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Using Licensing Negotiation Groups (LNGs) When Licensing Standard Essential Patents on FRAND Terms

Synopsis

Although most negotiations for licenses for standard essential patents (SEPs) on fair, reasonable, and nondiscriminatory (FRAND) terms result in licensing agreements, there may be circumstances when licensing negotiation groups (LNGs) have the potential to facilitate negotiations between some SEP licensors (including patent pools) and licensees. They could be used as a complement to bilateral SEP licensing negotiations and licensing by patent pools, provided proper safeguards are established to maximize the procompetitive benefits of LNGs and minimize their risks:

- The LNG negotiator must be independent, highly qualified, and have experience negotiating FRAND licenses in the technological field of the SEPs subject to negotiation.
- The LNG should be open to similar adopters of the standard—including those at different levels of the supply chain—that are able to establish objective, comprehensible criteria to enable effective licensing negotiations.
- The proceedings should be as transparent as legally possible and commercially reasonable.
- Negotiating with, or participating in, an LNG should be voluntary.
- Members of the LNG have a meaningful opportunity to engage bilaterally with the SEP holder to negotiate a license on FRAND terms.
- A SEP holder that refuses to negotiate with an LNG should not be deemed an unwilling licensor or bad-faith licensor, provided the members of the LNG have a meaningful opportunity to engage bilaterally with the SEP holder to negotiate a license on FRAND terms.
- A SEP licensee that refuses to participate in an LNG should not be deemed an unwilling licensee or bad-faith negotiator.
- Each member of the LNG must decide independently whether to take an LNG negotiated license.

- Negotiating with an LNG should not affect whether a member may raise a FRAND defense against an injunction under the European Court of Justice’s decision, *Huawei Technologies Co. Ltd v. ZTE Corp.*¹
- The LNG and SEP holder or patent pool should agree to a reasonable timeframe for negotiations, recognizing that the precise time will depend on the facts and circumstances of the particular negotiation.

Such LNGs may help increase the number and variety of products incorporating standardized technologies that can be successfully brought to market.

I. Introduction

Standards permit interoperability between devices made by different companies. Patents that have been formally incorporated into a particular technological standard by a standard-setting organization (SSO) are “essential” when products that incorporate the relevant standard cannot design around these standard essential patents (SEPs). Because standardization can eliminate potential competitors for alternative technologies and confer significant bargaining power upon the SEP holder vis-à-vis potential licensees, many SSOs make including SEPs contingent on a voluntary commitment by SEP holders to license their SEPs on fair, reasonable, and non-discriminatory (FRAND) terms. But despite this commitment, many challenges arise with respect to obtaining access to SEP licenses on FRAND terms.

Transparency in the licensing process is often a concern.² Confidentiality obligations in license agreements usually prohibit SEP holders from disclosing to potential licensees the terms of the agreements into which they previously entered. As a result, prospective licensees cannot determine how the terms offered by the SEP holder compare to the terms in other licensing agreements to determine if they are in fact FRAND. Compounding this problem, SEP holders often demand that potential licensees enter into restrictive non-disclosure agreements prior to even beginning the negotiation process. This lack of transparency affects the ability of potential licensees to negotiate efficiently with SEP holders. That is particularly true for small or medium-sized enterprises (SMEs), which typically do not have sufficient resources to handle complex questions involved in SEP license negotiations.

Further, due to the number of claimed SEPs and SEP holders that exist, obtaining all necessary licenses can be complicated, particularly for SMEs with limited resources. Indeed, one study from 2020 found that more than 25,000 patents families had been declared as potentially

¹ Case C-170/13, *Huawei Technologies Co. Ltd. v. ZTE Corp.*, (CJ July 16, 2015), <https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62013CJ0170>.

² Fair Standards Alliance, *Transparency Issues with Standard-Essential Patents* (2 Aug. 2021), https://fair-standards.org/wp-content/uploads/2021/08/210802_FSA_Position_Paper_on_Transparency.pdf.

essential to one (SSO).³ And patent owners often over-declare their patents,⁴ which makes it difficult to identify which licenses are needed to develop products that use the standardized technology. This complexity may discourage investment in and innovation of products that incorporate the standard.

Moreover, when a standard becomes widely adopted, the number of bilateral licensing agreements increases, making the licensing of SEPs complicated for both SEP holders and prospective SEP licensees. Another obstacle to accessing SEP licenses is many SEP holders' refusal to license to entities in the supply chain other than original equipment manufacturers (OEMs), despite their promise to offer licenses on a nondiscriminatory basis.⁵

In light of those challenges, there have been several efforts to attempt to simplify SEP licensing. One approach is a patent pool,⁶ where SEP holders jointly offer to license the relevant SEPs under a single license agreement. However, patent pools can have significant drawbacks.⁷ Prospective licensees often cannot negotiate specific terms of a patent pool offer and instead must take or leave the offered terms as they are. At the same time, patent pools sometimes give licensees rates that are better than the "published" rates, which undermines the potential increased transparency that a patent pool can provide.⁸ What is more, patent pools do not

³ E.g., European Commission Joint Research Centre, Rudi Bekkers, Emilio Raiteri, Arianna Martinelli, Elena M. Tur, *Landscape Study of Standard Essential Patents Disclosed to ETSI* (2020), https://publications.jrc.ec.europa.eu/repository/bitstream/JRC121411/jrc121411_sep_landscape_final.pdf.

⁴ European Commission, Joint Research Centre, Rudi Bekkers, Joachim Henkel, Elena M. Tur, et al., *Pilot study for essentiality assessment of standard essential patents*, (2020), <https://op.europa.eu/en/publication-detail/-/publication/1829605f-2d3a-11eb-b27b-01aa75ed71a1/language-en>; Communication of the Commission To The European Parliament, The Council And The European Economic And Social Committee, Setting out the EU approach to Standard Essential Patents COM (2017) 712 final, <https://ec.europa.eu/docsroom/documents/26583>.

⁵ Fair Standards Alliance, *Competitive and Industry Harms Related to Refusals to License SEPs and Other Forms of "Level Discrimination" in SEP Licensing* (2 Dec. 2020), <http://fair-standards.org/wp-content/uploads/2020/12/FSA-Position-Paper-Competitive-and-Industry-Harms-Related-to-Refusals-to-License-SEPs.pdf>.

⁶ Fair Standards Alliance, *Patent Pools and Licensing Platforms in SEP Licensing* (6 Nov. 2019), https://fair-standards.org/wpcontent/uploads/2019/11/191104_FSA_Position_Patent_Pools.pdf.

⁷ John "Jay" Jurata, Jr. & Emily N. Luken, *Glory Days: Do the Anticompetitive Risks of Standards-Essential Patent Pools Outweigh Their Procompetitive Benefits?*, 58 San Diego L. Rev. 417 (2021), <https://digital.sandiego.edu/cgi/viewcontent.cgi?article=3412&context=sdlr>.

⁸ E.g., Decision KZR 36/17 of German Supreme Court (Bundesgerichtshof), <https://juris.bundesgerichtshof.de/cgi-bin/rechtsprechung/document.py?Gericht=bgh&Art=en&az=KZR%2036/17&nr=107755>.

always include every patent essential to a particular standard, and there are some standards for which multiple pools exist, such as the H.265/HEVC standard. The fewer the patents that are included in the patent pool, the less efficient the patent pool.⁹ Moreover, some pools are structured in a manner that effectively engages in discrimination by only offering licenses to OEMs – such as vehicles in the case of the Avanci pool.¹⁰

Another potential approach is a licensing negotiation group (LNG). Basically, an LNG is a group of potential licensees that jointly negotiates with an SEP holder or a patent pool in order to achieve bilateral license agreements between the members of the LNG and the SEP holder or patent pool. Accordingly, the purpose of an LNG is similar to the purpose of traditional joint purchasing groups, but there are substantial differences between them.

Traditionally, joint purchasing groups are established for procuring tangible goods, such as consumer electronics.¹¹ A legal entity negotiates with suppliers, and the members of the group can then procure goods at the negotiated terms and conditions. Typically, the entity is legally independent from the individual members.

LNGs would be established for procuring intangible goods, namely non-exclusive SEP licenses on FRAND terms. LNG members may jointly engage the negotiator by contract. Alternatively, LNG members may form a legal entity that engages the negotiator, or LNG members may be members of a trade association that engages the negotiator. The negotiator acts on behalf of the LNG participants; the negotiator is not a mediator between the LNG participants and the SEP holder(s). The negotiator may negotiate with individual SEP holders or with a patent pool administrator, particularly if the administrator is in the process of forming a new patent pool.

LNGs would provide an additional avenue for both licensors and potential licensees to license SEPs, but they would not replace other options, like bilateral licensing and patent pools. If used, LNGs would provide licensors and licensees with more choice in licensing negotiations.

FSA presents hypothetical examples of LNGs in the annex to this position paper.

⁹ See Fair Standards Alliance, Timely licensing for SEPs- how to avoid opportunities for hold-up and royalty stacking (23 June 2021), https://fair-standards.org/wp-content/uploads/2021/06/FSA_Position_Paper_on_Timely_Licensing_for_SEPs.pdf.

¹⁰ See Fair Standards Alliance Statement re Department of Justice Business Review Letter on Avanci's 5G Patent Pool (1 Sept. 2020) (“[T]he ability of patent pool SEP licensors to decide to whom they will license, and whom they will refuse to license, is contrary to the commitment that they make to license their SEPs on FRAND terms when their patented contributions were incorporated into a standard.”), <http://fair-standards.org/wp-content/uploads/2020/09/200901-FSA-Statement-re-Avanci-BRL.pdf>.

¹¹ See, e.g., Euronics Deutschland eG, <https://www.euronics-deutschland.de/ueber-uronics/unternehmensprofil/>.

In FSA’s view, LNGs may have the potential to improve SEP licensing, but to achieve that potential, it is essential to establish proper expectations and limitations.

II. Compliance with competition law

Although FSA is not aware of a group of licensees jointly procuring patent licenses from licensors, the Commission recognized such negotiating groups in the recently published proposal of the Draft Horizontal Guidelines, which added LNGs to the section of the Guidelines that addresses joint purchasing agreements, stating: “[g]roups of potential licensees can also jointly negotiate licencing agreements for standard essential patents with licensors in view of incorporating that technology in their products (sometimes referred to as licensing negotiation groups).”¹² Like joint purchasing groups – and other participants in the licensing landscape (including SEP holders and patent pools), LNGs must comply with applicable competition law.

FSA welcomes addressing LNGs in the Draft Horizontal Guidelines and would welcome further guidance from the Commission on the pro-competitive use of LNGs. Indeed, LNGs are different in key ways from traditional purchasing groups and may therefore present different competitive consequences.¹³

For example, traditional joint purchasing groups focus on purchasing tangible assets, whereas LNGs focus on procuring intangible SEP licenses. Because of the intangible nature of SEP licenses, unlike tangible assets, there is no limit to the number of SEP licenses that are available for any given SEP. In addition, terms and conditions for SEP licenses cannot be arbitrarily negotiated but are subject to the SEP holder’s FRAND commitment. The market effects of LNGs may therefore be different from the market effects of traditional joint purchasing groups. LNGs may result in more licensees and, therefore, more consumer choice—a procompetitive effect. Similarly, differences between the nature of tangible and intangible assets, it may also be worth considering whether the market share of LNG members is relevant when analyzing the LNGs effect on competition.

III. Potential Benefits of LNGs

If set up correctly, LNGs may create efficiencies for both potential licensees and SEP licensors, provided that the negotiations lead to FRAND licensing agreements. LNGs may reduce negotiating costs if they allow SEP licensors to negotiate license agreements with many licensees for many licensed products in one pass, rather than requiring SEP licensors to negotiate individually with each potential licensee. In addition, LNGs may reduce transaction

¹² European Commission, Draft revised Horizontal Guidelines, Sec. 4, Purchasing Agreements, ¶ 312 https://ec.europa.eu/competition-policy/public-consultations/2022-hbers_en.

¹³ In the United States, the Department of Justice and the Federal Trade Commission have issued specific statements on joint purchasing arrangements among health care providers. Dep’t of Just. & Fed. Trade Comm’n, Statement 7, in Statements of Antitrust Enforcement Policy in Health Care at 53 (1996), <https://www.justice.gov/atr/page/file/1197731/download>.

costs by increasing information flow, provided that the SEP holder makes the necessary information available. For example, an LNG negotiator can obtain information from multiple sources about essentiality (and, hence, the SEP licensor's percentage of the overall stack of SEPs), SEP ownership, validity, and infringement, whereas each individual licensee may have only pieces of that information or may need to expend significant resources to learn that information. Likewise, an LNG negotiator may be able to learn about prior license terms about which an individual party may not be aware. That transparency facilitates efficient FRAND negotiations, but it is incumbent upon the SEP holder to provide it. Furthermore, LNGs may create beneficial scaling effects, including the possibility of volume discounts for licensees and an expanded group of licensees for the licensors to license.

In all of these ways, LNGs also may reduce litigation costs. Savings on transaction and litigation costs may translate into increased R&D investments, which could ultimately benefit SEP licensors, licensees, and consumers.

Such efficiencies would encourage the adoption of—and licensed use of—the standard, which would be particularly beneficial for the Internet of Things and may result in more choices for consumers.

IV. Potential Risks of LNGs

LNGs pose risks in addition to providing benefits. Although an LNG's goal is to negotiate a FRAND license, as with any individual negotiation a non-FRAND license could result from the negotiation. For example, an inexperienced or weak negotiator could agree to terms that most reasonable parties would not accept, i.e., terms that are above the FRAND rate to the detriment of the LNG members. Accordingly, LNGs cannot provide any guarantee that the terms and conditions agreed to by its negotiator and the SEP licensor(s) are FRAND. Instead, LNGs should make such terms and conditions publicly available and let prospective LNG members make their own assessments on whether the rates are FRAND. If the terms of an LNG negotiated license were considered FRAND when they were not actually FRAND, they could create an inappropriate benchmark.

V. Safeguards

Safeguards should be implemented to maximize the procompetitive benefits and minimize the anticompetitive risks of LNGs, including the following:

Independent Negotiators: It would be imperative that the negotiator of an LNG be independent of and towards all LNG participants, thereby ensuring, inter alia, that no competitively sensitive information is exchanged between the LNG participants. The negotiator should also be highly qualified and experienced in negotiating FRAND licenses in the particular technological field of the SEPs that are the subject of the negotiation.

Openness: LNGs should be open to similar adopters of the standard. If the adopters are willing to reasonably contribute to the negotiation costs, the LNG should allow all similar adopters to

participate in the LNG or to take over the outcome of the negotiations later. At the same time, however, it must also be possible for an LNG to form a relatively homogeneous group of similar SEP adopters by establishing objective, comprehensible criteria to enable effective licensing negotiations. An LNG may comprise potential licensees located at different levels of the supply chain of a particular product.

Transparency: The proceedings should be non-confidential to the extent legally possible and commercially reasonable. Some information, such as commercially sensitive information, would have to be kept confidential. There should be some public notice about the formation of an LNG.

Voluntariness: For both SEP holders and SEP licensees, negotiating with an LNG or participating in an LNG should be strictly voluntary. Every party should retain the ability to negotiate separate bilateral licenses as it sees fit.

Decisions to participate: An SEP licensor's refusal to negotiate with an LNG should not render the licensor an unwilling licensor or bad faith actor, provided that the members of the LNG have a meaningful opportunity to engage in bilateral negotiations with the SEP licensor for a license on FRAND terms. However, it is important to keep in mind that an SEP holder must offer to grant a FRAND license directly to any party, irrespective of the party's position in the supply chain.¹⁴ Similarly, an SEP licensee's refusal to participate in an LNG should not be considered evidence of unwillingness to accept a FRAND license or a bad faith actor.

Acceptance of the result: Further, although the LNG concept relies the intention of on all parties participating in an LNG to accept the outcome of the negotiation between the LNG negotiator and the SEP holder, each LNG member must decide for itself whether to take an LNG negotiated license. Therefore, a potential licensee may choose not to accept the result of a negotiation achieved by an independent LNG negotiator. An LNG member that refuses to take an LNG negotiated license should not be considered an unwilling licensee or bad faith negotiator, and the members of the LNG should have a meaningful opportunity to engage in bilateral negotiations with the SEP licensor for a license on FRAND terms (including potential licensees at different levels of the supply chain).

Impact on a FRAND defense: Moreover, negotiating via an LNG should not affect whether an LNG member may raise a FRAND defense against an injunction under the European Court of Justice's decision, *Huawei Technologies Co. Ltd vs. ZTE Corp.*¹⁵ Accordingly, if negotiations between the independent LNG negotiator and the SEP holder or patent pool fail, or if the outcome of the LNG negotiation is not accepted by an LNG member, such LNG negotiations

¹⁴ Fair Standards Alliance, SEP Licenses Should Be Available To All Companies In A Supply Chain That Want a License For SEPs In Their Products—Supporting References (8 June 2020), <https://fair-standards.org/wp-content/uploads/2020/06/200605-FSA-Position-Paper-Supporting-Legal-and-Policy-References-Licence-to-All.pdf>

¹⁵ *Huawei Technologies Co. Ltd. v. ZTE Corp.*, *supra*, note 1.

should not be taken as evidence of a licensee's unwillingness when determining if a licensee is eligible to raise a FRAND defense. Indeed, an individual potential licensee's participation in an LNG is strong evidence that it is a willing licensee acting in good faith to attempt to secure a license on FRAND terms.

Timing: The LNG and SEP holder should agree to a reasonable timeframe for negotiations, although the precise amount of time will depend on the facts and circumstances of each negotiation. This approach will avoid disputes about undue delays. It is important to keep in mind that the timeframe for LNG negotiations and the timeframe for bilateral negotiations may vary. For bilateral negotiations, more time may be required because more individual facts must be considered. Hence, relatively short timeframes for LNG negotiations should not serve as precedent for negotiating timeframes for bilateral negotiations, or for any other LNG negotiations. Assessing whether a particular period of time for negotiations is reasonable requires assessing each case individually, taking into account all relevant facts.

VI. Conclusion

LNGs have the potential to address some of the challenges that SEP holders and prospective licensees face in the license negotiation process. LNGs may facilitate negotiations between SEP holders and adopters of standards, avoid extensive litigation in SEP licensing disputes, enhance competition, create efficiencies, and enable overall benefits to the economy and society by increasing the availability of a broad range of products that use standardized technologies, including those in the emerging field of the Internet of Things.

However, for the benefits of LNGs to be fully realized, it is critical that there be a proper framework for LNGs with safeguards in place. European Commission could, for example, further elaborate on LNGs in the process of revising the Horizontal Guidelines and issue a best practices guide, preferably including a safe harbor, for LNGs that incorporates this guidance as well as addressing practical considerations necessary to promote the effective use of LNGs as a licensing option.

Annex

Examples of hypothetical LNGs

Example 1:

An LNG is formed in the IoT space for companies making smart energy devices and seeking to license wireless communications standards (including 5G). A large patent holder with a sizable wireless portfolio approaches Company A, a member of the LNG, about initiating licensing discussions. Company A tells the large patent holder that because it is a member of the LNG, it prefers to have the LNG negotiate with patent holder instead of Company A.

How should both Company A and the patent holder proceed?

- The patent holder should inquire about the structure of the LNG and confirm that (1) the LNG is represented by an independent negotiator, (2) each company retains the ability to negotiate outside of the LNG, and (3) each company is free to accept or reject the terms and conditions negotiated by the LNG.
- If the LNG meets the criteria, the patent holder may proceed to negotiate with the negotiator of the LNG and if it believes that the LNG's offer is on competitive terms, it can declare that it willing to conclude individual license agreements with the members of the LNG. If the patent holder, after negotiations, does not believe that the negotiator of the LNG has offered competitive terms, the patent holder can instead inform Company A that it would like to negotiate individually.
- Before joining the LNG, Company A should also ensure that the LNG has the safeguards discussed above in addition to safeguards concerning competitively sensitive information. Company A is then free to have the independent negotiator for the LNG attempt to negotiate terms and conditions, including a rate, which Company A may accept or not. Company A may also choose to pursue bilateral negotiations with the patent holder.

Example 2:

This example is the same as Example 1, with the following difference:

- A member of the LNG would not be free to accept or reject the terms and conditions negotiated by the LNG. Rather, it would have to accept them within a time limit agreed by the LNG and the patent holder before starting the negotiations on licensing terms and conditions, unless otherwise mutually and bilaterally agreed between patent holder and the member. Exemptions allowing further bilateral negotiations may apply, for example in case of preexisting licenses in the supply chain, or in case of cross-licensing applies.

This format may be more attractive to patent holders because all members of the LNG would take a license at these terms and conditions.