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Group of Experts on Licensing and Valuation of Standard Essential Patents

'SEPs Expert Group'

(E03600)

Contribution to the Debate on SEPs

January 2021

Disclaimer

The contributions of the expert group to the SEP debate do not reflect the views of the European Commission ("Commission"). They are intended to advise the Commission and to stimulate discussion among all relevant stakeholders. The contributions of the expert group to the SEP debate do not constitute policy positions that are binding on either the EU Member States or the Commission. Possible policy follow-up will be based on considerations by the relevant bodies and institutions within their respective fields of competence.

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[1] Ms Courboulay and Ms Ghafele resigned as members of the group in 2020.

PART 1

AIMS, METHOD AND OUTPUT

The members of the expert group ("members") were, invited to analyse the current licensing and valuation practices and techniques and to generate ideas looking forward into the future framework for SEPs licensing and valuation.

On this basis, the members have identified key challenges, analysed current ways of dealing with them and made a number of proposals, called "structural reforms", that may be considered to achieve the suggested way forward. These structural reform proposals reflect the personal views of a single or group of experts stemming from their specific knowledge and experience and would need to be backed by further analysis, if considered by the policy makers.

The expert group's findings and proposals should be read holistically. No single proposal will achieve the desired objective but a combination of different proposals could offer possible improvements to the system. Not all members that voted in favour of the adoption of this contribution agree with the identified problems and proposed solutions.

The analysis and proposals do not aim at achieving consensus among all members, as there may be many diverging opinions on every issue. One of their main objectives is to generate ideas for a further debate.

In this context, the members made an effort first to present in a balanced manner the main existing opinions and practices on SEP licensing and valuation. The contribution attempts to provide a comprehensive overview of all issues without necessarily being exhaustive of all opinions expressed in the literature, case law and practice.

Second, the members discussed their ideas of how to improve the existing SEP licensing and valuation practices. Members made a number of structural reform proposals covering each aspect of SEP licensing and valuation. Those proposals were discussed among all members. First, the members explained the proposals. Second, the members discussed the concerns related to those proposals. Third, the authors had the opportunity to refine their proposals to address some of the concerns raised. Not all concerns could be reflected in the contribution. Some open issues were flagged.

It should be noted that some of the proposals suggest to refine or modify the patent statutes or the licensing framework set forth by the Court of Justice of the EU (CJEU) in its judgement *Huawei* v. *ZTE*[2]. The implementation of these proposals would either require (i) the European Union or the Member States to adopt legislation including these proposals, or (ii) the CJEU to revisit its *Huawei* v. *ZTE* judgement, when it is given an opportunity to do so.

The expert group generated 79 proposals. Those proposals are identified in the text of the contribution with a number and a background colour and are rated by the members as explained below. The green background colour refers to a main proposal, the yellow background colour

[2] Judgment of the CJEU of 16 July 2015, *Huawei* v. *ZTE*, Case C- 170/13, EU:C:2015:477

refers to a sub-proposal to the main proposal and the rose background refers to a sub-proposal to the sub-proposal. Annex 1 contains a brief description of each proposal set forth in detail in the contribution, solely for purposes of providing a high-level overview of the proposals together in one place, and as a guide to where the full description of each proposal can be found in the contribution. It is strongly suggested that the reader refers to the complete version of each proposal, as contained in the contribution, to understand the context and purpose of such proposal.

In view of the many proposals and the fact that the members supported different proposals to a different degree, the members decided to vote on the structural reform proposals. The vote was based on the 'review' approach, used to rate services, for example. Thus, each member was able to identify its support for a proposal. Each of the 79 proposals received rating from one to five stars as follows:

Rating	*	**	***	****	*****
Degree of support	I do not support at all	I do not support	I am neutral	I support	I fully support

The rating was based on the opinion of the members who voted secretly. The opinions of the members who chose not to vote on certain structural reform proposals are not reflected in the rating of the proposals.

In view of the methodology explained above, it is important to underline that no expert shares all the opinions, positions and structural reform proposals made in this contribution. Despite this fact, one member considered that she could not support the contribution in its entirety. The reasons for her disagreement with the contribution as a whole are expressed in her dissenting opinion, can be found in Annex 3.

The members agreed, however, not to invalidate the votes on the structural reform proposals of those members, who did not support the contribution as a whole. This means that the support or lack of support for the individual structural reform proposals may also reflect the views of the dissenting members.

It should be noted that the analysis and proposals contained in this report are intended to advise the Commission and to stimulate discussion among all relevant stakeholders on how the entire SEP licensing and valuation system might be improved to create a framework that is a better fit for the digital/IoT market. The analysis and proposals do not reflect the views of the Commission, and are not binding on the Commission or on any other institution. The expert group recommends that the Commission, should it decide to take further policy action in the field of SEPs, duly assess the impacts of any such proposed policy action, notably as regards its possible effects on the future of standardisation and the EU's lead in 5G and 6G development and implementation.[3]

[3] An ETSI Report describes in some detail the risks and opportunities for European standardization: Calling the Shots – Standardization for EU Competitiveness in a Digital Era", Report of an expert panel chaired by Carl Bildt, https://www.etsi.org/images/files/Calling-The-Shots-Standardization-For-The-Digital-Era.pdf

ANNEX

Annex 2

Dissenting opinion expressing disagreement with the report of the Expert Group on licensing and valuation of standard essential patents (E03600)

By Monica Magnusson.

A lot of effort has been put into the report of the Expert Group on licensing and valuation of standard essential patents by the group members, and it is with sadness that I write this dissent. I view these months of joint effort as a lost opportunity. To be clear, this should not be interpreted as reflecting negatively on my fellow Expert Group members, whom I hold in high esteem and with whom I enjoyed a good spirit of cooperation over the last two years. However, lacking a common position on the current situation and future challenges, the report only lists individual opinions on the current status as well as on suggestions for change. Those opinions and suggestions are often not accompanied by any empirical evidence and often include methods broadly rejected by courts.

The importance of standardisation and FRAND licensing has grown rapidly over the last three decades. With the further expansion of the Internet of Things ("IoT") ecosystem, the growth rate is expected to increase even more. The creation of an Expert Group on licensing and valuation of standard essential patents by the European Commission thus presented a good opportunity to bring expertise and new solutions to an area that has attracted considerable attention in recent years.

In my respectful view, and despite providing many ideas and proposals for further discussion with stakeholders, the final report does not fulfil its purpose. The reason for this is essentially twofold.

Firstly, the group did not identify and agree on a clear problem statement to direct its work. As a result, different individual experts set out to submit proposals to the problems they perceived warranted solving, rather than focus on topics where consensus could potentially be reached in the group – and, by proxy, where a broader base of support could be expected in the wider licensing ecosystem.

Secondly, the individual ideas and policy recommendations are often not based on empirical evidence or an analysis of best practices in the existing licensing market. On the contrary, many of its proposals rest on assumptions which, if not unrealistic, are at least questionable in their practical, legal, and commercial feasibility. This is unfortunate and surprising as the existing licensing markets for standard essential patents have overall worked very well. FRAND licensing has both enabled the broad dissemination of different critical technologies and fuelled the constant improvement and progress of those standardised technologies via intensive R&D investments by different companies and research institutes globally.

Consequently, the report will likely add confusion to the licensing market, negatively impacting those players who rely on licensing income to sustain their involvement in the standardisation work. It also risks amplifying lobbying efforts in service of commercial interests that in the short-term stand to benefit from this unclarity while likely also to confuse or even mislead international partners looking at the Commission for thought leadership in this field.

For the reasons stated above, and despite the report containing some material that I fully support, I cannot in good conscience – as a professional with over 20 years' experience in the telecom and patent licensing environment both as licensor and as licensee – endorse the report's content or its policy recommendations. In the following this dissenting opinion is substantiated in greater detail, including examples which, while not exhaustive, seek to illustrate my concerns.

a) Lack of evidence to support the report's assumptions, reasoning and policy proposals

Strangely, for a report by a group of experts, the report does not rely on empirical evidence to support the "structural reform proposals" presented or, in some cases, the assumptions made to reach them. This is particularly noticeable in areas where existing valuable market data available to the Expert Group was nevertheless not shared or considered.

As an example, the report pays great attention to the topic of transparency, conceiving a system where essentiality checks may be imposed on patent holders in the standard development context. Essentiality assessment is a highly complex field, and one where real-world expertise is needed given the challenges associated with setting up a sufficiently thorough and reliable framework for high-quality assessment. This topic was precisely the focus of a study conducted by the Commission's Joint Research Centre and finalised in early 2020; yet its final report was not shared with the experts despite being available and requested by several members.

Similarly, the report goes into great length to discuss theoretical models to foster patent pools targeted at the Internet of Things ("IoT"). Nevertheless, at no point during its two-year mandate did the group analyse, interview or otherwise consider the only (at the date of writing) fully operational patent pool in the IoT space (i.e. Avanci[4]). While some experts possessed valuable patent pool expertise in fields other than connectivity standards, the fact that this case study was not explored is a major omission. A better understanding of the process and dynamics that helped the creation of this IoT patent pool would have provided valuable input to address the question of how different industries will, in the IoT era, deal with FRAND licensing. This stands regardless of whether you consider Avanci as a good or bad example; Lessons could have been learned from it either way.

[4] https://www.avanci.com/

b) Abandoning of a consensus-based approach in favour of a catalogue of policy proposals from individual experts

Rather than focusing on a specific set of issues where consensus could be reached among experts with different backgrounds, the report presents a catalogue of proposals put forward by the various individual experts. It is not clear in the report which expert presented what, and it is difficult to gauge the level and kind of support for different proposals given only a numerical score is attached to each of these. For example, the difference between legal and technical experts supporting a suggested legal change is lost. Furthermore, it is worth mentioning that the feasibility of a proposed solution may not apply uniformly to each sector of the industry or, even within the same sector, to every business segment where it is applied. At the end, in a proper final assessment the particular circumstances of each individual case must be considered.

As a result, given the limited consideration of the various proposals' practical and commercial feasibility, the report will likely add confusion to and risks misleading the licensing market rather than foster its efficiency. The challenge remains to find solutions with potential for broad support from licensors and licensees alike, and that can either be applied in all circumstances or that are tailored to the specific scenario they are trying to address.

Equally disturbing is the proposal requesting standard development organizations (SDOs) to encourage their members to join opposition proceedings against patents for which a licensing commitment has been made to the extent that they are essential. Encouraging members to take such action against each other would seriously disrupt the good collaboration environment. Other proposals in the report imply bringing licensing discussions into the SDOs without properly considering the anticompetitive risks of such approach.

Furthermore, the report does not consider the significant developments surrounding IEEE's 2015 IPR Policy change, not supported by consensus, in particular the material impact it had on standardisation activities. I include a reference to the recently issued Business Review Letter by the US Department of Justice in September 2020 here for your convenience.[5]

[5] https://www.justice.gov/opa/pr/justice-department-updates-2015-business-review-letter-institute-electrical-and-electronics

c) Legitimising and mainstreaming of theoretical concepts not supported by industry practice or relevant European case law

In seeking to accommodate the views expressed by each of its (individual) experts, the report presents concepts on the same level, some of which are widely accepted in industry practice and relevant case law, while others have been explicitly rejected by courts or are never used in practice by industry. In doing so, the report equals recognised good practices with theories on licensing mainly supported by certain industry lobby groups, neglecting the impact of doing this in a high-profile report published by the European Commission.

As an example of this, the report risks leading the reader in error regarding the application of the United States' damages model of the smallest saleable patent practicing unit (SSPPU) to the valuation of a standard essential patents license. This SSPPU model has, to my knowledge, only been used in the US, where the theory was created as an evidentiary rule used in patent damage cases decided by a jury. In fact, it has been explicitly rejected by US courts as a per se rule for FRAND cases[6]. By listing this SSPPU doctrine as a valuation model alongside other valuation models endorsed by industry practice and widely accepted by courts globally, the report gives the appearance of legitimacy to a methodology developed for the specific case of jury trial in the US, where it has later been rejected as a per se rule for FRAND cases, and which has not been used by courts outside of the US.

d) Broad assumptions which disregard the challenges of practical implementation – "assuming we had a can opener"[7]

The report suggests at multiple points that industry should "agree" on certain aspects of licensing (some of which commercial) as a prerequisite to some of its policy proposals. This is best exemplified in the licensing level section, where a model is conceived in which industry would determine licensing level "*preferably before the market for each licensing product for an IoT vertical takes off*"[8].

The report continues putting forward a few criteria to determine the appropriate licensing level. This approach may seem attractive from a theoretical point of view, but it greatly underestimates the complexity and diversity of value chains in the IoT, as well as the challenges of aligning across diverse industries. For instance, the proposal does not sufficiently consider the long-term importance of cross-licensing, particularly for EU companies involved in 5G standardisation work. Further, the report suggests organising horizontal and vertical alignment between licensees and licensors in order to determine the appropriate licensing level. Apart from the many legal questions that such proposal may trigger, as well as concerns in relation to its

[6] "No court has held that the SSPPU concept is a per se rule for 'reasonable royalty' calculations; instead, the concept is used as a tool in jury cases to minimize potential jury confusion when the jury is weighing complex expert testimony about patent damages." US Court of Appeal for the Ninth Circuit in Federal Trade Commission v Qualcomm Inc. 19-16122, 11 August 2020

[7] A physicist, a chemist, and an economist were stranded on a desert island with no implements and a can of food. The physicist and the chemist each devised an ingenious mechanism for getting the can open; the economist merely said, "Assume we have a can opener"!

[8] See for instance the Executive Summary; II Analysis of key issues and proposals for improvement; Where to license in the value chain?

international applicability, it also fails to recognise the heterogenous nature of industry sectors where not all manufacturers organise their supply chain in the same manner. In doing so, the report displays a significant gulf between some of its policy proposals and the assumptions made for those measures to be feasible in practice.

In conclusion, when publishing a high-profile report featuring such a plethora of different proposals, not supported by evidence, the European Commission risks that the nature, role and weight of this report is misunderstood by stakeholders-at-large, as well as by the EU's international partners and is used to amplify lobbying efforts in service of commercial interests that will try to benefit from such unclarity.

While there is no doubt that any future EU policy initiative will undergo a formal impact assessment before being put forward, it is nevertheless important that the continuing discussion of these issues is pursued on the basis of empirical evidence, focusing on areas which not only safeguard and foster standardisation in theory, but also are practically feasible and have the potential to achieve wide industry support. A broad, inclusive and representative dialogue is necessary to gather input from stakeholders and assess the impact of these proposals.

Ultimately, the standardisation ecosystem – and the participation of EU industry in it – should be preserved and fostered by any EU initiative targeted at licensing of standard essential patents. The primary objectives of the licensing framework, and of ICT standardisation more generally, is to support sustainable technological innovation and its broad dissemination. The European Commission should ensure that these goals are not forgotten.

While the report of the Expert Group is a testimony to the hard work that many have delivered and reflect many diverse ideas, some of which can maybe, at least partially, be implemented in order to further evolve licensing practices, it fails to provide a coherent consensus-based structure that could be used to improve the standard essential patent licensing landscape. That is the source of my respectful dissent.