

**Assonime response to the European Commission consultation
on “Patents and standards”**

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Introduction

We thank the Commission for the opportunity to provide views on the interplay between standards and patents with the aim to support a modern framework for standardisation involving IPRs, favourable to innovation, competitiveness and the development of superior technologies.

Several members of our Association have a direct experience with standardization involving IPRs, with different roles: some of them are providers of technology, others are vertically integrated companies and others are only active on the downstream market for the products incorporating the standardized technology (pure implementers). The evaluation of some of the relevant issues varies depending on the specific role of the undertaking in the standardization context.

In a general interest perspective, a modern framework for standardization involving IPRs must not be biased in favour of a specific business model. It has to be based on clear rules and principles capable, on one hand, of encouraging R&D development for technology solutions to be contributed to standard efforts through a proper remuneration of R&D investments, and on the other of fostering the use of the standard through an efficient licensing of patents.

Standard setting organizations (SSOs) have developed IPR policies to pursue this aim. As for EU legislation, the modernization of standard-setting carried out with Regulation (EU) no. 1025/2012 focused on the openness, transparency and rapidity of procedures; it only marginally addressed the relationship between standardization and IP¹, intentionally leaving the task of designing IP policies and rules to the standard-setting entities.

¹ For ICT technical specifications that are not national, European or international standards which may be eligible for referencing in public procurement, the Regulation contains prescriptive rules concerning the contribution of IP into a standard (obligation to license the IPRs essential to the implementation of the specifications on a FRAND basis).

The ongoing consultation indicates that European Commission is now considering whether further policy initiatives should be adopted, with particular reference to the inclusion of patented technologies into standards and to the licensing of standard essential patents.

This consultation must be viewed in the light of the developments in the IT sector in the last few years, with fierce competition among major platforms in an environment of technological convergence, the entry of new competitors and major acquisitions of patent portfolios. Importantly, innovation continued on a rapid pace, with clear benefits for consumers. On the other hand, these developments were accompanied by a wave of IP litigation all over the world, including cases of SEP litigation between major companies, with large press exposure. In some disputes, undertakings invoked the application of competition law. The European Commission provided some indications on the application of article 101 TFEU to standardization agreements and patent pools in its Guidelines on horizontal cooperation agreements (2011) and technology transfer agreements (2014) and also adopted a small number of decisions in application of article 102 TFEU in cases involving SEPs. Interestingly, Advocate General Wathelet, in his opinion in the *Huawei* case before the Court of Justice, argued that issues concerning SEPs and FRAND terms may adequately, if not better, be resolved in the context of other branches of law or by mechanisms other than the rules of competition law.

It is in this context that DG GROW is making an appreciable effort to improve its understanding of the interplay between standardization and patents. The Report on Patents and Standards commissioned in 2013 was a first step in this direction, but is not yet a policy document because both the actual relevance of the problems and the pros and cons of the envisaged solutions are not supported by sufficient empirical analysis. The current public consultation rightly aims to collect the views of all stakeholders, so as to base any decision on possible future initiatives on adequate factual information.

With respect to the approach of the Report and the questions raised in the consultation document, we respectfully submit that the starting point of the analysis is that, by and large, the current system is successful in ensuring the diffusion of knowledge and the availability of useful SEP-based technologies to potential implementers at FRAND conditions. A reform increasing the costs of participating in standardization should not be introduced as a reaction to sector-specific and temporary circumstances, in the absence of strong evidence of widespread and persistent problems.

In particular, for the remuneration of SEP holders, experience shows that there is not a “one-fits-all” formula: what is a reasonable remuneration in case of dispute must be established on a case by case basis, taking into account a number of criteria and all the relevant circumstances. Similarly, there is not a “one-fits-all” model for dispute resolution: depending on the circumstances of the case, it may be more efficient to use ADR systems or to go to courts.

However, we are confident that the Commission does not intend to radically overhaul the current system. The Commission has consistently supported the role of both IP and standards as crucial to boost innovation and competitiveness in the EU: in the consultation document it acknowledges that many standards comprise technologies that are patent-protected and that public authorities and the standardisation community have developed rules and practices on licensing of SEPs aimed to address potential problems.

In the following paragraphs we address some of the specific issues raised by the consultation document.

Key Issue 1 - Scope of standardization involving patents

Inclusion of patented technologies and decision-making within SSOs

The importance of standardization is increasing in many sectors (energy, transport, biomedical devices, internet of things). Although in exceptional cases the IP policies of some SSOs reveal a preference for non-patented technologies or royalty free patented technologies, it would be inefficient to introduce a general presumption against the contribution of patented technologies to standards. The inclusion of patented technologies is a natural consequence of technological evolution: in several areas patented technologies clearly represent the best available solution; moreover, there are plenty of examples of highly successful standards based on them.

The technical commissions within SSOs should have a clear mandate to choose the most effective technologies, on their merits. The 2012 reform significantly increased transparency and participation of the different stakeholders in the standard-setting process to ensure accountability.

Key Issue 2 – Best rules and practices

There is evidence that the IP policies of SSOs evolve over time, both to adapt to new challenges and to import best practices. In this last respect, the IP policies of ITU and ETSI represent a good benchmark. Both the obligation to disclose the patents relevant for the standardization work and FRAND commitments are generally considered key elements of a good IP policy.

Some differences between the IP policies of SSOs may be justified by the technological and economic features of the specific field of interest.

With reference to the alleged need for a more explicit statement of the objectives of IP policies, we wonder whether it is really a problem. For instance, for ETSI it is quite clear that the objective of the IP policy is to encourage contribution of technologies and ensure access to the resulting standard.

Patent quality initiatives by patent offices are of great importance for an effective operation of the system of IP protection. The issue is relevant also for the standardization framework, but not specific to it.

Key Issue 3 - Patent transparency

The transparency of patents relevant to the standard is a fundamental feature of a well-functioning standardization system. Ideally, complete information both ex ante and ex post on the existence, validity, essentiality, ownership, scope, enforceability of the relevant patents would improve decision-making, prevent opportunistic behaviour and reduce transaction costs in the licensing process.

The reason why in the IP policies of SSO transparency obligations are more limited is that the provision of reliable information entails costs and requires time. In addition, for some aspects there may also be a degree of true uncertainty for the patent holder; for instance, in a dynamic market the essentiality of a patent may be a temporary feature.

The balance between the benefits and the costs of very detailed disclosure obligations may vary among different areas. For instance, ETSI ruled out the possibility of blanket declarations of SEPs, in order to obtain more specific information from contributors of technology. In other areas, blanket declarations accompanied by a broad commitment

to licence on FRAND terms all the patents which will result essential to the standard may still be considered useful.

Taking into account these pros and cons, in general SSOs should encourage enhanced transparency by contributors of technology but on a voluntary basis. Voluntary information may indicate, for instance, the specific claims which are deemed essential to the standard or the part of the standard to which the SEP refers. The patent holders should also be allowed to provide, if they wish, a third party certification of the essentiality of the patent. Depending on the situations, the benefits of enhanced transparency for the future licensing out of SEPs may exceed the cost for the patent holder of providing more detailed information.

On the other hand, once a patent has been declared essential to a standard, it seems reasonable for the SSO to require the patent holder to update information in case of objective and easily identifiable events changing the original situation, such as changes in patent ownership, a final version of the standard different from the draft at the time of the essentiality declaration, or a scope of the granted patent different from the scope of the originally declared patent application.

Key Issue 4 - Transfer of standard essential patents

We submit that there should not be a negative presumption against patent transfers, because the existence of a market for patents is an essential driver for innovation. Also non practicing entities may play a useful role in a market perspective and should not be viewed *per se* as a negative development.

In order to prevent unfair conduct, avoid IP policy rules of SSOs being circumvented and, more generally, to ensure a proper operation of the system, in case of transfer of a SEP the FRAND commitment given by the original patent holder should be transferred to the new owner.

The shift to a licence of right system would go beyond what is necessary to address this specific standardization issue. Indeed, usually a licence of right applies to any implementation of the patent, either related to the standard or not.

A more proportionate solution is to “link” the FRAND commitment related to a specific standard to the SEP, through appropriate SSO rules. In particular, the FRAND commitment should be accompanied by a commitment, in case of transfer of the SEP,

to include in the contract a clause entailing that the acquiring party undertakes the same obligations of the original SEP holder with respect to the SSO. The same rule should apply to all subsequent transfers of the SEP.

Key Issue 5 - Patent pools

In principle patent pools may entail benefits for both patent holders and patent users: in particular, they may result in a reduction of transaction costs, particularly important for SMEs, and prevent inefficient lack of coordination of the royalties applied for the complementary technologies included in the standard.

On the other hand, the organization and operation of a patent pool entails costs. Non negligible costs result also from the need to comply with competition law. Notably, the European Commission Guidelines on technology transfer agreements indicate that to ensure compatibility with article 101 TFEU patent pools should, inter alia, include only complementary technologies; therefore, participants must verify that this requirement is met.

A distinct problem with patent pools is that when the undertakings involved are heterogeneous (e.g. small providers of technology versus large vertically integrated companies) it may be extremely difficult to reach an agreement on the remuneration of patents.

For these reasons, the establishment of patent pools for licensing the patents involved in a standard cannot be seen as a general model which should be followed by all SSOs. Its appeal depends on a number of factors including the number of patents, the homogeneity of patent holders, etc.

On the other hand, in a public policy perspective it may be useful to provide SMEs with information on how patent pools operate, on their possible advantages and on the contract models which can be adopted for licensing.

Key Issue 6 - Notion of “fair”, “reasonable” and “non-discriminatory”

Notion of fair and reasonable; guidance

The IP policies of several SSOs require members to give the commitment to license SEPs on FRAND terms. Although IP policies do not explain in detail what is meant by

“fair, reasonable and non-discriminatory”, SEPs under FRAND commitments are normally licensed and the standardized patent-protected technologies broadly implemented. Moreover, in case of dispute, compliance with a FRAND commitment may be challenged before courts, which use a number of methodologies to assess whether the terms proposed by the patent holder are actually FRAND.

Advocate general Wathelet, in his opinion in *Huawei*, after observing that “a lack of clarity as to what is meant by FRAND terms and as to the requisite content of such terms” can “adequately, if not better, be resolved in the context of other branches of law or by mechanisms other than the rules on competition law” (§9), stresses that “the specific terms of a FRAND licence” lie “in the discretion of the parties and, where appropriate, the civil courts and arbitration tribunals” (§40).

In the consultation document the Commission seeks views on whether it would be useful to further clarify ex ante what is meant by FRAND and which tools might be employed to this aim.

In our view it is important to understand the reasons why SSOs usually refer to FRAND in terms of general principles, with care not to adopt a regulatory approach to the licensing conditions.

First of all, IP policies refer to FRAND terms, rather than FRAND prices or rates: it is the offer in its entirety, rather than its individual components, that has to be considered when assessing “fairness” and “reasonableness”, i.e. not only prices but also other terms and conditions. The evaluation of fairness cannot be undertaken considering prices in isolation from the other conditions of the agreement.

Secondly, since licensing terms are the result of an arm’s length negotiation between parties, a range of solutions may satisfy the FRAND requirement.

Thirdly, several methodologies have been developed for defining FRAND terms, but the relevant issue is not to choose, once and for all, the ideal methodology. All of them, depending on the circumstances of the case and the available information, may provide elements which can be used as parameters to evaluate, in case of dispute, whether the proposed terms are fair and reasonable. On the other hand, elements such as the incremental value of the technology over alternatives, the value prior to inclusion in the standard, etc. should not be misunderstood as means which can be directly used, on their own, to fix “the right price”. For instance, the incremental value

over alternative technologies may justify a higher remuneration with respect to alternatives, but it would be unfair to take it as “the rule” for royalty setting: indeed, there is no reason for not remunerating also the remaining part of the value of the technology. Similarly, the value of the technology before its inclusion in the standard may provide useful information to assess whether a licensing request is not proportionate, but should not be understood as a rule which prevents technology developers from sharing part of the value resulting from the successful implementation of the standard. There is no reason why the ‘gains from trade’ generated by a new technology should not be shared equitably along the value chain, including technology developers, implementers of the standard and their customers. Otherwise, the incentive of technology developers to innovate and participate in SSOs would be seriously reduced.

A further parameter which might be taken into consideration when assessing whether FRAND terms are fair and reasonable is the cost which should be undertaken by the implementer to develop an alternative solution without infringing IPRs.

Summing up, with reference to the question concerning the appropriate methodologies we submit that there is not a single methodology which is adequate to identify in all circumstances what should be viewed as fair and reasonable. Notably, courts usually make reference to a number of criteria, not a single one, to assess whether disputed licensing terms are fair and reasonable. The frequent misunderstanding on how to use the different methodologies suggests that guidance, if any, should explain their features and complementarity.

Unilateral ex-ante disclosure and ex- ante setting of parameters

Both unilateral ex ante disclosure of licensing terms, especially if not limited to the most restrictive terms, and the ex ante setting of FRAND parameters may give rise to competition concerns, which have to be taken into account.

An additional problem with the ex ante setting of FRAND parameters is that there is not an ideal solution valid for all sectors; even for a given standard, there may be significant uncertainty on future market developments based on the standardized technology. Therefore, establishing ex ante the royalty base, a lump sum versus per-unit approach, and so on, risks introducing undue rigidity in the system.

Portfolio licensing and cross licenses

Although both portfolio licensing and cross-licenses can entail benefits in terms of reduction of transaction costs, initiatives aimed to either encourage or discourage the use of these commercial instruments do not seem necessary or desirable.

Royalty stacking

The consultation document defines royalty stacking as a situation where a multitude of patents held by different entities are bearing on a specific product so that the licensee needs royalty bearing licenses from a multitude of patent holders.

When discussing royalty stacking, there is a risk of confusing two different issues.

The first issue is a possible market failure identified by economic theory: when inputs to a downstream good are complementary to one another, but are controlled by separate entities, the sum of prices, set independently one from the other, may exceed the total price which would be charged by a hypothetical monopolist controlling all inputs. In the standardization context, however, there is lack of strong evidence supporting the empirical relevance of this market failure².

A distinct issue is how to reduce transaction costs in the presence of several input providers, such as the holders of SEPs relevant to a standard. Although the existence of some transaction costs is an intrinsic feature of a market economy, given the number of patents and entities involved in the standardization process several instruments have been developed to address the issue by coordinating licences of SEPs (patent pools, cross licensing). These instruments also help to prevent the market failure described above. On the other hand, it is important to bear in mind that the use of patent pools and cross licences cannot be imposed as a general solution, because they are not always practicable or convenient.

² See, for instance, Anne Layne Farrar, *Patent Holdup and Royalty Stacking Theory and Evidence: Where do we stand after 15 years of history?*, note presented at the 122nd Meeting of the OECD Committee on "Intellectual property and standard setting", 17-18 December 2014 ,

Value of chain level

There may be cases in which a patent is relevant to more than one level in the value chain because it refers to different aspects, without duplication. In these cases, the elimination of the right of the patent holder to license on more than one level of the value chain would be inefficient.

Non discrimination principle

The non discrimination principle should be seen as a requirement that SEP holders do not treat differently potential licensees who are in a similar position. An alleged discrimination should be assessed with reference not only to the price, but to the overall licensing conditions. Given the complexity of commercial relations, the mere setting of different royalties to different partners cannot be considered, in itself, an infringement of the non discrimination principle. Of course, the circumstance that the licensee is a rival of the patent holder cannot be accepted as a justification for disadvantageous licensing conditions.

Key issue 7 – Patent dispute resolution

The possibility of litigation with respect to SEPs cannot be ruled out and, therefore, it is important to ensure that effective means of dispute resolution are available.

In the EU, civil courts have generally proved to be capable of dealing with SEP issues, even in times of commercial wars when litigation increases for reasons which go beyond the IP/standard relation. From both a EU and a national policy perspective, the availability of courts specialized in IP issues is a strategic institutional tool for a competitive economic environment.

The consultation document suggests that from a EU policy perspective it would be desirable to promote alternative channels for a friendly and rapid resolution of disputes over SEPs.

The establishment of ADR mechanisms with specific expertise in the standard/IP area can provide a valuable additional option in case of dispute. However, in our view, ADR mechanisms should remain a voluntary channel and not represent the preferred option compared to litigation. The reason is that it seems difficult to draw conclusions, once and for all, on which mechanism (e.g. mediation, arbitration, court) would be

cheaper, more rapid and more effective for the resolution of SEP disputes. Indeed, sometimes ADR may be more costly, and entail more lengthy procedures, than litigation before courts. Moreover, depending on the issue at stake, a party may want to obtain a judgment by a court to set a judicial precedent.

Therefore, if the parties do not agree on the opportunity to settle their dispute through an ADR mechanism, they should maintain the right to have the dispute decided by a court, without incurring penalties for this choice.

Key issue 8 - Unwilling implementers and injunctions

Although courts in the EU seldom granted injunctions for FRAND encumbered standard essential patents and seem capable of dealing with such actions, in the recent wave of litigation in the smartphone sector the issue has been raised of whether seeking and enforcing an injunction by the holder of a SEP committed to licence on FRAND terms can be an abuse of dominance under article 102 TFEU. In 2014 the European Commission applied article 102 TFEU in the *Motorola* and *Samsung* decisions. In the *Huawei* case (C-170/13, *Huawei Technologies/ZTE*), the Court of Justice is expected to rule on whether and under what circumstances an action for an alleged patent infringement brought by a SEP holder against an undertaking which manufactures products in accordance to the standard constitute an abuse of dominance. Advocate General Wathelet has already delivered his opinion in November 2014.

In the light of the Commission decisions, it seems undisputed that a patent holder, including a SEP holder under FRAND commitments, is generally entitled to seek and enforce injunctions as part of the exercise of its IP rights. Indeed, a ban on injunctions would eliminate the incentive for implementers of the standard to agree to be licensed and do so in a timely manner on a FRAND basis. The resulting shift in balance would be particularly harmful to patent holders that are not vertically integrated and depend upon cash royalties to fund their R&D. Banning injunctions would severely undermine the incentive to contribute technologies to standardization works, with a negative impact on innovation and competitiveness.

Similar concerns remain if, absent an absolute ban on injunctions, the circumstances under which a SEP holder may legitimately use injunctions to protect his rights are defined too narrowly or in a way which raises legal uncertainty. In particular, in order to avoid the negative consequences on innovation illustrated above, it is not sufficient to state that seeking an injunction is abusive only in exceptional circumstances: it is

also necessary to clearly identify the circumstances under which seeking an injunction by a SEP holder would not be abusive.

The Commission decisions adopt a paradigm centred on the willingness versus unwillingness of the licensee, but do not clearly indicate when a licensee can be considered unwilling.

The opinion of A.G. Wathelet provides a more definite set of criteria which, if accepted by the Court of Justice, would contribute to legal certainty for both licensees and licensors of SEPs. In particular, the opinion indicates the concrete steps that have to be taken by a SEP holder before legitimately seeking and enforcing an injunction and also the obligations which must be met by the alleged infringer in order to prove his willingness to enter into a licensing agreement.

This approach, outlining the procedure which has to be followed by each of the parties, can provide a model for standardisation bodies wishing to adopt a framework of rules of good conduct for the negotiation of FRAND licensing terms. As A.G. Wathelet rightly stresses, without these rules of good conduct not only actions for a prohibitory injunction but also the rules on the abuse of a dominant position may be used improperly as a means of leverage by the parties during the negotiations.