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CEN and CENELEC position on: STANDARD ESSENTIAL PATENTS AND FAIR, REASONABLE AND NON- DISCRIMINATORY (FRAND) COMMITMENTS

Executive Summary

CEN and CENELEC foresee a change in the landscape of standardization in the European Union (EU) and worldwide, and expect that Standard Essential Patents (SEPs) will play a more prominent role within the range of their activities in the future. While the current CEN and CENELEC common patent policy is considered effective, experiences with SEPs in the ICT-sector, the increased interoperability and interconnectivity of standardized products and services, as well as the debate at EU level around standardization for the Digital Single Market, called for an internal assessment of the CEN-CENELEC policy in place and for some contribution to the discussion around SEP. This is the purpose of this Paper.

As per the findings of this Paper, CEN and CENELEC:

1. consider that there is no objection to the development of a standard that includes patented inventions provided that patent holders commit to make their technology available and grant a licence under FRAND conditions;
2. invite any party to report knowledge of possibly essential patents in order to guarantee disclosure of SEPs as soon as possible;
3. recall that licensing declarations are irrevocable, as long as the patent remains essential;
4. consider that it is not in their role to undertake the assessment of patent essentiality, scope, validity and strength;

5. welcome the EU Commission Communication's invitation to "work in collaboration with stakeholders including ESOs, European Patent Office (EPO), industry and research" and promote an open, strong and effective disclosure policy;
 6. recall that the concept of SEP disclosure is *subjective* and refuse to consider essentiality as a "once and for all" notion;
 7. see the swift issuing of a FRAND licensing declaration as essential in order not to slow down the standardization process;
 8. insist that Standards Developing Organizations (SDOs) and Standard Setting Organization (SSOs) shall never interfere with licensing negotiations;
 9. stress that FRAND has no precise pricing content, but instead is a "comity device" designed to promote good faith negotiation between patent owners and prospective licensees;
 10. do not support initiatives to provide guidance on, or impose compliance with, FRAND pricing, valuation and rate-setting methodologies.
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I. SETTING THE SCENE

1. CEN and CENELEC

The European Committee for Standardization ("CEN") and the European Committee for Electrotechnical Standardization ("CENELEC") are two officially recognized European Standardization Organizations under Regulation 1025/2012 on European Standardization.¹

CEN and CENELEC develop European Standards (ENs) and other consensus-based technical deliverables that meet the demand of European stakeholders, including business, industry and commerce, service providers, public authorities and regulators, academia and research centres, European trade associations and interest groups.

¹ Regulation (EU) No 1025/2012 of the European Parliament and of the Council of 25 October 2012 on European standardisation, amending Council Directives 89/686/EEC and 93/15/EEC and Directives 94/9/EC, 94/25/EC, 95/16/EC, 97/23/EC, 98/34/EC, 2004/22/EC, 2007/23/EC, 2009/23/EC and 2009/105/EC of the European Parliament and of the Council and repealing Council Decision 87/95/EEC and Decision No 1673/2006/EC of the European Parliament and of the Council Text with EEA relevance, OJ L 316, 14.11.2012, p. 12–33

In addition CEN and CENELEC provide a platform for the development of *harmonized* European Standards (hENs) that may incorporate quality, safety, environmental, interoperability and accessibility requirements, as prescribed in the relevant European Union (“EU”) legislation.

CEN and CENELEC membership is composed of national standardization bodies from 33 countries, whose national networks involves more than 60,000 technical experts from industry, business and commercial federations (including SMEs), research, consumer organizations, environmental groups and other societal stakeholders.

Considering the economic landscape and the challenges ahead, CEN and CENELEC believe that a strong and efficient patent system contributes to the growth of the European economy, and stimulates innovation and competition to the benefit of European citizens.

2. The Issue

Recent Commission decisions and court cases, mainly in the Information and Communications Technologies (“ICT”) domain, have fueled policy discussions on whether holders of patents which they declare essential to standards (in this document referred to as “SEP” or “SEPs”) *can* and *do* resort to patent infringement proceedings, in order to extract excessive royalty and cross licensing conditions from allegedly locked-in implementers of their technology, in spite of previous pledges to license those SEPs on Fair Reasonable and Non Discriminatory terms (hereafter, “FRAND commitments”). This is often referred to as “*patent holdup*”.²

A related claim is that the aggregate licensing terms demanded by SEPs owners could allegedly undermine the successful implementation of standards, by collectively imposing a tax on standard implementers. This is often referred to as “*royalty stacking*”.³

Beyond stakeholders’ casual reports of such problems in patent litigation cases, there is to date little systemic evidence that “*patent holdup*” and “*royalty stacking*” occur at a significant, let alone pervasive, scale. Moreover, the reverse allegation has been made that patent holders could be faced with a problem of “*patent holdout*”, if implementers of SEPs were entitled to

² See Mark A. Lemley & Carl Shapiro, “Patent Holdup and Royalty Stacking, 85 *Texas Law Review*, 1991, 2033-34 (2007).

³ *Id.*

successfully runaway from licensing negotiations on the ground that they consider proposed licensing terms as *unFRAND*.⁴

3. The Context

3.1. Policy aspects, court cases and related initiatives

The European Commission issued in April 2016 a Communication on “ICT Standardization Priorities for the Digital Single Market”, which invites to “*work in collaboration with stakeholders including ESOs, EPO, industry and research, on the identification, by 2017, of possible measures to (i) improve accessibility and reliability of information on patent scope, including measures to increase the transparency and quality of standard essential patent declarations as well as (ii) to clarify core elements of an equitable, effective and enforceable licensing methodology around FRAND principles and (iii) to facilitate the efficient and balanced settlement of disputes*”.⁵

With this Communication the European Commission follows a tide of uncoordinated initiatives by government bodies, antitrust agencies, Standards Developing Organizations (“SDOs”) specifically active in defined ICT sectors⁶ and Standard Setting Organizations (“SSOs”)⁷ across the globe regarding SEP. We give hereafter a historical overview of some of those initiatives:

- In December 2013, the China Standardization Administration (SAC) and the State Intellectual Property Office (SIPO) jointly released “*Regulatory Measures on National Standards Involving Patents*”. In July 2015, China State Administration for Industry and Commerce (SAIC) released “*Pro-visions on the Prohibition of the Abuse of Intellectual Property Rights to Eliminate or Restrict Competition*” (see, in particular, clause 13);
- In 2014, the European Commission proposed in a note to the Member States to engage in discussions regarding a durable solution on FRAND licencing in standards and invited the Member States to consider a text on a proposal on injunctive relief on SEP to be elaborated together with US regulators;

⁴ See Anne Layne-Farrar, “Why Patent Holdout is Not Just a Fancy Name for Plain Old Patent Infringement”, *Competition Policy International*, February 2016.

⁵ Communication from the Commission, ICT Standardisation Priorities for the Digital Single Market, 19.4.2016 (COM(2016) 176 final).

⁶ For the purposes of this paper, we define to SDOs as the hundreds of industry -or sector- based fora and consortia that develop and publish industry specific standards.

⁷ For the purposes of this paper, we define to SSOs as the formally recognized national and European standardization organizations, CEN, CENELEC and ETSI, as well as the International Organization for Standardization (“ISO”), the International Electrotechnical Commission (“IEC”) and International Telecommunication Union (“ITU”).

- In 2014, the European Commission published a study on patents and standards and, in early 2015, held a public consultation, which sought to collect views of interested parties to provide their views on the current and prospective performance of the framework governing the inclusion of patented technologies in standards, and the licensing process for those technologies;⁸
- In February 2015, the IEEE-SA announced an update of its patent policy. The revised patent policy stated aim is to provide “*greater clarity of meaning on ‘reasonable’ rates*”, following unsuccessful previous attempts to reduce the “*inherent vagueness*” of FRAND commitments given by SEPs holders;⁹
- In July 2015, the Court of Justice of the EU issued a judgment in *Huawei v ZTE* which clarified some important aspects of the legal meaning of the FRAND concept under EU law.¹⁰ The Court judgment suggests that FRAND has procedural meaning, and shall not be construed as imposing predetermined patent pricing levels or valuation methods. Put differently, the Court suggests that FRAND entails courtesy obligations on both SEP owners and prospective licensees;¹¹
- In December 2015, the Korea Fair Trade Commission published a proposed revision of its IP Guidelines, which seems to hint at stricter antitrust liability rules for FRAND-pledged SEPs, as opposed to *de facto* standards;¹²
- In January 2016, the Japan Fair Trade Commission (“JFTC”) partially amended its “Guidelines for the Use of Intellectual Property under the Antimonopoly Act”.¹³ Those Guidelines seek to explain the possible antitrust implications of FRAND commitments;
- In March 2016, the Ministry of Commerce of India issued a discussion paper on Standard Essential Patents and Availability of FRAND terms which invites comments from stakeholders with a view to developing a suitable policy framework to define the obligations of SEPs holders and licensees; the discussion paper suggests that patent holdup is a material concern, and embraces a pro-active remedial philosophy.¹⁴

⁸ Patents and Standards: A modern framework for IPR-based standardization, Study Commissioned by the European Commission, Directorate-General for Enterprise and Industry, 2014.

⁹ IEEE-SA Standards Board Bylaws, Section 6, Approved Clause 6 of the SASB Bylaws, <https://standards.ieee.org/develop/policies/bylaws/approved-changes.pdf>

¹⁰ CJEU, C-170/13, *Huawei v ZTE* [2015] ECLI:EU:C:2015:477.

¹¹ See Miguel Rato and Mark English, “An Assessment of Injunctions, Patents, and Standards Following the Court of Justice’s Huawei/ZTE Ruling”, *Journal of European Competition Law & Practice*, 2016, Vol. 7, No. 2.

¹² Korea Fair Trade Commission’s (KFTC’s) December 16, 2015 amendments to its Review Guidelines on Unfair Exercise of Intellectual Property Rights.

¹³ Japan Fair Trade Commission, Partial Amendment of “Guidelines for the Use of Intellectual Property under the Antimonopoly Act” January 21, 2016.

¹⁴ Discussion Paper on Standard Essential Patents and their Availability on FRAND Terms, Government of India Department of Industrial Policy and Promotion Ministry of Commerce & Industry 1st March 2016

CEN and CENELEC consider that those policy initiatives hold both positive prospects – benchmarking and cross fertilization of best practices – and negative ones – fragmentation, transaction costs, uncertainty and spill over of counterproductive practices.

3.2 Technology aspects: interoperability and connectivity

Emerging transformative technologies, like the Internet of Things (“IoT”), promise that devices of everyday life can communicate with each other. Examples of increasing device-to-device communication (“D2D communication”) abound. In the automotive industry, car manufacturers work on driverless systems that require multiple connected devices to work together (e.g., sensors, radars, high-powered cameras, etc.).¹⁵ In the aviation sector, aircraft manufacturers rely on IoT devices to cut down wiring and cables, and achieve significant fuel economies.¹⁶ In the robotics industry, movements, activation or shutdown commands for personal care robots run on wireless technologies.¹⁷ Last, but not least, smart-cities, smart buildings, smart-grids and electro mobility converge with mechanical engineering, logistics and seamless wireless communications to provide new functionalities for businesses and consumers, including lighting, air quality control, security and surveillance, traffic management, etc.

From a technical perspective, digital devices also require “*interoperability*” along connectivity. With this background, the development of interoperability standards will play a key role in the promotion of seamless, ubiquitous and cost effective D2D connectivity.

Due to the nature of the devices in question, those standards may not only be designed by industry consortia or other SDOs specifically active in defined ICT sectors, but also in SSOs with broader scopes notably, at European level, by CEN, CENELEC and ETSI and, at the international level, ISO, IEC and ITU. Within this technological evolution, while it is true that to date CEN and CENELEC have had little exposure to patent-related discussions, experts forecast that patents declared as “essential” will pervade standards in all industrial sectors

¹⁵ See <http://dupress.com/articles/internet-of-things-iot-in-automotive-industry/>

¹⁶ See <http://waic.avsi.aero/>. Notably with the elimination of double or triple wiring redundancies. See also: <https://www.itu.int/net/ITU-R/study-groups/docs/workshop-wp5abc-wrc15/WP5ABC-WRC15-P2-5.pdf>

¹⁷ See <http://robohub.org/robots-international-standards/>

beyond ICT. As a result there will be a likely increase in the patent density also around CEN and CENELEC European standards.

It should also be noted that some SDOs had formed the preference to avoid patented technologies.¹⁸ However, it is unclear to what extent such a principled approach can be sustained in the future. As a general rule, CEN and CENELEC consider that there is no objection to the development of a standard that includes patented inventions. However, at the same time, during the elaboration of the standard, CEN and CENELEC technical experts remain free to consider alternative drafting options that do not involve patent infringement, through a process termed "*design around*". Otherwise, CEN and CENELEC will secure assurances that the holders of patents that they have declared to be essential also commit to licence these under FRAND conditions.

4. Aims of this Paper

With this paper, CEN and CENELEC would like to acknowledge the invitation in the Communication on Digital Single Market, and to provide the European Commission and other stakeholders with their input and vision on a possible way forward in relation to SEPs and FRAND commitments. CEN and CENELEC, through their network of national members' legal advisors, have conducted an internal assessment of their common policy on patents in light of the anticipated technology changes that will drive ICT closer to their activities. The outcome of this exercise is that CEN and CENELEC are well aware of the issues that occurred in the ICT world, and consider that appropriate safeguards are in place in their patent policy and other intellectual property ("IP") related texts.

CEN and CENELEC's internal assessment has been conducted with the following principles in mind: (i) follow an evidence-based approach, based on the consideration of empirical data on "patent holdup" and "royalty stacking"; (ii) be attentive to the needs of the business community, especially in terms of commercial flexibility and avoidance of administrative burdens; and (iii) avoid above all any risks of liability, including antitrust liability.

¹⁸ See SAE International, SAE Intellectual Property Rights and Usage Policy, §4: <http://www.sae.org/about/intelproperty/ippolicy.pdf> (noting, however, that with the advent of more complex technologies, this is not always possible).

Against this backdrop, this Paper is organized as follows. **Section II** provides a review of the existing CEN and CENELEC Policy on patents. **Section III** explains CEN and CENELEC views on patent essentiality issues, including disclosure. **Section IV** provides CEN and CENELEC interpretation in relation to licensing assurances and FRAND commitments. **Section V** recalls the CEN and CENELEC commitment to fully comply with competition law in a FRAND context. Each of section III to V ends with a box that summarizes the vision of CEN and CENELEC on the topic that is discussed.

II. CURRENT CEN AND CENELEC PATENT POLICY

CEN and CENELEC have adopted joint guidelines for the implementation for a common policy on patents (“patent policy”). Those guidelines can be found in the CEN-CENELEC Guide 8 on “Guidelines for Implementation of the Common Policy on Patents” as well as in other texts.¹⁹ The purpose of CEN and CENELEC patent policy is to provide guidance to the participants in their technical bodies in case patent or other intellectual property rights matters arise. The following paragraphs summarize the main principles of CEN and CENELEC patent policy.

CEN and CENELEC patent policy requests stakeholders to proceed to early disclosures and identification of patents that may be considered, at the best of their knowledge, to be essential for the future use of the deliverables under development. An essential patent is defined as a patent which, from the viewpoint of the patent holder, is necessarily infringed by any compliant implementation of a deliverable standard.

Disclosure must be made by participants to a technical body, at the best of their knowledge, of any known patent or to any known pending application on patents they consider as to be possibly essential, either of their own or of other organizations. CEN and CENELEC invite not only patent holders, but also any party not participating in the work of their technical bodies to report knowledge of possibly essential patents. Moreover, disclosure should occur as soon as possible.

CEN and CENELEC patent policy sets no requirement for patent searches. Patent calls are organized regularly by Chairmen of technical committees, and affirmative answers are

¹⁹ In particular, Guide 10 and Guide 31; all these guides are available on our website at the IPR page: <http://www.cencenelec.eu/ipr/Pages/default.aspx>

recorded. Whilst Guide 8 recognizes that patent discussions may take place in technical bodies, those discussions shall not cover the patent scope, its validity or specific licensing terms.

CEN and CENELEC patent policy requires that holders of SEPs set out their licensing intentions in a declaration form, and offers 3 options: (i) free of charge, royalty free licence (“RF”);²⁰ (ii) non-discriminatory and fair and reasonable licence (FRAND); (iii) unwilling to grant licence. Licensing commitments are irrevocable, as long as the patent remains essential. They bind all successors in interest, and there is a duty on the patent holders to introduce grandfathering provisions in any transfer contract they would conclude.

If a patent holder is unwilling to grant a licence, then he shall advise the technical body, which can take appropriate action, including -but not limited to- a review of the deliverable or its draft to remove the potential conflict, or a clarification of the technical causes of conflict. To that effect, CEN and CENELEC request that (un)willing patent holders provide the following information: *“a. Granted patent number, patent application number (if pending), or registration number; b. An indication of which portions of the above document are affected; c. A description of the claims covering the above document”*.

III. ESSENTIALITY, INCLUDING DISCLOSURE

1. Disclosure

Regarding the disclosure aspects, CEN and CENELEC wish to convey five messages:

First, CEN and CENELEC technical committees, as well as their national members’ technical committees, do not, and cannot, perform patent searches and are not involved in evaluating patent relevance or essentiality with regards to deliverables.

Second, CEN and CENELEC view the disclosure process also as a critical *enabler*. Disclosure is indeed the mechanism that triggers the submission of licensing declarations. But disclosure – in particular when it is timely – also creates opportunities for technological *“design around”*

²⁰ Under the RF model, the SEP holder however remains free to seek to conclude a licensing agreement. The words free of charge in declaration form refer to monetary compensation, and do not prevent the conclusion of licensing agreements that cover non-monetary terms (field of use, reciprocity, etc.).

and commercial “*contract around*”, by making possible the localization and/or selection of available alternative technologies, patented or not, at very early stages of standards development.

Third, CEN and CENELEC believe in the necessity to provide a strict procedure for patent calls. The recording of patent calls, including the recording of all answers, can assist in deterring bad faith conduct.

Fourth, CEN and CENELEC consider that both stakeholders participating and not participating in technical committees can play a useful role to report on (i) technological; and/or (ii) commercial alternatives to a potentially infringing implementation. CEN and CENELEC would thus welcome the possibility to explore how to further reach out to third parties who are holder of patents that may become relevant during the standard development process. This point is particularly salient in relation to organizations from the ICT sector who may not be participating in CEN and CENELEC technical committees, but who may hold patents essential to future deliverables.

Fifth, given the Communication’s invitation to discuss with all stakeholders, and in particular the EPO, CEN and CENELEC would welcome to explore the possibility to enter into discussion with EPO on how to improve the disclosure process.

Vision

CEN and CENELEC:

- 1. consider that it is not in their role to undertake the assessment of patent essentiality, scope, validity and strength. In addition, even if it were requested of them, they and their national members would not have the financial and human resources to carry out patent searches and engage in such assessments;***
- 2. recall that disclosure of SEPs is not only an enabler for FRAND licensing, but it is also a critical tool to enable for technological “design around” and commercial “contract around” (search for commercially viable alternatives);***
- 3. welcome the EC Communication’s invitation to “work in collaboration with stakeholders including ESOs, EPO, industry and research” and consider that an open, strong and effective disclosure policy may be further promoted by close cooperation with other stakeholders like the EPO, who can provide support to improve the disclosure process.***

2. Essentiality

From the outset, CEN and CENELEC would like to dissipate a possible ambiguity. It is often said that a SEP is an unavoidable IP right for the purposes of implementing a standard. This is, however, a misunderstanding (possibly caused by the complexity of the standard setting process).

The very existence of a SEP does not imply by necessity that a licence on this IP right will be indispensable for a future player in a market to which the standard is relevant. *First*, a product may implement a non-standard solution to solve a technical issue for which a standard specifies a different solution covered by an SEP. *Second*, a SEP may be essential to an optional mode specified by a standard, but not used by its implementation. *Third*, a patent that is essential to a standard may in fact not be essential for market players to compete on a related market, if several substitute standards exist for a given functionality. *Last*, but not least, a patent that is declared essential at an early stage of the standard setting process may no longer be essential (through *design around*) at subsequent stages.

With this background, CEN and CENELEC want to stress that the concept of a SEP shall not be construed as a patent that is objectively essential to a deliverable, but on the contrary as a *subjective* concept. According to CEN and CENELEC patent policy, if a participant believes that he holds a patent likely to be essential to a deliverable, then the patent holder may be invited to consider issuing a declaration of essentiality and to commit to royalty-free or FRAND conditions, which he may refuse.

To maintain an understanding of *subjective* essentiality is important, especially because CEN and CENELEC refuse to consider essentiality as a “once and for all” notion. Whilst a participant may consider that one (or more) of its patent is essential at the early stages of standard development, it may turn out at a later stage that this patent is not. Conversely, a participant may not believe that one (or more) of its patents is essential, but it may turn out at a later stage that it is. Furthermore, a patent can be considered by the relevant players to be essential for an early draft of a standard and – due to disclosure and design around – become non-essential for a later draft of the same standard.

CEN and CENELEC *subjective* approach also allows and encourages different participants who may believe to have competing essential patents for a similar functionality to declare them.

Within the same approach, which differs from other SDOs, CEN and CENELEC do not support, and do not offer to the patent holder participating in the standard making process, the option to declare that he “needs more time” to issue a licensing declaration, as this would slow down the preparation of the standard required by the market and has even the potential to stall the standardization process.

If a patent holder declares that he is unwilling to license his SEPs, CEN and CENELEC patent policy “requests” additional information from the SEP holder. In this situation, CEN and CENELEC technical committees have to be prepared to seek a technically available option that would not result in that patent infringement.

CEN and CENELEC would welcome to further explore the possibility that EPO may provide assistance and advice to patent holders in relation to their essentiality declarations, and in identifying available substitute technologies at early standards development stage. EPO officials have publicly reported on existing partnerships with organizations such as ETSI, ITU, IEEE-SA, IEC, WorldDMB... ²¹

Moreover, according to the EPO, the Internet of Things and of “Industry4.0” will likely increase patent density and FRAND issues in relation to “all industrial sectors” beyond the ICT industry. This, in turn, necessitates closer cooperation between the EPO and SDOs and SSOs in order to assure patent quality in new technical areas²². Starting from the assumption that i) CEN and CENELEC should maintain their role of neutral level playing fields and refrain from any act that could jeopardize their impartiality and that ii) they do not have the expertise and resources to technically review the declarations of essentiality subjectively made by patent holders, it seems to be the right time to initiate exploratory discussions with EPO on this matter.

²¹See G. Owens, EPO Approach to Patents and Standards, 9 May 2016, PPT delivered at ETSI, mimeo. On 29 February 2016, Y. Meniere, chief economist of EPO, reported at a major conference in Brussels on the very close cooperation with some SSOs to screen patent applications: see <https://www.youtube.com/watch?v=ye8twLKEJeY>

²² *Id.*

Vision

CEN and CENELEC:

- 1. recall that the concept of SEP disclosure is subjective, not objective, and simply denotes the early patent holder perspective that the functionality protected by its intellectual property may be relevant to a future standards specification;**
- 2. refuse to consider essentiality as a “once and for all” notion. A patent can be essential for an early draft of a standard and – for instance due to disclosure and design around – become non-essential for a later draft of the same standard;**
- 3. subjective approach encourages different participants who may have competing essential patents for a similar functionality to declare them;**
- 4. do not support the option “needs more time” to issue a licensing declaration, as this would slow down the preparation of the standard required by the market;**
- 5. reiterate their interest in discussing with the EPO how it could assist and provide advices to patent holders in relation to their essentiality declarations and in identifying available substitute technologies at early standards development stages.**

IV. LICENSING DECLARATIONS, INCLUDING FRAND

CEN and CENELEC recall that their forums are not the appropriate place for early licensing discussions amongst SEP owners and future implementers. Neither are they appropriately positioned to provide *ex ante* guidance on licensing terms to SEP owners and implementers, including on the definition of what constitutes a “reasonable” terms, the level at which SEPs shall be licenced, the breadth of licensing discussions, the basis on which licensing revenue shall be calculated, etc.

SEPs licensing is an issue that shall be governed by private negotiations between the parties outside of SDOs and SSOs, in light of “*recognized commercial practices*”,²³ and with the possible assistance of *ex post* judicial and quasi-judicial remedies.

In CEN and CENELEC’s view, this position is necessary to avoid all and any antitrust risk. Moreover, if CEN and CENELEC recognize that certain market players view the open-textured nature of the concept of FRAND as a source of possible uncertainty in *ex post* licensing

²³ This notion is used by the Court of Justice of the EU, *supra* §65.

discussions, they recall that it is their duty (as the recognized European Standardization Organisation) to be attentive to the need to maintain *ex ante* incentives of technology developers to participate in standardization activities, to promote incentives to innovate, and to strengthen the competitiveness of European companies.

In this context, CEN and CENELEC acknowledge that the Communication on “ICT Standardization Priorities for the Digital Single Market”, calls “to clarify core elements of an equitable, effective and enforceable licensing methodology around FRAND principles”. However, CEN and CENELEC emphasize that any attempt to frame licensing negotiations *ex ante* through the provision of guidance or methodologies on FRAND valuation, risks to be in practice a disincentive to the voluntary participation of technology developers in standardization bodies and, at an even earlier stage, the very process of inventive activity.

Last, CEN and CENELEC are aware, and concerned, that attempts to give pricing content to the FRAND concept have fueled worldwide revenue distribution disputes. Hence, by all possible means, CEN and CENELEC do not want to be pulled into such discussions.

Revenue sharing disputes between patent owners and implementers are not matters to be dealt with by SDOs and SSOs.

With this, CEN and CENELEC believe that it is necessary to depart from an interpretation of FRAND as a pricing mechanism, and instead to approach it as a participative instrument that seeks to foster stakeholders’ *ex ante* incentives to get aboard SDOs and SSOs.

Under this interpretation, FRAND seeks to provide early assurances that owners and users of protected technologies will enter into negotiations in good faith with the ultimate objective of agreeing to licensing conditions. In brief: the nature of a FRAND commitment is procedural, not distributional!

At the operational level, CEN and CENELEC view FRAND as a *comity device* that generates *bilateral fair play* obligations between the patent owner and prospective licensees. CEN and CENELEC fully subscribe to the now conventional view that FRAND is a two ways street,²⁴ and

²⁴ CJEU, *supra* §42: the “Court must strike a balance between maintaining free competition ... and the requirement to safeguard that proprietor’s intellectual-property rights and its right to effective judicial protection”.

they are accordingly aware and fully supportive of the approach provided by the Court of Justice of the EU in *Huawei v ZTE*, which clarifies that FRAND commitments entail courtesy obligations on both SEP owners and prospective licensees.

In line with the stepwise framework given in *Huawei v ZTE*, some rudimentary best practices that arise from FRAND intended as above can be recalled:

1. Prior to bringing patent infringement proceedings in courts, it is for the patent holder *“to alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed”*; ²⁵
2. Second, the alleged infringer must express *“its willingness to conclude a licensing agreement on FRAND terms”*; ²⁶
3. Third, the patent holder must *“present to [the] alleged infringer a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardization body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated”*; ²⁷
4. Fourth, the alleged infringer must *“promptly and in writing”*, make *“a specific counter-offer that corresponds to FRAND terms”*.²⁸ In particular, the alleged infringer must *“diligently ... respond to that offer, in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics”*; ²⁹
5. Fifth, if the FRAND counter-offer is rejected, the alleged infringer must nonetheless behave as if he was already a licensee. In particular, *“it is for that alleged infringer, from the point at which its counter-offer is rejected, to provide appropriate security, in accordance with recognised commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit”*; ³⁰
6. In case of deadlock – ie *“where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer”* – the parties *“may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay”*.³¹

It shall be understood from this framework that a FRAND commitment does not confer a “licence of right” to a technology implementer, but simply conveys assurances that the SEP owner is *“in fact”* ready to conclude a licensing agreement if its terms are perceived as FRAND from both sides.³²

²⁵ CJEU, *supra* §71.

²⁶ CJEU, *supra* §63.

²⁷ CJEU, *supra* §63.

²⁸ CJEU, *supra* §66.

²⁹ CJEU, *supra* §65.

³⁰ CJEU, *supra* §67.

³¹ CJEU, *supra* §68.

³² CJEU, *supra* §53.

Equally, it shall be understood that a FRAND commitment does not bar a SEP owner from seeking injunctive relief, or of introducing legal proceedings with a view to obtaining the rendering of accounts or an award of damages.³³

Vision

CEN and CENELEC:

- 1. take stock of the fact that attempts to provide ex ante guidance and methodologies on FRAND valuation have been experimented and made public by some SDOs;**
- 2. insist that SDOs and SSOs shall never interfere with licensing negotiations;**
- 3. understand that some patent users consider the emerging uncertainty surrounding SEPs licensing to undermine the benefits of technological standardization, in particular in novel technological sectors;**
- 4. At the same time, however, note that SDOs attempts to frame licensing negotiations ex ante through the provision of guidance or methodologies on FRAND valuation risk disincentivize the voluntary participation of patent holders in standards bodies and even before this, the very process of inventive activity;**
- 5. thus strongly support a clear reminder that FRAND has no precise pricing content, but instead is a “comity device” designed to promote good faith negotiation between patent owners and prospective licensees.**

V. COMPETITION LAW COMPLIANCE

CEN and CENELEC firmly believe in the merits of undistorted competition, and are therefore resolute to ensure total compliance of their (and their members) activities with all applicable European and national competition laws. To that end, CEN and CENELEC have issued Guide 31 which comprises a list of antitrust ‘dos and don’ts’ for standard participants.³⁴ With this, CEN and CENELEC seek to achieve the greatest degree of competition law compliance.

In accordance with this, CEN and CENELEC do not support initiatives taken by some SDOs to provide guidance on, or impose compliance with, FRAND pricing, valuation and rate-setting methodologies. Such initiatives create high risks of antitrust liability under the rules on anticompetitive agreements.³⁵ They should therefore be avoided.

³³ CJEU, *supra* §74.

³⁴ CEN and CENELEC Guide 31, *Competition law for participants in CEN- CENELEC Activities Edition 1*, 2015-12 available at ftp://ftp.cencenelec.eu/EN/EuropeanStandardization/Guides/31_CENCLCGuide31.pdf

³⁵ See Nicolas Petit, “The IEEE-SA Revised Patent Policy and Its Definition of ‘Reasonable’ Rates: A Transatlantic Antitrust Divide?”, (2016) *Fordham Intellectual Property, Media & Entertainment Law Journal*, Vol. XXVII.

CEN and CENELEC recall that FRAND pricing, valuation and rate setting are issues to be determined by patent holders and implementers outside of SSOs and SDOs in the context of bilateral negotiations. SSOs and SDOs do not partake in those negotiations. Should patent holders and implementers encounter problems to reach a mutually agreeable understanding of FRAND, they should seek either judicial or extra judicial determination by third party experts or alternative dispute resolution bodies (arbitration).³⁶

SSOs and SDOs do not and cannot offer such extra judicial determination mechanism.

Vision

CEN and CENELEC:

- 1. firmly believe in the merits of undistorted competition;***
- 2. consider that the understanding of FRAND as a courtesy, and not a pricing concept, is useful because it minimizes the risk of antitrust infringements by SSOs;***
- 3. in accordance with this, do not support initiatives to provide guidance on, or impose compliance with, FRAND pricing, valuation and rate-setting methodologies;***
- 4. recall that pricing is to be determined by patent holders and implementers outside of SSOs and SDOs in the context of bilateral negotiations.***

VI. CONCLUSION

CEN and CENELEC welcome the opportunity to contribute actively to the discussion related to SEPs and FRAND commitments.

CEN and CENELEC believe generally that the right application of intellectual property rights, including patents, drives innovation by incentivizing investment in R&D, and it is conducive to long term growth.

However, CEN and CENELEC recall that they are not the appropriate forum for the consideration of the essentiality, scope, strength and validity of IPRs. Similarly, CEN and

³⁶ By national courts of before the UPC, see for instance: “the mediation service of the Patent Mediation and Arbitration Centre” of the Unitary Patent Convention, Article 35 of the Agreement on a Unified Patent Court and Article 8 of the organizational rules of the Centre.

CENELEC consider that licensing discussions are transactional issues that do not fall within their remit, and that judicial and quasi-judicial remedies are the appropriate means to address possible disputes.

With this background, CEN and CENELEC promote an interpretation of FRAND that is procedural, *NOT* distributional, in full line with the framework set out by the CJEU in the *Huawei v ZTE* judgment.

This framework has two merits. It supports *ex ante* incentives to participate in standardization and it fully insulates standardization organizations from risks of antitrust liability. As a result, the procedural understanding of FRAND is good practice because it is accommodative to both innovation and competition considerations.

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About CEN and CENELEC

CEN (European Committee for Standardization) and **CENELEC (European Committee for Electrotechnical Standardization)** are recognized by the European Union (EU) and by the European Free Trade Association (EFTA) as European Standardization Organizations responsible for developing and defining standards at European level. These standards set out specifications and procedures in relation to a wide range of products and services.

The members of CEN and CENELEC are the National Standards Bodies and National Electrotechnical Committees of 33 European countries including all of the EU member states plus Iceland, Norway, Switzerland, Turkey and the former Yugoslav Republic of Macedonia.

European Standards (ENs) are developed through a process of collaboration among technical experts nominated by business and industry, research institutes, consumer and environmental organizations and other societal stakeholders. Once adopted, these standards are implemented and published in all of the 33 countries covered by CEN and CENELEC.

CEN and CENELEC also work to promote the international harmonization of standards in the framework of technical cooperation agreements with ISO (International Organization for Standardization) and IEC (International Electrotechnical Commission).

For more information, please see: www.cencenelec.eu. For more information on this position paper please contact Mr Bardo SCHETTINI GHERARDINI, Director Legal Affairs bschettini@cencenelec.eu
