\_IP-14-489\\_en.htm](http://europa.eu/rapid/press-release_IP-14-489_en.htm).

The reasons we have concerns about any mandatory ADR requirement can be summarized as follows:

- Depending on the arbitration process, an implementer may have to give up important claims and defences that it would otherwise be able to assert. SEPs disputes typically involve a significant number of related and complex issues relating to patent assertions, patent validity and infringement, reasonable and non-discriminatory compensation for a possibly large number of patents, patent licensing issues, assertions of anti-competitive conduct, compliance with SSO rules such as patent disclosure, etc. These issues may require testimony from numerous experts and extensive discovery requests in order to be fully and fairly presented to the adjudicator.
- Arbitration may tend toward arbitrary “middle ground” solutions as opposed to applying a more rigorous assessment of issues and all relevant evidence.
- Arbitration often does not provide an opportunity for an appeal.
- Arbitration decisions generally are not public. Consequently, if for example an arbitration tribunal in one dispute decides that an asserted SEP is invalid or not essential, this would not become public and the SEP holder could continue to assert this patent against other implementers. Furthermore a tribunal decision on FRAND terms would not become public and therefore cannot be used as a reference in other proceedings. This makes it much more difficult for implementers to assess proposed royalties and establish that they are not in fact FRAND.
- Arbitration decisions generally are not binding for third parties. This is especially problematic with regard to validity of a SEP. Even if a tribunal decides that a patent is invalid, the patent would not be nullified as the arbitration tribunal does not have such competence. An implementer would have to file an additional nullity complaint, which the implementer generally is not interested in any more once it prevailed in arbitration. Consequently, *de facto* invalid SEPs continue to be legally valid and can be asserted against other implementers who are not aware of the previous arbitration decision.

### **Consultation Issue 8 (Injunctive Relief)**

*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?*

By making a FRAND commitment, the SEP holder is agreeing that it will license its SEPs on reasonable terms and conditions to all implementers. This commitment is strong evidence that the SEP holder is seeking reasonable compensation and not the exclusive use of its patented invention. As a result, the ability to seek injunctions against implementers based on a FRAND-encumbered SEP should be extremely limited. As noted in the DOJ BRL, “[t]he threat of exclusion from a

market is a powerful weapon that can enable a patent owner to hold up implementers of a standard.”<sup>33</sup>

As evidenced by the investigations against Samsung and Motorola, the European Commission supports the position that seeking an injunction on the basis of FRAND-encumbered SEPs against a licensee willing to pay for the SEPs can be an abuse of a dominant position and therefore constitutes an infringement of the EU competition rules:

“SEPs can, however, confer significant market power on their holders. Once a standard has been agreed and industry players have invested heavily in standard-compliant products, the market is *de facto* locked into both the standard and the relevant SEPs. This gives companies the potential to behave in anti-competitive ways, for example by ‘holding up’ users after the adoption of the standard by excluding competitors from the market, extracting excessive royalty fees, setting cross-licence terms which the licensee would not otherwise agree to, or forcing the licensee to give up their invalidity or non-infringement claims against SEPs.”

“[I]f the SEP holder has a dominant position and has given a commitment to licence on FRAND terms, then it expects to be remunerated for its SEPs through licensing revenue rather than by using these patents to seek to exclude others.”

“Therefore, seeking an injunction before national courts on the basis of SEPs against a licensee willing to pay for the SEPs was found to constitute abuse of a dominant position.” (Emphasis added.)

“The Motorola decision establishes that the agreement of a potential licensee to a judicial setting of a FRAND rate in case of dispute is a clear indication of its willingness to enter into a licence agreement and to pay adequate compensation to the SEP holder. Thus there is no need or justification for a SEP holder to have recourse to an injunction to protect its commercial interests.” (Emphasis added.)

“In this particular case, the seeking and enforcement of an injunction caused Apple to renounce its legitimate rights to challenge the validity and infringement of Motorola's SEPs.

There is a strong public interest in fostering challenges of patent validity and infringement. Royalty payments for SEPs which are either invalid or not used may unduly increase production costs, which in turn may lead to higher prices for consumers.”<sup>34</sup>

As noted above, it is very important that the validity and infringement of asserted SEPs can be challenged in court. It is in the public interest that companies, and ultimately consumers, are not obliged to pay for patents that are invalid or not infringed. Accordingly, this needs to be done by courts in public proceedings in order to provide transparency and binding decisions.

Microsoft has been the victim of SEP enforcement in the well-known disputes with Motorola and General Instruments. In both cases, the SEP holders requested injunctions against Microsoft for

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<sup>33</sup> DOJ BRL at 9.

<sup>34</sup> EC Competition Policy Brief, Issue 8, June 2014, page 4.



the use of patents that were declared essential for the video codec standard H.264 respectively the WiFi standard 802.11.

In these proceedings, the threat of an injunction forced Microsoft to relocate its European distribution center from Germany to the Netherlands<sup>35</sup>, as an injunction would have enabled Motorola to enjoin any standard compatible product that passed through the distribution center. In both cases Microsoft was willing to enter into a licence agreement under FRAND terms but the requests of the SEP holder were far in excess of FRAND.

Motorola also obtained an injunction against Apple based on a SEP which led to a temporary ban of Apple products and ultimately resulted in Apple inter alia giving up its invalidity and non-infringement claims.<sup>36</sup> The actions of Motorola, as well as Samsung in similar cases against Apple, led to investigations of the European Commission against these companies for anti-competitive practices. These resulted in a commitment by Samsung not to seek injunctions based on SEPs if implementers commit to a special licensing framework<sup>37</sup> and in a decision by the European Commission that Motorola infringed EU competition rules by misusing standard essential patents.<sup>38</sup>

Microsoft furthermore does not expect that limiting the ability of a patent holder to seek injunctive relief based on a FRAND-encumbered SEP would impair the position of SEP holders with regard to appropriate remuneration. It would rather lead to true FRAND terms if the implementers can negotiate without the looming threat of an injunction. If the parties are not able to agree on FRAND terms, then one of the parties can ask for a court to make a determination and neutrally resolve the dispute without the pressure of a possible injunction. For the SEP holder, the only negative effect is that royalty payments might be delayed, which can be evened out by a claim for past damages or other relevant monetary relief. There are incentives for both parties to reach a negotiated outcome. Litigation imposes significant expenses and other related costs on both parties.<sup>39</sup>

Any framework for assessing when a SEP holder who has made a FRAND commitment can seek injunctive relief should not permit a SEP holder to seek injunctive relief if it believes that the implementer is not negotiating in good faith, etc. Such a framework should be based on objective criteria and not the unilateral perception of one party.

We appreciate the opportunity to submit these comments.

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<sup>35</sup> <http://www.fosspatents.com/2012/04/patent-abuse-hurts-german-economy.html>.

<sup>36</sup> EC Competition policy brief, Issue 8, June 2014, page 3.

<sup>37</sup> Case no. IP 14/490, press release dated April 29, 2014.

<sup>38</sup> Case no. IP/14/489, press release dated April 29, 2014.

<sup>39</sup> See DOJ BRL at 10 for a discussion of the related issues.

Sincerely,

A handwritten signature in black ink, appearing to read 'Erich Andersen', followed by a long horizontal line extending to the right.

Erich Andersen  
Vice President and Deputy General Counsel