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## PATENT POOLS AND LICENSING PLATFORMS IN SEP LICENSING

### 1. Synopsis

The concept of licensing Standard-Essential Patents (SEPs) through patent pools has recently received increased attention.

This Position Paper provides a set of recommendations and observations concerning SEP licensing through patent pools. It is intended to be helpful to a broad audience: to regulators in considering policies concerning SEP patent pool licensing, to patent pools and firms involved with them, to adopters bringing products and services potentially practicing SEPs to market, and to legal entities and practitioners dealing with claims relating to SEPs and to the public.

Compliance with competition law is paramount for a patent pool, and this paper does not attempt to duplicate the principles that global competition authorities have set forth with respect to patent pool compliance with competition laws. But, critically, for SEPs which are offered by a SEP holder for licensing via a licensing agent (such as a pool), a licensee and the respective SEP holder also should have the freedom, by mutual agreement, to transact a license between themselves. Accordingly, a party's refusal to join a pool, or to take a license from a pool, should not be considered as an indication of unwillingness to grant or to take a SEP license. A licensee that decides that it would prefer to negotiate a direct license with a patent owner rather than the pool should inform the pool of that decision at an appropriate time.

Further, to ensure that license fees are not requested for substitute, expired or invalid patents, patent pools should be equipped for independent essentiality checks and should allow validity checks among its licensors/patent owners. Successful validity challenges should be taken into account for license valuation.

A patent pool should also comply with the basic principles of Fair, Reasonable and Non-Discriminatory (FRAND) licensing, including the following:

- A pool license should be made available to any entity within a supply chain that practices the standard and seeks a license.

- The royalty rate charged by a patent pool should, among other things, take into account the value of SEPs in its portfolio as part of the entire SEP landscape relevant to the standard.
- The royalty rate offered by the patent pool should reflect the value of the patented inventions included in the pool and not the added value of standardisation or innovations and features not covered by the SEPs.
- The patent pool should be transparent as to the license(s) offered by publishing the information about the relevant SEPs and proposed licensing terms and conditions in a timely manner.

Multiple patent pools for a given standard may lead to duplicative royalty demands that do not take into account the aggregate royalty burden for a standard. Instead, licensing a critical mass of SEPs relevant to a given standard is helpful for a patent pool to be successful, and may help minimize the total number of patent pools for a given standard. Such a critical mass of SEPs—only if the pool royalty rate is FRAND—may also generate a benchmark for reasonable licensing fees for other patent pools and individual SEP licensors.

Moreover, early announcements as to both patent pool formation and public availability of its terms are useful to provide early and timely data to prospective licensees that may help mitigate hold-up.

## 2. Introduction

While licensing SEPs via patent pools may be a beneficial arrangement for both SEP holders and SEPs licensees in reducing transaction costs, patent pool licensing of SEPs also can create significant issues. For example, by aggregating SEPs, patent pools have the potential to leverage inequitable SEP licensing practices.

In its communication, COM (2017) 712 final, dated Nov 29, 2017, entitled “Setting out the EU approach to Standard Essential Patents”, the European Commission (EC) noted that

“[t]he interplay between patents and standards is important for innovation and growth. Standards ensure that interoperable and safe technologies are widely disseminated among companies and consumers. Patents provide R&D with incentives and enable innovative companies to receive an adequate return on investments”.

In addition, the EC referred to patent pools as a potential means to license SEPs:

“The creation of patent pools or other licensing platforms, within the scope of EU competition law, should be encouraged. They can address many of the SEP licensing challenges by offering better scrutiny on essentiality, more clarity on aggregate licensing fees and one-stop-shop solutions. For IoT industries, and particularly SMEs, newly exposed to SEP licensing disputes, this will bring more clarity to licensing conditions of SEP holders in a specific sector.”

“Measures to encourage the setting up of pools for key standardised technologies should be encouraged, e.g. facilitating access to pool management offers and technical assistance by SDO {standard developing organization}. The Commission will consider further measures if these efforts are ineffective in IoT sectors.”

The EC also noted in its communication:

“Finally, to avoid 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, assessing the overall added value of the technology. The implementation of measures on SEP transparency can already support this objective. It can be addressed further, within the scope of EU competition law, by the creation of industry licensing platforms and patent pools, or based on indications by standardisation participants on the maximum cumulative rate that could be reasonably envisaged or expected.”

The CEN Workshop Agreement 95000 entitled “Core Principles and Approaches for SEP Licensing”<sup>1</sup> (CWA), published on 12<sup>th</sup> June, 2019, and endorsed by FSA and 55 other companies and trade associations, promotes six core principles and provides guidance on FRAND licensing practices for both bilateral negotiations between a single patent owner and a prospective licensee, and negotiations in which a patent pool or licensing platform are involved. The FSA also supports the licensing of SEPs in accordance with the Key Principles set out in its Position Paper<sup>2</sup> entitled “FAIR STANDARDS ALLIANCE - AN INTRODUCTION”, dated 12<sup>th</sup> November 2015. This Position Paper builds on those principles in the context of patent pools to provide a set of recommendations and best practices for SEP licensing through patent pools, and to offer observations as to the potential dynamics and effects (both positive and negative) of SEP licensing under a pool framework. While this paper discusses SEP patent pool licensing, nothing in this paper should be construed as suggesting that a SEP holder should join a patent pool or that a potential SEP licensee should take a license through a patent pool.

### 3. What are patent pools?

For a number of industry standards, patent pools have been created to license SEPs. For example, a patent pool agent operating the patent pool may grant a sub license to certain SEPs owned by multiple licensors (subject to the terms of the head license), or may grant a license to the licensee directly on behalf of the respective SEP holders. Patent pool agents may offer different licensing programs for different standards and should ensure that the arrangements are appropriate to each individual case.

Patent pools should comply with certain basic requirements and licensing principles as follows.

#### 3.1. What are some of the competition, contract, and patent law constraints on patent pools?

Owing to the significant antitrust scrutiny that patent pool arrangements among competitors invites, it is paramount that the terms and conditions of patent pool agreements adhere to all relevant state, national, and regional competition laws. Therefore, when creating a patent pool and setting its terms and conditions, its effects on the relevant markets need to be carefully considered by the SEP holders and the patent pool agent. A patent pool may have pro-competitive effects (e.g., by offering easier access to a large number of licensed patents essential to a standard on reasonable terms), but may also have anti-competitive effects (e.g., by restricting a licensee’s use of alternative standards, leveraging the market power of tied patents to enable its licensor members to refuse to negotiate with potential licensees individually, or to demand unreasonable terms). Competition law also applies to limit patent pools’ interactions with one another. For example, patent pools must not collude with each other to target licensees or to seek to fix licensing fees.

When creating a patent pool, all commitments with respect to the patents need to be observed: e.g., if the licensed patents were committed to be offered for license on fair, reasonable and non-

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<sup>1</sup> The CEN Workshop Agreement 95000 entitled “Core Principles and Approaches for SEP Licensing” (CWA), published on 12<sup>th</sup> June, 2019 Available at:

[ftp://ftp.cencenelec.eu/EN/News/WS/2019/CWA\\_SEP/CWA95000.pdf](ftp://ftp.cencenelec.eu/EN/News/WS/2019/CWA_SEP/CWA95000.pdf)

<sup>2</sup> Position paper. “Fair Standards Alliance – an introduction”, dated 12<sup>th</sup> November 2015. Available at:

<https://fair-standards.org/wp-content/uploads/2016/08/FSA-POSITION-PAPER-June2016.pdf>

discriminatory (FRAND) terms by the patent owners in the course of standardisation, the pool must also offer the licensed patents on FRAND terms (whether the FRAND commitment was made directly by the present licensor or instead by a previous owner). Pool members should not restrict a pool's ability to comply with the member's own FRAND obligations, such as by refusing to allow the pool to license some categories of licensees.

A FRAND license (whether for a single SEP or a portfolio) may be offered by the SEP holder through a patent pool, but offering an SEP license solely through a patent pool would be incompatible with competition law in most countries. Rather, if a SEP holder chooses to offer FRAND licenses through a patent pool, it should be in addition to offering to negotiate a bilateral FRAND license to any potential licensee asking for such license. A SEP holder's refusal to join a patent pool or a licensee's refusal to take a license through the patent pool therefore should not be considered as an unwillingness to grant or to take a SEP license, respectively. A licensee that decides that it would prefer to negotiate a direct license with a patent owner rather than the pool should inform the pool of that decision at an appropriate time.

The royalty rate set by the patent pool may also raise competition law concerns. The patent pool royalty rate for all its SEPs must clearly be FRAND in the aggregate. Since the royalty rate may have a material impact on the markets for licensed products in light of the substantial market power from a patent pool's aggregation of SEPs from different licensors, patent pools should be scrutinized by competition law authorities for compliance with this FRAND requirement. Upon request, the patent pool agent should provide a clear explanation as to why the royalty structure is believed to be fair, reasonable and non-discriminatory and how the rate has been calculated.

### 3.2. Do patent pools reduce transactions costs, and increase clarity as to aggregate licensing rates?

While patent pools have the potential to reduce transaction costs and increase clarity as to aggregate licensing rates, the goals are less likely to be achieved when multiple patent pools exist for a standard, or a patent pool lacks critical mass over the long term. Licensing via a patent pool may be a beneficial arrangement for both SEP holders and SEP licensees, particularly for complex standards that otherwise would require many individual negotiations. For SEP holders, licensing via a patent pool may be advantageous, since the pool agent usually handles the license negotiations and agreements with prospective licensees, collection of royalties and assessment of licensed SEPs for essentiality.

For SEP licensees, licensing via a patent pool may also be beneficial, since they only need to negotiate and conduct one license agreement for the multiple SEP holders of the pool instead of negotiating and conducting individual agreements with each of them. Likewise, for both licensors and licensees, transaction costs for reporting, accounting and payment processes may be (but are not necessarily) reduced by patent pool licensing as compared to multiple bilateral licensing.

When multiple patent pools exist, especially for the same standard, potential licensees may have to deal with several entities, at different rates, and for different functionally-oriented parts of the standard. Multiple patent pools for the same standard may cause the total aggregate rate for the standard not to be transparent, even if measures are taken to avoid potential double-dipping from multiple patent pools (or from patents already licensed from an individual licensor).

If pools are created, it is beneficial to announce them on a timely basis following the creation of a standard. Early pool announcements offer the potential to reduce the number of licensing negotiations, and to provide more certainty regarding the possible licensing costs involved before a new standardised technology is widely implemented. Prospective licensees may receive sufficient early assurances to invest in and deploy the standard. Of course, any benefits related to transaction costs,

certainty, and clarity do not offset the harms that occur if the pool does not comply with FRAND licensing practices or utilize FRAND terms.

#### 4. Detailed SEP patent pool recommendations

For patent pools, the same basic requirements should exist as for SEP licensors individually licensing their SEPs under FRAND obligations. The FSA also supports the licensing of SEPs in accordance with the Key Principles set out in its Position Paper entitled “FAIR STANDARDS ALLIANCE - AN INTRODUCTION”, dated 12<sup>th</sup> November 2015 (cit. op.). Because patent pools aggregate SEPs from many licensors, it is particularly important for pools to comply with FRAND obligations; otherwise the effects of non-FRAND practices can be multiplied.

Patent pools should be FRAND-compliant and operated appropriately both when set-up and during the lifetime of the program. At least the following aspects should be observed by SEP licensors when setting up or managing a patent pool:

- 4.1. **SEP license available to all:** A pool license should be made available to any entity within a supply chain that practices the standard and seeks a license.
- 4.2. **Valuing inventions:** For valuing a FRAND pool royalty, all the principles as for individual patent license royalties apply; e.g.,
  - 4.2.1. FRAND royalties must always reflect the value of the patented invention(s), and only the value of the patented invention(s). The FRAND rate for a patent pool accordingly should reflect the quality of the pooled patents, including their likely validity;
  - 4.2.2. FRAND royalties should not seek to levy charges for innovations or features which are outside of the scope of the patent; the patent pool’s rates should focus on the actual functionality that the pool’s patents purport to have invented, and not on uses or combinations that the pool’s patents do not cover.
  - 4.2.3. FRAND royalties should never include the added value of standardisation.
- 4.3. **Discrimination:** There should be no discrimination against any licensee or potential licensee.
- 4.4. **Injunctions:** A holder of a FRAND-encumbered SEP, including as a member of a patent pool, must not be allowed to seek or enforce an injunction or other exclusionary remedies in relation to that SEP except in limited circumstances<sup>3</sup>.
- 4.5. **Role of SDOs:** Sometimes, SDOs may play a positive role by promptly fostering pools for the standards they create.
- 4.6. **Essentiality and validity checks:** Patent pools should be equipped for essentiality checks, e.g. through an independent external evaluator, as discussed below, although other internal and external policing also may be helpful. In addition, they should allow validity checks among its licensors/patent owners. While such checks are important to comply with competition obligations, they do not alter traditional burdens of proof in litigation that may arise concerning the patents in the pool, and should not be binding on pool licensees. Moreover, to promote transparency, these checks should be disclosed to potential licensees.

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<sup>3</sup> See also FSA Position Paper entitled “INJUNCTION IN ACCORDANCE WITH THE PRINCIPLES OF EQUITY AND PROPORTIONALITY”, <https://fair-standards.org/fsa-injunction-position-paper-23-january-2/>

- 4.6.1. **Internal policing:** Patent pool members should have the ability to challenge the SEP status of other member's patents. Enlightened self-interest may motivate members to want to reduce the share of the other members, and thereby increase one's own share of the royalties received. For all participants (including licensees and potential licensees), such internal policing may reduce the incidents of "over-declarations" of patents which are not essential to the standard and/or are invalid, but were declared at the standard developing organization (SDO), or through the patent pool, as being essential.
- 4.6.2. **External policing:** By publicly listing the purported SEP patents held by its members (e.g., on the patent pool's website), prospective licensees (and non-pool SEP owners) can separately or collectively assess their essentially and/or validity. Patent pools should disclose the patents in the pool, and also cite the relevant standard sections and SEP patent claims, e.g., publish claim charts, to facilitate validation.
- 4.6.3. **External essentiality evaluation:** Having an external third party assess essentiality of SEPs is preferable to relying on self-assessment or internal challenges by other pool members. Such a party should be truly independent and fully competent, and the patent pool should be transparent on who the party is and whether the pool has any interest in or connection to the third party assessor.
- 4.7. **No bundling:** SEP owners and patent pools should not propose the mandatory bundling of SEPs of a standard with patents that are not SEPs under the standard, or with other standards that may not be used by the licensee.
- 4.8. **Royalty stacking:** Patent pool members and the pool agent must reconcile among themselves that their overall royalty demand is reasonable. Therefore, they must also take into account the entire SEP landscape relevant to the standard. This means that the royalty rate charged by a patent pool must be proportional to an aggregate FRAND rate taking into account the entire SEP landscape relevant to the standard. For example, a pro-rata share of an aggregate FRAND royalty rate may be reasonable if the patent pool's portfolio is a representative cross-section of all SEPs for that standard. The aggregate royalty also should reflect the value of the SEPs independently from their mere inclusion in the standard (which implementers are locked into using), and the actual share of SEPs licensed through the patent pool relative to all SEPs relevant to the standard.
- 4.9. **Patent counting:** Patent pools are encouraged to employ rules that disincentivise the practice of inflating the number of separate patents that claim the same basic invention (whether through continuation practice or otherwise). Other pool members will benefit in not seeing their proportional shares reduced, and licensees are thereby less likely to be faced with excessive patent counts. For example, weighting factors could refer to the number of patent families and to the number of individual patents, or jurisdictions where no substantive patent examination takes place could be discounted.
- 4.10. **Licensed products:** Licensed products should be limited to products that use SEPs licensed by the patent pool. The license should be made available to any entity within the supply chain of such licensed products. Preferably, the pool should also disclose whether the offered license is full or field-of-use restricted.
- 4.11. **Accommodation for ancillary licensee/licensor agreements:** Parties may enter licenses external to the patent pool structure, for example cross-licenses or litigation settlements, for various reasons. To avoid duplicate royalty payment for the same patents (also referred to as

“double dipping”) a SEP owner should (i) be transparent about any licenses it has granted to suppliers of components in the supply chain of a multi-component product, or allow those suppliers to confirm with the licensee that they have already taken a license; and (ii) work with licensees that already have a license directly from one or more of the pool licensors. It should respectively account for direct or indirect compensation of existing licenses by either having the pool license rate reduced by the value of this compensation (pre-netting), or reimbursing the value of this compensation to the pool licensee (post-netting). Since a licensee usually lacks detailed information of license agreements conducted between a licensor and a licensee’s component supplier due to confidentiality obligations of both contracting parties, pre-netting is usually more appropriate than post-netting.

- 4.12. **Conflicts of Interest:** Patent pool agents should preferably be fully independent of the SEP holders to avoid conflicts of interest. Conflicts of interest can arise if patent pool agents or administrators license their own patents as part of the patent pool. In such case, great care must be taken to ensure that the administrator does not overvalue either its share of the patents in the patent pool, and the ‘importance’ of its patents. Moreover, patent pool agents or administrators may have a vested interest in not disclosing concerns or facts about the validity or essentiality of their own patents.

Conflicts of interest should also be avoided by ensuring that the essentiality of patents going into the pool is reviewed by independent evaluators with a detailed knowledge of the standard and its technologies. Companies and evaluators engaged in the assessment of the essentiality of patents should not be connected to, or influenced by, SEP owners or patent pool agents. There should preferably be a panel of independent assessment companies that are chosen on an ad hoc basis to assess essentiality. Patent pool agents should not discriminate against licensees in favour of the members of the pool, e.g. by not seeking licenses from the members of the pool. Different patent pools should not discuss pricing or other licensing terms with other pools.

- 4.13. **Constitution of patent pools:** The composition of a patent pool’s licensor membership may have an effect on the aspirations of the patent pool in terms of royalties sought. For example, Patent Assertion Entities (including entities which have acquired SEPs after the fact, without having been involved in the standardisation process) may have a different view on royalties than original SEP creators. Any SEP holders (licensors) in the patent pool who are also implementers (licensees) may have yet another view. Having a balanced view from the perspective of both licensee and licensor is more likely to result in FRAND royalty terms. A substantial share of SEP holders in the patent pool that are also implementers and licensees of the patent pool may help to create a balanced valuation with a FRAND royalty demand that is beneficial for all, including for those companies that might not have a strong SEP portfolio, such as (typically) small and medium-sized enterprises (SMEs). Notwithstanding the foregoing, whatever the constitution of the Patent Pool or additional measures taken to achieve a balanced valuation, the royalty demand must always be FRAND.

- 4.14. **Dynamic nature of patent pools:** Patent pools should recognise that the value of the patents in the patent pool may change dynamically as alternative technologies appear that impact the value of the standard. Even assuming no technological change, the rates charged by a patent pool also may change, for example, as patents expire and patent holders (and thus the patent portfolios they include or remove) change. Patent pools should promptly remove patents that have been held invalid, unenforceable, or that have expired.

Patent pool rates should take into account the expiry profile of the patents available for license in the pool and review its rates when a significant proportion of its patents have expired, or

been held invalid or unenforceable. Rate changes should be reflected in the renewal terms offered to existing licensees, and in agreements with new licensees.

- 4.15. **Transparency:** All FRAND transparency principles have increased importance in patent pools because of the aggregation of licensing. Transparency in matters of SEPs is paramount to business certainty and hence investment for all involved in the value chain of new technology. A lack of transparency, for example holding up claims of SEPs and delaying declarations of royalty terms, serves to undermine confidence in a standard. Potential implementers need time to assess the essentiality claims made for SEPs and the business models that their proposed terms will fit into. Failure by SEP holders to make timely declarations may damage their chance of having a standard adopted and hence endanger achieving FRAND compensation for their SEPs.

As discussed in detail in the CWA “Core Principles and Approaches for SEP Licensing”, *op. cit.*, a patent pool should also be willing, without secrecy requirements such as requiring an NDA to be in place before disclosure, to provide to the prospective licensee all information required for assessing essentiality and whether the terms of the proposed license are FRAND, such as

- A listing of the patents proposed to be licensed. The list should be recent and as representative of the full portfolio as practicable;
- Identification of corresponding sections of the standard where each such SEP is alleged to be practiced;
- Details of the basis for allegations of essentiality and infringement, such as claim charts;
- Details of the licensing terms which can assist the implementer of the standard in evaluating whether the terms offered are FRAND or not;
- The patent pool’s initial royalty offer;
- Details of the basis and methodology upon which the FRAND offer (including any royalty rate) has been calculated;
- Historical rate and licensing information (perhaps anonymized or otherwise limited to protect legitimate third-party confidentiality issues, and inclusive of any “side agreements”, “caps” or “rebates” as may be applicable);
- Details of any litigation, or other proceeding that is ongoing related to any asserted patents;
- Information regarding prior licenses to suppliers or customers of the potential licensee (or potential suppliers or customers), such that the potential licensee can determine whether any of its products may already be licensed (and avoid potential double payments);
- A list of the SEP holders in the patent pool;
- Identities of the licensees of the licensing program to date;
- Confirmation that each SEP holder is willing to offer a direct license to the SEPs held by the SEP holder, regardless of the existence of the pool;
- Written authorities from the patent owners authorizing the agent to enter into negotiations on behalf of the patent owner (and specifying any limits to the agent’s authority).

## 5. FRAND royalties

If - and only if - a patent pool sets a fair, reasonable and non-discriminatory royalty rate which demonstrably reflects a reasonable aggregate royalty stack for all SEPs relevant to the standard, it may serve as a benchmark which provides an example to other SEP patent pools or an individual SEP owner to encourage reasonable royalty negotiations. A widespread take-

up of licensees may be an indicator that a pool royalty rate is acceptable, because otherwise licensees might prefer to negotiate individually with the SEP holders. However, including and hiding invalid, non-essential or unenforceable patents, e.g., by representing a patent as an SEP to the prospective licensee, although the patent is known to the patent pool (or the respective licensor) to be of doubtful essentiality, validity, enforceability or subject matter eligibility, as may have been revealed in negotiations with other prospective licensees. If there is a significant percentage of such patents, it is likely that the patent pool is asking for a pool royalty that is not FRAND.

## 6. Conclusion

This paper concludes that patent pools are intrinsically neither beneficial nor detrimental. However, fundamentally important factors of patent pools are:

- A FRAND license offer by a patent pool properly takes into account the entire SEP patent landscape of the respective standard;
- SEP licenses must be available to all companies in the value chain;
- Each and every patent pool royalty rate complies with an aggregate FRAND royalty for all SEPs relevant to the standard; and
- The patent pool acts transparently, fairly to all licensees and licensors and in a timely manner as is practically possible.

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