

Licensing At All Levels Is The Rule Under The ETSI IPR Policy:
A Response to Dr. Bertram Huber

By KARL HEINZ ROSENBROCK

In a recent paper, I explained that a promise to license Standard Essential Patents (SEPs) on fair, reasonable and non-discriminatory (FRAND) terms and conditions, under the ETSI IPR Policy, *“allows every company that requests a license to obtain one, regardless of where the prospective licensee is in the chain of production and regardless of whether the prospective licensee is active upstream or downstream.”*¹

Dr. Bertram Huber wrote a “Rebuttal”,² on behalf of a group of SEP owners called IP Europe.³ Dr. Huber writes that my views are *“surprising”* and *“only recently expressed”*. But there should be no surprise because I have written about this before. In the *Q&A on the ETSI IPR Policy by Karl Heinz Rosenbrock* on the Hillebrand CE website, for instance, I said: *“once a member or a third party had given an irrevocable undertaking to grant licenses on FRAND terms and conditions, then agreement of the detailed terms was for the IPR holder to negotiate – in good faith – with **whoever wanted** the benefit of the license”*.⁴

Dr. Huber disagrees with me, and his arguments may be summarised as follows.

- There supposedly was an industry consensus in favour of licensing SEPs only to manufacturers of end-devices at the time the ETSI Policy was adopted.
- The draftsmen intended the ETSI IPR Policy to reflect this practice, and it should be interpreted on this basis.
- Licensing at the end-device level (including royalties based on the sales price of the end-device rather than the component) works well for IPR owners; licensing at any other level of the supply chain would be *“unworkable”*, *“unfair”*, and *“inefficient”*.

¹ Rosenbrock, K.H., “Why the ETSI IPR Policy Requires Licensing to All” (2017), available at http://www.fair-standards.org/wp-content/uploads/2017/08/Why-the-ETSI-IPR-Policy-Requires-Licensing-to-All_Karl-Heinz-Rosenbrock_2017.pdf (“First Article”).

² Huber, B., “Why the ETSI IPR Policy Does Not and Has Never Required Compulsory ‘License to All’: A Rebuttal to Karl Heinz Rosenbrock” (2017), available at: <https://www.iptalks.eu/news/why-the-etsi-ipr-policy-does-not-and-has-never-required-compulsory-license-to-all-a-rebuttal-to-karl-heinz-rosenbrock>.

³ The members of IP Europe include significant SEP owners such as Ericsson and Nokia: <https://www.iptalks.eu/about-us>.

⁴ Emphasis added; available at: http://www.hillebrand-ce.com/etsi_ipr_policy.html (2014). I have said the same things many years earlier.

Dr. Huber mischaracterizes my article, and his arguments go against the clear wording and intent of the ETSI IPR Policy. If there really was an industry consensus saying that SEPs should be licensed only to suppliers of finished products, why is this industry consensus not mentioned at all in the ETSI IPR Policy, a policy that needed about five years of intensive discussions before it could eventually be finalized? Furthermore, who would then be interested in my views? The reality is that some SEP owners are trying to avoid the ETSI IPR Policy, even though if a FRAND promise means anything, it surely means that a SEP owner cannot refuse to license its competitors. I am told that this view has been upheld by antitrust agencies and courts,⁵ and has also been advocated in the past by the same SEP owners on whose behalf Dr. Huber's paper has been published.⁶

Dr. Huber also argues that licensing to component suppliers would “*not allow essential IPR holders to obtain the full economic value conferred by their essential technology on each end-product it is deployed.*”⁷ This appears to refer to debate as to whether SEP owners should always be able to charge a royalty that depends on the price of the end-product (an “end-use royalty”), and thereby extracts value from downstream innovations that are not within the patent grant, even in a license to a component maker.

I did not address the issue of royalty base in my First Article, which was focused on the principle of licensing to all. Dr. Huber, however, has raised the issue as grounds for refusing to license component manufacturers. I therefore (in section V.4) also explain my concern

⁵ See, for example, the 2017 decisions of the [Korea Fair Trade Commission](#) ([press release](#)) and the [Taiwan Fair Trade Commission](#) (translation available at: <https://www.qualcomm.com/documents/tftc-press-release-translated>) finding that Qualcomm abused a dominant position by refusing to license SEPs to component manufacturers. See also other decisions, judgments and papers where license to all is mentioned or implied, including (both recently and as long ago as 1992): Apple Inc. v. Qualcomm Inc., [Order Denying Anti-suit Injunction](#), 3:17-cv-00108-GPC-MDD (Southern District of California, 2017) (“*ETSI’s IPR policy, in fact, plainly states that any willing licensee is entitled to license Qualcomm’s intellectual property at a FRAND rate*”); [Microsoft, Corp. v. Motorola, Inc.](#), No. 14-35393 (9th Cir. 2015); [Ericsson v. D-Link](#), 773 F.3d 1201 (Fed. Cir. 2014); [Rambus](#), European Commission [decision](#) of December 9, 2009, [Commitments](#); European Commission, [MEMO/09/549](#), December 12, 2009 on IPRCom’s public statement confirming its FRAND Declaration (“*The unrestricted access to the underlying proprietary technology on FRAND terms for all third parties safeguards the pro-competitive economic effects of standard setting*”), and IPRCom statement http://www.ipcom-munich.com/IPCom_Frand_Declaration.pdf; Report by the UMTS IPR Working Group, “[Third Generation Mobile Communications: The Way Forward for IPR](#)”, January 1999; EC Commission, [Communication on IPRs and Standardization](#), COM(1992) 445, section 6.2 (“*European standard-making bodies should ensure that: 1. all persons wishing to use European standards must be given access to those standards; [...] 3. users are able to use the above standards to manufacture in conformity with the standards in the [EU], and to import into the [EU] goods legitimately manufactured in third countries in conformity with the standards*”).

⁶ See Section II.1 below.

⁷ Page 11.

that “end-use royalties” could be misused to pervert the “license to all” principle that I defended in my First Article.

I. Licensing obligations under an ETSI FRAND promise are not “compulsory licenses”

Before explaining why Dr. Huber’s reasoning is flawed, I should address misleading language that seeks to colour the debate by dredging up irrelevant arguments from more than twenty years ago.

The title of Dr. Huber’s article suggests that I argued that ETSI’s IPR Policy required a “*Compulsory License to All*”. This is not right. It is what the English call a “straw man”. IPR owners are not compelled to give a FRAND promise – if they are not ready to commit to grant licenses on FRAND terms, that is their right.⁸ My article concerns a different question, namely what are the obligations of IPR owners who voluntarily give an ETSI FRAND promise. If they have given such a promise, they cannot come back on it by refusing to license anyone who is willing to agree to FRAND terms and conditions.

II. The suggestion that refusal to license component manufacturers is “prevailing industry practice” is inaccurate and irrelevant

Dr. Huber writes repeatedly that it was and remains “*prevailing industry practice [...] for manufacturers of complete end-devices (e.g., handsets, infrastructure equipment) to negotiate and enter into any necessary licenses to the essential patents practiced in those end-devices. The manufacturers of electronic components generally would not in-license essential IPRs*”.⁹ He later puts it in even stronger terms:

- “*licenses are almost always negotiated and executed between essential patent owners and end-product manufacturers*”;¹⁰
- “*They did not intend to eliminate or fundamentally change normal industry practice by compelling essential IPR holders to begin granting licenses to any company who requested one, regardless of that company’s position in the chain of production*”.¹¹

⁸ The question of “compulsory” licensing was raised almost 25 years ago in a complaint by the Computer and Business Equipment Manufacturers Association (CBEMA) of the USA in 1993, in connection with a previous draft of the so-called ETSI IPR Policy and Undertaking, a version prior to the adoption of the ETSI Interim IPR Policy in 1994. CBEMA asked the European Commission whether that version of the ETSI IPR Policy could: (a) require members to give a FRAND promise, (b) require a license from Members who failed to timely withhold a license (“license by default”), and (c) exclude Members who refused to give a FRAND promise from ETSI. The answer to all three questions at the time was that no ETSI Member could be forced to give a FRAND promise on penalty of exclusion from ETSI if they did not want to give a license. This is clear from my paper, which refers to the European Commission’s 1995 comfort letter. [Notice pursuant to Article 19 \(3\) of Council Regulation No 17 concerning case No IV/35.006 — ETSI interim IPR policy](#), OJ 95/C 76/05 (see, in particular, paragraphs 8-9).

⁹ Page 4.

¹⁰ Page 5.

That description of industry practice does not ring true to me. Having participated in the elaboration of the IPR Policy from 1990 until 1994 and closely followed its maintenance until today, I, personally, cannot recall any reference to that “prevailing industry practice” during the discussions in the ETSI IPR Special Committees nor in the related reports. Nevertheless, even if it were true, it would be irrelevant.

First, there is no reference in the ETSI IPR Policy nor in the IPR Guide to “industry practice”.

Second, the fact that a company is acting in a certain way is not persuasive evidence that it is allowed to do so (in this case, under a FRAND promise).

II.1 Dr. Huber’s characterisation of “industry practice” is not right

Dr. Huber asserts that there is a “normal” or “prevailing” industry practice on the issues of refusal to license component manufacturers and the appropriate royalty base. I find that hard to believe. It is certainly not consistent with my own experience of discussions in ETSI.¹² Moreover, Dr. Huber’s assertions are also not consistent with what SEP owners such as Qualcomm and Ericsson have said in the past. Here are some examples, from 1998 to 2011:

- In 1998, Qualcomm sued Ericsson, arguing that Ericsson should be “required to license [IS-95] patent rights” to Qualcomm (as a component manufacturer) “under reasonable terms and conditions that are demonstrably free of any unfair discrimination”.¹³ This same quotation was then used 10 years later by Ericsson in June 2009, before the Korea Fair Trade Commission, to argue that Qualcomm was required to license its SEPs at all levels on FRAND terms as well.¹⁴ In fact, Qualcomm and Ericsson for many years had a license with each other at the chip level.¹⁵ So

¹¹ Page 8.

¹² For example, these issues were raised in the ETSI General Assembly meeting of March 17-18, 2015, in the context of amendments to the IEEE IPR Policy (which supports licensing at all levels and royalties based on the price of the “smallest saleable Compliant Implementation” rather than end-product price). Some (including Nokia and Qualcomm) expressed disapproval of the IEEE update; others (including Apple and Intel) defended it. The minutes record that the “Chairman concluded the discussion and noted that a variety of opinions had been expressed.” This is the same meeting referred to by Dr. Huber when he mischaracterizes the comments attributed to Mr. Loyau, which I address in Section III.3 below.

¹³ *Ericsson Inc. et al v. Qualcomm Inc.*, Civil Action No. 2-96-CY183 (E.D. Tex.), *Qualcomm’s Motion for Partial Summary Judgment to Limit Ericsson’s Requested Relief for the Alleged Infringement of the Patents-in-Suit*, 6 October 1998, pp. 2-3, 15.

¹⁴ KFTC public hearing of June 17, 2009.

¹⁵ Ericsson [granted](#) to Qualcomm, in 2000, the right to “make (and have made), import, use, sell, lease or otherwise dispose of Components”; Components include “electronic devices, integrated circuits, including firmware thereon”. Qualcomm and Texas Instruments similarly had a license at the chip level: “Qualcomm Incorporated and Texas Instruments Incorporated today announced that they have entered into a cross-license agreement covering both companies’ patent portfolios that allows each company to supply integrated circuits,

both Ericsson (at the time Ericsson Mobile Platforms) and Qualcomm have argued, as component suppliers, that they were entitled to a license, and have acted accordingly.

- Qualcomm told the U.S. Supreme Court in 2007: *“In the wireless industry, running royalties are typically calculated as a percentage of the wholesale price for the particular **component or product** (e.g., chip or handset) for which the licensing agreement grants authority”* (emphasis added).¹⁶
- Qualcomm said, in the context of a 2007 complaint that Qualcomm refused to license its patents to Broadcom’s chipset business, that *“[s]aying we refuse to license competitors is like saying McDonald’s refuses to sell hamburgers [...] It’s nuts. It’s crazy”*¹⁷
- Qualcomm told investors in 2009: *“CDMA, our central patents we’re required to license them [...] we don’t shut anybody out. We don’t make a decision that we are going to license you and not license you because that would be discriminatory.”*¹⁸
- Also in 2009, Qualcomm sued Broadcom in U.S. Federal Court for breaching FRAND by refusing to license Qualcomm’s chips. Qualcomm stated: *“Broadcom [...] in fact, has refused to offer Qualcomm any license terms in the three months that have already lapsed since Qualcomm’s licensing request was made. Under these circumstances, the timing of Qualcomm’s request is irrelevant. Indeed, Qualcomm’s recent request for and Broadcom’s recent refusal to offer license terms show that there is a live, genuine dispute about Broadcom’s willingness to honor its commitments to ETSI that should be resolved at trial.”*¹⁹ If there was really a practice

including for all wireless standards”

(<https://www.qualcomm.com/news/releases/2000/12/04/qualcomm-and-texas-instruments-enter-cross-license-agreement>).

¹⁶ [Amicus Brief of Qualcomm Inc.](#), *Quanta v. LG Electronics*, December 10, 2007, page 25.

¹⁷ Alex Rogers, then Qualcomm’s Senior Vice President and Legal Counsel, currently Executive Vice President and President, Qualcomm Technology Licensing. See “Battle of tech heavyweights”, Gittlesohn, J., *Orange County Register*, 5/1/07 Orange County (Cal.) Reg. 1 2007 WLNR 30244838. See also *In re Qualcomm Incorporated Securities Litigation*, Case No. 3:17-cv-00121-JAH-WVG, US District Court, Southern District of California, [Consolidated Class Action Complaint for Violation of the Federal Securities Laws](#), filed July 3, 2017, para. 192.

¹⁸ Bill Davidson, then SVP Global Marketing & Investor Relations, QUALCOMM Inc. at Friedman Billings Ramsey Capital Markets Investor Conference, Edited Transcript of Qualcomm Inc presentation Tuesday, December 1, 2009.

¹⁹ *Broadcom v. Qualcomm*, Qualcomm’s Opposition to Broadcom’s Motion to Dismiss, Strike or for Summary Judgment (2009 WL 687531) (Jan. 20, 2009, CD Cal S ACV05-0467-JVS); see also *Qualcomm v. Broadcom*, Counterclaims and Affirmative Defense (2008 WL 2140801) (Feb. 29, 2008, D.N.J. No. 05-3350) (*“Qualcomm, which owns a large portion of the intellectual property covering CDMA technology, operates a pro-competitive licensing model, in which it offers licenses on fair, reasonable and non-discriminatory terms to **any interested company**”* (emphasis added)).

of not licensing component manufacturers, how could they at the same time argue that they were entitled to a license?

- In 2011, Qualcomm told the U.S. FTC that the *“the foundational goal of SSO RAND policies is availability of licenses necessary to practice standards. Certainly, a patent-holder who gives a RAND commitment gives up the right to refuse to license, or to license on exclusive terms. Further, there is little doubt that terms that do not make licenses meaningfully available to efficient implementers of the standard are not “reasonable” within the meaning of RAND”*.²⁰

II.2 “Prevailing industry practice” is irrelevant

Even if it was true that *“prevailing industry practice”* supported licensing SEPs only to manufacturers of end-products, that is irrelevant to the application of an ETSI FRAND promise.

I agree with Dr. Huber that an ETSI FRAND promise is a binding commitment. The question is whether a refusal to license component suppliers is in breach of that promise, if the component manufacturers are willing to accept FRAND terms and conditions. The answer, which can be found in the ETSI IPR Policy itself, is clear: such a refusal is in breach of that promise. I explained why that is the case in my First Article. Industry practice has no bearing on that answer.

First, quite simply, there is no reference to *“industry practice”* in the ETSI IPR Policy nor in the ETSI IPR Guide.

Second, Dr. Huber’s argument is circular: if some SEP owners argue that they can refuse to license component manufacturers, and get away with it, that does not mean that they are in fact *allowed* to refuse.

It is clear why some SEP owners, including members of IP Europe, might prefer downstream licensing and royalties: they can seek to extract value not only from their own invention but also from the licensee’s invention or contribution. Ericsson wanted a license when they still designed chipsets, but have since changed their mind. They now say:²¹

“- Here we choose to license the patents as late in value chain as possible.

- We take the decision to leave everybody in chain prior to the Product brand owner and focus our licensing efforts on the product brand owner.

- With this strategy the licensed patents will only be exhausted after they are sold by the product brand owner and everybody prior to him will still have exposure on Ericsson patents. Consequently the exposure on Ericsson decreases.

²⁰ [Comments of Qualcomm Inc.](#), FTC Patent Standards Workshop, Project P11-1204, June 2011, page 20.

²¹ See <http://www.fosspatents.com/2014/01/ericsson-explained-publicly-why-its.html>.

- One big advantage with this strategy is also that it is likely that the royalty income will be higher since we calculate the royalty on a more expensive product.” (emphasis added)

Even if some SEP owners prefer to be able to extract higher royalties from their patents by licensing downstream rather than upstream, and even if some licensees accept that (willing or not), that does not mean that it is “normal” or “prevailing industry practice”, and certainly not that a refusal to license component makers is consistent with an ETSI FRAND promise.

III. Dr. Huber misinterprets the ETSI IPR Policy

Dr. Huber asserts that “the drafters of the Policy did not intend for the FRAND undertaking to compel essential IPR holders to grant licenses to any company who requested one”.²² He cites no credible sources.

Dr. Huber’s reasoning is again circular. He imputes a supposed intent to the drafters of the Policy. He then interprets the ETSI IPR Policy in light of this imputed intent. He dismisses contrary language in the ETSI IPR Policy as mere “semantics”.²³

First, my recollection of the “intent” of the drafters is entirely different. I was closely involved in the creation and approval of the ETSI IPR Policy from 1990 to 1994, and have followed further discussions within ETSI. In my experience, there was no common “intent” at the time of the adoption of the policy to allow SEP owners to refuse to license upstream, either to reflect any purported “prevailing industry practice” or otherwise. To the contrary. The whole idea was that if a FRAND promise was made, everyone was entitled to a FRAND license.

Second, in any event, the starting point for determining the ETSI drafters’ intent is the plain language of the ETSI IPR Policy. I am not a lawyer, but I assume that this is also the case under French contract law, to which Dr. Huber refers in support of his contrary view. The ETSI IPR Policy is clear, both in what it says, and in what it does not say. There is no reference to “industry practice”, nor any authorization for refusal to license SEPs upstream.

III.1 The words of the ETSI IPR Policy are clear

At the risk of repeating my First Article, it is worth summarizing the basis for my conclusion, from the language of the ETSI IPR Policy and the IPR Guide, that manufacturers of components are entitled to a license if they seek one.

- First, Article 6 of the IPR Policy contains a general reference to an undertaking to grant a license: it does not limit the beneficiaries of that license and does not allow the IPR owner to refuse a license to particular interested parties such as component manufacturers who are willing to agree to FRAND terms.

²² Page 8.

²³ Page 11.

- Second, in accordance with Article 3 of the IPR Policy, *“the ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and others applying ETSI STANDARDS and TECHNICAL SPECIFICATIONS, that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD or TECHNICAL SPECIFICATION being unavailable”*. If a license was unavailable to all interested parties who want to apply the ETSI standard, this goal could not be met – as I explain further below. This is a fundamental objective of the ETSI IPR Policy.
- Third, the IPR Licensing Declaration Form makes no exception for certain categories of licensees. It explicitly allows the IPR owner to seek reciprocity, but does not exclude, and does not allow the IPR owner to exclude, specific categories of standards implementers. The absence of an explicit option to exclude certain categories of licensees confirms that a license must be available to all interested parties, consistent with the fundamental objective described above.
- Fourth, a declaration under Article 6 of the IPR Policy requires the IPR Owner to *“grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions”*. Accordingly, the IPR owner must not discriminate in the imposition of terms between different categories of licensees. If the IPR owner cannot discriminate in that way, it certainly cannot go even further and entirely exclude specific categories of licensees from a license.
- Fifth, Article 6 of the IPR Policy is broadly crafted. It requires that a license must be available *“to at least the following extent”*:
 - *“MANUFACTURE...;*
 - *sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;*
 - *repair, use, or operate EQUIPMENT; and*
 - *use METHODS”*.

“MANUFACTURE” is defined as the *“production of EQUIPMENT”* (Article 15.8), with *“EQUIPMENT”* being defined as *“any system, or device fully conforming to a STANDARD”* (Art 15.4). The plain meaning of *“system”* and *“device”* (which are not defined in the Policy) refers to components, such as chipsets, as well as end-products. I give lots of examples in my paper.

- Sixth, paragraph 1.4 of the IPR Guide refers to *“users of standards”*, without limitation, and specifies that both members of ETSI and third parties who are *“users of ETSI standards or documentation”* have a *“right”* to a license *“at least to manufacture, sell, lease, repair, use and operate”*. Paragraph 1.4 does not limit this right to certain categories of members or users.

Dr. Huber argues that the definition of *“EQUIPMENT”* in the ETSI IPR Policy excludes components. He asserts that *“the terms “system,” “device,” and “fully compliant” [...] connote finished products rather than individual components,”* without providing any basis

for this interpretation.²⁴ As I explained extensively in my First Article, and again above, the terms “*system*” and “*device*” should be defined by normal and plain meaning. I identified industry and non-industry sources for this plain meaning.²⁵ There is no basis for excluding components from the scope of “*system*” and “*device*”.

In many cases, components implement all specifications of a standard. And if they do not, they are still “*fully compliant*” so long as they are fully compatible with other components that together form a system that fully implements a standard in a way that does not break interoperability, and that meets all the requirements of the standard. Fully compliant does not mean “*fully implementing all portions of the standard*”. If it did, there would be *no* device to license; ETSI standards are hundreds or thousands of pages long, and generally describe transmissions over a network and protocols therefore. In many cases, there might be no device that fully implements all the requirements of the specification. The LTE specification for example, is hundreds of pages long, specifies the transmitter (*e.g.*, base station) and receiver (*e.g.*, phone), and all of the interactions between them and the rest of the network. In other words, the specification tells you how to build an LTE *network*, not how to build a *phone*. No single product could “*fully implement*” that specification. Dr. Huber’s position is self-evidently flawed because it would lead to the impossible conclusion that no company is entitled to a FRAND license.

Dr. Huber also argues that “[*t*]his intent is further reflected by the fact that, while the Policy addresses the right to make or have made customized components for use in MANUFACTURE, it omits any discussion of the right to “*sell, lease, or otherwise dispose of*” or “*repair, use, or operate*” those components”.²⁶ This is not right. As explained in my First Article, Article 6 of the IPR Policy requires that a license must be available “*to at least the following extent*:

- *MANUFACTURE...;*
- *sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;*
- *repair, use, or operate EQUIPMENT; and*
- *use METHODS.”*

The word “*and*” before “*use METHODS*”, rather than a disjunctive “*or*”, means that the IPR Owner may not without the agreement of the licensee limit the license to only one or a subset of the permitted uses. If a manufacturer wishes to have a “*sell*” license (which under patent law leads to exhaustion of the patent rights), or a “*use*” license to an essential patent subject to a FRAND declaration, so as to be able to pass that right on to its customers, Article 6 entitles it to such a license. As explained above, there is no basis on which to exclude components from the meaning of “*EQUIPMENT*”.

²⁴ Page 5.

²⁵ See pages 7-9 of my First Article.

²⁶ Page 5.

III.2 Previous drafts are irrelevant

Dr. Huber refers to the contents of previous drafts of the ETSI IPR Policy as evidence that the drafters intended to exclude components from the scope of "EQUIPMENT": *"In the draft version of the 1993 ETSI IPR Policy and Undertaking, in Annex 1, Definitions, further to defining the terms "EQUIPMENT" and "MANUFACTURE," ETSI defined "GOODS" as "EQUIPMENT, parts thereof and METHODS." This makes clear that the term "EQUIPMENT" by itself did not mean "parts thereof."*²⁷

Whether Dr. Huber's interpretation of the earlier draft is right or wrong, it is irrelevant. The earlier version, to which Dr. Huber refers, was not adopted by ETSI. There is no definition of "GOODS" in the version of the ETSI IPR Policy that was adopted, and there is no basis for excluding components from the scope of "EQUIPMENT".

In fact, if Dr. Huber is right that the definition of "GOODS" in the earlier draft implicitly excluded components from the scope of "EQUIPMENT", this would undermine his argument rather than support it. The fact that this definition of "GOODS" was subsequently removed would only show that it was intended to include components in the scope of "EQUIPMENT" in the final, approved version.

III.3 Dr. Huber misidentifies the distinction between ETSI And IEEE policies

In support of his assertions, Dr. Huber cites minutes of the ETSI General Assembly meeting of March 2015. The discussion to which he refers dealt with the question of whether or not the IPR Policies of ETSI and IEEE (another standard-setting organisation) are compatible. The answer to this question was needed in order to find out whether or not IEEE could join the partnership project "OneM2M".²⁸

According to the minutes of the meeting, Mr. Christian Loyau, ETSI's Legal Director, said:

"There are two introductions in the new IEEE IPR policy which are not in our policy:

- 1 – the Smallest Saleable Unit (SSU) has been introduced and we do not have that,*
- 2 – the fact that injunctions are more or less impossible to trigger at least in a rather quick way if needed in case of bad faith negotiation from an implementer.*

*Should a co-operation agreement be contemplated, the two introductions above would not be compatible with the ETSI IPR Policy as commercial discussions between members have to take place outside ETSI and secondly no provision in the IPR policy rules the use of injunction."*²⁹

²⁷ Page 6.

²⁸ See <http://www.onem2m.org/>.

²⁹ Page 6.

“*Smallest Saleable Unit*” refers to provisions of IEEE’s patent policy concerning royalty base (which specify that determination of a “*Reasonable Rate*” for royalties should include consideration of value contributed “*to the value of the relevant functionality of the smallest saleable Compliant Implementation*”).³⁰

On the basis of this sentence attributed to Mr. Loyau, Dr. Huber says:

- “*Christian Loyau (ETSI’s Director of Legal Affairs) confirmed that the ETSI IPR Policy does not require essential patent owners to grant licenses at the “smallest saleable unit” (i.e., component) level*”; and
- “*As Mr. Loyau recognized, the ETSI FRAND undertaking does not extend to components of complete end-products.*”

But that is not what Mr. Loyau said. Mr. Loyau simply said that the ETSI IPR Policy does not mention “*Smallest Saleable Unit (SSU)*”. This relates to royalty base, but does not contradict that component manufacturers are entitled to a FRAND license if they ask for one. In fact, I note that both the IEEE policy and the ETSI IPR Policy, as I have explained, do not allow the refusal to license component manufacturers.³¹

Therefore the actual text of the minutes does not support Dr. Huber’s inferences.

Furthermore, Mr. Loyau did not mean what Dr. Huber says he meant. It has always been the policy within the ETSI Secretariat not to get involved in commercial discussions between ETSI Members. This is based, in part, on the understanding that the relevant principles have been set out, to the extent that is appropriate and necessary, in the IPR Policy, which was subject to extensive discussion and then endorsed by the European Commission’s 1995

³⁰ IEEE-SA Standards Board Bylaws, [Section 6.1](#).

³¹ Under IEEE rules, a SEP owner that gives a “Letter of Assurance” (the equivalent of an ETSI FRAND promise) promises that it will either “not enforce any present or future Essential Patent Claims against any person or entity making, having made, using, selling, offering to sell, or importing any Compliant Implementation,” or “make available a license for Essential Patent Claims to an unrestricted number of Applicants on a worldwide basis without compensation or under Reasonable Rates, with other reasonable terms and conditions that are demonstrably free of any unfair discrimination to make, have made, use, sell, offer to sell, or import any Compliant Implementation” ([Section 6.2](#), emphasis added). “Compliant implementation” is defined as “any product (e.g., component, subassembly, or end-product) or service that conforms to any mandatory or optional portion of a normative clause of an IEEE Standard” ([Section 6.1](#), emphasis added). IEEE guidance explains that this definition is intended “*to reflect how IEEE standards are written and how they are implemented in the marketplace*”, and that, in the amendments made in 2015, “*examples of any product (“component, sub-assembly, or end-product”) are included for clarity*” (<http://standards.ieee.org/faqs/patents.pdf>). The update to the IEEE policy was [reviewed](#) by the US Department of Justice, which concluded that “*the Update has the potential to benefit competition and consumers by facilitating licensing negotiations, mitigating hold up and royalty stacking, and promoting competition among technologies for inclusion in standards*”.

comfort letter.³² That is another reason why I am convinced that Dr. Huber's conclusion here is not correct.

IV. Dr. Huber's assertions are inconsistent with European Commission guidance

Dr. Huber argues that *"as long as an essential IPR holder does not prevent access to a standard for all, it is free to select its preferred "level" (chipset manufacturer, handset manufacturer, etc.) for licensing its essential IPRs on FRAND terms and conditions"*.³³

Dr. Huber does not refer to the ETSI IPR Policy for this assertion. Under the ETSI IPR Policy, access to standards is provided by licensing. The purported distinction between access and licensing is meaningless. The ETSI IPR Policy provides that a FRAND promise allows every company that requests a license to obtain one whether the prospective licensee is active upstream or downstream.

In support of his argument on "access", Dr. Huber refers to the EC's Horizontal Cooperation Guidelines.³⁴ He argues that the Horizontal Cooperation Guidelines *"make clear that standardization agreements should provide access to standardized technology and indicate that FRAND undertakings are made to guarantee effective access to standards. They do not, however, define specific rules for how licenses should be granted to ensure that access. Rather, the Guidelines leave the issue of implementation to be determined on a case-by-case and industry-by-industry basis."*³⁵ In support of the last sentence, Dr. Huber refers to paragraphs 7 and 284 of the Horizontal Cooperation Guidelines. While I am not a lawyer, I read the text he mentions, which he does not recite, and I can only conclude that it does not say what he said it says.

- Paragraph 7: *"Given the potentially large number of types and combinations of horizontal co-operation and market circumstances in which they operate, it is difficult to provide specific answers for every possible scenario. These guidelines will nevertheless assist businesses in assessing the compatibility of an individual co-operation agreement with Article 101. Those criteria do not, however, constitute a 'checklist' which can be applied mechanically. Each case must be assessed on the basis of its own facts, which may require a flexible application of these guidelines."*
- Paragraph 284: *"In the case of a standard involving IPR, a clear and balanced IPR policy, adapted to the particular industry and the needs of the standard-setting organisation in question, increases the likelihood that the implementers of the standard will be granted effective access to the standards elaborated by that standard-setting organisation."*

³² [Notice pursuant to Article 19 \(3\) of Council Regulation No 17 concerning case No IV/35.006 — ETSI interim IPR policy](#), OJ 95/C 76/05.

³³ Page 7.

³⁴ [Guidelines on the applicability of Article 101 of the TFEU to Horizontal Cooperation Agreements](#), OJ C 11, 14.1.2011, p.1-72.

³⁵ Page 9.

He also mentioned two other paragraphs of the EC's Guidelines, which he does not recite either, but which it is useful to quote in full.

- Paragraph 264: *“Standard-setting can, however, in specific circumstances, also give rise to restrictive effects on competition by [...] exclusion of, or discrimination against, certain companies by prevention of effective access to the standard”*; and
- Paragraph 285: *“In order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to **license** their essential IPR to **all third parties** on fair, reasonable and non-discriminatory terms (‘FRAND commitment’)”* (emphasis added).

This clearly contradicts his assertion that refusal to license component suppliers is consistent with “*effective access*” under the Guidelines and permitted under an ETSI FRAND commitment.

If Dr. Huber's point on “*effective access*” is that there can be no harm from the refusal to license component manufacturers, so long as downstream suppliers are licensed, that is not right.

- First, as noted in my First Article, the ETSI IPR Policy recognises the harm that could arise from a refusal to license SEPs: *“the ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and others applying ETSI STANDARDS and TECHNICAL SPECIFICATIONS, that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD or TECHNICAL SPECIFICATION being unavailable”* (Article 3).
- Second, while I am not a competition lawyer, I am aware of the recent decisions by competition authorities (including the Korea Fair Trade Commission and the Taiwan Fair Trade Commission) that a refusal to license component suppliers has forced component suppliers out of the market, in violation of the law.³⁶

V. It is not “legally and practically unworkable” to make SEP licenses available to component suppliers as well as end-product suppliers

V.1 Exhaustion

Dr. Huber states that “the legal rules of patent rights exhaustion preclude an essential IPR holder from providing the same license to the same technology to companies at different levels of the ecosystem. Under these rules, once an essential IPR holder licenses its IPRs for use in a particular component, the IPRs are exhausted. An IPR Policy that requires an essential IPR holder to grant licenses to every company who seeks one, regardless of the company's level in the ecosystem, would therefore be unworkable.”³⁷

³⁶ See footnote 5 above.

³⁷ Page 9.

I understand that it is correct that “*once an essential IPR holder licenses its IPRs for use in a particular component, the IPRs are exhausted.*” But that is not an argument against licensing to component manufacturers. The refusal by some SEP owners to allow exhaustion is part of the problem. It is contrary to normal licensing practice and circumvents the normal application of the law, which provides that a patent right (including the right to demand royalties) is exhausted after first sale by the patentee or by a third party with the patentee’s consent. Preventing exhaustion on a license to component manufacturers would allow a SEP owner to exploit the manufacturers of end-devices, for instance, by charging royalties on their improvements, extracting their patents, and creating what the Korean Fair Trade Commission called a “patent umbrella” from which only its component business benefits and that excludes rival component makers.

How this strategy was executed, in at least one example, is explained in the Korea Fair Trade Commission’s recent decision finding that Qualcomm abused a dominant position:

“First, [Qualcomm’s] control over the supply of modem chipsets enable [it] to coerce the handset companies to accept a patent licensing agreement as [Qualcomm] refuse[s] to license and/or restrict licensing as to the competing modem chipset companies. This is because [Qualcomm] need[s] to first prevent the exhaustion of a license at the modem chipset level in order for [it] to demand that the handset companies enter into a patent licensing agreement with [it].

Second, [Qualcomm has] capitalized on [its] ability to leverage their control over the supply of modem chipsets to coerce the handset companies into accepting a patent licensing agreement in [which Qualcomm] demanded disadvantageous patent licensing agreement terms to the handset companies, including comprehensive portfolio licenses, royalties on [Qualcomm’s] preferred terms, and royalty-free cross grants.

Third, by refusing to license and/or restricting licenses as to the competing modem chipset companies, [Qualcomm] exposed the competing modem chipset companies to the threat of patent attacks, while simultaneously creating a ‘patent umbrella’ for their modem chipsets by forcing disadvantageous licensing terms, particularly the terms on royalty-free cross grant. As a result, [Qualcomm] consolidated [its] dominance in the modem chipset market and cellular SEP licensing market and built a ‘skewed playing field’ of patent protection with [its] modem chipset customers.”³⁸

In any case, the principle of exhaustion does not make the availability of SEP licenses to both component suppliers and end-product suppliers “*unworkable.*” It is actually efficient. If a SEP holder licenses the component supplier exhaustively, the end-product manufacturer has no need for the same license, so would not seek one. There would be no question of the SEP holder being forced into “refusing” to grant the same license to the end-product manufacturer that it had granted to the component supplier: the end-product manufacturer would not ask for one.

³⁸ [Decision](#) of January 20, 2017, paragraphs 453-455.

V.2 Reciprocity

Dr. Huber also argues that IPR holders should be able to “*fully obtain the benefit of the ‘reciprocity’ condition in the ETSI IPR Policy*”, and that they are prevented from doing so if they cannot refuse to license component suppliers. Dr. Huber argues that “*this intended and important balance typically will not be achieved in a license between an end-product manufacturer and a component manufacturer*”.³⁹

The concern that Dr. Huber describes can be easily solved:

First, an end-product manufacturer who has given a FRAND promise to license, can be required to comply with that promise. Dr. Huber agrees that FRAND promises are binding.

Second, a SEP owner who licenses to a component manufacturer can insist that all downstream customers of the licensee (*e.g.*, end-product manufacturers) license to their own SEPs in accordance with their FRAND promise. This is a form of “indirect reciprocity”. To achieve this, the upstream license will say that it can be suspended to the extent that components are intended for sale to a downstream customer that asserts its patents on non-FRAND terms against the upstream patent holder. This means that the licensed component manufacturer cannot sell licensed components to downstream customers who assert their patents in violation of reciprocity. I am told that this is called a “defensive suspension”, and it has been a well-known practice for decades.

In any event, cross-grant provisions must be on FRAND terms (as my First Article explains). For example, demanding a royalty-free cross-grant of rights, without paying a royalty or proportionally adjusting the royalty received to reflect the value derived from the cross-grant, would be both “unfair” and “discriminatory” and thus in breach of the FRAND provision of Article 6 of the IPR Policy.

If cross-grant provisions are on FRAND terms, then there is no additional “*benefit*” from licensing to a patent-rich licensee rather than a patent-poor licensee. In other words, as long as the cross-grant provisions are on FRAND terms, it does not matter if the SEP owner licenses to a patent-rich or a patent-poor licensee because the agreement is a fair one. That the refusal to license component manufacturers might enable a SEP owner to extract non-FRAND cross-licenses (with more “*benefit*” in doing so from patent-rich licensees) is not an argument that it should be allowed or is consistent with an ETSI FRAND commitment. Misuse of market power cannot serve as an argument to refuse to license component manufacturers

Moreover, I am not aware of any clear basis for the assumption that end-product manufacturers necessarily have more valuable IPR than component suppliers.

V.3 Efficiency

Dr. Huber asserts that “[*t*]here is no question that end-product manufacturers are best positioned to comprehensively license all of the essential IPRs practiced in the fully compliant

³⁹ Page 10.

*mobile devices and infrastructure equipment that they sell to consumers or network operators”.*⁴⁰

I think, given the debate that is on-going before various authorities and courts, that there is in fact some “*question*” as to the accuracy of this assertion. It is normally more efficient to license upstream, since there are fewer chipset manufacturers than there are end-product manufacturers, and with the Internet of Things developing, that is even more so in the future. Indeed, Ericsson, one of IP Europe’s principals, has touted the efficiency of licensing at the chip level:

*“We [...] are using our unique capability and patents to develop cost-efficient solutions for semiconductor companies. They incorporate our technology into chipsets for mobile phones, mobile computers, accessories, cameras and other electronic equipment. They pay us an upfront licence fee and royalty for each chipset produced, and our revenues are growing as consumer demand for Bluetooth products increases. To achieve the greatest return, we must serve the high volume producers; we now have agreements with six of the top semiconductor producers – Infineon, Intel, National Semiconductor, Philips Semiconductors Samsung and STMicroelectronics.”*⁴¹

V.4 Royalty Base

Finally, Dr. Huber states that “*A per-chipset price agreed to between an essential IPR owner and a chipset manufacturer could not easily account for the substantial difference in the value that the licensed technology would later confer on the end user of a smartphone vs. the end user of the electric meter [...] Relatedly, a component-level license to essential IPRs would not account for the full economic value that the technology at issue confers on the complete end-product, including any value created by an interaction of the technology with multiple components of the device.*”⁴²

This appears to refer to the debate whether SEP owners should always be able to charge a royalty that depends on the price of the end-product (an “end-use royalty”) even in a license to a component maker.

I did not address the issue of royalty base in my First Article, which was focused on the principle of licensing at all levels.

But I am very worried about the risk that “end-use royalties” could be misused to pervert the “license to all” principle that I defended in my First Article. This would frustrate the carefully developed protections offered by the ETSI IPR Policy, in which I personally invested a great deal of effort.

⁴⁰ Page 10.

⁴¹ See [Ericsson Business Review 2002](#) (historical business presentation touting chip level SEP licenses as the most efficient approach as chip companies are the “*high volume producers*” of standard-compliant products).

⁴² Page 11.

It seems to me that in some cases a component manufacturer would have sound commercial reasons to resist a demand to pay end-use royalties – for instance, when it leads to royalties greater than the sales price of the component, because of innovation or value added downstream. I do not see how making an offer to license SEPs, only on terms that the licensee could not reasonably accept, could be consistent with the ETSI IPR Policy. In my view, that would in reality be a refusal to license, in breach of a FRAND promise.

Moreover, I do not see why a SEP owner should be allowed to extract value from the downstream innovation of others as well as from their own invention. That strikes me as a tax on additions and value added downstream. To put it as simply as possible: why should an SEP owner earn more because a mobile handset is gold-plated?

Royalty calculation methodologies should not be used to evade the fundamental obligation under a FRAND promise to license to all interested parties.

VI. Conclusion

For these reasons, none of Dr. Huber's arguments casts any doubt on my conclusion that a promise to license SEPs on FRAND terms, under the ETSI IPR Policy, allows every company that requests a license to obtain one, regardless of where the prospective licensee is in the chain of production and regardless of whether the prospective licensee is active upstream or downstream.