

**Comments by Access Advance LLC on the  
Draft Policy Statement on Licensing Negotiations and Remedies  
For Standards-Essential Patents Subject to Voluntary F/RAND Commitments**

We thank the Agencies for the opportunity to comment on the Draft Policy Statement on licensing negotiations and remedies for standards-essential patents subject to voluntary F/RAND commitments<sup>1</sup> on behalf of Access Advance (“Advance”), an independent administrator of patent pools, as described more fully below.

As is true of a great deal of the guidance that has been provided by agencies and courts on how negotiations for licensing SEPs should be conducted, the Draft Policy Statement implicitly assumes bilateral licensing between two single entities. Much of that discussion applies equally when the licensing entity is not a single SEP holder, but rather a patent pool whose participating licensors are SEP holders. But some of that discussion does not account for the differences when the licensing entity is a patent pool. To be both efficient and helpful to the Agencies, these comments (“Comments”) are focused on issues specific to patent pools.<sup>2</sup>

## **I. Recommendations**

In these Comments, we suggest the Agencies’ final Policy Statement should recognize that a different approach on certain issues is appropriate for patent pools that have reached a threshold of reasonably broad acceptance in the market, including on issues such as the determination of F/RAND including of implementer willingness. The market’s broad acceptance of a patent pool’s standard license in consensual license transactions is persuasive evidence that the terms of the standard license are F/RAND. Accordingly, we propose that once a patent pool has met the threshold of reasonably broad acceptance in the market, the Agencies should adopt the following proposals in the final Policy Statement<sup>3</sup>:

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<sup>1</sup> Draft Policy Statement on Licensing Negotiations and Remedies For Standards-Essential Patents Subject to Voluntary F/RAND Commitments, offered by The U.S. Patent & Trademark Office (USPTO), the National Institute of Standards and Technology (NIST), and the U.S. Department of Justice, Antitrust Division (DOJ) (collectively “the Agencies”), found at <https://www.justice.gov/atr/page/file/1453471/download> (“Draft Policy Statement”). For consistency with the terminology of the Draft Policy Statement, we use the term “F/RAND” rather than RAND or FRAND throughout these Comments, except that where referring to a document that uses a different term, we do not change that term to F/RAND.

<sup>2</sup> Use of the term “patent pool” in these Comments connotes patent pools that comply with the guidance of antitrust agencies and that are formed and run substantially in the manner described in these Comments. For example, patent pools that offer a single license to the full set of essential patents owned or licensable by all the entities licensing through the pool, and that do not cross license each other, but rather require their licensors who practice the standard to sign the same license signed by all other licensees. Not all entities engaged in collective licensing comply with these guidelines and fit the descriptions in these Comments; collective or joint licensing programs that do not fit comply with these guidelines or fit the descriptions should not be considered “patent pools” for the purposes of these Comments.

<sup>3</sup> Advance fully recognizes the significant obligations that apply to SEP holders. Those obligations have been spelled out repeatedly and in detail in other fora, and we suspect will be the subject of others’ comments here as

- The patent pool and its SEP holders<sup>4</sup> are entitled to a rebuttable presumption that its rates and other licensing terms are fair, reasonable, and non-discriminatory.
- To demonstrate “willingness” to take a F/RAND license, an implementer should have the responsibilities:
  - to determine whether there is a patent pool licensing SEPs for the standard it is practicing, and to educate itself about the patent pool and its offering by reviewing all the available information from such a patent pool; and then
  - to open negotiations for licenses for its practice of the standard by approaching each of the pool licensors or the patent pool either before, but no later than<sup>5</sup> within a commercially reasonable time after, it first begins to make and sell products and/or services that practice the applicable standard.<sup>6</sup>
- If an implementer fails in those responsibilities:
  - The patent pool and its SEP holders should be entitled to a rebuttable presumption that the implementer is “unwilling.” Thereafter an implementer would have the burden of demonstrating the contrary to rebut the presumption, for example by demonstrating that it was unaware of the existence of the patent pool, coupled with a clear record of other good faith efforts to become licensed to practice the standard, such as initiating contact with the individual SEP holders in the pool; and
  - The patent pool and its SEP holders in the pool should be entitled to seek, and courts should have the ability to grant, an injunction against further infringement, taking into account all other relevant factors.
- Fulfilling its responsibilities noted above is necessary but not sufficient for an implementer to be characterized as a willing licensee.
  - After fulfilling those responsibilities, and in order to continue to be characterized as a willing licensee, the implementer must continue to work actively, and in good faith, in the same way it would act in pursuing a commercial opportunity it wanted to be a success.<sup>7</sup>

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well. Our approach is to recognize and assume the existence of those obligations, while providing the Agencies our perspective as a licensing administrator for patent pools.

<sup>4</sup> Depending on the structure of a pool, the ability to assert the pool’s patents against an infringer may be vested only in the individual SEP holders.

<sup>5</sup> The timing indicated here would mean that a compliant implementer would initiate licensing discussions no later than when it begins to practice the standard, which seems a fair and reasonable way to limit the period of unlicensed practice.

<sup>6</sup> Note that these are the reciprocal of the responsibilities SEP negotiation guidelines routinely place on SEP holders in the bilateral context, which are to determine which products of the implementer infringe which of its SEPs, and to provide sufficient information to the implementer to allow it to determine if it is infringing. *See*, Draft Policy Statement, *supra* note 1, at 5.

<sup>7</sup> Of course, the patent pool and/or its SEP holders also must continue to work actively and in good faith throughout the process, in the same way it would act in pursuing a commercial opportunity it wanted to be a success, beginning when the implementer initiates contact.

- So, for example, even where an implementer fulfills its responsibilities to educate itself about a relevant patent pool, and to initiate contact with the pool to obtain a license – or where the patent pool initiated contact with the implementer – the implementer would lose its status as “willing” if it then pursues a course of conduct indicating a general policy of delay, or otherwise acts in a way inconsistent with a good faith intention to attempt to conclude a license in the same way it would act in pursuing a commercial opportunity it wanted to be a success.
- In license negotiations with the patent pool, an implementer must start from the position that the patent pool’s rates and terms are F/RAND. An implementer may try to establish that it is sufficiently different from every other patent pool licensee and therefore that the pool’s terms are not F/RAND for it; but an implementer cannot begin negotiations as if starting from a blank slate—that is, as if the license terms had not already been validated—or simply reserve to itself the right to determine what is F/RAND for the patent pool.<sup>8</sup>
- In any court proceeding between an implementer and a patent pool (or its SEP holders)<sup>9</sup> where the patent pool has met the threshold of reasonably wide acceptance in the market (or its SEP holders), the implementer would have the burden of producing evidence to rebut the presumption and the burden of convincing the tribunal that it has succeeded.
- If the implementer fails to meet its burden, the patent pool (or its SEP holders)<sup>10</sup> should be entitled to seek, and courts should have the ability to grant, an injunction against further infringement, taking into account all other relevant factors as well.

## II. Access Advance

Access Advance is an independent licensing administrator company<sup>11</sup> that leads the development, administration, and management of patent pools for licensing essential patents for inventions underlying the most important standards-based video codec technologies. Since its launch in 2015, Advance’s HEVC patent pool has grown to include<sup>12</sup>:

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<sup>8</sup> “Huawei’s stance has always been that they are willing to enter into what Huawei contend is a FRAND licence. . . . Huawei have always reserved to themselves the right to determine what was FRAND at least in respect of the scope of the licence.” *Unwired Planet Int’l Ltd v. Huawei Techs. Co. Ltd.* [2017] EWHC (Pat) 2988 (Birss J.) at ¶ 706.

<sup>9</sup> As noted, *supra* note 4, depending on the structure of the pool, the ability to assert the pool’s patents against an infringer may be vested only in the individual SEP holders.

<sup>10</sup> *Id.*

<sup>11</sup> Access Advance provides a balanced, transparent, and efficient licensing mechanism for both patent owners and patent implementers. Access Advance currently manages and administers the HEVC Advance Patent Pool for licensing patents essential to H.265/HEVC technology, and the separate and independent VVC Advance Patent Pool for licensing essential patents to H.266/ VVC technology. More information is available on our website at [www.accessadvance.com](http://www.accessadvance.com).

<sup>12</sup> All data in these Comments are accurate as of the date of the filing.

- 38 licensors<sup>13</sup> from the United States, Germany, Netherlands, Mainland China, Japan, South Korea, and Taiwan, who are estimated collectively to hold
  - over 17,000 patents (determined by an independent technical expert to be essential patents for the H.265/HEVC Standard (HEVC SEPs))
  - in over 700 patent families
  - which we estimate to collectively account for more than 70% of all worldwide HEVC SEPs<sup>14</sup>
- and 252 licensees,<sup>15</sup> including companies from a broad range of industries and 29 countries and territories including the United States, and in Europe, and Asia (including Mainland China, Japan, Korea, and Taiwan).

The licensors in the HEVC Advance patent pool represent a broad range of interests and incentives with regards to F/RAND issues. They include both some who are “net licensees” in the sense that their financial incentives are primarily those of an implementer/licensee, and some who are “net licensors” in the sense that their financial incentives are primarily those of a SEP owner/licensor.

Many licensors are multinational operating companies that have made significant investments in the research and development of video codecs, which they have implemented in their products or services, *e.g.*, Google, Huawei, LG Electronics, Microsoft, Mitsubishi, Panasonic, Samsung, and SK Telecom. The HEVC Advance patent pool also includes many licensors who own a small number of patents but also contribute to the pool’s royalty revenue as licensees, including Arris, Humax, OPPO, and ZTE. And, finally, the pool includes many licensors who have invested heavily in the research and development of video codec, where the primary purpose was to contribute their innovation to international standards. This includes companies such as GE, Fraunhofer, ETRI, and several research institutes and universities.

The diversity of the pool’s licensors, both geographically and in terms of their economic interests, enables the HEVC Advance patent pool to achieve the critical balance necessary to

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<sup>13</sup> The list of current licensors is found at <https://accessadvance.com/hevc-advance-patent-pool-licensors/> and is updated as new licensors are added to the program. As part of our business-oriented approach to licensing, Access Advance offers a significant amount of information on its website <https://accessadvance.com> and we invite the Agencies to explore the site. Access Advance was the first – and to our knowledge is still the only – patent pool to offer a whitepaper analysis demonstrating that the pool’s terms are F/RAND. The information offered on the site includes the full list of licensors and licensees, additional overview information for licensors and licensees, information on the terms and obligations of a licensor in the HEVC patent pool, a brief explanation of the technology behind the HEVC/H.265 video compression standard, an overview of the licensing program, a list of the patents that have been evaluated essential along with an identification of the specific provisions of the standard on which one or more patent claims has been found essential, a description of the process for submitting patents for essentiality evaluation, branding guidelines, and patent marking guidelines, among other information.

<sup>14</sup> A visual depiction of the data is found at <https://accessadvance.com/hevc-worldwide-patent-landscape/>.

<sup>15</sup> The list of current licensees is found at <https://accessadvance.com/hevc-advance-patent-pool-licensees/> and is updated as new licensees are added to the program. It is worth noting that the ability to attract this large a number of willing licensees is common for patent pools, but unusual in bilateral licensing.

build a successful patent pool based on the principles of F/RAND. The benefits brought by such a broad base of licensors is reflected in the pool's success in gaining wide market acceptance by implementers, which are discussed in the next section.

### **III. Determination of Essentiality**

One of the hallmarks of a patent pool that complies with the guidelines is the method by which it determines whether patents are essential. Such patent pools do not rely on patent holders' declarations of essentiality, which are well known to overstate the essentiality of their patents by anywhere from 20% to well above 50%.<sup>16</sup> Instead, such patent pools retain one or more patent attorneys and technical experts to serve as independent evaluators<sup>17</sup> to determine the essentiality of each of the candidate patent's claims. These evaluators have expertise in patent law in the relevant jurisdictions, in the standard for which licenses will be offered, in the technologies at issue, and in what "essentiality" means and why it matters. The evaluators are hired by the pool administrator as attorneys to the patent pool; the evaluators are not and do not act as attorneys for any potential licensor. The evaluators are compensated based on effort, not results; the compensation for each evaluation is not dependent on the outcome of any evaluation, and is not dependent in any way on the number of patents determined to be essential.

Only those patents with claims that have been evaluated as essential<sup>18</sup> are included in the pool's list of essential patents, but all patents of the pool's licensors that are in fact essential are included in the patent pool license even if they are not included in the list of essential patents. The SEP owners who agree to be pool licensors agree to this principle in the documents by which they become pool licensors.

As a result, the licensee is licensed to every essential patent of every pool licensor, even where a patent owner did not submit a patent, or did not realize a particular patent was essential. Each pool licensee has a license defense to an assertion of infringement of claims included in every essential patent of every pool licensor that includes claims that are in fact essential. This also means that as more SEP owners become pool licensors, and as patents continue to issue to pool licensors, all patents that are SEPs are automatically folded into the license. And the license

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<sup>16</sup> As the UK's Court of Appeal recognized: "Over- declaration is a substantial problem as illustrated by the judge's assessment that up to 72% of declared SEPs are not truly essential. . . [W]e recognise the existence of the practice of over-declaration and we acknowledge that it is a problem." *Unwired Planet Int'l Ltd v. Huawei Techs. Co. Ltd*, [2018] EWCA Civ 2344 (Lord Kitchen at ¶¶ 92, 96).

<sup>17</sup> The evaluators' incentives for each evaluation are not related to the interests of the entity submitting patents for evaluation, but rather to the pool. That includes the incentive to ensure the accuracy of the evaluation results, which are integral to the overall health of the pool, for both business and legal reasons.

<sup>18</sup> The process of evaluating a patent claim is both intensive and expensive, commonly costing up to \$10,000 per patent claim.

granted by the patent pool continue to encumber the pool SEPs if they are sold, or any rights are assigned, to an entity that is not a pool licensor.<sup>19</sup>

#### **IV. Patent Pool Formation Results in Fair and Reasonable Rates and Terms**

As the Department of Justice and the Federal Trade Commission have recognized, patent pools can reduce the transaction costs of multiple licensing negotiations and may mitigate royalty stacking and hold-up problems that can occur when multiple patent holders individually demand royalties from a licensee.<sup>20</sup> At the most basic level, a patent pool enables an implementer to obtain a single license to a large number of patents in a single transaction, and do so at royalty rates substantially lower than the cumulative rates of individual bilateral licenses to the same number of patents, as discussed further below. Those efficiencies and results are the direct product of the manner in which patent pools are formed and in which they operate.

##### ***Finding the right participants***

The formation of a patent pool begins with an effort to locate entities that likely own or otherwise have the right to license patents that likely include one or more claims that are essential.<sup>21</sup> This is a logical first step for a valid business reason: the success of the patent pool's business will be determined by its ability to attract implementers to take licenses, which will depend in large part on the SEP coverage and quality of the pool's offering. Therefore, in order to attract implementers once it begins offering licenses, the pool will want to attract patent owners that can offer the volume and quality of SEP coverage implementers will want to license.

The overall goal of the formation process is finding consensus on patent license coverage, as well as rates and other terms, that will incentivize large numbers of licensors and large numbers of licensees to agree to participate in the program with minimum friction. The very nature of a pool depends on finding terms that are mutually acceptable to implementers and innovators alike, so that the vast majority of license transactions are consensual and not litigation driven.

Pool formation done right brings together owners of high quality SEPs, some with finances primarily driven by monetizing their IP through licensing, and others with finances primarily driven by monetizing their IP through selling compliant products, as well as some who monetize

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<sup>19</sup> The statements in this and the previous sentence are correct for many patent pools, *supra* note 2, including the Advance HEVC and VVC patent pools, but may not be correct for other patent pools, depending on their formation procedures and the language of their formation documents and licenses.

<sup>20</sup> U.S. Dep't of Justice & Federal Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 5.5 (2017), available at <https://www.justice.gov/atr/IPguidelines/download>.

<sup>21</sup> The determinations may be based on the pool administrator's technical investigation of the patents owned by the participants in the pool formation, or by evaluation of sample patents, or by the statement of participants that they have a good faith belief that they have or will have essential patents and the intention to form a patent pool they would join as licensors, or some combination of all of these.

their IP through a combination of both methods. That group of likely SEP owners negotiates the royalty rate<sup>22</sup> and other licensing terms the pool will take to market.

The negotiation during pool formation simulates, and is a good proxy for, market negotiations between patent owners and implementers: both the “licensor” and the “implementer” models and incentives drive the process, ensuring a balance of interests between those business models. The resulting rate, therefore, is also a balance: likely somewhat lower than patent owners might like and somewhat higher than implementers might like, but acceptable to both as a fair compromise, which is the definition of a market rate that is fair and reasonable and is the rate that would prevail in a competitive market.

### *Negotiating rates and terms*

Contrary to what instinct might suggest, patent owners planning to license in a patent pool are not intent on the pool setting royalties at the “highest possible rate,” for several reasons. Because the royalty rate charged by a patent pool is substantially lower than the sum of what a licensee would pay for bilaterals to all the SEPs of all the pool licensors, the “per unit” distribution each pool licensor receives from royalty revenue likely is substantially lower than the amount each licensor would receive in bilateral licenses, due to the inherent efficiencies of pool licensing for both the pool and the licensees. This is a given. Therefore, in deciding to be a licensor in a patent pool, the patent owner is explicitly demonstrating that it is willingly forgoing higher per unit revenue in favor of broader and more rapid implementation.

This rational decision is consistent with the view of the pool as a business, and with the view that licensing is a sales activity, not a litigation activity. The “highest rate” makes the pool offer less attractive to potential licensees and therefore makes selling more difficult, which makes for longer sales cycles, which in turn makes sales more expensive, and therefore reduces both the rate of growth of the pool and the net royalty revenues distributed to the licensors. In addition, higher rates mean higher risk in the SEP licensing environment. All of these consequences are contrary to the long-run business interests of the pool.

What SEP owners participating in patent pool formation are trying to determine is not the “highest rate” they can charge, but a “reasonable” royalty rate that balances the interests of licensors and licensees, as F/RAND requires.<sup>23</sup>

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<sup>22</sup> In some cases, different rates are set for different categories of products, such as mobile devices, televisions, and other connected home devices. The discussion of “a rate” should be understood, where applicable, to mean “a rate for each product category.” The negotiation during formation is for a single rate (per category, where applicable) to license the entire package of patents. That is, the process is *not* that each patent holder states its desired royalty for its patents and then those individual rates are added together to calculate the total pool rate (per category, where applicable).

<sup>23</sup> “[I]t is not correct to say that the FRAND undertaking is simply for the benefit of implementers. Its purpose is to strike a balance between the respective rights of patentees and implementers.” *Unwired Planet v Huawei*, [2017] EWHC 2988 (Pat), *supra* note 8, at ¶ 161. *See also, e.g.*, ETSI Overview, found at <https://www.etsi.org/intellectual-property-rights>. (“The main objective of the ETSI IPR Policy is to balance the rights and interests of IPR holders to be fairly and adequately rewarded for the use of their SEPs in the implementation of ETSI standards and the need for implementers to get access to the technology defined in ETSI standards under FRAND terms and conditions.”)

From the perspective of an individual SEP owner involved in forming a patent pool, a fair and reasonable rate is a rate that enables implementers to obtain a license at an acceptable price, and also fairly compensates patent owners for producing the inventions underlying the applicable standard and creating the essential patents that can be licensed in the pool.

And from the perspective of a patent pool as a business – which includes approaching licensing as a sales activity – a reasonable royalty rate (and other reasonable licensing terms) results in less friction, and therefore shorter sales cycles, lower cost of sales, and lower risk. Reasonable rates and terms also result in more rapid and voluntary adoption by implementers, which in turn means more licensees signing over a shorter period of time, more total revenue, and a higher percentage of the net revenue that will be distributed to the licensors.

### ***Market test of F/RAND***

And, of course, the test of whether the market regards the rates and other terms as F/RAND is whether the rates and terms of the patent pool license are broadly – and willingly – accepted in the marketplace. The ideal economic evidence of the market’s assessment of contract rates and terms is conduct observed in the market in which the contract is offered. From an economic perspective, observed royalty rates broadly accepted in the market are the best indication of a reasonable royalty for a portfolio of patents, and the best test of whether rates and terms reflect what the market would find F/RAND and therefore acceptable is whether the rate and terms are in fact accepted in the marketplace. As mentioned above, the Access Advance HEVC patent pool license has been accepted broadly by the market, with 252 licensees having signed a license voluntarily based on negotiations, and without litigation.<sup>24</sup>

A review of Advance’s licensee list also demonstrates that our license has been accepted by implementers across a broad range of industry groups including those who account for half or more<sup>25</sup> of sales (by volume) in key markets:

- 54% of the mobile and tablet market
- 88% of the set-top-box market
- 52% of the UHD television market
- 60-70% of the game console market
- 80% of the drone market
- 45% of the surveillance market.

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<sup>24</sup> Only one licensee was involved in litigation before signing a license; all other licensees signed after discussions and with no litigation.

<sup>25</sup> Percentages are based on share of all HEVC-enabled devices (by volume) sold in the market.



These licensees include the top brands and companies by volume:

- In the smartphone market, 6 out of the top 10 smartphone brands (Samsung, OPPO, Realme, Vivo, Huawei, and Honor), the No.1, No. 2, and No. 5 smartphone companies (Samsung, OPPO, and Vivo) worldwide
- In the set top box market, 9 out of the top 10 vendors worldwide (Skyworth, Technicolor, ZTE, Arris, Sagemcom, Jiuzhou, Kaon Media, Humax, and Changhong)
- In the UHD TV market, 3 out of the top 5 brands (including Samsung and LG) worldwide
- In the game console market, 2 out of the top 3 companies (including Microsoft)

Not only is the HEVC Advance patent pool widely accepted in these markets involving a large volume of consumer devices, the pool also is accepted by market leaders in non-consumer markets, including GE (aircraft and medical), Boeing (defense and aircraft), Honeywell (defense and security), Bosch (industrial and security), Hitachi (industrial), and DJI (drones).

Similar to the diverse interests of the pool licensors, Advance's HEVC patent pool licensees also represent a broad spectrum of interests with regard to F/RAND. And while some licensees are also licensors, most licensees are not licensors, as is clear from the numbers<sup>26</sup>. The pool licensees include, for example:

- large licensees (as measured by volume) who are also large licensors, *e.g.*, Canon, Microsoft, Samsung, LG, Huawei, *etc.*<sup>27</sup>
- large licensees (as measured by volume) who are small licensors, *e.g.*, Google, Arris, ZTE, Humax, OPPO
- large licensees who are not licensors, *e.g.*, Vivo, Technicolor, Sagemcom, Honor, Skyworth
- small and medium-size licensees who are large licensors, *e.g.*, JVCKENWOOD, Panasonic, Mitsubishi
- small and medium-size licensees who are small licensors, *e.g.*, Humax, Philips, NEC, Warner Bros, and

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<sup>26</sup> Advance requires any patent pool licensor who is also an implementer to also become a patent pool licensee, signing the same license agreement signed by every other licensee. Note also that the fact that the Access Advance HEVC pool includes 38 licensors and 252 licensees means, by definition, that the vast majority of licensees are not also licensors.

<sup>27</sup> A "large" licensee is one who makes and sells a large volume of products, as a result of which it pays a large amount of total royalties. These companies are "net licensees" in the sense that their financial incentives are primarily those of an implementer/licensee. A "large" licensor is one who has a large patent portfolio of SEPs, and therefore receives a large amount of the distribution of royalties within the pool. These companies are "net licensors" in the sense that their financial incentives are primarily those of a SEP owner/licensor. Note that some are both large licensors and large licensees; their financial incentives are balanced between licensor and licensee incentives.

- small and medium-size licensees who are not licensors, *e.g.*, D-Link, Fujifilm, Hitachi, Logitech, Nikon, Telekom Deutschland, and many more.

Given the broad acceptance of the Access Advance HEVC patent pool by implementers across industries and geographies, it is reasonable to conclude that the licensee market has determined that the pool license is fair and reasonable and non-discriminatory.

We propose that once a pool reaches a certain threshold of acceptance in the market, it would be unreasonable to analyze that pool's license offer on a blank slate, as if it were being offered for the first time. Instead the Agencies should consider whether it would be reasonable to assume, and courts would be entitled to afford the pool license a rebuttal presumption, that its terms are F/RAND. Of course, such an assumption would not preclude an implementer from challenging that conclusion in court, but it would mean that the burden is on the implementer to rebut the presumption that the pool license is F/RAND.

If the Agencies adopt such an approach in the final Policy Statement, they also may want to offer some guidance about the threshold of acceptance at which it would be reasonable to assume, and appropriate to allow a court to determine, that the pool's license terms are entitled to a rebuttable presumption that they are F/RAND. The appropriate threshold, for example, might be based on the number of licensees or the number of licensees combined with some analysis of how representative the licensees are of the universe of implementers. Or, consistent with the Draft Policy Statement, the Agencies might simply suggest that a court would be entitled to determine the parameters under which it might determine that the pool's license is entitled to such a rebuttable presumption.

## **V. The rebuttable presumption and “willingness”**

Adopting our proposal also would be helpful in achieving the objective of the Draft Policy Statement to encourage good faith negotiations between an unlicensed implementer and a patent pool.<sup>28</sup> For example, if the Agencies suggest that at some level of acceptance the pool license is entitled to a rebuttable presumption that it is F/RAND, then in the negotiations the implementer should have to demonstrate why the license is not F/RAND as to itself, even though it is F/RAND for a large number of licensees.

And this approach also would be helpful in addressing the most pointed purpose and perhaps most consequential feature of the Draft Policy Statement, which is its statement that “[a]s a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP holder for infringement.”<sup>29</sup>

The Department of Justice and the Federal Trade Commission have noted the potential loss of competition that can arise from an implementer's unwillingness to accept a F/RAND license or –

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<sup>28</sup> Draft Policy Statement, *supra* note 1, at 8.

<sup>29</sup> *Id.*

rather than refusing outright, which no intelligent infringer would do - to delay licensing negotiations in bad faith:

[W]hen standards implementers are unwilling to accept a F/RAND license or delay licensing negotiations in bad faith, these strategies can lessen patent holders' incentives to participate in the development process or contribute technologies to standards voluntarily. Without adequate incentives to contribute to a consensus-based process, patent holders may opt for closed, proprietary standards that do not offer the same benefits of interoperability and enhanced consumer choice.<sup>30</sup>

In the context of a patent pool license that has met whatever benchmarks are appropriate to conclude that it is presumptively F/RAND, and yet is not accepted by the 50<sup>th</sup> or the 100<sup>th</sup>, or for that matter the 253<sup>rd</sup> implementer, we suggest it would be appropriate for the Agencies to consider what would be the right approach to preserving the incentives for innovation that encouraged the dozens of SEP holders in the pool to invest both the resources in R&D as well as the resources in the years-long effort to form the pool.<sup>31</sup>

An “implementer” – by definition – is an entity that is actively practicing the standard, selling products and/or services that practice the standard. An unlicensed implementer actively practicing the standard is – again by definition – infringing SEPs that read on the standard. Ongoing infringement by implementers who are well aware of the availability of a patent pool license that has met the thresholds to be entitled to a presumption that it is F/RAND, should be among the “individual circumstances of licensing negotiations between patent holders and potential licensees [that] will affect the appropriate remedy for infringement of a valid and enforceable SEP.”<sup>32</sup>

Much has been written about the issue of “willingness” of the potential licensee as an integral part of the implementer’s ability to raise a F/RAND defense to infringement litigation brought by SEP holders. That issue was further clarified by two decisions of the German Federal Supreme Court (Bundesgerichtshof, generally referred to as the Federal Court of Justice, or “FCJ” in English) in the *Sisvel v. Haier* litigation.<sup>33</sup>

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<sup>30</sup> Draft Policy Statement, *supra* note 1, at 4.

<sup>31</sup> For a discussion of several issues common to both where the “SEP holder” is a single entity and where it is a patent pool, including issues of hold-up, hold-out, and the adequacy of monetary damages, *see, e.g.*, Jeffrey Blumenfeld, *Should FRAND Excuse “Efficient Infringement”?*, 5 Criterion J. on Innovation 143 (2020), found at <https://www.criterioninnovation.com/articles/blumenfeld-should-frand-excuse-efficient-infringement.pdf>.

<sup>32</sup> Draft Policy Statement, *supra* note 1, at 7.

<sup>33</sup> *Sisvel v. Haier II*, Bundesgerichtshof [BGH] [Federal Court of Justice] November 24, 2020, KZR 35/17, (Internal citations omitted, spellings retained) (English translation found at <https://www.katheraugenstein.com/en/federal-court-of-justice-frand-defence-ii>). The German courts have been the venue of a large volume of SEP litigation over the past several years, with cases filed both by SEP holders against implementers, and by implementers against SEP holders. As a result the German courts have had repeated opportunities to examine in detail the behavior of both SEP holders and implementers in the negotiations that led to the litigation.

In the case of a standard-essential patent, lower requirements do not result from the fact that the patent proprietor, who has submitted a declaration of willingness to take a licence, has only limited leverage to enforce the IP right, if necessary by taking legal action . . . and is dependent on concluding licence agreements for the economic exploitation of his patent. On the contrary, the patent infringer may not exploit this structural disadvantage for the purpose of "patent hold-out" . . . without exposing himself to the accusation of dishonest conduct. Otherwise, the restriction of the enforceability of the patent by legal action for the purpose of avoiding an abuse of market power would lead to another distortion of the conditions of competition in that the patent infringer could obtain an unjustified advantage over those competitors who have to seek a licence in due time and therefore pay the appropriate remuneration for the use of standard-essential patents.<sup>34</sup>

The FCJ went on to further elaborate on the concept of "willingness" and how an implementer must conduct itself during the negotiations to retain the status of a "willing licensee" which is worth reviewing at some length:

Contrary to the defendant's view, the declaration of willingness to take a licence is thus not a "mere gateway" for the start of the actual negotiations, even according to the case law of the European Court of Justice. Rather, the continued willingness to take a licence is an indispensable prerequisite for successful licensing negotiations and thus also for the accusation of abuse of market power against the patent proprietor in the event of their failure. This is also clear from the context of the Huawei/ZTE decision.

The guidelines formulated by the Union Court are based on a proposal by Advocate General Wathelet. This was based on the assumption that an abuse can only be considered against a patent infringer who is objectively ready, willing and able to enter into a FRAND licence agreement . . . . The Advocate General did not consider a mere willingness to negotiate, which was considered sufficient by ZTE following a press release of the European Commission of 21 December 2012 . . . . nor did he necessarily require an unconditional offer to conclude a licence agreement within the meaning of the Senate's Orange-Book decision . . . .

Incidentally, this is also in line with the Commission's view in a decision preceding the decision of the Court of Justice of the Union, in which the Commission expresses that the patent proprietor may seek and enforce an injunction against a potential licensee if the latter is unwilling to enter into a FRAND agreement . . . .

Such an objective willingness to conclude a FRAND licence agreement is regularly demonstrated, according to the business practices recognised in all areas of economic life and also emphasised by the European Court of Justice as decisive, by the active promotion of negotiations oriented towards the common

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<sup>34</sup> *Id.* at ¶ 61 (internal citations omitted).

goal of a successful conclusion. The negotiation steps of parties interested in concluding a contract build on each other. A duty to promote therefore always exists if and insofar as the next negotiation step is to be expected according to business practice and the principles of good faith . . . .<sup>35</sup>

Thus, the German courts and the UK courts<sup>36</sup> have been the venues for significant SEP litigation over the past several years, resulting in repeated opportunities to examine in detail the behavior of both SEP holders and implementers in the negotiations that led to the litigation. Therefore, they have been well-placed to present fact-based conclusions about the occurrence of hold-up and hold-out. Courts in both countries have recognized that under current F/RAND rules and policies, hold-out by implementers can be a viable strategy, and therefore that an implementer loses its status as “willing” and its F/RAND defense if it engages in hold-out. Yet – to our knowledge – no court or government agencies with jurisdiction over SEP and F/RAND issues has considered the particular meaning of “willingness” in the context of licensing between a patent pool and an implementer, rather than in the context of bilateral licensing in which each of the patent holder and the implementer is a single company. The differences of the patent pool context should be relevant to the Agencies in issuing their final Policy Statement expressing their views on how best to “encourage parties . . . in pursuit of such negotiation”<sup>37</sup> to act in conformance with F/RAND obligations.

As with all guidance from agencies and courts around the world, the Agencies’ Draft Policy Statement suggests that the first step should be taken by the patent holder, and that step should be the patent holder notifying the implementer that the patent holder owns or controls SEPs that the implementer is likely infringing:

A SEP holder engaged in good-faith negotiation should alert a potential licensee of the specific SEPs it believes will be or that are being infringed, provide information as to how the SEPs, to the extent practicable, or a representative set of the SEPs are being infringed, and make a good-faith F/RAND offer.

A potential licensee willing to take a F/RAND license and engaged in good-faith negotiation should assess the information provided and respond within a commercially reasonable amount of time in a manner that advances the negotiation or results in a license.<sup>38</sup>

This guidance, of course, is logical and reasonable in the context of an individual SEP holder: it is possible that the implementer may not be aware that a particular entity is a patent holder, or that its patents are SEPs, or that the implementer is infringing those SEPs. That may even be

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<sup>35</sup> *Id.* at ¶ 68 (internal citations omitted) (additional paragraph breaks added).

<sup>36</sup> For UK court decisions that have recognized the reality of the hold-out strategy, in addition to those cited elsewhere in these Comments, *see, e.g., Optis v Apple* [2021] EWHC 2564 (Pat), at ¶ 72 *et seq.* (Meade J) (drawing on the multiple *Unwired Planet* decisions of the UK courts).

<sup>37</sup> Draft Policy Statement, *supra* note 1, at 5.

<sup>38</sup> *Id.*

particularly true when the patents are SEPs, because there are likely to be dozens of entities that own SEPs for whatever standard or standards the implementer's devices or services practice.

But that guidance is not logical in the context of a patent pool today, because the underlying assumption that the implementer is unaware of the existence of the relevant patent pool is neither logical nor reasonable, and is unlikely to be correct. Rather, we suggest, it is highly likely that an implementer is aware of the existence of a patent pool for the standard in question, and, thanks to the internet, can easily discover a great deal of relevant information. Moreover, the implementer is aware of the fact that the patent pool's process for independent evaluation of essentiality offers an assurance that a licensee does not normally have in a bilateral negotiation, where, as courts have observed, the implementer is dependent on the licensor's unilateral declaration of whether patents are essential.

As an example, by navigating to the website of the Advance HEVC patent pool and following the links provided to the additional relevant pages of the website,<sup>39</sup> an implementer can – among other relevant information – see a list of the patents in the pool that have been determined essential by the patent evaluator, can see for each patent the specific portions of the standard on which claims of the patent were determined by the patent evaluator to be essential, can see the list of licensors, can see the list of licensees, can obtain and examine a White Paper explaining why the pool's rates are F/RAND<sup>40</sup>, and can request a copy of the pool license to review.

Simply put, in the context of patent pools, patent licensing should not be the only market in which the customer has no responsibility to approach the seller, but where the customer is instead entitled to take and profit from the seller's goods without any affirmative effort to pay for the goods,<sup>41</sup> while waiting to be tracked down by the seller, and is further entitled to demonstrate “willingness” simply by being willing to engage in a discussion once it has been tracked down and confronted.

The proposal that a patent pool that has reached an appropriate threshold of market acceptance should be entitled to a presumption that its rates and terms are F/RAND should inform the negotiation between a patent pool and an implementer from the earliest stages and throughout the

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<sup>39</sup> <https://accessadvance.com/licensing-programs/hevc-advance/>.

<sup>40</sup> Advance was the first patent pool – and to our knowledge is still the only – patent pool to offer such an analysis on its website. Ours was first posted in 2018.

<sup>41</sup> As Mr. Justice (now Lord Justice) Birss observed:

The implementers can and do implement the inventions the subject of SEPs simply by making standards compliant equipment. Unlike a market for goods or services, what the implementer actually wants is something it has ready access to, namely information, all of which is freely available in the standards. Normally a seller of a product can restrict practical access to his or her goods without payment just by refusing to sell them. The holder of an intellectual property right like a SEP cannot do that. That is of course why the right to exclude given by the injunction plays such a significant part of intellectual property disputes, because it is the means by which the law seeks to put the intellectual property owner into the analogous position to an owner of tangible property such as a product or land.

*Unwired Planet Int'l Ltd v. Huawei Techs. Co.* [2017] EWHC 2988 (Pat), *supra* note 8, at ¶ 658.

negotiation. For example, however the negotiation is initiated – whether by the implementer fulfilling its responsibilities to educate itself and proactively initiate contact with the pool, or by the pool contacting the implementer – it would be unreasonable for the implementer’s opening position to be that the pool’s rates and terms were not F/RAND, or that there was no existing benchmark for the pool’s rates, or that the first step should be that the patent pool first must “prove” to the implementer that its rates and terms are F/RAND.<sup>42</sup> Without clear and convincing evidence that the implementer’s situation is materially distinct from the situations of the licensees and warrants different rates and terms, the articulation by an implementer of any of these positions should be seen as bad faith and evidencing an intent to delay, by which an implementer loses its status as “willing.”

It is important to note that failing to respond in a timely manner – which the Draft Policy Statement implies is an example of bad faith – is both the most obvious and least frequent method by which implementers, in our experience, act to delay the process and thereby extend their period of non-paid infringement. Rather, implementers engage in more sophisticated tactics, such as the ones described above. Or they continue to inquire about issues well-explained in the material available to them on the website, or about issues explained to them in detail in prior meetings. In our experience – and most importantly given the perspective of the Draft Policy Statement – a common tactic for delay is that implementers mimic the actions but without the intentions of a willing licensee: they correspond, they meet – even, perhaps, on a regular basis – but without any desire to reach an agreement, and evidencing no urgency to do so.

Courts have observed that the challenge facing a SEP holder in such a situation is that the only available approach to obtaining licenses from the infringing implementers is to seek them one one-by-one, file patent infringement cases against them one-by-one, spend the time and resources over the years necessary to achieve a verdict of infringement in each case, spend more time and resources defending an appeal of the infringement verdict, and if ultimately successful, then be entitled to money damages.<sup>43</sup> After pursuing that course for, say the 50<sup>th</sup> or the 100<sup>th</sup> or for that matter the 253<sup>rd</sup> infringing implementer, the SEP holder would then turn to the 51<sup>st</sup> or the 101<sup>st</sup> or the 253<sup>rd</sup> and so on. Of course, some number of infringing implementers could be litigated against simultaneously, but that simply raises the level of resources that must be expended simultaneously. And if the money damages for past practice must be calculated by applying F/RAND rates to the volume of past practice, the attractiveness to implementers of, and the incentives of implementers to pursue, the hold-out strategy are readily apparent.

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<sup>42</sup> In our experience those are among the most common position that were taken, and continue to be taken, by implementers – all of whom claimed to be following the mandates of the case – after the CJEU decision in *Huawei v ZTE*, Case 2015-10-170/13, ECLI:EU:C:2015:477 (July 16, 2015) found at <http://curia.europa.eu/juris/document/document.jsf?text=&docid=165911&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=10325480>.

<sup>43</sup> It is worth noting that hold-out by implementers, especially large companies, encourages hold-out by other implementers, large and small, and that money damages to the SEP holders do not address the fact that many other companies that compete with the hold-out implementers recognized their obligation to be licensed and have paid royalties throughout the time others have been engaged in hold-out. See, e.g., *Should FRAND Excuse “Efficient Infringement”?*, *supra* note 31, at 151-152.

Considering this point, the UK Supreme Court observed:

[I]n a case of the present kind, an award of damages is unlikely to be an adequate substitute for what would be lost by the withholding of an injunction. The critical feature of a case of this kind is that the patent is a standard technology for products which are designed to operate on a global basis. That is why standard technology is essential, and why the patent-holders whose patents are accepted as SEPs are required to give an undertaking that licences will be made available on FRAND terms. Once the patents have been accepted as SEPs, it may well be impractical for the patent-holder to bring proceedings to enforce its rights against an infringing implementer in every country where the patents have been infringed. That is because, as Huawei's witness Mr Cheng accepted in evidence, the cost of bringing enforcement proceedings around the world, patent by patent, and country by country, would be "impossibly high".

In those circumstances, if the patent-holder were confined to a monetary remedy, implementers who were infringing the patents would have an incentive to continue infringing until, patent by patent, and country by country, they were compelled to pay royalties. It would not make economic sense for them to enter voluntarily into FRAND licences. In practice, the enforcement of patent rights on that basis might well be impractical, as was accepted in the present case by Huawei's witness, and by the courts below. An injunction is likely to be a more effective remedy, since it does not merely add a small increment to the cost of products which infringe the UK patents, but prohibits infringement altogether. In the face of such an order, the infringer may have little option, if it wishes to remain in the market, but to accept the FRAND licence which *ex hypothesi* is available from the patent-holder. However, for the reasons explained in paras 164-165, that does not mean that the court is enabling the patent-holder to abuse its rights.

This point was understood by the courts below. In the Court of Appeal, Lord Kitchin observed at paras 55-56:

"It may be wholly impractical for a SEP owner to seek to negotiate a licence of its patent rights country by country, just as it may be prohibitively expensive for it to seek to enforce those rights by litigating in each country in which they subsist. This latter point was accepted by Mr Cheng in the course of his evidence: he agreed that the costs of such litigation for [Unwired] would be impossibly high ... [I]t seems to us, at least as a matter of principle, that there may be circumstances in which it would not be fair and reasonable to expect a SEP owner to negotiate a licence or bring proceedings territory by territory and that in those circumstances only a global licence or at least a multi-territorial licence would be FRAND."

Lord Kitchin also noted at para 111 the implications of accepting Huawei's contention that country-by-country licensing was appropriate:



“The patentee must then bring proceedings country by country to secure the payment of the royalties to which it is entitled. But unlike a normal patent action, where an unsuccessful defendant faces the prospect of an injunction, the reluctant licensee would know that, on the assumption it could only be required to take licences country by country, there would be no prospect of any effective injunctive relief being granted against it provided it agreed to pay the royalties in respect of its activities in any particular country once those activities had been found to infringe. So it would have an incentive to hold out country by country until it was compelled to pay.”

That reasoning was criticised by Huawei, but far from being erroneous, it identifies the central reason why an injunction is necessary in order to do justice, and why damages in lieu would not be an adequate substitute.<sup>44</sup>

Therefore, we propose that once a patent pool has reached a threshold of reasonably broad acceptance in the market, the rebuttable presumption that a patent pool’s rates and terms are F/RAND should apply at the earliest stages of negotiations and throughout any litigation, unless and until the implementer has successfully rebutted the presumption as determined by the court in the event of litigation between the parties, and that the patent pool (or its SEP holders) should be entitled to request, and a court should be able to consider granting an injunction.

## **VI. Conclusion and Recommendations**

We propose that in the final Policy Statement the Agencies should recognize that a different approach on certain issues is appropriate for patent pools, including on issues such as the determination of F/RAND and of implementer “willingness.” We believe our proposal will result in less hold-out, even more rapid and widespread adoption, and therefore in a more level playing field with less distortion of downstream competition and even lower transaction costs.

The market’s broad acceptance of a patent pool’s standard license in consensual license transactions is persuasive evidence that the terms of the standard license are F/RAND. Accordingly, we propose that once a patent pool has reached a threshold of reasonably broad acceptance in the market, the Agencies should adopt the following in the final Policy Statement, in addition to any obligations that apply to all SEP holders, including patent pools:

- The patent pool and its SEP holders are entitled to a rebuttable presumption that its rates and other licensing terms are fair, reasonable, and non-discriminatory.
- To demonstrate “willingness” to take a F/RAND license an implementer should have the responsibilities:

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<sup>44</sup> *Unwired Planet v Huawei*, [2020] UKSC 37, at ¶¶ 166-169.

- to determine whether there is a patent pool licensing SEPs for the standard it is practicing, to educate itself about the patent pool and its offering by reviewing all the available information from such a patent pool; and then
- to initiate the process of curing its ongoing infringement by approaching the patent pool to initiate negotiations either before, but no later than within a commercially reasonable time after, it first begins to make and sell products and/or services that practice the applicable standard.
- If an implementer fails in those responsibilities:
  - The patent pool and its SEP holders should be entitled to a rebuttable presumption that the implementer is unwilling. Thereafter an implementer would have the burden of demonstrating the contrary to rebut the presumption, for example by demonstrating that it was unaware of the existence of the patent pool, coupled with a clear record of other good faith efforts to become licensed to practice the standard, such as initiating contact with the individual SEP holders in the pool; and
  - The patent pool and its SEP holders in the pool should be entitled to seek, and courts should have the ability to grant, an injunction against further infringement, taking into account all other relevant factors.
- Fulfilling its responsibilities noted above is necessary but not sufficient for an implementer to be characterized as a willing licensee.
  - After fulfilling those responsibilities, and in order to continue to be characterized as a willing licensee, the implementer must continue to work actively, and in good faith, in the same way it would act in pursuing a commercial opportunity it wanted to be a success.
  - So, for example, where an implementer fulfills its responsibilities to educate itself about a relevant patent pool and to initiate contact with the pool to obtain a license – or where the patent pool initiated contact with the implementer – the implementer would lose its status as “willing” if it then pursues a course of conduct indicating a general policy of delay, or otherwise acts in a way inconsistent with a good faith intention to attempt to conclude a license in the same way it would act in pursuing a commercial opportunity it wanted to be a success.
  - In licensing negotiations with the patent pool, an implementer must start from the position that the patent pool’s rates and terms are F/RAND. An implementer may try to establish that it is sufficiently different from every other patent pool licensee and therefore that the pool’s terms are not F/RAND for it; but an implementer cannot begin negotiations as if starting from a blank slate—that is, as if the license terms had not already been validated—or simply reserve to itself the right to determine what is F/RAND for the patent pool.

- In any court proceeding between an implementer and a patent pool (or its SEP holders)<sup>45</sup> where the patent pool has met the threshold of reasonably wide acceptance in the market, the implementer would have the burden of producing evidence to rebut the presumption and the burden of convincing the tribunal that it has succeeded.
- If the implementer fails to meet its burden, the patent pool (or its SEP holders) should be entitled to seek, and courts should have the ability to grant, an injunction against further infringement, taking into account all other relevant factors as well.

We thank the Agencies again for the opportunity to submit these Comments, and would welcome the opportunity to discuss these issues further.

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<sup>45</sup> As noted, *supra* note 4, depending on the structure of the pool, the ability to assert the pool's patents against an infringer may be vested only in the individual SEP holders.