Responses to Questions for the Record of Senators Klobuchar and Grassley
regarding the
Testimony of John D. Kulick, Ph.D., Chair of the Standards Board,
The Institute of Electrical and Electronics Engineers, Incorporated (IEEE)
Standards Association (IEEE-SA)
before the
Subcommittee on Antitrust, Competition Policy and Consumer Rights of the Senate Committee on the Judiciary entitled "Standards Essential Patent Disputes and Antitrust Law"
Tuesday, July 30, 2013
Room 226, Dirksen Senate Office Building

I. Responses to Questions of Senator Klobuchar

1. *Some observers in the industry have suggested that standard setting organizations' IP policies should mandate some form of alternative dispute resolution for FRAND disputes, such as mandatory binding arbitration, before an injunction or an exclusion order can be sought. In other words, injunctions and exclusions orders should be reserved only for a truly unwilling licensee and, in the case of an exclusion order, for a party that can't be reached through the U.S. court system. What are your views on this suggestion?*

This question asks about two topics that are not necessarily related.

Mandatory ADR. A key issue in license negotiations for standards essential patents (SEPs) is the royalty rate. If that rate is not set (or at least capped) before a standard's adoption, the SEP holder and the implementer may not be able to reach agreement on the royalty amount (and other terms) that is reasonable in the circumstances. Some Standards Development Organizations (SDOs) require that their members submit such disputes to arbitration. That obligation can bind only the organization's members and any other persons who voluntarily submit to its rules. IEEE does not require arbitration of such disputes. Thus far, there has not been a significant demand among IEEE stakeholders to introduce such a requirement. Opinions vary on whether arbitration is in fact the most appropriate way to resolve disputes over licensing terms.

Availability of Injunctions and Exclusion Orders. IEEE's patent policy does not currently address this issue expressly. IEEE has begun a review of its patent policy. The IEEE Standards Association Standards Board's Patent Committee has established an Ad Hoc Committee to develop specific revisions and clarifications to the current policy. The PatCom Ad Hoc Committee has released a draft set of proposed changes. One of the proposals is to prohibit

SEP holders from seeking injunctions or exclusion orders, subject to certain exceptions (e.g., for persons who decline to participate in litigation to resolve the licensing dispute). Please see the response to Question 2 with respect to the IEEE-SA decision-making process in connection with this proposal.

2. *Do you think that IEEE will be able to make changes to its intellectual property rights policies to address any real or potential problems concerning patent holdup? What do you think is a realistic timeline in which we could see this kind of change happen?*

As I stated at the hearing, IEEE has already begun a process of updating its Patent Policy to address potential concerns about patent hold-up. There is no prescribed end-date for that process. Adoption of proposed changes would require approval from the IEEE-SA Standards Board and, for some changes, from the IEEE-SA Board of Governors. The Standards Board will meet on December 11, 2013 and on March 27, 2014. The Board of Governors will meet on March 1, 2014 and again on May 31, 2014. The earliest date on which IEEE will complete its policy review and adopt any changes is therefore March 1, 2014.

The IEEE-SA Standards Board PatCom Ad Hoc has released a draft for public comment. The draft is available at http://grouper.ieee.org/groups/pp-dialog/drafts_comments/index.html. The comment period closes on September 20, 2013. In addition to the formal comment submission process, the Patent Committee held an open meeting on August 21 to discuss the draft as well as the process for commenting. Approximately 30 stakeholders attended that meeting.

The PatCom Ad Hoc Committee expects to release a second draft in late October 2013, although the date will depend on the volume and nature of the comments received. The second draft will also be made available for a review and comment period, likely to be another 30 days. The PatCom Ad Hoc Committee then expects to provide a further draft for consideration at the December 9, 2013 meeting of the IEEE-SA Standards Board Patent Committee. If the Patent Committee votes to recommend adoption of the draft at that time, then the Standards Board could consider it at the same December meeting series. Those portions that require Board of Governors approval, however, are unlikely to be considered before the Board of Governors meeting on March 1, 2014.

II. Responses to Questions of Senator Grassley

1. *How pervasive is the problem of patent hold-up? What evidence do you have to support your response? What about the problem of patent hold-out? How pervasive is that problem, and what evidence do you have to support your answer?*

As a neutral body, IEEE-SA avoids taking a position on whether any particular royalty rate or other license term is reasonable. Consequently, IEEE does not point to particular cases as examples of either patent hold-up or patent hold-out. (We assume that you use "hold-out" to refer to an implementer of a standard who unreasonably delays negotiating or accepting a license from an SEP holder.) Nevertheless, IEEE-SA can state that a perception of the existence of, or potential for, patent hold-up was one factor that apparently motivated certain stakeholders to

propose revisions to IEEE-SA's patent policy in 2005. The existence of that same concern among IEEE stakeholders appears to be a driver in the current policy review as well. Some stakeholders in the current policy review have also identified the possibility of patent hold-out as a consideration.

There is certainly a potential for patent hold-up. "Pervasiveness" may refer to the number of cases in which hold-up occurs, but it is at least as important to consider not just the number of cases in which it occurs, but the dramatic effects when it does occur. Moreover, most such cases are eventually "resolved" out of court in nonpublic settlements. Therefore, information about extracted royalty rates (much less the reasonableness of such rates) is rare.

2. *How do hold-up and hold-out impact innovation and competition?*

IEEE's interest is in the development of high-quality standards that address market needs and that are widely and rapidly adopted. Hold-up, if it occurs, may result in the imposition of a substantial and unreasonable cost on implementation of a standard. Particularly for a standard that is designed to permit interoperability, hold-up can delay the widespread adoption of the standard and thus discourage development of competing products that implement the standard. In addition, the prospect of hold-up can deter the development of a standard in the first place, because it reduces the rewards that standards developers can expect from their investment in developing the standard.

3. *Do you believe that exclusionary orders should always be prohibited in standard essential patent disputes where the standard essential patent holder has committed to license on RAND terms? Or should the particular factual circumstances be considered on a case-by-case basis? Why or why not?*

IEEE's patent policy does not currently address this issue expressly. IEEE has begun a review of its patent policy. The IEEE Standards Association Standards Board's Patent Committee has established an Ad Hoc Committee to develop specific revisions and clarifications to the current policy. The PatCom Ad Hoc Committee has released a draft set of proposed changes. One of the proposals is to prohibit SEP holders from seeking injunctions or exclusion orders, subject to certain exceptions (e.g., for persons who decline to participate in litigation to resolve the licensing dispute). For information on the IEEE-SA decision-making process for this proposal, please see the response to Question 2 of Senator Klobuchar's questions.

4. *Some are concerned that a broad denial of remedies in disputes involving standard essential patents in Section 337 proceedings would produce adverse and unintended consequences. Do you agree? Why or why not?*

We can only answer this question in the context of IEEE's own patent policy review. IEEE's current policy review does include consideration of exclusion orders. The draft language that the PatCom Ad Hoc released for review addresses the specific issue of exclusion orders and prohibits an SEP holder from seeking an exclusion order, except in certain circumstances. IEEE certainly wants to understand any implications that others might see in this policy language, but a generalized concern that the policy or the specific language might have adverse or unintended consequences is too vague to provide a productive basis for our constructive dialogue and

potential. IEEE stakeholders who believe that the draft language might have such consequences are invited to submit detailed comments on the draft language.

5. *In your opinion, does the International Trade Commission have sufficient statutory authority to stay the imposition of an exclusion order contingent on an infringing party's commitment to abide by an arbitrator's determination of the fair value of a license? If it does, do you believe that the International Trade Commission is using that authority appropriately?*

IEEE takes no position on whether the ITC has the statutory authority to stay the imposition of exclusion orders. As a neutral body, IEEE takes no position on whether the ITC has exercised its authority appropriately in any particular case.