

RIETI Policy Seminar

Standards and Intellectual Property: Strategies Japan should adopt in light of current global trends

Handout



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Research Institute of Economy, Trade and Industry (RIETI)

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RIETI

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FRAND as Private Law and Public Law

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Standard Setting Environment

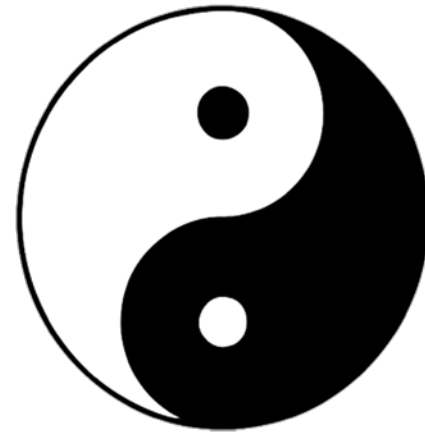


- Private ordering
 - Collaboration among competitors
 - Technical focus
 - Priority on optimizing solutions



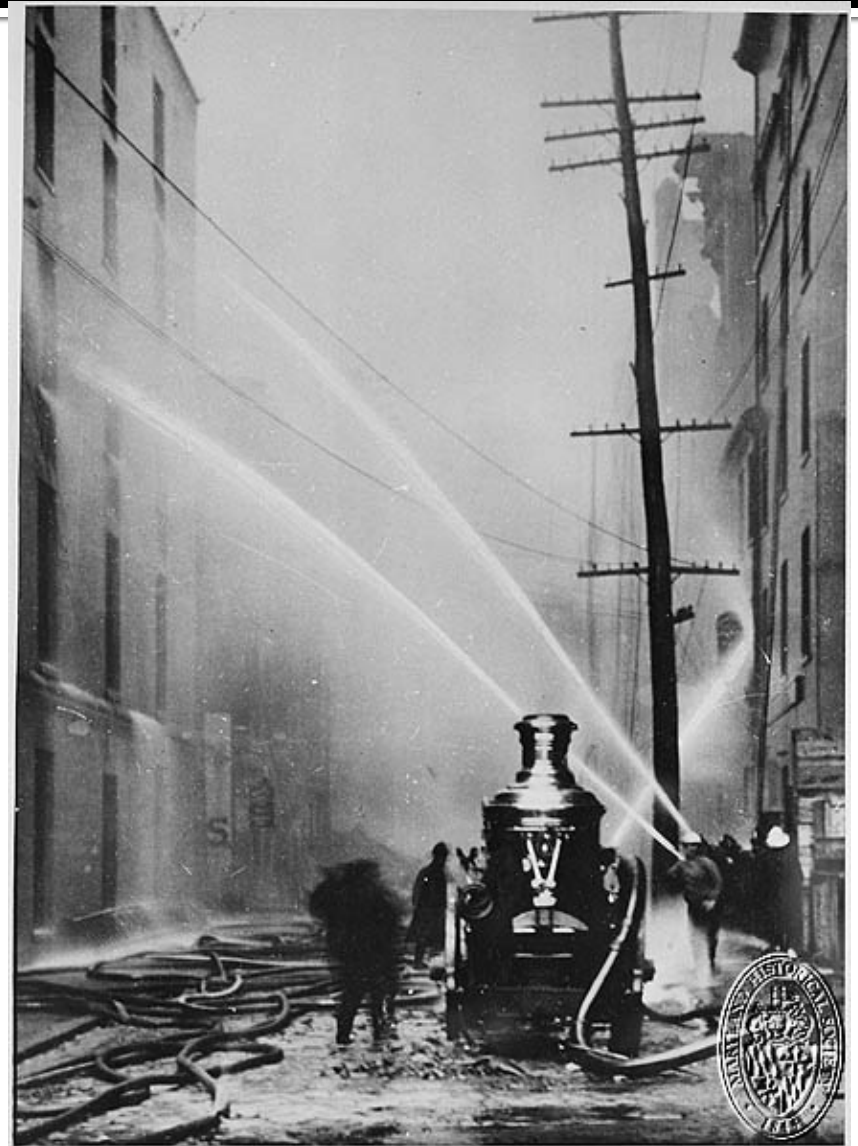
SDO Private Rules and Procedures

- SDO Policies
 - Due Process
 - Openness
 - Balance
 - Appeal
 - Patents
 - Disclosure
 - Licensing (RF or FRAND)



Monika Ermert

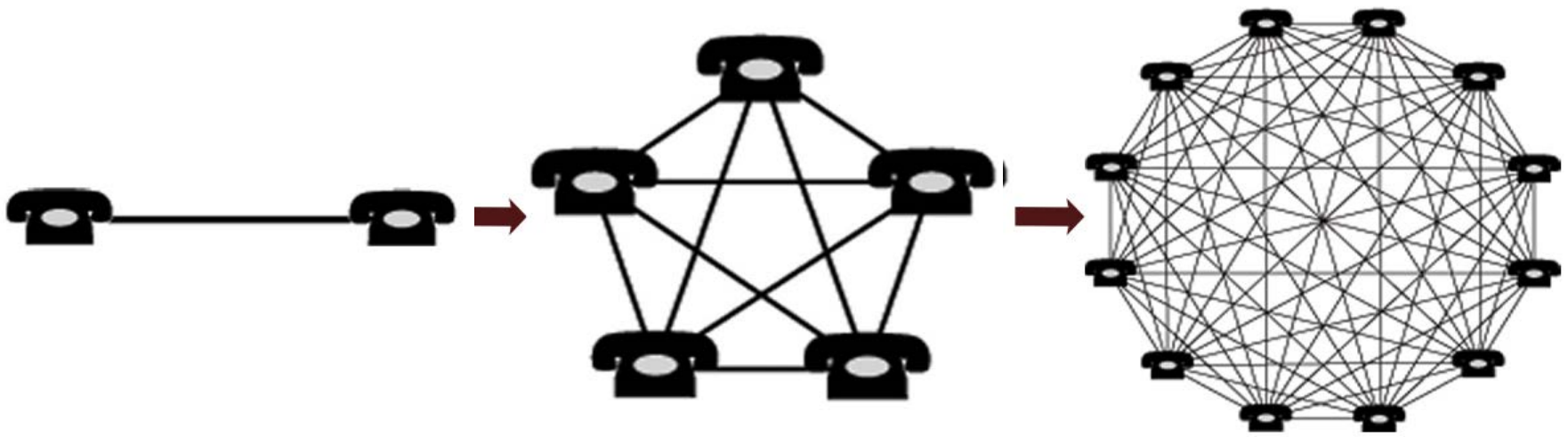
Public Character – Health and Safety Standards



Public Character – Interoperability Standards

“Interoperability standards have paved the way for moving many important **innovations** into the marketplace, including the complex communications networks and sophisticated mobile computing devices that are hallmarks of the modern age”

-- US DOJ/PTO Statement (2013)



Public Interest in Injunctions for SEPs

- Can a SEP holder who has made a FRAND commitment seek to enjoin an unlicensed infringer?
- Courts apply 4-factor test under *eBay v. MercExchange* (irreparable harm, monetary damages inadequate, balance of hardships, **public interest**)
- ITC also applies **public interest** test for exclusion orders



U.S. Agencies and Public Interest for Injunctions

the threat of injunctive relief “in matters involving RAND-encumbered SEPs, where infringement is based on implementation of standardized technology, has the potential to cause **substantial harm to U.S. competition, consumers and innovation**”

-- FTC Public Interest Statement to ITC (2012)

“[S]tandards, and particularly voluntary consensus-based standards set by SDOs, have come to play an increasingly important role in the U.S. economy.

Important policy considerations arise in the enforcement of those patents incorporated into technical standards without which such standards cannot be implemented as designed, when the patent holder has made a voluntary commitment to offer to license these SEPs on FRAND terms.”

-- U.S.T.R. Michael Froman, Letter to ITC in *Apple v. Samsung* (2013)



FRAND Rates



A holder of standards-essential patents must offer all implementers of the standard “reasonable terms and conditions that are demonstrably free of any unfair discrimination”

ANSI Essential Requirements, Sec. 3.1.1.b

Public Interest and FRAND Rates

- FRAND royalty rate is an exchange of value for private license
- But FRAND also has a public character
 - All market participants should be treated without discrimination
 - Avoid excessive aggregate royalties (stacking)
 - Maximize benefit/adoption of standard



How FRAND is decided today

■ **Bilateral negotiation**

- Information asymmetry
- Confidentiality → non-transparency of rates
- Uncoordinated rate determinations → stacking

■ **Bilateral Arbitration**

- Fine for the parties, but not for others
- Confidentiality → non-transparency of rates
- Uncoordinated rate determinations → stacking

■ **Litigation**

- Better information thru discovery
- But result only binding on parties
- Uncoordinated rate determinations → stacking
- Global race to the courthouse?

The problem with bottom-up rate calculations

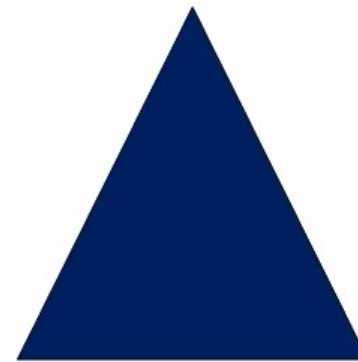
FRAND Rate Determinations for IEEE 802.11 Wi-Fi Standards

Case	Court	Royalty
<i>In re Innovatio</i> ¹¹⁰	N.D. Ill.	\$0.0956 per unit
<i>Realtek v. LSI</i> ¹¹¹	N.D. Cal.	0.12% of net sales
<i>Ericsson v. D-Link</i> ¹¹²	E.D. Tex.	\$0.15 per unit
<i>CSIRO v. Cisco</i> ¹¹³	E.D. Tex.	Up to \$1.90 per unit
<i>Microsoft v. Motorola</i> ¹¹⁴	W.D. Wash.	\$0.035 per unit

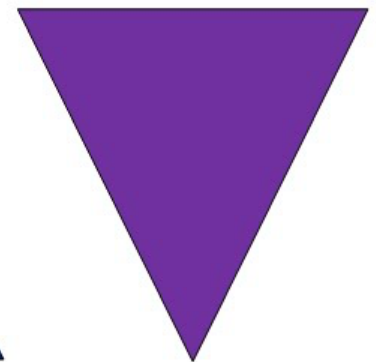
- 35 out of 3,000 patents
- 4.5% combined royalty

Bottom-Up vs. Top-Down

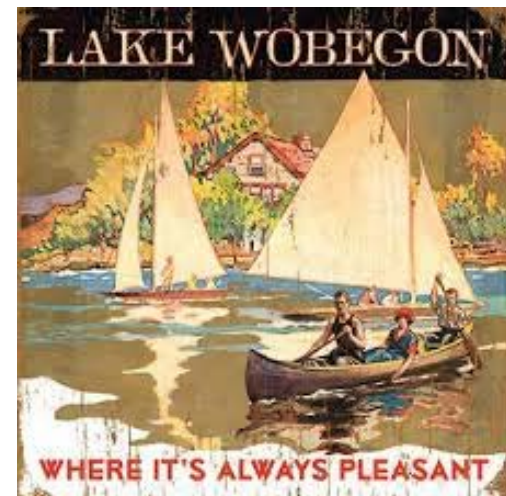
- **Bottom-up** royalty determinations for heavily stacked standards DO NOT WORK
 - 5 inconsistent US cases re. 802.11
 - All patents are “above average”
- **Top-Down** approaches are better
 - but available data to determine aggregate rates is poor
 - *Unwired Planet*: Press releases and self-serving statements



Bottom-Up Approach



Top-down Approach



Implementing Top-Down Approaches

- Collective rate *litigation* (interpleader), but...
 - Expensive
 - Not all SEP holders are in jurisdiction
 - Late in process
 - Only binds litigants
- Collective rate *negotiation* (aggregate cap and allocation) at SDO, but...
 - Fears of antitrust liability
 - Not supported by SEP holders



A role for state intervention?

- **Agency rate setting** could address stacking and discrimination issues
 - Precedent from other industries (copyright, utility)
 - Binding on parties by law
 - Information gathering and public hearings, plus appeal route, satisfy procedural due process
- But...



Which state?

- In *Unwired Planet* (UK 2017), UK Court forced Huawei to accept a worldwide license
 - Huawei only wanted a UK license
 - If Huawei refuses, injunction in UK will issue
- UK court can thus force the worldwide deal
- So can any other country do this too?
 - Race to the courthouse?
 - Race to the bottom?



International FRAND ADR Tribunal?

- International ADR tribunal determines aggregate rate for standard
 - Arbitration recognized internationally via NY Convention
 - Eliminate race to courthouse
- Application to all parties
 - By treaty (unlikely)
 - By SDO policy
 - Binds all participant SEP holders and transferees
 - Informative for courts adjudicating outsider claims
 - Adoption can be encouraged by competition agencies and legislature (immunities for SDOs)



Public and Private Benefits of FRAND ADR

- **Global** adjudication of rates
 - Avoid race to courthouse
- **Single** adjudication per standard
 - Avoids duplicate proceedings
 - Though up-front expense is greater
 - Removes stacking threat
 - Fair to all SEP holders
- Clarifies boundaries of **competition** law compliance
 - Eliminates hold-up and hold-out



Conclusions

- FRAND rate determinations are not merely private arrangements between parties
 - They have a public character too
- Bilateral and bottom-up methods for calculating FRAND rates
 - inefficient and do not serve public interest
 - National courts and rate-setting bodies can cause race to the courthouse/bottom
- A more comprehensive system is needed to determine FRAND rates
 - Per-standard ADR mandated by SDO more likely to succeed than treaty
 - Competition agencies and legislatures can encourage SDOs to adopt

Further Reading

The Cambridge Handbook of
**TECHNICAL
STANDARDIZATION
LAW**

Competition, Antitrust, and Patents

Jorge L. Contreras

CAMBRIDGE

Jorge L. Contreras, *From Private Ordering to Public Law: The Legal Framework Governing Standards-Essential Patents*, 30 HARV. J.L. & TECH. 211-231 (2017),
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2907472

Jorge L. Contreras, *Aggregated Royalties for Top-Down FRAND Determinations: Revisiting 'Joint Negotiation'*, 62(4) ANTITRUST BULLETIN 690-709 (2017),
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3051502

<https://www.cambridge.org/core/books/cambridge-handbook-of-technical-standardization-law/oEC1655CDF81AF05BF8726C0904C3362>

Thank you!

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