

# Regulation of SEP Licensing

A short overview of recent regulatory actions on SEP licensing

Jari Vaario

Nokia

August 29, 2018

# Recent regulatory actions on SEP licensing

Japan: *JPO's Guide, June 5, 2018*

US: *Mr. Makan Delrahim's Assistant Attorney General, Department of Justice, Antitrust Division opinions*

Europe: *The Communication, November 17, 2017*

# JPO's The Guide to Licensing Negotiations involving SEPs

## A balanced view on the related issues

### **Aims to**

- Enhance transparency and predictability
- Facilitate negotiations between rights holders and implementers
- Help prevent or quickly resolve disputes concerning the licensing of standard essential patents

### **Discuss**

- Issues related to “Hold-up” and “Hold-out” situations
- SSO's role in setting IPR Policies and FRAND commitments, and about transparency at various levels
- Paradigm shift in licensing negotiations in the era of IoT

### **Provides**

- Guide for companies from a broad spectrum of industries facing the SEP licensing negotiations by summarizing the related issues
- No legal binding guidelines

# JPO's The Guide to Licensing Negotiations involving SEPs

A balanced view on the related issues

- **Good faith negotiations**, where FRAND has two aspects
  1. The negotiation process itself
  2. The terms of the resulting license
- **The stepwise process** (steps may vary according to the particular case)
  1. Licensing Negotiation Offer from Rights Holder
  2. Expression from Implementer of Willingness to Obtain a License
  3. Specific Offer from Rights Holder on FRAND Terms
  4. Specific Counteroffer from Implementer on FRAND Terms
  5. Rejection by Rights Holder of Counteroffer/Settlement of Dispute in Court or through ADR

# JPO's The Guide to Licensing Negotiations involving SEPs

A balanced view on the related issues

- **Efficiency**

1. Notification of a Timeframe
2. Parties to Negotiation in Supply Chain
3. Protection Confidential Information
4. Choice of Patents subject to Negotiation
5. Geographic Scope of License Agreement
6. Patent Pool Licensing
7. Greater Transparency of SEPs

# JPO's The Guide to Licensing Negotiations involving SEPs

A balanced view on the related issues

- **Royalty Calculation Methods**

1. Reasonable royalties:

Basic Approach: [Royalty base] x [Royalty ratio]

2. Non-discriminatory Royalties

3. Other:

Fixed Rate and Fixed Amount

Lump-Sum Payment and Running Royalty Payments

Past Component and Future Component

Volume Discounts and Cap

# US DoJ Mr. Makan Delrahim

## Speeches indicating DoJ's approach on SEP licensing

### **Highlights:**

- hold-out may be a more serious risk than hold-up,
- SSO policies must not tilt the playing field in favor of implementers, and
- free and unfettered market negotiations are the preferred method for price setting.

Described as **“The New Madison approach”**

# The New Madison Approach to Antitrust and Intellectual Property Law

(Keynote address at University of Pennsylvania Law School, March 16, 2018)

- *The New Madison approach, if I may, has four basic premises that are aimed at ensuring that patent holders have adequate incentives to innovate and create exciting new technologies, and that licensees have appropriate incentives to implement those technologies.*
- *First, **hold-up is fundamentally not an antitrust problem**, and therefore antitrust law should not be used as a tool to police FRAND commitments that patent-holders make to standard setting organizations.*
- *Second, **standard setting organizations should not become vehicles for concerted actions by market participants to skew conditions for patented technologies' incorporation into a standard in favor of implementers** because this can reduce incentives to innovate and encourage patent hold-out.*
- *Third, because **a key feature of patent rights is the right to exclude**, standard setting organizations and courts should have a very high burden before they adopt rules that severely restrict that right or—even worse—amount to a de facto compulsory licensing scheme.*
- *Fourth, consistent with the fundamental right to exclude, from the perspective of the antitrust laws, a **unilateral and unconditional refusal to license a patent should be considered per se legal**.*

# European Commission Communications

## Emphasis on the good faith negotiation

- Increasing Transparency on SEPs exposure
  - *calls on SDOs to urgently ensure that their **databases comply with the main quality features** described above and will co-operate with SDOs to facilitate this process;*
  - *calls on SDOs to transform the current declaration system into a tool providing more **up-to-date and precise information on SEPs** and will co-operate with SDOs in order to facilitate that process;*
  - *considers that **declared SEPs should be subject to reliable scrutiny of their essentiality** for a standard, and will launch a pilot project for SEPs in selected technologies with a view to facilitating the introduction of an appropriate scrutiny mechanism.*

# European Commission Communications

## Emphasis on the good faith negotiation

- General Principles for FRAND licensing terms for SEPs
  - *There is no one-size-fit-all solution on what FRAND is: what can be considered fair and reasonable can differ from sector to sector and over time. Efficiency considerations, reasonable licence fee expectations on both sides, the facilitation of the uptake by implementers to promote wide diffusion of the standard should be taken into account.*
  - *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 value of the patented technology.*
  - *In defining a FRAND value, parties need to take account of a reasonable aggregate rate for the standard.*
  - *The non-discrimination element of FRAND indicates that rightholders cannot discriminate between implementers that are 'similarly situated'.*
  - *For products with a global circulation, SEP licences granted on a worldwide basis may contribute to a more efficient approach and therefore can be compatible with FRAND.*

# European Commission Communications

## Emphasis on the good faith negotiation

- Licensing in the IoT environment
  - *The Commission calls on SDOs and SEP holders to develop **effective solutions** to facilitate the licensing of a large number of implementers in the IoT environment (especially SMEs), via patent pools or other licensing platforms, while offering sufficient transparency and predictability.*
    - *[CEN/CENELEC project preparing an approach to respond on this call; the proposal expected to become public in September as a result of a cooperation with international rightsholders and implementers]*
  - *The Commission will monitor licencing practices, in particular in the IoT sector. It will also **set up an expert group** with the view to deepening expertise on industry licensing practices, sound IP valuation and FRAND determination.*
    - *[Call for experts ended in August; 10+5 international experts are expected to be selected in September]*

# European Commission Communications

## Emphasis on the good faith negotiation

- A Predictable Enforcement Environment for SEPs
  - *work with stakeholders to develop and use methodologies, such as sampling, which allow for efficient and effective SEP litigation, in compliance with the industry practice of portfolio licensing;*
  - *further facilitate the roll-out of mediation and alternative dispute resolution tools; and*
  - *monitor the impact of PAEs in Europe.*

*The Commission considers that the FRAND process requires both parties to negotiate in good faith, including responding in a timely manner. Injunctive relief can, however, be sought against parties acting in bad faith (i.e. parties unwilling to take up a licence on FRAND terms), but it must be used proportionally.*

# Conclusion

*A common trend with all recent regulatory guidance*

*Good faith negotiations to ensure incentives for both technology providers and product implementers for wider and faster utilization of technology standards*



NOKIA

