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Standard-Essential Patent Licensing Management

This Practice Note discusses antitrust issues associated with standard-essential patents (SEPs) and considerations for counsel managing SEP licensing programs.



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Products and services increasingly include standards to:

- Enable their interoperability and interchangeability.
- Provide beneficial network effects to manufacturers, service providers, and consumers.

Standard-setting organizations (SSOs), also known as standard-development organizations, are industry groups that create certain technical standards requiring specific products to incorporate a defined set of features, functionality, processes, or components for interoperability, compatibility, and safety.

Because the standard-selection process involves communication and coordination among competitors, standards and the standard-setting process implicate:

- US antitrust laws.
- EU and UK competition laws.
- Chinese anti-monopoly laws.

Antitrust risk is compounded when a patent reads on the standard so a device implementing or complying with the standard infringes that patent. When authorization to use a patent is needed to implement a standard, the patent is known as a standard-essential patent (SEP).

Managing SEP licensing can be challenging for licensors because of antitrust risk, as well as the requirement to license SEPs on fair, reasonable, and non-discriminatory (FRAND) or reasonable and non-discriminatory (RAND) (collectively, F/RAND) terms.

This Note discusses key issues counsel should consider to effectively manage a SEP licensing program, including:

- Methods of addressing the antitrust risk of SEPs.
- The creation of a SEP portfolio.
- SEP licensing program best practices.
- Tips for SEP licensing negotiations.

METHODS OF ADDRESSING ANTITRUST RISK

Common methods of addressing the antitrust risk associated with SEPs include:

- Use of an SSO IP rights (IPR) policy.
- Disclosure of SSO members' SEPs.
- F/RAND licensing requirements.

SSO IPR POLICY

SSO IPR policies typically provide rules under which:

- Their members may incorporate patented technologies into the industry standards.
- Industry participants may use SEP technologies.

These policies may mitigate antitrust risk. For example:

- The US Department of Justice (DOJ) noted that SSOs can promote competition if they implement well-defined patent policy rules (for more information, search [Antitrust Risks in Standard-Setting Organizations](#) on Practical Law).

- The European Telecommunications Standards Institute (ETSI) first adopted its periodically revised IPR policy in 1994, which seeks to address potential anticompetition issues. This policy has influenced other SSO policies because over 70% of all SEPs worldwide are subject to ETSI's IPR policy (European Commission (EC), Landscaping Study of Standard Essential Patents in Europe (Dec. 12, 2016), available at [ec.europa.eu](#)).

SEP DISCLOSURE

Nearly all SSOs that do not require royalty-free SEP licensing have some requirement for members to identify relevant patents to prevent patent holdup. Patent holdup occurs when SSO members steer the standard-selection process toward a patented, or soon to be patented, technology to later extract exorbitant licensing fees.

The US Court of Appeals for the Federal Circuit has found that a court should consider the failure to timely disclose a SEP when analyzing patent unenforceability defenses (see *Core Wireless Licensing S.A.R.L. v. Apple Inc.*, 899 F.3d 1356, 1365-68 (Fed. Cir. 2018)).



Search [Patent Litigation: Unenforceability Defenses](#) for more on patent unenforceability defenses.

In 1992, the EC issued a series of rules to address antitrust abuse by SSOs. To ensure compliance with EU antitrust laws, these rules require IPR owners to:

- Use their best efforts to:
 - timely identify any IPR relevant to a developing standard; and
 - promptly confirm or refuse permission for the IPR's incorporation in that standard.
- Offer F/RAND license terms for a SEP.

(EC, Communication from the Commission, Intellectual Property Rights and Standardization, § 6.2.1, COM(92) (Oct. 27, 1992).)

The EC reiterated and expanded these rules in 2017, noting that information on SEPs' existence, scope, and relevance is vital for:

- Fair licensing negotiations.
- Allowing potential implementers to identify the scale of their exposure to SEPs and necessary licensing partners.

(EC, Communication from the Commission, Setting Out the EU Approach to Standard Essential Patents, COM(2017) (Nov. 29, 2017).)

In Europe, the process of disclosing SEPs with a commitment to make licenses available in accordance with the SSO's IPR policy is often called "declaration" or to "declare" a patent as a SEP.

Few SSOs independently analyze patents declared essential and, therefore, many SSO members declare patents to be SEPs that are not SEPs (see Jimmy Royer, et al., *Over-Declaration of Standard Essential Patents and Determinants of Essentiality* (2017)). For example, third-party analysts reviewing the declarations of patents declared to ETSI found that for even the most conscientious SSO

members only about 20% of patents declared as SEPs read on the standard (see David J. Goodman and Robert A. Myers, 3G Cellular Standards and Patents (June 2005)).

Whether a declared SEP is actually essential generates conflict. Most licensing transactions involve many SEPs and a target licensee typically argues that the true number of SEPs is lower than the number asserted by the SEP owner.

F/RAND LICENSING

SSO IPR policies include a F/RAND licensing requirement. In the US, courts and DOJ business review letters identify factors counsel should consider when advising clients on F/RAND royalty rates. Courts outside the US have also addressed F/RAND royalties.

 Search [Seeking DOJ Business Review Letters and FTC Advisory Opinions](#) for more on business review letters.

SEP owners should consider the global implications of their SEP portfolios because certain foreign jurisdictions may seek to protect local companies by:

- Investigating the SEP owner.
- Awarding the local company damages for:
 - breach of the jurisdiction's competition laws; and
 - a low F/RAND royalty in the jurisdiction.

SEP PORTFOLIO CREATION

Although many aspects of SEP portfolio development and management are similar to non-SEP portfolios, understanding SEP-specific issues can:

- Maximize investment return.
- Ensure compliance with F/RAND licensing requirements.

SEP owners must implement a strategy for managing SEP inventions, including:

- Internal company SEP invention management processes.
- External processes addressing SSO membership.

INTERNAL COMPANY PROCESSES

Internal SEP management processes should:

- Address invention identification and patent application filing and prosecution.
- Educate company personnel on SEP compliance.
- Address SEP disclosure.

Invention Identification and Patent Prosecution

Technology developers should:

- Create processes for identifying, selecting, and applying for patents (for more information, search [Patent Portfolio Development and Management](#) on Practical Law).
- Align their existing internal processes with SEP creation and acquisition.

Technology developers should file SEP applications before disclosing inventions to an SSO, because a formal contribution in an SSO standardization meeting or working group may publicly disclose the invention, potentially triggering a patentability bar (35 U.S.C. § 102; European Patent Convention, Art. 54(2)).

To capture these inventions, technical staff participating in standardization activities should have a company point of contact:

- To whom they can disclose their inventions.
- Who can quickly draft and file patent applications covering the inventions.

Although it is not always possible, counsel should:

- Draft SEP applications to include multiple embodiments covering potential changes to the standard.
- Monitor changes to the standard and tailor prosecution of pending applications to ensure SEP claims cover the standard's final version.

Company Personnel SEP Compliance

Company personnel participating in an SSO's standardization activities must understand:

- The SSO's IPR policy, particularly rules concerning IPR disclosure.
- Relevant antitrust compliance rules.

To address antitrust compliance, some SSOs provide guidance to assist their members (see, for example, ETSI, Guidelines for Antitrust Compliance (Jan. 27, 2011), available at [etsi.org](#)).

 Search [Antitrust Compliance Programs](#) for more on creating and maintaining an antitrust compliance program.

SEP Disclosure

SSOs seek to avoid including patents in a standard that are not available for license by requiring members to:

- Notify the SSO of any patents which might become essential to a standard.
- Commit themselves to making these patents available for license according to the SSO's IPR policy. This is usually accomplished through a formal declaration on an SSO-provided form (see, for example, ETSI, IPR Licensing Declaration Form, available at [etsi.org](#)).

Courts and government authorities may sanction SSO members who do not immediately disclose SEPs, for example by declaring the SEP unenforceable (see *Core Wireless Licensing, S.A.R.L.*, 899 F.3d at 1365-69; EC Decision, Case COMP/38.636 – Rambus (Dec. 9, 2009)).

SSO members should therefore ensure their SSO-facing employees:

- Are aware of potential company-owned SEPs.
- Understand SEP disclosure obligations and how to discharge these obligations.

EXTERNAL-FACING PROCESSES

SSO IPR policies encourage early SEP disclosure (see ETSI IPR Policy, Art. 4.1, available at etsi.org). Therefore, SSO members may disclose pending patent applications before standard finalization. This may result in over-declaration because:

- Issued patent claims may differ from original claims.
- The final standard may:
 - not require the patented technology;
 - differ from the original standard proposals; and
 - vary over time.
- The relevant technology can be complex and difficult to understand.
- A SEP may be part of a patent family, which typically consists of multiple different national patents having differing claim scope.

SSO members should:

- Seek to avoid over-declaration by aiming to make a declaration only against a standard's specific technical specification document.
- Respond to all requests to identify potentially relevant SEPs based on their working knowledge.
- Disclose potentially relevant SEPs once they become aware of IPRs which are, or are likely to become, SEPs.

To ensure consistency and completeness, the SSO member's patent organization should:

- Support and closely coordinate with technical personnel participating in SSO activities.
- Prepare and submit SEP declarations.

SEP LICENSING PROGRAM BEST PRACTICES

To effectively manage a SEP licensing program, counsel should:

- Determine whether the SEP portfolio can be:
 - subdivided into geographic, technical, and product clusters; or
 - bundled into a single global portfolio.
- Identify target licensees based on factors such as:
 - economic situation;
 - licensing history; and
 - geographic scope.
- Understand target licensees' business models.
- Determine whether:
 - multiple entities engage in infringing activities;
 - different infringing activities occur in multiple locations; and
 - individual infringing activities occur in multiple jurisdictions, which is important for process or systems patent claims.
- Understand the value chain of the infringing product, process, or system, including:

- the part of the product stack the SEPs cover, having the most value, and not limited by patent exhaustion; and
- the parties at each product stack level.
- Understand the market size implicated by the SEP portfolio and its product clusters.
- Determine whether other patent holders attempted to license the same target licensees and the impact of these activities.
- Determine whether reciprocal licenses are required.

When advising on SEP licensing, counsel should also consider:

- Declaration information.
- Accepted licensing practices.
- Certain financial information.
- White papers.

DECLARATION INFORMATION

For any SEP licensing program counsel should:

- Retain copies of their client's SSO declaration forms and, for each SEP, correlate the declaration information with the date that:
 - the SSO finalized the applicable section;
 - the SEP's application was filed; and
 - the SEP's claims became relevant to the standard's applicable section.
- Develop a strategy to address situations where a SEP has been declared:
 - to multiple SSOs and is subject to multiple IPR policies; and
 - as relevant to a standard's specific sections or versions, but also relevant to other sections or versions.
- For SEPs with multiple claims and counterparts, map the SEP's claims and counterparts to the standard to understand:
 - how F/RAND licensing may govern the portfolio; and
 - the extent the claims and counterparts read on the standard.

ACCEPTED LICENSING PRACTICES

Counsel should understand accepted SEP licensing practices in the industry, including:

- When licensing large SEP portfolios, that it is typical that SEP licenses apply to the entire global portfolio. However, counsel should confirm whether licenses to multiple SEPs are provided:
 - for all SEPs or individually;
 - by the standard's relevant section or version; and
 - by geography.
- Whether the market participants have agreed to a maximum cumulative royalty (MCR) for all SEPs reading on a particular standard or whether government regulators or the courts are enforcing an MCR. Counsel should:

- understand the proportionate size of a SEP portfolio's clusters compared to all other declared SEPs if an MCR is being enforced; and
- determine whether individual SEP owners made potentially enforceable statements about what an MCR should be if there is no MCR or about a maximum royalty the SEP owner would charge for its portfolio regardless of what other SEP owners charge.
- The existence of any third-party analyses on whether declared patents actually read on the standard or are valid over prior art. Counsel should understand:
 - the basis of the analysis and its conclusions;
 - how to use the analysis in licensing negotiations; and
 - the weight courts and regulators may give or have given to the analysis.

Counsel should also be aware that in certain circumstances a SEP owner may have an antitrust duty to license its SEPs to competitors (see *FTC v. Qualcomm Inc.*, 2019 WL 2206013, at *81 (N.D. Cal. May 21, 2019)).

INFORMATION RELEVANT TO FINANCIAL TERMS

Factors that may affect a SEP license's financial terms include:

- The relative technical and commercial significance of different parts of the relevant standard.
- The proportionate number of SEPs reading on the standard owned by each SSO member.
- The existence of non-complying products and the difficulty in designing around the SEP.
- Whether SEP owners:
 - must license their SEPs to any party in the product stack; or
 - have discretion to prioritize one portion of the product stack over others.

For both options, counsel should consider whether patent exhaustion may impact potential downstream licensees (for more information, search [Patent Infringement Claims and Defenses](#) on Practical Law).

- Whether the SEP license may include other terms, such as:
 - a license to non-SEPs;
 - a cross-license to the licensee's SEPs;
 - an asset purchase;
 - a product purchase order;
 - a most favorable licensee clause;
 - a license to other IP, such as know-how, trade secrets, trademarks, designs, and copyrights; and
 - covenants not to engage in specific activities.
- The extent courts, regulators, SSOs, and SEP licensees can compare the terms of a SEP owner's different SEP licenses to determine whether and how a SEP owner may have violated

the F/RAND licensing requirements, which may also affect the terms offered to new licensees.

- How SEP owners can present a license's financial terms. Specifically, counsel must understand whether licensors are permitted, expected, or required to, for royalty:
 - rates, provide portfolio, cluster, or per-patent rates, and whether circumstances exist where the royalty rate can or must change, for example, if the parties enter the license before or after litigation, or if some SEPs expire or are revoked, or if the SEP owner acquires new SEPs; and
 - base, use the entire market value of the licensed product or service or the smallest saleable patent practicing unit, and how to calculate royalties on that basis.



Search [Patent Licensing: Negotiating a Reasonable Royalty](#) for information on calculating patent license royalties.

WHITE PAPERS

Because developing a SEP licensing program and determining royalty rates can be complex, prospective SEP licensors should consider commissioning a white paper justifying the SEP royalty. A white paper:

- Might be required or provide an antitrust safe harbor in some foreign jurisdictions.
- Should avoid self-serving reasoning.
- Should not include any confidential information or information protected by the attorney-client privilege so that it may be:
 - provided to a target licensee during licensing discussions; or
 - submitted to a court during litigation.

(See, for example, HEVC Advance, *Explanation of the Fairness and Reasonableness of HEVC Advance's Royalty Rates* (Nov. 12, 2018).)

SEP LICENSING NEGOTIATIONS

Because most SEP licensing discussions concern global SEP portfolios, counsel should attempt to comply with multiple local F/RAND interpretations and focus on:

- The SEP owner's initial notice.
- The target licensee's response.

Counsel should also consider whether to conduct the SEP licensing negotiations under a mutual non-disclosure agreement (NDA). However, in some countries licensees have argued, and courts and regulators seem to agree, that it is a F/RAND licensing violation for the SEP owner to require an NDA (see *In re: M/s Best IT World (India) Private Limited (iBall) and M/s Telefonaktiebolaget L M Ericsson (Publ)*, No. 4, C.C.I., 12 May 2015, ¶ 14).

THE SEP OWNER'S INITIAL NOTICE

Before litigation, the SEP owner should provide to the target licensee:

- An infringement notice.
- A reasonable opportunity to negotiate a license, which should provide the target licensee with at least three to six months to respond.

(See *Saint Lawrence v. Vodafone*, [LG Düsseldorf], Mar. 31, 2016, 4a O 73/14 (Ger.).)

The SEP owner's license offer should:

- Be complete and ready for signature (it may be possible in some jurisdictions to provide a legally binding term sheet containing sufficient information to allow a F/RAND analysis of the terms).
- Explain how the SEP owner calculated the license fee.

The license offer need not be objectively F/RAND since it is not an antitrust violation if the offer is later found to have been not F/RAND, provided that the SEP owner negotiates in good faith and fairly with the target licensee (see *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 1001-02 (W.D. Wash. 2012)).

In certain circumstances, F/RAND licensing allows:

- The initial financial terms to include rates higher than a F/RAND rate.
- A range of terms if the offer falls within the range of acceptable F/RAND terms.
- Licenses to the SEP owner's entire portfolio including non-SEPs if the SEP owner does not require the target licensee to take a non-SEP license.
- Offers requiring worldwide portfolio licenses where it is industry practice to offer global licenses.
- Inclusion of optional terms if the target licensee can take a SEP-only license under a F/RAND royalty with no adverse consequence.

(See *Unwired Planet Int'l Ltd v. Huawei Techs. Co. Ltd.*, [2017] EWHC 711 (upheld on appeal [2018] EWCA Civ 2344) (UK).)

US courts have not provided detailed guidance on specific licensing negotiation procedures, other than requiring the parties to negotiate in good faith. However, courts have found that:

- Even though an offer was neither reasonable nor non-discriminatory, no harm arose (*TCL Commc'n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, 2018 WL 4488286, at *2 (C.D. Cal. Sept. 14, 2018)).

- Failure to provide a F/RAND licensing offer might lead to an anti-suit injunction to prevent the SEP owner from seeking injunctions against the target licensee during another proceeding designed to determine a global royalty rate (*Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 887-88 (9th Cir. 2012); *Huawei Techs., Co., Ltd. v. Samsung Elecs. Co., Ltd.*, 2018 WL 1784065, at *12 (N.D. Cal. Apr. 13, 2018)).

A SEP owner's initial notice need not contain the original F/RAND declaration nor the infringement details if the SEP owner agrees to be bound by F/RAND licensing (*Pioneer v Acer*, [LG Mannheim], Jan. 8, 2016, 7 O 96/14 (Ger.)). However, the SEP owner should provide details of its infringement position, which:

- Identifies the infringed SEPs.
- Identifies relevant standards, including the parts of the standard implementing the SEP technology.
- Indicates the products or services, and their functionalities, infringing the SEPs.
- Indicates the SEP owner's actions if no license is taken.
- Informs the target licensee of its option to contest:
 - the notices' assertions; and
 - the SEPs' validity.

(See *NTT DoCoMo v. HTC*, [LG Mannheim], Jan. 29, 2016, 7 O 66/15 (Ger.); *Sisvel v. Haier*, [LG Düsseldorf], Nov. 3, 2015, 4a O 93/14 (Ger.).)

It may be:

- Sufficient in the US, if an accused product operates according to the standard, to include a claim chart mapping the claims to the standard's mandatory sections (see *Fujitsu Ltd. v. Netgear Inc.*, 620 F.3d 1321, 1327 (Fed. Cir. 2010)).
- Necessary in other jurisdictions for claim charts to map the claims to the actual product (see *Vringo Infrastructure Inc v. ZTE (Australia) Pty Ltd* [No 4] [2015] FCA 177 (Austl.)).

THE TARGET LICENSEE'S RESPONSE

After receiving notice, the target licensee must provide an unqualified willingness, "without delay," to take a F/RAND license (see *Unwired Planet Int'l Ltd v. Huawei Techs. Co. Ltd.*, [2017] EWHC 711 (upheld on appeal [2018] EWCA Civ 2344) (UK)). This may require the target licensee to:

- Respond promptly (*Saint Lawrence v. Vodafone*, [LG Düsseldorf], Mar. 31, 2016, 4a O 73/14 (Ger.) (holding that a delay of five months is too long)).
- Do more than merely request proof of infringement.
- State its commitment to take a F/RAND license, which may also provide valuable freedom to operate.



While US law is still evolving, some courts have:

- Denied an injunction against a target licensee where it refused a F/RAND royalty or unreasonably delayed negotiations (see *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014), overruled on other grounds by *Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015)).
- Imposed no penalty against a target licensee for refusing to take a license for over four years and suing a SEP owner for breaching its F/RAND obligations (*TCL Commc'n Tech. Holdings, Ltd.*, 2018 WL 4488286, at *2).

In the US, it is also unclear whether a F/RAND commitment requires negotiation before filing a lawsuit when the target licensee believes an offer is not F/RAND (*Microsoft Corp.*, 854 F. Supp. 2d at 1001, n.10).

Outside the US, a target licensee unwilling to enter a SEP license could be subject to an injunction. For example, in *Huawei v. Samsung*, the Shenzhen Intermediate People's Court in China granted injunctions against Samsung as an unwilling SEP licensee because, among other things, it:

- Failed to respond to Huawei's claim charts.
- Failed to respond diligently to Huawei's offers.

However, in parallel US proceedings, the court issued an order preventing Huawei from enforcing the Chinese injunctions (*Huawei Techs., Co., Ltd. v. Samsung Elecs. Co., Ltd.*, 2018 WL 1784065, at *1 (N.D. Cal. Apr. 13, 2018), remanded 757 Fed. Appx. 1011 (Fed. Cir. 2019)).

The target licensee may respond to the SEP owner's offer:

- By submitting a F/RAND counteroffer when the initial offer contains all information required for the target licensee to make a F/RAND counteroffer.
- Under recognized commercial practices.

(See *Philips v. Archos*, [LG Mannheim], Nov. 17, 2016, 7 O 19/16 (Ger.); *NTT DoCoMo v. HTC*, [LG Mannheim], Jan. 29, 2016, 7 O 66/15 (Ger.); *Saint Lawrence v. Deutsche Telekom*, [LG Mannheim], Nov. 27, 2015, 2 O 106/14 (Ger.).)

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