

**Richard Vary: Comments on Proposed Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, questions 4, 5, 6, 10 and 11**

**Background**

I have worked in the SEP licensing and litigation world since 2006. In that time I have represented implementers who are defending SEP claims. The most significant cases were

- *Nokia v Interdigital*, in which Nokia obtained declarations as to the essentiality of Interdigital's 3G patent portfolio,
- *Qualcomm v Nokia*, in which Nokia as a large implementer defended SEP assertions by Qualcomm. Notably this was the first FRAND case in the cellular industry when Nokia sought a FRAND rate setting.
- *IPCom v Nokia*, in which patent owner and licensing entity IPCom asserted SEPs against implementer Nokia, obtaining injunctions, and Nokia sought a FRAND determination of IPCom's portfolio.

I have also worked in the capacity of SEP owner, for Nokia against Apple, HTC, Blackberry, and Oppo, for Mitsubishi and patent pool Sisvel against Oppo and Xiaomi, for Qualcomm against Apple, and for Interdigital against Oppo and Lenovo.

I have been involved in the automotive and IOT disputes, representing Nokia in its mediation with Daimler and before the European Commission.

I have managed two major arbitrations in the SEP licensing area; between Nokia and Samsung and between Nokia and LG.

**Response to Question 4: In your experience, has the possibility of injunctive relief been a significant factor in negotiations over SEPs subject to a voluntary F/RAND commitment? If so, how often have you experienced this?**

SEP licensing is unique. In most areas of IP licensing the licensee must take a licence up front: if he does not he knows that he will be quickly shut down. In SEP licensing, the implementer may start selling first, and only later sort out the licensing position. This has

many advantages in promoting quick uptake of new technology. But it also leads to a state of mind of resentment when the implementer later has to take the licences, just as paying your taxes by a cheque at the end of the year is resented far more by individuals than if those taxes are taken out of their pay-check up front. That resentment manifests in a very human desire to avoid paying if possible.

In my experience listed above, the possibility of injunctive relief has been the only factor that has driven licensees to the negotiation table. Sometimes that has taken a very long time: no one making cellphones seriously disputes that they need a licence to Nokia's patents, but it was 15 years before LG finally took one. But the availability of injunctive relief, particularly in Europe, has been the only thing that has closed the gap.

If there was no possibility of injunctive relief, the implementer would have no real incentive to pay. Whilst the United States has enhanced damages for willful infringement, no other country does. The most a patent owner can recover outside the US is a reasonable royalty for the past, and in many countries only quite short periods of the past (the limitation period in China, for example, is three years). Why would any rational actor pay in circumstances where, as a practical matter, you cannot be forced to pay most of what you owe? What director, acting in the interests of his shareholders, would take a licence in those circumstances?

The criticisms of injunctions have been largely solved in Europe. In practice, the Huawei v ZTE case law protects against their application to genuinely willing licensees (and few would argue that they are appropriate in such a situation). In the UK, the court will go further, and offer the unwilling licensee a last chance to take a FRAND licence, even determining what would be FRAND or RAND, and only if that is declined would a conditional injunction take effect. I would commend either approach.

**Response to Question 5: Are other challenges typically present in negotiating a SEP license? If so, what information should be provided or exchanged as a practical matter to make negotiation more efficient and transparent?**

On the licensor side, one information asymmetry is understanding the scope of infringement and of infringing sales. Encouraging prospective licensees to provide some degree of transparency is key.

On the licensee side, there are two informational asymmetries that are relevant: knowledge about the patents being licensed, and knowledge about comparable agreements:

### **Knowledge about the patents being licensed**

This has been largely solved in the ETSI context: the ETSI database faces many minor criticisms but it is very much better than what is available for any other standards. As some of the articles below illustrate, unlike in other sectors, it is possible to calculate for almost any SEP owner in the cellular space how their portfolio stacks up against others, or against the industry as a whole. It is rare for a month or two to go by without another study being published into the respective ownership and essentiality of cellular SEPs, or another judgment where a court has managed to do the same.

The situation for cellular patents was very different in the 2000s. There were no studies, and the ETSI database was rather less easy to work with. Many judges, including Floyd J (as he then was) in the UK expressed the view in conferences that the calculation of FRAND in the cellular space was not something that a court could do.

That remains the situation with other standards today. It is very much harder to work out who owns patents, and in what proportion, in other areas of standardized technology. To the extent that the DoJ may assert any influence on SSOs, I would respectfully urge the Department to focus its efforts on bringing other SSOs up to the level of ETSI in terms of databases and disclosure requirements.

### **Knowledge about comparable agreements**

When negotiating any deal, it is always helpful to know what others have paid. But when *concluding* any deal, it is of immense assistance to know that the terms of this particular deal will remain confidential: otherwise negotiating parties cannot compromise from their formally stated positions. That balance must be maintained: open everything up and fewer compromises will be made.

Arbitration helps. An arbitration process, or a court ordered disclosure and mediation process, allows external advisers to parties to see comparable agreements from the other side early on in the process, but binds them to keep what they see as confidential. The process needs to have an element of compulsion for disclosure/discovery, because that

allows the parties to show their agreements to the advisers on the other side without putting themselves in breach of confidentiality requirements: most confidentiality clauses have an exception where the disclosure is mandatory, so long as it is restricted to courts and attorneys on the other side.

To the extent that the DoJ may assert its influence to assist in this area, I would respectfully urge the Department to focus efforts on promoting cheap and quick forms of alternative dispute resolution that permit parties to show their comparable agreements to the advisers of the other party at a very early stage in the proceedings.

**Response to Question 6: Are small business owners and small inventors impacted by perceived licensing inefficiencies involving SEPs? If so, how can licensing be made more efficient and transparent for small businesses and small inventors that either own, or seek to license, SEPs?**

Small businesses are most adversely affected by the cost and speed of SEP litigation. Their deals are likely to be of lower value, which may make the current costs of obtaining professional valuation advice, or litigation or arbitration, impracticable. Consequently, small patent owners are unlikely ever to persuade an implementer to pay royalties. Their best option is to sell the patent to someone with the financial means to assert it. When faced with an assertion, the small business owner who wants to regularise his position must negotiate from a disadvantage: unable to obtain good expert advice or afford the cost of litigation, they would struggle to establish whether the offered price is fair. But, the patent owner faces a similar difficulty. The royalties due from a small business make litigation uneconomic. The small business who is determined to hold out is in that respect untouchable.

The problem is not so much licensing inefficiencies. The problem is the unavailability of a cheap and quick dispute resolution mechanism that is proportionate to the size of the smaller business. A quick and cheap dispute resolution mechanism would allow the small SEP owner to participate in the standardisation process and seek fair royalties from the big implementer. It would not need to sell its patents. It would enable the small implementer who wants to regularise its position to obtain a licence on fair terms. It would enable SEP owners to bring bad actors to the table, however large or small they may be.

To the extent that the DoJ may assert its influence to assist in this area, I would respectfully urge the Department to focus efforts on promoting forms of dispute resolution that can scale, according to the size of the parties and the likely value in dispute.

**Response to Question 10: Have prior executive branch policy statements on SEPs been used by courts, other authorities, or in licensing negotiations? If so, what effect has the use of those statements had on the licensing process, outcomes, or resolutions?**

In European patent cases in which I have been involved, executive branch policy statements on SEPs have been frequently cited. They have also been cited in matters before European regulators.

I note that this updated draft policy has already been cited as authority against the award of exclusionary relief in an investigation before the ITC: see the Public Interest Statement of Proposed Respondent Apple Inc, filed on 1 February 2022, Docket 3595. Even drafts can have an effect on the licensing process and resolutions.

**Response to Question 11: Are there resources or information that the U.S. government could provide/develop to help inform businesses about licensing SEPs subject to a voluntary F/RAND commitment?**

I would respectfully submit the following informative resources:

**1) Anti-suit injunctions**

<https://www.twobirds.com/en/patenthub/shared/articles/2021/global/what-is-europe-doing-about-anti-suit-injunctions-issued-by-chinese-courts>

<https://www.twobirds.com/en/patenthub/shared/articles/2021/global/submarines-donkeys-and-french-hostages>

<https://www.twobirds.com/en/patenthub/shared/articles/2020/global/the-wuhan-submarine-surfaces-at-christmas-to-be-met-by-a-texan-tro>

**2) Arbitration of FRAND disputes does work:**

<https://www.twobirds.com/en/patenthub/shared/articles/2021/uk/arbitration-of-frand-disputes-in-sep-licensing>

and see

<https://globalarbitrationreview.com/guide/the-guide-ip-arbitration/first-edition>.

### 3) Licensing level

<https://ipeurope.org/analysis/a-review-of-sdo-ipr-policies-do-they-require-component-level-licensing/>

<https://www.twobirds.com/en/patenthub/shared/articles/2020/global/the-end-of-the-road-for-ssppu-and-the-license-point-argument>

<https://www.twobirds.com/en/patenthub/shared/articles/2020/uk/another-frand-cjeu-referral-don't-bet-on-it>

[https://www.twobirds.com/~/\\_media/pdfs/practice-areas/ip/the-case-for-the-defence.pdf?la=en&hash=A5A88D21EF55BE81B47C5FB16774785FBBDD64B12](https://www.twobirds.com/~/_media/pdfs/practice-areas/ip/the-case-for-the-defence.pdf?la=en&hash=A5A88D21EF55BE81B47C5FB16774785FBBDD64B12)

### 4) Measuring who owns patents in various standards

<http://www.twobirds.com/en/patenthub/shared/articles/2020/global/who-is-leading-5g-development-2020-update>

### 5) No estoppel for “late” declarations:

<https://www.twobirds.com/en/patenthub/shared/articles/2021/uk/high-court-finds-that-there-is-no-proprietary-estoppel-for-late-declarations>Cite article + hyperlink

### 6) Mistakes we can learn from: calculating FRAND in *TCL v Ericsson*

[https://www.twobirds.com/~/\\_media/pdfs/iam91\\_tclvericsson.pdf?la=en&hash=50524EDB24BCDCCCFB40BCDD609A7AD975D74587](https://www.twobirds.com/~/_media/pdfs/iam91_tclvericsson.pdf?la=en&hash=50524EDB24BCDCCCFB40BCDD609A7AD975D74587)

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Comments made in a personal capacity: these do not represent the views of any clients of the firm.