

Chapter 7

From Patent Hold-Up to Patent Hold-Out?

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ABSTRACT

Patents are an efficient tool for companies contributing to the standardization process to recover investments made in the process and continue participating in future standardization efforts. However, to avoid abusive use of standard-essential patents (SEPs) incorporated in de jure standards, standardization contributors are required to make their SEPs available on fair, reasonable and non-discriminatory terms and conditions (the [F]RAND commitment). This commitment has been created to fairly and adequately reward innovators while at the same time allow access to the standardized technology at (F)RAND terms and conditions; the latter preventing patent hold-up. With the changes in the cellphone market in the last ten years, the content of this (F)RAND commitment has been challenged in courts and in front of antitrust authorities. The question is whether this duty, set up to avoid hold-up, is not used by some implementers to engage in hold-out.

INTRODUCTION

Standardization aims to define standards, which are technical rules. The process¹ is driven by the World Trade Organization (“WTO”)’s principles of transparency, openness, impartiality and consensus, effectiveness and relevance, and coherence (TBT Committee 2000). Firms that may compete at a later stage collaborate by pooling human, financial and/or technical resources to have the best technological solution adopted as next standard. Once the standard has been adopted, it is made public and available to anyone wishing to implement it, whether or not they are a member of the standard-development organization (“SDO”) that has developed the standard. Besides interoperability and compatibility, even between competing devices (EC regulation No. 1025/2012 on standardization), standards in telecommunications also guarantee high performance (Fraunhofer Study 2011).

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For the reasons mentioned above, standards are considered as a tool encouraging innovation, technology dissemination and competition. Nonetheless, standardization is closely linked to intellectual property rights (“IPRs”) and competition issues. Companies involved in standardization may hold patents. Unlike standards, which are available on an open and non-discriminatory basis, patents are exclusive rights permitting their holders to block third parties from using the patented invention². While both aim to encourage innovation, patents and standards can appear incompatible at first sight. Even more so when patents are qualified as “standard-essential patents” (“SEPs”), as no technical alternative to those patents exists to comply with such standard. Accordingly, each product or service implementing the standard without a license will therefore necessarily infringe the SEPs³.

As a result, SEPs in principle confer their holders an increased market power by allowing them to control the standardization process and the downstream market (Shapiro 2001, Farrell et al. 2007). Consequently, in the absence of any safeguard, standardization could lead to behaviors impeding competition, as hold-up or royalty-stacking. Patent hold-up refers to the situation where SEP-holders abuse their bargaining power to extract excessive royalty rates from their SEPs, potentially under the threat of an injunction. Such rates, if they are accepted by the implementer, may hamper the diffusion of the standard, as they could be financially burdensome and restrict access to the standard by implementers: the implementer will either have to accept rates “fair in excess of the patent-holder’s true contribution”, which are similar to a tax on products incorporating the patented technology; or to postpone the sale of products/services incorporating the standard to avoid paying excessive fees or costly litigations (Lemley & Shapiro 2007). Royalty stacking occurs when the cumulative royalty rate for all the patents needed for the standard is excessive: even if each SEP-holder demands a reasonable fee, due to the large number of SEPs to implement, the aggregate royalty rate for all SEPs exploited in the standard may reveal itself excessive and non-bearable (Lemley and Shapiro 2007)⁴.

Yet, SEPs play an important role in standardization. Companies holding SEPs are those contributing the most to the development of the standard (on contributors, cf. ABIresearch 2013, on SEP-holders, cf. Fraunhofer Study 2011). Since SDOs seek to “balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPR”⁵, they have enacted IPR Policies to avoid anticompetitive behaviors while adequately rewarding SEP-holders for their contribution to the standard. At the same time, these policies should not lead to a counter-abuse on the implementer’s side.

One relevant part of the SDO’s IPR Policies is the (F)RAND [FRAND, in e.g. Europe, and RAND, in e.g. the US, understood as synonyms] commitment. Through this commitment, SEP-holders agree to share their SEPs accessible on (fair), reasonable and non-discriminatory terms and conditions to any party, instead of keeping their technology covered by such SEPs proprietary. The purpose is to prevent any patent hold-up.

The entrance of new players in the telecommunications market, some of which did not contribute their technologies to standardization but nevertheless manufacture standardized products⁶, has been possible thanks to *de jure* standards, as these companies can access to a robust standard and successfully build their business on it (Tapia 2016). The incorporation of stakeholders with new business models has led to worldwide litigations, some of which challenging the suitability of the standardization process as it is currently working.

One concern arising from the so-called “patent war” litigation in the telecommunications sector is whether there is a real risk of “patent hold-up”. Inversely, some argue that certain players might be using the (F)RAND commitment to engage in “reverse hold-up” (also called “hold-out”), by refusing or delaying negotiations, in order to impede or reduce the payment for the use of SEPs.

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