



23 Avenue Marnix - 1000 Brussels - Belgium  
T. +32 (0)2 289 0802  
[information@fair-standards.org](mailto:information@fair-standards.org)

[www.fair-standards.org](http://www.fair-standards.org)

**6 FEBRUARY 2018**

## **EC COMMUNICATION SETTING OUT THE EU APPROACH TO STANDARD ESSENTIAL PATENTS**

### **TEN TAKE-AWAYS**

The FSA very much welcomes the European Commission's decision to issue forward-looking guidance to European industry on the licensing of Standard Essential Patents (SEPs).<sup>1</sup> The guidelines are an important step towards clarifying the meaning of fair, reasonable and non-discriminatory (FRAND) licensing and the framework within which standardized technology is licensed. We would particularly like to highlight the below ten key take-aways from the document.

1. In its introduction, the Commission highlights the importance of patents and standards, and the interplay between them for the benefit of innovation and growth. This overall statement around the promotion of innovation is key to the interest of the FSA's membership, reflecting the R&D intensive nature of our members' businesses.
2. In its licensing principles, the Commission emphasizes that a FRAND undertaking creates the legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licenses on such terms.<sup>2</sup> As the Commission indicates in the introduction, "once a standard is established and the holders of the SEPs have given a commitment to license them on fair, reasonable and non-discriminatory (FRAND) terms, the technology included in the standard should be available to any potential user of the standard". This section confirms the Commission's prior statements in the Horizontal Guidelines that "[i]n order to ensure effective access to the standard, the [SSO] IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-

---

<sup>1</sup> See the Fair Standards Alliance press release of 29 November 2017, available at <http://www.fair-standards.org/2017/11/29/press-release-fair-standards-alliance-welcomes-european-commissions-forward-looking-standard-essential-patent-sep-guidelines/>.

<sup>2</sup> The guidelines refer to Case C-170/13 Huawei Technologies, EU:C:2015:477, paragraph 53.

discriminatory terms”.<sup>3</sup> It also corresponds to the FSA’s “Key Principle” that “a license for a SEP should be available at any point in the value chain”,<sup>4</sup> in relation to which the FSA also has published a White Paper.<sup>5</sup> We also refer to the articles published recently by Karl Heinz Rosenbrock, former Director-General of ETSI, explaining why licensing at all levels is required under the ETSI IPR Policy once a FRAND undertaking has been given.<sup>6</sup>

3. The specific licensing principles that the Commission lists for evaluation of reasonable FRAND rates are of key importance, and well aligned with the FSA’s Key Principles.<sup>7</sup> We particularly welcome the following important clarifications:
  - (i) “Licensing terms have to bear a clear relationship to the economic value of the patented technology. That value primarily needs to focus on the technology itself and in principle should not include any element resulting from the decision to include the technology in the standard”;
  - (ii) The value added by the patented technology “should be irrespective of the market success of the product which is unrelated to the patented technology”;
  - (iii) And recognizing the concern of royalty stacking, “in defining a FRAND value, an individual SEP cannot be considered in isolation. Parties need to take into account a reasonable aggregate rate for the standard”.
4. The Commission notes that portfolio licensing practices can be compliant with FRAND, but only where “the portfolio is limited to all the SEPs that a licensee needs to produce/market its product”. Where a portfolio is so limited, the Commission notes that “principles of efficiency” may even support parties’ agreement to focus on licensing at a portfolio level. This coincides with the FSA’s Position Paper on SEP Licensing, which note that “[p]ortfolio licensing ... can be an attractive choice for companies because it can reduce costs and administrative burdens. However, these business incentives for entering into portfolio licenses should not mean that a licensee must be required to license a SEP holder’s entire patent portfolio if it does not practice all of the inventions.<sup>8</sup> In other words, it must always be remembered that SEPs are “self-declared” by patent holders, and as the Commission explains, “[e]vidence points to the risk of broad over-declarations” of alleged SEPs that are not, in fact, SEPs. Indeed, based on various studies cited in the Communication, between 50% and 90% of declared SEPs

---

<sup>3</sup> Commission Guidelines on the applicability of Article 101 TFEU to horizontal co-operation agreements, para 285, available at <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52011XC0114%2804%29>.

<sup>4</sup> The Fair Standards Alliance has previously identified four “Key Principles” that should always be respected in FRAND negotiations and in evaluating FRAND rates. These principles are listed on its website, at <http://www.fair-standards.org/key-principles/>. A more detailed position paper elaborating on those SEP licensing principles is available at <http://www.fair-standards.org/wp-content/uploads/2016/08/FSA-POSITION-PAPER-June2016.pdf>.

<sup>5</sup> Fair Standards Alliance, *SEP Licenses Available to All*, available at <http://www.fair-standards.org/wp-content/uploads/2016/09/160624-FSA-Position-Paper-SEP-licenses-available-to-all.pdf>.

<sup>6</sup> *Why the ETSI IPR Policy Requires Licensing to All*, August 2017, available at [http://www.fair-standards.org/wp-content/uploads/2017/08/Why-the-ETSI-IPR-Policy-Requires-Licensing-to-All\\_Karl-Heinz-Rosenbrock\\_2017.pdf](http://www.fair-standards.org/wp-content/uploads/2017/08/Why-the-ETSI-IPR-Policy-Requires-Licensing-to-All_Karl-Heinz-Rosenbrock_2017.pdf); and *Licensing At All Levels Is The Rule Under The ETSI IPR Policy*, November 2017, available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3064894](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3064894).

<sup>7</sup> See footnote 4 above.

<sup>8</sup> See footnote 4 above.

are not actually SEPs.<sup>9</sup> As such, the Communication is right to recognize that “putative licensees may always question the validity/essentiality of individual patents” and that “SEP holders cannot require a licensee to accept a license for [...] other patents as well”. In short, it cannot be assumed by a putative licensee that a license is required simply because the patent owner claims that it is an SEP, and a putative licensee cannot be required to accept a portfolio license until it is determined that the licensee actually needs a license to the particular patents contained therein.

5. The FSA supports the Commission’s views that “parties are best placed to arrive at a common understanding of what are fair licensing conditions and fair rates, through good faith negotiations”, provided of course that each party has the appropriate information and that the negotiations proceed in a transparent fashion. Where a licensor fails or refuses to provide sufficient information for a party to assess FRAND rates, prospective licensees may not be in a position to reliably evaluate FRAND terms. Moreover, as the Commission has previously addressed in some of its competition matters, such as in the *Motorola* case,<sup>10</sup> it is important to recognize that even agreed license terms may sometimes be the result of unfair “hold up” leverage or information disadvantage, and it cannot be assumed that all prior agreements are compliant with FRAND. In this regard, the Commission correctly notes that a prospective SEP licensee is entitled to receive “sufficiently detailed and relevant information to determine the relevance of the SEP portfolio and compliance with FRAND”, and that such explanations should include “clear explanations [...] on: the essentiality for a standard, the allegedly infringing products of the SEP user, the proposed royalty calculation and the non-discrimination element of FRAND”.
6. In addition to competition-law related aspects of injunctions upon infringement of standards-essential patents and the contractual implications of a promise to license on a SEP owner’s available remedies, the Commission importantly emphasizes the more general obligation to consider the proportionality of injunctions as a remedy for patent infringement. For example, the Commission unequivocally states that “when assessing the availability of injunctive relief, courts *are bound* by Article 3(2) of the IPR Enforcement Directive, and notably the requirement to ensure that injunctive relief is effective, proportionate and dissuasive [emphasis added]”. This statement also implies that the use of customs seizures as *de facto* injunctions, without obtaining a prior Court order, is a disproportionate and inappropriate remedy. Recognizing the broad impact an injunction may have on businesses, consumers and the public interest, the guidelines consider that “the proportionality assessment needs to be done carefully on a case-by-case basis”. We also concur with the Commission that “considerations need to be given to the relative relevance of the disputed technology for the application in question and the potential spill-over effects of an injunction on third parties”.
7. The FSA also subscribes to the Commission’s goal around transparency, when indicating that “[m]ore accessible FRAND-related information could increase predictability for businesses such as IoT players, facilitate the licensing process in general and provide support and benchmarks in dispute settlement”. To achieve those goals, the guidelines propose a number of specific measures, many of which will

---

<sup>9</sup> See in particular footnote 19 of the Commission’s Communication, which indicates that “A number of studies on various key technologies suggests that when rigorously tested, only between 10% and 50% of declared patents are essential (CRA, 2016 and IPlytics, 2017)”.

<sup>10</sup> Case COMP AT.39985, *Motorola – Enforcement of GPRS Standard Essential Patents*, available at [http://ec.europa.eu/competition/antitrust/cases/dec\\_docs/39985/39985\\_928\\_16.pdf](http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf).

require further consideration within the relevant SDOs. The FSA hopes that those discussions will be held within the relevant organizations, and amount to a swift implementation of well-balanced measures. The objective of availability of information on the existence, scope and relevance of SEPs is important for the development of IoT in Europe, in particular when considering the breadth of SMEs that may need to navigate their way through the SEP licensing landscape. Meeting that need, while at the same time avoiding putting an effort and cost burden on SEP holders that would be disproportionate to the added value of information being made available, is not a trivial task, and we applaud the Commission for proposing a set of reasonably balanced measures. On this topic, we also note that the FSA has previously published a white paper addressing transparency and fairness in FRAND licensing, and raising concerns regarding licensors that seek to insulate their licensing behaviors behind a wall of secrecy.<sup>11</sup>

8. In relation to Alternative Dispute Resolution, the Commission highlights that ADR mechanisms can offer swifter and less costly dispute resolution, but that “there can be no obligation for parties to use ADR”. ADR must always remain voluntary, and any punishment or sanction for choosing not to accept ADR could threaten a party’s fundamental right of access to the courts.<sup>12</sup> In particular, a party’s decision to retain its right of access to the courts, rather than agree to ADR, must never be used as a basis to find that party “unwilling”.
9. It is also encouraging to note the Commission’s intention to closely monitor the ongoing impact of Patent Assertion Entities, in particular in light of the increased transparency and predictability goals.
10. Finally, the Commission correctly takes note of the public interest function of the FRAND promise. SEP licensing policies “should serve all EU citizens” and support consumer as well as industry interests. Public interests can be served where patent holders that commit to FRAND licensing remain entitled to receive reasonable compensation based on the economic value of their patented technologies, but likewise where users of standards are adequately protected from behaviors such as seeking inappropriate market exclusion, seeking excessive royalties, refusals to license, or discrimination. The value that standardization brings to consumers remains theirs to enjoy, and that value must not be co-opted by SEP owners that seek to avoid FRAND licensing commitments.

The FSA looks forward to continuing its interactions with the Commission in order to achieve a balanced IPR framework and successfully implement the principles outlined in the Communication. More specifically, the FSA looks forward to engaging with the relevant stakeholders on the topic of standardization and open source,<sup>13</sup> and very much looks forward to participating in the expert group on SEPs to support the Commission in further developing its approach to FRAND licensing.

---

<sup>11</sup> The Fair Standards Alliance, *Transparently FRAND: The Use (and Misuse) of Confidentiality in FRAND Licensing Negotiations*, available at <http://www.fair-standards.org/wp-content/uploads/2017/02/170213-FSA-Position-PaperTransparency-FRAND-1.pdf>.

<sup>12</sup> This is in line with our position on “Facilitating the Fair and Balanced Settlements of Disputes on SEPs”, available at <http://www.fair-standards.org/wp-content/uploads/2017/02/170213-FSA-Position-Paper-Facilitating-the-Fair-and-Balanced-Settlement-of-Disputed-on-SEPs.pdf>.

<sup>13</sup> The Fair Standards Alliance, *The Importance of Maintaining the Open Source Software Value Proposition*, available at <http://www.fair-standards.org/wp-content/uploads/2016/08/FSA-Maintaining-The-Open-Source-Software-Value-Proposition.pdf>.

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