**PATENT ROUNDTABLE**

 ITU Headquarters, Geneva
 10 October 2012

Submitted by: **Qualcomm Incorporated**

Contact point: **Stéphane Tronchon**

I. INTRODUCTION

Qualcomm Incorporated welcomes the opportunity to contribute to the International Telecommunication Union’s roundtable on Standard Setting Organization (“SSO”) RAND licensing practices.[[1]](#footnote-1) As a leading innovator in the telecommunications industry and a longstanding participant in numerous SSOs, Qualcomm is well positioned to observe the impact of existing RAND-based licensing policies on innovation. As a company with a dual business model that includes both licensing technology and supplying chipsets for incorporation into equipment that implements standardized technologies, Qualcomm offers its comments from a balanced perspective.

The ITU has convened this roundtable as a result of supposed “concerns” that a recent “upsurge of standards-related patent . . . litigation around the world among parties involved in the wireless, SmartPhone and tablet computer industries” represents a “serious problem”[[2]](#footnote-2) and because “some stakeholders” believe that “the effect of [alleged] widespread and long-lasting disputes and investigations regarding RAND licensing approaches could stifle, rather than promote, innovation and competition”.[[3]](#footnote-3) This roundtable thus seeks to “examine the effectiveness of RAND-based patent policies”.[[4]](#footnote-4)

The available evidence compels the conclusion that existing RAND-based licensing practices function precisely as intended and have permitted spectacular innovation and growth in the mobile communications industry. Changes to SSO licensing practices should not be based on conjecture, no matter how apparently well-intentioned the purported objective. Calls for change rooted in exaggeration—chiefly, the claim that the commercial disputes between a few market participants amount to a widespread “patent war” afflicting the mobile communications industry—should be approached with skepticism. These claims do not withstand close scrutiny, and sudden and one-sided “compromises or solutions” to address this perceived “problem” will undermine the carefully balanced long-term incentives to innovate and participate in standardization currently embodied in RAND-based licensing practices and policies. Proponents of such change consistently fail to acknowledge the likelihood of unintended adverse consequences upon incentives to innovate and participate in standardization that would result from the proposals advanced to “clarify” the meaning of RAND, a failure made particularly inexcusable by the sparseness of any evidence that there is an actual problem for such “clarification” to resolve.

II. THE SO-CALLED “PATENT WARS” IN THE MOBILE COMMUNICATIONS INDUSTRY ARE IN REALITY AN ORDINARY COMMERCIAL DISPUTE.

A. There Is No Systemic Litigation Crisis in the Mobile Communications Industry.

The roundtable has been prompted by a number of high-profile lawsuits involving prominent players in the mobile communications industry and is premised on the unproven notion that this litigation represents a serious problem affecting the industry. However newsworthy and headline-grabbing these cases may be, they are not evidence of any systemic crisis crippling the mobile communications industry. The so-called “patent wars” should be seen for what they are: a small number of participants in a highly competitive industry in which change and innovation occur at lightning speed are locked in a ferocious battle to establish market positions for competing operating systems, with litigation being a marginal aspect of this contest. This uptick in litigation between a modest number of industry participants is not a symptom of any widespread, long-term, systemic, or otherwise serious problem. Once these cases settle, as they inevitably will, the current fervor will subside and “business as usual” will resume for those companies and continue for others.

The reactions of the President of the European Patent Office and the Director of the U.S. Patent and Trademark Office to this “crisis” are telling. Benoît Battistelli, President of the EPO, recently commented that: “The development of the patent system during the last century was marked by continual clashes of this kind in specific technological fields (see for example Peter Marsh, “The New Industrial Revolution”, 2012). The difference today is mainly one of scale. Moreover, the sophistication of many everyday products can create a huge concentration of technologies from different actors, increasing the risk of conflict . . . My own feeling is that the patent system is a mirror of our economy, reflecting globalisation and market growth, but also the explosion of innovative energy which patents have facilitated and consistently encouraged. That role of the patent system—as a motor of innovation—remains crucial to industry and society.”[[5]](#footnote-5)

Likewise, in May 2012 David Kappos, Director of the USPTO told the House Judiciary Committee that “the patent wars common to the tech sector—and particularly smartphones—are hardly a sign that the system is broken, but rather a hallmark of robust innovation . . . I do not believe [the patent wars are] a sign that there’s anything at all wrong with the innovation environment in the U.S. In fact, I think it’s a byproduct of a very healthy overall innovation environment. These things happen. They sort themselves out”.[[6]](#footnote-6)

And indeed, when observed as a whole, the industry is far from being mired in stifling conflict—in reality, there is widespread patent peace among the vast majority of mobile communications industry participants who enjoy access to standardized technology because of prevalent RAND-based licensing policies.

III. EXISTING RAND-BASED LICENSING PRACTICES HAVE FOSTERED A THRIVING MOBILE COMMUNICATIONS INDUSTRY

A. Real-World Evidence of the Mobile Industry’s Astonishing Commercial SuccessDemonstrates That RAND-Based Licensing Functions Well.

None of the “concerns” about RAND-based licensing that are the focus of this roundtable are new. RAND-based licensing has long been the subject of abundant academic commentary that theorizes a systemic patent “hold-up” crisis in standardized industries.[[7]](#footnote-7) What is lacking—and would be novel—is *any* reliable evidence that what has been theorized has any basis in real-world experience. Instead, the available evidence from the mobile communications industry demonstrates that the availability of RAND-based licensing has facilitated astonishing growth in one of the economy’s most dynamic sectors.

Responding to detractors of RAND-based licensing, industry analyst Keith Mallinson concluded that “IP licensing arrangements have promoted – not inhibited – superlative market developments in mobile communications”.[[8]](#footnote-8) RAND-based licensing, he observed, has conferred the following benefits upon the mobile communications industry:

* The industry has become more diverse and innovative, both in terms of the entry of disruptive new participants such as Apple, HTC, Huawei, and ZTE, and the introduction of new game-changing products such as smartphones, tablets, and e- readers.[[9]](#footnote-9)
* Average wholesale handset prices have fallen dramatically and consistently since 1993, from $560 to $130, while gaining revolutionary new functionality and features.[[10]](#footnote-10)
* Royalty costs have fallen alongside handset prices, and concerns about crippling cumulative royalties have proven to be unfounded.[[11]](#footnote-11)

In short, real-world experience stands in stark contrast to hypotheses about industries being gridlocked by “hold-up” resulting from existing licensing practices. Instead, through RAND- based licensing, essential technologies have been made available to all comers, and the mobile communications industry has been reshaped by new players and new products to the advantage of consumers and society.

B. The Prevalent View Among Industry Participants is That RAND-Based Licensing Practices Function Well.

RAND-based licensing practices have also been subjected to and withstood considerable recent scrutiny—including calls to “clarify” the meaning of RAND. The evidence that emerged from the opportunities to consider the efficacy of RAND licensing has overwhelmingly supported the conclusion that the mobile communications industry is well served by current licensing practices.

For example, in June 2011, the U.S. Federal Trade Commission held a workshop to consider the existence of so-called “patent hold-up”.[[12]](#footnote-12) Participants—including many from high-tech industries approaching the question from the perspective of innovators, implementers, and SSOs—were invited to submit written comments and attend a day of discussion. A review of the extensive record supported the conclusion that “the theory of a pervasive patent hold-up problem . . . appears to be not only unsupported, but contradicted by the real-world facts”.[[13]](#footnote-13) The vast bulk of commentary confirmed that carefully balanced SSO rules—including RAND-based licensing undertakings—were effective in discouraging hold-up and making standards-essential technology available to industry participants.[[14]](#footnote-14) Notably, *none* of the submissions received from SSOs—which included those of the Alliance for Telecommunications Industry Solutions, the Telecommunications Industry Alliance, and the American National Standards Institute—reported any problems with RAND-based licensing.[[15]](#footnote-15) And correctly, one submission cautioned that attempts to upset the existing balance struck by RAND-based licensing practices may simply be an effort to advantage certain business models by “tilt[ing]”the RAND “balance” and “seeking reduced licensing costs and a related competitive advantage as opposed to solving a documented and widespread problem”.[[16]](#footnote-16)

More recently, the U.S. International Trade Commission invited public comment about whether the public interest supported the availability of exclusion orders—the ITC’s statutory remedy for infringement that is the functional equivalent of an injunction—in cases of infringement involving SEPs subject to a RAND commitment.[[17]](#footnote-17) Again, the majority of submissions supported the availability of exclusion orders for RAND-encumbered SEPs and rejected any suggestion that a RAND commitment entailed a waiver of injunctive or similar relief ordinarily available to an adjudicative body.[[18]](#footnote-18) Even the Federal Trade Commission— which has viewed RAND-based licensing practices skeptically —made a submission that accepted that exclusion orders should be available for SEPs in appropriate circumstances.[[19]](#footnote-19) Notably, these comments were made in the context of a dispute between Motorola and Apple that proponents of “reforms” to RAND-based licensing would surely characterize as a “battle” in the so-called “patent wars”, yet the majority of commentators supported maintaining the availability of injunctive relief for SEPs – further evidence that there is no industry-wide perception of a litigation crisis to be solved through radical changes to existing licensing practices.

Similarly, across the Atlantic the European Commission has rejected proposals by some industry participants to include a statement in its recently revised Horizontal Cooperation Guidelines that injunctive relief “should not be available to a patentee that is subject to a commitment to license patents on FRAND terms for implementation of a standard”.[[20]](#footnote-20)

IV. ALTERING ESTABLISHED RAND-BASED LICENSING PRACTICES WILL LEAD TO MORE LITIGATION AND UNDERMINE LONG-TERM INCENTIVES TO INNOVATE AND PARTICIPATE IN STANDARDIZATION.

A. SSO IPR Policies Are Intended To Attract Widespread Membership and Encourage Value-Enhancing Licensing Agreements.

It is noteworthy that SSOs have consistently rejected “clarifications” to their RAND-based patent policies that require holders of SEPs to waive the right to injunctive relief. Indeed, proponents of such a rule have been consistently unable to point to a single SSO that has adopted it. This is because SSO rules are crafted to attract widespread participation of both innovators and implementers by balancing their various competing interests.[[21]](#footnote-21) An extreme rule—such as a blanket waiver of injunctive relief—that devalues innovators’ SEPs and weighs disproportionately in favor of the interests of implementers risks discouraging innovators from participating in standardization.

In a similar vein, SSOs have also resisted efforts to “clarify” the meaning of RAND because to function optimally, RAND-based licensing must allow for a variety of outcomes depending on the parties to an agreement and the value being exchanged.[[22]](#footnote-22) Instead of prescribing rigid or mathematical criteria, RAND is best viewed as an inherently flexible concept that envisions a range of “reasonable” outcomes appropriate to the circumstances and in each case determined through bilateral negotiations.[[23]](#footnote-23) The suggestion that RAND is unworkably vague and gives insufficient guidance to negotiating parties and courts exists in an intellectual vacuum and ignores the long and successful history of the use of “reasonableness” as a standard in important commercial contexts. Notably, legal systems rely on “reasonableness” standards when addressing complex and various relationships in which any more “precise” a formula or rule of thumb would inevitably fit in some cases, and not in others. Examples are numerous and include the patent law’s reasonable royalty measure of damages,[[24]](#footnote-24) the Sherman Act’s prohibition on unreasonable restraints on trade,[[25]](#footnote-25) and consent decrees entered by the U.S. Department of Justice with the American Society of Composers, Authors and Publishers and Broadcast Music Incorporated resulting from allegations of abusive licensing practices which required royalties charged thereafter to be reasonable, with resolution of any disputes to be left to the courts.[[26]](#footnote-26) Real-world experience thus shows that a versatile reasonableness standard *does* provide meaningful guidance to private parties and *can* be usefully applied by courts.

SSOs have consistently decided that a RAND undertaking does not require a waiver of ordinary patent law remedies by SEP holders. This does not mean that a RAND undertaking is without meaning. A RAND commitment is an enforceable contract of which potential licensees are third-party beneficiaries, and requires the patent holder to negotiate a license to its SEPs in good faith, on RAND terms, if the implementer is also willing to negotiate in good faith.[[27]](#footnote-27) Because ordinary patent law remedies—including the availability of injunctions in appropriate circumstances—form part of the backdrop of these negotiations, implementers are encouraged to seek out licenses early. As Professors Richard A. Epstein, F. Scott Kieff and Daniel F. Spulber have observed, consensual licensing produces desirable social outcomes. When parties come together to negotiate an agreement they may encounter new value-creating opportunities such as cross-licensing agreements or other forms of pro-competitive commercial cooperation.[[28]](#footnote-28) These opportunities would be lost if implementers were incentivized to infringe because RAND had been defined to eliminate the most significant—and in some jurisdictions the only meaningful—downside of infringement.[[29]](#footnote-29) In the absence of these incentives to negotiate early, otherwise avoidable instances of litigation will surely rise with related costs to innovators and to society. It would be no small irony if “reforms” to licensing practices premised on a litigation “crisis” aggravated the ostensible “problem” they were intended to solve.

B. Altering the Balance of Interests Struck by SSO Licensing Practices Will Reduce Incentives To Innovate or Participate in Standardization.

Because SSO rules are crafted to balance the interests of innovators and implementers and allow access to standardized technology while rewarding R&D and providing capital for investment in future innovation, proposals that would alter this balance also threaten the longer-term viability of standardization and incentives to innovate. Such change would be a drastic and unnecessary response to an episodic outbreak of litigation between a small number of participants in a thriving industry.

Proposed blanket prohibition of injunctions is particularly unwise. Without the backdrop availability of an injunction encouraging innovators to seek licenses early, infringement will become more rational. The value created by consensual licensing arrangements will unfortunately evaporate. SEP-holders will increasingly bear the cost of enforcing their rights through serial litigation across multiple jurisdictions, and their reward on investment will too often be delayed and on occasion denied. Such proposals thus clash with the prevalent view among SSOs that licensing terms are commercial matters between the parties,[[30]](#footnote-30) optimally determined by good-faith negotiation, not litigation.

It is also clear that proposals to “clarify” the meaning of RAND in reality often seek to artificially and arbitrarily restrict or reduce license fees in a manner that diminishes the value of SEPs—particularly as compared to non-SEP technologies incorporated into products implementing the standard—thereby shrinking the return on risky investments by innovators. In the short run, a “clarified” meaning of RAND may allow implementers to obtain cheaper access to proven technologies for which the risks have already been assumed. But this is a game that can only be played in the short run. Altering the balance of incentives embodied in current—and demonstrably well-functioning—RAND-based licensing practices may mean that the next generation of mobile communications technologies will suffer because the incentives to create them are no longer in place.[[31]](#footnote-31)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. While undertakings to license standards-essential patents (SEPs) on reasonable and nondiscriminatory (RAND) or fair, reasonable, and nondiscriminatory (FRAND) terms are common in standardized industries, the content of such RAND or FRAND obligations will vary depending on the text and history of the SSO IPR policy under which they arise. For consistency, throughout this paper we use the term RAND, although our comments apply equally to FRAND-based licensing practices [↑](#footnote-ref-1)
2. Structure of the ITU Patent Roundtable” available at <http://www.itu.int/en/ITU-T/Workshops-and-> Seminars/patent/Pages/structure.aspx [↑](#footnote-ref-2)
3. *Id.* [↑](#footnote-ref-3)
4. *Id.* [↑](#footnote-ref-4)
5. Benoît Battistelli, Patents in crisis? Thoughts on the Apple-Samsung decision (August 29, 2012) available at http://blog.epo.org/uncategorized/patents-in-crisis-thoughts-on-the-apple-samsung-decision/. [↑](#footnote-ref-5)
6. *See* Kenneth Corbin, “Technology Patent Wars Sign of Robust Innovation” (May 17, 2012) available at http://www.cio.com/article/706589/Technology\_Patent\_Wars\_Sign\_of\_Robust\_Innovation. [↑](#footnote-ref-6)
7. *See, e.g.*, M.A. Lemley & C. Shapiro, *Patent Holdup and Royalty Stacking*, 85 Texas L. Rev. 1991 (2007) [↑](#footnote-ref-7)
8. Keith Mallinson, WiseHarbor, A Compendium of Industry and Market Analysis Articles on Intellectual Property in Mobile Communications Standards (June 12, 2011) at 9 available at http://www.ftc.gov/os/comments/patentstandardsworkshop/00007-60459.pdf [↑](#footnote-ref-8)
9. *Id.* at 12-13. [↑](#footnote-ref-9)
10. *Id.* at 14. [↑](#footnote-ref-10)
11. *Id*. at 15-17. [↑](#footnote-ref-11)
12. *See generally*, Federal Trade Commission Patent Standards Workshop, Project No. P11-1204 <http://www.ftc.gov/opp/workshops/standards/index.shtml>. [↑](#footnote-ref-12)
13. Roger G. Brooks, *Patent “Hold-Up,” Standards-Setting Organizations, and the FTC’s Campaign Against Innovators*, 39 AIPLA Q.J. 435, 446 (2011) [↑](#footnote-ref-13)
14. *Id.* at 456-462 [↑](#footnote-ref-14)
15. *Id.* at 446-47 [↑](#footnote-ref-15)
16. Federal Trade Commission Patent Standards Workshop, Project No. P11-1204, Comments of Microsoft (June 14, 2011) at 7 available at <http://www.ftc.gov/os/comments/patentstandardsworkshop/00009-60523.pdf> [↑](#footnote-ref-16)
17. *See In the Matter of Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, Notice of Commission Decision to Review in Part a Final Initial Determination Finding a Violation of Section 337; Request for Written Submissions (June 25, 2012). [↑](#footnote-ref-17)
18. *See In the Matter of Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, Comments of the Office of Unfair Import Investigations (July 9, 2012) at 9-16; Comments of Ericsson Inc. (July 9, 2012) at 1; Comments of GTW Associates (July 9, 2012) at 3; Comments of the Innovation Alliance (July 9, 2012) at 1-2; Comments of InterDigital Communications LLC (July 9, 2012) at 1-2; Comments of Qualcomm Incorporated (July 9, 2012); Comments of Research In Motion Corporation (July 9, 2012) at 1; Comments of Samsung (July 9, 2012) at 1. [↑](#footnote-ref-18)
19. *See In the Matter of Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, Comments of the Federal Trade Commission (June 6, 2012) at 5-6 [↑](#footnote-ref-19)
20. *See* European Commission, Overview of the Feedback Received from Stakeholders in the Public Consultation on the Draft Texts Published in 2010, at ¶ 23 available at<http://ec.europa.eu/competition/consultations/2010_horizontals/consultation_summary.pdf>. [↑](#footnote-ref-20)
21. *See* Richard A. Epstein, F. Scott Kieff & Daniel F. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination*, 8 J. COMPETITION L. & ECON. 1, 8-15 (2012) [hereinafter Epstein, Kieff & Spulber]. [↑](#footnote-ref-21)
22. See Roger G. Brooks and Damien Geradin, *Taking Contracts Seriously: The Meaning of the Voluntary Commitment to License Essential Patents on ‘Fair and Reasonable’ Terms* in INTELLECTUAL PROPERTY AND COMPETITION LAW at 401-05 (Steven Anderman and Ariel Ezrachi eds., Oxford University Press, 2011) also available at [http://ssrn.com/abstract=](http://ssrn.com/abstract)1569498. [↑](#footnote-ref-22)
23. *Id*. [↑](#footnote-ref-23)
24. 35 U.S.C. § 284 [↑](#footnote-ref-24)
25. *See State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997) (“Although the Sherman Act, by its terms, prohibits every agreement ‘in restraint of trade,’ this Court has long recognized that Congress intended to outlaw only *unreasonable* restraints.” (emphasis added). [↑](#footnote-ref-25)
26. *See* Second Amd. Final Judgment, *United States v. Am. Soc’y of Composers, Authors and Publishers*, No. 41-cv-1395, § IX (S.D.N.Y. June 11, 2001) (requiring the licensor to “advise the music user . . . of the fee that it seems reasonable” and the Court to “determine a reasonable fee based upon all the evidence”); *Broadcast Music, Inc. v. DMX Inc.*, 683 F.3d 32, 45 (2d Cir. 2012) (affirming the district court’s decision on a reasonable rate and noting that “Benchmarks, or agreements reached after arms’ length negotiation between other similar parties in the industry, are often used by the rate court in determining the fair market value of the music.”) [↑](#footnote-ref-26)
27. *See* Roger G. Brooks & Damien Geradin, *Interpreting and Enforcing the Voluntary FRAND Commitment*, 9 INT’L JOURNAL OF IT STANDARDS AND STANDARDIZATION, Jan.-June 2011 at 11-12. [↑](#footnote-ref-27)
28. Epstein, Kieff & Spulber at 20-21 [↑](#footnote-ref-28)
29. *Id.* at 28-31 [↑](#footnote-ref-29)
30. *See, e.g.*, ETSI Guide on Intellectual Property Rights (November 30, 2011) § 4 available at <http://www.etsi.org/WebSite/document/Legal/ETSI%20Guide%20on%20IPRs%20November%202011.pdf> [↑](#footnote-ref-30)
31. It is also doubtful that proposed changes to IPR policies are effective responses to present-day litigation as a practical matter because SSO IPR policies are a contract among SSO participants that cannot be amended retroactively without the consent of those whose rights are affected and, as we have shown, there is nothing remotely approaching a consensus for such changes among SSO members. [↑](#footnote-ref-31)