

European Commission proposal for a regulation on standard essential patents

Feedback

Avanci commends the European Commission for its objective to introduce more transparency, predictability, and efficiency in the licensing of standard essential patents (SEPs). However, as a company dedicated to creating independent, market-driven and industry-led joint patent licensing programmes that was founded on these exact principles, we believe the proposal for a regulation will fail to achieve the Commission's objectives, is likely to complicate SEP licensing globally, and will lead to an increase in the costs of SEP licensing to the detriment of implementers, SEP holders, SMEs, and, ultimately, consumers.

Avanci is an independent global provider of patent licensing solutions, working at the intersection of different industries to bring efficiency, convenience, transparency, and predictability to the licensing process. Avanci's efficient, market-driven joint licensing programmes provide a straightforward, predictable, and fair option for licensing the patented technologies essential for many of the products and services that are transforming our world.¹

Joint patent licensing solutions have long been recognized by regulators, including the European Commission,² as beneficial to the market and companies across the SEP licensing spectrum, whether they are implementers, SEP holders, or both. Independently managed and operated joint patent licensing programmes that are not owned or controlled by any licensee or licensor, such as Avanci's, not only offer considerable transaction cost savings to licensees and licensors, but in addition can forge agreement on a widely acceptable set of licensing terms between companies from across the world and with various business models and of different sizes³, providing a level playing field. Avanci's approach to SEP licensing – independent, optional, and market-driven – has been validated by the success of its 4G Vehicle licensing programme and by the increased interest of companies in Avanci solutions.

Flexible, industry-led solutions to SEP licensing are better placed to deliver the objectives the European Commission claims to achieve with its proposal for a regulation on SEPs. However, the regulation, were it

¹ www.avanci.com.

² Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Setting out the EU approach to Standard Essential Patents, 2017; Communication from the Commission – Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, 2014.

³ Joint patent licensing platforms can be especially beneficial to SMEs that are implementers as their licensing terms and conditions allow implementers to take licenses on the same terms and conditions irrespective of the implementer's size.

adopted, would lead to a significant, and unwarranted, increase of the bureaucratic burden on SEP licensing, in turn leading to an increase of costs and delays within the system. This will likely lead to a detrimental impact on consumers who will ultimately have to pay those increased costs (as with any other item of a bill of materials for a given product) and content themselves with less innovative products or a later adoption of key technologies.

Instead of regulating for regulation's sake, the co-legislators should recognise the efficiency, predictability, and transparency that independent joint patent licensing platforms bring to the market. Inexplicably, the European Commission's own Impact Assessment fails to take note of important developments such as the widespread uptake of the Avanci 4G Vehicle licensing programme⁴ and the launches of the Avanci Aftermarket⁵ and Avanci Broadcast⁶ programmes. All these developments, and others,⁷ point toward increasing recognition within the market that collective licensing is beneficial for SEP holders and implementers. With an appropriately conducive regulatory and policy environment, we can expect many more such solutions to develop in the future, increasing efficiency, transparency, and predictability within the SEP licensing ecosystem, particularly for SMEs. The proposed regulation for SEPs will not provide such an environment, and in fact, will suppress beneficial, market-led solutions.

These market realities are not taken into account by the Commission's proposal. Indeed, the supporting documents⁸ themselves conclude that there is no evidence of wide-spread malfunctioning of SEP licensing: participation in standardisation activities is high and the uptake of standardised technologies is high, whereas the volume of litigation is low and, moreover, has been decreasing.⁹

Furthermore, some provisions of the proposed regulation are likely to hamper any further positive development of joint patent licensing solutions which are proven to provide transparency, efficiency, and predictability to the market.

⁴ Avanci announced several licence agreements for its 4G Vehicle program after 4 August 2022, including agreements with Honda, Hyundai, Kia, Nissan, Toyota and Stellantis. Avanci has now licensed the very vast majority of all 3G/4G SEPs, held by more than 55 individual patent owners, to more than 80 auto brands and more than 120 million connected vehicles are covered by Avanci licences. Furthermore, Avanci is expecting to launch its 5G Vehicle programme soon, www.avanci.com/vehicle/5gvehicle/.

⁵ Avanci Aftermarket was launched on 20 February 2023, www.avanci.com/vehicle/aftermarket/.

⁶ Avanci Broadcast was launched on 7 March 2023, <https://www.avanci.com/broadcast/>. Avanci Broadcast has attracted licensors collectively responsible for almost 75% of patent families containing declared ATSC 3.0 patents, together with several key product makers, including some which are both licensee and licensor in the program, and has licensed nearly all ATSC 3.0 televisions sold to date.

⁷ Sisvel launched a cellular IoT pool on 9 November 2022.

⁸ Impact Assessment Report, SWD (2023)124; Baron, Justus, et al.: Empirical Assessment of Potential Challenges in SEP Licensing; Baron, Justus: Essentiality Checks for Potential SEPs – A Framework for Assessing the Impact of Different Policy Options.

⁹ Baron, Justus et al.: Empirical Assessment of Potential Challenges in SEP Licensing, p. 185.

We therefore ask the co-legislators to consider that adding more bureaucracy to SEP licensing will increase transaction costs and negatively impact implementers and consumers.

The European Commission's stated objectives for proposing the regulation are to achieve more transparency, predictability, and efficiency in SEP licensing. While the individual proposed procedures on the first glance may seem to achieve these objectives, they are more likely to achieve the opposite while at the same time making SEP licensing more burdensome and ultimately more costly.

Essentiality check system

Avanci can speak on this topic with authority, since patent pools and licensing platforms already conduct essentiality checks in accordance with existing guidelines. Since its founding in 2016, Avanci, for example, has conducted thousands of essentiality checks for its 4G Vehicle programme through its network of independent third-party experts based on a methodology that is trusted and accepted by several dozens of companies from across the SEP licensing spectrum.

The Commission proposes that a register and comprehensive essentiality checks on declared SEPs will bring more transparency to SEP licensing. We agree that essentiality is an important aspect to consider when licensing patents pertaining to industry standards, and from this it follows that more knowledge about the results of essentiality checks can lead to better informed decisions. For example, the foreseen system of essentiality checks would confer some level of transparency to which patents are potentially included in a licence and which licensors truly own SEPs. But the benefits of mandatory essentiality checks need to be balanced against their limitations and potential costs before a fundamental change and substantial new burden is introduced into SEP licensing.

The limitations of essentiality checks are readily apparent. Essentiality is only one among many factors when considering appropriate terms for a SEP licence. An essentiality check by itself does not indicate the validity of a patent and is not determinative of the value of the claimed invention. Moreover, in the case of large portfolios of hundreds or thousands or even tens of thousands of patents, the exact number and identity of the essential patents become much less relevant to real-world, commercial negotiations of value. Establishing "essentiality rates" alone, without regard to additional indications of SEP portfolio value, will not lead to more efficiency in SEP licensing. And without coercing a high level of participation from the SEP owners, the possibility to produce reliable and quality results is remote.

While the benefits are limited and speculative, the considerable cost and effort required to implement the envisioned essentiality check system are substantial and certain. First, as a company that has evaluated thousands of SEPs, we can attest to the expense associated with high quality and defensible evaluations.

And those costs are far exceeded by the additional expense of preparing and submitting claim charts that demonstrate essentiality for evaluation. Inevitably, these costs would eventually impact consumers, either through higher prices, less innovative products and services, or both. This additional encumbrance may also lead patent holders to prioritize patenting their inventions in other jurisdictions with less burdensome requirements. Second, like any test to measure SEP ownership, the behaviour of market participants will adapt to show the best results possible. This will lead to inefficient business practices optimised to show a high number of essential patents rather than producing high value innovations that drive technology and products forward.

Aggregate royalty determination

The determination of an aggregate royalty, defined by the proposal as the “maximum amount of royalty for all patents essential to a standard” (article 2, no. 10), may at first glance seem to bring the predictability implementers require. However, the proposal for a regulation lacks further information on the methodologies that may be used by the appointed “experts” to determine a maximum royalty rate. Nor does it contain safeguards to ensure compliance with competition law.

Determining aggregate royalty rates for a standardized set of technologies and a particular application (i.e., type of product or service) of those technologies is complex, and best left to free-market forces. Setting an aggregate too high may impede the uptake of the technology whereas setting an aggregate too low may inhibit future investment in research and development and standardisation activities. Furthermore, the value of a technology can increase over time as more and more products, use cases, applications, features, and services are developed and implemented. The value of cellular connectivity, for example, is different when it is implemented in different types of products, for example in a smart meter versus a connected vehicle versus a smartphone. Furthermore, over time, additional use cases develop, enabling companies and consumers to derive more value from the technology. This is evident in the automotive industry where auto makers who initially implemented cellular connectivity in vehicles for emergency calling are today implementing cellular connectivity in vehicles for a myriad of use cases including, for example, road safety and accident avoidance, remote driving, data generation collection, over-the-air updates, in-vehicle commerce and infotainment, cyber security, smart charging, and more. In short, there is generally no “one size fits all” aggregate rate as defined by the regulatory proposal for a particular standardised technology that will be suitable in all cases or for all time.

Any aggregate royalty determination as envisioned by the proposal for a regulation would therefore need to be monitored and adjusted continuously to ensure that “any maximum amount of royalty” is tailored for each type of product that implements the standard, based on the prevailing use cases, throughout the

life of the standard in question, which can span a decade or two.¹⁰ Further, this does not even take into consideration other licensing terms (that can impact the rate and vice-versa) which need to be tailored appropriately to any given market situation. Inherently, government regulation is not well suited to address market dynamics in such a way.

Avanci's role as an independent market mediator enables it to engage freely with companies from across the SEP licensing spectrum, gauging different (and often differing) priorities and views on various terms and conditions of a future Avanci licensing programme, tailored to a specific licensing scenario. An Avanci licence is a standard form agreement comprising a set of terms and conditions that represent a balanced output from those diverse views – an output that, in Avanci's independent judgment, can be widely accepted by SEP holders and product manufacturers alike. As an independent intermediary, Avanci has an inherent interest to develop a set of terms that is attractive enough to SEP holders so they would agree to authorize Avanci to license their SEPs and, at the same time, attractive enough to product manufacturers so they would agree to take an Avanci licence. The result of this process is an efficient, transparent, and predictable licensing option on terms that are fair, reasonable, and non-discriminatory that is adopted in the market, as proven by the Avanci 4G Vehicle programme.¹¹ A government-imposed process for setting aggregate rates would result in confusion and delay, interfering with and potentially undermining the pro-competitive benefits that collective licensing platforms bring to the market. Accordingly, this aspect of the proposed regulations would not only be costly and ineffective, but actually detrimental.

Disclosure requirements for patent pools

The proposal for a regulation would place extensive disclosure requirements on patent pools that go far beyond what is currently required or needed to support smooth SEP licensing. While some of the information to be provided by patent pools is already habitually published as part of describing the licensing offer, some other disclosure requirements are excessive and will not provide any additional transparency, efficiency, or predictability for SEP licensing. Direct consultation with patent pools on these requirements is respectfully requested before any regulation is enacted.¹² A few examples are highlighted below.

¹⁰ 3G is still in use today, nearly two decades after it was first introduced. In fact, companies still declare new standard essential patent to 3G today, see ETSI IPR Online Database, <http://ipr.etsi.org>.

¹¹ It is worth highlighting that the majority of auto OEMs to sign an Avanci 4G Vehicle licence agreement, and notably the first ten, decided to do so without having faced any cellular SEP infringement litigation.

¹² While DG GROW's "Public Consultation on a new framework for standard-essential patents" (closing date 9 May 2022) did address disclosure requirements proposed, according to the Impact Assessment, broad agreement existed between respondent to the aforementioned consultation only on the following information: "standards subject to

- Some patent pools are owned by publicly traded companies so disclosing the shareholder or ownership structure (as proposed in article 9 (b)) will be either difficult or impossible. Moreover, such a requirement will not provide useful information. If the goal is to enable companies from across the SEP licensing spectrum to assess whether the operator of a particular patent pool can objectively exercise independent judgment (as opposed to being controlled by and potentially serving the interests of certain licensors or licensees in the pool), the proposal for a regulation need only require disclosure of shareholders or owners who are simultaneously licensors or licensees – and even then, in practice this tends to be common knowledge throughout the industry.¹³ This would lessen the bureaucratic burden and achieve the objectives in a simpler way.
- Publishing a roster of evaluators residing in the European Union (article 9 (d)) may be counter-productive to smooth SEP licensing. Avanci, for example, keeps the identity of its independent third-party evaluators confidential in order to maintain their independence from potential undue influence by patent owners. In fact, the proposal for a regulation itself recognises the merit of confidentiality for evaluators. Avanci’s system for essentiality evaluations has been widely accepted and is trusted by several dozen companies from around the world. Requiring changes without actual need may undermine that trust and lead to a deterioration of the quality of such systems.
- In most cases, requiring a list of all SEPs being licensed (article 9 (e)) would be futile because – by the European Commission’s own admission – it is impossible to evaluate every patent due to the number of patents and jurisdictions involved. Such a requirement would chill the formation of patent pools when they are needed most. Moreover, such a requirement is unnecessary when a collective licensing platform licenses, by definition, all of the SEPs held by the participating licensors. In such a case, an implementer knows that it will never face an SEP assertion (for the relevant standard and products) by any of the participating licensors and, accordingly, the most relevant information to implementers is the list of participating licensors.

pool licensing” (100%), “product royalties per programme” (94%) and “list of SEP owners” (87%)” (see Impact Assessment, p. 65).

¹³ For example, it is widely known that Via Alliance is a majority-owned subsidiary of Dolby and that Access Advance is owned by a small group of companies that are licensors in the Access Advance patent pools.