

GTW ASSOCIATES



Comments of GTW Associates

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International Trade Commission

Investigation No. 337-TA-745

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Preface

GTW Associates welcomes the opportunity to contribute to the record concerning Investigation No. 337-TA-745. GTW Associates comments solely on the question:

8. Does the mere existence of a RAND obligation preclude issuance of an exclusion order? Please discuss theories in law, equity, and the public interest, and identify which (if any) of the 337(d)(1) public interest factors allegedly precludes issuance of such an order.

GTW Associates believes the mere existence of a RAND obligation does not preclude issuance of an exclusion order. However the facts of any particular situation need examination and may result in a decision a patent holder who has made a RNAND declaration does not deserve an exclusion order.

GTW Associates comments derive from extensive practical experience in standards setting. GTW Associates is an International Standards and Trade policy Consultancy whose principal has 40 years professional experience participating in setting standards; administering standards committees; representing US strategic standards interests globally and offering strategic advice on standards strategy and policy. GTW Associates' clients comprise governments; standards developers; law firms and corporations active in standards setting. GTW comments are solely that of GTW Associates and not on behalf of any client.

GTW Associates President George T. Willingmyreⁱ participates in many national and global intellectual property and standards policy activities. GTW Associates monitors the intellectual property right policies and guidelines of global standards organizations and maintains an on line database with links to these policiesⁱⁱ President Willingmyre advises law firms and companies relative to litigation involving patent policies and procedures in standards setting.

GTW Comments

8. Does the mere existence of a RAND obligation preclude issuance of an exclusion order? Please discuss theories in law, equity, and the public interest, and identify which (if any) of the 337(d)(1) public interest factors allegedly precludes issuance of such an order.

GTW Associates believes the mere existence of a RAND obligation does not preclude issuance of an exclusion order. GTW Associates HAS NO POSITION on the factual matters in dispute in Investigation No. 337-TA-745.

No, the mere existence of a RAND obligation DOES NOT preclude issuance of an exclusion order.

Resolving that a patent holder who has made a commitment to license a patent claim under reasonable and non discriminatory conditions is unable to seek an exclusion order for that patent claim will upset the balancing of multiple interests in patent policies for standards developing organizations around the world.

Even beyond the current focus of ITC in Investigation No. 337-TA-745 there is extensive litigation between parties over licensing of “Standards Essential Patents” The current litigation is limited primarily to the telecommunications and information technology sector. The majority of global standards activities function very well to bring new and beneficial technologies to market. There have not been significant problems in other technology sectors. One explanation for the well functioning of the current system is the balancing of multiple interests by standards developers.

Intellectual property rights policies of standards developing organizations represent a balance of multiple interests. No doubt clarity and transparency of patent policies, procedures and the operations there of mitigates many problems due to misunderstandings of the expectations of the policies and procedures. Standards organizations around the world are constantly addressing nuances in their patent policies.

The most fundamental “**balance of interests**” in a patent policy is that between the interests of users of a standard to access and practice the standard without undue burden with the interests of the contributors of intellectual property to the standards setting process to benefit from that contribution



An absolute finding that the holder of a patent having made a RAND DECLARATION under the patent policy of a standards organizations has had removed from his possible remedies that of an “Injunction” tips the balance of interests constructed under an organization’s patent policy. The balance is shifted AWAY from the interests of holder of patent and TOWARD the interests of the potential licensee of that patent. This new shifted “balance of interests” if made generic and widespread has potential unintended consequences throughout the global standards system.

This is not to say that a patent owner may not make a voluntary statement in addition to a RAND assurance that he will not seek an injunction against infringers. This is a voluntary act the patent holder may take.

This is also not to say that an SDO may not create or revise its patent policy in order to REQUIRE a patent holder to state he will forgo the remedy of an injunction.

Further this is not to remove from the course of fact finding in potential litigation that an owner of a patent who has made a RAND DECLARATION under the patent policy of a standards organizations does not DESERVE an injunction for a multiplicity of reasons. One such reason might be a finding that a license offered to an alleged infringer is not reasonable and non discriminatory.

Another “balance of interests” in an organizations patent policy is that between multiple technology sectors. The vast majority of the standards world is working quite well. Actions taken on the basis they may be helpful to address issues in a particular technology sector if generalized and made mandatory across multiple technology sectors may have unforeseen unintended consequences for those other technology sectors.

Nature of a RAND assurance

The reasonable and non discriminatory assurance (RAND) promise the holder of an essential patent makes to comply with the requirement of the patent policy of many standards developers is ambiguous and intentionally so. It is that flexibility that is its strength.

As Damien Neven and Miguel de la Mano state in *Economics at DG Competition 2009–2010*:

Quite intentionally, FRAND terms do not specify a concrete royalty rate. It is very difficult to agree on specific licensing terms ex-ante because of the nature of IP rights negotiations: Very little is known about how the market will develop in the future and what is going to be the value of each patent portfolio. Such price negotiations may enhance the risk that technology adopters will coordinate their conduct to extract excessively favorable terms from IPR holders. FRAND is a compromise that balances the incentives of potential licensees and licensors to achieve an efficient adoption and rate of innovation. The former seek protection from becoming dependent on a particular licensor; the later cannot commit ex-ante to offer specific conditions before the future value of their technology is revealed. FRAND allows for the flexibility that is needed to unblock the standardization process and eventually adopt a standard. FRAND terms naturally vary across players and technologies.

From the perspective of antitrust policy, the built-in ambiguity in the definition of FRAND makes it difficult to identify the counter-factual for 'reasonable' licensing terms that is needed to establish a FRAND violation. However, FRAND may become an empty shell if it is not seen to impose certain constraints on parties in the standard setting process. At the very least, certain obligations from the FRAND commitment derive directly from the above interpretation that patent holders that had committed to FRAND should not appropriate all the rent which can be generated by a standardⁱⁱⁱ

Similarly Damien Geradin, Anne Layne-Farrar, and A. Jorge Padilla report in a 2007 study that (compared to RAND approaches) that it is precisely the threat of private lawsuits that specific offers of terms and conditions by a patent owner are NOT reasonable and non discriminatory as well as the threat of action by the US government that patent holders have strong incentives to live up to the RAND commitments made during a standards setting process.

The absence of a precise, unambiguous test (that is, a test specifying necessary and sufficient conditions) may be regarded as undesirable and seen with apprehension. First, as explained by Lichtman (2007),⁸⁴ it is precisely its vagueness what makes RAND commitments such a powerful ex ante mechanism. Imprecise RAND commitments promote competition among the implementers of a standard. Actual negotiations take place bilaterally and confidentially, with public knowledge of the license offer no more specific than that it will be reasonable and fair. Each firm seeking a license has therefore

strong incentives to negotiate the best terms it can win from the patent holder, so that its downstream operations acquire a competitive edge compared to other implementers. The RAND commitment then provides a backstop for this competitive process, enabling licensees to bring private lawsuits in the event that a patent holder is perceived as violating the commitment. With the threat of court imposed royalty terms (likely to be stringent, just as the US Federal Trade Commission imposed in the recent Rambus case⁸⁵), patent holders have strong incentives to live up to their RAND commitment. When viewed in this light, a vague RAND commitment can be seen as fostering competition, contrary to the claims of ex ante auction proponents.^{iv}

Rarely is a single essential patent subject of a license between a patent owner and licensee ... or is a particular term in a license such as “royalty” more important than some other term such as reciprocity or cross licensing.

While current litigation is focused on disputes in the telecommunications and information technology sector there are many technology sectors functioning quite well.

In practice a license may include many varied terms and conditions. Michele Herman points this out in clearly in *Negotiating Standards-Related Patent Licenses: How the Deal Is Done*^v

Patent licenses include a multiplicity of interdependent terms and conditions. The trade-offs made among these terms and conditions depend upon the respective goals of the patentee and licensee, as well as the strength of their respective portfolios. There are even more interrelated terms and conditions when a patent license is part of a larger business deal between the parties.

As such, the fact that some of the patents may contain essential patent claims subject to RAND or RAND-RF terms rarely comes into play as part of the negotiation in the context of the business deal. In recent years, however, when the patentee and an infringer have been unable to reach an agreement, one or both parties may consider when standardized technology is part of the relevant portfolios. If it is, a patentee may use the fact to argue that its portfolio must be licensed in order for the infringer to participate in the relevant market. Meanwhile the infringer may try to ascertain whether or not any of the patents are or should have been subject to a RAND or RANDRF license commitment to either argue that the value of the portfolio should be less or that the patentee has violated the relevant patent policy, its licensing commitments, or both, and, consequently, is estopped from asserting such patents under a variety of legal and equitable theories.

... Prospective licensees who plan to commercialize the standardized technology generally do not want a license only to essential claims, but rather to all of the patent claims that their commercial implementations infringe

International Considerations

Removing the opportunity for a patent holder to seek a remedy such as an injunction is closely related to the notion of a compulsory license of that technology.

The term “compulsory License” is used to describe a number of mechanisms for non voluntary authorizations to use patents. The most important global norm for the use of compulsory licenses is Article 31 of the WTO TRIPS Agreement ([Appendix Two](#)), which addresses uses “of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government.”

Other TRIPS provisions that are important are Articles 1, 6, 7, 8, 31 bis, 40 and 44, as well as the provisions of the 2001 Doha Declaration on TRIPS and Public Health.

According to the TRIPs agreement article 31 (b), and the Doha Ministerial Declaration on TRIPs Public Health in 2001, there may be three broad mechanisms of using the patent rights by others than the patent holder.

Compulsory licensing is another example of balancing multiple interests this time by governments. The balance is between the public interest of working the patent against the public interest in the protection and enforcement of intellectual property rights. The relevant country is obligated to weigh up the competing interests.

Appendix One

Pricing Patents for Licensing in Standard Setting Organisations: Making Sense of *FRAND* Commitments

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=996700

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January 2007

We explore potential methods for assessing whether licensing terms for intellectual property declared essential within a standard setting organization can be considered fair, reasonable, and non-discriminatory (FRAND). We first consider extending Georgia-Pacific to a standard setting context. We then evaluate numeric proportionality, which is modelled after certain patent pool arrangements and which has been proposed in a pending FRAND antitrust suit. We then turn to two economic models with potential. The first - the efficient component-pricing rule (ECPR) - is based on the economic concept of market competition. The second - the Shapley value method - is based on cooperative game theory models and social concepts for a fair division of rents. Interestingly, these two distinct methods suggest a similar benchmark for evaluating FRAND licenses, but ones which might appeal differently to the courts and competition authorities in the US as compared to Europe. We find that under any approach, patents covering essential technologies with a greater contribution to the value of the standard and without close substitutes before the standard gets adopted should receive higher royalty payments after the adoption of the standard.

Appendix Two

AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS

Article 31 Other Use Without Authorization of the Right Holder

Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

(a) Authorization of such use shall be considered on its individual merits;

(b) Such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly.

End Notes

ⁱ <http://www.gtwassociates.com/gtw/gtwresume.html>

ⁱⁱ Intellectual Property Rights Policies of selected standards developers

<http://www.gtwassociates.com/answers/IPRpolicies.html>

ⁱⁱⁱ Economics at DG Competition, 2009–2010 Damien Neven · Miguel de la Mano [Review of Industrial Organization Volume 37, Number 4](#), 309-333, DOI: 10.1007/s11151-010-9270-8
<http://www.springerlink.com/content/c005477680h8n56k/fulltext.pdf> © Springer Science+Business Media, LLC. 2010

^{iv} Appendix One Pricing Patents for Licensing in Standard Setting Organisations: Making Sense of *FRAND* Commitments

^v <http://apps.americanbar.org/intelprop/spring2010/coursematerials/HermanMicheleNegotiatingStandards-Related.pdf>