

# ARE THE IEEE PROPOSED CHANGES TO IPR POLICY INNOVATION FRIENDLY?

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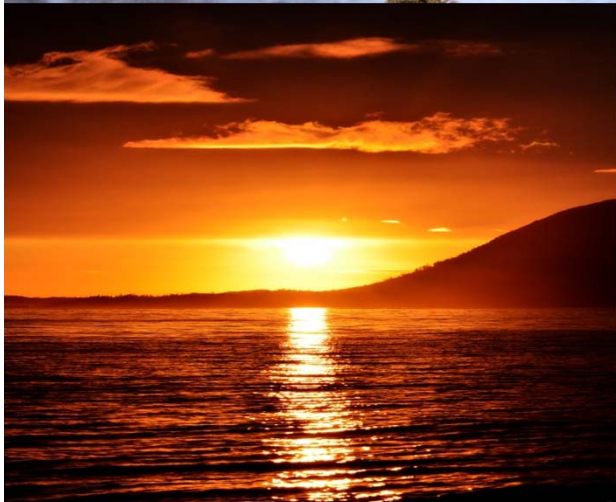
16 January 2015

TILEC Workshop on Standard setting and FRAND licensing  
Tilberg, Netherlands

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FROM AN ECONOMICS  
PERSPECTIVE, THERE ARE 5  
IEEE PROPOSALS THAT ARE  
NOTEWORTHY:

1

## REASONABLE ROYALTY RATES:

“Reasonable Rate” shall mean “appropriate compensation to the patent holder for the practice of an Essential Patent Claim excluding the value, if any, resulting from the inclusion of that Essential Patent Claim’s technology in the IEEE Standard.” [Emphasis added]

2

The assessment of “Reasonable Rates” “should include, but need not be limited to, the consideration of:

**Smallest saleable unit**

A The value that the functionality of the invention or within the Essential Patent Claim contributes to the value of the relevant functionality of the smallest saleable Compliant Implementation [of the standard] that practices the Essential Patent Claim,” coupled with the assertion that a “Compliant Implementation” can be a “component” or “sub-assembly” that practices the standard.

B The value that the Essential Patent Claim contributes to the smallest saleable Compliant Implementation that practices that claim, in light of the value contributed by all Essential Patent Claims for the same IEEE Standard practiced in that Compliant Implementation.

**Relevant Benchmarks**

C Existing licenses covering use of the Essential Patent Claim, where such licenses were not obtained under the explicit or implicit threat of a Prohibitive Order, and where the circumstances and resulting licenses are otherwise sufficiently comparable to the circumstances of the contemplated license.

### 3 “Reciprocal Licensing”

A FRAND commitment may be made conditional on the licensee agreeing to “reciprocate” by making FRAND licenses available for its own patented technology, but only for those patents that are [a] essential to [b] the same IEEE standard. [Emphasis added]

## 4

DISCUSSION OF ROYALTY RATES  
AT THE IEEE

The IEEE “shall provide procedures stating when and the extent to which patent licensing terms may be discussed.” [Emphasis added]

## 5

AVAILABILITY OF INJUNCTIVE  
RELIEF

"An accepted ...[RAND licensing commitment] ... precludes seeking, or seeking to enforce, a prohibitive order except as provided in this policy." (emphasis added),

Where "as provided in this policy" means:

"The submitter of ... [a RAND licensing commitment]... agrees that it shall neither seek nor seek to enforce a prohibitive order ...unless the implementer fails to participate in, or to comply with the outcome of an adjudication, including an affirming first-level appellate review, if sought by any party within applicable deadlines..." (emphasis added).



# ANALYSIS AND DISCUSSION OF THE (NOTEWORTHY) IEEE PROPOSALS:



# Royalty Rate Gains from Standardization Only for the Implementers?

IEEE's suggestion that "reasonable rates" should exclude the value, if any, resulting from the inclusion of that Essential Patent Claim's technology in the IEEE Standard"

Amounts to the proposal that patent holders should not receive any of the gains from standardization in the form of a "price effect" on the "reasonable royalty" rate.

Effectively limits patent holders to the rates that would have been negotiated "ex ante" (i.e. prior to the technology being incorporated into the standard.)

Patent holders benefit from having their technology incorporated into a standard via the "volume effect".

Essentially amounts to the proposition that all of the (pricing) gains from standardization should flow to implementers and/or consumers, and none (except via the volume effect) to patent holders whose technology is incorporated into the standard.

# Gains from Standardization

- A There is no a priori reason why the gains from standardization (other than the volume effect) should all flow to implementers, and none to patent holders, given the collaborative/cooperative welfare-enhancing nature of the standards setting process.

Ordinarily, the parties to collaborative activities split the gains from collaboration.

- B The IEEE has given no explanation why all of the gains should flow to implementers (and/or consumers), and none to the firms whose technology is incorporated into the standard.

# Reliance on Benchmark License Rates

1

The IEEE's suggestion that other licenses can be considered in setting "Reasonable Rates" only if they were "not obtained under the explicit or implicit threat of a Prohibitive Order" (i.e., an injunction or an exclusion order) ignores the fact that all licenses are negotiated "in the shadow of the law" and thus under at least an implicit threat of injunctive relief.

2

Disregarding the terms of licenses that were "obtained under the explicit or implicit threat of a Prohibitive Order" amounts to ignoring relevant benchmark licenses, despite their clear value in assessing reasonable royalties.

# Smallest Saleable Unit

1

Language derives from U.S. legal doctrine developed in a number of patent infringement damages cases starting with *Cornell vs. Hewlett-Packard*.

2

Some have suggested that the “smallest saleable unit” practicing the cellular standard is the chipset, on the grounds that the chipset contains “the guts” of the cellular functionality (ignoring the fact that a standalone chipset cannot be used to make phone calls).

3

Both handset manufacturers and cellular service providers are using the patented technology to sell products/services. Value that they receive from using the patented technology is unlikely to be reflected in actual chipset prices/profit margins.\*

\*Which, in any case, are often artificially depressed because they are set in a world of widespread infringement.

# Smallest Saleable Unit (cont.)

4

Given the “patent exhaustion” doctrine, the compensation that the patent holder receives is likely to underestimate the total value at all stages in the value chain.

5

In the absence of the patent exhaustion doctrine, a patent holder could in theory collect royalties at multiple levels in the value chain, reflecting the value associated with using its patented technology at different levels.

6

The “value” to a firm using patented technology is measured by the incremental profits that it can earn using the technology relative to profits it can earn using the next-best non-infringing alternative. There is no reason why reasonable royalties should be capped by the profit margins earned on (or even the prices of) cellular chipsets.

# Discussing Licensing Terms in an SSO setting

## Background (2007):

IEEE sought and received a “Business Review Letter” from the Antitrust Division of the U.S. Department of Justice in connection with its then-current proposed IPR policy, which proposed that the IEEE be allowed to ask (but not require) patent holders making FRAND commitments to disclose their “not to exceed” licensing terms.

At the time, the IEEE policy did not allow IEEE members to discuss proposed license terms at IEEE meetings.

# Discussing Licensing Terms in an SSO setting

## SPECTRE OF PRICE FIXING LOOMS LARGE:

The current suggestion the IEEE “shall provide procedures stating when and the extent to which patent licensing terms may be discussed” is contrary to the situation contemplated in the Business Review Letter.

The 2007 BRL also explicitly provided that “working group members will not discuss specific licensing terms at standards-development meetings”.

Allowing prospective licensees to collectively discuss proposed licensing terms runs the risk of buyer-side oligopsonistic coordination and price-fixing.

# Cross Licensing

- 1 The IEEE apparently has no problem with “tying” SEPs for one standard to cross-licenses for SEPs for the same standard.
- 2 However, the IEEE’s suggestion that “Reciprocity” be limited to the other party’s “essential” patent claims for the same standard ignores the fact that it is a “reasonable” business practice to seek a broad cross-license allowing both “design freedom” and “freedom to operate,” and those goals may require licenses to (1) non-essential patents and (2) patents that are essential for other standards.



# Seeking Injunctive Relief

- A** The IEEE proposal that patent holders should not be able to even *seek* injunctive relief until after an appellate decision on the merits of disputes (including disputes about RAND rates) would amount to a substantial diminution in the rights of patent holders
- B** It would effectively gut the prospect of a streamlined proceeding (e.g., an ITC Section 337 exclusion order proceeding)
- C** The Federal Circuit recently decided that there is no reason to treat injunctive relief in RAND contexts differently from how it is treated in non-RAND contexts

# Conclusions

Economic principles indicate that royalty rates should be set sufficient to draw forth the investment necessary to support continued socially desirable investment in innovation.

The proposed changes to the IEEE IPR policy have a number of disquieting characteristics:

Substantive change in what is meant by FRAND, in ways that favor implementers at the expense of patent holders. The proposal that “reasonable rates” should “exclude” any value associated with incorporating the patented technology into the standard is the most objectionable.

Emphasis on the “smallest saleable unit” – especially at the “component” level – is also problematic, as it ignores the value at other levels in the value chain.

IEEE policy changes would deeply compromise the ability of innovators in infrastructure to capture sufficient returns, thereby negatively impacting inventors in the short run and implementors in the long run.

# Conclusions

I conclude that the proposed revisions are not innovation friendly and will hurt the ecosystem.