FRAND V. COMPULSORY LICENSING: THE LESSER OF THE TWO EVILS

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FRAND V. COMPULSORY LICENSING: THE LESSER OF THE TWO EVILS

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**INTRODUCTION**

Licenses are specific forms of contract structured as legal tools detailing the terms of a bargain to either gain or give away rights in exchange for other interests or obligations. Licenses are used in different situations and for using different technologies to create and define rights of the involved parties. Typically, a license agreement is a by-product of a bargain or negotiation between the parties. Contemporary licenses, which are also structured as permits, determine specified activities or create rights that would otherwise not be possible for the licensee. Corporations use licenses as a mechanism to standardize terms and conditions between vendors, consumers, competitors and other interested parties. Thus, the objective of any license is to memorialize the terms between parties – a license that is fair is merely a reflection of the equal bargaining parities of parties.

This paper specifically focuses on two types of licenses that can best be described as outliers, being FRAND and compulsory licenses. The term FRAND is an acronym for “Fair, Reasonable and Non-Discriminatory,” which in essence signifies the presence of such features in the license. The distinguishing feature of a FRAND license is that it is a “voluntary” commitment by the licensor to negotiate fair, reasonable and non-discriminatory terms.¹ Compulsory licenses, on the other hand, force the licensor to

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enter into a license arrangement. Compulsory licenses, as “involuntary contract[s] between a willing buyer and an unwilling seller imposed and enforced by the state.”

Thus, compulsory licenses can affect market exclusivity and the market price of the licensed product. Overall, these two specific forms of licenses are outliers because both of the types of licenses have a specific and comparable objective, which is to result in a fair and reasonable license of an intellectual property protected technology. But, the comparable objective notwithstanding, each type of license achieves this end using different mechanisms. That is, although, both FRAND and compulsory licenses embody a comparable objective of resulting in a fair and reasonable license, FRAND licenses place emphasis on providing the licensee with reasonable terms, e.g., by preventing a standard patent holder from extracting higher than reasonable royalty rates. Conversely, compulsory licenses emphasizes the role of public benefit that ensues from enabling access to an otherwise inaccessible invention. The term “fair and reasonable” takes on a slightly different meaning depending on the type of license.

While the economic value of the product remains an important measurement for both forms of license, to issue a compulsory license, the need for the product by the public and failure to obtain a license under reasonable commercial terms remain an important

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1 A FRAND license, however, might be the only option when a court refuses to grant an injunction; see Microsoft Corp. v. Motorola, Inc., 696 F.3d 872 (9th Cir. 2012).


considerations. Both forms of licenses attempt to create a value for the licensed product that can be remarkably different from the true market value for the licensed product. Nevertheless, both forms ultimately result in benefitting the end-consumer who pays less to access a product subject to either of these forms of licenses.

This paper is an attempt to determine the advantages and disadvantages of such end-based licenses. The objective of the exercise is to determine whether one form is better than the other, and if so, from whose perspective – the consumer, the licensors or the licensees. In doing so, this paper also compares the different prevailing efforts to embrace one or the other forms of licenses outside of the United States. With the above as background, Part I of this paper outlines what FRAND licenses are and how they are deployed by the industry. In doing so, this part outlines the prevailing issues with FRAND licenses. Part II highlights what a compulsory license is and its role in securing access to technology. Part III compares the two forms of licenses to determine whether one form is superior over the other to achieve the objectives of the system. The conclusion highlights a future course of action to structure licenses that will use the best attributes out of the both forms to achieve the objectives of the system, i.e., providing access to technology and progress of science.

I. THE FRAND LICENSE

The FRAND licenses and the operational challenges they present are best understood from the use of such licenses in the software industry. In fact, the proliferation of software patents is an issue that has been the subject of much debate in
recent times. The patents in the information and communications technology (ICT) can be best represented as a myriad of patent thickets. The term *patent thicket* essentially refers to the presence of several overlapping patents which necessitates any third party interested in commercializing the technology to navigate through dense patents and negotiate the rights to commercialize the technology. Adam Jaffe defines it as "an overlapping set of patent rights" which results in interested licensees to obtain licenses on several patents from multiple sources." Consequently, it has become a difficult area to navigate for patent holders as well as potential licensees on account of two reasons: first, being the prevalence of several patents, and second, being the need for product interoperability.

Products involving the ICT technology embody several patents that has to be interoperable to create the required outcome. That is, contemporary ICT products are generally covered by multiple patents from various inventors working together on a common platform. For example, in the mobile phone and cellular network industry, the phones do not actually connect with one another. The cellular networks, which transfer

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6 See id.
the data between two (or more) handsets during a call, have to create the connectivity. In order to create the connectivity, the cellular networks should conform to industry standards. One such standard is the fourth generation long-term evolution (4G LTE) network. Such established standards facilitate interoperability – or, compatibility between products - which is an important feature that can result in products compatible with one another. Compatibility is not merely a user friendly mechanism but it can also lead to reduced costs, because it is simpler for companies to acquire technical information and design when there is a standard in place. Interoperability necessitates and results in each technology being typically covered by several patents – some of which are essential to the further development of the technology. In many cases, each of these patents would become essential to achieve the goal of interoperability and hence, it would be difficult for any one patent owner to operate in a space that is clearly delineated from the rights of other owners. Sometimes there may be patents that read on each other’s products or processes which would necessitate cross-licensing, and both owners could end up competing in the same market. Realizing the interdependence of competition and its importance to their businesses, patent owners whose patents deal with standards that bear interoperable features and are essential to create compatibility can have such patents be designated as a standard. That is, patent owners submit such patents to standards-setting organizations (SSOs; also known as standards-developing organizations, or SDOs), which subject to the requirements can elevate their patents as a standards-essential patents (SEPs). Once a patent is a designated SEP, then the patent owner makes it available for licensing on FRAND terms.
The following part discusses the process of FRAND licensing with particular emphasis on issues that affect the patent owners as well as the industry from the standards essential patents. This discussion begins with an introduction of the standards setting organizations, outlines the issues they face with the FRAND licenses and ends with a discussion of the available remedies while specifically highlighting the unresolved issues therefrom.

1. An Introduction to SSOs:

The SSOs are essentially industry groups that set common standards in significant areas of invention, as a means for establishing mediation between intellectual property [IP, hereinafter] owners and users.\(^7\) A standard is essentially a set of technical specifications that provides a common design for a product or process.\(^8\) As such, the SSOs are membership organizations to which leaders of that particular industry belong. For instance, the International Organization for Standardization (ISO) is a well-known standard setting organization.\(^9\) Other independent standard setting organizations like the Institute of Electrical and Electronics Engineering (IEEE) and the Internet Engineering Task Force (IETF) publish standards and work with the objective


\(^8\) JAMES BESSEN AND MICHAEL J. MEURER, PATENT FAILURE 8 (2008).

of fostering “technological innovation and excellence for the benefit of humanity.”10 Standards tend to harmonize various operational aspects of the industry and thus, create a broad, uniform platform to interact effectively. For example, when an industry in Timbaktu is certified by the ISO for say, accounting practices, it signifies conformance to certain practices that are the norm to that industry in the rest of the world. In a globalized world, standards evolve a language distinct to that industry and set a minimum bar. Thus, for industries in located in different parts of the world, conformity to standards can be status defining and thus, help to create business opportunities. With respect to ICT patents, SSOs that deals with this area have policies concerning the declaration and licensing of patents that cover the standards they adopt.11 Such standards take the form of a set of technical specifications that provide, or attempt to provide, a common design to a product or process in a given sector.12 If a standard cannot be implemented without a particular patent being infringed, then that patent is said to be standards-essential.13 Thus the industry adopts and becomes aware of the applicable standards-essential patents, or SEPs. Once an SSO adopts a particular


12 See id.

recommendation or specification as a standard, then companies participating in the establishment of the standard should make declarations of their patents that cover the said standard. That is, the patent owners whose patents cover the adopted standards declare their patents to the SSO to have them adopted as a standard. Where the patent covers an essential aspect of an industry adopted standard, the patent owner gains the option to enter into standardization negotiations with the SSO in order to adopt the patent as a SEP. The patent owner can license its SEPs without charge, or with a reasonable royalty rate, to implementers of the standard; or, the owner could refuse to license its SEPs, and identify the patents as an area that the SSO would have to design around. Generally, it is in their own interest for patent owners to have their patents adopted as a standard. The reasons for this are explained later in this article. In the simplest sense, however, the licensing terms of an SSO remains appealing to patent owners in the standards-setting environment because they greatly increase the market power of a patent that is standards-essential. Notably, outside the framework of the SSO, many of these standards essential patents would likely be in competition with one another. The SSO framework minimizes issues relating to delay or hold-up on product manufacturing resulting from competition between patent owners. Failing a

negotiated agreement with the SSO, the alternative for the patent owner is to enter into licensing agreements with interested licensees individually or, not license the patent at all.

In negotiations that involve adopting a patent as an SEP, the rules of the SSO define the licensing terms covering the standards that may be adopted. SSOs can sometimes require licensing assurances, or else, say, a disclaimer specifying that claims of an SEP will not be enforced. The licensing terms that the SSOs generally include a specification that the SEPs must be licensed on “[fair,] reasonable and non-discriminatory,” or FRAND, licensing terms. To give an example of this, the authors direct attention to the policies of the European Telecommunications Standards Institute (ETSI). The ETSI is a SSO that covers the telecommunications industry in Europe, with worldwide projection. As an SSO, the ETSI has an outlined procedure for the adoption

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17 See ETSI’s Rules of Procedure (last modified Mar. 20, 2013), available at http://www.etsi.org/images/etsi_ipr-policy.pdf. (It is important to note that an entity which joins an SSO does so voluntarily; however, it is (usually) obligatory that the joining entity agree to license their patents on FRAND terms. As an example, the authors would direct attention to Clause 6.1 of the European Telecommunications Standards Institute (ETSI) IPR Policy, Annex 6, Rules of Procedure (20 March 2013), in which is stated, “When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of the ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an irrevocable undertaking in writing that it is prepared to grant irrevocable licenses on fair, reasonable and non-discriminatory (“FRAND”) terms and conditions under such IPR.” The procedure of the ETSI was used as an ideal example of FRAND policy in this article.)


of patents as standards. In the event a patent owner believes that they hold essential patents with regards to an ETSI standard (for example, the 4G and 4G LTE cellular networks), the ETSI provides an licensing declaration form to be completed by the patent owner.\textsuperscript{20} The declaration form acts as a general undertaking that the patent owner is prepared licenses its patents under FRAND terms and conditions, so long as these patents are, or become, essential to a new or existing standard of the ETSI. Once the patent owner completes the licensing formalities, the patents become standards-essential, and the owner may become either an institute a member, or simply a third party affiliate to the ETSI, each of which entails certain rights under the ETSI Policy.\textsuperscript{21}

2. The Mechanism of FRAND Licensing:

The mechanism of FRAND licensing is essentially a stipulation of the industry adopting a standard which, in turn, enables users of an SEP to pay royalties negotiated with the patent owner who has undertaken to be reasonable and fair as part of the agreement between the SSO and the patent owner for the use of the SEP.\textsuperscript{22} At its core, FRAND licensing should offer the same or similar terms to all users, or licensees (sometimes called “developers”) on a given patent, in an attempt to prevent licensing abuses by the patent owner in attempting to enhance the competitiveness of the given patent’s prospective market. In other words, FRAND licensing terms hope to prevent

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post-standardization hold-ups of patents by owners in ensuring that these owners cannot either refuse to license their patents, or else set exorbitant royalty prices on their patents.\textsuperscript{23} Notably, while the general requirement is to be fair and reasonable, the constituents of these terms are left undefined. Hence, the biggest issue that pervades this area relates to the constituents of the FRAND terms.\textsuperscript{24} Generally, the term “fair” relates to the underlying licensing terms, and describes them as not being anti-competitive, and not unlawful.\textsuperscript{25} Similarly, the term “reasonable” relates to licensing rates that do not result in unreasonable aggregate rates.\textsuperscript{26} A reasonable royalty rate, for


\textsuperscript{25}See, e.g., Saumya Srivastava, Standard Essential Patents and Competition Law (2013) (Competition Commission of India), available at http://cci.gov.in/images/media/ResearchReports/Standard%20Essential%20Patents%20and%20Competition%20Law.pdf. (The term “not unlawful” applies to situations in which the licensing terms are imposed by a dominant firm in their relative market. Perhaps the easiest way to recognize “fair” terms is to note a few violations of this commitment. A few examples include: “bundling” (whereby buyers purchase several products as one combined product on more advantageous terms), free grant backs (by which the licensor can incorporate the improvements of the licensee’s R&D in its own products free of charge), and mandatory exclusivity agreements (which outline the grounds for the exclusion of an entity from practicing the IP or patent rights of a given product, or from practicing the standard of an SSO).

\textsuperscript{26}See id. (The caveat “do not result in unreasonable aggregate rates” applies to situations in which all licenses are charged at the same rate. The argument is made that aggregate licensing rates should not increase the cost to the industry and make it uncompetitive or monopolistic. “Reasonable” is the most controversial matter when defining RAND terms. Consider the debate that ensues over whether or not a “reasonable” license price should include the value contributed by the SSO’s decision to adopt the standard in the first place: one argument holds that a technology is usually considered more valuable after being
instance, ought to reflect the presence of patents held by others that can read on the same product—that is to say, a reasonable royalty rate should take into account product interoperability.\textsuperscript{27} Negotiating a reasonable royalty rate will not only help the licensee but will also mitigate serious industry problems like royalty-stacking. In gist, royalty-stacking is a situation in which a single product potentially involves or even infringes on many patents, and may therefore bear multiple royalty burdens.\textsuperscript{28} The reference to “non-discriminatory” relates to the underlying licensing condition (rates and terms); this term ensures that new entrants to the market are free to enter into licensing relationship on the same basis as existing competitors, which will help to maintain a level playing field in the industry. In other words, a “non-discriminatory” clause should ensure that, although a licensor’s rates and terms can change depending on the credibility of the licensee, the terms must be the same for all developers. In every case, it is the responsibility of the licensor to ensure that every potential licensee receives the same FRAND contract as any other licensee.

In addition to the above, generally, patent owners tend to agree to allow users and designers (the licensees) the rights, (1) to implement the standard of the SSO in their products, and (2) to use other patents declared “essential” or “necessary” by the widely-adopted, and thus a “reasonable” licensing price ought to reflect the value of the technology after it has been widely-adopted; the counter-argument holds that a license price that captures the value of a widely adopted technology is “unreasonable” because it does not reflect the intrinsic value of that technology as the one-of-a-kind alternative among many.


Importantly, patent owners who agree to make their patents SEPs and make it available for FRAND licensing enjoy several benefits. For instance, they can influence the technological development of a standard. Generally, members of the SSO who can wield technical influence within the SSO, along with strategic influence regarding which standards will be created, in which order, and to serve which ends, enjoy considerable authority over the development of the standard as well as the industry in general. Similarly, licensing agreements determined through negotiations between patent owners and SSOs can also result in greater rewards earned through opportunities like certification and branding for standards-compliant products, joint marketing that can result in shared related costs and/or early access to information relating to an evolving standard. In turn, the patent owner, by agreeing to license its SEPs on FRAND terms, presumably forfeits the ability to block implementation of a standard by licensing at exorbitant prices. The patent owner, once they become a member of an SSO, cannot prevent noncompliant implementation of the standard, either; however, they are able to sue or seek an injunction in the event of such implementation. Similarly, patent owners are limited in that disagreements over the

31 See id.
32 See id.
33 See id.
34 See id.
terms of the FRAND commitment cannot be an excuse for the patent owner to refuses to license its patents, or disclose them.\textsuperscript{35} Any refusal by the patent owner to license the patent could be treated as a violation of the agreement with the SSO enforceable by a claim for breach of contract remediable by an award of damages.\textsuperscript{36} And again, refusal by the patent owner to adhere to the negotiated terms with licensees or disclose the patent will also be subject to contractual remedies as well.\textsuperscript{37}

The most important aspect of this is the fact that, ultimately, FRAND licenses are contracts involving patent rights. Therefore, refusal by the patent owner to license can give rise to the potential licensee suing the patent owner as a third party beneficiary without affecting the SSO’s separate claim against the patent owner for a claim of breach of contract. The contractual claim arises from the fact that patent holder voluntarily submits to the licensing policy of the SSO and signifies his intention to license on FRAND terms, thus creating an enforceable contract.\textsuperscript{38} Indeed, even where the patent owner accuses a third party of infringement, the accused can defend the infringement suit on the grounds that the patentee did not offer the patent on fair and reasonable terms. As a licensee – or the implementer of the standards – suits can be brought because the patent owner and licensee are unable to enter into a negotiation or, after signing the agreement, that the terms of the license are not FRAND. These are both very different situations. As to the first, the licensee’s position relative to the SSO binds

\textsuperscript{35} See id.
\textsuperscript{36} See id.
\textsuperscript{37} See id.
him and enables him to seek FRAND terms as the intended beneficiary of the agreement between the patent owner and the SSO. As for the second scenario, it is widely opined that a party who has signed the FRAND agreement as a licensee and is in a position to claim rights under the FRAND commitment cannot “negotiate and sign a license, enjoy the benefit of that license for as long as it pleases, and then collaterally attack the license as unenforceable…on the theory that the license terms violated the preceding contractual commitment.” Thus, the contractual nature of the FRAND commitment creates separate rights and obligations that engages and works with the rights and obligations associated with the patent. As such, licensees are also bound by the FRAND agreement with the same amount of care as the patent owner.

While FRAND commitments are structured as enforceable contracts, they suffer from the same malaise that every contract is subject to. Thus, despite the commitments that seem inherent in a FRAND license, there is a lot of scope for disagreements and dispute. For instance, in reality, while the patent owner undertakes with the SSO to negotiate reasonable royalties, not only is the question of what is reasonable subjective, but who would decide the reasonableness is also a subjective and contentious element and can

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41 See id.
thus, differs with different licensees. The difference in the perception of what a reasonable royalty is can only lead to dispute and disagreement blocking the effective use of the technology. Given this, the practical advice for both the potential licensees as well as the patent owner is to thoroughly investigate and conduct due diligence of the bylaws of the SSO before licensing the technology, being the Standards Essential Patent. However, the event of a dispute, the confluence of contractual issues with the associated intellectual property rights does provide a diversity of remedies, discussed in detail below. While it increase the options for the parties involved in seeking a remedy when there is a dispute, it also creates multiple options that can work to undermine the flow of the intended benefits of the arrangement. The following section addresses some of the remedies that are available when there is a dispute regarding the FRAND commitment with a view to highlight the various options and the issues that they present.

3. Available Remedies:

The above discussion highlighted the range of issues that a FRAND license implicates, including patents, licenses and thus, the law of contracts, property and reliance. Given this, there is no one remedy to deal with issues or disputes that may arise from the use of these agreements. The choice of remedies available and to be deployed in the event of a dispute over the FRAND agreements are best determined on

a case-by-case basis, by carefully examining the facts and circumstances of the situation. In the following section, the authors will discuss the most important remedies that have been used in FRAND disputes. In doing so, this section will highlight the issues with the available range of deployable FRAND remedies – and thus, be a precursor to the next section, which would introduce compulsory licenses to determine whether some of these issues are better dealt with by using that form of license.

a. Injunctive Relief Under the Patent Statute:

A patent owner who feels that his SEP is being infringed, can seek injunctive relief under Title 35. If the court denies the petition for injunctive relief, it leads to parties renegotiating the terms, like in every other contract. The factors that the court will consider to determine whether an injunction in favor of the patent owner should be issued are outlined in the eBay Inc. v. MercExchange, L.L.C., where the U.S. Supreme Court, in vacating a general rule of the Court of Appeals for the Federal Circuit, unanimously decided that an injunction should not be automatically issued in every instance of alleged patent infringement. In essence, the party filing for injunctive

45 See id. (It is worth noting that the Court declared that a permanent injunction ought not to be issued based solely on allegations of patent infringement. The court enunciated a four-factor test to be used for determining if a permanent injunction ought to be issued. The plaintiff must show: (1) that they have suffered an irreparable injury; (2) that damages or other remedies under the law are inadequate; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that public interest would not be dissevered by a permanent injunction.)
relief should show its entitlement to an injunction by providing evidence of the outlined four factors, being (1) that plaintiff has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.46

In a standards-setting environment, especially given the pace of development of the technology, when an injunction is issued by a court order, it can tilt towards the patent owner and create the problem of patent hold-up.47 That is, once an injunction is issued in favor of the patent owner, it prevents the use of that technology and thus, its development be it a product or a process, and thus, forces potential licensees to the negotiating table while at the same power increasing the bargaining parity of the patent owner.48 Thus, even though an injunction theoretically merely maintains the status quo by restraining one party from practicing another’s patent, in a patent that has been declared standards-essential, the availability of a guaranteed injunctive relief like in the pre-eBay era essentially empowered even owners of minor patents to seek more royalties by using the threat of injunctive relief. Considering the high rate of product

46 See id. (Factor (3) corresponds to factors (1) and (2), which have been explained; but factor (4) is in a category of its own. Per factor (4), the issuance of injunctive relief must not result in confusion for market consumers (“the public interest”), or affect them in any other negative manner. Therefore, factor (4) becomes relevant as the injunction is, or after it has been, granted.)

47 See for e.g., Colleen V. Chien and Mark A. Lemley, Patent Holdup, the ITC, and the Public Interest, at 9
interoperability prevailing in the ICT sector, injunctions were effective to either force renegotiations or to ensure due dispensation of royalties. Basically, the guarantee of automatic injunctions for patent infringement empowers the patent owner to stall a competitor by using the SEP as a strategic measure. Given this, the biggest change with eBay is that it has taken away the guarantee of injunctive relief in the event of an alleged infringement and has made the field more equitable.

The eBay decision has important implications for SEP patents. In essence, when a patent owner agrees with the SSO to license on FRAND terms, it presumptively agrees that competitors need the patent in exchange for a license (or royalty) on FRAND terms, thus, implying that a royalty or monetary damages would be an adequate remedy. Indeed, when Motorola sought an injunction to prevent Apple from using its UMTS telecommunications capability on cell phones, Judge Posner refused to issue an injunction on the grounds that Apple cannot be enjoined from using the patent unless it refuses to pay a royalty on FRAND terms. Thus, for FRAND licenses, injunction is not an automatic option and it is a remedy where the plaintiff can prove harm beyond failure of royalty negotiation.

b. Breach of Contract:


The second form of remedy is for a breach of the FRAND contract. This form of remedy is most likely to be pursued by the licensee rather than the patent owner when, on account of a dispute, the licensee is unable to use the SEP. That is, licensees of the SEPs, as third party beneficiaries, can sue the patent owner for the breach of FRAND contract involving the SEPs in question. Generally, licensees, acting as “standard-users” — that is, a party using the SEPs in question in their products already — can use breach of contract as a mechanism to sue the patent owner and seek a remedy when they believe that the patent owner has breached the FRAND obligations. Such breach of contract suits may ensue even with potential licensees who are members of the SSO stand to lose when patent owners seemingly do not abide by their FRAND commitments. For instance, in 2010, Motorola sent an offer to Microsoft outlining its willingness to license its patents that concerned the IEEE WiFi 802.11(The Wifi or WLAN), which is the wireless networking and ITU H.264, the video coding SEPs at a rate of 2.25% of the end-product price. The offer from Motorola prompted Microsoft, in November 2010, to file a complaint against Motorola alleging a breach of contract and seek a declaratory judgment on the grounds that Motorola failed to meet the FRAND commitments set by the IEEE on account of having sought an unreasonable royalty rate for such SEPs. Basically, Microsoft asserted that the terms Motorola had sought violated its FRAND undertaking with the SSOs because the expected royalties were

51 See Microsoft Corp. v. Motorola, Inc., C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013); See also Microsoft v. Motorola, 871 F.Supp.2d 1089 ((W. D. Wash. April 25, 2013); 2012 WL 1669676 (granting developer's motion for preliminary injunction to prohibit patentee from enforcing any injunctive relief it); see generally also Microsoft Corp. v. Motorola, Inc., 696 F.3d 872 (9th Cir. 2012).
unreasonable. Microsoft asserted these grounds as a third party beneficiary. The complaint from Microsoft prompted Motorola to file a suit against Microsoft alleging patent infringement.

In March 2013, Judge Robart of the District Court for the Western District of Washington State dismissed Motorola’s claim for an injunction and ruled that Motorola’s FRAND commitments created an enforceable contract, and Microsoft, being a third-party beneficiary, had the right to sue for a breach of that contract. In refusing to issue an injunction, Judge Robart reset the royalty rates Motorola was charging on their SEPs, rather than force Motorola to settle on a new FRAND agreement. The new rates, issued by Judge Robart in April 2013, remain one of the first examples of a calculation of FRAND royalty rates on a SEP by the court, and will provide guidance for other SEP holders and their potential licensees when it comes to negotiating FRAND rates and terms.

The court’s decision is distinctive in that it left the FRAND commitments unaltered while tailoring the royalty rates payable. In arriving at an acceptable rate of royalty, the court, used the factors enunciated in the Georgia Pacific decision which enumerates a non-exhaustive list of fifteen factors in the context of assessment of damages for patent infringement. Such factors include, the royalty already received by the patentee, the rates that the licensee paid for other patents, the nature and scope of the license, the

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52 See id. (This was the beginning of what would become Microsoft v. Motorola, Inc. and Microsoft v. Motorola Mobility, Inc. (W.D. Wash.), 2:10-cv-01823.)

53 See supra note 50.

parties’ commercial relationship, the duration, term of the patent, the advantage of using the patent, the profit proportion from the use of the patent, etc.\textsuperscript{55} Using these factors, Judge Robart’s court, at the outset, determined the amount Microsoft would pay for all SEPs related to its technology; then compared this amount to the portion of it attributable to Motorola’s patents.\textsuperscript{56} In this analysis, Judge Robart faced the possibility of “royalty stacking”, which happens when there are numerous entities holding SEPs.\textsuperscript{57} Hence, Judge Robart determined the royalty rate and range with reference to comparable licenses concerning pooled patents in a single package. The new FRAND rates that were set by the court for Motorola’s SEPs were notably lower than the royalty rates initially offered to Microsoft. Motorola originally offered to license the SEPs to Microsoft at a rate of 2.25% of the end-product price, which translated into a range that fell between $3.00 and $5.13 per unit. Judge Robart’s calculations set a FRAND range between 0.555 and 16.389 cents per unit for video coding SEPs, and a range of 0.8 to 19.5 cents per unit for wireless networking SEPs. These were very well below Motorola’s original offer. In all, the case has become a guidepost for future SEP holders and possible licensees to use when negotiating licensing and royalty rates on FRAND.

\textsuperscript{55} Id., at 1119-20.

\textsuperscript{56} Microsoft Corp. v. Motorola, Inc., C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013)

\textsuperscript{57} Id. A single product potentially infringing on many patents incurs multiple royalty burdens. This is called “royalty stacking” and can result in a hold-up on the patent and product, because the existence of royalty burdens prevents the patent from being manufactured and sold. The authors argue that, in this case, the aggregate licensing rates Microsoft incurred for licensing Motorola’s SEPs would have increased the cost to the standards industry, which would have made the market less competitive. A decrease in Microsoft’s potential for profitability as a result of Motorola’s IPR is then a vivid example of “unreasonable” licensing terms.
This case demonstrates that royalty rates can be set using judicial intervention rather than forcing a renegotiation of FRAND terms. After the district court judgment, Microsoft sought a summary judgment on the grounds that Motorola breached the implied duty of good faith and fair dealing which is part of the RAND commitment. When the motion was denied, the case proceeded to the jury. Later, a federal jury in Seattle ruled that Motorola owed Microsoft $14.5 million in damages for breaching its FRAND obligation on the SEPs in question. One aspect of note here is in refusing summary judgment, the court points out that when a patentee merely seeks injunctive relief, that does not “[a] matter of law violates the duty of good faith. Whether seeking injunctive relief for a SEP frustrates the purpose of the contract is based on the specific circumstances of the case, and here [licensee] has failed to carry its burden on summary judgment to demonstrate that a specific action by [ ] in seeking injunctive relief violated its duty of good faith.” This case is an example to demonstrate the successful use of a

59 Microsoft Corp. v. Motorola, Inc., 963 F. Supp. 2d 1176 (W.D. Wash. 2013)
breach of contract claim by interested licensees when a FRAND agreement is involved.\textsuperscript{63} Also, the \textit{Georgia-Pacific} factors have been cited as an important guide-post, when duly modified to calculate FRAND royalty rates.\textsuperscript{64}

\textit{c. Award of Monetary Damages:}

The restitutionary form of remedy for a breach of a FRAND contract is the awarding of monetary damages. Monetary damages have their roots as a breach of contract claim and are unlike injunction which forces renegotiations. Basically, when there is an injury proved, then the courts will award monetary damages to the injured party as a matter of restitution. For instance, 35 U.S.C. § 284, provides in relevant part that “upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court”\textsuperscript{65} The question that arose with respect to monetary damages was whether harm to the patent owner has to be proved. In other words, can a patentee be entitled to monetary relief or royalty – that is much more than nominal damages - if the patentee is able to infringement in the absence of harm.\textsuperscript{66} For instance, Motorola filed a complaint with the International Trade Commission (ITC) alleging Apple of patent infringement of six

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\textsuperscript{64} Report of the ETSI General Assembly Ad Hoc Group, (ETSI GA/IPR02(03)05 1)(1993)
\textsuperscript{65} 35 USC section 284
\textsuperscript{66} Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 909 (N.D. Ill. 2012)
\end{flushright}
Motorola SEPs. Motorola petitioned to the ITC to prevent Apple from importing infringing products into the United States.  

In response, Apple filed a counterclaim and sued Motorola for failing to offer its SEPs on FRAND terms and that in turn, Motorola infringed some of Apple’s patents. That is, Apple claimed that Motorola’s Android phones are copies of the iPhone, “as a whole.” At the District Court Judge Richard Posner, sitting by designation on the U.S. District Court for the Northern District of Illinois, determined that neither party was able to show incurrence of damages or of infringement. The court held that Apple’s patents were narrow, and could be circumvented. The court noted that “Motorola’s desire to sell products that compete with the iPhone is a separate harm—and a perfectly legal one—from any harm caused by patent infringement.” In essence, he asserted that Apple had failed to show incurrence of damages, as Motorola’s actions amounted to healthy competition in the ICT market and was not a direct infringement of an SEP owned by Apple. Similarly, Motorola was also unable to prove that Apple violated its SEP patents. Given this, the court noted that both parties are seeking “substantial royalty predicated on no showing of harm.” The court specifically dispelled “any


70 See supra note 53, at 31.
impression that such relief—substantial “compensatory” damages for no tangible injury—would be proper even apart from constitutional limitations on the jurisdiction of the federal courts.”  

Thus, the court held that monetary damages would be a sufficient remedy for where there is clear proof of infringement with harm.  

Similarly, the court added that injunction would not be available unless the defendant [Apple] refuses to pay a royalty that meets the FRAND requirement.  

The court noted that Apple had not, as Motorola claimed, refused to license its SEPs; rather, Apple had refused to pay more than what Motorola would charge any other potential licensee for its SEPs.  

In fact, in committing to to license its patents to anyone willing to pay a FRAND royalty, the court held that the plaintiff - Motorola - acknowledged a royalty and not injunction, to be adequate compensation for a license to use the patent in question.  

The court noted that issuing an injunction would result in allowing Motorola if not performing its FRAND obligation of licensing it to interested parties. Instead, it would merely facilitate the plaintiff to enjoy the benefits of the higher hold-up value generated by allowing the plaintiff of without the technology.  

Basically, Motorola as plaintiff with an SEP patent, the court held, did not have the right to block Apple from

71 Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 909 (N.D. Ill. 2012)
73 Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 914 (N.D. Ill. 2012)
75 See supra, note 53, at 18.
76 Id,
using a patent that derives its worth and value from the fact that it is part of an industry standard.\textsuperscript{77} Further, the court specifically highlighted the effect of providing injunction for SEP patents and the harm it causes to consumers by holding up production.\textsuperscript{78} Indeed, the court also addressed declaratory relief and noted that a party may sue for declaratory relief in federal court only if either it or its opponent could bring a federal suit for injunctive or monetary relief.\textsuperscript{79} Overall, this decision clarifies when the different remedies would be available when a FRAND agreement is involved.

\textit{d: The International Trade Commission as an Alternate Forum:}

Protecting the borders of a country against counterfeit goods is not only an important aspect of national intellectual property law but also trade law. Among other things, Section 337 of the Tariff Act of 1930\textsuperscript{80} prohibits unfair competition from importation of foreign products that infringe valid U.S. intellectual property rights, including patents, into the United States. In order to prevent importation of counterfeit goods and to adjudicate disputes arising therefrom, the Tariff Act of 1930 establishes the International Trade Commission (ITC).\textsuperscript{81} The ITC is an administrative body and hence, is a quasi-judicial federal agency with powers to investigate complaints of violations of section 337 of the Tariff Act. Under the section, an importation of articles that infringe “an industry in the United States, relating to the articles protected by the patent, copyright, trademark, mask work, or design concerned, exists or is in the process of being

\textsuperscript{77} See supra, note 53 at 19.
\textsuperscript{78} See supra note 53, at 32.
\textsuperscript{79} Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 923 (N.D. Ill. 2012)
\textsuperscript{80} (19 U.S.C. § 1337)
\textsuperscript{81} Id.
established.” Non-manufacturing sectors are also protected if they are engaged in licensing and research. Termed as “domestic industry” requirement, the provision protects intellectual property owners whose trade is affected on account of infringing imports. When the ITC determines that the importation affects an industry in the United States, it issues an exclusion order.

In the context of FRAND agreements, the patent owner has the option of approaching the ITC seeking an exclusionary order preventing the defendant from importing his product into the United States on the grounds that “domestic industries” are affected until resolution of either the breach of contract claim from the FRAND agreement, or, the patent infringement suits. The exclusionary order creates the same effect as an injunction by pushing the defendant to negotiate with the plaintiff. Further, it is important to appreciate that the status of the ITC as an administrative body makes it relatively convenient to not be bound by judicial prescriptions like the tests outlined in the eBay decision – a position that has been upheld by the Federal Circuit in the Federal in Spansion, Inc. v. ITC. Consequently, it is relatively easy to get an exclusionary order from the ITC, a process that Professors Chien and Lemley assert are being extensively used by patent owners. The ITC has the authority to not impose an

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82 19 U.S.C. § 1337(a)(2)
84 629 F.3d 1331 (Fed. Cir. 2010).
85 Colleen V. Chien and Mark A. Lemley, Patent Holdup, the ITC, and the Public Interest, at 9, available at https://www.law.stanford.edu/display/images/dynamic/events_media/Panel%202%20-%20Chien%20&
exclusionary order considering consumer interest and such other public interest factors. Nevertheless, Professor Chein and Lemley assert that “the ITC views enforcing patents as in the public interest, with the result that the public interest analyst starts out with a thumb on the scale in favor of the patentee.”

In a recently released report the Department of Justice along with the USPTO urges the ITC to consider the use of exclusion order for SEPs whose owners have agreed to abide by FRAND licenses on the grounds that a royalty negotiation that occurs under threat of an exclusion order would skew in favor of the patentee in a manner inapposite to the patentee’s RAND commitment.

e. Remedies from Anti-trust and other areas of law

Outside the U.S., the European Union provides examples of dealing with FRAND licensing and infringements. In May 2009, for example, the Federal Court of Justice of Germany (BGH) oversaw a case regarding CD-Rs. The BGH upheld that an entity accused of patent infringement because it is unable to obtain a license from the patent holder may defend itself by invoking an “abuse of dominant market position.” In

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87 Chien and Lemley, supra note -----.


89 The material of this decision has become a cornerstone of the IP policy and antitrust and competition law of not just Germany but also the EU. The provisions for invoking the abuse
effect, the BGH allowed a patent user to defend itself against an infringement claim by arguing that it is entitled by antitrust law to a FRAND license. This decision was the attempt by the German courts to more clearly define reasonable FRAND terms, especially the license fees.\(^\text{90}\)

Similarly, a FRAND defense was also considered by a Japanese court in *Apple, Inc. v. Samsung Electronics*.\(^\text{91}\) In Japan’s Tokyo District Court, Samsung sued Apple for two cases of infringements on SEPs related to a wireless data packet system. The Tokyo District Court rejected Samsung’s claims on the grounds that Samsung had failed to comply with an agreement forcing it to license their SEPs on FRAND terms. Before the suit, the two parties had been negotiating a licensing agreement on a set of Samsung SEPs, and Samsung had offered a royalty rate of 5%. Apple argued that this was unreasonable, and took the matter to court. When the court agreed with Apple both parties decided to renegotiate the FRAND agreement.

The interesting aspect of this decision is that the IPR policy of the ETSI was used as a guideline in the Japanese court to hold that Samsung had abused its market power,

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90 See, e.g., Industry Standards and the Competition Law Defence: Acting Like a ‘True Licensee’, available at [http://www.internationallawoffice.com/newsletters/detail.aspx?g=abc44bef-50b0-4b0b-8c70-a28d7fa5502a](http://www.internationallawoffice.com/newsletters/detail.aspx?g=abc44bef-50b0-4b0b-8c70-a28d7fa5502a) (last visited Mar. 30, 2014). (This latter matter was brought up earlier in this article, as a real dilemma in the FRAND licensing field. *Orange-Book Standard* does not set exact guidelines for calculating such a reasonable fee (perhaps because circumstances will dictate what is and is not reasonable); but the *Standard* does identify the issue as one that needs addressing.)

based on evidence of Samsung’s failure to fulfill its FRAND obligations pertaining to the SEPs. Additionally, the court acknowledged that Samsung, in maintaining its petition for a preliminary injunction, was abusing the legal process by delaying the disclosure of standards-essential patents to potential licensees. In the final ruling, the Japanese court also found that Samsung’s SEPs were unenforceable, and so Samsung could not claim monetary damages or injunctive relief.92

4. The FRAND State of Affairs:

In the current state of affairs, the concern relates to the diversity of remedies and the differences in the outcome that the choice of remedy can result in. Using the court process to establish FRAND terms can cause hold-up increasing the cost of license, reducing the efficiency while binding resources in the meanwhile. The alternative of using the court for an issue of breach of contract is not necessarily a quick solution either. In any event, FRAND commitments differ on a case-by-case basis and hence, there is no standard royalty rates for these contracts. Further, what may be a reasonable royalty rate in one case may be unreasonable in another. Hence, the target seems to be to generate a workable royalty range. Such a FRAND range may be applicable to any case regarding the same kind of device or standard. Working within a set range makes remedies easier to calculate, and can potentially lead to less disputes. In summation, although SSOs and FRAND licensing have potential to be positive forces, they currently use up court time and result in muddied water for all parties involved. Although this is

true for most litigation, FRAND licensing can be particularly cumbersome as it can involve patent infringement, anti-trust and contractual issues. As Judge Posner’s decision in *Apple v. Motorola* suggests, there should be less litigation from a patent system that is already lacking in a universal definition of the cost of patent infringement.93

On the other hand sits compulsory licensing. Compulsory licensing bypasses the issues of FRAND licensing because the Government establishes a rate. That rate becomes the standard for licensing that invention. Although that rate may not be ideal, the benefit is that the rate is clearly defined up front. This gives parties information to take into consideration before implementing the standard in their products. The primary issue with compulsory licensing, however, arises when a patent owner that does not want to license its patent may, under some circumstances, be forced to license by organizations that have the fiat to create the standard. With this as the background, the next section discusses whether compulsory license can be a solution to the problem presented by the FRAND license.

II. AN INTRODUCTION TO COMPULSORY LICENSING

The monopoly component of any patent consists of the right to prevent competition and to charge a maximum market price. As a mechanism, compulsory licenses are meant to balance the patent owner’s right with the societal need for the product, and operate where public interest concerns outweigh the patent holders’ rights.94 Hence,

93 *See supra*, note 55.
94 Rafael V. Baca, *Compulsory Patent Licensing in Mexico in the 1990’s: The Aftermath of NAFTA and*
such licenses affect the patentee’s monopoly - however, it represents a compromise between revocation of patents and patentee’s absolute property rights over the invention.  

Operationally, compulsory licenses can force an unwilling patentee to license the patent during the term of the patent. In gist, compulsory licenses, as “involuntary contract[s] between a willing buyer and an unwilling seller imposed and enforced by the state.” Such licenses affect market exclusivity and consequently, the market price. In theory, the incentive for encouraging innovation which forms the central tenet of the patenting process dictates that the price of a patented product cannot be controlled by third party, including by government intervention, unless licensed compulsorily.

1. The Effects of Compulsory Licensing

a. Access to consumers

The issuance of a compulsory license has important effects. First, it ensures that consumers have access to the licensed products before the end of the patent term and at a price that makes it more accessible and less privileged. The issuance of a compulsory

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95 Baca, supra note 93, at 184. Compulsory licenses allow governments “to compensate for the economic shortcomings associated with not establishing a domestic industrial base when not working an invention within its borders.” Id. at 187.


98 See Mary T. Griffin, AIDS Drugs & the Pharmaceutical Industry: A Need for Reform, 17 AM. J.L. & MED. 363, 402 n.260 (discussing the Department of Health and Human Services Reimbursement Board’s establishment of price limits at the lowest prices at which the drug is available).
license usually is a rare occurrence in almost all countries. Most common instances of compulsory licensing are found in areas that are critical to public interest like energy sectors and pharmaceutical patents. A compulsory license involving a technology signifies an overwhelming need of the public for that patent to address an important issue that concerns the public. If there is a benefit from the compulsory license, it is the increased access that these types of licenses create.

b. Effect on the rights of the patentee

Next, it is presumed that the impact of compulsory license is adversely felt by the patentee. Usually compulsory licenses mechanisms are viewed as disincentives adversely affecting inventors and patent holders. That is, patents serve as market incentives enabling patentees to derive maximum economic efficiency irrespective of maximization of consumer welfare. The market incentive component is derived from the conception of patents as a private property that is gained in return for certain conditions, one of which is disclosure. That is, the inventor, among other things, reveals the invention in return for the government’s promise of a specified statutory

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99 See Joseph A. Yosick, Compulsory Patent Licensing for Efficient Use of Inventions, 2001 U. ILL. L. REV. 1275, 1291–92 (2001). For an example of judicial treatment of compulsory licensing, see Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908), where the Court outlined the traditional American posture on compulsory licensing. In considering whether the rights of a patent owner included the right not to put his inventions to manufacturing use, the Court recognized that exclusivity characterizes the absoluteness of the inventor’s property rights. Id. at 424. The patent in question, the Liddell patent, related to a paper bag machine. Id. at 406. After the patent was issued in 1896, the owner neither manufactured nor licensed the patent. Id. at 408. In 1908, the patent owner sued the defendant for infringement for manufacturing the patent. Id. at 406. The defendant alleged that the owner of an unused patent was limited in law from alleging infringement. Id. at 428.

monopoly on the production of the idea. Since competition is curtailed during the monopoly period, patent owners charge the highest price that the market can bear, typically far exceeding the marginal cost. Presumably, the increased cost covers the investor’s past and future investments on research and development. Consumers, in turn, associate the higher cost for patented products with the privilege of using the invention. Hence developed nations, particularly the United States, believe that patent owners with valuable products will market them and discourage government interference with patent monopolies. In essence, the adverse effect of compulsory license is presumed to affect the patentee for two reasons being, the effect of the patentee being forced to license the patent on the patentee’s monopoly rights which allow includes the right to refuse to license the patent; and second, the impact on the market price which in turn impacts the overall economic incentive that the patentee can derive from the patent.

c. Government Use of compulsory licenses

As for the first concern being the adverse effect on the right of the patentee, while the general rule is that the patentees enjoy total monopoly during the patent term, it is

101 Id. at 681.
102 See Mark A. Lemley, The Economics of Improvement in Intellectual Property Law, 75 TEX. L. REV. 989, 1065–66 (1997) (noting that “producers will price at marginal cost only if they are forced to by the existence of competition. A producer who controls a market will cut output and raise prices, increasing its profits but reducing both consumer and aggregate social welfare”).
103 See Lemley, supra note 101, at 996 (discussing the privilege issue).
104 See id; see also Fauver, supra note 99, at 677–78. Scholars have argued that compulsory licenses are unconstitutional since the grant of the exclusive patent right is unconditional. Id. at 678. Others have compared compulsory licenses to government appropriation under the takings jurisdiction, implying that patent rights cannot be restricted by compulsory licenses without just compensation. Id.
important to note that proponents of use of such licenses assert that the overall objective of the system to serve the public is satisfied when these licenses are appropriately deployed. Consequently, even countries like the United States, that traditionally shun compulsory licenses, use the mechanism where appropriate to achieve the overall goals of the system. That is, as a generalized rule, the exercise of a tool like a compulsory license in a developed nation like the United States is rare but not unheard of. Provisions on compulsory licenses are not alien to the United States. The government use provision in 28 USC 1498 serves as an example of a situation where national legislation frustrates the expectation of exclusive rights by empowering the United States government, or those authorized by it, to make any use or manufacture of a patented product or process “without license.” While the right holder is entitled to “compensation,” he cannot enjoin the government to prevent the use or use for infringement. Similarly, the Bayh-Dole Act codified under Title 35, in section(s) 200 and 203 outlines the reservations of government rights with a view to ensure that the patent holders of research that were originally funded by agencies of the federal government would use the research towards public benefit. Under these provisions, the federal government retains a non-exclusive, non-transferable, royalty-free license to use the invention and the federal agency that funded the research retains a “march in” right

106 28 USC 1498
107 35 USC section 200
to compel a license, including to “alleviate health or safety needs which are not reasonably satisfied by the contractor, assignee, or their licensees.” Also, similar provisions are found in the Clean Air Act at Title 42 USC section 7608 allowing compulsorily licensing of a technology was funded by U.S. government grants if the patented technology becomes necessary to meet the requirements in certain sections of the Clean Air Act.108 Nor are compulsory licenses for purpose of promoting domestic economic objectives foreign to U.S. law. For instance, the Energy Storage Competitiveness Act, gives the U.S. government powers to require the license of patents in order to “advance the capability of the United States to successfully compete in global energy storage markets.”109 These are instances where the need for that technology to its public, the government presumes, can overweigh the monopoly right of the patentee during the term. It is also important that the use of such provisions in different technologies showcase that such public interest issues can arise in several technologies.

d. Economic Incentive and compulsory licenses

As for the second concern, while the patentee loses the right to determine the price of the product for the market, the assumption that it results in an economic loss or even a real loss of revenue is a not always correct. Recent instances have demonstrated that

108 There are other examples of limitations and exceptions to patent rights in U.S. law including the so-called early-working or Bolar provision, 35 U.S.C. § 271(e)(1), which states that “[i]t shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention … solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.”

109 42 U.S.C. §17231(h)(7)
patentee can actually make overall profit from the increased volume sales that ensue when the product is licensed. For instance, when Bayer’s Nexavir was subject to a compulsory license in India, it resulted in that drug enjoying much higher sales in the country and thus, generating higher revenue as access to more people increased sales.\textsuperscript{110} The volume sales offset any loss of revenue that Bayer suffered from the license.\textsuperscript{111}

Given this, for some sectors compulsory licensing has in fact resulted in a steady stream of revenue given the wider access that is possible when these license are deployed. Thus, indirectly, the effect of compulsory licensing is on the concept of incentivization is also changing as property rights become more widely acknowledged in several countries. That is, the monopoly rights of the patent holder form a part of the objective of the patent regime to incentivize the creation of further innovation. The traditional assumption is that compulsory licenses by forcing the patent holder to alter the price of the products, acts to de-incentivize innovation. The concept of compulsory license so far has been used in areas where public’s need was considered to surpass the rights of the patentee. The larger question is whether such licenses dis-incentivizes the original innovators. In reality, with globalization, more markets have opened up for companies with critical technologies and for those markets that are unable to access such technology, compulsory licenses afford a twin benefit. It offers the technology to such countries thus increasing the market for the corporation while at the same time, the affordability from such licenses increases the volume sale which can offset the

\textsuperscript{110} Bayer Corp. vs Union of India, OA/35/2012/PT/MUM

\textsuperscript{111} Cite to USITC representation of D G Shah.
limited revenue from limited sales and thus, dampen, if not completely eradicate the
effect on incentivization of the innovator.

2. **Examples of Historical and Contemporary Use of Compulsory Licensing outside the United States:**

   Historically, compulsory licensing has been used by different governments to address various national issues. The origin of compulsory licensing precedents can be traced to the French law of 1791 which was later adopted by many European countries as a mechanism to encourage local working of inventions.\(^{112}\) Similarly, the British government appointed the Sir Edward Fry Committee in 1901 to analyze the link between compulsory licensing and industrial production.\(^{113}\) In 1907, Mr. Lloyd George, President of the Board of Trade, successfully introduced a bill incorporating compulsory licensing provisions in the House of Commons by highlighting that foreigners owned 6500 out of 14,700 patents issued in 1906 and worked them outside of England.\(^{114}\) Consequently, compulsory licensing provisions were introduced in the British patents legislation.\(^{115}\) In contemporary times, India’s compulsory licensing provisions have been the focus of attention. Under the Indian patent legislation, the government could, in the public interest, interfere with patent rights and compulsorily


\(^{113}\) *Id.*

\(^{114}\) *Id.* ¶ 129.

\(^{115}\) *Id.*
license the patent.\textsuperscript{116} Patented inventions that were either not reasonably priced or were not worked to satisfy the reasonable requirements of the public could be subject to compulsory licensing.\textsuperscript{117} In turn, the reasonable requirements of the public were deemed unsatisfied if the invention was not worked in India, if an existing or proposed trade was prejudiced, if the demand for the product was not adequately met, or if the local working of the invention was prejudiced due to importation.\textsuperscript{118} Of these grounds, the local working ground has been the most contentious on the grounds that it discriminates against foreign manufacturers, especially in the context of pharmaceuticals. The same ground has been present in Article 68 of Brazil’s patent law under which anti-competitive practices, failure of locally manufacture, intentionally not satisfying the demands of the market can all serve as a ground for compulsory licensing.\textsuperscript{119}

In recent times, India has been one of the few countries that has taken the bold step of working the compulsory licensing provision to create access to a patented medication. The petition was filed with respect to a pharmaceutical product – Soranafib – which was manufactured by Bayer Inc.\textsuperscript{120} The petition was filed by a generic drug

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{116} Indian Patents Act, 1970 (as amended in 2005), 27 India A.I.R. Manual 450, § 90 (1979). \textit{Id.} § 84. The controller of patents compulsorily licenses the patent considering the nature of the invention and the applicant’s ability to work the invention to the public’s advantage. \textit{Id.}
\item \textsuperscript{117} \textit{Id.}
\item \textsuperscript{118} \textit{Id.} § 90(a).
\item \textsuperscript{120} Bayer Corporation v. Union of India, Order No. 223 of 2012, IPAB, Chennai, 2012.
\end{itemize}
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company that asserted that the reasonable requirements of the Indian public were not being satisfied because the drug was priced out of access of the several thousand patients who lived in the country.\textsuperscript{121} When the controller general of the Indian patent office examined the petition, it was found that although there were approximately 20,000 patients with liver cancer and about 9000 patients with kidney cancer in India, in the years 2008 to 2010, a negligible amount of Sorafenib was imported into India for sale by Bayer. In fact, no importation ensued in 2008 – a year when Bayer recorded a worldwide profit of over $678 million dollars in the rest of the world. To the Controller this factum showed that the patentee was not fulfilling its duty of catering to the demands of the market in India.

Considering the facts, the Controller concluded that Bayer’s (in)action amounted to a showing that the reasonable expectations of the public were not met – an important statutory requirement. Further, that Bayer imported Sorafenib showed that the patentee was not manufacturing it locally as required under the statute. Given these factors, the Controller concluded that the drug was in fact not reasonably priced at Rs. 2,00,000 per month, which was about $5000 per month in a country where the World Bank reported that more than 25\% of the population earned less than a dollar a day. In fact, the Controller made a reasoned order showing that the patentee was unable to establish that it met the demands of the Indian market for the drug. On appeal, this license was sustained by the Intellectual Property Appellate Board of India. One important feature of this license was that the government negotiated the rate and access was made

\textsuperscript{121} Id. at para 3.
available immediately once the appeal process was completed. Thus, the economic cost from pursuing litigation, pursuing variety remedies and the associated issues therefrom were all preserved in favor of access in this instance.

3. **Compulsory Licensing in International Agreements:**

   Internationally, the TRIPS Agreement incorporates the Paris Convention on Industrial Property and expressly authorizes the use of compulsory licenses as a limitation of the rights of the patent owner under certain terms and conditions. TRIPS outlines the use of the compulsory licenses under Article 31. Most importantly, the use of a patent shall be authorized by the government or third parties authorized by the government. Further, the article adds that each such use of the patent shall be individually authorized based on need for the country and by following proper procedures. One such procedure is for the government to have sought to negotiate with the patent holder for licensing the patent on commercially reasonable terms. The term commercial reasonableness is to be weighed in the context of national need and not a reference to the highest marketable price. Indeed, Article 31 (h) requires that the adequacy of the remuneration be measured by taking into account the economic value of the authorization. Similarly, the need for such prior negotiations pre-supposes that the use will cease once the need ceases to exist. The need for prior negotiations can be dispensed under Article 31(b), “[i]n the case of national emergency or other circumstances of extreme urgency or in cases of public non-commercial use.”

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122 *Id.* at para 6.
Similarly, prior negotiations are waived where such licenses are required to cure judicially determined anti-competitive practices under Article 31(k).

It is also worth noting that under the TRIPS Agreement such licenses should be non-exclusive and should be non-assignable. Essentially, this will allow the patent owner to continue to use the patent and will also prevent governments from misusing the patent and licensing them exclusively to local industries at the expense of foreign patent owners. Other interesting aspects are that TRIPS pre-supposes that such use of the patent will be made predominantly for the supply of domestic market. Similarly, the agreement also subjects such licenses to judicial and other appropriate review mechanism to provide relief to aggrieved patentees. Other than these enumerated criteria, the TRIPS agreement does not detail the reasons or the basis for issuing compulsory licenses.

III. A COMPARISON BETWEEN COMPULSORY LICENSES AND FRAND LICENSES:

The following section compares the two types of licenses with a view to determine whether some of the disadvantages of the FRAND licenses can be remedied by the use of either the compulsory license or a hybrid of both of these types of licenses.

Of the two types of licenses, operationally compulsory licensing is much more efficient once the government determines the need for the license because the price negotiations cannot be contentious beyond a point. That said, the larger question is whether the compulsory nature of such licenses can work to dis-incentivize patent owners. The benefit is that the mere presence of compulsory licensing options will and can ensure that the patentee’ cannot use pricing or other strategies as a mechanism to
hoard the product and create artificial demand, which has become a common issue with FRAND licenses.

One of the obvious big differences between the two types of license is the issuing authority. In the case of FRAND licenses, the certifying organizations determine that certain patents are essential to the technology and then the patent owner voluntarily commits to a FRAND license. In the case of a compulsory license, the government determines that the need of the public for the patent outweighs the patentee’s rights to exploit it commercially, and then the government dictates the market price. With the ICT patents, the SSO determines that a patent should be licensed as an SEP just like how the government determines that a patent is critical to public welfare. But, once that determination is made, compulsory licenses become more of a regulatory mechanism where the government interferes to make corrections. On the other hand, the FRAND licenses represent a situation where the industrial association determines that a patent is integral for the further development of that technology, and that it should be licensed by the owner on FRAND terms. Then, it is the owner who determines the price and thus, the market mechanism to define the licensing price of the patent. That said, both of these types of license achieve the same result of pressuring the owner to license the patent to third parties. In the case of compulsory licensing, having the governments negotiate the value may also be perceived as being disadvantageous to the patent owner in that the bargaining parities may be pitted against the patent owner in most cases.
That said, compulsory licenses removes the biggest debilitating factor of the FRAND license being, the royalty negotiation. The rates are pre-set in the case of compulsory licenses and most often, these rates are determined after negotiation with the patent owner. The determination of rates at the beginning of the process leads to a certain level of stability for users of the technology. In software patent terms, once a patent is deemed essential, having a negotiated rate will not only help the potential licensees but also the end-users of the technology. In reduces the cost and inefficiencies involved with litigation. Similarly, it reduces the opportunities to engage in protracted negotiations to arrive at a royalty range or rate, as the case is, and improves the efficiency of the system which will automatically ensue once the uncertainly with reference to the royalty negotiations are eliminated. The possibility of creating holdover with the technology becomes much limited when compulsory licenses are issued. Eliminating the issue with reference to royalties also eliminates the barrier to innovate further over the technology and contributes to the progress goals of the system.

One of the biggest criticisms with the FRAND licenses is that it has resulted in Standards Essential Patents becoming a tool to gain business strength between competitors rather than a tool to innovate. For example, Google’s purchase of the Motorola mobility’s patents which was meant to represent a defense over Microsoft and Apple. The move was also meant to create a defense against Oracle. That is, Google was accused of using Oracle’s Java in an infringing manner. Oracle wanted to sue Google over the use of Java in the android technology. When Google acquired Motorola’s patents, the portfolio consisted of patents on networking and video encoding. That
acquisition created a defense for Google which could counter-allege that Oracle was infringing on some of Google’s patents. It is in realization of this that when Google acquired Motorola’s patents the Justice Department announced an investigation to determine the presence of any prevailing abuse of the involved SEPs.\footnote{See U.S. Department of Justice (DOJ) and U.S. Patent & Trademark Office (USPTO), Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary FRAND Commitments (last modified Jan. 8, 2013), available at \url{http://www.justice.gov/atr/public/guidelines/290994.pdf}.} Thus, having a compulsory license will also largely eliminate some of the issues that plague the SEPs. For instance, such defensive acquisitions will cease given that the royalty rates are fixed and scope for litigation or settlement reduces.

While the above narrative compared both of these forms of licenses, the paper asserts that a more workable model would be a hybrid of these licenses that operates to eliminate some of the debilitating constraints of FRAND in the following manner. The authors are mindful that the structure presented seems too simplistic.

1. The standards setting organizations should continue to determine what type of patents represent a standard with respect to ICT patents.

2. Once a patent becomes a standard, the patent owner should be given the opportunity to undertake to license it on FRAND terms and signifying the intention of the patentee to license the technology for a negotiate a rate which will become applicable to all licensees involved.

3. A standard range should be negotiated with the patent owner by the standards setting organization. Such negotiation should involve and resolve questions of
whether there will be a grant-back from the licensees, whether the patent owner retains the right to seek an injunction and the circumstances for which such injunction can be sought. Thus, each of the SSO should create standard FRAND licensing arrangements that will be applied to FRAND licenses. Standardization of the terms of FRAND licenses are not a new phenomenon. Indeed several organizations including the International Telecommunication Union, the Department of Justice, USPTO, Competition Policy International are just some examples of organizations that have already undertaken work to reduce the litigations that seem to plague the proliferation of these licenses. 124

4. A three to six month period should be allocated for potential licensees or interested parties to submit reasons to SSOs as to why a patent should be licensed at a particular rate or a lower range. Once the range or the rate, as the case is, is determined, it should become a part of the SSO agreement with the patent holder

5. The patent should be offered by the SSO to various licensees on the same terms and conditions within the range offered or the rates negotiated.

6. Where a patent owner reneges on the standard terms and conditions, the SSO should have the ability to conduct a review of the patent as an SEP and where the owner acts egregiously, should have the ability to seek patents from other members to create compatible standards. The last suggestion would require a complete overhaul of the SSO system and thus, deserves much more nuanced attention.

CONCLUSION

It is important to have an appropriate form of license that minimizes the technological hold-ups that are created when parties attempt to resolve differences. From a broader perspective, access to technology is an important element of the trade regime. In most nations, especially poorer nations, access to technology is important to achieve the objectives of the international trade regime. Having access to technology may be critical in some poorer nations and can help achieve the larger objective of TRIPS outlined in Article 7 and 8. The objectives of TRIPS, outlined in Article 7, assert the importance of “protection and enforcement of IP rights” to “national social and economic welfare of members.” The principles under which the objectives will be satisfied are outlined in Article 8 which recognizes members’ rights to adopt public interest or public health measures consistent with the TRIPS provisions. Indeed, lack of uniform access to technology creates the digital divide about which much has been

written. Most literature on the digital divide highlights the how lack of access exacerbates class divisions in countries like India and South Africa to highlight the need for uniform access to technology. Technological devices not only increase interaction by connecting people and thus, creating opportunities, it also provides knowledge enhancing opportunities. As a side note, one of the parties contesting for elections in India in 2014 came largely into existence because of a cell-phone based campaign. Thus, cell-phones and related technologies create power to the marginalized in a class based society. Where access to such technology is limited to a certain class or classes, it reiterates the class system and perpetuates the class based divisions that causes more social and economic malaise which is exactly what the international trade agreements hope to prevent. While it is not suggested that governments should jump in and compulsorily license such technology, governments need not be by-standers while corporations use such technology as political tools to the detriment of its electorate. In poorer nations, oversight by regulatory bodies to ultimately push for settlements that can lead to access would not only enhance access, the improved efficiency can lead to more resources for innovation. Thus, a hybrid of both of these forms of licenses that standardizes the rates or the ranges as well as other terms of the SEP license would much improve the functionality and efficiency of the industry and thus contribute to a more efficient system. While it is understandable that SSOs have limited authority over a patent owner with respect to the patent, a hybrid license that essentially weaves into a component of standardized rates could eliminate some of the issues that seem to plague the FRAND licenses.
The End.