Policies, Practices, and Experience of Leading Standards Organizations

National Academy of Sciences Comments

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Commitments remain with IP regardless of owner

- IPR policies should create as strong a commitment as possible to bind future owners of the IPR to any F/RAND commitments made to the SSO.

Clearly a F/RAND commitment that becomes weaker or more vague upon the sale of a patent incentivizes sales designed to evade those commitments, and is not going to protect consumers as well as one that is watertight.

Well-specified procedure to lower cost of dispute resolution

- A F/RAND commitment should include a commitment to a process that is faster and lower cost for determining a F/RAND rate or adjudicating disputes over FRAND.

The expensive nature of litigation may create frictions in the market for ideas, impose a high transaction cost for licensees, or render this market less accessible for smaller firms. Each SSO can consider options to reduce the cost of resolving disputes that it thinks will work well for its members and technologies. Without meaning to suggest that any one is the right solution in any particular instance, options might include arbitration, alternative dispute resolution within the SSO, an allowed range for a royalty rate, and specification of the base to which a royalty should apply.

Cash option

- The F/RAND dispute resolution process should require that the licensor specify a cash price for its SEPs to aid in evaluation of the proposed license terms by the third party.

Determining if a complex package of cross-licenses satisfies F/RAND will be difficult for a third party, whereas a cash option is more transparent. If the licensee has the option to choose a F/RAND cash price, but instead chooses to cross-license, then clearly it is better off.

Well-specified process before an injunction/exclusion sought

- The F/RAND commitment should include a dispute resolution process preceding any action for injunction or an exclusion order.

This process would include specifying what steps must be taken by parties to resolve disputes over a F/RAND rate, validity, essentiality, or infringement before an injunction or an exclusion order may be sought against the licensee. Constraining the ability of licensors to threaten – at any time, in any way – to exclude a product from the market during bargaining will reduce the ability of the licensor to extract royalties above the F/RAND rate. For example, an SSO might require that a potential licensee must demonstrate it has entered negotiations by answering email and phone calls from the licensor concerning royalty payments. Such responses on the part of the licensee would then provide assurance to the licensee that the licensor could not seek an injunction at that point in the negotiation.

The essence of the F/RAND commitment is that the firm has voluntarily chosen to accept royalties (money) rather than pursue a business model based on exclusion. Such a voluntary declaration undercuts claims of irreparable harm from the use of the SEP and are consistent with limits on the use of injunctions or exclusion orders.