AIPLA

American Intellectual Property Law Association

October 27, 2017

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Mahanagar Doorsanchar Bhawan
Jawaharlal Nehru Marg
Telecom Regulatory Authority of India,
New Delhi - 110002

Re: AIPLA Comments on Consultation Paper On Promoting Local Telecom Equipment Manufacturing of September 18, 2017

Dear Sirs/Madams:

The American Intellectual Property Law Association ("AIPLA") welcomes this opportunity to submit these comments on the Consultation Paper On Promoting Local Telecom Equipment Manufacturing ("Telecom Consultation Paper"), which was published for comments on September 18, 2017 by the Telecom Regulatory Authority of India ("TRAI").

AIPLA, headquartered in the United States, is a national bar association of approximately 13,500 members who are primarily practitioners engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping to establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public's interest in healthy competition, reasonable costs, and basic fairness.

AIPLA takes very seriously, and regularly comments on, issues concerning the development, protection, commercialization, and licensing of intellectual property rights ("IPR"). This includes the standard-essential patent ("SEP") areas addressed by the Telecom Consultation Paper. AIPLA supports sensible transparency, flexibility, and incentives for broad participation in standards-development organizations ("SDOs") by all stakeholders—e.g., patent owners whose technology may be included in standards and implementers of those standards. AIPLA supports strong IPR protection that provides incentives to take the risks and make the investments necessary to create new technologies to be included in standards. To ensure that such incentives remain strong, patent owners' rights should not be constrained beyond what they specifically agreed to as part of a particular SDO's IPR policy and licensing commitment.

AIPLA offers the following comments on the Telecom Consultation Paper. AIPLA does not comment on every issued raised by the paper, which indicates neither agreement nor disagreement with issues on which we do not comment.

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Question 5. Please suggest a dispute resolution mechanism for determination of royalty distribution on FRAND (Fair Reasonable and Non Discriminatory) basis

This question raises at least two fundamental issues: (1) what forum should be used to resolve FRAND royalty disputes and (2) what methodology should be used to determine a FRAND royalty. We address both issues below.

A. Forum To Resolve FRAND Royalty Disputes

Parties that dispute FRAND licensing terms should not be required to use a specific forum or process to resolve their dispute. Rather, AIPLA supports parties having the flexibility to choose where and how they will resolve FRAND licensing issues based on the specific circumstances presented. There are broad differences in the circumstances under which licensing issues arise, in what patent claims may cover, and in what would be a reasonable royalty in a particular instance. So AIPLA does not recommend any particular methodology/mechanism as a one-size-fits-all approach for resolving such disparate disputes.

Rather, disputes may be resolved in many ways, some of which are discussed below.

Private Bi-Lateral Negotiations. AIPLA supports traditional IPR policies that leave the determination of FRAND terms and conditions to bilateral negotiations between the parties. The bulk of FRAND license agreements entered over many decades have been reached through such bilateral negotiations, which has contributed to the enormous success of collaborative standards. Maintaining the freedom that patent owners and implementers enjoy to negotiate all the terms of their licenses strikes the right balance and advances their respective business goals in their particular circumstances. For example, freely negotiated terms enable patent owners to realize market-driven financial rewards for their inventive investments. Licensees also enjoy similarly market-driven financial rewards from using the licensed technology in developing their own products as well as follow-on technology they may develop that depends upon or complements their use of the licensed invention. Such licensing freedom is key to the evolution of technology and increased competition.

Maintaining individual patent holder and licensee flexibility to negotiate license terms is necessary given the different perspectives at which patent holders approach and value their patents. For example:

- Some companies invest in research and development and contribute patent-protected technology into the standards-development process. These companies may choose to generate revenue by licensing their patents to implementers and thus fund further research and innovation that is placed back into the standards system.
- Other companies may use their patents defensively or as part of the value they exchange to license someone else's patents. They enter cross licenses that allows use of SEPs in their products to generate more revenue for further research and innovation.
- Other companies may decide not to invest in or assume the risks of research and development. Rather, they sell products and services with SEP technology

licensed from others, thus generating revenue for their particular business model.

- Other companies may invest heavily in research and development to generate revenue from selling more innovative products, rather than focusing on patent monetization.
- Still other firms may rely on some mixture of the foregoing business models.

Accordingly, the diverse business models chosen by the parties prevents any one-size-fits-all basis for assessing FRAND terms. Rather, parties should be free to conduct bilateral negotiations that suits their circumstances, which approach has proven to be highly successful over many, many decades.

Judicial Court Adjudication. If private bilateral negotiations do not resolve licensing disputes, then courts remain an acceptable forum to resolve the disputes. Courts have extensive experience and tools for resolving patent cases, including determining what a patent may cover and what would constitute a reasonable royalty using accepted and developing legal standards. Given that expertise, courts are preferable over administrative agencies, which may not have experience or procedures for interpreting patents or determining reasonable royalties. Courts in the U.S. and the Court of Justice of the European Union have developed effective approaches to determining RAND and FRAND terms.

Arbitration. Parties may also voluntarily submit to arbitration to resolve their FRAND licensing disputes. The voluntary process allows the parties to tailor the proceedings to the particular circumstances and disagreements presented. Further, the process allows the parties to globally resolve world-wide patent or other issues that they otherwise might not be able to achieve in judicial or other governmental proceedings given the extraterritorial limits on government action, discussed below.

Limited Territoriality. Patents are necessarily territorial rights granted by individual governments tailored to their policies for accessing their markets. Accordingly, any action should not infringe on the right of each sovereign country to govern the exercise of that country's patents for accessing that country's markets within their borders.

B. Substantive Methods to Determine FRAND Royalty

As an initial matter, AIPLA does not believe that any authority should prescribe guidelines on setting or fixing royalties on SEPs. Rather, as indicated above, AIPLA supports SDOs' traditional approach of not establishing specific licensing terms, including monetary terms, but maintain the parties' freedom to negotiate FRAND terms that fit their particular circumstances. Certainly, nothing in a FRAND commitment imposes a substantive limit on royalties or requires that they be calculated in any particular way, provided they are reasonable and in accordance with the specific express commitment that the patent owner made to the standards-setting body. The government authorities should not create a specific or mandatory framework for assessing royalty fees.

With that understanding, AIPLA addresses below some of the issues to consider to substantively determine a FRAND royalty.

FRAND Includes Non-Monetary Consideration. AIPLA cautions against too great a focus on royalty rates as presented in this question, because FRAND commitments are not limited to only monetary royalty rates, but often include substantial non-monetary terms. A FRAND commitment permits the parties to agree to reasonable terms in accordance with the patent owner's specific express commitment to the standards-setting body, which can include non-royalty compensation, such as cross-licensing, defensive suspension provisions or any other consideration that the particular parties to a FRAND agreement want to exchange. For example, patent holders may seek design freedom for their own products through reciprocal licensing requirements and defensive suspension provisions. Further, the parties may want to include all patents owned by either party, not just SEPs, which provides more flexibility to globally resolve all patent concerns. The consideration that a patent holder and implementer deem appropriate in negotiating a FRAND license may vary and often is not limited to monetary consideration. There is no one-size-fits all FRAND licensing set of royalty and other consideration, which must be determined based on the specific transaction at issue.

No Specific Formula. A FRAND commitment represents a patentee's willingness to license its technology to willing counterparties and does not itself substantively limit royalties or other licensing terms as long as the ultimate terms are "reasonable". AIPLA is not aware of a specific formula or other detailed framework that can value an SEP outside the specific transaction at issue. Rather, license terms often vary for different licensees because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses and other business relations between specific parties.

Patent Law Guidance on "Reasonable Royalty." FRAND commitments typically do not define "reasonable" terms for licensing SEPs. But "reasonable royalty" is a term of art in patent law, and the FRAND commitment's reference to "reasonable" terms indicates such law should be used to interpret the commitment. Thus, FRAND commitments rely on the vast body of existing and developing patent law for guidance on calculating a "reasonable royalty."

Value of Patented Invention, Not Standardization. As with other patents, FRAND compensation should be closely tied to the value derived from using the patented technology and not value derived from unpatented features. Thus, a reasonable royalty should be based on the value that the patented invention adds to the licensed product, not value added by the standardization of that technology.

No Set Royalty Base. As discussed above, what constitutes FRAND terms depends on a myriad of factors. Accordingly, AIPLA cautions against setting a fixed requirement for a royalty base, such as requiring the royalty base to be the net price of the downstream product, the price of the smallest saleable patent practicing component or some other set criteria. The parties should be free to consider whatever royalty rate and royalty base fits their circumstances, as long as the ultimate royalty—*i.e.*, combination of royalty rate and royalty base—is reasonable based on the value derived from use of the patented technology, other non-monetary consideration exchanged between the parties and the patent owner's specific express commitment to the standard-setting organization. It otherwise would be improper to require in all circumstances that the royalty base start with an end product, component or other set royalty base or methodology.[1]

No Royalty Cap. A FRAND commitment does not establish any cap on the royalties that may be charged in connection with SEPs, only that the ultimate licensing terms are reasonable and otherwise consistent with the patent owner's specific express commitment to the standards-setting organization. Some have raised the prospect of capping royalties based on royalty stacking concerns—*i.e.*, concerns that the cumulative royalties on a product paid to all patent owners will be excessive. Generally, those are speculative, theoretical concerns unsupported by actual evidence; royalty calculations should be based on evidence, not speculation.

Further, AIPLA is not aware of any evidence that implementation of standards technology has been inhibited by royalty stacking concerns. Indeed, the proliferation of standards-based products is strong evidence that implementers have not faced significant obstacles from licensing SEPs. If a patentee has contributed valuable technology to a standard, the FRAND commitment preserves a reward of adequate compensation for that contribution—regardless of the number of other SEPs that may also contribute to the standard.

Accordingly, AIPLA believes that royalty caps would be artificial and arbitrary limitations on SEP holders' ability to receive adequate compensation for their inventions, which risks harming effective standards development. Moreover, royalty caps would undermine incentives to make the risky investments necessary to create new technologies available for standardization to the benefit of innovators, implementers and consumers. Royalty caps can disrupt the incentive scheme critical to ensuring successful standards development.

No Governmental Royalty Fee Regulation. Royalty fee regulations have broad implications and may disrupt what has been very successful incentives in existing SDO IPR policies to develop innovations in widely adopted standards. The rise of standardized technology has created enormous social and economic benefits. Patented technology is now prevalent in many industry standards, and some of these standards could not succeed without innovative patented technology. Because developing new technology innovations can require great risk and costs, standards might not attract the best technology if innovators cannot rely on reasonable compensation.

Thus, many SDOs incentivize patent holders to contribute their technologies to standards through effective, FRAND-based IPR policies. These policies reflect a careful balance of the interests of all stakeholders and advance two equally important goals: (1) ensuring implementers who want to practice a standard have reasonable access to FRAND licenses; and (2) ensuring innovators reasonable compensation through FRAND-based licensing of their contributed SEPs. These SDOs leave negotiations of the licenses to the parties.

Further, it should be noted that royalty fees may be just one part of what are complete and often complex commercial relationship between the parties and the valuable non-monetary consideration that they may choose to exchange instead of pure monetary royalty payments alone. The complexity of tailoring royalty valuation to the specific parties and

[1] *See Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys.*, 809 F.3d 1295, 1303 (Fed. Cir. 2015) ("[A rule]—which would require all damages models to begin with the smallest salable patent-practicing unit—is untenable.").

circumstances at issue is reflected by the landmark U.S. case, *Georgia Pacific v U.S. Plywood*, 318 F. Supp. 1116 (S.D.N.Y 1970), where fifteen factors related to the specific parties and circumstances at issue may be considered to determine a reasonable royalty. Accordingly, it would be difficult for governmental authorities to derive a one-size-fits-all royalty fee regulation. Rather, experience and prudence counsels continued reliance on the vast and continuously developed body of case law for determining a reasonable royalty.

With respect to price limitation, any short-term effect of higher prices occurring during an SEPs limited term should be offset by benefits derived from access to that patented technology. Such access can lower an implementer's costs of entry and market participation as well as create a virtuous cycle of dynamic competition. Moreover, a licensing fee may represent a small or *de minimus* percentage of the costs that otherwise would be incurred if inferior unpatented technology were adopted in a standard. Such other costs could involve more difficult implementation, lesser performance and higher replacement expenditures. And this says nothing of the losses consumers may suffer because they are denied superior technology and products based thereon.

In summary, AIPLA recommends that government authorities proceed cautiously and not become price regulators, which could suppress incentives to innovate, adversely affect competition and disrupt the incentive scheme critical to ensuring successful standards development achieved through flexible IPR Policies.

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Again, AIPLA appreciates the opportunity to provide these comments. Please contact us if you would like us to provide additional information on any issues discussed above.

Sincerely,

Myra A. McCormack

Myra McCormack
President
American Intellectual Property Law Association