

# Standard-Essential Patent Licensing Management

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A Practice Note addressing antitrust issues concerning standard-setting organizations (SSO), also known as standard-development organizations (SDO), and their effect on standard-essential patent (SEP) licensing. This Note provides guidance on SEP licensing management and addresses the requirement for fair, reasonable, and non-discriminatory (FRAND) or reasonable and non-discriminatory (RAND) licensing terms.

Patent licensing management can be challenging for most licensors. Managing standard-essential patent (SEP) licensing can be even more challenging because of the antitrust risk and the requirement to license SEP patents on fair, reasonable, and non-discriminatory (FRAND) or reasonable and non-discriminatory (RAND) (collectively F/RAND) terms. This Note discusses key issues counsel should address to maximize the value from their client's SEP licensing program.

## STANDARD SETTING

Standards increasingly form the basis of many products and services 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 (SDOs), 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. SSOs typically develop standards according to their own highly documented, consensus-driven standards development process.

SSOs often serve different markets and different technologies, each designed to achieve specific goals. For example:

- The Institute of Electrical and Electronics Engineers (IEEE), a New York State organization, governs many important technical standards, including the 802.11 WiFi standard.
- The American National Standards Institute (ANSI) oversees the creation and use of numerous standards affecting businesses in various sectors.
- The European Telecommunications Standards Institute (ETSI) was:
  - established in 1988 to standardize information and communication technologies in Europe;
  - instrumental in developing the standards for key enabling global cell phone technologies such as the GSM, 3G, 4G, DECT, and TETRA professional mobile radio system; and
  - a founding partner organization of the Global Standards Collaboration initiative.

## KEY CONSIDERATIONS FOR ADDRESSING ANTITRUST RISK

Standards and the standard-setting process implicate US antitrust laws, competition laws as they are known in the United Kingdom and the European Union, and anti-monopoly laws as they are known in China. This is because the standard-selection process involves communication and coordination among competitors. This risk is compounded when a patent reads on the standard so a device implementing or complying with the standard infringes that patent. The patents implementing the standards are known as standard-essential patents or SEPs.

For more information on US antitrust laws, SEPs, and SSOs, see Practice Note, [Antitrust Risks in Standard-Setting Organizations \(5-503-0259\)](#) and Article, [Expert Q&A on Standard-Essential Patents \(4-523-8108\)](#).

Common solutions for addressing this antitrust risk include:

- The SSO's use of an intellectual property rights (IPR) policy (see SSO IPR Policy).
- The requirement for SSO members to disclose their SEP patents (see SEP Disclosure).
- F/RAND licensing requirements (see F/RAND Licensing).

## SSO IPR POLICY

SSO IPR policies typically provide rules defining specific terms and conditions 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, in:

- The US, the Department of Justice (DOJ) has noted that SSOs can promote competition if they implement well-defined patent policy rules. For more information, see Practice Note, Antitrust Risks in Standard-Setting Organizations: Agency Guidance on SSO Activity Involving Standard-Essential Patents ([5-503-0259](#)).
- Europe, ETSI first adopted its IPR policy in 1994, which:
  - it has periodically revised; and
  - 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 (EC, Landscaping Study of Standard Essential Patents in Europe (Dec. 12, 2016) (EC 2016 SEP Study)).

## SEP DISCLOSURE

Nearly all SSOs have some requirement for members to identify relevant patents to prevent patent holdup where 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 (Federal Circuit) has noted that a court should consider the failure to timely disclose a SEP when analyzing the patent unenforceability defenses (see *Core Wireless Licensing, S.A.R.L. v. Apple, Inc.*, 899 F.3d 1356, 1365-68 (Fed. Cir. 2018)). For more information on the patent unenforceability defenses, see Practice Note, Patent Litigation: Unenforceability Defenses ([0-607-7106](#)).

In 1992, the European Commission (EC) issued a series of rules to address antitrust abuse by SSOs, which, to ensure compliance with European Union antitrust rules, requires IPR owners to:

- Use their best efforts to:
  - identify in a timely manner any IPR relevant to a developing standard; and
  - promptly confirm or refuse permission for its incorporation in that standard.
- Offer F/RAND license terms for an 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 the existence, scope, and relevance of SEPs is vital for fair licensing negotiations and for allowing potential implementers to identify the scale of their exposure to SEPs and necessary licensing partners.
- Both the SEP owner and the target licensee, which would be the standards implementer:
  - must be willing to engage in good faith negotiations to establish F/RAND licensing situations; and
  - are in the best position to determine F/RAND terms most appropriate for their situation.

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(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 along with a commitment to make licenses available according to the SSO's IPR policy is often called "declaration" or "to declare" a patent as a SEP. This name probably arose from the form ETSI requires its members to use when identifying SEPs (see ETSI: IPR Licensing Declaration Form).

Few, if any, SSOs conduct an independent analysis of patents their owners declare to be essential, and therefore, many SSO members declare patents to be SEPs that are not SEPs (Jimmy Royer, et al., Over-Declaration of Standard Essential Patents and Determinants of Essentiality (2017)). For example, a recent study found that the Swedish telecommunications company Ericsson owns over 9,300 declared SEPs (see Tim Pohlmann and Knut Blind, Landscaping Study of Standard Essential Patents in Europe, Dec. 12, 2016, at 27). Third-party analysts reviewing the declarations of patents declared to the ETSI have found that for even the most conscientious SSO members, only about 20% of patents declared as SEPs in fact read on the standard (see David J. Goodman and Robert A. Myers, 3G Cellular Standards and Patents, June 2005).

These findings have led industry participants to categorize SEPs as either:

- Declared SEPs.
- Adjudged, true, or actually essential patents or SEPs.

An SSO's IPR policy determines whether a patent is declared essential, although under most SSO IPR policies, only courts or other governmental agencies with the right to determine validity and infringement can truly determine whether a patent is in fact an SEP (see *Nokia Corp. v. Interdigital Tech. Corp.*, [2007] EWHC 3077 (Pat) ¶134).

These two categories of SEPs have generated much conflict since most licensing transactions involve a large number of SEPs.

A target licensee typically argues that the true number of SEPs is lower than the SEP owner asserts, which is known as a top-down approach to negotiating or determining royalties for a portfolio of SEP patents. This is because under that approach, the SEP owner is entitled to royalties based on the proportionate share of actually essential SEPs for the relevant standards. For example, in a recent litigation against TCL Communication, Ericsson claimed that it owns 235 SEP families truly essential to the 2G, 3G, and 4G cellular standards, while TCL claimed that only 136 patent families were truly essential (see *TCL Comm'n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson*, 2018 WL 4488286, at \*19 (C.D. Cal. Sept. 14, 2018) reversed-in-part, vacated-in-part 943 F.3d 1360 (Fed. Cir. 2019); Legal Update, District Court Determines FRAND Royalty for Cell Phone Technology Based on Top-Down Analysis and Global Licenses ([W-012-4284](#))).

## F/RAND LICENSING

SSO IPR policies typically include:

- At least one of the following provisions:
  - the requirement for RAND terms with specific licensing conditions (see IEEE Standards Association: IEEE SA Standards Board Bylaws);
  - the requirement for FRAND terms without specific licensing conditions (see ETSI: ETSI IPR Policy);
  - the requirement for royalty-free, reasonable, and non-discriminatory (RAND-z) terms, which generally eliminates the need for licensing (see IETF: Intellectual Property Rights in IETF Technology); or
  - commitments not to assert SEPs, preventing both licensing and enforcement (see Organization for the Advancement of Structured Information Standards (OASIS): IPR Policy).
- All of these provisions (see OASIS: IPR Policy).

In the US, courts and DOJ business review letters identify factors counsel should consider when advising clients on F/RAND royalty rates.

For more detailed information on setting F/RAND royalty rates, see Practice Note, Antitrust Risks in Standard-Setting Organizations: Box, Setting a F/RAND Rate ([5-503-0259](#)) and Legal Update, Ninth Circuit Approves RAND Royalty Determinations for Motorola's Standard-Essential Patents ([5-617-8358](#)).

For more information on business review letters, see Practice Note, Seeking DOJ Business Review Letters and FTC Advisory Opinions ([0-617-4447](#)).

Courts outside the US have also addressed F/RAND royalties. See, for example:

- Case C-170/13, *Huawei Techs. Co. Ltd v. ZTE Corp.* (July 16, 2015). In this case, the European Court of Justice:
  - issued the first opinion by a jurisdiction's highest court outlining the mechanics of F/RAND licensing; and
  - provided a detailed, multi-step process that SEP owners and licensing targets should take before starting litigation or seeking an injunction.
- For more information on this case, see Legal Update, ECJ Ruling on Application of Article 102 to Enforcement of SEPs Through Injunctions ([8-617-4896](#)).
- *Unwired Planet Int'l Ltd v. Huawei Techs. Co. Ltd* [2017] EWHC 711 (upheld on appeal [2018] EWCA Civ 2344). In this case, the UK:
  - High Court of Justice, Chancery Division, Patents Court summarized F/RAND licensing's history, comprehensively described how to determine a F/RAND royalty for a global SEP portfolio, and noted that F/RAND licensing is analyzed under both contract and competition law; and
  - Court of Appeal upheld the lower court's findings and noted that the framework of *Huawei Technologies Co., Ltd* provides a safe harbor for SEP owners seeking injunctive relief against the SEP implementer.
- For more information, see Practice Note, Patent Licensing: What Next for FRAND? ([W-018-7499](#)).

- S.T.J., Ap. Civ. No. 2014/0256005-5, Relator: Des. Paulo de Tarso Sanseverino, 05.11.2015 (Braz.), where Brazil's Superior Court of Justice held that a preliminary injunction based on a SEP is permissible against a licensing target in the context of F/RAND licensing.

SEP owners should also consider the global implications of their SEP portfolios because in some situations, a foreign jurisdiction may take steps to protect its local companies by, for example:

- 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

In the late 1990s, some ETSI members proposed amending ETSI's IPR policy to create a defined percentage maximum cumulative SEP royalty (MCR), also known as the minimum change optimum effect, for all SEP owners (see, for example, Eric Stasik, *Royalty Rates and Licensing Strategies for Essential Patents on LTE (4G) Telecommunication Standards*, 45 LESNOU 114 (2010) (noting various SEP owners statements about the appropriate MCR and the company's proposed royalty)).

While this and similar later proposals failed to become part of ETSI's IPR policy, SEP owners began thinking that appropriate SEP royalty rates entitled them to a proportionate share of the MCR based on the number of SEPs they owned. This reasoning became known as "strict proportionality." It is also sometimes called a "top-down" analysis.

Other SEP owners argued that royalties should be based on:

- SEP quality.
- The significance of the relevant standard.
- Evidence from comparable licenses.

Because the number of SEPs highly affects each of these approaches, there was strong incentive for SEP owners to seek as many SEPs as possible. According to a 2016 study, there are over 200,000 declared SEPs (see EC 2016 SEP Study).

While many components of thoughtful SEP portfolio development and management are similar, if not identical, to that of non-SEP portfolios, there are many important considerations specific to SEP portfolios that can:

- Maximize return on investment.
- Ensure compliance with the F/RAND licensing regime.

For more information on patent portfolio development generally, see Practice Note, Patent Portfolio Development and Management ([2-538-5925](#)).

If a technology developer is comfortable with contributing its patented technology to a standard according to an SSO's terms and conditions, the technology developer must have a strategy for dealing with SEP inventions. That strategy must include:

- Internal company processes for managing SEP inventions (see Internal Company Processes for Managing SEP Inventions).
- External processes addressing SSO membership (see External-Facing Processes for SSO Membership).

## INTERNAL COMPANY PROCESSES FOR MANAGING SEP INVENTIONS

Companies that potentially may have SEPs should have processes to:

- Address invention identification and patent application filing and prosecution (see Invention Identification and Patent Prosecution).
- Educate employees concerning SSO membership (see Company Personnel SEP Compliance).
- Address SEP disclosure (see SEP Disclosure).

### Invention Identification and Patent Prosecution

Technology developers should:

- Have processes for identifying, selecting, and applying for patents. For more information see, Practice Note, Patent Portfolio Development and Management: Harvest Inventions and Promptly File Patent Applications ([2-538-5925](#)).
- Align their existing internal processes with SEP creation and acquisition.

Engineers and scientists participating in standardization activities should understand the company's invention disclosure procedures. For a sample corporate patent policy, see Standard Document, Corporate Patent Policy ([1-530-1605](#)).

It is vital that technology developers file SEP applications before disclosing inventions to an SSO, since a formal contribution in an SSO working group may publicly disclose the invention, potentially triggering a bar to patentability (35 U.S.C. § 102; European Patent Convention, Art. 54(2)).

SSO standardization meetings generally occur according to a set schedule and participants typically develop inventions shortly before these meetings with little warning. 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, patent 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. For example, company personnel should avoid discussing royalty rates, product or service prices, pricing methods, profits, profit margins, cost data, production plans, and market share.

To address antitrust compliance, some SSOs provide guidance to help their members (see, for example, ETSI: Guidelines for Antitrust Compliance (Jan. 27, 2011)).

For more information on antitrust compliance programs, see Practice Notes, Antitrust Risks in Standard-Setting Organizations: Ongoing Participation in an SSO ([5-503-0259](#)) and Antitrust Compliance Programs ([9-500-4178](#)).

### SEP Disclosure

A potential source of difficulty in standard development is incorporating patents not available for license under the SSO's IPR Policy (see, for example, European Commission, Communication from the Commission, Intellectual Property Rights and Standardization, § 4.4, COM (1992) 445 final (Oct. 27, 1992)). To avoid this, most SSOs require members to:

- Notify the SSO of any patents that 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 a form the SSO provides (see, for example, ETSI: IPR Licensing Declaration Form).

The courts, and government authorities, may sanction SSO members who do not immediately disclose SEPs, for example by declaring the SEP unenforceable (*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 that their employees participating in SSO activities:

- Are aware of any potential SEPs the company may have.
- Understand SEP-disclosure obligations and how to discharge these obligations.

### EXTERNAL-FACING PROCESSES FOR SSO MEMBERSHIP

SSO IPR policies encourage early disclosure of SEPs (ETSI IPR Policy, Art. 4.1). SSO members therefore may disclose pending patent applications before standard finalization. This may result in over-declaration of SEPs, which may arise because:

- Issued patent claims:
  - may differ from the originally filed claims; and
  - can be difficult to interpret.
- The final standard may:
  - make use of the patented technology optional;
  - differ from the original standard proposals; and
  - vary over time.
- The relevant technology can be complex and difficult to understand, making it challenging to determine essentiality.
- 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 that are, or are likely to become, a SEP.

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 CONSIDERATIONS

An effective SEP portfolio licensing program requires counsel to:

- Determine whether the SEP portfolio:
  - can be logically subdivided into geographic, technical, and product clusters; and
  - should be bundled into, and offered as, a single global portfolio.
- Identify target licensees based on factors such as their:
  - economic situation;
  - licensing history; and
  - geographic scope.
- Understand target licensees' business models, including the products and services that infringe the portfolio and its product clusters.
- Determine whether:
  - a single entity, or multiple entities, engage in infringing activities;
  - infringing activities occur in one or multiple locations; and
  - individual acts of infringement occur in one or multiple jurisdictions, which is particularly important for patents with process or systems claims.
- Understand the value chain of the infringing product, process, or system, including:
  - the part of the product stack the SEPs cover;
  - the part of the product stack having the most value;
  - the part of the product stack that is not limited by patent exhaustion (see Practice Note, Patent Infringement Claims and Defenses: Patent Exhaustion ([0-507-2685](#))); and
  - the parties at each level of the product stack.
- Understand the market size implicated by the SEP portfolio and its product clusters.
- Understand whether other patent holders attempted to license the same potential licensees and the effect of these activities.
- Determine whether reciprocal licenses are required.
- Consider that, in certain circumstances, a SEP owner may have an antitrust duty to license its SEPs to competitors (see *FTC v. Qualcomm Inc.*, 441 F.Supp.3d 658, 758-59 (N.D. Cal. 2019)).

These factors may also be relevant for a licensing program concerning non-SEPs.

Counsel should also consider the following SEP-specific factors when pursuing SEP licensing:

- Declaration information (see Declaration Information).
- Accepted licensing practices (see Accepted Licensing Practices).

- Certain financial information (see Information Relevant to Financial Terms).
- White papers (see White Paper Justifying Licensing Practices).

## DECLARATION INFORMATION

The SEP declaration, and the information it contains, is important for any SEP licensing program and counsel should:

- Have copies of their client's actual SSO declaration forms and, for each SEP, correlate the declaration information with the date:
  - the SSO finalized the relevant section;
  - of the SEP patent application's filing; and
  - the SEP's claims became relevant to the standard's applicable section.
- Have a strategy to deal with situations where a SEP has been declared:
  - to multiple SSOs and is subject to multiple IPR policies; and
  - as relevant to specific sections or versions of a standard but is also relevant to other sections or versions.
- For SEPs with more than one claim and with counterparts (including foreign family members, continuations, and divisionals), map the SEP's claims and counterparts to the standard, so counsel understand:
  - how F/RAND licensing may govern the portfolio; and
  - the extent the claims and counterparts read on the standard.

## ACCEPTED LICENSING PRACTICES

Counsel managing a SEP licensing program should understand normally accepted SEP licensing practice in the standard's 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 typically provided:
  - for all the SEPs or individually;
  - by relevant section or version of the standard; and
  - by geography.
- Whether the market participants have agreed to an MCR for all SEPs reading on a particular standard or whether relevant government regulators or the courts are enforcing an MCR. Counsel should:
  - understand the proportionate size of a SEP portfolio's clusters as compared to all other declared SEPs if an MCR is being enforced; and
  - know whether individual SEP owners made potentially enforceable statements about what an MCR should be if there is no MCR.
- The existence of any third-party analysis of whether declared patents actually read on the standard or are valid over prior art. If those analyses exist, counsel should understand:
  - the analysis' conclusions, how they were reached, and their soundness;
  - how to use the analysis in licensing negotiations; and
  - the weight courts and regulators may give or have given to the analysis.

## INFORMATION RELEVANT TO FINANCIAL TERMS

Factors counsel should understand, which may affect a SEP licensee'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 affect potential downstream licensees. For more information on patent exhaustion, see Practice Note, Patent Infringement Claims and Defenses: Patent Exhaustion ([0-507-2685](#)).
- Whether the SEP license may include other business terms, including:
  - 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 non-discrimination prohibition, which may also affect the terms offered to new licensees.
- How SEP owners can present a licensee's financial terms. Specifically, for the royalty:
  - rates, counsel must understand whether licensors are permitted, expected, or required to provide portfolio, cluster, or per-patent rates, and whether there are circumstances under which the royalty rate can or must change, for example, if the parties enter the license before or after a litigation, or if some SEPs expire or are revoked, or if the SEP owner acquires new SEPs; and
  - base, counsel must understand whether licensors are permitted, expected, or required to use the entire market value of the licensed product or service, and if so, how to determine the value or whether the SEP owner must calculate royalties based on the smallest saleable patent practicing unit, or on some other basis, and if so, how the value of such a basis is calculated.

For information on calculating royalties in a patent licensing situation generally, see Practice Note, Patent Licensing: Negotiating a Reasonable Royalty ([W-001-0378](#)).

## WHITE PAPER JUSTIFYING LICENSING PRACTICES

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 (see for example, First Witness Statement of Eric L. Stasik at 50, *Vringo Infrastructure Inc. v. ZTE UK Ltd.*).

A white paper justifying the SEP royalty:

- Might be required or at least provide a safe harbor under the *Huawei Technologies Co. Ltd v. ZTE Corp.* decision.
- Should avoid self-serving reasoning to maximize its effectiveness.
- Should not include any confidential or attorney-client information so it may be:
  - provided to a target licensee during licensing discussions; or
  - submitted to a court during litigation.

For an example white paper, see 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 where both the SEP owner and target licensee have regulatory, and litigation, risk in at least the US, China, and Europe, counsel should take a global approach to licensing discussions that attempt to comply with as many local F/RAND interpretations as possible.

Counsel should focus on the following key elements of an SEP licensing negotiation:

- The SEP owner's initial notice (see SEP Owner's Initial Notice).
- The target licensee's response to the notice (see Target Licensee's Response).
- The ongoing dialogue, including:
  - the initial license offer; and
  - the response.
- (See Offer and Counteroffer.)

Counsel should also consider whether to conduct the SEP licensing negotiations under a mutual non-disclosure agreement (NDA). For a sample mutual NDA, see Standard Document, Confidentiality Agreement: General (Mutual) ([1-501-7108](#)).

Before making this determination, counsel should note that in some countries, licensees have argued, and courts and regulators seem receptive to the argument, that it is a violation of F/RAND licensing 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 (finding that Ericsson's use of an NDA was not non-discriminatory)).

## THE SEP OWNER'S INITIAL NOTICE

Before beginning any litigation, SEP owners should always provide target licensees:

- An infringement notice.
- A reasonable opportunity to negotiate a license, which varies by country, although the target licensee should have at least three to six months to respond.

(See *Saint Lawrence v. Vodafone*, [LG Düsseldorf], 31 March 2016, Case No. 4a O 73/14 (Ger.).)

US courts, unlike those in Europe, have not provided detailed guidance on the specific steps to take during licensing negotiations, other than requiring the parties to negotiate in good faith. However:

- Even though the court in *TCL Communication* found Ericsson's offer neither reasonable nor non-discriminatory, it assessed no harm from that fact and simply determined the F/RAND royalty (*TCL Commc'n Tech. Holdings, Ltd.*, 2018 WL 4488286, at \*2, reversed-in-part and vacated-in-part on other grounds 943 F.3d 1360 (Fed. Cir. 2019)).
- Failure to provide a F/RAND licensing offer might lead a court to issue an anti-suit injunction to prevent the SEP owner from seeking injunctions against the target licensee during the pendency of another legal 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)).

Because European case law is the most developed on SEP licensing discussions, those cases have had the biggest effect on SEP licensing best practices. The Japanese Patent Office (JPO) acknowledges this in its June 2018 Guide to Licensing Negotiations Involving Standard Essential Patents, which is part of its program to offer advisory opinions on the actual essentiality of SEPs (see JPO: Standard Essential Patents Portal Site), and cites to a significant number of European cases.

A SEP owner's initial notice need not contain the original F/RAND declaration nor the infringement details if the SEP owner clearly agrees that it is bound by a F/RAND licensing commitment (*Pioneer v. Acer*, [LG Mannheim] Jan. 8, 2016, Case No. 7 O 96/14 (Ger.)). However, the SEP owner should expect to provide details of its infringement position, which should:

- Specify the infringed SEPs, including their numbers and filing dates.
- Identify relevant standards, including the parts of the standard implementing the SEP technology.
- Indicate the products or services infringing the SEPs and the infringing products' or services' functionalities.
- Indicate the SEP owner's actions if the licensing target does not take a license.
- Inform the licensing target of its option to contest:
  - the assertions in the notice; and
  - the SEPs' validity.

(See, *NTT DoCoMo v. HTC*, [LG Mannheim] Jan. 29, 2016, Case No. 7 O 66/15 (Ger.); *Sisvel v. Haier*, [LG Düsseldorf] Nov. 3 2015, Case No. 4a O 93/14 (Ger.).)

Some courts have held that, before the target licensee must respond to the initial notice, the SEP owner must provide the target licensee with infringement claim charts:

- Typical of those presented in licensing negotiations in the relevant industry.
- Containing at least the relevant patent claims and the corresponding passages of the standard.

Because of potentially different standards for proving direct infringement, counsel should consider the type of claim charts needed. For example, in:

- The US, if an accused product operates according to the standard, it may be sufficient for the claim chart to map the claims to the mandatory sections of the standard rather than to the product itself (see *Fujitsu Ltd. v. Netgear Inc.*, 620 F.3d 1321, 1327 (Fed. Cir. 2010)).
- Other jurisdictions, the claim charts may need to map the claims to the actual product rather than just to the standard (see *Vringo Infrastructure Inc v. ZTE (Australia) Pty Ltd* [No 4] (2015) FCA 177 (Austl.)).

## THE TARGET LICENSEE'S RESPONSE

After the SEP owner provides sufficient notice, the target licensee must provide an unqualified willingness, "without delay," to take a F/RAND license on whatever terms are in fact F/RAND (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.) (delay of five months is too long)).
- Do more than merely request proof of infringement.
- State its commitment to take a F/RAND license.

While the law in the US is still evolving, some courts have:

- Denied an injunction against a target licensee where it "unilaterally refuses a F/RAND royalty or unreasonably delays negotiations to the same effect" (see *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014) (finding no injunction warranted as negotiations were ongoing and Motorola's licensing offer was not F/RAND), overruled on other grounds by *Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015)).
- Imposed no penalty against an unwilling licensee for refusing to take a license for over four years and suing a SEP owner for breaching its F/RAND obligations (*TCL Commc's Tech. Holdings, Ltd.*, 2018 WL 4488286 (TCL entitled to same rates as Apple who settled after six months of litigation) reversed-in-part and vacated-in-part on other grounds 943 F.3d 1360 (Fed. Cir. 2019)).

In the US, it is also unclear whether F/RAND "require an offeree to counteroffer or respond (i.e., to partake in the negotiation process) prior to filing a lawsuit under circumstances where the offeree finds an offer to be on non-RAND terms" (*Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 1001, n.10 (W.D. Wash. 2012)).

However, outside the US, a target licensee that is unwilling to enter into 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 it:

- Bundled SEPs with non-SEPs.
- Failed to respond to Huawei's claim charts.
- Failed to respond diligently to Huawei's offers.
- Refused to arbitrate without justification.
- Failed to actively participate in court-ordered mediation.

However, in parallel proceedings in the US where Huawei had asked for F/RAND terms, the US District Court for the Northern District of California 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. April 13, 2018)).

## THE OFFER AND COUNTEROFFER

After the initial notification letter (or letters) and the target licensee's response indicating a willingness to take a F/RAND license, both parties must negotiate the terms. This process typically consists of:

- The initial license offer (see Opening License Offer).
- A counteroffer (see Target Licensee's Counteroffer).

### Opening License Offer

The SEP owner's offer should:

- Take the form of a complete license agreement ready for the target licensee's signature, although it may be possible in some jurisdictions to instead 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, which may also include a white paper that accounts for existing licensees.

The licensing 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 so long as the SEP owner is negotiating in good faith and fairly dealing with the target licensee (*Microsoft Corp.*, 854 F. Supp. 2d at 1001-02 (noting that where the parties are reasonable but disagree about the F/RAND rate, and assuming the licensor's offer is not "outrageously" high, the only recourse is for the parties to have a court adjudicate the proper rate)).

In certain circumstances, F/RAND licensing allows:

- The initial financial terms to include rates higher than a true F/RAND rate but still meet F/RAND requirements.
- 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 SEPs and non-SEPs as long as the SEP owner does not condition a SEP license on the target licensee also taking a license to non-SEPs. A target licensee's desire for freedom to operate usually results in a license to the entire portfolio.
- Offers requiring worldwide portfolio licenses where it is regular practice in the industry to offer global licenses.
- The SEP owner to include other terms as an option as long as 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)).)

### Target Licensee's Counteroffer

Even if a SEP owner's licensing offer is not F/RAND, the target licensee should respond to the SEP owner's offer:

- By submitting a F/RAND counteroffer when the initial offer contains all information, including the royalty calculation, required for the target licensee to make a F/RAND counteroffer.
- Without delay.
- Under recognized commercial practices.

(See *Philips v. Archos*, [LG Mannheim], Nov. 17, 2016, Case No. 7 O 19/16 (Ger.); *NTT DoCoMo v. HTC*, [LG Mannheim], Jan. 29, 2016, Case No. 7 O 66/15 (Ger.); *Saint Lawrence v. Deutsche Telekom*, [LG Mannheim] Nov. 27, 2015, Case No. 2 O 106/14 (Ger.).)

The target licensee should also:

- Refrain from seeking to enjoin the SEP owner from enforcing its SEPs during negotiations when the target licensee believes the offer is not F/RAND unless it can demonstrate that the SEP owner is acting inconsistently with the F/RAND regime (see *U-Blox AG v. Interdigital, Inc.*, 2019 WL 555029 (S.D. Cal. Feb. 12, 2019)).
- Consider:
  - making a counteroffer where the royalty is based on the result of some apparently objective process aiming to determine within a reasonable period of time the number, if any, of the asserted SEPs that are in fact essential; and
  - that taking a F/RAND license even if some of the SEPs are not actually essential provides the target licensee with freedom to operate, which has value to the target licensee.

## SEP LICENSE

Key issues counsel should consider when drafting a SEP license that may not arise when drafting a non-SEP license include:

- The F/RAND regime. If the SEP license includes any clause that may superficially seem to violate F/RAND, counsel should consider seeking advice from specialist counsel or commission a third-party opinion or white paper to justify the clause in future litigation.
- Future situations where it may be necessary to provide information to third-parties about the F/RAND terms. For example, where the SEP license is part of a larger confidential transaction, counsel should consider using a separate agreement for that transaction and agree on a summary SEP license document that could be given to third parties.
- The enforceability and any antitrust issues concerning no-challenge clauses (see *Rates Tech., Inc. v. Speakeasy, Inc.*, 685 F.3d 163, 172 (2d Cir. 2012); Legal Update, Patent No-Challenge Clauses in Pre-Litigation Settlements are Unenforceable: Second Circuit ([7-520-3150](#)); Commission Regulation (EU) No 316/2014 of 21 March 2014 (no-challenge clauses where the licensor has market power are anticompetitive)).
- Where the target licensee is also a SEP owner, the parties should negotiate a reasonable royalty for any cross licensee. Cross licenses having a royalty-free grant back may be in violation of China's Anti-Monopoly Law. (The Decision of Administrative Penalty of the National Development and Reform Commission of PRC, The Price Supervision and Inspection and Anti-Monopoly Bureau (2015) No. 1, Qualcomm Incorporated.)

## LICENSING THROUGH PATENT POOLS OR PATENT PLATFORMS

SEP owners may also license their SEPs:

- Under a single agreement.
- As part of a patent pool. In this arrangement, SEP owners grant exclusive licensing rights to a pool administrator who licenses third parties.

- As part of a patent platform. In this arrangement, SEP owners retain their licensing rights but make bi-lateral licenses available through a joint licensing agreement involving several SEP owners.

For simplicity in this Note, the term patent pool is used to describe all of these arrangements.

Patent pools conforming to well-defined standards of competition law are generally seen as pro-competitive (US Department of Justice: Antitrust Guidelines for the Licensing of Intellectual Property (2017)). For more information concerning antitrust issues and patent pools, see Practice Note, Antitrust Issues in Patent Pools and Cross-Licenses ([W-014-8662](#)).

Before joining a patent pool, SEP owners should:

- Satisfy themselves that the patent pool:
  - is operating according to relevant antitrust guidelines; and
  - received a business review letter or the jurisdictionally relevant competition authorities have reviewed and approved the patent pool.
- Understand the mechanism for royalty distribution, since patent pools have their own formula for sharing royalties among patent pool members.

After entering a patent pool agreement, and to comply with antitrust rules, SEP owners must demonstrate that the patents submitted to the pool are SEPs and belong within the scope of rights the pool grants. SEP owners typically do this by preparing and submitting claim charts with an independent reviewer the patent pool chooses and paying a fee, usually on the order of about \$5,000 per patent, for the reviewer to approve the SEPs' inclusion in the pool.

## BUYING AND SELLING SEP PORTFOLIOS

SEP owners sometimes sell their entire SEP portfolio to third parties, usually because:

- Of the high maintenance costs for global patent portfolios.
- The SEP owner may be unable to receive what it perceives as the full licensing value for its SEP portfolio.

A SEP portfolio sale may be structured:

- As a complete sale of all right, title, and interest in the SEPs sold.
- In a manner providing the original SEP owner with some compensation if the new owner, which many times is a non-practicing entity (NPE), successfully monetizes the sold SEPs. For more information concerning NPEs, see Practice Note, Patent Litigation: Litigating Against a Non-Practicing Entity ([5-553-7946](#)).

While there is no general consensus on whether the sale of SEPs is a per se violation of the antitrust laws, in the US and EU, antitrust authorities have held that a new SEP owner must continue to abide by a prior SEP owner's F/RAND commitment (*In re Negotiated Data Solns. LLC*, September 23, 2008, FTC Matter 051 0094; *Unwired Planet Int'l Ltd v. Huawei Techs. Co. Ltd*, [2017] EWHC 711 paragraph 476 (upheld on appeal [2018] EWCA Civ 2344 (UK)); *Unwired Planet v. Samsung*, [LG Düsseldorf] Jan. 19, 2016, 4b O 120/14 (Ger.); European Commission, Communication from the Commission (2011/C 11/01) paragraph 285). SSOs therefore typically have IPR policies stating that the F/RAND commitment binds all future owners, no matter how far downstream the new owner is from the original SEP owner. See, for example, ETSI Rules of Procedure, Annex 6; ETSI Intellectual Property Rights Policy, clause 6.1bis (18 April 2018).

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