RE: Standard Essential Patents and Innovation: Call for views

Dear Mr. Moss,

We, the undersigned companies and organisations, wish to provide input to the UK Government Call for Views on Standard Essential Patents and Innovation. As companies and organisations at the forefront of research and innovation into the next generation of technologies that will fuel the Internet of Things active in the UK, we support the Government’s intent to examine the Standard Essential Patents (SEP) framework to determine whether improvements could be made to promote the UK’s competitiveness and attractiveness in a post-Brexit world.¹

While we appreciate the broad scope of the Call for Views, in this letter, we intend to focus the attention of the UK Government on three key issues related to SEPs, that we believe are most important. First, the commitment to license on fair, reasonable, and non-discriminatory (FRAND) terms means that such licenses should be available to all third-parties who seek them. Second, injunction should not be available to increase the market power of SEP holders; the value of SEPs should be commensurate with the merits and scope of the patented technology. Third, the SEP licensing ecosystem could be enhanced through targeted improvements to transparency. We urge the UK Government to closely review these points and suggest improvements either through guidance or regulatory intervention.

As a precursor, we would emphasise that it is important to recognise the unique context of standardisation, and the competition issues created when patented technology is contributed to the standards process. Competition concerns arise because standards are set by competitors coming together to choose a single set of technological solutions out of multiple options prior to standardisation. Once a technology standard is set and businesses have made substantial investments to rely on it, innovating and developing products using the standard, they become

effectively “locked-in” as it is virtually impossible to design around the standardised
technology. This “lock-in” creates a dominant position for SEP holders, particularly for
telecommunication SEPs. Thus, while we fully appreciate that standards can have pro-
competitive effects for the economy, these pro-competitive benefits can only be realised when
the appropriate safeguards are in place and enforced to prevent patent holders from abusing the
market power that the ownership of SEPs may confer upon them.

With that in mind, we invite the UK Government to clarify that within the context of SEP
licensing, licenses on FRAND terms should be available to any third party which requests a
license. At present, some SEP holders refuse to offer licenses to companies higher in the supply
chain. This limits the ability of these suppliers to freely determine which market segments they
can be active in. Companies that are refused a licence may be unable to enter a new market or
forced to exit a market, reducing competition.

Some argue that access to the standard can be achieved through end-device licensing, have-
made rights, and/or covenants not to sue. However, none of these proposals meets the aim of
those companies wishing to provide standard compliant products to the market free of third-
party rights, nor would any of these solutions preclude non-practicing entities from demanding
royalties from suppliers. Such arguments are simply an effort to capture value which is
unrelated to the SEPs. In turn, this dampens incentives to invest in new markets and effectively
allows a small group of SEP holders to control the standard. In line with the UK Government’s
plan to increase vendor diversity to the 5G marketplace through ORAN, the availability of
SEP licenses will be critical. Otherwise, incumbent vendors with large SEP portfolios may
hamper efforts of new entrants to compete on a level playing field in the market. Therefore, we
invite the UK Government to issue clear guidance that FRAND licenses should be available to
any third party that seeks one, irrespective of its position in the value chain.

A second concern that we ask the UK Government to address, relates to the use of injunctions
to coerce licensees into licensing terms that may not be FRAND. This kind of opportunistic

---

2 Richard Vary, “The case for the defence: Access for all v. license to all”, 24 April 2020, available
Contra, Geradin, Damien, “Access for All v. License to All: A Response to Richard Vary” (28 April 28 2020);
available at SSRN: https://ssrn.com/abstract=3587319; Geradin, Damien, “SEP Licensing After two Decades of
3 Geradin, Damien, “SEP Licensing After two Decades of Legal Wrangling: Some Issues Solved, Many Still to
Geradin, Damien, “Access for All v. License to All: A Response to Richard Vary” (28 April 2020), available at SSRN:
4 “5G Supply Chain Diversification Strategy”, (November 2021), available at:
https://www.gov.uk/government/publications/uk-innovation-strategy-leading-the-future-by-creating-it/uk-
innovation-strategy-leading-the-future-by-creating-it-accessible-webpage.
5 For a similar approach see: CCCS “Guidelines On The Treatment Of Intellectual Property Rights” (Dec. 2021),
at 4.11 available at: https://www.cccs.gov.sg/-/media/custom/ccs/files/legislation/ccs-guidelines/revised-
Standard Essential Patents for Multi-Component Products,” Japan Ministry of Economy, Trade and Industry
behaviour has been recognised by other jurisdictions and competition agencies as problematic.\textsuperscript{6} Evidence from the United States, in particular, suggests that patent holders routinely engage in such opportunistic behaviour.\textsuperscript{7} It is noteworthy that where courts in the US and UK have adjudicated FRAND rates, these have been significantly lower than what the licensor had initially demanded in licensing negotiations, further suggesting that non-FRAND terms are widespread.\textsuperscript{8} SEPs should be valued based on the technical merits and scope of the patented technology and not based on downstream uses. SEP royalties should not appropriate value derived from the inclusion of the patent in the standard.

Injunctions are particularly pernicious in the SEP context, as the infringed patent cannot typically be designed around to avoid the infringement. Injunctions also run contrary to the public interest purpose of standardisation to promulgate the adoption of standards technologies. In relation to SEPs, the more appropriate remedy should be monetary compensation which courts are at their full discretion to award. For these reasons, we ask that the UK Government consider clarifying in the relevant UK legislation that injunctions should not be sought for patents for which a FRAND commitment has been provided, unless in the exceptional circumstance an infringer is demonstrably unwilling to enter into a FRAND license.

The seeking of injunctions is particularly harmful when – as we have seen in some instances in the UK courts – SEP holders use the exclusion threat to request the conclusion of a global portfolio license.\textsuperscript{9} In these instances, even though patents are only national in scope, and court can only impose injunctions that have an effect within their national jurisdiction, potential licensees are forced into concluding a \textit{global} FRAND license. These global rate determinations take place without the potential licensee having agreed on the venue to determine the terms of such license.


\textsuperscript{8} See: Unwired Planet v. Huawei, [2017] EWHC 711 (Pat): Offered rate of 0.13% (4G-LTE) and 0.065% (UMTS/GSM), awarded rate 0.062% for 4G-LTE and 0.032% for UMTS/GSM handsets; Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998 (United States District Court, N.D. California (2013)): rate offered $1.75, awarded rate $0.0019 to $0.0033 ; TCL Comm’n Tech. Holdings, Ltd. v. Telefonaktiebolaget LM Ericsson, No. SACCV 14-341 (C.D. Cal. Dec. 21, 2017): Both FRAND offers [Option A (2.592%) and Option B (1.46%)] found to be not FRAND. Awarded rates of 0.45% in the US and 0.314% for the rest of the world; In re Innovatio IP Ventures, LLC Patent Litig, MDL Docket No. 2303 Case No. 11 C 9308 (N.D.Ill. Sep. 27, 2013): Offered rates of $3.39 per access point, $4.72 per laptop, up to $16.17 per tablet, and up to $36.90 per inventory tracking device, awarded rate of $0.956 per device; Ericsson Inc. v. D-Link Sys., Inc., No. 10-CV-473, 2013 WL 4046225, (E.D. Tex. Aug. 6, 2013); awarded rate of 15 cents per device; Microsoft v. Motorola, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013): Offered rate 2.25% based on the price of the end product awarded rate for 802.11 SEPs of $0.03471 cents per unit; Core Wireless Licensing S.A.R.L., v. Apple Inc., Case No. 15-cv-5008 NC (United States District Court, N.D. California (2016)): offered rate of $0.085 and awarded rate of $0.026.

This causes a ‘race to the court’ and forum shopping, whereby SEP holders seek injunctions coupled with global portfolio determinations in fora that are most favourable to them. We consider the situation as untenable for the future stability of international comity. Not only does this tip the balance in favour of those seeking to aggressively monetize their patent portfolio, it creates enormous uncertainty for the market and harms businesses and consumers that seek to benefit from innovative and standardized products being brought to the market. We ask, therefore, that the UK Government consider regulatory intervention to clarify that UK courts should not be used to seek global portfolio license in the absence of the parties’ mutual agreement. Most importantly, not agreeing to such global determination cannot mean that the potential licensee is considered ‘unwilling’ and therefore subject to an (albeit national) injunction. We believe that such an intervention is warranted to stop the slew of litigations and restore a more balanced framework for SEP licensing.

Finally, we end with a general comment that we encourage the UK Government to support improving transparency in the SEP ecosystem. Studies consistently show that only 25-40% of declared SEPs are in fact essential to the standard.\(^\text{10}\) We therefore encourage efforts that seek to improve transparency in terms of which SEPs are truly essential, including through industry-driven initiatives such as the LOT 5G Transparency Project.\(^\text{11}\) Such efforts should be carefully structured to be truly independent and avoid bias or any unintentional harm. Other measures may also include improvements to the way that NDAs are used with a view toward avoiding overly-restrictive terms being imposed in non-disclosure agreements, thereby creating more transparency on FRAND licensing rates.

We thank the UK Government for dedicating their attention to this topic and the effort to rebalance the SEP licensing framework again in order to find a solution that promotes innovation and competition in the British economy.

Sincerely,

ACT | The App Association
Association des Constructeurs Européens d'Automobiles (ACEA)
Cisco

airties
Computer & Communications Industry Association (CCIA)
Continental Automotive GmbH


<table>
<thead>
<tr>
<th>Company Name</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>dTOOR Inc. &amp; The Cyrcle Phone</td>
<td>Emporia Telecom GmbH &amp; Co KG</td>
</tr>
<tr>
<td>Fairphone</td>
<td>Fair Standards Alliance</td>
</tr>
<tr>
<td>Honda Motor Co., Ltd.</td>
<td>Juniper Networks Inc.</td>
</tr>
<tr>
<td>Lenovo Inc.</td>
<td>Renault Group SA.</td>
</tr>
<tr>
<td>Sagemcom SAS</td>
<td>Sequans Communications</td>
</tr>
<tr>
<td>Sierra Wireless</td>
<td>Sky Plc.</td>
</tr>
<tr>
<td>Telit Communications SPA</td>
<td>Tesla Motors Inc.</td>
</tr>
<tr>
<td>Thales SA</td>
<td>u-blox AG</td>
</tr>
<tr>
<td>Xiaomi Mobile Software Co., Ltd.</td>
<td></td>
</tr>
</tbody>
</table>