



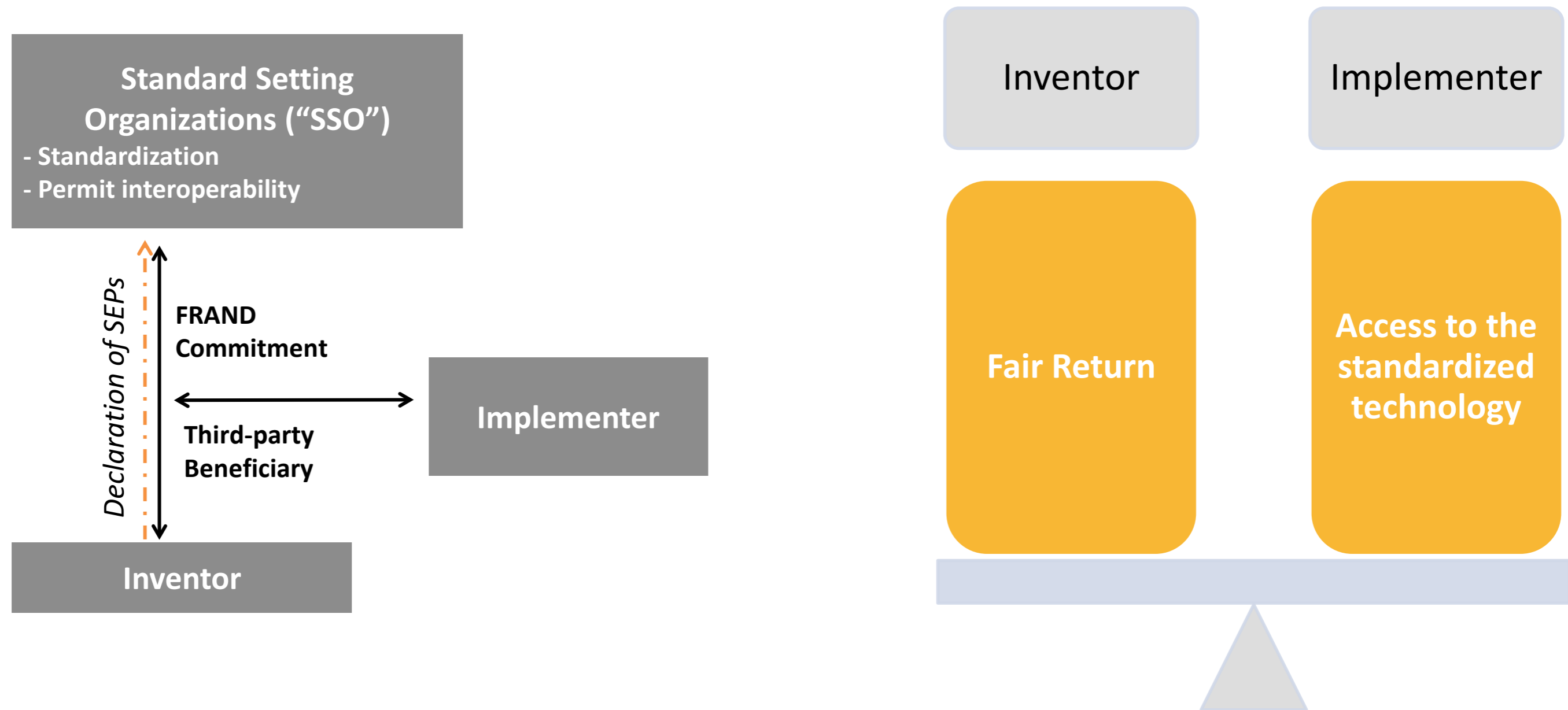
# **Standard Essential Patent License under the FRAND Commitment**

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September 8, 2017

# A General Review of the FRAND Commitment

- ❑ The origin of the FRAND obligation lies in the IPR policy documents of the standard setting organization
- ❑ The FRAND mechanism was devised to mitigate the risk of monopolization involved in the standardization process
- ❑ It is necessary to strike a balance between the inventor and the implementer



# A General Review of the FRAND Commitment

- ❑ The FRAND Commitment concerns not only the specific content of the license terms, but also the process of standardization and the license negotiation
- ❑ In an-arm length negotiation, the potential licensee is entitled to make a fully informed decision according to the FRAND obligation

<i>SEP Declaration</i>	<i>License Negotiation</i>	<i>License Terms</i>
<ul style="list-style-type: none"> <li>❑ <b>Good faith disclosure</b> to the SSOs at the time of standard-setting</li> <li>❑ <b>Without a judicial review, the so-called SEPs are just <i>unilaterally declared</i></b></li> <li>❑ <b>The underlying problem of over-declaration</b></li> </ul>	<p><b><u>Inventor:</u></b></p> <ul style="list-style-type: none"> <li>❑ Present FRAND offers specifying the <b>method and basis to calculate the licensing fee</b></li> <li>❑ Present an exhaustive list of the <i>declared</i> SEPs with necessary infringement analysis and claim charts (burden of proof in infringement cases)</li> <li>❑ Open to an impartial review of the parties' disputes by an arbitral tribunal or a court</li> </ul> <p><b><u>Implementer:</u></b></p> <ul style="list-style-type: none"> <li>❑ Diligently respond to the patentee's offers and requests</li> <li>❑ Provide counter-offers</li> </ul>	<ul style="list-style-type: none"> <li>❑ <b>The amount of the licensing fee should be FRAND</b></li> <li>❑ <i>Determination of a proper royalty base</i></li> <li>❑ <i>Determination of a proper rate</i></li> <li>❑ <i>Determination of proper comparables</i></li> <li>❑ <b>Other non-FRAND terms</b></li> <li>❑ <i>Contractual restrictions on challenging the licensing scheme</i></li> </ul>



# FRAND Commitment in SEP Declaration

- The SEP declaration is a unilateral process without an examination of the essentiality of the patents

## Good faith disclosure to the SSOs

- Intended to mitigate the risk of patent ambush

Without any formal review process, the so-called SEPs are just patents *unilaterally declared as potentially essential to the standard*

- SSOs do not have a mechanism to exam the essentiality of the declared SEPs

## The underlying problem of over-declaration

- Many empirical studies have revealed the over-declaration problem
- Some of the declared SEPs are actually NON-Essential/Optional/Expired/Applications-Never-Been-Granted

# FRAND Commitment in License Negotiation

- ❑ Recent judicial practice suggests obligations on both the inventor and the implementer
- ❑ Portfolio-based licensing scheme has a high-risk of charging overly high royalty

## Inventor



- ❑ Present an exhaustive list of the *declared* SEPs with necessary infringement analysis and claim charts (burden of proof in infringement cases)
- ❑ Present FRAND offers specifying the method and basis to calculate the licensing fee
- ❑ Open to an impartial review of the parties' disputes by an arbitral tribunal or a court

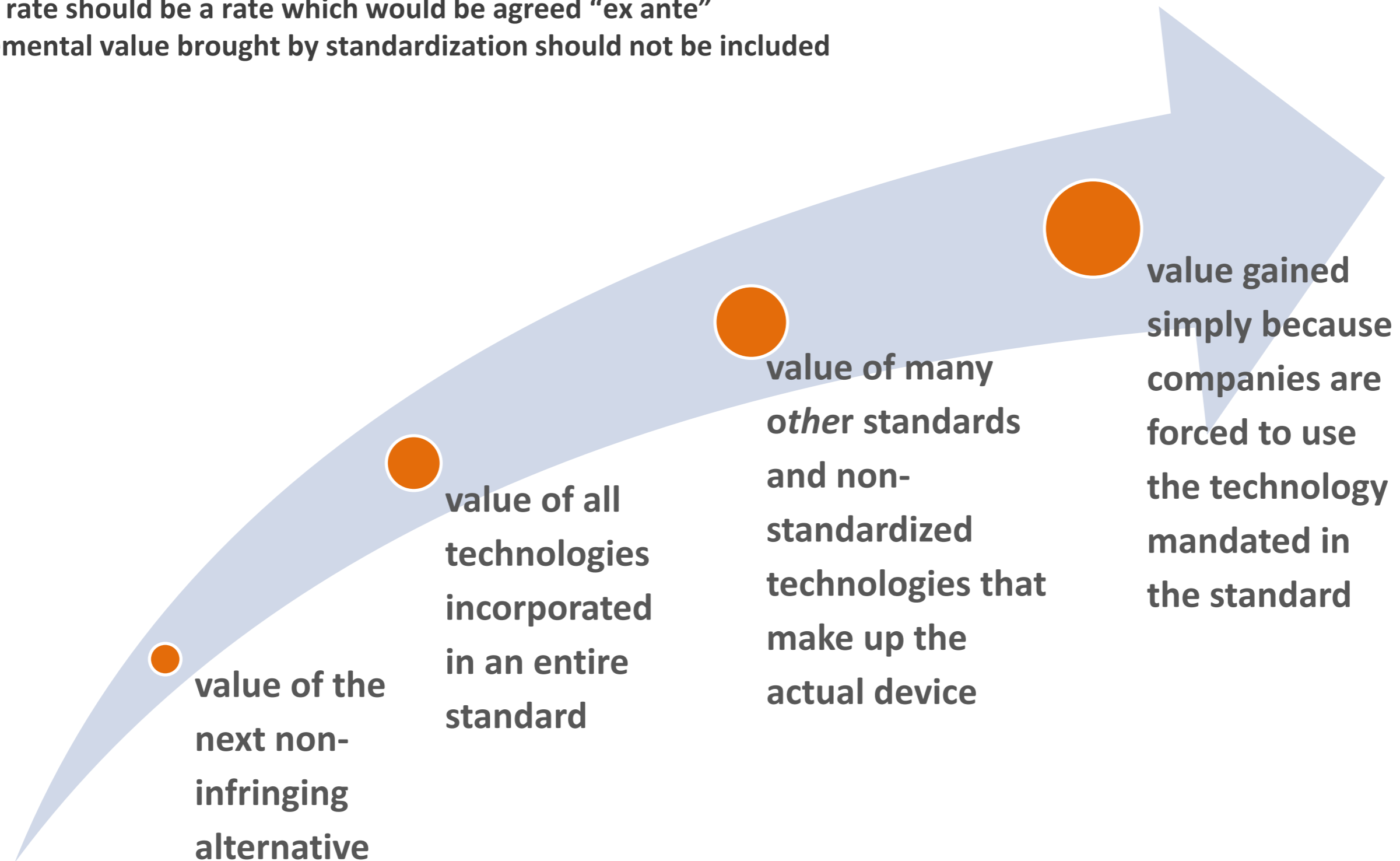
## Implementer



- ❑ Diligently respond to the patentee's offers and requests
- ❑ Provide counter-offers
- ❑ Avoid reverse patent hold-up

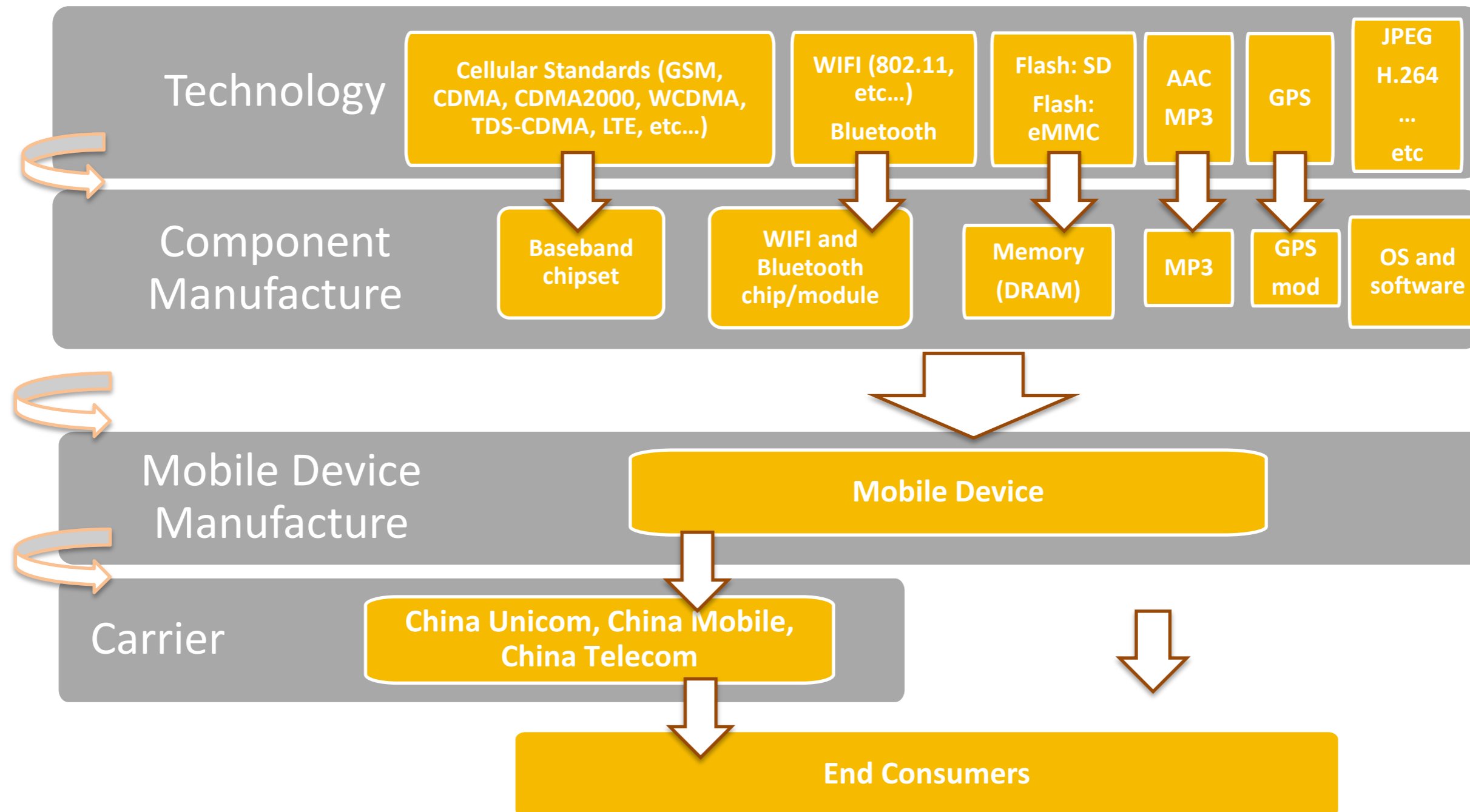
## FRAND License Fee – A Fair Return of Contribution

- ❑ A FRAND rate should be a rate which would be agreed “ex ante”
- ❑ The incremental value brought by standardization should not be included



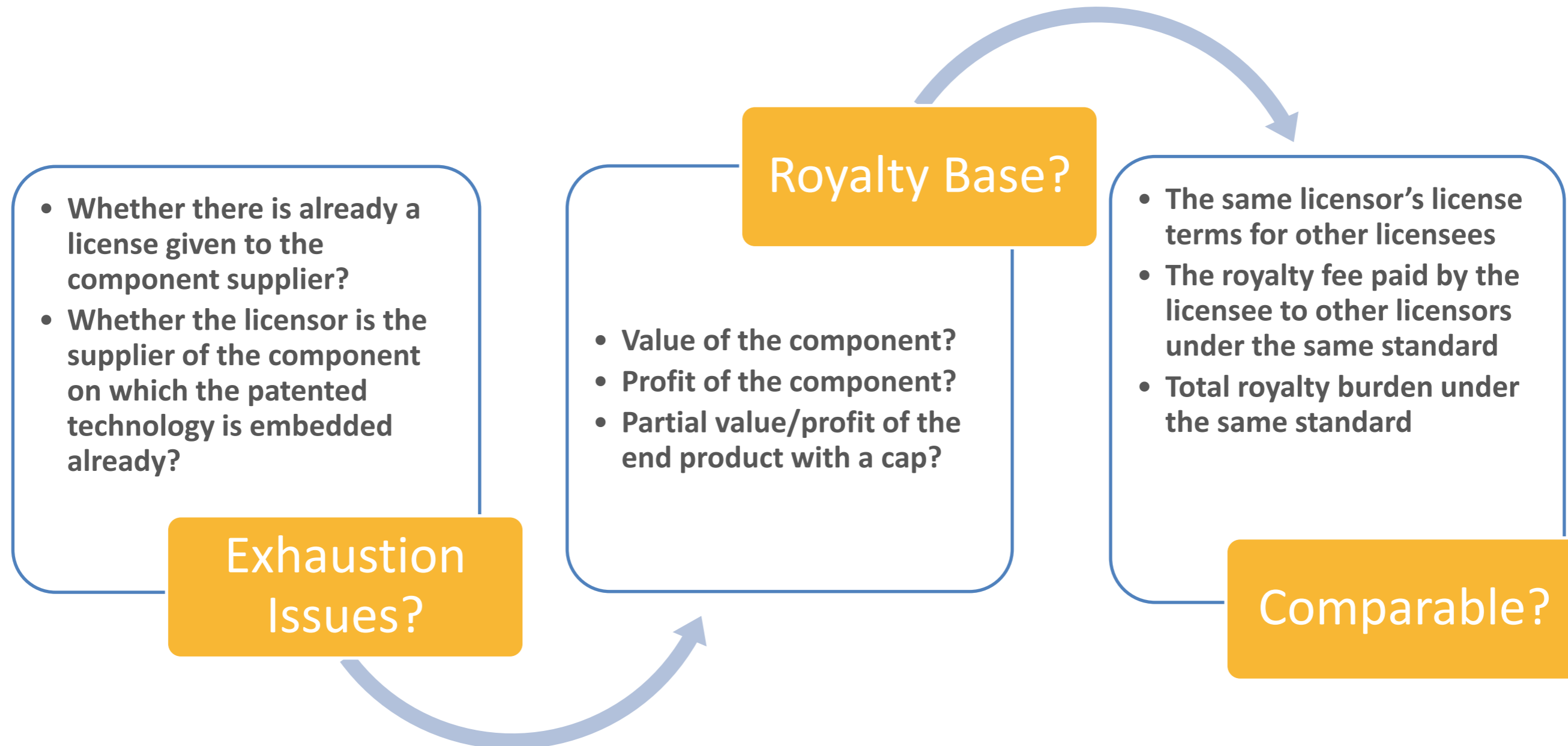
# FRAND License Fee – A Fair Return of Contribution

- ❑ Consideration should be given to the very characteristics of the industry
- ❑ Multiple Levels of Market in Telecom Industry



# FRAND License Fee – A Fair Return of Contribution

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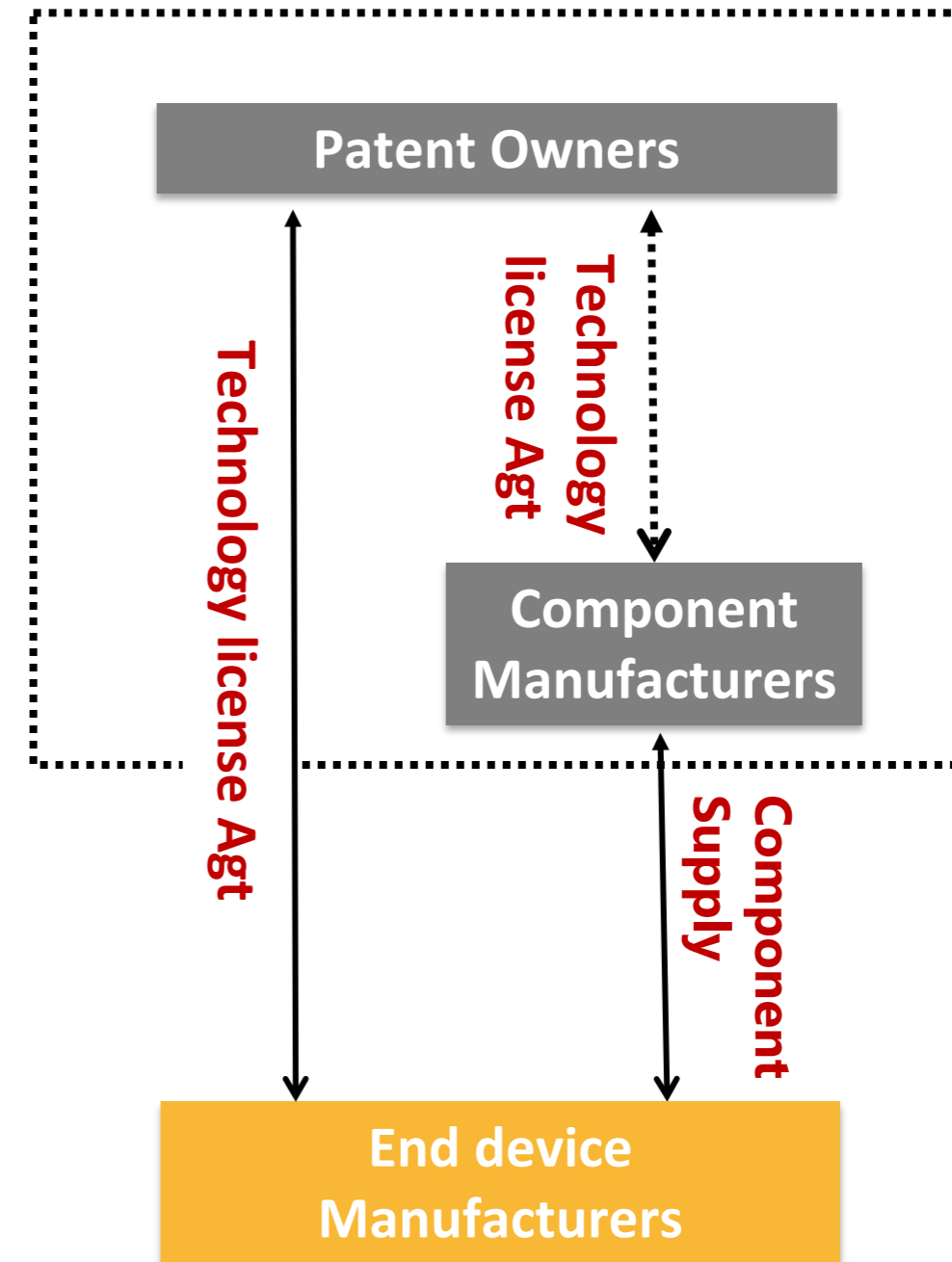




# FRAND License Fee – Consideration of Exhaustion Issues

- The first sale of components exhaust the patent rights embodied in the components

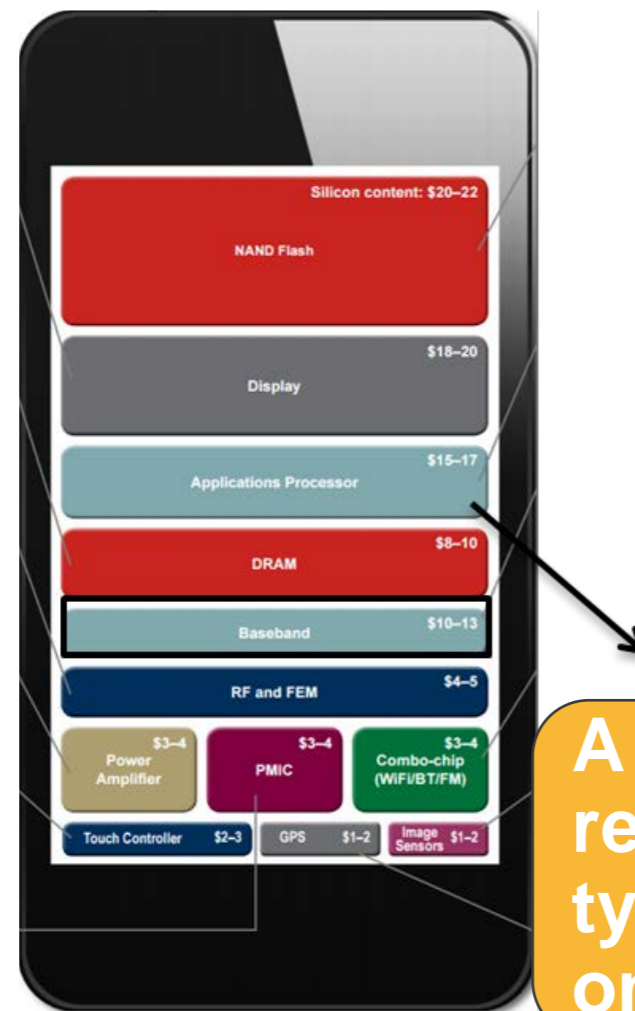
- The patent exhaustion doctrine applies to both method and product patents
- The right of the patents reading into the component should be exhausted through the first sale of the component
- Patent exhaustion is a legal doctrine that could not be circumvented by post sale restrictions agreed in contracts



## FRAND License Fee – Proper Royalty Base

- ❑ With so many functions/technologies integrated into one device, the value of the specific component, rather than the end device, should be the proper royalty base

To use the end product price as the royalty base will lead to royalty inflation and discrimination, a violation of the FRAND principle.

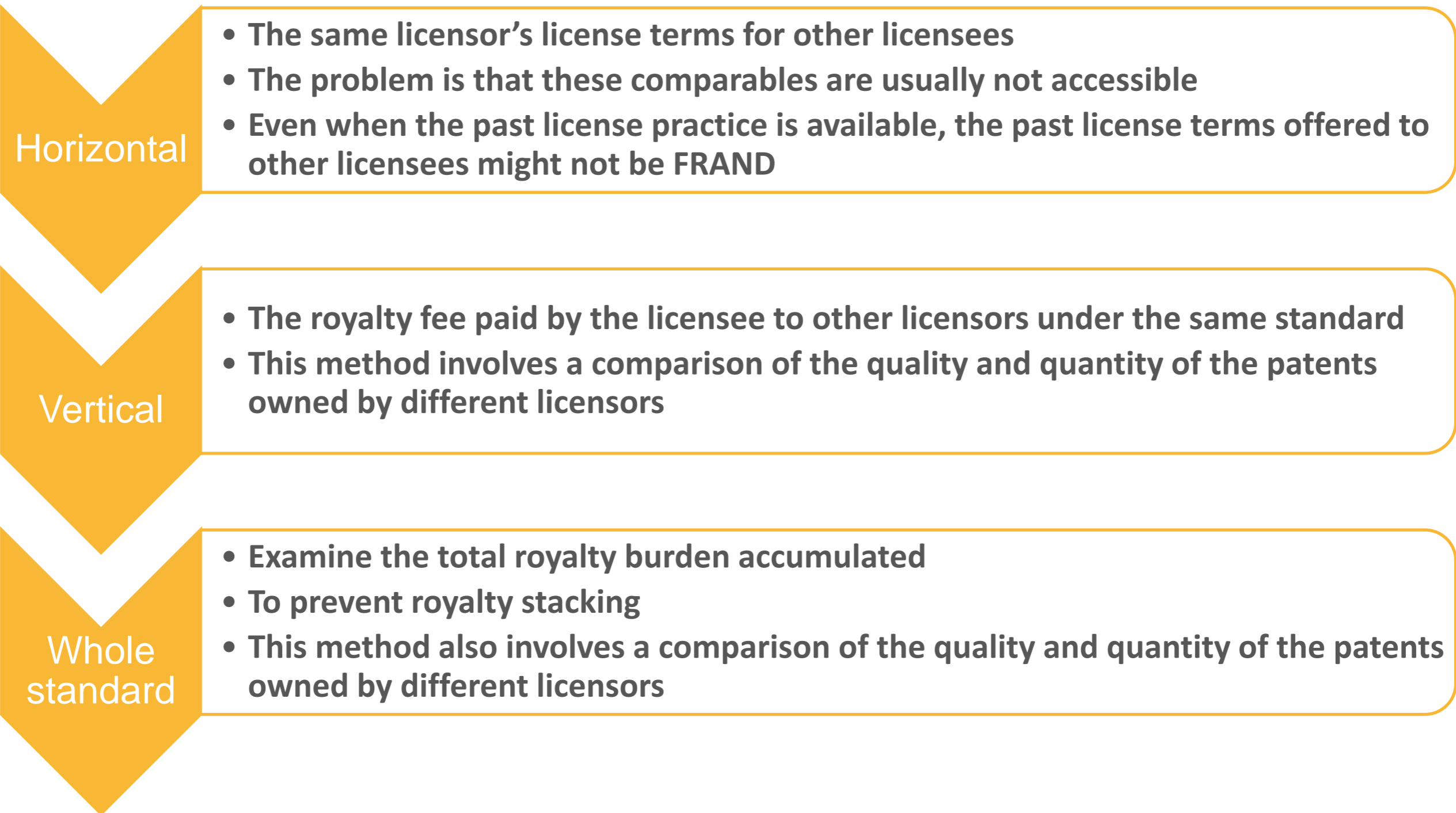


A component responsible for one type of function only

- One device integrating multiple functions
- Inventor's preference to collect license fee at the end product level which would be more lucrative
- Risk of excessiveness

## FRAND License Terms – Proper Comparable

- Comparables may be useful as key reference in the consideration of a fair, reasonable and non-discriminatory royalty





End