

## Webinar on Patent Pools – 20 April 2021

### Summary report

Moderator of the event: **Adriana van Rooden** (DG GROW, European Commission)

**Welcome speech: Thomas Kramler** (Head of Unit C.6 DG COMP, Antitrust: E-commerce and data economy, European Commission)

Why are patent pools back on the agenda? A lot has changed and as set out in the expert group report, the licensing scene has become more complex than it was before. There are many more players on the scene, which are less familiar with SEP licensing. We have a different landscape now and patent pools might have to be adapted/changed/brought up to speed to deal with the IoT challenges. The landscape is still fraught with uncertainties, for example the injunctions, pending references and discussions on level of the value chain. Moreover, courts worldwide are looking into portfolio licenses, like in *Unwired Planet* or *Sisvel v Haier*.

Pools can help reduce the complexities in terms of licensing because they provide a one-stop-shop for licensors and licensees. Moreover, they can also reduce transaction costs and help to avoid royalty stacking. Overall, pools are generally pro-competitive. There are, however, some safeguards, that need to be taken care of, especially when it comes to compliance with competition law: this can be found in the technology transfer guidelines. Lastly, a big part of the discussion should focus on how pools could be incentivised.

**Key note presentation:** *Can patent pools solve current bottlenecks in patent licensing, valuation and enforcement and reduce transaction costs?* **Taraneh Maghamé** (Vice President, Wireless Programs & Corporate Development, Via Licensing Corporation) – The presentation is available on the webpage of the webinars

Taraneh presented the keynote for the Patent Pools Webinar. She briefly discussed the history of patent pools and the key characteristics that make them useful for the industry, including licensing efficiencies, reduction of transaction costs, decreased litigation and driving faster adoption of complex technologies. She set the stage for a more detailed discussion by other panelists regarding the resurgence of patent pools and why the Commission is interested in exploring pool licensing as a means of streamlining licensing in IoT and for SMEs. Taraneh then presented pool success factors and discussed the aspects of pool licensing that are subject to debate within the industry, such as efficiencies, non-discrimination and enforcement. Finally, she introduced concepts relevant to potentially modifying certain aspects of pool licensing to make this approach better suited to licensing for IoT, while maintaining the existing benefits of pool licensing.

**Round table 1:** *What are the advantages and disadvantages of pool licensing for implementers and SEP holders, SMEs and larger companies, in the different IoT sectors?*

Moderator: **Adriana van Rooden** (DG GROW, European Commission):

**Laurie Fitzgerald** (Senior Vice President Avanci) – The presentation is available on the webpage of the webinars

- One way to make patent pools work for both licensors and licensees is the platform approach successfully implemented by Avanci. This approach provides a simple and efficient way for licensees to gain access to a vast majority of patents essential to a standard, in a single negotiation, and with just one license agreement.
- An important characteristic of the Avanci platform is its independence. Avanci is not a patent owner or controlled by patent owners. Nor is Avanci controlled by licensees.
- Avanci acts as an intermediary. It listens to, educates, and works closely with both SEP holders and licensees to find a set of “market-based” licensing terms that can gain broad support.
- Avanci’s license terms have several important characteristics, including that the patent scope is limited to SEPs and the license price is public, the same for all licensees, and does not change.
- Building patent pools early in the lifecycle of a standard enables potential licensees to plan ahead for license fees and operate knowing that there is an alternative to dozens of individual license negotiations. This can promote more rapid adoption of the standard and reduce some of the roadblocks we have seen in SEP licensing to date.

**Yuichi Nakamura** (Licensing Manager at NTTdocomo) – The presentation is available on the webpage of the webinars

Yuichi shared some experience and insight on SEP licensing from patent pools and bilateral negotiations. NTT DOCOMO has supported patent pools from the 3G era for nearly 20 years. Under 3G and 4G several years elapsed before a patent pool existed. Therefore, during these years, major licensors and licensees already entered into license agreements for handsets. The 5G SEP landscape is very wide and any patent pool needs to consider the interest of all the participants. Some companies are doing licensing business, some are making product and NTT DOCOMO, for example, is a network operator. Many of them contribute to standard setting activities, some of them are not. All of their business models are different.

Yuichi gave some personal answers for the following questions raised by the Commission: *What changes with the IoT for patent pools?* Many possible licensees might be pure licensees, and there is no cross license available. This situation definitely supports patent pools. *Will patent pools provide easier access to licences for new entrants on the market, in particular SMEs?* Certainly, since a patent pool is fair and transparent. Are there specific concerns for SMEs? Many licensors typically (and only) contact with large implementers who are making/selling finished products. *How can patent pools be made more attractive for both SEP holders and SEP implementers?* Constructive negotiation between major SEP holders (and patent administrators) and major implementers might be a solution.

**Nancy Yu** (Yu Nanfen, Director of 5G & Future Technology IP Policy, IP Department of Huawei Technologies Co., Ltd) – The presentation is available on the webpage of the webinars

Huawei has a very balanced position on the licensing issues as it produces many products and is also a patent holder. Moreover, Huawei invests heavily into R&D, and has invested into 5G early, and thus has

developed a very significant patent portfolio. With 5G we are facing a completely new world and see that there are many more challenges there. Wireless technologies will be implemented in various industries and a much larger number of the vertical industries will be implementing the standards – many of them are SMEs.

The 5G and IoT era brings new challenges, as a much larger number of vertical industries will implement mobile communications standards. Moreover, the connectivity needs and Price of 5G/IoT products will vary considerably and tremendously (compare needs of self-driving cars vs. those of home appliances or smart meters: the cars will depend on the connection to the network all the time, while the frequency of the connections for a smart meter will be different).

There are several discussion points on whether patent pools would be the best choice in the IoT and 5G era: such as the success of bilateral negotiations vs pool licensing, a one-size-fits-all approach vs tailored to industry sectors solution, and essentiality checks. It will be important to balance the interests of both SEP holders and implementers – many implementers are SMEs in the IoT. Implementers should also be involved in the discussion of pool formation. Moreover, pools should provide highly professional and independent essentiality checks and pools should not be the only approach to licensing.

#### **Mattia Fogliacco (President Sisvel Group)**

Sisvel is a fully independent European company, now operating on a global scale, running patent pools since more than 20 years. Sisvel believes that patent pools are the best option to reduce friction in SEP licensing for the IoT, creating transparency and to reducing overall licensing costs.

Without pools SEPs licensing in IoT imply:

- Uncertainty for implementers wrt:
  - o technology adoption conditions;
  - o who the active players in licensing are
- Inefficiency for both implementers and innovators:
  - o Forcing to thousands of bilateral transactions
  - o Generating much higher transaction costs

Technology convergence happening now in the IoT happened before in many industries and for SEP licensing too: it is possible to welcome new players to the necessary licensing practices and to generate a thriving ecosystem, limiting friction.

Sisvel is determined to do what it takes to help reducing friction in licensing transactions, starting with an active education of the market. Sisvel has several technology domain experts in each technology where we are active: they are mandated to exchange with potential licensees to explain how they make use of patents we license. More recently we created blogs and other collaterals to help in an education process. We also intend to intensify cooperation with institution, like the European Commission, to invest further in education.

**Martin Heinebrodt** (Director, IPR Marketing at Robert Bosch GmbH)

**Potential improvements we see & challenges we observe:**

- Best practices which can increase the benefit of patent pools to SEP licensing:
  - o If upfront information on royalty fees is provided to everyone (as early as possible), it can be considered early in a given product's business model.
  - o If information regarding the basis for essentiality is provided, like e.g. mapping of claims to certain sections of the standard, the relevance and benefit is easier to determine for the licensee.
- Observed factual challenges in setting up pools:
  - o Setting up the royalty rate upfront, not knowing which portion of the SEPs will be accumulated in the pool => adaptation procedure may be helpful and necessary
  - o Balancing incentives between members, to attract as much of the SEP landscape as possible (without diluting the portfolio), is not an easy task.
- Those factual challenges can best be overcome by encouraging the early discussion on formation of pools along with standard setting, see related proposal of the Expert Group.
- With those improvements, pools can contribute to generate better transparency on the size and value of the SEP landscape, and can help to reduce transaction cost.

**Round table 2:** *How can the formation of patent pools be accelerated?*

Moderator: **Emilio Davila Gonzalez** (DG CNECT European Commission)

**Carter Elzroth** (Legal Director DVB) – The presentation is available on the webpage of the webinars

**Fostering by Standards Bodies of Formation of Patent Pools: DVB's Experience**

There are many reasons why pools are attractive: In addition to lower aggregate royalty, there is greater certainty for quality of patents, they reduce market uncertainty (cap on royalties), and have a well-established regulatory framework and proven licensing model. SDO pool fostering builds on momentum from completion of a standard and results in an earlier launch of a pool and in more timely availability of licensing terms. Additionally, pooling helps build standards consensus: When standards participants recognize that pooling is likely outcome, their work will not result in outsized rewards for few patent holders; in other words: pool deters "patent stuffers" and other risks of gaming the standards process.

Where does pool fostering fit within the effort of forming a pool? We are a pre-commercial activity and we perceive the work undertaken by a licensing administrator to facilitate the formation of a pool, which leads successful to the market launch. DVB has developed several tools for fostering over time: At launch of standard development, tech contributors are asked to "check the box" confirming interest in participating in initial meeting of holders to discuss pool formation. After a standard is adopted, DVB invites to informal meetings those members (and non-members) with a well-founded belief that they hold patents essential to the standard. This is one of our operating rules (others are for example confidentiality of the activities, equality of treatment and we operate on a consensus model and compliance with antitrust rules). As the pool approaches completion, DVB holds fringe meetings for exchange of views among stakeholders expressing individual views on prospective terms.

There are also several other pooling models, ranging from light-touch to more closely tied with formal pooling, eg the Chinese AVS.

**Christian Loyau** (Legal and Governance Director ETSI)

- If the fostering of patent pools is currently not on the agenda of ETSI, ETSI is strongly advocating for any mean that can improve the accuracy and the transparency of IP environment.
- Patent pools are helpful not only for patentees but also for licensees which are interested in a simple and efficient solution.
- Recognizing that pool fostering can reduce risks associated with strategic behavior linked to IPR licensing, ETSI is not equipped to proceed with such activity. The large number, the variety of standards produced by ETSI and the diversity of its members render this activity difficult to be conducted.
- Patent pools are definitively a mean to achieve these goals especially regarding the question of essentiality of the IPRs related to standards provided some minimum conditions.
- Essentiality check to be conducted by an independent external evaluator to the pool.
- A publicly available policy regarding the selection process of the patents to be integrated in the patent pool.
- Essentiality checks shall be accessible for potential licensees of the pool.
- For supporting such pools, antitrust issues must be considered.
- Patented essential technologies should not be competing but complementary.
- License from pools needs to be FRAND.
- Pooling policy must ensure no collusion between the members outside the pool and the management of the pool shall be independent.

**Jeffrey Blumenfeld** (Acting General Counsel Access Advance) – The presentation is available on the webpage of the webinars

Patent Pools play an important role in facilitating the licensing of SEPs. The question for this panel is pool fostering and whether SSOs should foster pool formation during standardization.

We believe that SSOs should not involve themselves with pool fostering, as that may undermine the effort and reduce the number of companies willing to participate, for example by suggesting that willingness to license through a pool is a requirement of standardization.

If fostering is to occur, it should not begin before the standard is final. Until then, it is not possible to know what patents are essential, or what the value of the technology will be to various implementations, both of which are crucial to the decision by SEP holders on whether to form a pool.

Patent pools form voluntarily, without fostering, in industry sectors and technologies where large numbers of SEP holders agree that a patent pool will be an efficient and successful mechanism for licensing their SEPs. Where there is no such agreement, pool fostering will not change any SEP holder's view, and will not result in pool formation.

Where organic pool formation is occurring, or would occur, organically, pool fostering may actually interfere with and delay that process.

**Round table 3:** *Are licensee negotiation groups feasible and would they reduce transaction cost, in particular for SMEs without market power?*

Moderator: **Moritz Suppliet**, DG COMP European Commission

**Benno Buehler** (Vice President of Charles River Associates) – The presentation is available on the webpage of the webinars

Licensing negotiation groups (“LNG”) could be an effective means of offsetting the disadvantages licensees currently face in negotiations with patent pools. LNG members can pool their legal and technical expertise and benefit from joint essentiality and validity assessments. LNGs can also protect smaller firms with less SEP experience from potential negotiation tactics that risk disadvantaging licensees.

The EC’s 2011 Guidelines for Horizontal Cooperations provide useful guidance on the evaluation of potential competition concerns. A similar assessment as for purchasing alliances applies. In practice, the main question will be whether LNGs will represent a significant degree of market power on the purchasing market. This might be problematic if it induces innovators to reduce the range or quality of their innovations. According to the Horizontal Guidelines this will be unlikely if the LNG’s members have a combined market share “not exceeding 15 % on the purchasing market or markets as well as a combined market share not exceeding 15 % on the selling market or markets” (para. 208). LNGs among smaller licensees will therefore be especially unlikely to raise competition concerns.

Finally, concerns about the risk of “hold-out” are sometimes voiced. However, LNGs potentially reduce the number of negotiations, and hence may streamline the licensing process. In practice, an LNG will often be able to negotiate better terms than individual licensees, implying strong incentives for its members to accept the LNG’s negotiation outcome.

**Uwe Wiesner** (General Manager Corporate IP at Volkswagen AG) – The presentation is available on the webpage of the webinars

Automotive industry is characterized by complex products in a global market with multi-national regulations. Deep supply chains with many „Black Boxes“ and a high degree of standardization needs effective licensing practises. Proposed are licensor pools and collective licensee negotiation groups for a future licensing landscape.

**Ruud Peters** (CEO and Founder, Peters IP Consultancy) – The presentation is available on the webpage of the webinars

**Are Licensing Negotiation Groups Feasible?**

SEP licensing in the IoT space creates new challenges for both SEP licensors and implementers. SEP licensors have to grant more licenses for a greater diversity of products to a larger number of implementers, whereas implementers have to take licenses from multiple SEP licensors for standardized technologies used in their products. This situation makes that negotiating licenses groups (LNGs) become more attractive to implementers, in particular SMEs. LNGs offer benefits to both implementers and SEP holders. They lower transaction cost, reduce information asymmetry, improve deal outcomes and level the playing field for implementers, whereas revenues increase faster at lower transaction cost for SEP licensors. Despite these benefits LNGs have not been used much absent guidelines about what are acceptable LNG set-ups and how they can safely operate in compliance with anti-trust laws. Given the

efficiencies it is worthwhile to see how LNGs can be made to work. The anti-trust risks inherent to buying groups are limited for LNGs as they have to negotiate in accordance with the ZTE v Huawei framework. Limited experience shows that LNGs should adhere to some basic principles to be successful. LNG members should give a clear negotiation mandate to their representatives, commit to the outcome once approved, not be allowed to opt-out and enter into an agreement with the SEP licensor within a pre-determined time after approval subject to a penalty. Under these conditions properly set-up LNGs are a viable option for a group of similarly situated implementers.

**Dan McCurdy** (CEO of RPX Corporation) – The presentation/full summary of testimony is available on the webpage of the webinars

Since RPX's formation, we have completed more than 830 patent or license acquisitions, paying more than \$3.4 billion for the rights we obtained. By grouping licensees together through our model, we estimate we have saved our members nearly \$5 billion in transaction expenses plus the cost of the licenses they would have obtained (which would likely have exceeded the \$3.4 billion we spent because of the effect of aggregation). Similar savings by licensors in avoided transaction costs are also likely to have been realized which then can be further invested into R&D.

One the question if licensee negotiation groups are feasible, the answer is an absolute "yes". We have proven the model for more than a dozen years, with tens of new companies year after year to obtain the benefits of aggregation. Moreover, similar to our model of licensee aggregation, licensors increasingly aggregate patents from multiple patent owners, thereby even further increasing efficiency. Combining licensor-side patent pools with licensee-side defensive aggregation potentially allows many patent owners to license patents to many licensees through a single transaction.

This approach does also not prevent bilateral negotiations, but simply offers an additional cost-efficient option that numerous companies have found to be highly attractive. In addition, by obtaining licenses for many companies at the same time in a single transaction, it helps provide industry participants comfort that they will not be isolated with a royalty while others in the industry are left unburdened. The more broadly applied this technique is, the more it will reduce hold-out and hold-up scenarios using market forces, rather than government intervention, to do so. Government can help encourage this pro-competitive technique by clarifying that aggregation of licensees in a manner that is pro-competitive is encouraged.

**Collette Rawnsley** (Director European IP Policy & Advocacy at Nokia) – The presentation is available on the webpage of the webinars

The Report underlines the need to conclude licences. Yet, when considering whether 'licensee negotiation groups' (LNGs) are feasible and would reduce transaction costs, the Report poses more questions than answers: Would participation be voluntary/mandatory?; Exclusive/non-exclusive?; Would the individual members be bound by the LNG and at what stage?; What are the implications for enforcement? – to name a few.

What is clear is LNGs are distinct from patent pools, which combine largely complementary technologies, are optional, and not exclusive. They provide a pro-competitive choice to individual licences, reduce transaction costs for licensees and SEP-holders, and set a limit on cumulative royalties to avoid 'double-dipping'.

Competition concerns identified by the experts should not be underestimated. LNGs risk being vehicles for co-ordinated 'hold-out', given examples of companies, including in the IoT space, already colluding to avoid taking licenses. The 'FRAND context' heightens, not mitigates, the risk of buyers' cartels: it acts as a ceiling not a floor.

A robust evidence-based assessment, considering licensee and SEP-holder perspectives is needed. The presumption that LNGs could deliver sufficient countervailing efficiencies in practice should be tested.

For SEP-holders, any efficiencies will depend on the timely conclusion of licences. If negotiations with LNGs can be derailed/vetoed at a late-stage, increased delay and cost seem likely. Individual LNG-members could exploit the system by refusing to accept a licence on the terms agreed by the LNG to negotiate individually with knowledge of rivals' costs, which risks driving down royalties and distorting competition between LNG members.

**Round table 4:** *Are there alternative types of collective licensing, e.g. mandatory patent pools, and would they facilitate SEP licensing on a global level for both SEP holders and implementers, in particular for SMEs?*

**Moderator:** Elena Kostadinova, DG GROW European Commission

**Garrard Beeney** (co-head Intellectual Property and Technology Group at Sullivan & Cromwell LLP) – The presentation is available on the webpage of the webinars

#### Alternative Collective Licensing

What are three elementary propositions?

First, pools benefit licensors, licensees, innovation and consumers and we have 25 years of experience on this field. Pools can reduce blocking positions and uncertainty. A fair return can incentivize further R&D and fair terms can incentivize new product development.

Second, While pools are indeed beneficial, they should not be made mandatory, as this does not only bring legal issues (patents are the property of the patentee in many jurisdictions), but also practical issues (who should be forced: some pools, all pools, only SEPs? Who decides on the terms of the license?).

Third, because pools should not be made mandatory and because they are beneficial, there are a number of steps that agencies, governments, private parties and SDOs can take to encourage the formation of pools. Instead, financial support for the formation/SEP evaluation could be given or rules that favor participation in the formation of a pool. Competition rules could be relaxed and potential safe harbors could be created.



**Jonathan Yu** (Yanhua Yu, General Council & Head IP at Opplé Lighting Co.,Ltd) – The presentation is available on the webpage of the webinars

A case study of a Chinese patent pool.

There are few Patent pool local practices in China, and they are formed mostly for defensive purposes.

Now let me pick up an example of AVS patent pool.

The first feature of AVS links to this panel topic: it requires standard essential Chinese patents (SECP) holders to join AVS patent pool. By way of this mechanism, patent pool could then conglomerate as more SECPs as possible, which makes the one stop shop mechanism in China more feasible. AVS complies with Chinese Anti-monopoly Law by not restraining SEP holders from bilateral discussion. But bilateral discussion would be less desirable for licensees as the AVS patent pool fee scheme is much more attractive.

One feature may be relevant for other panel topic, e.g., the formation of the AVS patent pool is at a very early stage, along with standards development process. The famous fee scheme of the patent pool (one Yuan per decoder or encoder), had been fixed even before the AVS standard was adopted as the national standard.

Lastly, AVS patent Pool administration committee comprise of not only SEP holders, but also implementors and experts who represent public interests. This governance model ensures the patent pools operation would reflect more balanced interests.

**Fabian Hoffmann** (Judge, Federal Court of Justice in Germany) – The presentation is available on the webpage of the webinars

Fabian discussed proposal 74 of the SEP-Expert Group Report concerning On Demand Collective Licensing Agencies. The proposal has three distinct aims: first, to create a one-stop-shop for SEP licensing; second, to tackle hold-out; and third, to foster the creation of pools.

First, if a licensee wants to take a licence for all SEPs for its standard-compliant product, it would require a one-stop-shop. This would avoid that the licensee has to figure out by himself which SEP-holders have really essential SEPs, as under the proposal it could simply demand the action of an agency. This agency would have the power by public law to conclude a license agreement with it in the name of all SEP-holders that have essential patents for a standard no matter whether they are known or unknown at the time of the agreement. The licensee would then pay a reasonable aggregate royalty to the agency for all relevant SEPs at one time. This agency should operate only temporarily until a pool is formed, which in turn fosters the formation of a pool.

Second, in tackling hold-out: a law could provide that willingness to license requires the willingness to license all SEPs as soon as litigation has begun. With the possibility to request a licence for all SEPs through an agency that represents all SEP-holders, the litigating willing licensee could have to show - according to the new law - its willingness to license all SEPs. Then, if all parties, including the agency, show their willingness to license but cannot agree on a reasonable aggregate royalty, the court would order the aggregate royalty payable to the agency. This royalty would probably be much higher than a single royalty to the plaintive licensor. Therefore, a licensee who tends to hold-out would reconsider this strategy if it ends up in litigation.

When the licensee pays the aggregate royalty to the agency, the agency would distribute a part of the revenue to the plaintiff. Once the pool is formed and has clear royalty distribution rules, the plaintiff may receive additional royalties based on those distribution rules.

This model is similar to collective licensing societies for copyrights, and it should be possible with SEPs as well.