June 17, 2011

Federal Trade Commission
Office of the Secretary
Room H-113 (Annex X)
600 Pennsylvania Avenue, N.W.
Washington, DC 20580

Subject: *Federal Trade Commission Request for Comments and Announcement of Workshop on Standard-Setting Issues (Patent Standards Workshop, Project No. P-11-1204): Comment of Cisco and Research in Motion in Response to Comment From Telecommunications Industry Association*

To the Federal Trade Commission:

Cisco Systems ("Cisco") and Research in Motion ("RIM") submit this comment in response to the comment ("TIA Comment" or the "Comment") submitted earlier this week by the Telecommunications Industry Association ("TIA"). Cisco and RIM are both TIA members, and support the goal of the organization to promote the US telecommunications industry. Cisco and RIM also participate in TIA's Standards and Intellectual Property Committee ("SIPC"), which prepared the TIA Comment. We are submitting this comment to make clear our differences with the views expressed in the TIA Comment.

A. The Reality of Patent Holdup

For Cisco and RIM, the phenomenon of "patent hold-up" is real. The term, as defined by the FTC in its press release announcing the June 21 workshop,[1] accurately describes the experiences we and other companies in the telecommunications and computer industries regularly experience when patents claimed to be essential to implement widely-practiced industry standards are asserted against them. The TIA Comment questions the FTC's

[1] *FTC to Host Public Forum on Competition Issues in Standard-Setting* (May 9, 2011), available at http://www.ftc.gov/opa/2011/05/standardsetting.shtm.

"presumption" that patent hold-up is a systemic problem in connection with standards development." (TIA Comment at 4). The Comment goes on to express the view that the use of the term "patent hold-up" should be limited to "instances where the hold-up is clearly due to intentional and deceptive conduct supported by substantial and substantive evidence." (*Id.* at 5).

We disagree. As an initial matter, we note that it is very difficult to prove that opportunistic behavior in standards development was intentional and deceptive. Additionally, limiting hold-up to only instances of intentional and deceptive conduct ignores the practical realities that many implementers of a standard face. TIA members operate in what has been described as a "patent thicket".[2] In the patent thicket, numerous patentees claim to own patents that are essential to implement standards that many TIA members implement in their products, for example the IEEE 802.11 short-range wireless broadband standard ("WiFi") and the UMTS and LTE wireless air interface standards.[3] The implementation of any one of these standards may require licenses from dozens of individual licensors. Absent some external constraint such as a meaningful RAND licensing obligation, each licensor would be able to seek unreasonable licensing terms due to the significant sunk costs that the implementer has expended to develop and market a complex technology product or service.

The definition of "hold-up" proposed by Professor Joseph Farrell, the Director of the FTC's Bureau of Economics, and colleagues, well captures this phenomenon:

> In very broad terms, opportunism or hold-up arises when a gap between economic commitments and subsequent commercial negotiations enables one party to capture part of the fruits of another's investment, broadly construed. Hold-up can arise, in particular, when one party makes investments specific to a relationship before all the terms and conditions of the relationship are agreed. Hold-up generally leads to economic inefficiency that contracting parties, and courts interpreting contracts, often try to avoid.[4]

As Professor Farrell and his colleagues note, while the immediate victims of hold-up in the context of standards development are implementers of standards, hold-up "is also a public policy concern because downstream consumers are harmed when excessive royalties are passed on to them. Downstream consumers also can be harmed when other burdensome terms are imposed in patent licenses and when cumulative innovation is retarded by patent hold-up."[5] Consumers can also be harmed when implementers delay rolling out new standards because of uncertainty

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[2] Carl Shapiro, *Navigating the Patent Thicket: Cross-Licenses, Patent Pools, and Standard-Setting* (March 2001), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=273550.

[3] Multi-function technology products such as smartphones and personal computers may implement dozens or hundreds of standards. *See* Brad Biddle, Andrew White, and Sean Woods, *How Many Standards in a Laptop? (and Other Empirical Questions)* (September 2010), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1619440.

[4] Joseph Farrell, John Hayes, Carl Shapiro, and Theresa Sullivan, *Standard Setting, Patents, and Hold-Up*, 74 ANTITRUST L.J. 603, 603-604 (2007).

[5] *Id.* at 608.

regarding licensing terms, as happened with third generation wireless air interface standards UMTS and CDMA2000.

In the context of standards development, some patents will be selected for inclusion in a standard and the owners of those patents will thereby gain market power in licensing negotiations that reflects not the inventive contribution of the patents themselves, but rather the investments potential licensees and others have made to create products that implement the standards. Clearly not every situation in which a licensor and a licensee do not agree on licensing terms reflects hold-up. Equally clearly, a licensor that refuses to license on terms that reflect the value of its patented technology before its selection for inclusion in a standard may be taking advantage of the costs that the licensee would incur to switch to an alternative standard.

The terms licensors of essential patents propose often include reciprocal licensing requirements and grantbacks. Just as a patentee claiming to own essential patents may seek unreasonable monetary royalties, it may also seek an unreasonable combination of monetary and non-monetary terms. Reciprocal licensing and defensive suspension terms can be a pro-competitive way for participants in standards development to "monetize" their innovations through increased design freedom. However, a patentee may seek bilateral reciprocal rights that are so broad as to discourage innovation by its licensees.[6]

B. The Lack of Current Consensus Regarding What RAND Means

Cisco and RIM do not share the Comment's positive view of RAND. Despite the involvement of TIA members in numerous disputes – including disputes between TIA members[7] – concerning the meaning of the "R" prong of RAND, the TIA Comment presents the view that RAND is working well. RAND, in the words of the TIA Comment, is a "flexible approach" that "has enabled industry participants to bilaterally negotiate effective license agreements that meet the specific needs of each licensee and licensor." (*Id.* at 10). In the view of the TIA Comment, "RAND licensing commitments can and do provide adequate protection against 'patent hold-up.'" (*Id.* at 11).

We disagree. While there was a time when a consensus existed regarding what the "R" prong of RAND meant, that consensus has recently proven elusive. It is true that RAND policies

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[6] This concern is recognized in the Guidelines to the European Commission's 2004 Technology Transfer Block Exemption at paragraph 110, which notes the potential anti-competitive effect of a grantback imposed by a company with a strong market position in a technology market on its competitors. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2004:101:0002:0042:EN:PDF.

[7] *E.g.*, *Research in Motion Ltd. v. Motorola Inc.*, 644 F.Supp. 2d 788 (N.D. Tex. 2008); *Apple Inc. v. Nokia Corp.*, C.A. No. 09-1002 (D. Del., *filed* February 24, 2010); *Samsung Electronics Co., et al. v. Apple Inc., Civ. 11-02079* (N.D. Cal., *filed* April 27, 2011); *Microsoft Corp. v. Motorola Inc.*, No. 2:10-cv-01823 (W.D. Wash., *filed* Nov. 9, 2010); *In the Matter of Certain Mobile Telephone Handsets, Wireless Communications Devices, and Components Thereof,* International Trade Commission (Inv. No. 337-TA-578) (Qualcomm and Nokia).

are widely used in standards development, but disputes about what obligations a RAND license imposes on a licensor have become more frequent, particularly where the widespread adoption of a standard makes the stakes in those disputes so large that one side or another sees litigation as an attractive option.[8] The high and increasing frequency of such disputes in the context of pervasive standards such as WiFi, Ethernet, and UMTS suggests to Cisco and RIM that the TIA Comment is far wide of the mark when it describes RAND licensing commitments as having effectively curbed opportunistic behavior in standards development. In particular, further definition of what RAND means would give implementers of standards and patentees claiming to own essential patents greater visibility into future licensing terms. Cisco and RIM favor a definition of the "reasonable" prong of "RAND" that is consistent with the FTC's recommendation, in its *Evolving IP Marketplace* report issued earlier this year, that "[c]ourts should cap the royalty [available to a patentee that is subject to a RAND licensing commitment] at the incremental value of the patented technology over alternatives available at the time the standard was chosen."[9]

Cisco and RIM are also concerned with the issue of royalty stacking, the addition of total royalty rates for a single standard or across multiple standards implemented in the same product.[10] Even if each individual patentee seeks a reasonable royalty, modern technology standards may require implementers to assemble licenses to so many patents that the aggregate may be unreasonable.[11] The stacking of individually reasonable royalties may make the implementation of complex standards so expensive as to put common consumer electronics products out of reach.

Beyond defining the reasonableness prong of RAND as focusing on the value of a patented technology before it was included in a standard, Cisco and RIM believe that additional clarification as to what RAND means would be helpful in other areas as well. These include:

[8] *E.g., Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297 (3d Cir. 2007); *Research in Motion Ltd. v. Motorola Inc.*, 644 F.Supp. 2d 788 (N.D. Tex. 2008); *Ericsson, Inc. v. Samsung Electronics Co., Ltd.*, Civ. A. No. 06-63 (E.D. Tex. Apr. 20, 2007); *Apple Inc. v. Nokia Corp.*, C.A. No. 09-1002 (D. Del., *filed* February 24, 2010); *Microsoft Corp. v. Motorola Inc.*, No. 2:10-cv-01823 (W.D. Wash., *filed* Nov. 9, 2010); *ESS Tech., Inc. v. PC-Tel, Inc.*, No. C-99-20292 RMW, 2001 WL 1891713, at *3-6 (N.D. Cal. Nov. 28, 2001); *Intersil Corp. v. Proxim, Inc.*, Civ. No. 01-266 (D. Del. *filed* April 24, 2001); *Townshend v. Rockwell Int'l Corp.*, No. C99-0400 (SBA) (N.D. Cal., Mar. 28. 2000).

[9] Federal Trade Commission, THE EVOLVING IP MARKETPLACE (2011) at 21.

[10] Mark A. Lemley and Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1993 (2007).

[11] Based on public disclosures of intended licensing terms made by a small proportion of all the companies and other entities claiming to own standards that are essential to implement the LTE standard, the combined royalty rates for implementation of LTE already reaches around 14.8%.

- whether a party that has committed to license essential patents it owns on RAND terms should be able to seek an injunction or ITC order of exclusion;[12]

- whether RAND licensing commitments should bind successors in interest to a patent;

- whether, even if permitted by principles of patent exhaustion, a party that has committed to license essential patents it owns on RAND terms may seek royalties at multiple levels of distribution;

- whether a reasonable royalty may be assessed against portions of a product that do not implement the standard for which a RAND licensing commitment was provided;[13] and

- whether a RAND commitment should be seen as a contract that is enforceable by other participants in the standards development process as well implementers of the standard.

Finally, though the TIA Comment describes TIA's preference that "licensing negotiations are between the licensee and licensor and are to be conducted outside of the TIA standardization process" (*Id.* at 11), Cisco and RIM agree with the view expressed by the Federal Trade Commission and the Antitrust Division of the US Department of Justice in their 2007 *Intellectual Property Report* that joint *ex ante* negotiation and discussion of licensing terms in the context of standards development has a "strong potential for pro-competitive benefits."[14] In assessing arguments that joint discussion or negotiation of licensing terms in the standards development process will reduce incentives to innovate, Cisco and RIM believe that the FTC should recall the success of standards such as DOCSIS, HTML, XML, USB, and Bluetooth, all of which were created under intellectual property rights policies that discourage or prohibit royalty-based

[12] *See* IP MARKETPLACE REPORT, supra n. 7, at 28 (noting that "[w]hether the patent owner gave a RAND commitment will also be relevant to the injunction analysis."). *Compare Commonwealth Industrial Scientific and Research Organization v. Buffalo Technology Inc.*, 492 F.Supp.2d 600 (E.D. Tex. 2007) (granting injunction to patentee that had given RAND commitment to IEEE for patents claimed to be essential to implement the 802.11 standard), *rev'd on other grounds*, 542 F.3d 1363 (Fed. Cir. 2008). *See* Joseph Scott Miller, *Standard Setting, Patents, and Lock-in: RAND Licensing and the Theory of the Firm*, 40 INDIANA L. REV. 351, 358 (2007) (core meaning of RAND is grant of a license without right to enjoin); Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations,* 90 CALIF. L. REV. 1892, 1925 (2002) (preferable as a matter of policy to treat RAND licensing commitment as license rather than contractual commitment to license).

[13] *See* Complaint in *Microsoft v. Motorola, supra* n. 8, at ¶ 71 (alleging unreasonableness of licensing demands based on "software and hardware components of Xbox 360 and other devices which are unrelated to its identified patents").

[14] U.S. Dep't of Justice and Federal Trade Commission, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION at 55-56 (April 2007) (available at http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf). *See also* Letter, Thomas O. Barnett to Robert A. Skitol (October 30, 2006) (noting that joint discussions and negotiations "could be pro-competitive") (*available at* http://www.justice.gov/atr/public/busreview/219380.pdf); Letter, Thomas O. Barnett to Michael Lindsay, 30 April 2007 at n. 47 (the Antitrust Division would "typically apply a rule of reason analysis to joint negotiation of licensing terms in the standard-setting context") (*available at* http://www.usdoj.gov/atr/public/busreview/222978.pdf).

licensing in favor of royalty-free licensing. The wide adoption of these standards suggests that there is, at best, a weak causal relationship between the widespread adoption of a standard and the development of that standard under a royalty-based IPR regime. By contrast, the causal relationship between the use of RAND, given the current lack of consensus as to what RAND means, and the risk of hold-up is well established.

Cisco and RIM look forward to the FTC's June 21 workshop, and to submitting additional comments in response to the FTC's request for comments in early July.

Respectfully submitted,

Cisco Systems

Research in Motion