**PATENT ROUNDTABLE**

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The Innovation Alliance (IA) is pleased to submit comments in anticipation of the International Telecommunication Union (ITU) Patent Roundtable, to be held on October 10, 2012.

The IA is a coalition of companies seeking to enhance the innovation environment by improving the quality of patents and protecting the integrity of the patent system both in the U.S. and abroad. The IA represents innovators, patent owners and stakeholders from a diverse range of industries that believe in the critical importance of maintaining a strong patent system. Many of IA’s members manufacture and/or sell products and services that utilize not only their own patents, but those of third parties as well. In addition, IA members actively participate in, and contribute their technology solutions to, standards setting organizations (SSOs) responsible for the development and approval of standards that facilitate inter-device interoperability.

By promoting industry standards for products that require interoperability, SSOs further the public welfare by allowing the development of technologies that can be widely adopted across industries. Consumers benefit when products interoperate and the market does not become fractured across multiple, incompatible technologies. SSOs facilitate private coordination in the marketplace by bringing together participants with varying interests - namely innovators and implementers. This requires SSOs to adopt rules that attract a broad membership and that make acceptable tradeoffs between the competing interests of their members. To encourage broad participation, SSOs typically address the issue of intellectual property in standards in a manner that fairly balances the interests of both the owners of intellectual property rights (IPRs) and the implementers of standardized technologies.

In particular, the majority of SSOs employ IPR Policies requiring members and participants to commit to negotiate licenses for “essential patents” on reasonable and nondiscriminatory (RAND) terms.[[1]](#footnote-1) When committing to ITU’s RAND undertaking, for example, an IPR owner agrees that it is prepared to grant licenses on RAND terms and conditions to interested implementers, with the terms of such licenses to be negotiated by the parties in good faith. Although each SSO has its own policies and rules that should be considered individually, as a general matter, it is commonly understood that voluntary RAND undertakings are in the nature of contractual commitments to an SSO, to which implementers of the standard may be third-party beneficiaries. Accordingly, the RAND commitment ensures that implementers will be able to obtain the licenses they need while permitting IPR owners to obtain a fair and adequate reward for the use of their inventions and for the investments they have made to develop standardized technologies.

Based on first-hand experience participating in industry standards, IA members do not believe that the current policies and practices of SSOs lead to unreasonably high prices to consumers, or otherwise distort the market for standards-compliant products. Although some have asserted that the current policies and practices facilitate “patent hold-up,” such assertions appear to be based primarily on theoretical speculation and, in many cases, seem to be motivated by commercial self-interest. IA members are not aware of any verifiable data or evidence suggesting that current policies addressing standards essential intellectual property have in fact inhibited market adoption of new standards-based technologies, or impeded implementers’ ability to successfully commercialize these technologies. To the contrary, for more than a decade, RAND-based SSO policies have laid the foundation for some of the most dynamic and innovative sectors of the worldwide economy, including the market for wireless products and services.

For example, according to a recent study published by the ITU, there are almost 6 billion mobile-cellular subscriptions worldwide out of a total global population of 7 billion people, representing a global penetration of approximately 87% (*see* The World in 2011 - ICT Facts and Figures). Over the past four years mobile-broadband subscriptions have grown 45%, with twice as many mobile-broadband subscriptions now in existence as compared to fixed-broadband subscriptions. So-called “hold-up” problems have not held up these industries. Moreover, as wireless devices and services have become more ubiquitous, costs have continued to decline. Between 2008 and 2010, mobile-cellular prices in developed countries and developing countries dropped 19% and 22%, respectively.

Notwithstanding this enormous success, disputes between IPR owners and implementers can and do arise. Such disputes, however, are not indicative of a systemic failure in SSO policies and practices. To the contrary, patent litigation often arises because of intense competition in a highly dynamic industry. Such is the case with the so-called smartphone wars. The smartphone cases are more accurately described as platform or ecosystem disputes and in many cases were initiated on the basis of non-essential patents.

Apple, Microsoft, and Google are competing head-to-head to expand market share for their respective mobile operating systems – iOS, Windows, and Android. At the same time, Apple has sued Samsung and other device manufacturers to prevent use of certain design features of iPhones and iPads. In the many parallel cases filed by Apple in U.S. and international fora, Apple’s infringement allegations are based primarily on the alleged infringement of design patents, none of which involve standardized technologies. In fact, in many of the smartphone suits filed to date, declared essential patents have been asserted defensively through counterclaims, in some cases resulting in decisions that the patents are not, in fact, essential – as in the recent Apple/Samsung verdict in the Northern District of California.

As disputes over contractual terms routinely arise in competitive markets for goods and services, courts are commonly called upon to adjudicate commercial disagreements between parties. And like all commercial disputes, courts are readily-equipped to resolve disagreements over RAND using common judicial doctrines and ordinary patent and contract principles. Indeed, courts in numerous jurisdictions have already resolved, or are currently in the process of resolving, RAND-based disputes.

Because a RAND undertaking is akin to a contract, its content - like that of any contract - must be found in the intention and understanding of the contracting parties at the time such contract was formed. Thus, in any analysis of the meaning of a RAND commitment, courts must look at, among other things, the written agreements, policies, and procedures of the relevant SSO at the time the particular RAND commitment was made. In addition, the RAND undertaking is broad and permissive, and is intended to encompass a wide range of terms, conditions and outcomes. RAND is deliberately left open in order to allow parties freedom of contract to tailor their agreements in the manner that best suits their businesses. Such flexibility also ensures that RAND-based policies can serve as a framework for future products and markets, which are often impossible to predict. Accordingly, RAND obligations arising from SSO policies contemplate that IPR owners and implementers will negotiate licenses on RAND terms in a bilateral manner in order to reach terms and conditions that are mutually satisfactory for their individual situations.

Any inquiry into what is RAND will necessarily be factually laden and may be informed by evidence of real-world market and industry practice, such as the terms agreed to by other market participants and of the actual negotiations between the parties. Each case will raise unique factual circumstances that should be considered by courts on a case-by-case basis. Thus, when evaluating an offer to license patents subject to a RAND commitment, courts should give deference to the judgment of those who actually participate in the relevant market, as this may be relevant evidence of whether offered terms are consistent with a RAND undertaking. Moreover, while RAND commitments reflect IPR owners’ willingness to grant licenses on RAND terms and conditions, the RAND commitment does not require, nor should it be revised to require, IPR owners to surrender valuable aspects of intellectual property rights such as the fundamental right to exclude.

The common understanding in the industry for standardized wireless products, for example, is that a commitment to license does not prohibit an IPR owner from seeking injunctive relief. In fact, the European Telecommunications Standards Institute (ETSI) expressly considered implementing rules that would require IPR owners to forego injunctive relief, and chose not to do so after intensive discussions and deliberations by its members.[[2]](#footnote-2) Moreover, a blanket rule eliminating the availability of injunctive relief against unlicensed implementers of patents subject to a RAND commitment would be contrary to the public interest and would cause IPR owners to withdraw from the standardization process entirely, resulting in diminished standardization activity, as well as technologically inferior standards.

First, the term “standards essential patent” is misleading because it implies that such patents are readily identifiable. However, to determine whether a patent (or more precisely, a patent claim) is “essential” to a particular standard and therefore subject to a RAND obligation, courts must first determine how that term is defined in the relevant IPR policy, as the definition of “essential” can vary from policy to policy. In addition, courts must adjudicate heavily contested issues involving claim construction and infringement.[[3]](#footnote-3) Thus, a determination of essentiality is a fact intensive inquiry. In fact, as seen in a number of recent court decisions, patents alleged to be essential may ultimately be deemed not essential after all of the relevant evidence is considered. Consequently, categorical rules and assumptions regarding market power over the use of “standards essential patents” are not appropriate.

Second, even after a patent has been deemed “essential,” injunctive relief may be the most appropriate remedy in circumstances where, for example, an IPR owner has attempted in good faith to negotiate RAND terms with an implementer, but the implementer has failed to reciprocate or otherwise engage with the IPR owner. Without the possibility of injunctive relief in such situations, implementers would be incentivized to continue infringing valid patents while seeking to delay indefinitely taking licenses under the pretext that the terms offered are not RAND. Thus, implementers would be incentivized to engage in “reverse hold up,” where the sunk costs in R&D and technology development incurred by IPR owners cannot be recovered due to implementers who are emboldened in avoiding or refusing to take licenses. In addition, by refusing to negotiate in good faith and forcing an IPR owner to commence legal proceedings to obtain compensation for the use of its technology, an implementer could delay taking a license for years while the IPR owner’s case proceeds through the judicial system. In the meantime, the implementer would be able to continue manufacturing and selling infringing products without paying any royalties for the use of the IPR owner’s technology, giving itself a competitive advantage against other licensed implementers.

Although RAND commitments should not preclude injunctive relief against unlicensed implementers in all circumstances, injunctive relief may not be appropriate in certain cases involving a patent subject to a RAND commitment. Whether an IPR owner has complied with its RAND commitments may bear on defenses that implementers may raise during infringement proceedings. Specifically, a court, after considering all the relevant evidence, including the specific RAND-based obligations of the relevant SSO and the conduct of the parties, may decline to issue an injunction when the implementer would in fact be licensed but for the failure of the IPR owner to comply with its RAND commitments. Each case, therefore, will raise unique factual circumstances that should be considered by courts on a case-by-case basis.

Consequently, in the absence of any empirical data suggesting the current system of standardization does not adequately serve consumer interests or fairly balance the interests of SSO participants, it would be misguided to seek to scale back or restrict intellectual property protection for standard essential patents. To do so would disrupt firmly established expectations of current SSO participants and lead to decreased innovation and a slowing of technological progress. Additionally, consumers would be deprived of the benefits they have come to expect from the rapid, continuous improvements that characterize the technology sector. Conversely, interpreting the RAND commitment on a case-by-case basis and giving effect to the parties’ intent in making and accepting the RAND commitment ensures that the consequences of participating in standardization will remain stable and afford fundamental fairness to contributors of technology.

Thank you for considering the views of the Innovation Alliance.

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1. The IPR Policies of ITU and IEEE, for example, call for licensing undertakings on RAND terms. The IPR Policies of other SSOs, such as the European Telecommunications Standards Institute (ETSI), require members to commit to negotiate for license agreements on fair, reasonable, and non-discriminatory (FRAND) terms. [↑](#footnote-ref-1)
2. Language whereby an IPR owner making a FRAND commitment would have waived rights to injunctive relief was debated and briefly included in an IPR policy adopted by ETSI in 1993. However, this provision was subsequently removed in 1994 and similar language has never been reintroduced. [↑](#footnote-ref-2)
3. Implementers regularly seek to “have it both ways.” When confronted with an allegedly essential patent, either during licensing negotiations or litigation, implementers invariably deny essentiality, validity and infringement while simultaneously insisting that they are entitled to RAND terms and conditions and that all rights to injunctive relief have been waived. [↑](#footnote-ref-3)