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Federal Trade Commission
Office of the Secretary
Room HB113 (Annex X)
600 Pennsylvania Avenue, N.W.
Washington, DC 20580

Subject: FTC request for comments regarding Patent Standards Workshop, Project No. P-11-1204: *Comments of Broadcom Corp.*

To the Federal Trade Commission:

Broadcom Corporation thanks the FTC for this opportunity to submit comments to the FTC's Request for Comments and Announcement of Workshop on Standard-Setting Issues.¹

Broadcom is one of the world's leading producers of semiconductor solutions for wired and wireless communications. An R&D driven-company, Broadcom's focus is on technical innovation and excellence, as reflected by its more than 7,000 issued patents worldwide.

Broadcom strongly believes that standards, particularly in the communications sector, provide valuable benefits to both consumers and other industry players. Broadcom is an active member of more than 160 standard-setting organizations ("SSOs"), to which it dedicates significant time, expertise, and resources.

As a result of its extensive involvement with SSOs, Broadcom has a broad and deep perspective on many issues that have affected the standard-setting process. Broadcom's involvement as a defendant in several of the most significant infringement lawsuits concerning standards has also given it particular experience with the issues of reasonable and nondiscriminatory licensing ("RAND"), and patent holdup/patent ambush.

Broadcom agrees in large part with the comments of Cisco, RIM, HP, and IBM, submitted on August 1, 2011. Broadcom submits these comments on its own behalf in order to add its particular perspective and to address a few specific issues in greater depth.

In summary, Broadcom believes that many companies that have invented the technology incorporated into standards continue to feel the effects of patent holdup directly. Just as

¹ 79 Fed. Reg. 28,036 (May 13, 2011).

important, patent holdup means higher prices and fewer choices for the many millions of consumers of standards-based products.

A. Patent Holdup is a Real Concern

Since patent holdup was first widely discussed in the early 2000s, many commentators have suggested solutions to the problem, as well as some who have denied that the problem existed at all. In Broadcom's wide experience with SSOs and standards-based patent litigation, patent holdup is a very real concern. As discussed below, Broadcom experiences patent holdup in a variety of ways.

1. Patent Ambush

Broadcom has felt firsthand the tremendous burden of essential patent ambush, not just in its larger litigations with well-known parties such as Rambus, but also in smaller cases that have not received the same level of attention. From Broadcom's perspective, far from being a "rare disease," patent ambush is widespread, and we believe that instances of patent ambush that are currently festering below the surface will continue coming to light as standards-based litigation continues to proliferate.

2. Patentees Reneging on Royalty Commitments

Broadcom is also seeing patentees renege on the royalty commitments they have made during the standard-setting process. One example of this was provided by the Commonwealth Scientific and Industrial Research Organisation ("CSIRO"), a branch of the Australian government that functions as a Patent Assertion Entity ("PAE"). Based on publicly available materials, during the development of the 802.11 standard for wireless local area network (WLAN) technology, the Institute of Electrical and Electronics Engineers ("IEEE") (the SSO that was developing the standard), became aware of a patent held by CSIRO that appeared to be related to the technology of the proposed standard.²

Following its policy set forth in its bylaws, the IEEE asked CSIRO for assurance that if the IEEE adopted the 802.11 standard and the CSIRO patent was necessary to practice the standard, then CSIRO would license the patent on RAND terms.³ Based on public information, CSIRO responded that it "agrees upon written request to grant a nonexclusive license under such patent on a nondiscriminatory basis and on reasonable terms and conditions including its then-

² Brief for Atheros Communications, Inc., et al. as Amici Curiae Supporting Appellants, *Commonwealth Scientific & Indus. Research Organisation v. Buffalo Tech. (USA), Inc.*, 542 F.3d 1363 (Fed. Cir. 2008) (No. 07-1449), 2007 U.S. Fed. Cir. Briefs 637630, at *3, 2007 U.S. Fed. Cir. Briefs LEXIS 230, at *5.

³ Brief for Amici, *supra* note 2, at *3, 2007 U.S. Fed. Cir. Briefs LEXIS 230, at *5. When the IEEE is notified that a patent is potentially implicated by a proposed standard, under the then-current bylaws it would typically issue the standard only if the patentee makes a reciprocal promise either not to enforce the patent against those practicing the IEEE standard, or to license the patent on RAND terms. Such a promise "is irrevocable once submitted." See IEEE-SA Standards Board Bylaws § 6.2, <http://standards.ieee.org/develop/policies/bylaws/sect6-7.html>.

current royalty rates.”⁴ In reliance on this RAND commitment by CSIRO and numerous other patent holders, the IEEE adopted the first version of the 802.11 standard in 1999 and substantively similar standards in successive years.⁵

CSIRO then waited four years, until the 802.11 standard became established in WLAN technology world-wide. Finally, in 2003, CSIRO initiated a licensing campaign in which, if adopted by every patent holder that had provided a RAND assurance, would have added more than \$100 to each WLAN product.⁶ Unsurprisingly, not a single company licensed CSIRO’s patent on these unreasonable terms.⁷ Since 2004, various members of the industry have been involved in protracted and expensive litigation with CSIRO.⁸

3. PAEs Attempting to Evade SSO Commitments by Predecessors-in-Interest

As the FTC is aware, recent trends in the market for patents have resulted in the transfer of thousands of patents to PAEs.⁹ Patents that can be alleged to read on standards are prime candidates for assertion in patent infringement litigation, and a substantial portion of these patents are subject to SSO commitments due to an earlier owner’s involvement in an SSO. These may include royalty obligations, commitments regarding venue provisions, and/or other obligations.

PAEs have an incentive to avoid the SSO obligations undertaken by their predecessors-in-interest, since they do not benefit from the reciprocal obligation of SSO members to offer their patents at RAND or royalty-free rates.¹⁰ In practice, Broadcom is seeing more and more of this as PAEs are obtaining and asserting patents subject to SSO obligations. For instance, in one well-known ITC matter, the plaintiff is attempting to enforce patents against members of the communications industry that its predecessor held when a standard was developed, despite the fact that the rules of the SSO responsible for the standard require a RAND commitment. In another example, Azure Networks, a PAE, is asserting patents against members of the industry that it alleges are necessary to practice the Bluetooth standard,¹¹ even though it appears based on

⁴ Letter from Dennis N. Cooper, Chief of Division, CSIRO Telecommunications & Industrial Physics, to Victor Hayes, Chair, IEEE p802.11 (Dec. 4, 1998), [http://grouper.ieee.org/groups/802/11/Documents/DocumentArchives/1999_docs/July99/99jul2p.zip-312.3KB-IEEE SA](http://grouper.ieee.org/groups/802/11/Documents/DocumentArchives/1999_docs/July99/99jul2p.zip-312.3KB-IEEE-SA), at *4 (last visited Aug. 4, 2011) (*cited in* Brief for Amici, *supra* note 2, at *3, 2007 U.S. Fed. Cir. Briefs LEXIS 230, at *5).

⁵ Brief for Amici, *supra* note 2, at *3-4, 2007 U.S. Fed. Cir. Briefs LEXIS 230, at *5-6.

⁶ *See id.*

⁷ *Id.*

⁸ *See generally* Brief for Amici, *supra* note 2, at *6-7, 2007 U.S. Fed. Cir. Briefs LEXIS 230, at *5.

⁹ *See* Fed. Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (March 2011), at 58-71.

¹⁰ *See, e.g.,* Brian Kahin, *The Patent Ecosystem in IT: Business Practice and Arbitrage* (Dec. 5, 2008) (submission based on remarks before the FTC), <http://www.ftc.gov/bc/workshops/ipmarketplace/dec5/docs/bkahin2.pdf>.

¹¹ *Azure Networks, LLC v. CSR PLC*, C.A. No. 6:11-cv-139 (LED) (E.D. Tex.).

public information that the former owner of these patents was a member of the Bluetooth SIG and thus bound by the SIG's royalty free licensing terms and venue provisions.

As the secondary market for patents continues to expand and the emphasis on patent monetization continues to rise, Broadcom expects these types of cases to become even more frequent.

B. *Ex ante* Disclosure of Maximum License Terms Has Procompetitive Effects

Broadcom respectfully submits that voluntary disclosure of maximum *ex ante* license terms is a best practice and has pro-competitive effects. Indeed, the DOJ Antitrust Division has expressly found that *ex ante* disclosure policies have pro-competitive effects in business review letters to the IEEE and VMEbus International Trade Association (VITA).¹² In a joint publication, the FTC and the DOJ stated that an *ex ante* disclosure policy would generally be evaluated under the rule of reason.¹³ The agencies have also stated that a voluntary unilateral disclosure of licensing terms, including royalty rate, is not a collective act subject to review under Sherman Act Section 1, and that unilateral announcement of a price to the standard-setting body (without more) cannot be exclusionary conduct subject to Section 2.¹⁴

C. SSO Contractual Obligations, Including RAND and Other Contractual Provisions, Should be Recognized to Run with the Patent

The general principle that “an assignee of a patent takes title to the patent subject to existing licenses” is well established.¹⁵ This rule should be understood to apply in particular to assignees who take patents that are subject to an SSO's licensing and disclosure obligations, as well as other contractual obligations such as venue provisions. An SSO's contractual commitments will lose their teeth if an SSO member can unilaterally terminate its obligations

¹² See 2007 DOJBRL LEXIS 4 (DOJBRL 2007); 2006 DOJBRL LEXIS 5 (DOJBRL 2006).

¹³ U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007), 37.

¹⁴ *Id.* at 54.

¹⁵ E.g., *Armstrong Pump, Inc. v. Hartman*, 745 F.Supp. 2d 227, 233 (W.D.N.Y. 2010); see *Worley v. Tobacco Co.*, 104 U.S. 340, 344 (1881) (“[T]he assignee of a patent right takes it subject to the legal consequences of the previous acts by the patentee.”); *American Dirigold Corp. v. Dirigold Metals Corp.*, 125 F.2d 446, 452 (6th Cir. 1942) (a party “acquiring by assignment or license an interest in [an] invention ... takes title [from the assignor] subject to prior assignments or licenses of which the assignee must inform himself as best he can and at his own risk”); *Jardin v. Datallegro, Inc.*, 2009 U.S. Dist. LEXIS 3339 (S.D. Cal. Jan. 20, 2009), at *3 (“In general, a purchaser takes a patent subject to encumbering restrictions.”); *V-Formation, Inc. v. Benetton Group, SpA*, 2006 U.S. Dist. LEXIS 13352 (D. Colo. Mar. 10, 2006), at *15 (same); *Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc.*, 565 F.Supp. 931, 939 (D.N.J. 1983) (“the purchaser of a patent takes subject to outstanding licenses”); *Jones v. Berger*, 58 F. 1006, 1007 (C.C.D. Md. 1893) (same); see also *Datatresury Corp. v. Wells Fargo & Co. et al.*, 522 F.3d 1368, 1372-73 (Fed. Cir. 2008).

simply by transferring the patent to a non-member.¹⁶ Such uncertainty can deter entities from joining SSOs.

These obligations should be understood to run with the patent regardless of whether the taker has notice.¹⁷ Allowing a notice defense could swallow the rule by creating a strong incentive for a don't-ask/don't-tell policy regarding the topic of prior licenses or other obligations. The licensee is also the most appropriate entity to bear the risk in this situation. Potential licensees who are seeking to acquire patents can easily discover whether a licensor is a member of an SSO, in order to make the appropriate inquiry about the patents at issue. In any event, the licensing parties can allocate the risk between themselves by using warranty and indemnity provisions.

Broadcom favors SSO IPR policies containing statements making clear that licensing and other contractual commitments bind purchasers and other transferees of patents that are the subject of such commitments made to the SSO. Such statements are helpful in that they may facilitate defenses against future assertions by transferees who claim not to be bound by licensing and other commitments made by their predecessors-in-interest.

D. The RAND Commitment Should Be Interpreted to Preclude an Injunction

A RAND licensing commitment should preclude members who own essential patents from using the threat of injunctive relief as a tool to extract the highest possible royalties from other members.

In the standard-setting context, SSO members give up some of their absolute rights to seek whatever the market will bear in exchange for the right to practice their patents and to promote another social good: adoption of a standard that will allow them to compete for more customers and that will benefit consumers.¹⁸ Standard setting relies on the premise that a single firm will not control a standard; in other words, that no firm will have a monopoly right to exploit the standard. Allowing a holder of essential rights to a standard to wield the threat of injunctive relief over other players during royalty negotiations deprives the “reasonable” term of any meaning. The absence of an injunction is the very thing that differentiates a RAND negotiation from the default patent rule in an infringement case. SSO members view giving up an injunction right as a reasonable tradeoff because, unlike the hypothetical negotiation in a patent

¹⁶ Joseph Scott Miller, *Standard-setting, Patents, and Access Lock-in: RAND Licensing and the Theory of the Firm*, 40 Ind. L. Rev. 351, 391 (2007) (“Much like a servitude, the access grant that the RAND promise embodies continues to burden the patent, even when it is sold to another party.”).

¹⁷ See *American Dirigold Corp.*, 125 F.2d at 452 (licensee takes subject to prior licenses “of which the assignee must inform himself as best he can and at his own risk.”); Miller, *supra* note 16, at 391.

¹⁸ See Miller, *supra* note 16, at 376.

infringement case where only a single entity's technology is at issue, in a standard-setting context there are likely to be many technologies involved.¹⁹

The inability to seek injunctive relief under a RAND regime does not mean that a patent holder is without judicial recourse. The RAND obligation can be specifically enforced by a court.²⁰ This is well within the experience of federal district courts, who adjudicate "reasonable royalties" in most patent infringement cases.²¹ The inability to seek an injunction under a RAND regime is a substantive part of RAND, however, not merely a question of what remedy might be available once a negotiation breaks down. From the perspective of the potential adopter of the standard, a portion of the consideration received is the right to negotiate a license without fear of being blocked from using the standard altogether.

Part of the content of RAND, then, is the absence of injunctive relief. Broadcom respectfully submits that this principle has jurisdictional consequences as well. Once it is established that a RAND commitment exists between a patent holder and an accused infringer, only a tribunal with the power to order specific performance of the RAND commitments should retain jurisdiction. Otherwise, the question of infringement will be adjudicated by a tribunal that has no power to order a remedy. This wastes the resources of the tribunal as well as the parties. It also denies the parties the right that they bargained for in becoming members of an SSO, which is the right to negotiate compliance with the standard under a RAND regime.

Broadcom has noted some Commenters have taken the position that it is not necessary to craft a rule in this area because the *eBay* factors effectively constrain the availability of injunctive relief. Broadcom respectfully disagrees. For one, at present, *eBay* does not apply to cases at the ITC,²² and complainants do seek to obtain injunctive relief at the ITC based on patents subject to a RAND obligation.²³ Additionally, relying on the *eBay* factors would mean that the availability of injunctive relief where a patent subject to a RAND commitment is asserted would depend in large part on who is asserting the patent. It is antithetical to the RAND commitment that the value of the patent should differ (possibly dramatically) depending on who the holder is during litigation.

¹⁹ In this way, an SSO serves a role analogous to the operator of a patent pool. Miller, *supra* note 16, at 389.

²⁰ Miller, *supra* note 16, at 376.

²¹ *Id.* at 355-56.

²² See, e.g. *Spansion, Inc. v. International Trade Comm'n*, 629 F.3d 1331, 1356 (Fed. Cir. 2010).

²³ See, e.g., *In the Matter of Certain Semiconductor Chips and Products Containing Same*, U.S. ITC Investigation No. 337-TA-753.

E. Conclusion

Patent holdup continues to be a real issue for SSOs, their members, and consumers. Broadcom appreciates the FTC's efforts to address this important issue, and is willing to provide follow-up or additional information should there be further questions regarding this submission.

Respectfully submitted,

Broadcom Corporation