

Standard-Essential Patents

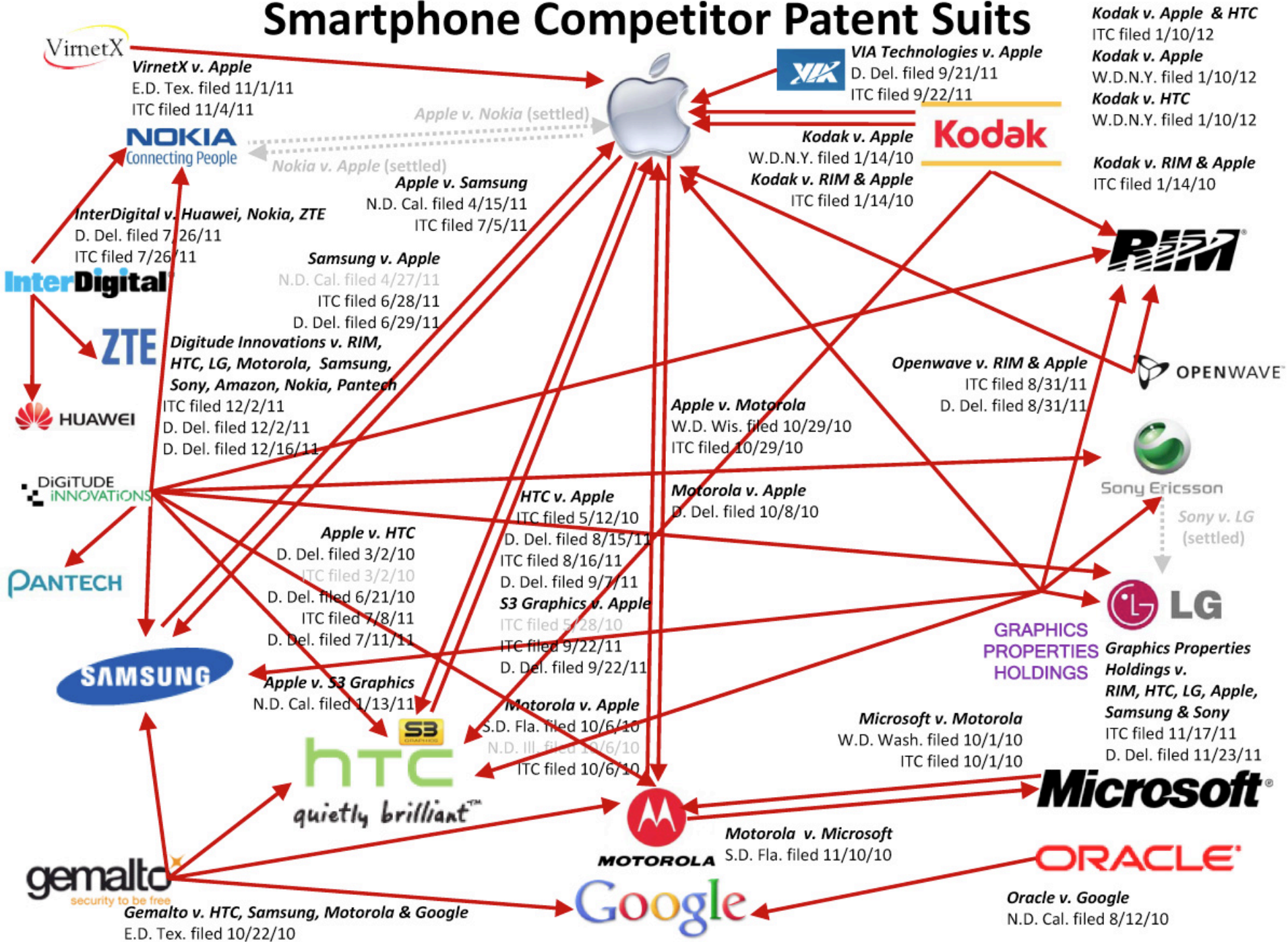
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Symposium on Management of Intellectual
Property in Standard-Setting Processes

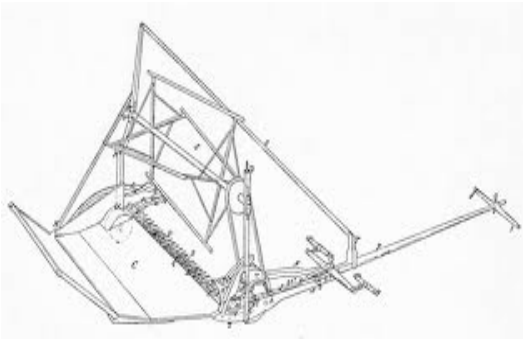
October 3-4, 2012
Washington, D.C.

Smartphone Competitor Patent Suits

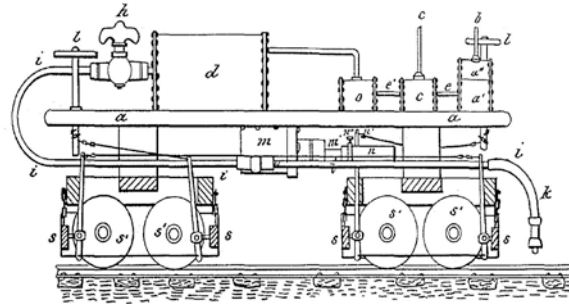


The Smartphone Wars: What's Different?

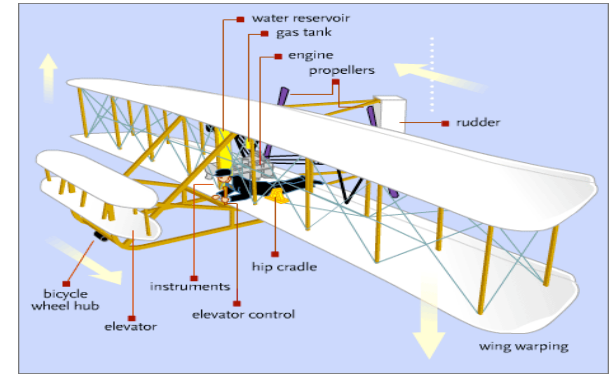
Patent wars are familiar for emerging industries



mechanical reaper



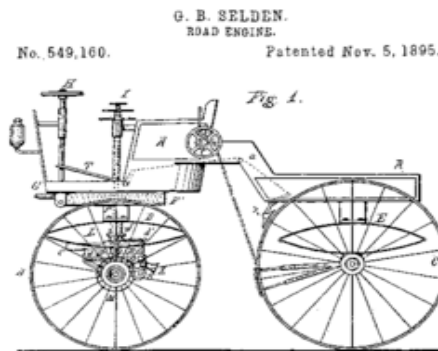
train air brake



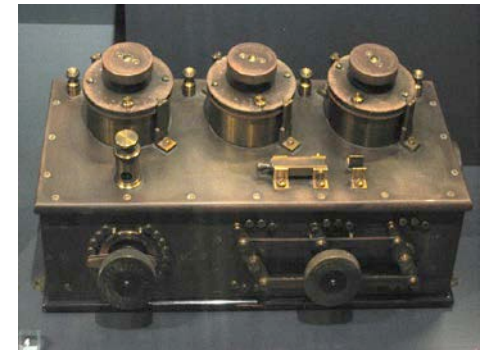
airplane



telephone



automobile



radio

The Smartphone Wars: What's Different

- Better ability to monetize patents
 - Should promote licensing
 - Non-practicing entities want licensing revenues, not exclusion
- Many more patents cover products
 - Selling firms have incentives to cross-license for design freedom
 - More patents mean more opportunities for hold-up
- Standards
 - high switching costs => potential for hold-up
 - RAND commitments
 - Mitigate hold-up, but may lower incentives for cross-licensing
- New and more favorable litigation venues
 - Court of Appeals for the Federal Circuit
 - International Trade Commission
- Drastic intervention (e.g. mandatory patent pools) less likely

SEP Disclosure Requirements

- The scope of the disclosure requirement
 - Patents (and other relevant IP)
 - Patents + applications
 - Patents + applications + planned applications
- Potential costs from disclosure
 - Complex and expensive
 - Disclosure of applications and planned applications risks the exposure of trade secrets and may jeopardize future patentability
 - May discourage SSO participation
- Blanket disclosure rules may not provide sufficient precision to inform technology choices
- Liabilities for failing to disclose
 - Does agreement to abide by SSO disclosure rules make an SEP unenforceable if not disclosed?
 - Antitrust?

F/RAND Royalties

- What is “reasonable”?
 - Ex ante incremental value of the patent before firms and consumers make investments that are specific to a standard
 - A rate achieved through arms-length bargaining with a willing licensee
 - The Georgia-Pacific factors

F/RAND Royalties

- How to allocate a reasonable royalty for a technology among many essential patents
 - Equal value per patent?
 - Incentives to file multiple patent claims
 - What if some patent owners do not enforce their patent rights or are content to charge a zero or low royalty? Does that increase the royalty that other essential patent owners may charge?

Non-Discrimination

- Important but often neglected component of RAND
- A non-discrimination requirement can mitigate concerns over ex post hold-up if bargaining over royalties occurs ex ante -- but
- What is non-discriminatory?
 - Equal total payment for every licensee
 - Equal per-unit royalty for every licensee
 - Equal royalty scheduled for similarly situated licensees
- How to account for cross-licenses?

RAND and Injunctions

- Injunction threat is a powerful bargaining tool
 - Particularly with switching costs, multiple essential patents
- If a RAND commitment means no injunction, this is arguably RAND's most important feature
- Currently being tested in courts and especially the International Trade Commission

The ITC: *Gaming and Entertainment Consoles, Related Software, and Components Thereof*

- Motorola brought an infringement action in the ITC seeking an exclusion order on Microsoft's Xbox by asserting the infringement of patents, some of which had RAND commitments

The ITC: *Gaming and Entertainment Consoles, Related Software, and Components Thereof*

- Microsoft:
 - As a result of [Motorola's] commitment to license its patents on RAND terms, ... [Motorola] cannot seek relief, either by injunction in the courts or an exclusion order in the Commission, that would exclude other companies from using the patents to practice the standards. Its remedy for use of these patents in implementing the standards is a reasonable royalty.

The ITC: *Gaming and Entertainment Consoles, Related Software, and Components Thereof*

- Motorola:
 - Microsoft's RAND defenses are based on a fundamental misunderstanding of SSOs, their patent policies and RAND assurances made under those policies, and that SSO policies require only that parties engage in good-faith negotiations to determine reasonable and non-discriminatory terms for standard-essential patents.

The ITC: *Gaming and Entertainment Consoles, Related Software, and Components Thereof*

- Administrative Law Judge:
 - Microsoft has not pointed to any statute that conflicts with the powers granted to the Commission by Section 337. In this case, it has not been shown that the “rights or the situation of the parties are clearly defined and established by law” so as to prevent Motorola from obtaining relief from the Commission.
 - Accordingly, it is found that Microsoft has not prevailed in its RAND obligations defense.
 - (Case remanded by the Commission)

The ITC and the Public Interest

- Commission has scope to consider the public interest, which includes:
 - findings on the public health and welfare
 - competitive conditions in the United States economy
 - the production of like or directly competitive articles in the United States, and
 - United States consumers.
- *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof,*
 - Commission requested briefing on how public interest factors relate to RAND commitments