

UEAPME¹'s answer to the Public Consultation on Patents and Standards “A modern framework for standardisation involving intellectual property rights”

Introduction

UEAPME would like to thank the Commission for the opportunity to share our views on the performance of the current framework governing standardisation and patents and on how it should evolve to ensure that standardisation is a level playing field where companies of all sizes, including SMEs, can collaborate in a mutually beneficial manner.

In regards to the very high number of questions we understand that the Commission does not expect us to answer each of them but rather to provide as much input as possible considering the limited resources that we as many SMEs have. In fact, the extensive list of questions makes it impossible for any SME to comprehensively reply to each of the questions raised in the public consultation, which are thus more likely to be answered by larger organisations. Our input focuses on those deemed relevant for a larger number of SMEs or the conditions which typically apply to SMEs in certain industries. Furthermore, the enormous number of questions and the detailed level of each question may easily cause individuals to lose sight of the important principles at stake. Therefore, we think that it is important to evaluate the responses on a qualitative rather than a purely quantitative basis, especially considering the fact that SMEs account for more than 99% of all European businesses².

General considerations

More and more Standards are set in all areas but on different geographical levels and in different detail. The first question must be: “Is a standard needed for a certain topic”.

In some sectors as for example ICT, standardisation is a way to make new technologies and services available as well as to disclose and share innovation, where different companies can implement and contribute to an ecosystem. In general, Standardisation leads to higher compatibility, more transparent and fair conditions, lower market barriers and therefore to more competition in the market.

On the other hand, when technology is built on proprietary systems the owners aims at creating their own market where other companies cannot compete. Admittedly this can sometimes create convenient situations for consumers, who benefit from fully integrated and innovative solutions. However, the experience shows that technology monopolies, which are maintained via blocking patents or a consensus of existing dominant market structures with matured technology standards, end up slowing down innovation, creating prohibitive market conditions for SMEs, and ultimately inflating prices.

The success of standardisation depends on the willingness of the involved parties to find a consensus. Therefore, the proprietary solutions need to be disclosed and shared. Thus it is essential that the right balances are found in order to encourage all parties to invest upfront as well as to create markets via standardisation and implementation of the standardised technologies and solutions.

¹UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

² See http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm

In addition we should take into account the differences in the heterogeneous community of SMEs with varying co-existing business models. SMEs make valuable contributions to standards but they are less likely than larger companies to protect their ideas with patents. On the other hand, several companies, especially SMEs, either do not hold one or more patents or do not actively participate in standardisation processes; nevertheless these companies have to implement the standards in their products, processes, and services. Therefore, Standards have to be suitable for SMEs whereas patents might not be neutral to enterprises sizes. Thus we advocate for a level playing field where rules are clear for everyone and they are enforced in a uniform manner so that SMEs are not dragged into legal disputes that create unnecessary costs and uncertainty.

Furthermore, we would like to point out that both the development and the implementation of standards involving patents typically require high investments that are a barrier for SMEs, especially micro and small companies. Hence, we encourage a debate reflecting on measures that would facilitate the involvement of SMEs in the development of such standards through their participation in business networks. By joining the efforts of many SMEs, dedicated business networks would reach a critical amount of resources necessary to contribute to the development of technological standards as well as to implement them.

1. Standardisation involving patents is common in the telecommunications and consumer electronics industries. Which other fields of standardisation are comprised of patent-protected technologies or are likely to be in the future?

Areas linked with smart grids, smart cities, body area networks (BANs), new automotive applications, and intelligent transport systems (ITS) are likely to involve patents, and standards in the future as pointed out in the study on this topic that was made available by the Commission³. Furthermore, sectors as manufacturing, process technologies, and biotechnology might also include patents and standards in the future. In general an increase of standardisation and patents is likely to occur in complex industries where innovation, high performance, and interoperability are key to success. Technological developments in the fields of telecommunication and electronics industries do not have an impact on these sectors themselves but rather function as drivers of cross-sectoral cooperation among a variety of industrial sectors. Cross sector contamination, which includes elements such as green economy, smart design and Information and Communication Technologies (ICT), also has the potential to attract patent-protected technology to standards development projects. In the fields where technology is the result of contribution from many different companies, SMEs can offer pieces of the puzzle, but not the whole puzzle. Thanks to open standardisation, SMEs can work in an open ecosystem solving technically challenging issues. In doing so they can compete with larger enterprises on a level playing field where the best technical (or the most market dominant) solution becomes part of the larger standard. Some examples of SMEs whose business was successful thanks to the technology developed by the standards include Telit⁴, Fylde Micro⁵, and u-Blox⁶. These companies have created products that implement and build on standards to provide specific solutions to their customers.

2. A variety of rules and practices govern standardisation involving patents. Which elements of these rules and practices are working well and should be kept and/or expanded? Which elements, on the other hand, can be improved?

In general we refer to the rules that are derived from the World Trade Organization (WTO) principles for standardisation: transparency, openness, impartiality, consensus, efficiency, relevance, and consistency. When these

³ See European Commission Directorate-General for Enterprise and Industry, "Patents and standards: A modern framework for IPR-based standardization" http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/intellectual-property-rights/patents-standards/index_en.htm

⁴ <http://www.telit.com/>

⁵ <http://www.fyldemicro.com>

⁶ <http://www.u-blox.com/en/>

principles are applied in practice SMEs can enjoy a level playing field and since all members have to follow the same rules the best solution is chosen. In particular, the voluntary nature of the standardisation, the consensus based process, and the transparency in terms of technical contribution procedures are essential for SMEs.

On the other hand, SMEs are still facing uncertainty regarding the essentiality of the patents and the determination of Fair, Reasonable and Non-Discriminatory (FRAND) terms. More details on this are provided with the following answers.

One aspect that should be improved is the quality of patents that are declared in standards. In our opinion poor quality patents favour large companies because the process of challenging patents (either by opposition or by invalidating the patent in court) is expensive and may create a barrier to SMEs that often do not even consider challenging patents. In addition to this, granting patents without a proper examination process benefits large companies that can afford the fees of filing many patents and maintaining them through payment of the yearly fees.

Another element that is worth mentioning with regard to SMEs is that, even though SMEs make valuable contributions to the standards making process, they are less likely than larger companies to extensively protect their knowledge with patents. So, we recommend Standards Setting Organisations (SSOs) to inform all parties involved in standardisation early enough, especially SMEs, about the treatment of Intellectual Property Rights (IPRs). Also, public authorities should consider giving financial support to SSOs to provide advisory services and training on IPRs to SMEs involved in standardisation.

The process does not sufficiently prevent patent over-declarations and, thus, companies sometimes inflate their portfolios. On the other hand, SMEs typically have none or very few patents. Given the huge volumes of patents declared by large companies, SME implementers have very limited capacity to negotiate FRAND terms with the result that they risk having to paying excessive royalties.

Another issue arises from commercially or industrially unused patents, so called sleeping patents. Unexploited patents represent a potential source for innovation and technology but might be used by larger enterprises in order to reserve rights on new technologies without eventually making use of these patents. Facilitating access to such patents by financially rewarding the originator would be eventually in the interest of all economic actors.

Finally, standards are important vehicles for innovation and technology transfer, but this potential is still largely unexploited especially by SMEs. Hence, we believe that intermediaries, such as chambers of commerce and associations, should be encouraged to disseminate information and trainings among SMEs on the use of standards involving patents.

3. Patent transparency seems particularly important to achieve efficient licensing and to prevent abusive behaviour. How can patent transparency in standardisation be maintained/ increased? What specific changes to the patent declaration systems of standard setting organizations would improve transparency regarding standard essential patents at a reasonable cost?

The major challenge that SMEs face is the question of who and how much to pay in order to use a standard. Actual licensing costs are, in most cases, unpredictable for SMEs implementing a standard. Indeed, uncertainty of costs is an important issue that can prevent companies from developing new products and putting them on the market.

SSO members are encouraged to disclose patents that are or may become essential. However, the process creates a risk of over-declaration, which may lead to inflated portfolios and requests for excessive royalty rates. In fact:

- 1) SSOs do not check the validity of the essentiality declared;
- 2) There is no check on duplication of the same patents in the database, e.g. the same patent can be declared once as a single patent and again as a patent family;
- 3) There is no obligation for patent holders, SSOs, or Patent Offices to update the list of patents declared as essential.

The result of the above conditions may affect especially SMEs as they have less means to assess the patent declarations.

Taking into account the cost and the effectiveness of possible measures, we would like to propose the following:

1. There should be a link between SSOs and the European Patent Office (EPO) databases so that patents declared to the SSO are automatically updated with information from the EPO and no duplications are possible;
 2. Patent holders should report to EPO any transfer made;
 3. A third party, e.g. the EPO, with the support of the concerned European Telecommunications Standards Institute (ETSI) technical body, should check patent essentiality; for this purpose Standard Essential Patents (SEP) holders would be encouraged to share information on the essentiality by means of claim charts.
 4. Patent Offices outside Europe should be encouraged to use a standardized user-friendly database in a common format so that searching patents becomes easier.
- 4. Patents on technologies that are comprised in a standard can sometimes transferred to new owners. What problems arise due to these transfers? What can be done to avoid such transfers undermining the effectiveness of the rules and practices that govern standardisation involving patents?**

First of all, we would like to point out the positive aspects of such transfers, although there is a difference between the transfer of a patent - selling a patent (holding an interdiction right) - and licensing a patent (giving away the right to use and abandonment of the interdiction right). The possibility to transfer patents and their enforceable rights is essential for SMEs that do not enjoy the financial resources to manufacture their inventions and compete with global players.

Having said that, we understand that problems may arise when the FRAND commitment does not follow the transfer. In this respect, we believe that the wording used in the ETSI IPR policy at article 6.1 is a good solution. Therefore, we recommend other SSOs incorporate similar wording in their rules.

6.1bis Transfer of ownership of ESSENTIAL IPR

“FRAND licensing undertakings made pursuant to Clause 6 shall be interpreted as encumbrances that bind all successors-in-interest. Recognizing that this interpretation may not apply in all legal jurisdictions, any Declarant who has submitted a FRAND undertaking according to the POLICY who transfers ownership of ESSENTIAL IPR that is subject to such undertaking shall include appropriate provisions in the relevant transfer documents to ensure that the undertaking is binding on the transferee and that the transferee will similarly include appropriate provisions in the event of future transfers with the goal of binding all successors-in-interest. The undertaking shall be interpreted as binding on successors-in-interest regardless of whether such provisions are included in the relevant transfer documents.”

5. **Patent pools combine the complementary patents of several patent holders for licensing out under a combined licence. Where and how can patent pools play a positive role in ensuring transparency and an efficient licensing of patents on technologies comprised in standards? What can public authorities and standard setting organizations do to facilitate this role?**

Patent pools are potentially a good solution for SMEs, provided that they include all or a large majority of SEPs.

First of all, the royalty rates are transparent and they are the same for all licensees. On the contrary, FRAND terms negotiated individually are not disclosed and a SME may end up paying higher rates on unjustified terms compared to its competitors.

Moreover, the “one-stop-shop” reduces the transaction costs for SMEs that otherwise would have to negotiate patent-by-patent licensing.

However, patent pools may be very costly to administer. Despite this, we are convinced that for the above reasons (i.e. transparency and reduced transaction costs) patent pools are important tools to support SMEs. Hence, we would recommend public authorities and SSOs to encourage the use of patent pools and even give them financial support.

Having said this, for patent pools to be better adapted to the needs of SMEs, whether these are patent holders or implementers, the following conditions should be considered:

- 1) Pools should make sure that the distribution of royalties is based on the quality of the contributed patents and not only on the proportional number of patents contributed to the pool. This is very important because SMEs do not have large patent portfolios and they only have a few good quality patents.
- 2) The pool should be able to adapt to technology development in order to remain interesting for the SMEs that subscribe to it. Thus, it is preferable that licensing terms can be adapted (in agreement with existing members) in order to attract new participants with SEPs and encourage the members to continue innovating.
- 3) The pool should cover a sufficient amount of SEPs. Otherwise, licensees would be forced to negotiate additional royalties outside the pool, which could make the cumulative royalty payments too high and unpredictable.

In general, patent pools are difficult to create when the standard is already implemented, when commercial interests are clearer and agreements difficult to reach. On the contrary, agreements are more likely to happen if the negotiation takes place earlier. Therefore, SSOs should encourage early discussions on pools while the standard is being drafted.

In view of the above, we think that a study regarding SSOs and patent pools could provide interesting insights regarding such issues. Such a study could deal in more detail with the question on whether an SSO can oblige its members to use a specific patent pool, and if so, which distribution of the fees, essentiality checks, timing, etc. would be the most favourable in order to keep a balance between patent holders and users of standards.

6. Many standard setting organizations require that patents on technologies included in their standards are licensed on "fair", "reasonable" and "non-discriminatory" (FRAND) terms, without however defining these concepts in detail. What principles and methods do you find useful in order to apply these terms in practice?

FRAND is too complex to introduce (mathematical) methods. Each case is different. However, we have strong concerns for SMEs, especially new entrants, which have no experience/resources to deal effectively with FRAND, in particular for assessing the market and the technical value of the patent. Difficulty (or impossibility) to predict the royalty rates on the implementation of a standard is certainly discouraging SMEs from investing in developing new products. SMEs would certainly benefit from the development of SSO guidelines on FRAND calculations.

It is difficult if not impossible for an SME to determine if FRAND terms and conditions have been transparently applied because it is usual practice to sign a non-disclosure agreement. Because of those signed non-disclosure agreements SMEs cannot access the information on terms and conditions agreed by other licensees or licensors. As a consequence they have no means to assess what is FRAND and what is not. Whether SMEs are licensors or licensees, they are almost inevitably in the situation where the negotiating counterpart is a multinational company. The latter has typically much more information about FRAND conditions negotiated with other parties. Hence, there is often (if not always) an asymmetry of information that reduces the negotiating capacity of the SME and gives an excessive advantage to the larger company.

In view of the above we would welcome a legal-economic analysis by the EC on whether an SSO can require their members to disclose the FRAND terms and conditions for their declared SEPs.

When normal negotiations on licensing terms have failed, a standardised arbitration procedure, perhaps in a unique arbitration tribunal, could be a simple and cost effective approach to deal with FRAND disputes.

Standards potentially give access to technology on FRAND terms to companies in all countries around the world. However, those companies that implement a standard may be in jurisdictions where it is very difficult or even impossible for a European company to enforce its rights on patents. This is an issue that may be particularly relevant

for SMEs that have less means than larger companies and, thus, the support of the European Commission is particularly important.

- 7. In some fields standard essential patents have spurred disputes and litigation. What are the causes and consequences of such disputes? What dispute resolution mechanisms could be used to resolve these patent disputes efficiently?**

Significant cases have occurred in the last few years based on commercial disputes, mainly driven by the fact that companies with conflicting business models were involved in standardisation.

As far as the dispute resolution mechanism is concerned we believe that arbitration may be a good tool for SMEs, especially if they are active in different countries as they typically lack the resources to litigate in all different jurisdictions. Most important for SMEs it is to make sure that a dispute can be dealt with in a reasonable time frame and in a cost efficient manner.

A possible solution is for an SSO to amend their IPR policies to incorporate a mandatory arbitration procedure in case of disputes between the standard essential patent/s holder and potential licensees after normal negotiations have failed.

- 8. How can holders of standard essential patents effectively protect themselves against implementers who refuse to pay royalties or unreasonably delay such payment? How can it be ensured that injunctions based on standard essential patents are not used to (a) either exclude companies from implementing a standard or (b) to extract unreasonable, unfair or discriminatory royalties?**

Arbitration may be the best route here but it is too expensive for SMEs to use effectively. Financial support could be offered to SMEs in order to make arbitration more affordable.

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