

The publication sets out the EU Commission's approach to SEPs in the age of 5G and the Internet of Things

On 29 November 2017 the European Commission (the **Commission**) published the long-awaited “*Communication from the Commission to the European Parliament, the Council, and the European Economic and Social Committee*”, setting out the Commission approach to Standard Essential Patent (SEP) licensing. The communication aims to address at least some of those questions on SEP licensing left open by the CJEU judgment of *Huawei v ZTE*. Designed for the age of 5G and the Internet of Things, the communication takes into account that the same connectivity technology may have varying relevance depending on the market sector (e.g. home appliance versus auto), and there is no one-size-fits-all definition of what constitutes ‘fair, reasonable and non-discriminatory’ (**FRAND**) licence terms.

Executive summary

The communication is comprised of four broad sections:

- i. the need for increased transparency for implementers on their exposure to SEPs;
- ii. general principles for FRAND licensing;
- iii. ensuring a predictable enforcement environment for SEPs; and
- iv. open source and standards.

Increased transparency

The Commission notes that currently, users of a standard may have a difficult time identifying the scale of their exposure to SEPs and all of the necessary licensing partners. In that context, the communication finds that Standard Developing Organisations (SDOs) need to provide more user-friendly data regarding declared SEPs. The SDO databases should provide links to patent office databases including up-to-date information as to patent ownership.

The communication also notes that there is a high degree of over-declaration and that increased scrutiny is needed on licensors' claims of patent essentiality. The communication suggests that this could be achieved by way of a scrutinising review conducted by an independent third party with sufficient technical capabilities and market recognition. However, the communication notes that the need for increased scrutiny must be balanced against cost.

Principles for FRAND licensing

The Commission states that the following valuation principles should be taken into account in SEP licensing:

1. Licensing terms have to bear a clear relationship to the economic value of the patented technology. In particular, *“that value primarily needs to focus on the technology itself and in principle should not include any element resulting from the decision to include the technology in the standard”*;
2. Furthermore, *“determining a FRAND value should require taking into account the present value added of the patented technology. That value should be irrespective of the market success of the product which is unrelated to the patented technology”*;
3. *“FRAND valuation should ensure continued incentives for SEP holders to contribute their best available technology to standards”*; and
4. To avoid royalty stacking, an individual SEP cannot be considered in isolation when defining its FRAND value. Rather, parties *“need to take into account a reasonable aggregate rate for the standard, assessing the overall added value of the technology”*.

The Commission notes that given that FRAND is not one-size-fits-all, *“solutions can differ from sector to sector and depending on the business models in question”*. Additionally, the communication notes that the ‘non-discrimination’ element of FRAND indicates that right-holders cannot discriminate between implementers that are ‘similarly situated’.

A predictable enforcement environment - injunctive relief and consideration of *Huawei v ZTE*

The communication notes that SEPs are more frequently litigated than other patents, which highlights the need for a predictable enforcement environment. This in turn leads to the question – if SEPs are found to be valid and infringed, under what circumstances may a SEP licensor seek an injunction without abusing its dominant position in violation of EU antitrust rules?

In answer, the communication considers the CJEU’s judgment of *Huawei v ZTE*, discussed in our [alert of 16 July 2015](#). The communication notes that a prospective SEP licensee has to receive sufficiently detailed and relevant information in order to determine the relevance of the SEP portfolio and whether the licence being offered in fact complies with the licensor’s FRAND undertaking. Although the concrete requirements may vary according to the individual case, the Commission believes that to assess a FRAND offer and (if applicable) make an appropriate FRAND counter-offer, clear explanations are necessary regarding:

- i. the essentiality of a patent for a standard;
- ii. the allegedly infringing products;
- iii. the proposed royalty calculation; and
- iv. the non-discrimination element of FRAND.

The communication also notes that counter-offers made by the SEP implementer must be:

- i. *“related to all SEPs that a licensee needs and cannot be based on individual patent(s) only”*; and
- ii. concrete and specific (i.e., going beyond contesting the SEP holder’s offer and a general reference to third-party determination of the royalty), containing

information as to the exact use of the standard in the specific product.

Whether or not an implementer's counter-offer can be considered sufficiently "timely" will be case-specific and depends on a number of elements. These include the number of SEPs asserted and the details contained in the infringement claim. However, the communication again recognises that there is a trade-off between the time considered as reasonable for responding to the initial offer and the detail and quality of the information provided by the SEP holder therein.

The communication also notes that the willingness of the parties to submit to binding third-party FRAND determination (should the counter-offer be found not to be FRAND) is to be regarded as an indication of FRAND behaviour.

Consistent with previous EU antitrust case law, the communication recognises that owners of patent portfolios may at times wish to offer licenses to SEPs and non-SEPs, but that a licensee cannot be required to accept a licence for these other patents. However, the Commission recognises the efficiency benefits arising from licensing of SEP portfolios, and promises to "*work with stakeholders (including where appropriate courts, arbitrators and mediators) to develop and use consistent methodologies, such as sampling, which allow for efficient and effective SEP dispute resolution, in compliance with the industry practice of portfolio licensing.*"

Open source and standards

In its final section, the communication sets out the advantages of open source software and notes the advantages of integration between open source projects and standards development. The communication states that "*the Commission will work with stakeholders, open source communities and SDOs for successful interaction between open source and standardisation, by means of studies and analyses.*"

Conclusion

Although not binding law, the communication will undoubtedly be referred to by parties engaged in SEP licensing negotiations and litigation. While the communication re-iterates the principles established in *Huawei v ZTE*, and provides some further recommendations as to how portfolio licenses can be analysed, it inevitably leaves a number of the most contentious questions raised by *Huawei v ZTE* unanswered. Given the well-publicised reports of internal divisions within the Commission in preparing the communication (with different cabinets apparently siding with either licensors or implementers on key issues such as use-based licensing) it is perhaps unsurprising that the communication falls short of a clear 'road-map' to FRAND determination.

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