

Sharp - not weak or late enforcement is required against recalcitrant SEP implementers

Public comments on SEPs and FRAND licensing sought for the US Department of Justice's Draft Policy Statement and the UK Intellectual Property Office's Call for Views.

It is vital that the fundamental sanction in patent law—of the temporary right to exclude—along with other remedies, including enhanced damages, are readily available against infringers when Fair, Reasonable and Non-Discriminatory (F/RAND) licensing has been offered, but is rejected, evaded or unreasonably delayed.

Technical standards confer enormous value to implementers and consumers. For example, [cellular standard-essential technologies enable annual revenues](#) exceeding a trillion dollars in operator services, several hundred billion dollars in smartphone sales and hundreds of billions more in over-the-top applications and services on those devices. Undermining the fundamental patent rights of [organizations that commit large R&D resources to develop those technologies and contribute them to the standards](#) would unfairly short-change those innovators and jeopardize ongoing investments in 5G and the Internet of Things (IoT). In addition to facilitating revenue growth and cost savings in those downstream markets, standard-essential technologies, for example, [help save the planet by enabling us to fly and drive less—thus reducing our carbon footprints](#)—and [reduce deaths on the road with autonomous driving capabilities](#).

Innovative standard-essential technology developments result from high-value professional employment: for example, in US organizations including InterDigital, Nokia Bell Labs and Qualcomm. In contrast, most handset implementer jobs, such as those in manufacturing, are offshore.

Technology transfer from independent developers to implementers of cellular and other standards is flourishing and extensive. [Intellectual Property Rights \(IPR\) policies—most notably including ETSI's IPR Policy as applied to FRAND licensing of cellular Standard-Essential \(SEPs\)](#)—have [facilitated exceptional innovation, industry growth and vigorous competition](#) including numerous new market entries with low barriers to entry in mobile phones (e.g. Apple in 2007, Xiaomi, Oppo and Vivo since 2011) and some notable major market participant exits (e.g. Nokia in 2013 and [LG in 2021](#)).

[Aggregate royalty payments are small percentages of product costs and have declined](#) while many implementers seek to significantly diminish, greatly delay or entirely avoid paying these altogether. This undermines competition and deprives the [innovative companies—that develop the new technologies for all to share through their contributions to openly-available standards](#)—from obtaining an adequate, fair, and timely return on their substantial R&D investments.

[Increasing yet illegitimate attempts to weaken patent rights encourage free riding](#) and unfairly advantage unscrupulously opportunistic implementers. Harm is mainly suffered in advanced nations, such as the US and in Europe, where most standard-essential technology developments occur and recompense for these patented contributions have been available, while implementers have largely taken unfair advantage elsewhere.

Patent piracy (i.e., theft) provides offenders with an unfair cost advantage over those implementers who comply by paying their dues in FRAND royalties. This disparity impairs a compliant implementer's competitive position and has far more impact on the sales and profits it can make than any other input cost (e.g., manufacturing labor) that is paid uniformly by all implementers. It also deprives patent owners of fair and timely compensation from those free riders.

In absence of reasonable resort to injunctions and enhanced damages, it is also implementers wielding considerable market power from downstream product sales such as of smartphones that can misuse their negotiating strength, with delay tactics and brinkmanship to force down royalty charges paid on licensing renewals to below the FRAND rates they have already used to lower payments paid to various other licensors.

More consultations

While copious evidence shows the success in technology transfer from developers to implementers in cellular standards, there is ongoing conflict between some SEP owners and implementers in FRAND licensing. This is in markets where cellular standards already prevail, and in markets being developed based on new cellular-based technologies (e.g., IoT in smart cities, agriculture, manufacturing, healthcare and in the metaverse). Despite various consultations and the publication of policy documents over many years, authorities in the US, European Union, UK and elsewhere have repeatedly asked for comments and views on the same issues as policies are adjusted.

The Department of Justice (DoJ), Patent & Trademark Office (USPTO) and the National Institute of Standards and Technology (NIST) in the US seek public input on [various questions](#) with publication of the DoJ's 'Draft Policy Statement on Licensing Negotiations and Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Licensing Commitments' ("[DoJ Draft Revised Statement](#)"). It states that this seeks to promote good-faith licensing negotiations and addresses the scope of remedies available to patent owners that have agreed to license their essential technologies on F/RAND terms. However, it threatens to weaken fundamental patent rights emphasized in the [DoJ's 2019 statement](#) on the very same issue.

The UK Government's Intellectual Property Office (IPO) has also launched a "[Call for Views](#)" to better understand whether the current SEP framework encourages innovation and effectively promotes competition in markets, or whether there are any barriers to innovation and competition. The IPO states that this will establish whether government intervention is required and to understand what intervention could look like.

Nameless bad behaviors

While the DoJ Draft Revised Statement entirely avoids using the commonly-used terms "holdup" and "holdout," it asserts that 'opportunistic behavior by both parties can occur' and that 'opportunistic conduct by either SEP holders or implementers makes the implementation of standards more costly and deters investment in future standards development, affecting all users and producers of standardized inputs and products, including small and large firms, inventors, and consumers (emphasis added).'

The DoJ Draft Revised Statement's descriptions of those purported bad behaviors are aligned with common—but disputed—interpretations of those respective terms in the context of prospective patent licensing:

- A. 'Opportunistic conduct by SEP holders to obtain, through the threat of exclusion, higher compensation for SEPs than they would have been able to negotiate prior to standardization, can deter investment in and delay introduction of standardized products, raise prices, and ultimately harm consumers and small businesses.'¹

¹ While this soups-up [a legal dictionary definition](#) with the DoJ Draft Revised Statement's references to the threat of exclusion and hypothetical ex-ante royalty rate negotiations, it omits the [explicit requirement for deception or ambush that is included in economists' traditional definitions of holdout](#). 'Oliver Williamson

- B. ‘When 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.’

I presume the DoJ Draft Revised Statement avoids using those terms because of the significant controversies about their meaning, the required conditions for those bad actions, and resulting effects—particularly regarding patent holdup ([i.e. deception by patent owners, and significant sunk costs or switching costs for implementers](#)). While not using those specific terms thus sidesteps some important issues, the above definitions also still beg the important questions about which those implicitly bad behaviors and alleged harmful effects are possible and have actually occurred?²

While there is still no credible evidence for patent holdup with SEPs, the academic literature is awash with examples of “patent holdout” in frustration of patent owners’ attempts to license their SEPs on FRAND terms.

Patent holdup

Patent holdup under any definition remains a theoretical problem with no empirical confirmation, and copious evidence refuting it.

The DoJ Draft Revised Statement is rather light on citations. As well as making no explicit mention of holdup, it provides no evidentiary support for its assertion of opportunism in A., above.

And, the UK Call for Views does little more than that in its 4,100 words plus 22 footnotes. It mentions holdup four times and makes just one reference to it in a widely discredited 2007 [paper on standards setting, patents and holdup](#) by Carl Shapiro and others. Academic literature in support of patent holdup has been scant since then.

Given that patent holdup—in name, or in its diluted form as merely some less specific kind of opportunistic conduct by SEP holders—is supposedly such a major problem that it is made the centerpiece of these reviews, why is there still no relevant supporting evidence for the alleged phenomenon after all these years?

In a [2016 article of mine](#),³ I rebutted the weak attempts—devoid of applicable evidence—by Carl Shapiro and Nancy Rose, who was by then Deputy Assistant Attorney General for Economic Analysis at the DoJ, to perpetuate the patent holdout myth. I had managed to get hold of copy of Shapiro’s 2015 “draft” paper on patent holdup that was presented at a private IEEE event that summer. As far as I am aware, that paper was never made publicly available by the author, although I suspect a version of it or its contents might have been used to convince members to support the [IEEE’s patent policy change earlier that year](#). None of [Rose’s three examples of purported holdup](#) presented at a public conference later that year included cellular SEPs. In all three cases—with court intervention—no more than a FRAND royalty was ever paid and no injunction was ever issued. Her speaking notes

famously described opportunism as ‘self-interest seeking with guile.’... [Standards hold-up involves] deceiving buyers or keeping them in the dark about the terms on which a technology will be available [which] subverts the competitive process.’

² The patent holder cannot legally exclude an implementer from implementing the standard—due to its FRAND commitment—unless the implementer is unwilling or unable (e.g., through bankruptcy) to take a FRAND license. The DoJ Revised Statement does not recognize the underlying power dynamics between parties. Strong sanctions for failure to negotiate in good faith are necessary. Patent holders need to be able to enjoin implementers acting in bad faith.

³ None of Shapiro’s examples, related to patents. Nancy Rose cited examples where purported attempts at patent hold-up were unsuccessful.

admitted that her examples were inadequate,⁴ and she instead fell back on the farcical analogy that patent holdup is like dark matter in the universe—powerful, but invisible!

Subsequent pleadings have provided no more substance to patent holdup claims. For example, the 2018 personal statement of FTC Commissioner Terrell McSweeney entitled [Holding the Line on Patent Holdup: Why Antitrust Enforcement Matters](#) mentions holdup 36 times, but only provides two purported examples of it. These were from among the three cited by Rose, above. McSweeney also states that between 1996 and 2003, the FTC brought three cases challenging deception by patent holders for failure to disclose patents reading on standards, but that ‘following these enforcement actions, this type of opportunistic behavior appears to have abated (emphasis added).’

As already mentioned, while patent holdup is alleged to impose switching costs on implementers after they have already sunk costs and have become “locked in” to standards including SEP technologies, no evidence of this alleged problem occurring is ever presented. Instead, evidence indicates this not occurring in the context of SEPs.

In Apple’s submission to a [European Union Consultation, also including the topic of SEPs and FRAND Licensing in 2021](#) it was clearly crying wolf with respect to purported concerns about its “lock-in” and switching costs. Apple has always been a late entrant in new cellular standards, and so it has never sunk any such costs until long after standardization. Therefore, Apple could find out royalty costs and negotiate licensing agreements well in advance of committing to the standards.

Licensing rates are generally per cellular standard and include improvements following a standard’s initial release. Some licenses include multiple standards. The first iPhone was a 2G-only device introduced in 2007—twenty years after the standard was established in 1987 and fifteen years after the first GSM phones were sold. The first 3G WCDMA iPhone was introduced in 2008—nine years after the standard was established in 1999 and seven years after the first 3G phones were sold. Apple did not introduce its first 4G LTE device until the iPhone 5 in September 2012—four years after the standard was established. Results of the Next Generation Mobile Networks Alliance’s royalty-rate evaluations on aggregate LTE rates were released in 2008, and [widespread public](#)

⁴ ‘Question: Have institutions eliminated holdup?’

The short answer is that it is **hard to say because, as I’ll discuss later, evaluating that question requires us to know what royalties would have been without holdup. And we usually don’t even see royalties paid, let alone the “but for” hypothetical level.**

But why might we have concern that the institutions SSOs created to mitigate holdup are not working as well as they ought to be?

Participants often seem to disagree on what is meant by SEP licensing obligations at most SSOs – what does F/RAND require ?

Moreover, we have some anecdotal evidence that suggests that at least some patent holders are demanding far in excess of a RAND rate

Microsoft v. Motorola – Motorola claimed that one of its SEP portfolios was worth as much as \$4.50 per unit. The court rejected that claim and concluded the RAND rate was 4 cents per unit, a ratio of more than 110 to one.

In re Innovatio IP Ventures – Innovatio’s claim that the appropriate royalty for its SEP portfolio was over \$16 per table. The court determined RAND to be less than 10 cents per unit.

Realtek v. LSI – LSI **allegedly** demanded royalties for its SEP portfolio exceeding the selling price of the component parts produced using the patents. The jury determined RAND to be 0.19% of the selling price of the component wi-fi chips.

Of course, these are just a few data points, and too few to satisfy an empirical economists’ preference. Ideally, we’d like an empirical study that allows us to draw robust, statistically-meaningful conclusions. I’d like to discuss why addressing this question empirically is so challenging . . .’

[notification of maximum royalty rates from prospective licensors was published in 2010](#). In 5G, [licensing terms for](#) all the major licensors were disclosed as follows: Ericsson in March 2017, Qualcomm in November 2017 and Nokia in August 2018. Apple introduced its first 5G iPhone at least two years later, in October 2020.

There was no surprise—opportunistic or otherwise—in the maximum that Apple could potentially need to pay to license declared SEPs at the time it made its standard-specific iPhone investments. It typically takes up to approximately eighteen months to design and produce a new phone. Most of the specific investments for design and production are in the later stages. The actual amounts handset manufacturers pay to license cellular standards from all licensors are a small fraction of those theoretical maximum rates, of which Apple was well aware years before launching its corresponding products.

[Galetovic and Haber \(2017\)](#) have explained why theory of patent holdup—under various definitions—including in the case of cellular SEPs, is faulty. Their empirical and quantitative analysis and findings are also applicable to the alleged ‘opportunistic conduct by SEP holders,’ as now defined by the DoJ Draft Revised Statement.

Injunctions and other sanctions against delinquents

There is not and cannot be any holdup because it is only a court that can issue an injunction. Courts do not issue injunctions automatically: even Germany now limits availability of injunctions for patent infringement. It is also a court that decides whether FRAND terms, including rate, have been offered.

Patents and various other forms of intellectual property are not self-enforcing, which means supply cannot be withdrawn when no payment or insufficient payment is forthcoming. In contrast, if I supply you with steel, cheese, broadband connectivity, accounting services, or software development and maintenance services and you do not pay me, I can cease supply. I might also take you to court seeking compensation for previous supplies, but at least I can immediately stop delivering ongoing supplies of whatever you have been receiving.

In the UK, where mandatory TV licensing fees of £159 (\$218) per year per household fund the BBC, it has been recognized and accepted that the strongest measures are required to prevent widespread program theft from the BBC. For many decades it has been a criminal offence with the threat of jail for UK residents to own and operate an unlicensed TV set. Some folk—including those of very limited means and who might rarely or never even watch BBC channels—are actually criminalized in court. We usually restrict use of this sanction to only the worst and most harmful of bad behaviors in society.

Why are such draconian measures deemed necessary, and advocated by what is generally regarded as a rather moderate and liberal organization? The problem is that the BBC cannot withhold delivery of its intellectual property, because it is continuously and openly broadcasted over the airwaves and distributed via the Internet. The concern is that without criminal sanction, unlicensed TV use would be considered worth the risk of eventually getting caught. Even fines significantly in excess of the cost of a TV license might be “efficient” for the evader, if the delays in having to pay anything and the chance of getting away scot-free, if not caught or not even paying ultimately, outweigh the cost of normal compliance. Additionally, once it is clear some people get away with not paying, perceptions about what is acceptable shift to normalize such behavior with increasing non-compliance and intellectual property theft.

[The UK Department for Digital, Culture, Media and Sport has stated](#) that ‘Moving from a criminal to a civil system of enforcement could create an impression that non-payment of the licence fee is now regarded as less important’ and that ‘the threat of a criminal offence itself was a strong deterrent to TV licence evasion.’ For example, the evasion rate in Italy is cited to be four times higher than in the UK. It estimated that an increase in evasion with a switch to a civil enforcement scheme for evasion in the UK ‘could mean a loss of up to £156 million in licence fee revenue per year.’

[The TV Licence Fee Enforcement Review concluded](#) ‘There is no doubt that the mere existence of the criminal offence plays a significant part in deterring licence fee evasion, and a move from the current system of criminal enforcement carries the risk of an increase in the scale of evasion, with a corresponding loss of revenue to the BBC.’

Responding to publication of the government's findings following the government review and 2021 decision to maintain criminal sanctions, [a BBC spokesperson said](#): ‘The current system remains the fairest and most effective.’

No market power for SEP holders

The DoJ Draft Revised Statement erroneously implies that standardization confers market power, that SEP owners relinquish through their FRAND commitments:

‘By contributing technologies during standards-setting activities at an SDO and voluntarily making a F/RAND licensing commitment under the SDO’s policies, a patent holder indicates that it is willing to license that technology for uses implementing the standard and that it will not exercise any market power obtained through standardization (emphasis added).’⁵

But patent owners have no such power in the market. As already indicated, SEP owners cannot—without a court’s authority and action—withhold supply or use of their intellectual property, including published patents reading on the published standards and that are embedded in third parties’ components. They cannot impose any charges without the additional force of a court’s injunction to cease infringement or an order for some other remedy. For SEPs, the court will only ever issues such sanctions once it is satisfied that the patent owner has offered FRAND terms with a rate that the implementer has not accepted or is unable to accept (e.g., due to bankruptcy).

In contrast, in 2021, UK smartphone market leader Apple boasted its significant power to act unilaterally in the market when [it threatened to stop selling iPhones in the UK](#), if ‘commercially unacceptable’ royalty charges, *as determined by the UK court*, would be imposed on such sales. Apple wields its market power over other intellectual property holders through its smartphone market dominance with charges of [15% to 30% of software developers’ revenues](#) for selling their applications through Apple’s App Store monopoly. [Apple’s service revenues](#) were \$18.27 billion in the fourth quarter of its 2021 fiscal year, which is an all-time quarterly revenue record. The company's services revenues were up around 25% from \$14.54 billion in the same quarter one year previously. The annual total was \$68 billion. Court testimony has revealed [stellar profit margins exceeding 70% on Apple’s services business](#).

According to Strategy Analytics figures, Apple’s annual calendar year handset revenues were \$146 billion in 2019 and \$147 billion in 2020. Operating profits, after paying cellular SEP royalties, were \$35.6 billion and \$36.1 billion, respectively. Corresponding handset product operating margins were also exceptional, at more than 24% and rising. In contrast, [total fees paid for SEPs and other](#)

⁵ Standards-Development Organizations (SDOs) and also referred to as Standards-Setting Organizations (SSOs).

[licensing](#) by all implementers (i.e., OEMs) to all four major licensors—who account for the majority of all such fees paid—were no more than around \$10 billion for either of those years. With less than 16% share of global smartphone sales, Apple pays only a fraction of that figure.

Empirical analysis by [Galetovic, Haber and Zaretski \(2018\)](#) confirms that smartphone SEP licensors are not exploiting market power, which would otherwise be evident in much higher patent licensing fees and finished goods prices than are observed. Aggregate royalties of no more than around five percent have been paid on smartphone prices of a few hundred dollars in recent years, on average. Royalty charges are capped by licensors so that even smartphones priced at \$1,000 or more are licensed at rates corresponding to handset prices of \$400 or less.⁶

Patent holdout

In contrast to allegations against SEP owners, opportunistic bad behavior by implementers—including what is commonly referred to as patent holdout—is financially rational for perpetrators and has been easy to get away with. No wonder it is also called “efficient infringement.” However, while it might be efficient for infringers, it is grossly inefficient for the industry as a whole and harmful to consumer welfare. It is rife because supposedly corrective mechanisms including those with courts are ineffective in preventing or discouraging it, and can instead encourage it.

This bad faith behavior is antithetical to the FRAND bargain that was designed to enable technology licensors to be adequately and timely compensated for the access they provide to their patented technology, as detailed openly in their filings for these and in the published standards.

Colorful anecdotes of bad behavior to frustrate and delay licensing negotiations in the real world include: implementers substituting junior staff for decision makers, or not showing up for meetings at all after patent owners have flown internationally; inordinate delays in replying to correspondence, if at all; and unjustified nit picking and delays on what are usually the simplest of matters such as agreeing non-disclosure agreements. However, all that is just the tip of the iceberg.

[Epstein and Noroozi \(2017\)](#) describe the patent holdout problem to be where and when ‘an implementer refuses to negotiate in good faith with an innovator for a license to valid patent(s) that the implementer infringes, and instead forces the innovator to either undertake significant litigation costs and time delays to extract a licensing payment through a court order, or else to simply drop the matter because the licensing game is no longer worth the candle.’ These authors among many regard holdout as synonymous with “efficient infringement.” These authors show ‘theoretically and empirically that courts’ failure to appreciate various aspects of the FRAND bargain [that implementers will reciprocally later agree to take a license in good faith], combined with their overreliance on liability rules (i.e., damages [supplanting needed] injunctions) incentivizes the very patent holdout problem FRAND was intended to avoid.’

They state that ‘reliance on liability rules comes out second best because it is likely to miss the reciprocal benefits underlying the voluntary FRAND agreement and encourages implementers to engage in inefficient and opportunistic “holdout” from good faith discussions.’

These authors identify ‘implementer–centric tendencies of American courts and the IEEE,’⁷ through citing several examples in US case law. I have also significantly reproduced their observations and analysis verbatim below (with citations omitted).

⁶ For example, [InterDigital caps its royalty charge as if the phone price was no more than \\$200.](#)

⁷ [IEEE controversially revised its patent policy in 2015.](#)

Judge Rader's dissent in *Motorola v. Apple* found “evidence that Apple may have been a holdout” and criticized the majority's unwillingness to analyze whether Apple's refusal to license on Motorola's offered terms was a refusal of a “FRAND royalty.” He further cited evidence that Apple had refused for years to even discuss a license while nonetheless [knowingly] infringing the patent in suit.’

The authors note that the ‘ensuing decision appears to stand for the troubling proposition that a proven infringer of FRAND-encumbered patents may avoid an injunction so long as it maintains the semblance of ongoing negotiations, regardless of whether it has refused to accept FRAND licensing terms.’

In *Core Wireless*'s attempts to license LG, ‘rather than make an offer or engage in serious, good faith negotiations, LG delivered a terse one-page presentation stating that a lawsuit was “preferable” to a license, and that LG would prefer to wait until another major cell phone manufacturer licensed the portfolio, at which point LG intended to be “a follower” in the established royalty scheme.’

In *Ericsson v. D-Link Systems*, ‘Judge Leonard Davis ‘noted: RAND licensing also includes an obligation to negotiate in good faith. This obligation is a two-way street. As potential licensees in a RAND negotiation, Defendants possessed an obligation to negotiate in good faith and earnestly seek an amicable royalty rate. They failed to do so. Defendants’ entire argument boils down to the fact that they believed Ericsson's initial RAND offer was too high. However, Ericsson's \$0.50 offer was only the starting point in the negotiations. Defendants never meaningfully engaged Ericsson in RAND licensing negotiations after the initial offer. Further, the fact that the RAND rate was ultimately litigated in court does not make Ericsson's initial offer unreasonable.’

These authors draw contrasts with more balanced developments in Europe.

In *Huawei v. ZTE*, in July 2015, the European Union Court of Justice (“CJEU”) ‘stated that a FRAND-encumbered patent holder may seek and obtain an injunction if: (1) it first gives the alleged infringer notice of its claims and the basis for its infringement allegations, including identifying the relevant standards provisions to which its patents are alleged to be essential, as well as a specific written offer on FRAND terms that identifies the royalty amount and how it is calculated; and (2) the implementer does not “diligently” respond with a good-faith response, *i.e.*, neither accepts the innovator's offer nor makes a specific FRAND counteroffer. Like the approach proposed above, and unlike in *Microsoft*, the CJEU's approach in *Huawei* does not allow an implementer to pursue claims against the innovator [i.e., the patent holder] for breach of the FRAND agreement unless the implementer has at least provided a good-faith FRAND counteroffer, and thus promotes negotiation and cooperative solutions between implementers and innovators.’

Other descriptions and citations on holdout are provided in [Licensing Negotiation Groups for SEPs - Collusive Technology Buyers Arrangements? Their Pitfalls And Reasonable Alternatives, By Igor Nikolic, 2021](#). The author cites the following examples of holdout:

‘B. Heiden, N. Petit “Patent Trespass and the Royalty Gap: Exploring the Nature and Impact of Patent Holdout,” (2018) 34 *Santa Clara High Technology Journal* 179 (listing examples of holdout strategies and impact on innovation); and V. Angwenyi, “Hold-up, Hold-out and F/Rand: The Quest for Balance,” (2017) *GRUR Int.*, 105. In the recent judgment of the German Federal Court of Justice in *Sisvel v. Haier*, the Court held that the implementer must clearly and unequivocally declare his willingness to conclude a license on FRAND terms and must participate in negotiations in a target-oriented manner. According to the Court, the implementer failed to do so as it waited more than one year to respond to the first

notification of infringement, insisted on taking a license only under the terms it proposed, and its whole negotiating conduct was not motivated by the genuine willingness to conclude a license but served to delay negotiations until the expiry of the patent in suit. See *Sivel v. Haier*, KZR 36/17 Federal Court of Justice (05 May 2020) 83, 95, 98. In the UK's *TQ Delta v. ZyXEL* case parties were in negotiations for six years and, once patents came close to expiring, the implementer refused to take a license on terms determined by the Court. *TQ Delta v. ZyXEL* [2019] EWHC 745 (Pat) 12 ("on the evidence before me, I accept that this is a case of 'hold-out' by ZyXEL".)

Regarding collective (i.e., collusive) holdout, Nikolic (2021) states:

'The negative sides of implementers' buyers' cartels can also be directly observed in SEP cases in India. As explained by the Court, back in 2016 the Indian Cellular Association (ICA) reached out to domestic manufacturers advising them to take a coordinated strategy to respond to the payment of royalties to patent holders, as well as to coordinate an approach to patent litigation by raising similar issues of patent validity, non-essentiality and infringement. This resulted in ICA members producing a joint offer to license SEPs for a lower royalty. Thus, this case clearly manifested that the cartelization by implementers is a real threat (citations omitted).'

["Patent Trespass and the Royalty Gap: Exploring the Nature and Impact of Patent Holdout,"](#) is particularly insightful on opportunist tactics by implementers. Authors Heiden and Petit indicate that 'semantical labels for patent holdout from commenters include "*willful patent infringement*", "*efficient infringement*", "*adverse patent implementation*", "*opportunistic infringement*", "*patent holder opportunism*", "*implementer opportunism*", "*deliberate patent trespass*".' The authors indicate that implementers may engage in patent holdout by ignoring correspondence, postponing negotiations, or simply by making counter offers that are inconsistent with industry practice. Other strategies include trying to affect the policies of SSOs and appealing to competition authorities.

These authors show how some implementers refuse to negotiate a global license and, instead, try to invalidate the patents by approaching courts sequentially, jurisdiction by jurisdiction. They indicate that challenging patents sequentially provides a benefit to the downstream player. Victories enable implementers' to reduce or avoid the fees they must pay. However, if they lose, neither this affirmation of patent value, nor the costs incurred to defending it, allows a patent holder to increase its royalty rate in the second jurisdiction. This asymmetry engenders excessive incentives for the downstream producer to challenge patents in a series of jurisdictions.

Industrial policy 2022

While companies implement patented technologies in their manufactures everywhere, nations including the US, UK and others in Europe are particularly dependent on their intellectual property asset developments. It is against national interests to undermine those rights and the possibilities of monetizing them adequately.

Since 1994, [ETSI's IPR policy](#) has fostered innovation and patent owners' rights to be adequately rewarded including licensing of 2G, 3G, 4G LTE and 5G SEPs. This IPR Policy makes no mention of patent holdup or royalty stacking, let alone stating any policy objective to prevent these purported phenomena. [As indicated by Brooks and Geradin](#), voting by members long ago rejected attempts to restrict IPR owners with what became referred to as an 'automatic licencing' or 'licencing by default' provision, a requirement of advance declaration of maximum royalty rates, a rule precluding required cross-licences, and a mandatory arbitration requirement.

Since adopting its 1994 IPR Policy, ETSI has rejected attempts to redefine FRAND. As [Epstein and Noroozi \(2017\) explain](#) ‘The incomplete nature of the FRAND contract is therefore neither an oversight by SDOs nor an invitation for courts to fill in the gaps or clarify the boundaries, but rather an architectural design feature of the FRAND framework that has been critical to its success.’

While some judicial dictum has sought to limit SEP value, neither ETSI’s IPR Policy nor the law precludes patent owners sharing in the value of the standards. And, it also makes no economic sense to deprive patent owners a share in the value of something they have helped create, rather than all the monetary value passing to the implementers. If the latter can get away with it, they will not pass on new technology cost savings and will maximize what they charge their customers for other improvements.

Let it be

[The prevailing 2019 “Policy Statement](#) on remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments,” by the DoJ, NIST and USPTO should stand. It was issued because the 2013 statement was being misinterpreted with the weakening of rights for innovators at home and with the contagion the statement was causing abroad. That was like pushing an open door. The weakening of IPR rights, with resulting reductions and delays in patent fee payments, was appealing to companies and nations that employed rather than invented standard-essential technologies. Most importantly: patent owners’ rights to be able to obtain injunctions must be preserved. As indicated in the 2019 policy statement, ‘to the extent that [a] . . . district court applied a per se rule that injunctions are unavailable for SEPs, it erred.’

As also indicated in the 2019 policy statement regarding damages, ‘courts must consider the facts of record when instructing the jury and should avoid rote reference to any particular damages formula.’ I explained why [I supported the policy 2019 statement at the time](#) in an article I published on SEP valuation, and I retain my support for that policy statement.

The DoJ Draft Revised Statement will only create further uncertainty, legitimize even more foot-dragging by implementers and make it yet more difficult to obtain any means of enforcing payment of FRAND royalties. Anything that casts doubt on whether and when an injunction or other remedies— including compensatory damages—are paid will leave the SEP owner unfairly under-compensated, if compensated at all, by some implementers.

Sanctions must be swiftly available and imposed on recalcitrants when FRAND terms and rates have been offered, but there is no counter-offer or counter-offers are deemed sub-FRAND by the court.

Patent holdup is an illusion. It cannot occur and does not occur because the only way that an implementer could be made to pay supra-FRAND royalties is with the immediate prospect of an injunction. However, a court would not issue an injunction if there are no FRAND terms on offer; but instead only when the implementer was unwilling or unable to pay FRAND royalties.

About this publication and its author

This article was originally [published in RCR Wireless](#) around January 24, 2022.

[Keith Mallinson](#) is founder of [WiseHarbor](#), providing expert commercial consultancy since 2007 to technology and service businesses in telecommunications, media and entertainment serving consumer and professional markets. He is an industry expert and consultant with 25 years of experience and extensive knowledge of industries and markets, including 2G/3G/4G/5G mobile communications, which is rich in intellectual property. His clients include various major companies. He is often engaged as a testifying expert witness in patent licensing agreement disputes and in other litigation including asset valuations, damages assessments and in antitrust cases. He is also a [regular columnist](#) with [RCR Wireless](#) and [IP Finance](#) – “where money issues meet intellectual property rights.”

The author can be contacted at WiseHarbor. His email address is kmallinson@wiseharbor.com and you can also follow him on Twitter at <http://twitter.com/WiseHarbor>.

© Keith Mallinson (WiseHarbor) 2022.