LICENSING STANDARD ESSENTIAL PATENTS

GLOBAL DIGITAL ENCOUNTERS
Encounter 17
Final Report

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SPEAKERS:

Elena Kostadinova – European Commission (DG Growth)
Prof. Jorge Contreras – Utah University (US)
Ruud Peters – Peters IP

MODERATOR:

Dr Jorge Padilla – Compass Lexecon

INTRODUCTION

The discussion was kicked-off by the moderator, **Dr. Jorge Padilla**. According to him, needless to say that wireless standards have been an incredible success. Technologies have been developing and improving over time and have penetrated society. Whereas there is no dispute that the collective standardisation taking place through Standard Development Organisations (SDOs) has increased the pace significantly and has generated massive value for consumers, it is also true that there are currently strong disputes between innovators and implementers about how the benefits from investment in standardisation are recouped.

In other words, implementers want to pay less for the licensing of Standard Essential Patents, and innovators want them to pay more. At the end of the day, it is a battle on the margins. Nonetheless, the most important conclusion is that collaborative standardisation has worked well for society, and better than proprietary standardisation or government sponsored standards.

This debate could not be more relevant, whereas these technologies used to be relevant for a number of uses, nowadays they are relevant for an even wider number of uses due to the Internet of Things. These technical trends change both the scope of applications of wireless technologies, and the impact that these technologies will have for industrial policies and economic growth.

THE VIEWS OF THE EUROPEAN COMMISSION

Elena Kostadinova brought the perspective of the European Commission (EC), which has been closely watching these issues. In its 2017 Communication on Setting out the EU approach to Standard Essential Patents, the EC found that licensing and enforcement of SEPs is not seamless and called for a balanced approach to SEP licensing based on increased transparency. The EC gave guidance and announced a set of actions aiming to improve SEPs licensing, and published afterwards a number of studies, the results of the Commission's Experts Working Group on SEPs, and organized webinars on the issue.

While there has been some improvement, controversies continue to exist. This results in uncertainty at a time where new companies are facing increasing competition at the global level. Thus, in its 2020 IP Action Plan the EC announced that it will promote further transparency and predictability in SEP licensing, including through possible reforms.

What are the next steps? According to **Mrs Kostadinova**, a public consultation will be held where the public will be asked to provide feedback. Any potential reform will complement, take into account and align with the ongoing review of the Horizontal Cooperation Guidelines, and with any outcome resulting from the questions sent by the EC to China under art. 63 TRIPS.

The EC believes that a balanced approach to SEPs, which would involve looking at SEPs holistically including all relevant aspects related to transparency, FRAND and enforcement, is the best way to go forward. It aims at creating an environment of trust and incentives for good faith negotiations.

There is tension between the territoriality of patents and the global nature of SEP licensing. Patent pools and global dispute resolution mechanisms were proposed in the webinars as potential solutions to deal with these tensions.

However, nothing in SEPs is as straightforward as it appears. In SEPs the devil is in the detail. While the EC has expressed its support for patent pools on multiple occasions, within the scope of competition law, the challenge here remains on creating the incentives for pool participation and for obtaining a license from the pool. Regarding alternative dispute resolution mechanisms, the challenge remains on how these could be implemented in practice.

FRAND GLOBAL LICENSES AND ANTI-SUIT INJUNCTIONS

Dr Padilla then handed the word to Prof. Contreras to address the problematics of global determination of FRAND licences linked to antisuit injunctions, which he considers to be a fertile field for (legal) innovation.

For **Prof. Contreras**, the tension between national scope of patents and global scope of licences is at the core of all these challenges, in particular when parties disagree on the level of FRAND royalties. In such cases, courts can either opt for a patent infringement approach (hence national) or for a contractual approach (hence global).

The seminal case for the latter was UK´s Unwired Planet v Huawei in 2017, that virtually opened the door to any jurisdiction where both parties operate to define global royalty rates. Since parties tend to litigate simultaneously in various jurisdictions, courts might feel the need to protect the outcome of their own decisions, paving the way to anti-suit and to anti-anti-suit injunctions. This has escalated into pure diplomatic conflicts -notably between EU, the US and China- and, in **Prof. Contreras'** view, has resulted in a not very efficient -nor logical- way of solving disputes.

Prof. Contreras has sustainably advocated for getting this issue outside of the court system, and have the global royalties fixed by a non-governmental arbitration body whose decisions have *erga omnes* effect. For **Dr Padilla** this setting resembles a "super-pool" – "pseudo-pool" in words of **Prof. Contreras**.

Mr Peters jumped in to remind that regardless of the endorsement and traction such proposals might gain -in SEP-related issues, the devil is in the details- and argued that wars of attrition between implementers and patent holders will just move to another fora, with the virtue of "centralising" such wars in a single place. Yet, he still supports to leave room to negotiations among parties before moving to any adjudication system. **Prof. Contreras** substantially shared such views, recalling that in many cases parties are able to agree without resorting to courts.

PATENT POOLS

The discussion was then steered by **Dr Padilla** toward patent pools. Mr Peters was asked on the pros and cons of such pooling in the context of the IoT. In some circumstances, licensing of SEPs on a bilateral basis might not be very efficient, and this might involve considerable transaction costs, especially when implementers have to reach SEP holder by SEP holder separately. However, according to **Mr Peters**, the pool adds a one efficiency step more: SEP licensors are brought together, and one independent third party checks the patents placed in the pool in order to assess the essentiality of these patents.

From the perspective of the licensors, costs are shared, with the consequent increase of efficiency during licensing, cut on transaction costs and sharing of benefits. According to Mr. Peters' experience, the pool rates are lower than the sum of the individual rates that SEP licensors may charge. For implementers, to deal with a pool might be more attractive as they have a secured and better level playing field regarding the license of the SEPs.

Focusing on the IoT, there are more players to be licensed in many different verticals. Therefore, pools become more attractive both from the licensors and from the implementers' sides. From the licensor, if they collectively operate in markets

where they don´t have experience it might be easier. For implementers, some might not have the experience on SEP licensing as traditionally they have not been used to this type of IP licensing dynamics.

Finally, **Mr Peters** stressed out that it takes time to set and agree on a patent pool, so these instruments should be designed well in advance. Ideally, the pool should be there once the market starts to show that it can incentivize the growth of the market. He suggested an increased awareness on pools in the standardization context in order for these mechanisms to be set earlier in the process.

On his side, **Prof. Contreras** was also in favour of voluntary pooling. Industries such as the storage media were defined by pools and were great successes. However, parties are not always interested in patent pools, depending on their economic incentives. Pools were tried in WiFi and wireless telecoms space, but they did not come together in a significant way mainly due to a financial decision, as patent holders might maximise their profits if they stay outside of the pool. Prof. Contreras named Avanci as an example of wireless technology pool in the IoT. However, a pool in the biggest market today, the smartphones market, seems to not have been an attractive licensing mechanism for SEP holders.

LICENSING NEGOTIATION GROUPS

Dr Padilla came back to **Mr Peters** to get his opinion on licensing negotiation groups. Mr Peters acknowledged that the topic has recently had increased attention and several articles have been covering them and rejecting the idea of the licensing negotiation group in antitrust grounds as they hold these practices to be equal to buyers' cartels and they might be an incentive for further hold out because they can simply reject every proposal that the licensor could make.

But, from the perspective of IoT, where there is a massive number of companies that need to obtain a license and are similarly situated, licensing negotiations groups might play their role. Some companies understand that they need to take licenses, but they do not have the experience and resources to conduct the licenses themselves in a way that might be beneficial for them.

From a licensor's perspective, according to Mr Peters it might also be attractive to deal with those groups, as a licensor might be interested in collecting revenues with the least effort and as quickly as possible. And this can be done if he negotiates with a group of companies at the same time and reaches a single agreement. In the IoT industry there are hundreds of companies, compared to the smartphone market where if a licensor gets 5 licenses, he/she has already covered 70% of the market.

According to **Prof. Contreras**, collective negotiation related antitrust claims are overstated and these would be quite a pro-competitive step to take. Antitrust regulators could help the situation quite a bit by more explicitly acknowledging the pro-competitive benefits.

QUESTIONS/ANSWERS

Questioned by the audience on how to get licensees on board of such arbitration system, **Prof. Contreras** suggested that the arbitration decision will just define what is FRAND for a given SDO, hence parties will need to go to court in any case to define the consequences of an infringement. For **Dr Padilla**, failing to accept a licence in the terms defined by the arbitration body might automatically signal the "unwillingness" of the licensee.

Regarding to (lack of) antitrust immunity and eventual challenges in investment disputes, **Prof. Contreras** stated that creative lawyers will always "find a way to keep themselves busy", yet it would be advisable for such arbitration body to get pre-clearance in advance from main antitrust bodies, in the same fashion some patent pools have obtained a DoJ Business Review Letter in the US. [Note from the Reporters: it remains to be seen if such practicalities are tackled in the upcoming EU´s Horizontal/Standardisation Guidelines].

Mr Peters pointed out that this FRAND definition by an external body, provided that such rate is within the FRAND range, can make things more efficient for courts in cases of unwilling licensees

by preventing the costly and lengthy ping-pong resulting from CJEU's Huawei v ZTE and avoiding judges having to determine royalty rates, which is often outside their area of expertise.

Dr Padilla brought the debate back to the issue of extraterritoriality – will it render EU courts irrelevant? **Mr Peters** highlighted the actual risk of making this issue even more political, at the time he asserted the absolute relevance of the EU market – as producers and as consumers. To a certain extent is not a matter of the size of the market, but of which courts will decide faster.

Prof. Contreras concurred, and noted that the Ericsson v Samsung case is quite illustrative: a Swedish company and a Korean company, litigating their case in Texas and Wuhan. In the pathway to seek the most favourable results, jurisdictions such as the German one have the potential to actually attract this kind of litigation – in certain contexts. In sum, it is a matter of where an injunction can hurt (eg Indonesia), and this fragmentation can bring companies to scenarios where they can just drop some markets down, as might have happened in the UK with Apple, he concluded.

The audience brought the issue of the interface between open source and standardisation. **Mrs Kostadinova** referred to the Commission's 2019 Report on "The Relationship Between Open Source Software and Standard Setting", and put the focus on the IP side of such interaction to argue that frictions do not need to occur, and that they will be mostly caused, and addressed, in the framework of licence selection. Her views were also endorsed by **Mr Peters**.

CLOSING REMARKS

During last words turn, **Mr Peters** recalled the absolute transcendence of these issues for the IoT sector in particular, and advocated for a more efficient licencing system. For **Prof. Contreras** this topic is not a pure bilateral matter, but rather an international and political issue. Governmental intervention needs to remove some of these obstacles, provided that such removal produces pro-competitive effects, all of that with the aim of preventing a trade war. **Mrs Kostadinova** stressed the importance of participating in public consultations to gather the opinions and sensibilities of all stakeholders.

Prof. Desantes closed the session highlighting how fascinating is this topic from the perspective of a Private international law professor, and the multiplicity of angles the topic of SEP licencing brings.

Carlos MUÑOZ FERRANDIS
Vicente ZAFRILLA

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