

13th February 2015

European Commission – DG Enterprise and Industry
Unit A4 –Industrial Competitiveness Policy for Growth
Avenue d’Auderghem 45,
1040 Bruxelles
Belgium

Public consultation on Patents and Standards

Respondent: N&M Consultancy Limited
Type of organisation: SME
Business Activity: **Advice on standards essential patent licensing**
Headquarters: United Kingdom limited company

The Respondent wishes to make the following comments and submissions:

1 Detailed licensing terms

The Respondent considers that there should be an obligation for companies participating in the standards setting process to declare the substantive details of their intended licensing policy so that the Standard Setting Organisation (“SSO”) can decide whether to adopt the standard based on better knowledge of those anticipated licensing terms.

The detail of the licensing terms should in the view of the Respondent include, but not be limited to:

- the royalty rates for essential patent licensing including whether it is proposed to be a fixed price per unit or a percentage royalty;
- if it is an *ad valorem* (i.e., percentage royalty), then the company should disclose:
 - o the basis upon which the royalty is to be calculated;
 - o whether there is to be a maximum monetary amount of royalty (i.e., a cap);
 - o whether there is a minimum monetary amount of royalty (i.e., a floor)
- any territorial restrictions that may be imposed;
- any branding restrictions that may be imposed;
- any grant-back requirements;
- the types of products which will, and will not, be licensed.

2 Principles of FRAND patent licensing

The Respondent believes that the IPR Policy of an SSO should state some key principles of what FRAND (Fair, Reasonable and Non-Discriminatory) licensing means in the context of the standard which is being agreed.

Fair and Non-Discriminatory

Declarants should make available licenses at any place in the value chain where the patents may be infringed.

FRAND should not mean that a patent holder can license market participants at certain supply chain market levels, but refuse to license market participants at other market levels.

FRAND should not mean that a patent holder can require licenses for sales of end-products in the value chain, and yet grant licenses at the same *ad valorem* rate but with a relative lower actual cost at other levels of the supply value chain.

The Respondent considers that a key principle of the policy should be to ensure that buyers of components which must use essential patents have commercial freedom to choose which suppliers they want to use at any market level.

Reasonable

The Respondent believes that the royalty must reflect the value of the contribution of the essential patents to the relevant parts of the end

product which is being sold, and the relevant technology that is being licensed.

Essential royalty rates should be based on the smallest patent practising unit.

For example, there may be a wireless module which is built into a laptop computer, and an essential patent which relates to the transmission of data in the wireless module. Given the limited functionality of the wireless module as compared to the functionality of the product as a whole, it is not reasonable for the essential patent holder to seek charge *ad valorem* royalties on the ultimate selling price of the laptop computer, while at the same time charging substantially lower real monetary royalties to vendors who supply the wireless module on its own.

If the essential patent holder intends to charge license fees only at the end-product level, then this fact should be clearly stated during the standard setting process, together with the relevant licensing terms (see paragraph 1 above) so that there can be commercial certainty with respect to the implementation cost of the standard.

3 Maximum cumulative royalty

The Respondent believes that steps should be taken to ensure that there is a maximum cumulative royalty that will be payable, irrespective of the number of patents or patent holders, for all essential patents used in a product which meets a standard.

Holders of essential patents should be forced by the regulatory authorities to be bound by the public statements (at least in relation to maximum cumulative royalties) the patent holders make when seeking to have SSO's and others adopt their technologies.

4 Territorial scope of licenses

The Respondent submits that FRAND licenses should be available for single territories or markets.

The FRAND licensing rates should reflect the size of the essential portfolio in a particular market or territory. So if a licensing group or company has 1000 patents that are available on a worldwide license basis for \$1.00 per unit, if a licensee substantially trades in country X where there are only 5 patents, it should not be reasonable for the licensor to seek to charge \$1.00 for sales of products in country X (where here are only 5 patents).

5 Independent assessments of declarations of essentiality

The Respondent believes that steps should be taken to ensure that there is an independent assessment by the SSO to determine whether a patent is essential to a particular standard, and which part of the Standard.

Holders of essential patents should be required to declare which patents (by number and territory) they assert are essential and update the SSO public databases on a regular 3 month basis.

The SSO's should put in place procedures and systems to enable easier searching of the SSO databases by the public and prospective licensees.

The SSO's should maintain information about patents that are found by a Court not to be essential or invalid. Holders of patents should be required to notify SSO's if a court finds a patent non-essential or invalid.

SSO's (particularly ETSI) must overhaul the current systems and re-establish faith in the integrity of the essential IPR disclosure systems.

Further, any declarations of essentiality by participants should:

- specify the claims of the patents that are declared to be used by the standard, and

- declare whether the particular section of the standard is mandatory or optional.

6 Abuse of the process

The Respondent considers there should be an obligation on SSO's to provide in any IPR Policy that members of the SSO cannot withhold information regarding the relationship of their IPR rights to a proposed-standard and subsequently seek excessive fees for use of any essential patents. The Respondent recognises that there may be an issue as to what level of fees is reasonable, but fees substantially greater than those charged by other holders of essential patents in the standard setting should be regarded as questionable and potentially abusive.

Any IPR Policy should state that it is incumbent on the members of the SSO to take affirmative steps to search their patent portfolios to ascertain whether they have essential patents that relate to the proposed standard. This search should take place, irrespective of whether the member has contributed to the particular standard.

Any IPR Policy should provide that it will be an abuse of the IPR policy for a member to seek license fees for essential patents where the patent holder has participated in the standard setting process and where the patent application arises out of the standard in respect of which the patent application was made.

Companies that engage in practices which are contrary to the principles of FRAND licensing should be subject to fines by the Commission.

7 Assignment and licensing requirements

The Respondent considers that any IPR Policy should oblige members to require assignees, or licensees with enforcement rights, of essential patents, where the assignment or license is subsequent to the publication of the draft standard:

- to be bound by similar obligations to license on FRAND terms and at comparable rates, and
- to not seek license fees which are greater than the original FRAND license.

8 Portfolio Fragmentation

The Respondent submits that if part of a portfolio of essential patents is sold, the overall financial burden on licensees should not change. So if a licensor has 1000 patents and licenses them for 1 Euro, and then sells 250 of those patents:

- the licensors royalty rate should go down to 75 cents (on FRAND principles) to future and existing licensees; and,
- the acquirer of the patents should not be allowed to charge more than 25 cents for the licensing of those patents to existing and future licensees (on the basis that the value of the patents on a FRAND basis should not change simply because of the change of owner); and,
- if the buyer seeks more than 25 cents then the licensee should be entitled to deduct the excess from the license fee payable to the licensor (the original holder of the patent).

If partial portfolio's of patents are sold by essential patent holders, such licensors should not be permitted to take 'extra dips' of monetary compensation for the same or a similar portfolio (for example, by revenue sharing in future licenses).

9 Defensive Use of Undeclared Patents

The Respondent recognises that a complete review of a large patent portfolio may be burdensome for some participants in standard setting. Therefore one possible exception to the usual

restrictions on undeclared essential patents should be the ability of a holder of such patents to counter-assert such patents in licensing negotiations and in countersuits in response to patent assertions in the same technical field as the standard.

10 Substantial Industry Participants not members of SSOs, who Withdraw from An SSO, or who Participate through Proxies

One area of concern is the role of substantial participants in an industry who, cognizant of a standard's direction choose to absent themselves from the SSO, or withdraw prior to being required to make FRAND commitments, or who manipulate the standards process by proxies, i.e., participants with whom the industry participant has a relationship. A sensible policy needs to address such potential remote abuses of the standards creation process.

11 Declaration of FRAND commitments

The Respondent considers that the IPR policies of SSO's should require participants to declare more openly what their FRAND commitments are:-

- (a) in advance of the standards setting process commencing; and
- (b) prior to the formal adoption of the standard.

In the Respondents view, this is necessary to give better commercial certainty so that industry can understand what the costs to third parties will be of making products that meet the standards.

The Respondent further considers that IPR holders should warrant to all licensees that their licensing terms (a) are FRAND and (b) comply with the relevant IPR policy standards to which the license relates and (c) will remain licensed on FRAND terms during the term of the license.

The Respondent believes that where a company reduces its rates for a standard, or sells part of its portfolio, then:

- it should be obliged to promptly notify existing licensees that it has reduced its rates, or sold part of its portfolio; and
- any licensing rate reductions should apply from the same date across all licensees.

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