

Submitted online via: <https://www.iptalks.eu/cwa/>

December 31, 2018

Inputs for CEN/CLC/WS SEP IoT Draft CWA: Principles and Guidance for licensing Standard Essential Patents in 5G and IoT

Adaptant welcomes the invitation to provide inputs on the current draft of the CEN Workshop Agreement (CWA) *Principles and guidance for licensing Standard Essential Patents in 5G and the Internet of Things (IoT), including the Industrial Internet.*

In reviewing the proposed draft, we have identified a number of concerns regarding the proposed principles and the need for transparency in the negotiation of FRAND licensing for Standard Essential Patents (SEPs) that we believe should be considered for subsequent versions of the CWA. These are further elaborated below:

Principle 1: Owners of patent rights which are essential for using standardised technologies (SEPs) should allow access to that patented technology for implementing and using the standard.

Comments: Besides allowing access, owners must also act in good faith and be transparent about the existence of SEPs and their intended inclusion in a standard. For example, if a vendor makes a technical contribution to a standard that will be backed by IP that they hold, it must be disclosed that the contribution is IP-enjoined and will be introducing a SEP into the standard - allowing the working group to make an informed decision about whether to allow its inclusion or not.

Proposed change: *Reword Principle 1: Owners of patent rights which are essential for using standardized technologies (SEPs) should act in good faith with respect to the existence of and access to patented technology for implementing and using the standard.*

Principle 3: Each party should provide to the other party, consistent with the protection of confidentiality, information that is reasonably necessary to enable the timely conclusion of a FRAND licence.

Comments: A key challenge for FRAND licensing in SEPs is the increased need for transparency. FRAND licensing terms are often negotiated confidentially and never disclosed, making it difficult to objectively assess whether the terms put forth for a particular licensee are either Fair, or Reasonable.

Proposed change: *Should an organisation put forth a patent for inclusion into a standard, this should also include the organisation's own appraisal of the relative worth, valuation, and remaining life-cycle of the patent in order to enable the standards-setting organisation to make an informed decision about whether to allow its inclusion.*



Principle 4: "Fair and reasonable" compensation should be based upon the value of the patented standardised technology to its users.

Comments: "Fair and reasonable" compensation should also be proportional. A typical problem with owner-based valuation is that valuation is sized relative to the organisation's own financial and market position, which by definition only allows for a Reasonable estimate to be drawn up for similarly sized and positioned entities. In the case where a large multi-national organisation introduces a SEP and a small start-up or SME wishes to go to market with an implementation, we can quickly see how what one side views as Fair and Reasonable may completely exceed the licensee's profit margin, ultimately making it neither Fair, nor Reasonable.

Proposed change: *We would propose that valuation and license fees must be proportional to the type of licensee - this may be accomplished by considering the impact that the SEP has on the licensee's turnover and providing a proportional percentage-based licensing fee. The licensor may further hedge against loss of license revenue owing to licensee acquisition by limiting transferability.*

Principle 5: A SEP owner should not discriminate between similarly situated competitors.

Comments: While one can appreciate the sentiment, the guidance for this principle already shows that this will happen. While licensing terms may vary across licensees, these variations should not be fundamental, and should furthermore not be leveraged as a basis for attempting to block a competitor's use of a standard.

Proposed change: *When a patent is put forward as a SEP, the licensor should be transparent about how it perceives Fair and Reasonable, and provide a licensing baseline for implementors of the standard, such that participants in or adopters of the standard are able to make an informed decision about the use of the technology and its potential costs - even if the final terms of individual licensing agreements are ultimately not disclosed.*

Comments: A further consideration is the motivation for putting a patent forward as a SEP. Large organisations may attempt to include their patent in a standard in order to protect their market position, leading to a situation where competitors that wish to adopt the standard are forced to go to court or seek binding arbitration in order to obtain a fair license agreement. This also leads to standards marginalization - the situation where the membership of many industry standards bodies is limited to the SEP owner and their immediate supply chain or companies wishing to become suppliers, rather than expecting any significant adoption by industry in the broader sense.

Proposed change: *When a patent is put forward as a SEP, this inclusion should be done on a basis of good faith - that is, including a patent because it makes a valuable contribution to the standard, with the intent that this will be more widely adopted, regardless of whether the implementor is a competitor or not.*



Conclusion

In conclusion, we are pleased with the current progress of the CWA in putting forward principles and guidance for fairer licensing of SEPs in 5G and the IoT but believe that there are still some significant challenges in the ways SEPs are introduced into standards in the first place that are key for providing a fair and reasonable basis upon which future licensing agreements can be established.

A further challenge for SEP licensing remains in determining fair and reasonable grounds in one-sided valuation models that do not adequately reflect the position of the licensee relative to the licensor, which we see as a critical challenge for increasing engagement by start-ups and SMEs in the adoption of SEP-constrained standards and bringing new innovative standards-compliant products & solutions to market.

Yours faithfully,

Paul Mundt
Managing Director (CEO)
Adaptant Solutions AG