Patentes Esenciales y Estándares en las TIC: Retos y Oportunidades

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Standard Development Organization

Organizations developing, coordinating, promulgating, revising, amending, reissuing, interpreting, or otherwise producing technical standards that are intended to address the needs of some relatively wide base of affected adopters.

A technical standard is an established norm or requirement in regard to technical systems. It is usually a formal document that establishes uniform engineering or technical criteria, methods, processes and practices.

Participation in an SDO

- Bylaws
- Membership
- IP Policy
- External participant

IP Policies in SDOs

Patent License schemes

- Fair Reasonable and Non-Discriminatory
- Royalty Free
- Reciprocity
- Opt-out
- Withdrawal
- Essential Patents and Essential Claims

Copyright

- Ownership of Specification
- License on contribution
- Ownership of combined contributions
- Ownership of derivatives generated in working groups

Essential Patents/ Essential Claims

An exemplary definition from IEEE

"Essential Patent Claim" shall mean any Patent Claim the use of which was necessary to create a compliant implementation of either mandatory or optional portions of the normative clauses of the IEEE Standard when, at the time of the IEEE Standard's approval, there was no commercially and technically feasible non-infringing alternative. An Essential Patent Claim does not include any Patent Claim that was essential only for Enabling Technology or any claim other than that set forth above even if contained in the same patent as the Essential Patent Claim.

Essential Patents/ Essential Claims

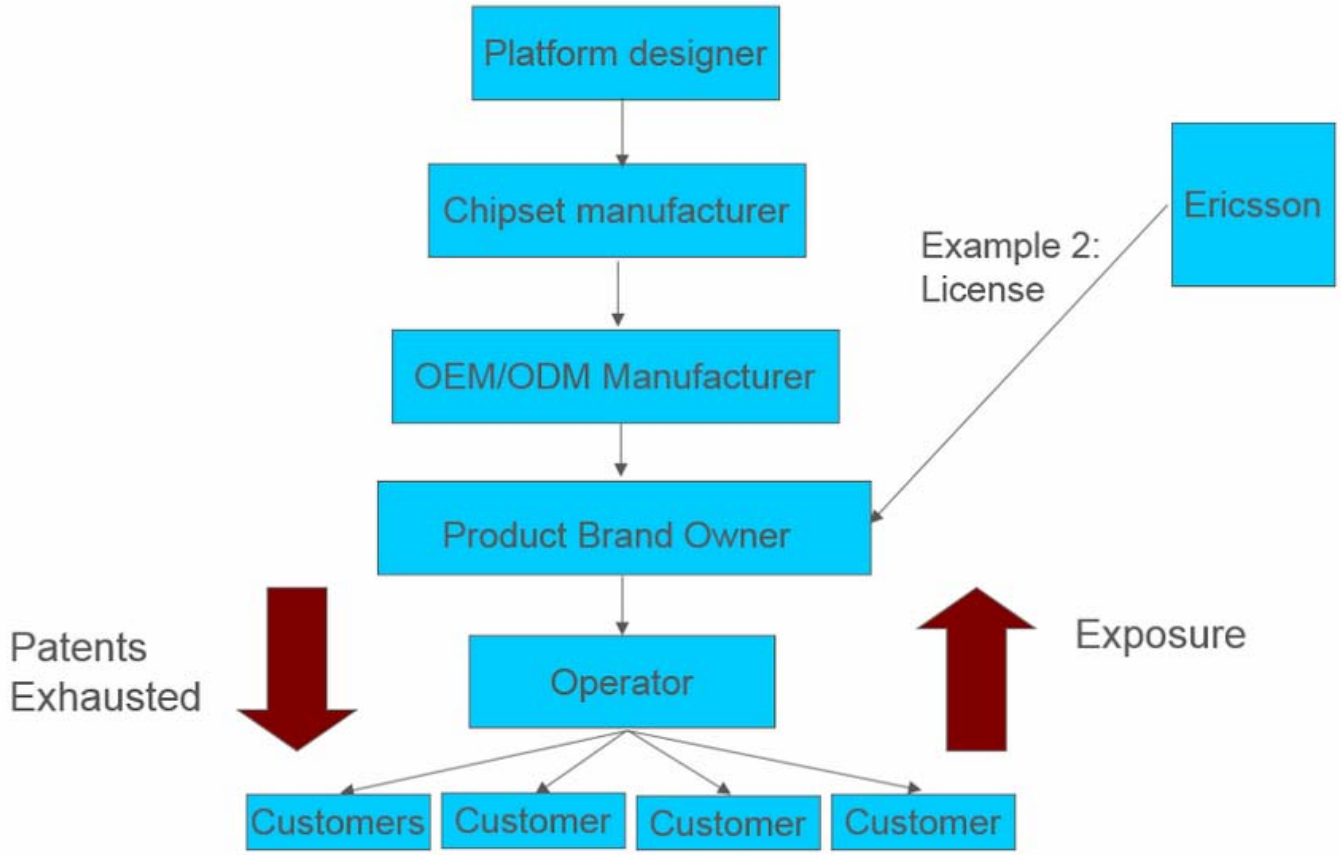
An exemplary definition from ETSI

ESSENTIAL as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL

Value of Standard Essential Patents under F/RAND

- Fair Reward for
  - Contribution to the standard
  - Ex-ante value of the technology covered by SEPs (vs. ex post)
  - taking into account other SEPs?
  - Smallest salable patent practicing unit bearing the closest relationship to the portion of the invention claimed in the SEP that is essential to the specification, but should be further apportioned when the smallest salable patent practicing unit contains functionality beyond that claimed in the SEP?
- Should consider patent holder investments?

WHERE TO LICENSE IN THE VALUE CHAIN?



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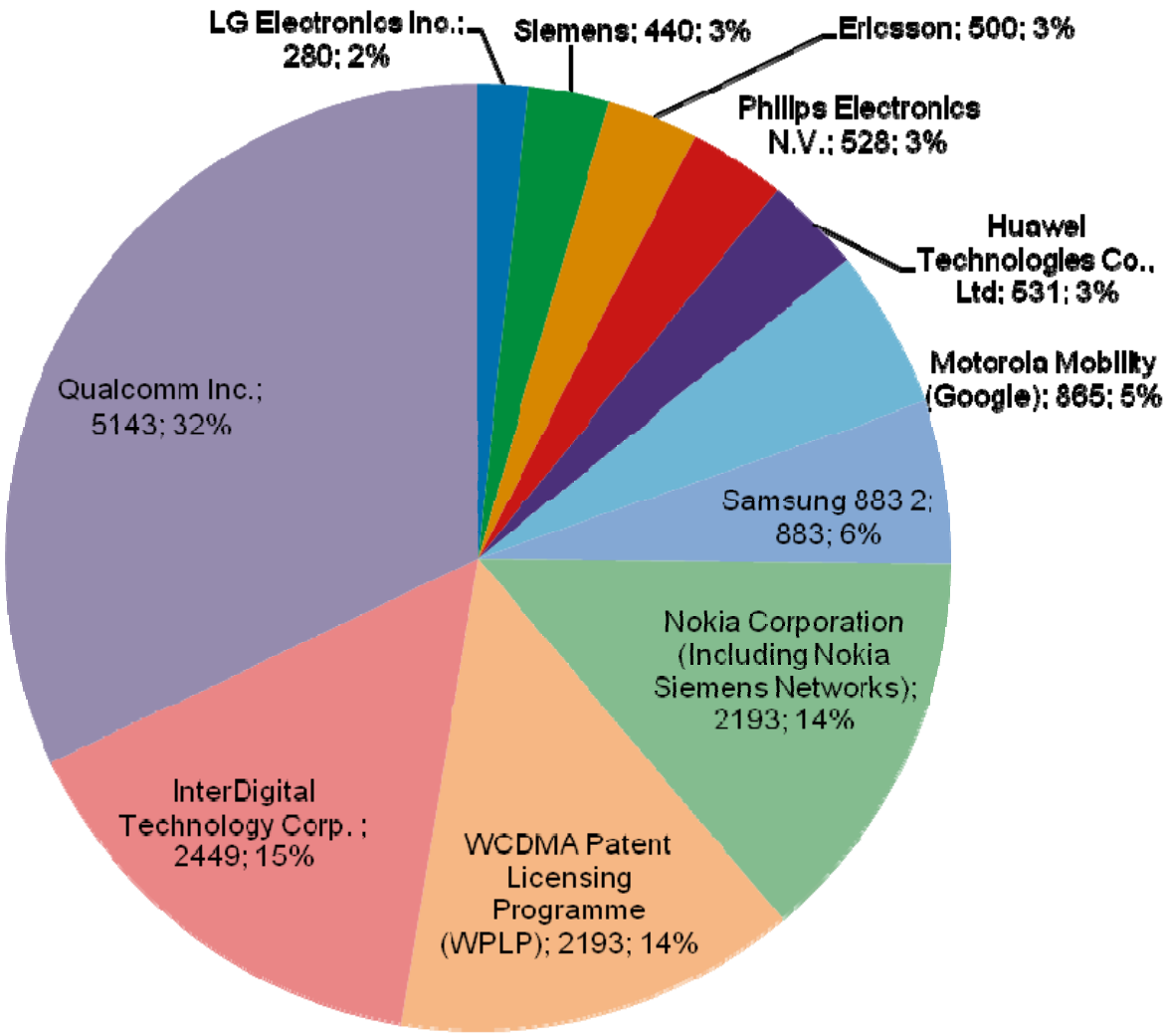
Issues in F/RAND

- Injunctions to obtain compensations greater than F/RAND
- Patent Hold-up
- Validity, enforceability, infringement, essentiality
- ITC and Exclusion orders, Germany, India
- Obligation to take portfolio licenses
- SEPs for other standards,
- Declared and undisclosed SEPs
- Non-SEPs
- Grant-back license exceeding reciprocity
- Covenant not to sue

3G & 4G

- Very large number of patents declared essential by owners
- Owners charging very high royalties, and large royalty base
- Technologies requiring licenses from several licensors
- Royalty stacking substantially increase BOM costs
- Lots of litigations among lots of players e.g. Nokia, Ericcson, Samsung, Apple, Intel, Interdigital, Huawei, ZTE and many others

Mobile 3G SEP Holders – ETSI Declarations



Publicly Announced 4G Royalties

Company	Announced LTE Rate	Royalty ($400 device)
Qualcomm	3.25% of device	$13.00
Motorola	2.25% of device	$9.00
Alcatel-Lucent	Up to 2% of device	$8.00
Huawei	1.5% of device	$6.00
Ericsson	1.5% of device	$6.00
Nokia	1.5% of device	$6.00
Nortel32	1% of device	$4.00
ZTE	1% of device	$4.00
Siemens	0.8% of device	$3.20
Via Licensing	Per Unit Sliding-Scale Fee Based on Volume34	$2.10 per unit (sales over 10M units)
Sisvel Patent Pool	0.99 Euros per device	$1.36
Vodafone	Free	$0.00
Total		**$54.30**

- Of the top 10 LTE SEP holders - Samsung, IDC and LG have not publicly stated LTE licensing rates
- Qualcomm – Has stated will CAP Royalty rate no higher than highest 3G rate
- Chinese court recently held that InterDigital's royalty rate for 2G, 3G, and 4G essential patents could not exceed **0.019%** of the sales price of a Huawei device

It Only Takes One Bullet to Kill

David J. Teece, expert witness in Motorola Mobility vs. Microsoft, to justify 2.25% royalty demand by MMI

Recent Legal Developments about SEPs

Regulators' declarations

- DoJ & USPTO Jan. 8, 2013

http://www.justice.gov/atr/public/guidelines/290994.pdf

  - an exclusion order based on a F/RAND-encumbered patent appears to be incompatible with the terms of a patent holder's existing F/RAND licensing commitment to a [standards-development organization]
- EC Dec. 21, 2012 J. Almunia

  http://europa.eu/rapid/press-release_IP-12-1448_en.htm
  - Intellectual property rights are an important cornerstone of the single market. However, such rights should not be misused when they are essential to implement industry standards, which bring huge benefits to businesses and consumers alike. When companies have contributed their patents to an industry standard and have made a commitment to license the patents in return for fair remuneration, then the use of injunctions against willing licensees can be anti-competitive.

Determining F/RAND rate

Microsoft vs. Motorola (W.D. Wash. 2013) (Robart)

- IEEE 802.1 (Wi-Fi) and H.264 (video codec) SEPs
- Georgia-Pacific factors must be modified to take into account facts specific to standards
- Patent pool rates considered
- “Importance” of patents considered—other SEPs more important in these standards
- Implementer of a standard may have to take licenses for many SEPs-Royalty Stacking

Determining F/RAND rate

Microsoft vs. Motorola (W.D. Wash. 2013) (Robart)

- Patent holders who have committed SEPs to F/RAND terms have agreed to license (no threat of withholding a license)
- F/RAND royalty should be low enough to promote adoption of standard yet reward technology developer
- Motorola sought more that $4B/yr but was awarded less than $1.8M/yr
- Motorola appealed
- Case is not precedential outside this jurisdiction but provides useful framework for considering reasonable royalties

Determining F/RAND rate

IP Ventures vs. Cisco, HP et al. (N.D. Ill. 2013) (Holderman)

- More Wi-Fi 802.11 SEPs
- Similar to approach in Microsoft vs. Motorola
- Focus on royalty base—smallest unit to apply royalty
- Wi-Fi chipset was the important component, not the end product as sold
- What is reasonable royalty on chipset?
- Court awarded royalty of less than 10 cents per chip
- The patent owner's proposed method would have charged anywhere from $3.39 to $36.90, depending on the end product
- Looked at importance of the patents to the standard and prior jury awarded damages to set royalty

Availability of Remedies for SEP Holders

Orange-Book Standard Case - German Federal Court of Justice – (2009)

- A holder of standard-essential patents violates antitrust law to the extent that an injunction becomes unavailable *only* by refusing a FRAND offer from the would-be licensee.
- Not only does the would-be licensee have to make such an offer but, he also has to honor it, either by making actual payments or by posting a bond that would cover them (in order to eliminate the risk of the patent holder not getting paid due to the licensee's potential bankruptcy)

Availability of Remedies for SEP Holders

Huawei vs. ZTE, Court of Justice of the European Union (Pending)

Düsseldorf Regional Court in *Huawei v. ZTE* referring to the CoJ

Is abuse of dominant market position?

- If PH seeks injunctive relief under RAND encumbered SEP against a willing licensee?
- Require Infringer's willingness to negotiate, e.g. based on infringer declaration?
- Require submission of binding offer (Orange-book)? Conditioned on actual infringement and validity of SEPs?
- Require Disclosure of past acts of infringement and/or payment of royalties (security)?
- Same requirements applies also if PH seeks other remedies for patent infringement?

IPR Committees in ETSI and ITU-T

IP Policy Modifications

- Availability of injunctive relief/ exclusion orders under RAND-encumbered SEPs
  - Safe Harbor approach?
  - General unavailability?
  - Willing and Not-Willing licensee?
- Meaning of Reasonable
  - Fair reward
  - Smallest sellable unit?
  - Royalty stacking (taking into account other standards)?
  - Challenging validity, enforceability, infringement, essentiality?
  - Portfolio license?
  - Grant back?
- Meaning of Non-Discriminatory
  - Unmodifiable license terms
  - License available to any third party

Thank you

Georgia-Pacific Factors for Determining Reasonable Royalty

1. Royalties patentee receives for licensing the patent in suit
2. Rates licensee pays for use of other comparable to the patent in suit
3. Nature and scope of license in terms of exclusivity and territory / customer restrictions
4. Licensor's established policy and marketing program to maintain patent monopoly by not licensing others to use the invention
5. Commercial relationship between licensor and licensee, such as whether they are competitors or inventor and promoter
6. Effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales
7. Duration of patent and term of license

Georgia-Pacific Factors for Determining Reasonable Royalty 2

8. Established profitability of the products made under the patent, its commercial success and its current popularity
9. Utility and advantages of patent property over old modes and devices
10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefit of those who have used the invention
11. The extent to which the infringer has made use of the invention and the value of such use
12. The portion of profit or selling price customarily allowed for the use of the invention
13. The portion of realizable profit attributable to the invention as distinguished from non-patented elements, significant features / improvements added by the infringer, the manufacturing process or business risks
14. Opinion testimony of qualified experts
15. Outcome from hypothetical arm's length negotiation at the time of infringement began

Source: Georgia-Pacific Corp. v. United States Plywood Corp. , 318 F. Supp. 1116, 1119-20 (S.D.N.Y. 1970), modified and aff'd , 446 F.2d 295 (2d Cir.);

Unisplay, S.A. v. American Electronic Sign Co., Inc., 69 F.3d 512, 517 n.7 (Fed. Cir. 1995).

