

Standard Essential Patents

Global Digital Encounters

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Final Report

Speakers

- **Dr. Claudia Tapia**, LL.M Director IPR Policy and Legal Academic Research at Ericsson. President, 4IP Council.
- **Dr. Igor Nikolic**, Research Fellow at EUI.

Moderator

- **Prof. Laurent Manderieux**, Bocconi University. Director of TIPSA. Chair of the European IP Teachers Network. Member of Fide's Academic Council.

Abstract: During, and further to the COVID Crisis, the role of technologies protected by Standard Essential Patents (SEPs) became even more evident. Its massive use in key economic sectors brings important legal consequences, for IP in general, and the circulation of IP Rights. What benefits and challenges do the recent EU initiatives bring, considering, in particular, the "New Framework for SEPs", the new "Draft Guidelines on Horizontal Cooperation Agreements" and the EU's "New Industrial Strategy"? Which issues arise with the licensing of SEPs in the Internet of Things? What are government strategies related to SEPs and injunctions? What may be the impact of the cellular standardization system on innovation? Speakers from Europe and South America will provide a worldwide picture of the future of Standard Essential Patents, including re-imagining IP in this area in favour of both business and consumers/society.

The 20th GDE started with an introduction by Prof. Manuel Desantes, who highlighted the relevance of Standard Essential Patents (SEPs). Last November, the first Encounter regarding patents and licensing opened the "pandora box" of this international topic that entails several aspects in a diverse area. The 20th Encounter offered the opportunity to continue the discussions on this topic, but with a focus on the benefits and challenges that SEPs bring.

Following the introduction, Prof. Laurent Manderieux took over as moderator of the session. He added that the added focus on SEPs is important because of their relevance in the market and due to new initiatives from the European Commission that may ease, or may challenge, the way the system is currently organised. SEPs are crucial in many economic sectors and as a result, they are of great interest to enterprises of all sizes. He insisted on the relevance of SEPs in the global market and addressed the first question to both speakers, Dr. Claudia Tapia and Dr. Igor Nikolic.

1. WHAT ARE SEPS? WHY ARE THEY SO IMPORTANT?

Dr. Igor Nikolic started by providing a general picture of the open standardisation system.

When one talks about technological standards, we are often referring to specific standards such as WiFi, 3G, 4G, and 5G. The open standardisation system operates by companies com-

ing together in standard development organisations (SDOs) where engineers work together to produce the best possible technical solution. One of the key ingredients of the successful implementation of standards is the commitment from the technology companies to license all of their patents that are essential (or necessary) for the use of a standard under fair, reasonable and non-discriminatory (FRAND) terms. FRAND commitments are a key component in the system as: 1) on the one hand, it ensures for companies that are using standards that licences will be available and that they will pay a fair and reasonable royalty; 2) on the other hand, technology developers will receive returns for their invention and contribution and secure incentives to innovate in the future. FRAND commitments, therefore, ensure a balance between technology developers and implementers.

As a result, technological standards bring together these two parties in a collaborative environment to produce the best possible technological solutions.

The framework on which SEPs operate is based on public (competition law, case-law, and regulations) and private instruments (SDO, FRAND commitments, patent pools). It's important to be aware of the dynamic between these private instruments which operate under the umbrella of public instruments.

He finished by pointing out that the current system is delicate but has produced success in several industries. In case changes are needed and we want to intervene, we need to ask two questions: Is there a market failure? If so, what measures are proportionate and necessary? and address them through empirical evidence.

Then, Dr. Claudia Tapia answered the question by providing an industry

perspective. She indicated that FRAND licensing used to be a main topic in the telecoms field, but nowadays, thanks to the internet of things (IoT), more and more objects we use on a daily basis are "connected". Companies from transport, energy, sports, manufacturing, and/or agriculture are including (cellular) standards in their products, processes and/or services.

She highlighted that decision-makers are paying attention to this evolution. In that sense, the European Commission (EC) already announced three initiatives that in one way or another, are impacting SEPs: 1) the New Framework for SEPs, 2) the Draft Guidelines on Horizontal Cooperation Agreements, and 3) the EU's New Industrial Strategy.

Regarding the New Framework for SEPs, this followed an announcement that took place in November 2020, where discussions regarding the possibility of reform to ensure an efficient framework for SEPs, including an industrial strategy and guidelines, were taking place.

The aim of this proposal for reform is threefold: 1) creating an independent third party essentiality assessment mechanism (which will assess whether the potentially essential patents and patent applications are indeed essential); 2) promoting more clarity on FRAND agreements - however, conversely, the more stringent the system is, the less flexibility will be available for licensing negotiations; 3) incentivising the use of alternative dispute resolution (ADR).

These aspects also raise some issues

and questions, e.g., who will finance the creation of a third-party essentiality assessment mechanism? As regards the idea of enhancing clarity, there is a risk regarding bargaining positions. As for the inclusion of ADR mechanisms -arbitration, mediation or conciliation - these already exist and are voluntary systems. It is not advisable to make them mandatory. She finished by bringing up the need to pay attention to the existing and extensive information available, including studies and case-law. This information shows the behaviour of the parties in SEP licensing disputes. She raised her concern about the focus on collecting opinions via consultations rather than collecting evidence. Collecting opinions may be dangerous as it would provide an unbalanced perspective, since there is a far larger number of implementors than contributors to SEPs.

Prof. Manderieux underlined that Dr. Igor Nikolic talked about “market failures” and raised the second question.

2. WHAT EVIDENCE DO WE HAVE REGARDING MARKET FAILURES?

Dr. Igor Nikolic explained that it is important to realise that, when referring to SEPs and market failure, there is no “one size fits all” solution. There are different standards, made following different procedures, different industries and licensing conditions. This makes it difficult to refer to SEPs in general. Therefore, we need to look at specific industries and standards used in those industries. The discussions and observations regarding SEPs licensing issues often imply issues in the smartphone industry and 3G, 4G and 5G standards. Over the years, researchers have obtained information about how the smartphone industry operates.

There is now a lot of evidence about

the smartphone industry, including market research and academic reports. The evidence shows that this industry functions extremely well.

Several new market players are entering the industry - proving that the market is unconcentrated and that SEPs are not a barrier to entry. The smartphone industry has increased output and has been deconcentrated with new market entries, new players successfully entering the market, lower prices and an unprecedented amount of R&D development. All the information shows great market success, not a market failure. As a result, when assessing SEPs, it is important to first identify the relevant industry and standards and then try to measure the existence of market failure.

Prof. Manderieux moved towards an aspect that Dr. Claudia Tapia mentioned, the risks of collecting opinions and ask her to further develop this idea.

3. THE DANGERS OF COLLECTING OPINIONS. COULD YOU TELL US MORE ABOUT IT?

Dr. Claudia Tapia described that FRAND was developed to guarantee a balance of interests between innovators and implementers. There is a process in place for the development of standards or to make any change to the IPR policy. In both cases, the standard development organisation needs to follow the principles established by the World Trade Organisation (WTO) for the standardisation processes.

Imagine the EC extracts the information from these consultations to create

statistics. The information will mainly provide observations from the implementers, as they are the grand majority. In fact, 70% of the technical contributions to cellular standards were made by only 10 companies.

As a result, should the EC only consider the responses of the majority, these would be favourable to implementers, reflecting their interests, such as reducing the availability injunctions or lowering royalty rates. This would distort the balance.

She concluded that there is robust data that should be looked at before carrying out any kind of intervention.

Prof. Manderieux then focused on the initiatives of the European Commission, indicating that they also involve competition matters.

4. DO YOU FIND ANY BENEFITS AMONG THE INITIATIVES OF THE EUROPEAN COMMISSION?

Dr. Claudia Tapia considered that all the initiatives had benefits. As examples, she outlined that one of the several positive aspects of the EU's New Standardisation Strategy is that it promotes digital and green transition. She added that the creation of a high-level forum of experts is also beneficial. This group includes experts with the right knowledge and skills to choose the correct approach by identifying needs and coordinating EU responses. Likewise, she pointed out that the EC is thinking about how to allocate voting rights within SDOs, which would ensure a balance of the different interests at stake.

The initiatives also refer to the creation of a standardisation booster, which would support standard related projects, which is important to help increase visibility, strength, and coordination. Finally, she indicated as another

positive aspect that the EC is mulling the idea of an EU Excellence Hub that would monitor international standardisation activities.

On his side, Dr. Igor Nikolic stated that there are many proposals, and one is to enhance the efficiency in licensing SEPs, which would ideally be through the creation of patent pools. Patent pools represent a one-stop-shop licensing for implementers, provide transparency on the overall royalty rate for a standard, and increase business certainty as implementers can plan the costs of IP investment. The initiatives, however, also discuss the formation of groups of implementers, called licensing negotiation groups (LNGs). The idea is to unite all the different implementers together to collectively negotiate royalties with SEPs owners. This would, allegedly, reduce transaction costs and put them in a better bargaining position.

He then indicated that in theory, LNGs may appear as a good solution, however, some significant competition and practical problems should first be addressed. He explained that in the past, competition authorities have resisted these proposals as they wanted to avoid cartelisation by its members. If implementers join LNGs they will have to share very sensitive information such as costs, sales revenues, etc. He then concluded that horizontal cooperation among competitors is usually considered a cartel, so it seems like an impractical solution which adds another layer of complexity.

Prof. Manderieux wanted to outline the example of the patent pool Avanci and asked Dr. Claudia Tapia for more

details about it.

5. AVANCI

Dr. Claudia Tapia explained that the creation of Avanci dates to around 2010 when the automotive industry was using and infringing protected cellular technologies. Avanci is an independent licensing platform which was created to become a one-stop-shop for licensees for SEPs needed by connected cars. Avanci¹ provides price transparency, includes large portfolios, and offers a reasonable royalty rate.

When Avanci was created, it started to negotiate with SEPs holders and users and it took 7 years of negotiations to reach the first agreement with BMW. Currently, Avanci consists of 48 companies as licensors and around 25 licensees, like car companies such as SEAT or Volvo. Apparently, the automotive companies did not sign as soon as expected and some litigation was needed but companies are slowly but surely signing.

She concluded that Avanci is a good example of the success of a platform similar to a patent pool in a new sector with a new type of licence, but that patent pools are not a one-size fits all solution.

Another issue with SEPs is the question of injunctions. In that sense, Prof. Manderieux wanted to know the perspective of the industry in Europe and other countries, such as China and the US.

6. HOW DO YOU THINK INJUNCTIONS ARE TREATED IN EUROPE?

Dr. Claudia Tapia answered that the CJEU in Huawei v ZTE has created a balanced system adopting a holistic approach to determine how the parties behave. At 4iP Council, they offer guidance on how these matters are interpreted by the courts (<https://caselaw.4ipcouncil.com/guidance-national-courts>). She considered the system to overall have a good approach and emphasised that in most cases SEP owners and SEP users reach settlements. Litigation is the exception, not the rule.

7. THE WTO HAS LAUNCHED CONSULTATIONS REGARDING THE INTRODUCTION OF ADRS ON INJUNCTIONS IN CHINA. WHAT DO YOU THINK ABOUT THE CHINESE APPROACH TO THIS MATTER AND THE US?

Dr. Igor Nikolic explained that the Chinese and US approach toward injunctions for SEPs is different from the EU. In the EU there is a system which is neutral and implies obligations on both parties, whereas in the US there is an eBay which put the burden on SEP owners and makes it very difficult to obtain an injunction. Perhaps this is why injunctions are not being litigated

¹ [link to Avanci Website for further reference: https://www.avanci.com/marketplace/](https://www.avanci.com/marketplace/)

in the US. The US Department of Justice is currently formulating a new Position Statement on remedies for SEPs. In the Draft Statement, the DOJ was very sceptical about injunctions and considered that monetary damages should be sufficient for SEPs owners.

As a result, US SEP cases involve patent infringement, damages, and determination of whether the terms are FRAND, but not injunctions.

In China, there is a recent trend of granting very wide anti-suit injunctions. What happens is that companies initiate the case in China, request the court to determine global FRAND terms, and the Chinese court then issues an anti-suit injunction prohibiting parties from litigating SEPs, asking for injunctions and determination of FRAND licensing terms anywhere in the world. Chinese courts effectively then assume a global jurisdiction. This is different from other jurisdictions, such as the EU, where courts are reluctant to use anti-suit injunctions. There is now a jurisdictional battle between Chinese and European courts.

Taking a global perspective on SEPs, he considered that China is supporting its companies either by directly controlling or giving financial support, as well as providing incentives to participate in standardisation. On the contrary, the EU through these new initiatives is favouring the implementers, which are in fact mainly US and Chinese companies. As a result, there is a disbalance as one jurisdiction seems to be supported by the government and the other relies only on market instruments and licensing to obtain revenues.

Going back to FRAND licensing, Prof. Manderieux asked the speakers about their views on enhancing clarity.

8. WHAT ARE YOUR VIEWS ON CLARIFYING FRAND?

Dr. Claudia Tapia started by highlighting that more transparency is always beneficial and welcome. However, she also pointed out that, the narrower the framework is, the less flexibility one will have in negotiations. In her opinion, the best option to obtain such a clarification is via a Standard Development Organisation (SDO), such as ETSI, and following the WTO criteria (i.e., transparency, consensus, impartiality, openness, etc) to obtain a balance of interests. On his side, Dr. Igor Nikolic elaborated referring to past experience and empirical evidence from IEEE, which is a large international SDO. responsible for, among others, Wi-Fi standards. In 2015 it adopted a new IPR policy which defined FRAND with the aim of bringing more certainty and clarity. However, the IPR policy was adopted by implementers outvoting SEP owners. The 2015 IPR Policy defined FRAND favourably to implementers by 1) restricting the use of injunctions; 2) basing royalties on the value of the smallest saleable patent practising unit and excluding any value arising from the inclusion of the technology in the standard and 3) requiring licensing at any level of the supply chain. Researchers have been able to measure the effects of the 2015 IPR Policy. Most companies declined to license their patents through the new IPRs policy. As a result, new standards are being developed and adopted with an unclear framework for licensing SEPs. In sum, the side-effect of not having a consensus between SEP owners and implementers could be that companies may migrate to other SDOs with less rigid

rules, or decide to vertically integrate and form closed proprietary standards without a FRAND commitment.

Prof. Manderieux then focused on tensions and issues regarding licensing activities.

9. DO YOU THINK THAT THE RISE OF INTERNATIONAL TENSIONS BETWEEN STATES ALSO MEANS A HIGHER TOLL ON LICENSING?

Dr. Igor Nikolic considered that indeed international tensions may entail a higher toll on licensing. He said that, for instance, we may have different frameworks in different countries, affecting the treatment of FRAND terms. This could increase costs, especially for SMEs, as well as for participation in standardisation.

10. ARE THERE ANY OTHER ISSUES YOU'D LIKE TO RAISE?

Dr. Claudia Tapia opened the discussion and maintained that more and more things are being connected (e.g., transport, agriculture, health...) but for this digital revolution to continue a balance is needed between standards' creators and implementers. Until now, this balance has allowed us to achieve what we have now. Before any kind of intervention, it is important to assess the evidence to really confirm if there is a need for a reform or intervention. She then declared that she does not see the need for it now. Dr. Claudia Tapia added that we need patience since new SEP users need to be educated on the system and the market needs time to bring solutions (see example of Avanci). Finding agreements following the WTO principles is a slow but effective process. Courts are already enforcing actions against parties not acting in good faith, and if any party misbehaves there are antitrust measures in place.

She again emphasised the importance to assess the evidence before deciding on any intervention.

Dr. Igor Nikolic agreed with her view and insisted on looking at the evidence and considering measures together with their effects. Similarly, he declared that transparency is not so much an issue and the problem lies in the price of the standard. In that sense, he pointed out that there are already private mechanisms in the market, such as Avanci, that provide price clarity and certainty.

He then concluded that having so many declarations is not necessarily a bad thing. We want essential patents to be accessible for a licence. We do not want a system that makes companies reluctant to declare and license their patents due to excessive transparency costs. Finally, Prof. Manderieux asked the speakers about WIPO's role within the SEPs' framework.

11. WIPO IS VERY ACTIVE IN INTERNATIONAL PATENTS. STATES HAVE NEVER BEEN TOO MUCH IN FAVOUR TO ESTABLISH INTERNATIONAL STANDARDS IN LICENSING. SHOULD WIPO HAVE A MORE ACTIVE APPROACH IN THIS REGARD?

Dr. Igor Nikolic answered that the creation of an international tribunal for FRAND matters has been debated in the literature. He admitted that it could be a one-stop-shop to litigate with experienced judges but there are already mechanisms for parties to have a single forum to solve their disputes, such as arbitration. He then raised two questions: Why do parties not choose the

existent solutions? Would another tribunal work?

Once again, he outlined the relevance of assessing empirical evidence in order to determine how many cases are settled without litigation. He declared that he was certain that most of the cases tend to be solved amicably, so there is not a strong need for a mandatory institution for these matters. He suggested that WIPO may not be the solution but SDOs would be the ideal candidate to provide additional definitions and obligations.

On her side, Dr. Claudia Tapia stated that it is all about exploring possibilities, as it is indispensable to maintain a balance. She declared that the ideal scenario would create an ecosystem that parties follow and respect, with knowledgeable people. However, this would also require the parties' interest in using it.

The audience had also the opportunity to raise questions:

WHY ARE THE BLUETOOTH AND WIFI STANDARDS SO MUCH MORE POPULAR AND WIDESPREAD THAN CELLULAR STANDARDS?

Dr. Igor Nikolic insisted on the fact that there is not a "one size fits all" approach. There are different types of licensing practices adopted by different industries. Wi-Fi is licensed on FRAND terms, as well as cellular standards. Bluetooth is licensed by paying membership fees at the relevant SDO. The particular licensing approach depends on the interest of SDO members and the specifics of each industry. Dr. Claudia Tapia agreed with him and underlined the need to find the right way depending on what we want to create. She then stated that as soon as an investment is made, there is a need for a return on that investment. She then shared her experience in the industry and highlighted that Ericsson spent tens of billions to develop 2G, 3G, 4G and 5G technologies, emphasizing that such technologies are not easily created and are highly complex. Without a return on investment, she explained, companies like Ericsson would not be able to reinvest in future generations of standardization. Only companies from other countries, which are owned or financially supported by their governments would be able to afford it. Technological standards are the result of years of R&D, technical meetings and contributions.

CONCLUSION REMARKS

Prof. Javier Fernández-Lasquetty summed up the session by underlying that SEPs are a complex issue involving policy, competition law, litigation, innovation, and patents. SEPs and FRAND were aspects that used to be confined to the telecom sector, but nowadays it is clear that it will be an expansion towards others. He also underlined the relevance of transparency and independent assessment that was brought during the session, as well as litigation and ADR mechanisms. In conclusion, there is a need to continue discussing these aspects and for further research.

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Fide and TIPSA (Transatlantic Intellectual Property Academy) join forces to organize a series of digital encounters to try and find out if Intellectual Property is equipped to face the ongoing changes that our world is experiencing.

All online encounters are opened to any interested person and speakers have been selected among the most relevant IP scholars and professionals all over the world.

The Global Digital Encounters form an integral part of the solidarity projects run by both organizations to support the international, European and national plans to overcome the sanitary and financial consequences of the COVID-19

