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Position Paper

Re. EC's public consultation on the evaluation and modernization of the legal framework for the enforcement of intellectual property rights, concerning in particular the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights ("Enforcement Directive")

Summary

The Fair Standards Alliance ("FSA") is a non-profit association committed to promoting fair, equitable and proportional behaviors in connection with the licensing of standards-essential patents (SEPs). Together, our members spent more than 32 billion euros on R&D and innovation in 2014, and own more than 164,000 patents. Our members employ more than 390,000 people within the EU, and many hundreds of thousands more worldwide.

We believe that our experiences with licensing behaviors, successes and abuses in connection with SEPs can provide the Commission with valuable insight as it reviews the Enforcement Directive and considers possible updates and clarifications. In this submission, we encourage the Commission to clarify and amplify the importance of Article 3's requirements of fairness, equity and proportionality in the enforcement of IPR in light of our collective experience. Providing clarity that these requirements must be considered and applied under Articles 8, 9, 11, 12 and 13 will enhance the Enforcement Directive and strengthen the EU Single Market by providing much improved harmonization across Member States and a more unified and secure framework for companies doing businesses in the European Union. Such improvements will also encourage a common approach among courts, whereas currently certain courts have adopted disparate rules and procedures under Articles 8, 9, 11, 12 and 13. By way of this Position Paper and as detailed below we provide concrete proposals for amendments to these Articles.

While our recommendations focus on principles applicable to all IPR enforcement actions, we believe that a clearer and more robust application of the requirements of fairness, equity and proportionality will meaningfully improve treatment of disputes involving SEPs, and may help to address many of the problems that our organization is dedicated to solving.

We thank you for your time and attention to our submission, and are available for any follow up questions, discussions or other input you may have. Further information about the Fair Standards Alliance and its Key Principles is available from <http://www.fair-standards.org>.

Why does the Fair Standards Alliance present its observations by way of this attachment additional to the questionnaire?

As noted above, the Fair Standards Alliance members own more than 164,000 patents that are either granted or pending, including SEPs; we are deeply invested and engaged in standardization and the innovation ecosystem. SEPs are patents that claim inventions that have to be used to comply with a technical standard and thus their use is necessary to market a respective product. Standards setting organizations (SSO), therefore, generally request members to grant licenses to their SEPs that cover a standard that the SSO is developing under fair, reasonable, and non-discriminatory (so called FRAND) terms, such SEPs also being called FRAND encumbered SEPs. Within this Position Paper, when the term SEP is used, it shall mean FRAND encumbered SEP.

Our members are committed to innovation and the patent system, and act as both licensors and licensees of SEPs. Our experience has been that certain practices of some SEP licensors can be abusive and harm – rather than promote – further innovations. These abuses ultimately harm the public interest, such as by unfairly raising consumer prices for products comprising standardized components.

We respond to this consultation because we believe that our experience with SEPs has a strong bearing on the Commission's task in reviewing the Enforcement Directive, and also that certain and relatively simple adjustments to the Enforcement Directive can improve the IPR enforcement environment within the EU, including for SEPs, and to the benefit of the industry and consumers, while taking into account the ability of SEP owners to seek fair and reasonable compensation.

In particular the recommended changes would improve the uniformity of court's decisions within the EU by further harmonizing Member States' laws implementing the Enforcement Directive. We believe that the Enforcement Directive should not incentivise forum shopping among different countries, and instead it should avoid that holders of SEPs leverage fragmentation across EU jurisdictions for unfairly, inequitably and/or disproportionately enforcing their IPR, in particular by means of injunctions.

What Issues with Standard Essential Patents (SEPs) Can Inform Review of the Enforcement Directive?

Standard Essential Patents were not specifically addressed in the Enforcement Directive. Since the Enforcement Directive was issued, disagreements over the enforcement of FRAND encumbered SEPs have significantly increased. The Fair Standards Alliance is of the opinion that our members' experiences with SEPs can inform and assist the Commission in its review of the Enforcement Directive.

There have been many enforcement actions in the European courts regarding SEPs, such as disputes involving large companies such as Apple, Samsung, Huawei, ZTE and HTC. Other companies and SMEs, including a number of the FSA's members, have been adversely affected by abusive SEP licensing practices. Decisions by the European Commission's Directorate General for Competition and the European Court of Justice's 2015 decision in Huawei / ZTE have further clarified the legal landscape with respect to SEPs. Notably, the Huawei / ZTE decision applied EU competition law to limit the discretion of European courts to grant injunctions (Article 11).

These are significant developments, as standardized products make up an increasingly large portion of the European economy. For example, wireless communication technologies (e.g. cellular, Wi-Fi) in the past were limited to products in the Information and Communication Technology (ICT) industry,

such as desktop and handheld computers and mobile phones. Now, however, such technologies are spreading into many other industry sectors including the automotive industries, the burgeoning universe of “Internet of Things”, and Industry 4.0. Given the proliferation of products that implement standards that have been the subject of disruptive licensing practices, including the threat of injunctions to drive up royalties, the Fair Standards Alliance’s members believe that it is critical for clear and reliable rules to be established for licensing SEPs. Creating transparent rules will safeguard

- a fair and level playing competition between market players of all sizes,
- a reliable investment framework and
- availability and reasonable prices of respective technologies, to create benefit for end users.

The need for rules on transparent and predictable licensing practices and for rules on respective fair, equitable and proportionate enforcement of SEPs is particularly important in light of the emergence of patent assertion entities (PAEs) and other licensing-focused interests that are motivated entirely by the revenues to be generated from licensing patents. These patent exploitation approaches are expected to proliferate in regard to SEPs. By way of example, with more than one hundred thousand declared SEPs relating to the SSO European Telecommunication Standards Institute (ETSI) alone, and with patent portfolios being sub-divided through sales to PAEs, the scale and magnitude of this problem is increasing rapidly.

Unfortunately, SEP enforcement actions and approaches may sometimes lack proportionality. In some cases, there is little if any correlation between the importance of an invention and the negotiation power which can be obtained based on threats to prohibit users from using the entire standard. The owner of technically minor, irrelevant or even invalid SEPs may nevertheless seek to extract exorbitant high royalties via injunction threats, and this poses a problem for industry and end-users alike.

We believe that our experience and concerns with unfair, non-proportional and non-equitable patent enforcement tactics in the SEP space can inform sound policy under the Enforcement Directive. As set forth below, while we believe the Commission already has the tools, it would benefit the innovation and standards ecosystem if the Commission clarifies the Enforcement Directive in order to achieve more fair, equitable and proportional IPR enforcement practices.

Recommendation for Clarifications to the Enforcement Directive

Under Article 3 of the Enforcement Directive, all enforcement measures, procedures and remedies must be *fair, equitable and proportionate*. We recommend that the Enforcement Directive be updated to reinforce the need to apply these fundamental requirements in the context of Articles 8, 9, 11, 12 and 13, as detailed below.

Article 8 “Right of Information”

Article 8 of the Enforcement Directive provides rights of information only for the rights holder. Based on our experience with regard to SEPs, we suggest that the Enforcement Directive also provides a reasonable and proportionate right of information for the defending party.

Right of Information is critical not only to efficiency but also to fairness of court processes. For example, if a FRAND encumbered SEP is asserted, it is critical that a defendant being willing to take a license for the SEP is entitled to get relevant information from the rights holder about certain

conditions of preexisting licenses. This applies in particular for a supply chain in which a supplier may have taken a license already and the purchaser for his applicable defense needs to know the license terms of the existing license.

The FSA is committed to transparency in SEP licensing. However, an increasing number of SEP holders operate their licensing programs under cloaks of confidentiality, requiring potential licensees to enter into confidentiality agreements as a pre-condition to licensing discussions. These confidentiality agreements prevent companies from assessing whether the terms of proposed licenses (such as upfront payments or royalty rates) are non-discriminatory. At the same time, during negotiations of licenses, SEP holders often represent to potential licensees that other companies have accepted the terms of the proposed license. Because of the confidentiality restrictions imposed on the prospective licensee (and other licensees) the prospective licensee is unable to verify if what the SEP holder has represented is true. This insulates discriminatory licensing practices from meaningful review and is contrary to a level playing field.

To address such non-transparent practices, the FSA recommends the addition of a new subparagraph 4 to Article 8, as follows:

4. ***Member States also shall ensure that, in such proceedings and in response to a justified and proportionate request of defendant, the competent judicial authorities may order that information regarding the claim, the basis therefore, and information that bears on potential defenses, be provided by the claimant or its predecessors or successors in interest to the asserted intellectual property.***

Article 9 “Provisional Remedies”

In some jurisdictions those provisional remedies include quasi-automatic granting of powerful interlocutory injunctions that have a devastating effect on the alleged infringing party, even if the granting of pecuniary remedies (damages) may be an adequate remedy, more fair, equitable and/or proportionate, particularly where the scope of the alleged infringement relates only to a minor feature of the overall product. For the same reasons as discussed below in regard to articles 11 and 12 fairness, proportionality and equity should be expressly included in assessing provisional measures under Article 9. To clarify these considerations, the FSA recommends the following update to Article 9:

3. *The judicial authorities shall, in respect of the measures referred to in paragraphs 1 and 2, have the authority to require the applicant to provide any reasonably available evidence in order to satisfy themselves with a sufficient degree of certainty that the applicant is the right holder and that the applicant’s right is being infringed, or that such infringement is imminent. **In all cases, application of the measures referred to in paragraphs 1 and 2 shall be subject to principles of fairness, equity and proportionality.***

Article 11 “Injunctions”

Injunctions can be a powerful tool for the owner of an intellectual property right to use. Outside the context of SEPs, one response that an accused infringer threatened with an injunction has is to stop infringing. In the context of patents that are not essential to a standard (non-SEPs), ceasing infringement typically involves making some modification to a product that avoids continued use of the patented invention. In the context of SEPs, however, the option to discontinue infringement

may, as a practical matter, not be available to the accused infringer. If the SEP really is essential to implement a standard, the accused infringer cannot design around the SEP without losing compliance with the standard. As the European Court of Justice noted in its decision in Huawei / ZTE, “That feature distinguishes SEPs from patents that are not essential to a standard and which normally allow third parties to manufacture competing products without recourse to the patent concerned and without compromising the essential functions of the product in question.”

The implementer of a standard is therefore ‘locked-in’ to use of the patented inventions claimed in SEPs. This “lock-in” puts SEP holders in powerful positions because, if the patent is valid and infringed, the SEP holder may be able to prevent any future sale of the product, notwithstanding the fact that the asserted patent may be one of hundreds or thousands needed to implement a particular standard. And even where the patent is of questionable validity or essentiality the patent holder may threaten to seek injunctions against standardized products.

The ability of a SEP holder to threaten an implementer with an injunction can distort licensing negotiations to the detriment of that implementer and the end consumers that buy its products. A rational implementer can be coerced into accepting to pay higher-than-reasonable royalties just to avoid the risk of being barred from producing and/or selling its product. That implementer will seek to pass along its increased licensing costs through charging higher prices to the consumers for products that implement standards.

Beyond the impossibility of designing around a SEP, SEPs differ from other patents in another way. In most cases, SEP owners have voluntarily agreed to license their patents to implementers of the standard to which they are essential. An owner of a SEP who has voluntarily committed to provide licenses to its SEP under FRAND conditions but nevertheless seeks an injunction is reneging on its FRAND commitment. Consequently seeking an injunction is contrary to the FRAND purpose of preventing owners of SEPs from abusing the dominant position they attain when their patent is selected for inclusion in what becomes a widely-implemented standard. Granting an injunction to a SEP owner that is evading its commitment to license is both anti-competitive and inequitable.

In some Member States, such as the UK, the use of injunctions has been made expressly subject to the principles of fairness and equity required under Article 3. In other Member States, however, injunctions have been treated as “automatic” upon a finding of infringement (and in some cases even before a determination of validity). This unfortunate disparity among the Member States interferes with the “homogenous level of protection in the internal market” that is sought under the Enforcement Directive and presents an obstacle to further strengthening the Single Market to the benefit of EU industries and citizens.

To address this disparity, and to clarify the application of Article 3 in the context of injunctions, the FSA recommends the following update to Article 11:

*Member States shall ensure that, where a judicial decision is taken finding an infringement of the intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement, **subject to the requirements of fairness, equity and proportionality.** ...*

Article 12 “Alternative measures”

Similar to our concerns with application of injunctions under Article 11, we believe that the Enforcement Directive could be significantly improved via clarifications that under Article 12 courts must be given the authority to consider proportionality as well.

Article 12 currently provides that “*Member States may provide that... the competent judicial authorities may order pecuniary compensation to be paid to the injured party instead of applying the measures provided for in this section if that person acted unintentionally and without negligence.*”

We see two concerns with this formulation.

- First, under Article 3, Member States must *always* ensure that their courts consider issues of proportionality and fairness by their measures. But the formulation in Article 12 whereby Member States “may” permit their courts to consider alternative measures would appear to allow Member States to deny their courts the opportunity to consider proportionality in applying alternative measures. This should be revised, both to resolve the seeming discrepancy between Article 3 and Article 12, and to avoid the disparate treatment of alternative measures noted above whereby some Member States always permit courts to consider alternative measures (e.g. in Denmark under the Consolidate Patents Act. of Jan 28, 2009, Sect. 59), but others may require courts to automatically issue injunctions without consideration of alternative measures.
- Second, the current formulation appears – contrary to Article 3 – to restrict consideration of fairness, proportionality and equity to situations where “the defending party acted unintentionally and without negligence.” We know that this is *not* the rule in jurisdictions such as the UK, where fairness, equity and proportionality are *always* considered in assessing the propriety of an injunction. While issues of intention and negligence may certainly bear on a court’s determination of fairness, proportionality and equity, Article 12’s suggestion that this is a *dispositive* factor such that courts cannot consider other factors is misplaced and, again, contrary to Article 3.

In view of these issues and concerns, the FSA recommends the following update to Article 12:

*Member states **shall** provide that, in appropriate cases and **under consideration of fairness, equity and proportionality** and at the request of the person liable to be subject to the measures provided for in this section, the competent judicial authorities may order pecuniary compensation to be paid to the injured party instead of applying the measures provided for in this section if ~~that person acted unintentionally and without negligence.~~*

We recommend to modify section (25) of the Enforcement Directive’s Preamble in accordance with the changes of Article 12.

Article 13 “Damages”

Proportionality also has a key role to play in assessing damages. In connection with SEP assertions, we have experienced patent holders that seek damages which are unrelated and disproportionate to the intrinsic value of the inventions contributed to standards. As one recent example, a patent holder having an essential patent relating to the ubiquitous Wi-Fi standard that was implemented on a small item of circuitry contained on a semiconductor device that sold for a few Euros, sought (and in some cases obtained) thousands of Euros per device in royalties from hotels and retail providers calculated based on the square footage of those establishments. As other complex devices, for example cars or airplanes, implement standards such as Wi-Fi or LTE, we anticipate non-proportional demands made against manufacturers of complex products which implement thousands of standards, such as cars or Industry 4.0 facilities, rather than on the actual value of the patented inventions.

To avoid these sorts of abuses, and to emphasize the application of Article 3 in the context of damages issues, the FSA recommends the following update to Article 13:

*1. Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the right holder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement, **and proportionate to the value of the infringed IPR***

...

*2. Where the infringer did not knowingly, or with reasonable grounds know, engage in infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established, **proportionate to the value of the infringed IPR***

Note:

The positions and statements in this paper do not necessarily reflect the detailed individual corporate positions of each member.