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April 23, 2009

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Secretary

Federal Communications Commission

445 12th Street, SW

Washington, DC 20554

Re: Coalition United to Terminate Financial Abuses for Television
Transmission's (CUT FATT) Petition For Rulemaking and Request For Declaratory
Ruling (MB Docket No. 09-23)

Dear Secretary:

This comment is submitted on behalf of the American Bar Association ("ABA"), Section of Science & Technology Law (the "Section") concerning the Commission's request for comment on the *Coalition United to Terminate Financial Abuses for Television Transmission's ("CUT FATT") Petition For Rulemaking And Request For Declaratory Ruling* (hereinafter "the Petition"). These views are being presented on behalf of the Section only and have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and should not be construed as representing the position of the Association.

The ABA is the largest voluntary professional association in the world. With more than 400,000 members, the ABA provides law school accreditation, continuing legal education, information about the law, programs to assist lawyers and judges in their work, and initiatives to improve the legal system for the public. The Section was formed in 1974 to provide a forum for addressing issues at the intersection of law, science, and technology. The Section has long addressed the issue of standardization, as essential to technological development. The Section's Technical Standardization Committee seeks to improve the development of solutions to policy issues having a mixture of legal and technical factors by seeking to balance or change the law or rules applicable to standards development and use. The Section's Telecommunications and Mass Media Committee addresses the entire range of legal issues involving domestic and international communications, information services, the Internet, and other mass media.

In its Petition, CUT FATT makes a number of requests and proposes rules that would require the Federal Communications Commission (FCC) to regulate patent royalty rates associated with the Advanced Television Systems Committee ("ATSC") digital television ("DTV") standards. (see www.atsc.org). The Section takes no position on whether or not the Commission should assume any role as requested by the Petition or modify any policies regarding DTV patent licensing but rather comments here on the complex and factual considerations that would be implicated by CUT FATT's request that the Commission:¹

[D]eclare that ATSC royalty demands that exceed international comparables are presumed to exceed the FCC requirements, and that each patent holder with higher fees has the burden of proving that its proposed license fees are reasonable and non-discriminatory.”²

The Section provides these comments because we believe we have pertinent expertise concerning the issues raised in the Petition by the above-quoted request. This expertise is reflected in the ABA's *Standards Development Patent Policy Manual* (the "ABA Manual"), developed by the Technical Standardization Committee and published in August 2007.

The ABA Manual was developed and drafted with significant input from more than twenty Section representatives each bringing his or her own unique perspective and experiences involving patent licensing issues and standards development and adoption. As a result of the extraordinary diversity of these contributors, the ABA Manual reflects not only the variety of current practices relating to patents and standards, but also where there is consensus among this diverse group of stakeholders.³ The ABA Manual addresses several topics relevant to CUT FATT's Petition including: distinctions between RAND licensing commitments and RAND licenses, terms and conditions associated with RAND licensing commitments, definitions of Essential Claims subject to RAND licensing commitments, and the scope of RAND licensing commitments.

¹ The Section notes that CUT FATT has made several different requests and has proposed rules that it would have the FCC adopt. The fact that the Section does not address all the requests or the proposed rules should not be construed as the Section's agreement, acquiescence, approval, or otherwise support for such requests or proposed rules. Should there be a further opportunity or an extension of the existing comment period, the Section may consider providing comments on CUT FATT's other requests and proposed rules.

² Petition, page iii. The Section notes that it is unclear whether or not the Commission had previously adopted any rule or requirement regarding RAND licensing.

³ The character of the ABA Manual is "policy-neutral." See ABA Manual, Introduction, page vii.

The ABA Manual also distinguishes between voluntary and mandatory standards, and recognizes that standards can have different levels of adoption, endorsement and legitimacy.⁴ One of the issues before the Commission -- RAND royalties in the context of a standard mandated by a regulatory authority -- has not been widely discussed or analyzed in the literature, which has traditionally focused the RAND analysis on voluntary standards.⁵ While the ABA Manual "is not directed to standards whose policies are prescribed by governments ...the information may be useful in assessing the terms associated with such activities."⁶

These comments therefore focus on the complex and factual considerations noted in the ABA Manual as they are relevant to the above-quoted specific request made by CUT FATT in its Petition.

Overview

The CUT FATT Petition asserts that "international comparables" should be used as a "benchmark" for determining the reasonableness of royalty rates for RAND patent licenses required to practice the ATSC DTV standard. Depending on the circumstances, international royalty rates for comparable patents⁷ and standards may be a useful factor to consider in determining whether U.S. royalty rates are RAND. We respectfully submit that there are many other important factors that the Commission should consider in connection with its review of the Petition. Moreover, it is difficult to make generalizations about RAND royalty rates without taking into account the many other material terms and conditions that are included in patent licenses, many of which differ from licensee to licensee. Due to these distinctions among individual licenses no single data point including an "international comparable" should serve as a benchmark for each proffered license. Consequently, we urge the Commission to consider this broader range of factors and the complexity

⁴ ABA Manual, Introduction, page ix, fn. 3.

⁵ Should the Commission grant CUT FATT's requests to any extent, the Section urges the Commission to at least limit its decision to the ATSC DTV standard which the Commission has mandated and clearly state that its decision should not be broadly applied to other standards, and in particular, voluntary standards.

⁶ ABA Manual, Introduction, page ix.

⁷ Comparable patents are likely limited to foreign counterparts of the US patents in question.

that would be involved in considering the appropriateness of CUT FATT's specific request that these comments address.

Discussion

Specifically, CUT FATT suggests that "international comparable" royalty rates should be treated as "benchmarks"⁸ when assessing the reasonableness of a RAND licensing commitment. With respect to the particular factor proposed by CUT FATT (*i.e.*, patent pools for DVB-T and ISDB), we believe that any consideration of "comparables" should be limited to licenses of comparable patents, both in scope and quantity, for implementation of the *same* standard (*i.e.*, the ATSC DTV standard, in this case). To the extent that such comparables exist, we believe they should be one of many factors considered in evaluating the reasonableness of a particular royalty rate. We also suggest that royalty rates for different patents and different standards (*e.g.*, Bluetooth)⁹ would not be particularly relevant to an analysis of RAND licenses for the ATSC DTV standard.

In addition, there are many factors that courts and private parties consider when evaluating the reasonableness of patent royalty rates, licensing, and cross-licensing terms, etc. In the context of determining "reasonable royalty" damages for patent infringement, for example, the court in *Georgia Pacific v. United States Plywood Corp*¹⁰ relied on fifteen factors to be considered including royalty rates received by the patent holder for the same patent, royalties paid by the licensee for similar patents, the commercial relationship between the licensor and licensee, and the nature and scope the license. In the standards-setting context, participants negotiate royalties alongside a variety of other terms, many of which may have an impact on royalty rates. These negotiations take place on a bilateral basis between a licensor and a licensee, and accordingly, the terms and conditions not only vary based on the standard involved, the particular essential patent claims, etc., but the parties' unique interests.¹¹

⁸ We do not believe that a "benchmark" is appropriate in this context, as it may imply that undue weight be given to royalties established earlier in time.

⁹ CUT FATT lists 10 licensing programs on page 10 of the Petition, many of which have no relation to the ATSC DTV standard.

¹⁰ *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *award modified and aff'd*, 446 F.2d 295 (2d Cir. 1971). See *Monsanto Co. v. Ralph*, 382 F.3d 1374, 1382-84 (Fed. Cir. 2006).

¹¹ ABA Manual, page 22.

Some of these terms are discussed on pages 49-53 of the ABA Manual and include whether the patent license may or must be non-exclusive, worldwide, non-transferable, perpetual, irrevocable, or non-sublicensable. In the standards context, however, these factors may not be exclusive for assessing RAND, and the analysis may be even more complex. For example, if the patent policy applicable to the patent holder's RAND licensing commitment does not require that the patent holder offer the right to sublicense, the patent holder may nonetheless be willing to offer sublicensing rights to a licensee that desires such rights if the licensee pays a higher royalty rate. Similarly, if a patent policy does not require that a RAND license be perpetual a patent holder may wish to offer a patent license for a limited period of time. However, a licensee may wish to negotiate a perpetual patent license and be willing to pay a higher royalty rate for that perpetual license.

Other examples of RAND terms and conditions specified by some patent policies include reciprocity and defensive termination. As explained on pages 61-67 of the ABA Manual there is wide variation among reciprocity and defensive termination provisions that may be found in standards-related patent licenses or cross-licenses especially if the applicable patent policy for a RAND licensing commitment does not limit or define these terms. As a result, a patent holder may be willing to reduce its royalty rate for a licensee who is willing to license its own patents at a reduced rate or for a licensee that is willing to accept a license with a broad defensive termination provision.

On pages 59-60, the ABA Manual also explains that RAND licensing commitments may apply to a variety of permissible rights such as the rights to make, use, and sell, as well as other rights such as the right to "have made" or the right to lease. Each license or cross-license may include different sets of rights based on an individual licensee's needs. If a licensee requires fewer rights, and the patent holder is willing to grant a more limited license, the licensee may negotiate a lower royalty rate for the more limited license.

Crucial to the negotiations between a patent holder and a licensee is the scope of the patent claims licensed as well as the scope of the license requested, *i.e.*, products or portions of products to be covered by the license. With regard to the claims subject to the RAND licensing commitment, the ABA Manual states:

The definition of "Essential Claims" is one of the most crucial definitions in an SDO's Disclosure Policy. It is used in two important contexts: (i) determining which patent Claims an SDO may require or encourage a Participant to disclose within the context of SDO activities ... and/or (ii) determining Claims

for which a licensing commitment is sought from the Participant in SDOs having Licensing Commitments ...¹²

As further explained in the ABA Manual, Essential Claims subject to the RAND licensing commitment may not cover optional portions, alternative portions, or informative aspects of the standard.

A Standard often contains Mandatory Portions that are required to be implemented for compliance with the Standard. This clause excludes from the definition of “Essential Claims” any Claims that are infringed only by implementations of Optional Portions or Informative Portions of the Standard. Requiring disclosure and/or licensing of Claims that cover only Optional Portions or Informative Portions of a Standard can give rise to antitrust issues and should only be undertaken after careful legal analysis. See *ABA Handbook on Antitrust and Standards*.¹³

An SDO’s RAND licensing policy may require that Essential Claims be licensed on a RAND basis. However, a potential licensee may wish to license more patents, including those that cover non-mandatory portions of the standard as well as other features of the licensee’s product that, when combined with the implementation of the standard, may infringe other non-essential claims owned by the patent holder. Since the RAND licensing commitment only applies to Essential Claims the patent holder has not undertaken any obligation to license these non-essential claims. However, the patent holder may be willing to do so if the licensee is willing to pay higher royalties for both the Essential and non-essential Claims.

CUT FATT also states:

Patent holders that demand fees higher than international comparables should have the burden of proving that those fees are reasonable and non-discriminatory, and the FCC should state its intention to impose forfeitures on parties that cannot do so.¹⁴

We express no opinion regarding whether the remedy requested above or other remedy is appropriate, however we note that there are a number of other factors, in addition to those described above, that could be relevant. These include factors surrounding the parties’ negotiations or lack thereof, *i.e.*, the parties’ willingness to negotiate in good faith and their course of conduct leading up to a dispute. In this regard, the ABA Manual explains:

¹² ABA Manual, page 10

¹³ ABA Manual, page 11-12

¹⁴ Petition, page 3.

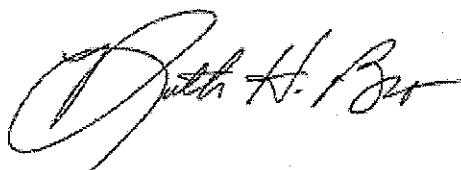
Unless the Policy states otherwise, it is generally understood that a Patent Holder's obligation to offer a license under a Licensing Commitment is initially discharged after the Participant makes a good faith offer of such license. If an Implementer refuses the license, it is not clear, however, whether or how often or for how long the Patent Holder must continue to make a license available. On one hand, it may not be reasonable to allow a Patent Holder to refuse a license to an Implementer who previously could not reach agreement with the Patent Holder, but on the other hand an Implementer should not have the ability to wait until the last minute to demand a license

¹⁵
...

Accordingly, we request that the FCC recognize fully the complexities of the issue raised by the Petition. Consistent with the ABA Manual, the Commission should recognize that use of a "comparable" for determining reasonable royalties for the ATSC DTV standard, to the extent that one exists, may be just one of the numerous factors that would be appropriate for anyone determining "reasonableness" and that any remedy should take into account all specific circumstances that may have factored into a dispute over royalty rates and other licensing terms.

The Section appreciates the opportunity to provide these comments and for the Commission to consider them in its further deliberations in connection with the CUT FATT Petition.

Respectfully,



Ruth Hill Bro
Chair, ABA Section of Science & Technology Law

¹⁵ ABA Manual, page 49.