

**JOINT COMMENTS OF THE AMERICAN BAR ASSOCIATION SECTIONS OF  
ANTITRUST LAW, INTELLECTUAL PROPERTY LAW, INTERNATIONAL  
LAW, AND SCIENCE & TECHNOLOGY LAW ON THE GOVERNMENT OF  
INDIA'S DISCUSSION PAPER ON STANDARD ESSENTIAL PATENTS AND  
THEIR AVAILABILITY ON FRAND TERMS**

April 21, 2016

*The views stated in this submission are presented jointly on behalf of these Sections only. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and therefore may not be construed as representing the policy of the American Bar Association.*

The Sections of Antitrust Law, Intellectual Property Law, International Law, and Science & Technology Law (together, the "Sections") of the American Bar Association ("ABA") respectfully submit these comments in response to the Discussion Paper on Standard Essential Patents and Their Availability on FRAND Terms ("Discussion Paper"), issued by the Government of India, Department of Industrial Policy and Promotion ("Department"), Ministry of Commerce & Industry. The Sections appreciate the opportunity to submit these comments and the substantial thought and effort that the Department has put into developing this Discussion Paper and the Issues for Resolution. The Sections are available to provide additional comments, or participate in consultations with the Department, as the Department deems appropriate.

**Executive Summary**

Standards play an important role in the economy and have a long history. There is a strong relationship between standards development and patents. Many standard-setting or standard-development organizations ("SSOs" or "SDOs") have adopted Intellectual Property Rights ("IPR") policies that address, among other things, disclosures of potentially essential patents. The IPR policies of many SSOs include provisions that request owners of standard-essential patents ("SEPs") to commit to make licenses to their SEPs available on fair, reasonable, and non-discriminatory ("FRAND") terms and conditions. There is no one-size-fits-all definition of FRAND terms for every SSO, for every industry, or for every pair of negotiating parties. U.S. law does not prescribe the IPR policies or other internal rules or policies of U.S.-based SSOs. SSOs in the United States are largely private organizations, and participation in them is generally voluntary. In the United States, subject to compliance with competition laws, an SSO is generally free to govern itself in a manner that is suitable to and efficient for its industry, membership and purpose.

Given the diversity of SSOs, IPR policies may differ among SSOs, and the interpretation of FRAND commitments made under different IPR policies may vary. Generally, FRAND commitments attempt to balance the need to encourage and reward the submission of patented technologies to SSOs, on the one hand, with the need for

implementers of standards to make, use and sell standardized devices, on the other. To understand any specific FRAND commitment at issue in a particular case, it is necessary to examine the IPR policy of the SSO in question and any specific commitments made by the patent holder under that policy. Courts and competition agencies in the U.S. have also noted the potential issue of patent hold-up, as well as reverse hold-up and hold-out. Where SEPs are subject to contractual FRAND obligations, and an enforceable FRAND obligation applies, the risk of actual hold-up may be mitigated.

The Discussion Paper raises many important issues that SSOs and interested parties face. Legislation determining FRAND terms for SEPs has not been necessary in the United States, which has to date dealt with FRAND issues via the courts and via competition agency actions. Competition agencies in the United States have issued generalized guidance on issues pertaining to licensing and SEPs, such as when the use of injunctions in cases pertaining to FRAND-encumbered SEPs might raise competition law issues. Because of the fact-specific analyses that are generally required to resolve these issues, the Sections respectfully recommend against issuance of fixed guidelines to serve for all SSOs and circumstances, particularly on highly disputed issues that are best left to individual SSOs and their members to decide. When private efforts fail to resolve the issue, courts and other adjudicative bodies are better suited to make fact-specific determinations. Where there is a dispute about the application of FRAND commitments, courts and competition agencies have confirmed that the FRAND commitment is not ethereal or illusory, but can be reviewed and enforced to require (or restrain) specific behaviors in connection with FRAND licensing. In light of all the foregoing, the Sections respectfully suggest a careful approach to any legislation addressing breaches of FRAND.

### **General Comments**

Before addressing the specific Issues for Resolution, the Sections offer the following general observations based upon the collective expertise and experience of their members with competition law, patent law, standards and SSOs, SEP patent licensing—in the U.S. and in many other jurisdictions worldwide—and the underlying economic principles. The Sections recognize that policies appropriate for the United States are not necessarily appropriate in all jurisdictions; nevertheless, these observations and comments are offered based on the experience in the United States in the spirit of helping to advance the Department’s objective of developing a suitable policy framework for holders of SEPs and their licensees.

#### **1. SSOs**

As the Discussion Paper makes clear, standards play an important role in the economy and have a long history. Indeed, for well over a century, national and international SSOs have promulgated standards in a wide variety of commercially important technical fields. Thousands of standards have been developed, approved, and used in many industries all over the world. SSOs vary in terms of their memberships,

purposes and internal rules and procedures.<sup>1</sup> Some are private while others are government-sponsored. Some SSOs are regional or international in scope, and some are comprised of member SSOs from a number of countries or regions.

As also noted in the Discussion Paper (at 11), a standard generally begins as a proposed item of work to create a new standard or update an old one. More particularly, work on the development of a standard starts with a set of objectives—*e.g.*, to increase data rates tenfold. Once the participants in the SSO agree on the objectives, engineers, typically working in private industry, set out to develop technologies to surmount the technical hurdles standing between the current state of the art and the goals set for the new standard. The contributions by member entities to the development of a particular standard can range from very substantial engineering efforts by some participants to little or no involvement by others.

## 2. SEPs

As the Department is aware, there is a strong relationship between standards development and patents. When technical solutions are invented and contributed to a standard-development effort, the contributors often file patent applications. While standards are often global, or at least multinational, in scope, patents and patent systems are national in scope and governed by national laws. Because entities seeking patent protection for the inventions they have contributed to a standard development project typically file patent applications in a number of countries, SSO participants frequently obtain portfolios of patents issued by a number of countries, all relating to aspects of their technological contributions.

SSO rules vary and may define essentiality in different ways. However, as a general matter under many SSO policies, a patent is “essential” to a standard if it is not possible as a technical matter to implement the standard without infringing the patent.<sup>2</sup> Many SSOs request or require participants to identify patents they hold that may be essential to a standard under development; some SSOs have no such identification requirement. During the development of a standard, it is often unclear which patents will ultimately be essential, both because the standard itself is evolving and because the scope of protection afforded by a patent usually changes during the patent application process. Participants therefore typically identify, if required or asked to do so, patents that “may be” essential, rather than patents that “are” essential. Whether a declared (“may be”)

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<sup>1</sup> See U.S. Dep’t of Justice & Fed. Trade Comm’n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007) at 33 n. 5, *available at* <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf> (“2007 DOJ-FTC IP Report”).

<sup>2</sup> The Sections note that the Discussion Paper refers not only to standards adopted by SSOs, but also to *de facto* standards. The issues commonly discussed with respect to SEPs, such as FRAND, do not generally apply to *de facto* standards. For example, there would be no IPR policy and no FRAND commitments associated with a *de facto* standard.

essential patent is actually essential is an issue that may never need to be resolved (for reasons discussed below) or that may be resolved at a later date.

### 3. SSOs' IPR Policies and FRAND

Many SSOs have adopted IPR policies that address, among other things, disclosures of potentially essential patents. The IPR policies of many SSOs include provisions that request owners of SEPs to commit to make licenses to their SEPs available on FRAND terms and conditions.<sup>3</sup> Given the diversity of SSOs described above, IPR policies may differ among SSOs, and the interpretation of FRAND commitments made under different IPR policies may vary.<sup>4</sup> Moreover, some SSOs utilize a royalty free (or "FRAND-Z") approach.

A patent holder makes a FRAND commitment to an SSO voluntarily, as part of the SSO's standard-setting work and in the specific context of that SSO's IPR policy. FRAND commitments create contractual obligations between SEP holders and SSOs.<sup>5</sup> Implementers of the standard for which the SEPs are essential are third-party beneficiaries of these contracts, with legally enforceable rights.<sup>6</sup> Thus, to understand any specific FRAND commitment at issue in a particular case, it is necessary to examine the IPR policy of the SSO in question and any specific commitments made by the patent holder under that policy.<sup>7</sup> Also the U.S. Court of Appeals for the Ninth Circuit has held that "[e]nforcing the implied covenant of good faith and fair dealing . . . through tort-like remedies, including attorneys' fees, is appropriate" for breach of a FRAND commitment because "the contract is 'characterized by elements of public interest.'"<sup>8</sup>

Generally, FRAND commitments attempt to balance the need to encourage and reward the submission of patented technologies to SSOs, on the one hand,

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<sup>3</sup> Some SSOs use the equivalent phrase "reasonable and nondiscriminatory" or "RAND."

<sup>4</sup> *Ericsson Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1231 (Fed. Cir. 2014) (analysis of a RAND commitment must take account of the patentee's "actual RAND commitment at issue", rather than any generalized notion of RAND commitments, because "'RAND terms' vary from case to case").

<sup>5</sup> See, e.g., *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 885 (9th Cir. 2012); *Ericsson Inc. v. D-Link Sys. Inc.*, 2013 WL 4046225, at \*24 (E.D. Tex. Aug. 6, 2013); *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1083 (W.D. Wis. 2012); *Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008); *Ericsson Inc. v. Samsung Elecs. Co.*, No. 2:06-CV-63, 2007 WL 1202728, at \*2-3 (E.D. Tex. Apr. 20, 2007); *Certain Gaming & Entertainment Consoles, Related Software & Components Thereof*, USITC Inv. No. 337-TA-752 (Apr. 23, 2012).

<sup>6</sup> See, e.g., *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d at 884-85; *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d at 1083; *Certain Gaming & Entertainment Consoles, Related Software & Components Thereof*, USITC Inv. No. 337-TA-752 (Apr. 23, 2012).

<sup>7</sup> See *Ericsson*, 773 F.3d at 1231.

<sup>8</sup> *Microsoft Corp. v. Motorola, Inc.*, 795 F. 3d 1024, 1052 (9th Cir. 2015); see also *id.* at 1052 n.22 (noting that a "RAND commitment 'must be construed in the public interest because it is crafted for the public interest.'"; citations omitted).

with the need for implementers of standards to make, use and sell standardized devices, on the other.<sup>9</sup> For example, the European Telecommunications Standards Institute (“ETSI”) IPR Policy expressly acknowledges the need for this balance:

“[T]he ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and others applying ETSI STANDARDS . . . , that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD . . . being unavailable. In achieving this objective, the ETSI IPR POLICY seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPRs.”<sup>10</sup>

FRAND commitments often do not mandate that parties offer or agree to any particular license terms.<sup>11</sup> The ETSI IPR policy, for example, does not specify all the terms and conditions of licenses, but rather leaves such matters to private negotiations.<sup>12</sup> In the U.S., the American National Standards Institute (“ANSI”) is the leading organization for coordinating and promoting voluntary consensus standards. ANSI represents the U.S. in non-treaty international and regional standards-setting activities. ANSI brings together a cross-section of public- and private-sector interests to examine the principles and strategy that guide how the United States develops standards and participates in the international standards-setting process.<sup>13</sup> ANSI oversees the creation,

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<sup>9</sup> See OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB Circular No. A-119, Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities, Final Revision, *available at* [https://www.whitehouse.gov/sites/default/files/omb/inforeg/revised\\_circular\\_a-119\\_as\\_of\\_1\\_22.pdf](https://www.whitehouse.gov/sites/default/files/omb/inforeg/revised_circular_a-119_as_of_1_22.pdf) (stating that in order to qualify as a “voluntary consensus standard” for purposes of the Circular, “a standard that includes patented technology needs to be governed by such policies, which should be easily accessible, set out clear rules governing the disclosure and licensing of the relevant intellectual property, and take into account the interests of all stakeholders, including the IPR holders and those seeking to implement the standard.”).

<sup>10</sup> ETSI IPR Policy ¶ 3.1.

<sup>11</sup> ABA SECTION OF SCIENCE & TECHNOLOGY LAW, STANDARDS DEVELOPMENT PATENT POLICY MANUAL at 22 (Jorge L. Contreras, Ed., American Bar Ass’n 2007) [hereinafter ABA STANDARDS DEVELOPMENT MANUAL] (“There is not a precise legal definition of RAND.”)

<sup>12</sup> ETSI, *Guide on Intellectual Property Rights (IPRs)* (2013). The ETSI IPR Policy does, however, specify in clause 6.1 some of the basic rights which should be included in such licenses:

“MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee’s own design for use in MANUFACTURE;  
sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;  
repair, use, or operate EQUIPMENT; and  
use METHODS.”

ETSI IPR Policy ¶ 6.1.

<sup>13</sup> See *United States Standards Strategy: A Revision of the National Standards Strategy for the United States*, at 4, *available at* [https://share.ansi.org/shared%20documents/Standards%20Activities/NSSC/USSS\\_Third\\_edition/ANSI\\_US\\_SS\\_2015.pdf](https://share.ansi.org/shared%20documents/Standards%20Activities/NSSC/USSS_Third_edition/ANSI_US_SS_2015.pdf).

promulgation and use of thousands of standards.<sup>14</sup> The ANSI patent policy does not prescribe specific contractual terms. Instead, it states that “RAND is generally defined to mean reasonable and non-discriminatory with the details left to the negotiations of the IP holder and the licensee. This allows the parties to negotiate an appropriate agreement that addresses their specific circumstances and needs.”<sup>15</sup> Of course, particular SSOs may adopt rules that fit their preferences, subject to the competition laws or other requirements. For instance, some SSOs, such as the entity that created the Bluetooth standard, have elected to require royalty-free licensing of all patented technologies contributed by SSO members.

Where there is a dispute about the application of FRAND commitments, courts and competition agencies have confirmed that the FRAND commitment is not ethereal or illusory, but can be reviewed and enforced to require (or restrain) specific behaviors in connection with FRAND licensing.<sup>16</sup>

The voluntary, negotiated approach to FRAND obligations is fundamental to the operation of SEP licensing under many SSO policies. The circumstances surrounding the negotiation of particular license agreements differ widely. Given this real-world variability, SSOs can choose a wide variety of IPR policy approaches.

#### 4. Hold Up and Reverse Hold Up/Hold-Out

The Discussion Paper notes the potential issue of patent hold up. Courts and competition agencies in the U.S. have expressed concern that, to the extent that implementers are locked in to the technology of a standard, SEP holders could obtain supracompetitive royalties through “patent holdup.”<sup>17</sup> Where SEPs are subject to

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<sup>14</sup> ANSI, *About ANSI*, [http://www.ansi.org/about\\_ansi/overview/overview.aspx](http://www.ansi.org/about_ansi/overview/overview.aspx).

<sup>15</sup> *ANSI Response to FTC Patents and Standards Workshop* (June 21, 2011), available at [https://www.ftc.gov/sites/default/files/documents/public\\_comments/request-comments-and-announcement-workshop-standard-setting-issues-project-no.p111204-00029%20C2%20AO/00029-60633.pdf](https://www.ftc.gov/sites/default/files/documents/public_comments/request-comments-and-announcement-workshop-standard-setting-issues-project-no.p111204-00029%20C2%20AO/00029-60633.pdf) at 6; *see also ANSI Guidelines for Implementation of the Patent Policy*, available at <https://share.ansi.org/shared%20documents/Standards%20Activities/American%20National%20Standards/Procedures,%20Guides,%20and%20Forms/ANSI%20Patent%20Policy%20Guidelines%202012%20final.pdf> at 7 (“It should be reiterated, however, that the determination of specific license terms and conditions, and the evaluation of whether such license terms and conditions are reasonable and demonstrably free of unfair discrimination, are not matters that are properly the subject of discussion or debate at a development meeting. Such matters should be determined only by the prospective parties to each license or, if necessary, by an appeal challenging whether compliance with the Patent Policy has been achieved.”).

<sup>16</sup> *See, e.g., Microsoft Corp. v. Motorola, Inc.*, 795 F.3d at 1030-31, 1040-42; *Ericsson*, 773 F.3d at 1230-33; *Apple, Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014); Analysis of Proposed Consent Order to Aid Public Comment, *In the Matter of Motorola Mobility LLC and Google, Inc.*, FTC File No. 121-0120; Analysis of Agreement Containing Consent Orders to Aid Public Comment, *In the Matter of Robert Bosch GmbH*, FTC File Number 121-0081.

<sup>17</sup> *See Microsoft Corp. v. Motorola, Inc.*, 795 F.3d at 1030-31 (“[B]ecause SSO standards often incorporate patented technology, all manufacturers who implement a standard must obtain a license to use those standard-essential patents (‘SEPs’). The development of standards thereby creates an opportunity for companies to engage in anti-competitive behavior. Most notably, once a standard becomes widely adopted,

contractual FRAND obligations, and an enforceable FRAND obligation applies, the risk of actual hold-up may be mitigated.<sup>18</sup> U.S. competition agencies have intervened in certain SEP matters involving alleged breaches of FRAND obligations.<sup>19</sup>

Courts and agencies have also noted the possibility that after patent holders have expended substantial R&D resources to develop technology for a standard, potential licensees may refuse to enter into license agreements with SEP holders, seeking

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SEP holders obtain substantial leverage over new product developers, who have little choice but to incorporate SEP technologies into their products. Using that standard-development leverage, the SEP holders are in a position to demand more for a license than the patented technology, had it not been adopted by the SSO, would be worth.”); *Ericsson*, 773 F.3d at 1209 (“Patent hold-up exists when the holder of a SEP demands excessive royalties after companies are locked into using a standard.”); *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609, at \*3-4 (N.D. Ill. Oct. 3, 2013); Federal Trade Commission, Brief of Amicus Curiae Federal Trade Commission Supporting Neither Party, U.S. Court of Appeals for the Federal Circuit Case Nos. 2012-1548 and 2012-1549 (Dec. 4, 2012) (“[t]he problem of patent hold-up can be particularly acute in the standard-setting context, where an entire industry may be locked into a standard that cannot be avoided without infringing or obtaining a license for numerous (sometimes thousands) of standard-essential patents.”). See also William J. Baer, Assistant Attorney General for Antitrust, Remarks, 19th Annual International Bar Association Competition Conference, Florence, September 11, 2015 (“Baer IBA Remarks”), available at <http://www.justice.gov/opa/speech/assistant-attorney-general-bill-baer-delivers-remarks-19th-annual-international-bar>; Mark Lemley & Carl Shapiro, Patent Holdup and Royalty Stacking, 85 TEXAS L. REV. 1991 (2007).

<sup>18</sup> See *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024 (FRAND contract enforced, enforcement of German injunction enjoined, and FRAND royalties determined); *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903 (N.D. Ill. 2013) (same); *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998 (N.D. Cal. 2013) (enforcing FRAND contract and granting preliminary injunction against enforcement of ITC exclusion order). See also Organisation for Economic Co-operation and Development, Note by the United States for Item VII of the 122nd meeting of the OECD Competition Committee, December 17-18, 2014 at 13 (“USG OECD Statement”), available at <http://www.justice.gov/sites/default/files/atr/legacy/2015/01/23/311234.pdf>; U.S. Dep’t of Justice and U.S. Patent and Trademark Office, Policy Statement on Remedies for Standard–Essential Patents Subject to Voluntary F/RAND Commitments, 6 (Jan. 8, 2013) (“DOJ/PTO Policy Statement”), available at [http://www.uspto.gov/about/offices/ogc/Final\\_DOJ-PTO\\_Policy\\_Statement\\_on\\_FRAND\\_SEPs\\_1-8-13.pdf](http://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf) (addressing situations where injunctions may not be appropriate); Ambassador Michael B. G. Froman, U.S. Trade Representative, Letter to U.S. International Trade Commission (Aug. 3, 2013), available at [https://ustr.gov/sites/default/files/08032013%20Letter\\_1.PDF](https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF) (disapproving of exclusion order on FRAND grounds) (“USTR Veto”); United States of America, Telecommunications Standardization Advisory Group Contribution 43 (“TSAG Contribution”), June 2014, available at <http://www.nist.gov/standardsgov/upload/T13-TSAG-C-0043-A1-r1-E.pdf>; Baer IBA Remarks (“the ability of F/RAND-encumbered patent holders to get an injunction in U.S. federal courts has been appropriately limited” and similar limitations have been applied to exclusion orders in the U.S. I.T.C.); ABA STANDARDS DEVELOPMENT MANUAL at 49-50 (setting forth the alternatives available to both SEP holder and potential standard implementer where there is a failure to reach a license).

<sup>19</sup> Analysis of Proposed Consent Order to Aid Public Comment, *In the Matter of Motorola Mobility LLC and Google, Inc.*, FTC File No. 121-0120; Analysis of Agreement Containing Consent Orders to Aid Public Comment, *In the Matter of Robert Bosch GmbH*, FTC File Number 121-0081.

to drive down the costs of licenses, resulting in “reverse hold up.” Or potential licensees may find it profitable to delay signing agreements, resulting in “hold out.”<sup>20</sup>

Patent hold-up can result in implementers of standards paying excess royalties, resulting in higher prices and reduced innovation. Hold-outs could result in undesirable diminishment of incentives for innovation and participation in SSOs. As noted, FRAND policies seek to balance the interests of users of standards and owners of IPRs.

## 5. Dispute Resolution

In the United States, the vast majority of transactions involving SEPs are handled through private negotiations between the parties and do not necessitate competition law oversight. When necessary, parties can seek redress through the United States courts and antitrust agencies, but this has happened relatively infrequently. As the U.S. Federal Trade Commission noted with regard to SEPs, “[w]hile not every breach of a FRAND licensing obligation will give rise to [U.S. competition law] concerns, when such a breach tends to undermine the standard-setting process and risks harming American consumers, the public interest demands action rather than inaction from the Commission.”<sup>21</sup>

When disputes arise, they are often very fact specific. FRAND commitments are contractual in nature, and there is no single, rigid, universal definition of what FRAND means. Resolution of such disputes often depends on facts concerning the relevant industry, SSO, technology and parties. Courts, competition agencies or other adjudicators, such as arbitrators, which regularly encounter contract and patent disputes, are capable of deciding such fact-specific disputes.

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<sup>20</sup> *In the matter of Certain 3G Mobile Handsets*, Inv. No. 337-TA-613 at ii, 51-54, 66, 68 (USITC April 27, 2015) (Essex, ALJ), available at <http://www.essentialpatentblog.com/wp-content/uploads/sites/64/2015/05/2015.04.27-Public-Version-of-ID-on-Remand.pdf>; USG OECD Statement at 13; ABA STANDARDS DEVELOPMENT MANUAL, at 49-50; Joanna Tsai & Joshua Wright, Standard Setting, Intellectual Property Rights, and the Role of Antitrust in Regulating Incomplete Contracts, 80 ANTITRUST L.J. 157, 182 & n.76 (2015); Comment of U.S. Federal Trade Commissioner Joshua D. Wright & Judge Douglas H. Ginsburg on the Canadian Competition Bureau’s Draft Updated Intellectual Property Enforcement Guidelines, at 8-9 & n.20, available at [www.ftc.gov/system/files/documents/public\\_statements/734661/150810canadacomment.pdf](http://www.ftc.gov/system/files/documents/public_statements/734661/150810canadacomment.pdf); Commission Opinion, *In re Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794 (Int’l Trade Comm’n June 4, 2013), at 63 (describing “hold out” as an “expensive litigation” scenario under which “an implementer utilizes declared-essential technology without compensation to the patent owner under the guise that the patent owner’s offers to license were not fair or reasonable.”); Prepared Statement of the Federal Trade Commission before the U.S. Senate Committee on the Judiciary, concerning “Standard Essential Patent Disputes and Antitrust Law” (July 30, 2013) at p. 6, available at [https://www.ftc.gov/sites/default/files/documents/public\\_statements/prepared-statement-federal-trade-commission-concerning-standard-essential-patent-disputes-and/130730standardessentialpatents.pdf](https://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-trade-commission-concerning-standard-essential-patent-disputes-and/130730standardessentialpatents.pdf) (as a result of hold out “the patent-holder is forced to license the patents at less than fair market value.”).

<sup>21</sup> Statement of the Federal Trade Commission, *In the Matter of Robert Bosch GmbH*, FTC File Number 121-0081.

## 6. Legislative and/or regulatory role regarding SEPs

The Discussion Paper raises many important issues that SSOs and interested parties face: (1) SEPs and licensing on FRAND terms (Issues for Resolution a, d and l); (2) SSO's IPR policies and internal procedures (Issues for Resolution b and c); (3) royalty rates for SEPs (Issue for Resolution e); (4) whether total royalties for one product should be capped (Issue for Resolution f); (5) the role of Non-Disclosure Agreements (Issue for Resolution g); (6) dispute resolution, including the use of injunctive relief, in situations involving SEPs (Issue for Resolution h); (7) cross-licensing and patent pooling (Issues for Resolution i and j); and (8) the determination of actual essentiality of declared SEPs (Issues for Resolution k and m).

In each case, as the Sections explain below, these are issues that SSOs and interested parties have addressed directly, with intervention in the U.S. by governmental entities only in appropriate circumstances. Because of the fact-specific analyses that are generally required to resolve these issues, the Sections believe that, while general principles that assist in evaluation of FRAND obligations may be helpful in some instances,<sup>22</sup> it would be inappropriate and even counterproductive for government to establish a one-size-fits-all approach. Where private efforts fail to resolve the issue, courts and other adjudicative bodies are better suited to make fact-specific determinations.

In light of all the foregoing, the Sections respectfully suggest a careful approach to any legislation addressing breaches of FRAND.

### **Issues for Resolution a, d and l**

- a. Whether the existing provisions in the various IPR-related legislations, especially the Patents Act, 1970 and Anti-Trust legislations, are adequate to address the issues related to SEPs and their availability on FRAND terms? If not, then can these issues be addressed through appropriate amendments to such IPR-related legislations? If so, what changes should be affected?*
- d. Whether there is a need for prescribing guidelines on setting or fixing the royalties in respect of Standard Essential Patents and defining FRAND terms by Government of India? If not, which would be appropriate authority to issue the guidelines and what could be the possible FRAND terms?*
- l. Whether there is a need of setting up of an independent expert body to determine FRAND terms for SEPs and devising methodology for such purpose?*

Legislation determining FRAND terms for SEPs has not been necessary in the United States, which has to date dealt with FRAND issues via the courts and via competition agency actions. Each SSO is different, in terms of technology, membership

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<sup>22</sup> See, e.g., DOJ/PTO Policy Statement.

and objectives. The U.S. Department of Justice (“DOJ”) and Federal Trade Commission (“FTC”) have recognized that standard-setting organizations “vary widely in size, formality, operation and scope.”<sup>23</sup> As a result of this diversity, SSOs may adopt different IPR policies and the interpretation of FRAND commitments made under such IPR policies may vary.<sup>24</sup>

FRAND commitments, while designed in part to protect against the possibility of patent hold up,<sup>25</sup> are consensual and contractual in nature. The terms and conditions of patent license agreements are negotiated bilaterally, between a patent holder and a potential licensee, taking into account the specific facts and circumstances of the parties and the relevant technologies, industries and countries. Private parties are, and should be, free to enter into such licensing agreements as they deem appropriate, subject to applicable principles of contract law, patent law and competition law. It would usually be neither appropriate nor economically efficient for governments to attempt to prescribe the specific terms of private agreements, especially across many industries and contexts. Although the U.S. courts have established certain principles for evaluation of damages issues relating to SEPs,<sup>26</sup> there is no one-size-fits-all definition of FRAND terms for every SSO.

Moreover, many SSOs are international or are composed of organizations based in a number of countries, and their IPR policies affect holders of patents issued by many different nations. Thus, efforts by one country to prescribe the terms for voluntary patent licensing in other countries could potentially raise complex issues of international law relating to extraterritoriality, comity and trade.

To the extent that disputes arise between SEP holders and actual or potential licensees, they can generally be resolved through the court system, or, if the parties agree, by alternative dispute resolution mechanisms such as arbitration or mediation.<sup>27</sup> FRAND commitments are enforceable, contractual obligations. When actual or potential licensees believe that SEP holders have violated a FRAND obligation, such issue can be resolved by traditional adjudication mechanisms. Because, as noted

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<sup>23</sup> See 2007 DOJ-FTC IP Report at 33 n. 5.

<sup>24</sup> Cf. *Ericsson*, 773 F.3d at 1231 (“Trial courts should also consider the patentee’s actual RAND commitment in crafting the jury instruction.”).

<sup>25</sup> See Baer IBA Remarks (“Voluntary F/RAND licensing commitments that SSOs seek from patent holders are designed to minimize the risk of hold up.”).

<sup>26</sup> See, e.g., *Ericsson*, 773 F.3d at 1230-32 (“When dealing with SEPs . . . 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”; “the royalty rate for SEPs must be apportioned to the value of the patented invention.”).

<sup>27</sup> As previously noted, in certain circumstances competition law enforcers may intervene.

above, such disputes are highly fact specific, case-by-case adjudication is the most appropriate means for settling particular disputes.

### **Issues for Resolution b and c**

- b. What should be the IPR policy of Indian Standard Setting Organizations in developing Standards for Telecommunication sector and other sectors in India where Standard Essential Patents are used?*
- c. Whether there is a need for prescribing guidelines on working and operation of Standard Setting Organizations by Government of India? If so, what all areas of working of SSOs should they cover?*

As a result of the diversity among SSOs, SSOs may adopt different IPR policies and the interpretation of FRAND commitments made under such IPR policies may vary. As stated, there is no one-size-fits-all definition of FRAND terms for every SSO, for every industry, or for every pair of negotiating parties.

U.S. law does not prescribe the IPR policies or other internal rules or policies of U.S.-based SSOs. SSOs in the U.S. are largely private organizations, and participation in them is generally voluntary. In the U.S., subject to compliance with competition laws, an SSO is generally free to govern itself in a manner that is suitable to and efficient for its industry, membership and purpose. The ANSI Patent Policy (attached as Annex A), which serves as a model patent policy and has been voluntarily adopted as the patent policy of the majority of ANSI-accredited U.S. standards development organizations, does not prescribe specific rules—only normative policies that an SSO must follow to receive accreditation.

The Sections respectfully recommend against issuance of fixed guidelines to serve for all SSOs and circumstances, particularly on highly disputed issues that are best left to individual SSOs and their members to decide. There are many complexities involved in SSO IPR rules, different views and interests involved, and many different approaches that a particular SSO might validly choose to take. That said, it may be beneficial for Indian SSOs to consider whether a proposed IPR policy is compatible with the IPR policies of foreign counterparts.

### **Issue for Resolution e**

- e. On what basis should the royalty rates in SEPs be decided? Should it be based on Smallest Saleable Patent Practicing Component (SSPPC), or on the net price of the Downstream Product, or some other criterion?*

In the context of patent license negotiations, royalty rates for SEPs are set through bilateral negotiations between licensors and licensees, as discussed above. Under U.S. law, licensors and licensees may generally use any particular royalty calculations they might agree upon in their private negotiations.

In the context of patent infringement litigation, ongoing court-ordered royalties (*e.g.*, in lieu of an injunction), and FRAND contract litigation, under U.S. law courts have assessed reasonable royalties for SEPs applying traditional patent damages principles with some modifications.<sup>28</sup> “As with all patents, the royalty rate for SEPs must be apportioned to the value of the patented invention.”<sup>29</sup> In applying this requirement, the governing principle under U.S. law is apportionment such that the value of the allegedly infringing features is separated from the value of all other features.<sup>30</sup> Under the apportionment principle, “there may be more than one reliable method for estimating a reasonable royalty” and “this adaptability is necessary because different cases present different facts.”<sup>31</sup> The “essential requirement” of any patent infringement damages analysis (for SEPs and non-SEPs alike) is that “the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.”<sup>32</sup> “When dealing with SEPs . . . 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.”<sup>33</sup>

The concept of “smallest saleable patent practicing unit” (“SSPPU”) is a tool that may be used in U.S. patent infringement litigation to assist in the computation of damages.<sup>34</sup> “Fundamentally, the smallest salable patent-practicing unit principle states that a damages model cannot reliably apportion from a royalty base without that base being the smallest salable patent-practicing unit.”<sup>35</sup> However, the U.S. Court of Appeals for the Federal Circuit recently rejected the argument that patent infringement damages models must always be based on the smallest saleable patent practicing unit.<sup>36</sup> In that case, the parties’ negotiations had already focused on the specific patent in issue. Thus, as the court explained, “[b]ecause the parties’ discussions centered on a license rate for the ’069 patent, this starting point for the district court’s analysis already built in

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<sup>28</sup> *Ericsson*, 773 F.3d at 1230-32; *CSIRO v. Cisco Systems, Inc.*, 809 F.3d 1295, 1304-06 (Fed. Cir. 2015).

<sup>29</sup> *Ericsson*, 773 F.3d at 1230-32.

<sup>30</sup> *CSIRO*, 809 F.3d at 1301.

<sup>31</sup> *Id.* at 1301-02.

<sup>32</sup> *Ericsson*, 773 F.3d at 1226.

<sup>33</sup> *Id.* at 1232.

<sup>34</sup> *See id.* at 1226-28, 1232-34.

<sup>35</sup> *CSIRO v. Cisco Systems, Inc.* (Fed. Cir. 2015), at 11, *available at* <http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/15-1066.Opinion.12-1-2015.1.PDF>.

<sup>36</sup> The court held that “[t]he rule Cisco advances—which would require all damages models to begin with the smallest salable patent-practicing unit—is untenable. It conflicts with our prior approvals of a methodology that values the asserted patent based on comparable licenses.” *Id.* at 14.

apportionment” to “the value of the asserted patent, ‘and no more.’”<sup>37</sup> Under these circumstances, the court approved use of the parties’ negotiations concerning the asserted patent, rather than just the smallest saleable patent practicing unit.<sup>38</sup> The Federal Circuit explained that under the apportionment principle, “there may be more than one reliable method for estimating a reasonable royalty” and that “this adaptability is necessary because different cases present different facts.”<sup>39</sup>

Under U.S. patent law, reasonable royalty damages are generally assessed through application of the 15-factor *Georgia-Pacific* test.<sup>40</sup> Where a FRAND commitment applies, courts have modified the *Georgia-Pacific* factors, recognizing that in a “case involving RAND-encumbered patents, many of the *Georgia-Pacific* factors simply are not relevant” and that “many are even contrary to RAND principles.”<sup>41</sup> While the Federal Circuit has recognized the appropriateness of modifying those factors, it has not articulated factors to be applied in all cases involving RAND-encumbered patents, but has instead stated:

[t]o be clear, we do not hold that there is a modified version of the *Georgia-Pacific* factors that should be used for all RAND-encumbered patents. . . . We believe it unwise to create a new set of *Georgia-Pacific*-like factors for all cases involving RAND-encumbered patents. Although we recognize the desire for bright line rules and the need for district courts to start somewhere, courts must consider the facts of record when instructing the jury and should avoid rote reference to any particular damages formula.<sup>42</sup>

The Federal Circuit has emphasized that with respect to damages awards for SEPs “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.”<sup>43</sup> In addition, the damages analysis must take account of the patentee’s “actual RAND commitment at issue,” rather than any generalized notion of RAND commitments, because “‘RAND terms’ vary from case to case.”<sup>44</sup> These modifications of the *Georgia-Pacific* factors apply for SEPs generally and not just for RAND-encumbered patents.<sup>45</sup>

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<sup>37</sup> *Id.* at 13.

<sup>38</sup> *Id.* at 13-14.

<sup>39</sup> *Id.* at 11.

<sup>40</sup> *See Ericsson*, 773 F.3d at 1230.

<sup>41</sup> *See id.*

<sup>42</sup> *Id.* at 1231-32.

<sup>43</sup> *Id.* at 1232.

<sup>44</sup> *Id.* at 1231, 1235.

<sup>45</sup> *CSIRO*, 809 F.3d at 1304-05.

### **Issue for Resolution f**

- f. Whether total payment of royalty in case of various SEPs used in one product should be capped? If so, then should this limit be fixed by Government of India or some other statutory body or left to be decided among the parties?*

As a result of the diversity among SSOs, SSOs may adopt different IPR policies and the interpretations of FRAND commitments made under such IPR policies may vary. As noted above, there is no one-size-fits-all definition of FRAND terms for every SSO.

While some SSOs might seek to adopt pricing caps or other voluntary policies, the Sections do not support governmental imposition of industry royalty caps through legislation, regulation or other means.

### **Issue for Resolution g**

- g. Whether the practice of Non-Disclosure Agreements (NDA) leads to misuse of dominant position and is against the FRAND terms?*

While a degree of transparency in SEP licensing may be desirable, the degree to which this is advisable, and the manner in which it is addressed, will vary from SSO to SSO. On the one hand, in assessing issues such as discrimination and the reasonableness of offered rates, a potential licensee may be at an information disadvantage if all terms and conditions of prior licenses are entirely confidential.

On the other hand, the desire for transparency must be balanced against the fact that patent licenses often include the confidential business information of both the licensor and licensee. Indeed, private, bilaterally-negotiated license agreements may vary considerably depending on the value of particular technologies to particular licensees and their unique products and the consideration that each party can offer the other (in terms of cross-license rights or other value). An NDA is often viewed as an important safeguard for both parties. The *ETSI Guide on Intellectual Property Rights, Version adopted by Board #94*, § 4.4 (Sept. 19, 2013) states:

It is recognized that Non Disclosure Agreements (NDAs) may be used to protect the commercial interests of both potential licensor and potential licensee during an Essential IPR licensing negotiation, and this general practice is not challenged. Nevertheless, ETSI expects its Members (as well as non-ETSI Members) to engage in an impartial and honest Essential IPR licensing negotiation process for FRAND terms and conditions.

The Sections respectfully submit that a rule condemning or unduly restricting NDAs could have the collateral consequence of limiting the parties' options in how they negotiate and the types of deals they can make.

## Issue for Resolution h

*h. What should be the appropriate mode and remedy for settlement of disputes in matters related to SEPs, especially while deciding FRAND terms? Whether Injunctions are a suitable remedy in cases pertaining to SEPs and their availability on FRAND terms?*

Under U.S. law, monetary damages are a typical remedy in all patent infringement disputes, including those concerning SEPs.

Under U.S. law, entitlement to an injunction in a patent infringement dispute is governed by the factors set out by the U.S. Supreme Court in *eBay Inc. v. MercExchange, L.L.C.*<sup>46</sup> Specifically “a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”<sup>47</sup> Application of this test is case-by-case and fact-dependent.<sup>48</sup> Thus, the IPR right to exclude does not imply that an injunction should issue in all cases of infringement.

Injunctions typically are not available in the U.S. on FRAND-committed SEPs. Injunctive relief may be available in limited circumstances, however, such as when the prospective licensee is unwilling or unable to enter into a license on FRAND terms. U.S. courts have rejected “a per se rule that injunctions are unavailable for SEPs” or “categorical” or “general” rules to that effect.<sup>49</sup> However, by making a FRAND commitment, a SEP holder substantially modifies its right to refuse to license its IPR, limiting the circumstances in which it may refuse to grant a license or obtain injunctive relief.<sup>50</sup> Subject to the specific terms of the FRAND commitment,<sup>51</sup> SEP holders may

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<sup>46</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>47</sup> *Id.* at 391.

<sup>48</sup> *See id.* at 393-94 (rejecting “broad classifications” and “categorical rule[s]” in awarding or denying injunctions).

<sup>49</sup> *Apple Inc. v. Motorola, Inc.*, 757 F.3d at 1331; *eBay*, 547 U.S. at 394; *see also Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d at 1076-78 (holding that the *Noerr-Pennington* doctrine immunizes a patent holder from competition claims based on its litigation and seeking of an injunction against an infringer, hence dismissing Apple’s Sherman Act and state unfair competition claims and holding that Motorola’s filing of litigation in the federal courts and ITC on its FRAND-encumbered SEPs was immune under *Noerr*); Dissenting Statement of Commissioner Maureen K. Ohlhausen, *In the Matter of Motorola Mobility LLC and Google Inc.*, FTC File No. 121-0120 (January 3, 2013), available at [https://www.ftc.gov/sites/default/files/documents/public\\_statements/statement-commissioner-maureen-ohlhausen/130103googlemotorolaohlhausenstmt.pdf](https://www.ftc.gov/sites/default/files/documents/public_statements/statement-commissioner-maureen-ohlhausen/130103googlemotorolaohlhausenstmt.pdf).

<sup>50</sup> *See* USG OECD Statement, at 13; Letter from Donald S. Clark (Sec’y, Fed. Trade Comm’n), Response to Commenters Re: *In the Matter of Motorola Mobility LLC and Google Inc.*, File No. 121 0120, Docket No. C-4410 2 at 2 (July 23, 2013), available at <https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolaletter.pdf>. *See also*

have a contractual obligation to make licenses available on FRAND terms.<sup>52</sup> Depending on the terms of the specific FRAND commitment and the presence of factors that justify injunctive relief under traditional equitable principles, SEP holders retain the right to obtain injunctive relief in limited circumstances, such as where the alleged infringer refuses to enter into a license on FRAND terms.<sup>53</sup>

As for modes of dispute resolution, disputes between SEP holders and standard implementers can arise in diverse and fact-specific situations. The specifics of the particular SSO's IPR policy, relevant technology, patent portfolios, products, market conditions, industry custom and practice, and even the history of negotiations between the interested parties can affect the resolution of a dispute. Courts are fully capable of addressing such fact-specific disputes and determining the appropriate remedies. Courts encounter contract cases on a regular basis, and FRAND commitments are just that—contracts. Courts are therefore capable of interpreting FRAND commitments and assessing the facts relevant to whether a SEP holder has satisfied its FRAND obligation by offering a license on FRAND terms, whether the alleged infringer responded to the offer in good faith, whether the patents alleged to be SEPs are valid, whether the patents alleged to be SEPs are actually essential and infringed by the defendant, and other issues. Deciding such case-specific issues affecting the rights of private parties is precisely the role that courts have filled for centuries. On the other hand, competition agencies in the United States have issued generalized guidance on issues pertaining to licensing and

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*Microsoft Corp. v. Motorola Inc.*, 795 F.3d 1024; *In re Innovatio*, 921 F. Supp. 2d 903; *Ericsson*, 773 F.3d 1201 (FRAND contracts upheld); DOJ/PTO Policy Statement, 6 (addressing situations where injunctions may not be appropriate); USTR Veto; TSAG Contribution; Baer IBA Remarks (“the ability of F/RAND-encumbered patent holders to get an injunction in U.S. federal courts has been appropriately limited” and similar limitations have been applied to exclusion orders in the ITC.). *See also* ABA STANDARDS DEVELOPMENT MANUAL at 49-50.

<sup>51</sup> It is important to examine the actual terms of the FRAND commitment. *Ericsson*, 773 F.3d at 1231.

<sup>52</sup> *See Microsoft Corp. v. Motorola Inc.*, 795 F.3d 1024 (FRAND contract enforced, enforcement of German injunction enjoined, and FRAND royalties determined); *In re Innovatio*, 921 F. Supp. 2d 903; *Realtek*, 946 F. Supp.2d 998 (enforcing FRAND contract and granting preliminary injunction against enforcement of ITC exclusion order). *See* ABA STANDARDS DEVELOPMENT MANUAL at 49 (“The Patent Holder must offer a license to a prospective Implementer upon request. If the Implementer and the Patent Holder do not agree on terms, the Implementer has three choices: (1) it can discourage the SDO from adopting the Standard if the Standard has not yet been adopted; (2) it can choose not to implement the Standard; or (3) it can implement the Standard without a license. If the Implementer chooses to implement the Standard without a license, the Patent Holder may in turn choose to sue the Implementer for patent infringement and seek all available remedies. The Implementer may rely on any applicable defense to infringement such as invalidity or noninfringement, and may also rely on other legal theories arguing that the license terms did not comply with the SDO’s Licensing Commitment (e.g., they were not RAND).”).

<sup>53</sup> *Apple Inc. v. Motorola, Inc.*, 757 F.3d at 1331; DOJ/PTO Policy Statement at 6 (addressing situations where injunctions may or may not be appropriate); USTR Veto (same).

SEPs, such as when the use of injunctions in cases pertaining to FRAND encumbered SEPs might raise competition law issues.<sup>54</sup>

Other forms of dispute resolution can be appropriate as well. If the parties agree, arbitration or mediation can be useful modes.

### **Issues for Resolution i and j**

- i. What steps can be taken to make the practice of Cross-Licensing transparent so that royalty rates are fair & reasonable?*
- j. What steps can be taken to make the practice of Patent Pooling transparent so that royalty rates are fair & reasonable?*

Cross-licensing often reduces the cost of IPR licensing, stimulates innovation, and promotes the use of intellectual property. Cross-licensing is a common industry practice that can be efficient for both licensors and licensees.<sup>55</sup> The possibility that the inclusion of a cross-license might later add some complexity to the assessment of a particular license agreement is not a factor that should constrain private agreements.

Similarly, a patent pool can reduce transaction costs and thus benefit both patentees and implementers. Patent pools that allow for independent licensing of the patents in the pool are unlikely to be anticompetitive simply by virtue of their nature as a pool.<sup>56</sup> Patent pools can create efficiencies by combining complementary technologies, disseminating patents to interested potential licensees, reducing transaction costs, clearing blocking positions of certain technologies, and avoiding expensive infringement litigation.<sup>57</sup>

While there are circumstances in which patent pools may result in unreasonable competitive restraints (for example, where the patent pool is a sham, formed only to mask price-fixing activity between direct competitors),<sup>58</sup> in the United

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<sup>54</sup> See, e.g., DOJ/PTO Policy Statement; see also United States Department of Justice, *Antitrust Guidelines for the Licensing of Intellectual Property* (April 6, 1995) (“U.S. IP Licensing Guidelines”); 2007 DOJ-FTC IP Report.

<sup>55</sup> In 2007, the U.S. DOJ Antitrust Division and FTC conducted a comprehensive analysis of antitrust and IPR licensing, including portfolio cross-licensing arrangements, and found that the fragmentation of patent rights necessary to commercialize a product can, in some cases, increase the costs of bringing products to market due to the transaction costs of negotiating multiple licenses. The resulting report concluded that portfolio cross-licensing can be efficient and procompetitive because, in many cases, it can help alleviate these problems by removing the need for patent-by-patent licensing, thus reducing transaction costs for all parties to the agreement. 2007 DOJ-FTC IP Report at 59-61.

<sup>56</sup> U.S. IP Licensing Guidelines, § 5.5.

<sup>57</sup> *Id.*

<sup>58</sup> See, e.g., *United States v. New Wrinkle, Inc.*, 342 U.S. 371, 377 (1952); 2007 DOJ-FTC IP Report at 63 n.34.

States, patent pooling arrangements are typically reviewed under the rule of reason standard.<sup>59</sup> That is because, in general, the United States antitrust agencies view patent pools as vehicles capable of integrating complementary technologies, reducing transaction costs, clearing blocking patents, decreasing litigation costs, and promoting the dissemination of technology.<sup>60</sup>

Underlying the issue of transparency with respect to cross-licensing and patent pooling may be a misunderstanding about real-world licensing practices. The Discussion Paper states: “Portfolio licenses and cross-licenses raise issues of transparency for patent royalties. It is difficult to know what the royalty may be for a single patent in a portfolio license or a cross-license.”<sup>61</sup> In many cases, however, the parties to patent license negotiations may not need (or want) to establish royalties for each individual patent. Negotiating parties may elect not to price patents individually, but rather choose to focus on a few “proud list” patents that drive the value of the license and cross-license at the portfolio level, or they may choose to use other negotiating approaches as may fit their business interests. Patent-by-patent “transparency” may not be necessary for either party in the context of such negotiations.

#### **Issues for Resolution k and m**

- k. How should it be determined whether a patent declared as SEP is actually an Essential Patent, particularly when bouquets of patents are used in one device?*
- m. If certain Standards can be met without infringing any particular SEP, for instance by use of some alternative technology or because the patent is no longer in force, what should be the process to declassify such a SEP?*

SSO policies often define essentiality. Many policies establish that a patent is essential if it is not possible as a technical matter to implement the relevant standard without infringing the patent. SSOs generally do not verify whether declared patents are actually SEPs.

It is not often necessary in practice to determine whether particular patents declared as SEPs are actually essential. Some holders of SEPs do not actively seek to assert their patents, but instead hold their patents for defensive purposes. There is clearly

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<sup>59</sup> 2007 DOJ-FTC IP Report at 9, 85.

<sup>60</sup> *Id.* at 84; *see also* U.S. IP Licensing Guidelines, § 5.5 (“[B]y promoting the dissemination of technology, cross-licensing and pooling arrangements are often procompetitive.”); Ltr. from Joel I. Klein, Acting Assistant Attorney Gen., U.S. Dep’t of Justice, to Garrard R. Beeney, Esq. (June 26, 1997), *available at* <http://www.usdoj.gov/atr/public/busreview/215742.pdf>; Ltr. from Joel I. Klein, Assistant Attorney Gen., U.S. Dep’t of Justice, to Garrard R. Beeney, Esq. (Dec. 16, 1998), *available at* <http://www.usdoj.gov/atr/public/busreview/2121.pdf>; Ltr. from Joel I. Klein, Assistant Attorney Gen., U.S. Dep’t of Justice, to Carey R. Ramos, Esq. (June 10, 1999), *available at* <http://www.usdoj.gov/atr/public/busreview/2485.pdf>.

<sup>61</sup> Discussion Paper at 13.

no need for the holders of such patents or implementers of standards to determine whether such patents are actually essential. Other patent holders actively seek to license their patents, including their declared SEPs. Often the parties to license agreements choose to negotiate license terms with the understanding that some declared essential patents may not actually be essential. The parties may disagree about the strength of the portfolio or whether it includes none, some, or many essential patents, and in such cases it is common for parties to negotiate at length over patent applicability and essentiality.

If the parties cannot reach agreement on license terms, and they resort to litigation or arbitration, the issue of actual essentiality may become a material part of their dispute. Thus, in U.S. law, disputes as to actual essentiality arise primarily in adjudications—either patent infringement litigation, contractual FRAND litigation or administrative actions.<sup>62</sup> When necessary, parties and courts can undertake this analysis, often with the assistance of expert testimony. Access to courts or, if the parties agree, arbitration, is essential to the resolution of such highly fact-intensive disputes. Courts and arbitrators are well suited to making such case-by-case determinations in accordance with well-established processes.

The Sections are not aware of a reliable and available process for all SSOs for “declassifying” patents that are declared as potentially essential but turn out to be non-essential.

### **Conclusion**

The Sections appreciate the Department’s consideration of these comments.

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<sup>62</sup> See, e.g., *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609.