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Feedback of

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to

the European Commission

on its

Draft for a communication from the Commission  
Guidelines on the applicability of Article 101 of the  
Treaty on the Functioning of the European Union to  
horizontal co-operation agreements (revised Horizontal  
Guidelines)

ACT | The App Association Feedback to the European Commission draft for a communication on Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements (revised Horizontal Guidelines)

## I/ Introduction and statement of interest

ACT | The App Association is a not-for-profit trade association located in Brussels, Belgium, that represents countless small business application developers and connected device companies located across the European Union (EU) and around the globe. We support European leadership in competition policy and a regulatory environment that promotes innovation and job growth. Today, the ecosystem the App Association represents—which we call the app economy—is valued at approximately €830 billion globally and is responsible for creating countless jobs across the EU Member States. Alongside the world’s rapid embrace of mobile technology, our members have been developing innovative hardware and software solutions that power the growth of the internet of things (IoT) across modalities and segments of the economy.

The App Association welcomes this opportunity to offer its feedback on the European Commission’s draft for a communication on Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements (revised Horizontal Guidelines). The ‘Guidelines on horizontal co-operation agreements’ (the Guidelines, hereafter), and the EC’s ongoing review of them, impact all App Association members. Our members drive Europe’s small business innovator community forward through developing, utilising, and innovating on top of standardised technologies. These small business innovators rely on standards to manufacture their products across IoT consumer and enterprise use cases, which makes the Guidelines essential for their business activities. The Guidelines represent a key means of providing much-needed insight into the Commission’s expectations concerning standardisation agreements, and, therefore, the development and role of standards writ large. We, thus, deem the Guidelines, particularly portions addressing standardisation and information exchanges, fundamental for small business competition in the European and global digital economy. In this submission, the App Association thus limits its comments to the revised draft Guidelines.

## II/ General comments on the revised Guidelines

The App Association welcomes the Commission’s approach to include new market developments since the previous revision of the Guidelines, particularly considering the rise of IoT and the increasing number of sectors using standards for data transport, interoperability, and emerging technologies (e.g., artificial intelligence) to deliver new efficiencies to the market. We have consistently advocated that changes to the market warrant updates to the Guidelines that will foster competition in the marketplace by ensuring that standardised technology, and the standard-essential patents (SEPs) within such standards, can be used by any innovator on fair, reasonable, and non-discriminatory (FRAND) terms (consistent with the promise to license on FRAND terms that all SEP holders make when they volunteer patented technology to a standardisation process). Today, standards and SEP licensing already clearly touch numerous sectors past the ‘telecommunications’ sector (most noticeably, the automotive sector), a trend that will only intensify moving forward.

The App Association also draws attention to further trends in aggressive SEP abuses that have emerged since the last review of the Guidelines. For example, certain SEP holders are increasingly

insisting that they can arbitrarily decide which companies receive a licence, in some cases outright refusing willing licensees despite SEP holders' clear promise to provide licenses on FRAND terms. This trend, among others we have elaborated on in previous submissions to the Commission,<sup>1</sup> is particularly concerning for small business IoT product developers at the end of the value chain. These firms, and other small business IoT technology developers that may reside elsewhere in a value chain, very often lack the experience and resources to engage in complex SEP licensing negotiations (much less take on lengthy and expensive litigation) and, therefore, rely on useful instruments like the Guidelines for clarity and direction.

Further, some courts in the EU continue to permit SEP holders to systematically seek injunctions on SEPs despite the FRAND commitments on those SEPs. Because some courts have been misapplying the *Huawei v. ZTE* framework, DG COMP should clarify through the Guidelines that injunctions on FRAND-encumbered SEPs should be strictly limited and made available only in rare circumstances and, at a minimum, a SEP holder violates Article 102 TFEU unless it complies with each step of *Huawei v. ZTE* before seeking an injunction, including (1) making an offer that a court determines is FRAND and (2) then demonstrating that the licensee's counteroffer is clearly not FRAND.

The App Association has participated in the review of the Guidelines since the initial review in September 2019. That evaluation revealed that stakeholders widely consider the Guidelines to be unclear and in need of updates. In our response to the roadmap on the evaluation of the Guidelines, we emphasised the importance of providing clarity about the SEP licensing ecosystem for all stakeholders.<sup>2</sup> Following this evaluation, the Commission launched an open public consultation in June 2021 and a more targeted consultation on standardisation agreements, to both of which the App Association responded. We specifically focused on Section 7 of the Guidelines and urged the Commission to provide further guidance for all stakeholders to address abusive SEP licensing practices that violate EU competition law. We also continuously encouraged the Commission to reflect the best practices of CEN/CENELEC Workshop Agreement 95000 (CWA 95000:2019: 'Core Principles and Approaches for Licensing of Standard Essential Patents').<sup>3</sup>

The draft revisions of the Guidelines provide support to the private sector in establishing a general framework that applies on a case-by-case basis relating to cooperation agreements concerning goods, services, and technology. Generally, updates to the Guidelines would position its block exemptions and guidelines to provide much-needed insights into regulators' expectations concerning specialisation, research, and development (R&D), and standardisation agreements, which is and will be crucial for all industries in which specialised, innovative businesses that implement standards operate. Modernised guidelines and block exemptions are particularly helpful in the technology and digital sectors, but also for businesses in all sectors and of all sizes. Further clarifications, however, are necessary and would especially benefit small companies, particularly with respect to

<sup>1</sup> See our previous contributions from 2019: [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/11886-EU-competition-rules-on-horizontal-agreements-between-companies-evaluation/F473574\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/11886-EU-competition-rules-on-horizontal-agreements-between-companies-evaluation/F473574_en); and from 2021: [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13058-Horizontal-agreements-between-companies-revision-of-EU-competition-rules/F2661351\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13058-Horizontal-agreements-between-companies-revision-of-EU-competition-rules/F2661351_en)

<sup>2</sup> CEN Workshop Agreement (CWA) 95000 (Core Principles and Approaches for Licensing of Standard Essential Patents) available at <https://2020.standict.eu/sites/default/files/CWA95000.pdf>.

<sup>3</sup> See our previous contributions from 2019: [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/11886-EU-competition-rules-on-horizontal-agreements-between-companies-evaluation/F473574\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/11886-EU-competition-rules-on-horizontal-agreements-between-companies-evaluation/F473574_en); and from 2021:

<sup>3</sup> CEN Workshop Agreement (CWA) 95000 (Core Principles and Approaches for Licensing of Standard Essential Patents) available at <https://2020.standict.eu/sites/default/files/CWA95000.pdf>.

standardisation agreements and information exchanges fundamental to innovation in a competitive digital economy.

The main proposed changes in the revised Horizontal Guidelines that are especially significant to members of the App Association are in **Chapter 7 on Standardisation Agreements**. We believe that the Horizontal Guidelines have been a useful tool in addressing anti-competitive conduct in standard setting. However, recent abusive practices by patent holders that have emerged necessitated an update of the Guidelines to define the relevant requirements more clearly and to support competition and innovation, in particular regarding small and medium-sized enterprises (SMEs). We thus welcome and appreciate the Commission taking the initiative to revise the Horizontal Guidelines.

### III/ Specific comments on revised provisions in Chapter 7 on standardisation agreements

Again, the App Association notes that generally, the Horizontal Guidelines help provide high-level guidance on standardisation agreements. In its revision of section 7 of the Guidelines, the Commission has made some important improvements to its guidance for stakeholders but has also included some concerning provisions that risk enabling abusive SEP licensing practices that violate competition law. As the Commission is aware, the provisions in Section 7 of the Guidelines are necessary because SEP abuses are made possible through the gatekeeping position SEP holders take when they declare patents, they hold essential to the use of a standard (and the collective decision of SEP holders to jointly act through SEP licensing pools).

More specifically, the App Association is pleased to see that the Commission has recognised that new market conditions drove the revision of the Guidelines, as well as the need for greater legal certainty. As 5G technologies enter new verticals across the Internal Market and more sectors adopt and implement such technologies, the App Association has already seen a step-change in market conditions. The rise of the IoT across industries and sectors presents new opportunities and challenges for competition authorities.

The App Association especially welcomes the mention of the need for greater legal clarity. Further, we appreciate the Commission's intention to align the Guidelines with recent market developments, particularly concerning digitalisation and the pursuit of sustainability goals. Considering that some courts recently have been misapplying the framework established in *Huawei v. ZTE* and that the Court of Justice of the European Union (CJEU) was unable to address the questions that were referred to it by the Regional Court of Dusseldorf in *Nokia v. Daimler*,<sup>4</sup> it has become imperative for DG COMP to clarify the meaning of the FRAND commitment in standardisation agreements as they relate to EU competition laws (e.g. that standard development organisations (SDOs) should expressly ensure that injunctions on FRAND-encumbered SEPs should be strictly limited and made available only in rare circumstances).

To advance the interests of the Commission to improve the production or distribution of goods or services and in promoting technical or economic progress, the Commission must ensure fair competition within the Internal Market. Specifically, we believe that guidance addressing the anti-competitive effects of breaches of FRAND commitments can increase market access for new entrants

<sup>4</sup> C-182/21 *Nokia v. Daimler*. While the case is, as of June 2021, withdrawn due to settlement, it nonetheless identified several foundational questions in the SEP licensing ecosystem that the Commission should address in its Guidelines. The App Association has developed detailed recommendations on each of the questions included in this CJEU referral, which are available at <https://actonline.org/wp-content/uploads/App-Assn-CJEU-Referral-Memo-April-2021.pdf>. We strongly encourage the Commission to align its updates made to the Horizontal Guidelines with these positions where appropriate.

and competition among companies, supporting innovation in the market. The App Association believes clarifications on the meaning of FRAND commitments are beneficial to both SEP holders and those who utilise standards to innovate, as well as the consumer and enterprise end-users of technology. The negative effects of abusive licensing of SEPs are particularly harmful to the App Association's members, including SMEs located throughout the European Union that both hold SEPs as well as those that use standards in their products. We encourage the Commission to address the ongoing abuse by certain SEP holders in the FRAND licensing context by clarifying the guidance provided in the Guidelines concerning SEP licensing and competition law's role.

The App Association urges the Commission to clearly articulate in the Guidelines that SEP holders must offer licences to any third party that wishes to develop standard-compliant products regardless of its position in the supply chain. In the absence of guidance from the CJEU as discussed above, the Commission must provide guidance on this issue, along with other key SEP licensing questions for IoT such as those recently referred to the CJEU.<sup>5</sup> An update to the Guidelines in this manner will reinforce that, within the context of SEP licensing on FRAND terms, European competition law requires licences to be made available to any interested licensee. The lack of availability of licences is harming the uptake of critical technologies across sectors.

As noted above, the App Association has worked with the diverse community it represents to develop specific proposed changes to the Guidelines (with included rationales for each proposed change), which we are appending to this submission. We strongly urge the Commission to align its updated Guidelines with these recommendations, along with the CWA 95000 best practices.<sup>6</sup>

#### IV/ Comments on specific provisions

In the section below the App Association is commenting on:

- Provision 468
- Provision 469
- Provision 470
- Provision 477
- Provision 480
- Provision 482
- Provision 484
- Provision 485
- Provision 486
- Provision 487
- Provision 488
- Provision 489
- Provision 492
- Provision 497
- Provision 502

##### *Provision 468:*

Especially under provision 468, the revised Guidelines specify that the risk of limiting innovation increases if the undertakings are unjustifiably excluded from the standard development process. We welcome this acknowledgement, as it is often difficult for SMEs to engage in standard-setting processes governed by standardisation agreements due to their limited resources. However, SMEs

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<sup>5</sup> C-182/21 Nokia v. Daimler.

<sup>6</sup> CEN Workshop Agreement (CWA) 95000 (Core Principles and Approaches for Licensing of Standard Essential Patents) available at <https://2020.standict.eu/sites/default/files/CWA95000.pdf>.

heavily rely on the FRAND commitment that patent holders make within standardisation processes to obtain access to standardised patented technology (standard-essential patents or SEPs). SMEs must have the opportunity to be included in the standard development process at all stages. Through the FRAND commitment, SEP holders voluntarily agree to license any intellectual property incorporated into the applicable standard on FRAND terms in exchange for the enhanced market power accompanying standardisation. This is because ‘[o]nce one technology has been chosen and the standard has been set, competing technologies and companies may face a barrier to entry and may potentially be excluded from the market’.<sup>7</sup> But despite prior promises, some SEP holders renege on their FRAND commitments—while still reaping the benefits of standardisation—through a variety of actions that can harm competition and innovation. We thus welcome the Commission specifically stating that unjustifiably excluding undertakings from the standard development process risks limiting innovation.

#### *Provision 469:*

The Guidelines differentiate among companies that have different interests and incentives in standard developments involving intellectual property rights. Specifically, under provision 469, the Commission recognises upstream-only undertakings, which solely develop and market technology, including companies that acquire and license technologies. The new draft text adds to this category those undertakings that acquire technologies with the purpose of licensing these. We appreciate the Commission’s addition to this category, as we have long advocated for the recognition of the fact that patent assertion entities (PAEs) exist and have been amassing and asserting SEPs against implementers. This behaviour has a significant negative impact on the functioning of the Internal Market, innovation, and competition. Numerous App Association members, such as the small business AirTies, have had to face attacks from aggressive PAEs using a portfolio of purportedly valid patents essential to the IEEE 802.11 standard. This has cost the firm hundreds of thousands in legal fees to fend off spurious attacks, wasting valuable resources that would otherwise be invested in new jobs and R&D. After signing an initial licence with one patent holder, PAEs have come seeking licences, in some cases for the same patents which have already been licensed. Since the previous revision of the HGL, PAE activity in the European Union has increased by 19 per cent as reported by Darts-IP.<sup>8</sup> The App Association believes the Commission has taken a positive step here to demarcate a separate category for PAEs who aggressively seek to monetise their portfolio of often spurious patents.

#### *Provision 470:*

This provision identifies the anti-competitive effect coming from the exclusion of implementers from the necessary intellectual property rights (IPR) or the extraction of excessive royalty fees through hold-up. The App Association is encouraged by the Commission’s addition of the wording ‘patent hold-up’ to the new draft text. SEP hold-up is a competition issue due to the inherent market power a SEP holder has. The existence of SEP holders’ tendency to ‘hold-up’ willing licensees to obtain supra-FRAND terms in SEP licensing negotiations through such abusive practices is now well-documented.<sup>9</sup> We believe that this paragraph could further be improved to reflect that standard-setting practices inherently risk anticompetitive effects that FRAND commitments must mitigate, and that disregarding

<sup>7</sup> Horizontal Guidelines § 266.

<sup>8</sup> Darts IP, ‘NPE Litigation in the European Union’ (2018) (Darts IP Report) available at: <https://www.darts-ip.com/npe-litigation-in-the-european-union-facts-and-figures-2/>

<sup>9</sup> E.g., Brian J. Love, Yassine Lefouili, & Christian Helmers, Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets, Working Paper (2021), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3727085](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3727085).



a FRAND commitment (when other factors are also present) runs the risk of violating the EU competition laws. The paragraph could also better reflect the changing nature of the economy and the fact that new industries are implementing telecommunications standards in products to make them ‘smart’. In these contexts, the telecommunications chip forms only one portion of the product that is typically tangential to the functioning of that product. For example, a healthcare device measuring various health indicators functions the same with or without connectivity. Additionally, a SEP holder should not be allowed to leverage the courts of a single jurisdiction to force a licensee into a global portfolio licensing under the threat of an injunction. This is another form of hold-up that the Guidelines should recognise.

However, the App Association is extremely discouraged that this provision also introduces a reference to the matter of ‘hold-out’ as an issue of competition concern, defining it as a refusal to pay a FRAND royalty fee or using dilatory strategies by implementers. SEP holders’ claims of SEP ‘hold-out’ by licensees is simply an unproven theory, with a new empirical study demonstrating as much.<sup>10</sup> Furthermore, we do not see any possible competition-law related aspect of the ‘hold-out’ theory. We, thus, urge the Commission to delete this added text. Further, we caution the Commission to avoid characterising unproven claims of ‘hold-out’ as somehow equivalent to well-demonstrated abusive SEP hold-up behaviours since SEP licensees cannot exercise market power as a SEP holder does.<sup>11</sup> Further, no prospective licensee should be faulted or categorised as ‘unwilling’ because they exercise their right to fully challenge a patent’s validity, essentiality, or alleged infringement.

Restrictions on the ability to develop or use standards by any party, whether they participated in its development or not, are antithetical to open standards, and the HGL should ensure that such standards can be implemented by all market participants. As before, we urge the Commission to align its future guidance with the consensus best practices described in the CWA 95000, which will benefit both SEP holders, SEP licensees, and others using or impacted by standards. For example, the Commission should clarify that a refusal to license to, or bringing an injunction against, a party who is willing to take a FRAND licence is an abuse of dominance by virtue of the market power gained by the SEP holder through allowing their technologies to be included in the standard by their decision to make a FRAND commitment on the SEP. The Commission can and should also lend its support to appropriate behaviours for licensees by clarifying that a prospective licensee’s challenge to the validity, essentiality, or infringement of the SEP(s) should not be grounds for labelling a licensee as unwilling if that licensee undertakes negotiations in good faith considering standard business practices and does not constitute hold-out.

European SMEs, including App Association members, frequently utilise standardised technologies to innovate, particularly as IoT develops and brings about a convergence of traditional industries with telecommunications technology. In particular, SMEs must have access to licences on FRAND terms regardless of where they sit in the supply chain so long as they are willing licensees in the framework set out by the CJEU in *Huawei v ZTE*. Access to licences is equivalent to access to the standard itself due to the nature of SEPs and denying SMEs access to licenses inhibits their ability to compete with

<sup>10</sup> E.g., Brian J. Love & Christian Helmers, An Empirical Test of Patent Hold-Out Theory: Evidence from Litigation of Standard Essential Patents, Working Paper (2021), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3950060](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3950060).

<sup>11</sup> SEPs, Antitrust, and the FTC: Remarks of Commissioner Rebecca Kelly Slaughter As Prepared for Delivery (2021) [https://www.ftc.gov/system/files/documents/public\\_statements/1598103/commissioner\\_slaughter\\_ansi\\_102921\\_final\\_to\\_pdf.pdf](https://www.ftc.gov/system/files/documents/public_statements/1598103/commissioner_slaughter_ansi_102921_final_to_pdf.pdf)

larger corporations, especially those who set the standard. We strongly urge the Commission to remove the reference to hold-out from provision 470.

*Provision 477:*

Provision 477 defines that where participation in standard development is unrestricted, the procedure for adopting the standard is transparent, and access to the license is provided on FRAND terms – the undertaking is not restricting competition within the meaning of Art. 101 (1). We believe the European Commission should resolve any potential ambiguity as to the meaning of ‘access’ to the standard. Access to a standard is not possible without licenses to essential patents in the standard, yet certain SEP holders continue to deny licenses to willing licensees while using wordplay and gamesmanship to insist they nonetheless are providing ‘access’. This practice not only exposes willing licenses to claims of patent infringement but also potentially exposes the distributors and customers of these denied willing licensees to such claims and the willing licensees themselves are still exposed to claims of patent infringement. This is a mischaracterisation of the FRAND commitment that gives the patent holder direct control over the customers of the denied willing licensee (who may also be a direct competitor of the SEP holder). The European Commission can address this issue by specifically noting that access means ‘through the availability of essential patent licenses’ to SEPs on FRAND terms to all interested third parties. The Guidelines correctly note that ‘FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and conditions’.<sup>12</sup> The Guidelines should further expound on this point by making clear that SEP holders may not refuse licenses to component suppliers and other companies making devices that practice standardised technologies.<sup>13</sup>

Further clarification of what access on FRAND terms means in the context of standard setting would be significantly beneficial for SMEs that rely on their suppliers to provide them with products that they can use or sell without concerns of being accused of patent infringement of a technology they know nothing about. Our members report that some holders of SEPs refuse to offer licenses to companies that supply them with the hardware for their products despite the plain meaning of the FRAND commitment the SEP holders made on the SEP(s) at issue. For example, App Association members face significant innovation challenges due to such practices since a refusal to offer a FRAND license to its supplier means they are unwilling to invest in the adoption of components practising telecommunications standards such as 4G-LTE due to uncertainty regarding third-party rights and risks of costly litigation on infringement grounds. App Association members often do not have staff on hand to assess a SEP license offer for a product that they purchased from their supplier and are put in an extremely disadvantageous position when their suppliers are refused said licence by the essential patent holder. The European Commission should make clear that FRAND access simply means that FRAND licenses must be made available upon request to any willing licensee, without exception. The Commission should further acknowledge that a SEP holder’s FRAND commitment limits its ability to seek injunctive relief against willing licensees, and injunctions should only be permitted in limited circumstances

*Provision 480:*

This provision should specify that standard-setting organisations’ (SSOs’) rules should ensure licensing to any willing licensee, no matter where they are in the value chain. The role of SSOs themselves is crucial in providing clarity as to disclosure and other FRAND terms, and their ability to

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<sup>12</sup> Guidelines § 287

<sup>13</sup> This should also be addressed elsewhere in the Guidelines, including § 283.



update their patent policy to provide guidance on the meaning of the FRAND commitment should be supported.

There are exemplars that the Commission could consider supporting and building on in its efforts to enhance transparency in *ex-ante* disclosures within SSO processes. For example, the current version of the IEEE-SA Patent Policy addressed increasing attempts by some owners of SEPs to exploit FRAND agreements. The updates clarified the narrow set of circumstances when SEP holders can employ prohibitive orders, e.g., injunctions, against someone using an IEEE-SA standard, reiterated that the FRAND commitment required SEP holders to license to all willing licensees, and provided guidance on what ‘reasonable’ means in the context of royalty analysis. Small businesses like our members that build IoT products that enable and rely on IEEE-SA standards to support interoperability heavily rely on the clarity the current policy provides. It has demonstrably reduced SEP licensing-related abuses, deters unnecessary and burdensome litigation, and supports ingenuity in the market.

At the time of their adoption, the 2015 Updates were supported by an overwhelming number of IEEE-SA participants and industry stakeholders. We further note that the 2015 Updates were enacted following approvals by super-majorities at multiple levels of the IEEE’s governance hierarchy.

The empirical record demonstrates that the 2015 Patent Policy has facilitated unprecedented growth and success for IEEE-SA and its standards. In the years since the policy updates went into effect, ever-increasing evidence demonstrates the benefits of IEEE-SA’s approach, particularly in comparison to other standards-setting organisations such as the European Telecommunications Standards Institute (ETSI):

- Total technical contributions to IEEE-SA standards have increased since 2015: The research firm IPLytics analysed technical contributions to IEEE-SA standards before and after the policy updates and found a clear and consistent increase since the policy was adopted.<sup>14</sup> After two years of declining technical contributions to IEEE-SA standards in 2013 and 2014, total contributions rebounded after the new policy was enacted in 2015 and IEEE-SA had a record number in 2017. In the IEEE-SA 802 working groups, which are responsible for Wi-Fi standards, technical contributions continued to increase after the policy update leading to a record number in 2018. This finding led them to conclude that ‘patent policy considerations have not been a significant factor in companies’ decisions about whether to invest in and submit technologies to IEEE-SA 802 working groups’. Even in the most patent-heavy IEEE-SA 802 working groups, IPLytics found that contributions increased in line with total technical contributions to all 802 working groups.
- Uncertainty and confusion in ETSI FRAND terms are responsible for 75 per cent of all SEP litigation in the past 20 years: One of the clearest indicators of uncertainty and confusion within contracts and other legal texts is the amount of litigation that they spawn. Litigation over SEPs in digital communications standards like LTE has grown exponentially in recent years, more than quadrupling between 2009 and 2017 alone according to analysis from darts-ip.<sup>15</sup> Additionally, IPLytics analysed 20 years of worldwide SEP litigation, from 2001 to 2021, and found that more

<sup>14</sup> IPLytics, Empirical Analysis of Technical Contributions to IEEE 802 Standards (January 2019), available at [https://www.ipltics.com/wp-content/uploads/2019/01/IEEE-contribution-anaylsis\\_IPLytics-2019.pdf](https://www.ipltics.com/wp-content/uploads/2019/01/IEEE-contribution-anaylsis_IPLytics-2019.pdf)

<sup>15</sup> Darts-ip, NPE Litigation in the European Union: Facts and Figures (February 2018), available at <https://clarivate.com/darts-ip/campaigns/npe-litigation-in-the-european-union-facts-and-figures/>

- than 75 per cent of that litigation was related to 2G, 3G, 4G and 5G standards.<sup>16</sup> Meanwhile, just 2 per cent of SEP litigation during the same time period was related to IEEE's Wi-Fi standards.<sup>17</sup>
- IEEE-SA is delivering on its mission and the true goals of standardisation: Each standard-setting organisation picks the approach that fits its goals best. Time and time again, IEEE's approach has proven to be a better approach for delivering on the organisation's standardisation goals and the well-established role of technical interoperability standards. The goal of IEEE's standards development process, according to its Standards Development Principles, is to develop technical standards that 'enable innovation and open new market opportunities to their users by allowing interoperability of products, services, and processes; and they create ecosystems that promote economies of scale and healthy competition. These attributes are essential to help ensure that markets remain open, allowing consumers to have a choice and allowing new entrants to successfully enter markets'.<sup>18</sup> IEEE's Wi-Fi standards unequivocally meet these goals. The dynamic ecosystem of companies that build Wi-Fi compatible products is unparalleled. Competition at every level of the Wi-Fi technology industry is fierce, and startups can compete and thrive in the marketplace. Moreover, Wi-Fi is at the centre of IoT, and nearly every industry adopted the standard for connecting their products wirelessly to the internet. In 2020 alone, the Wi-Fi Alliance, which drives global Wi-Fi adoption and evolution through thought leadership, spectrum advocacy, and industry-wide collaboration, certified 8,752 devices from 306 companies.<sup>19</sup> These numbers, however, downplay the size and scope of the Wi-Fi ecosystem because a large percentage of companies that build Wi-Fi compatible products don't pursue certification through the Alliance. IEEE's requirement that SEP holders must license their patents to companies at both the product and component level allows companies with little experience in wireless networking or SEP licensing to integrate Wi-Fi into their products rapidly and seamlessly.

By contrast, the evidence is clear that the public arguments made against IEEE's updated policy are without merit. The updates have had no negative effects on participation or contributions of patented technology to IEEE-SA standards, and they helped ensure that IEEE's Standardisation Association continues to deliver on its mission.<sup>20</sup> IEEE-SA should put its mission and the Wi-Fi ecosystem first and reject the self-serving demands of a few patent profiteers. As such, we urge the Commission to state in the revised Guidelines that SSOs' rules need to ensure licensing access to any willing licensee, no matter where they are in the value chain.

#### *Provision 482:*

The App Association has previously suggested a specification on patent pools being among the entities that are bound to the FRAND commitment. We are discouraged that the Commission has not included this suggestion in its revision. We believe that the European Commission's position on transfers and the FRAND commitment have been clear, but we continue to experience gamesmanship by SEP holders and their patent pools that the Guidelines should address. While patent pools, theoretically, can introduce efficiencies into the SEP licensing ecosystem assuming they align their practices with the FRAND behaviours that the pool's patents are committed to, there are

<sup>16</sup> IPLytics, Empirical Analysis of Technical Contributions to IEEE 802 Standards (January 2019), available at <https://www.iplytics.com/wp-content/uploads/2019/01/IEEE-contribution-anaylsis-IPLYtics-2019.pdf>

<sup>17</sup> Ibid.

<sup>18</sup> See IEEE's Standards Development Principles here: <http://globalpolicy.ieee.org/wp-content/uploads/2020/08/IEEE20014.pdf>

<sup>19</sup> Data from the Wi-Fi Alliance's Product Finder tool: <https://www.wi-fi.org/product-finder>

<sup>20</sup> Simcoe, Timothy S. and Zhang, Qing, Does Patent Monetization Promote SSO Participation? (November 29, 2021). Available at SSRN: <https://ssrn.com/abstract=3973585> or <http://dx.doi.org/10.2139/ssrn.3973585>

also strong arguments to the opposite effect, i.e. that patent pools raise competition concerns.<sup>21 22</sup> As such, although the European Commission sets out in paragraph 261(e) of the European Commission Communication, ‘Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements’ recently the App Association has observed that, for example, Avanci denies that it is required to license ‘the pooled technologies (...) to all potential licensees on FRAND terms’.<sup>23</sup> A cross-reference to the Communication on technology transfer agreements would be useful clarification on this point as the application of the FRAND commitment following the transfer from one patent holder to another applies equally to patent pools. Clarification is necessary here, in particular, because patent pools do not own the patents, with the patent pool administrator instead acting as an agent on behalf of the patent holder contributing to the pool. While we, and the vast majority of the ecosystem, believe that pools are subject to the FRAND commitments made on SEPs the pool is licensing, some pools continue to deny this reality. The European Commission should make clear that any company, including patent pools, to which the IPR owner transfers (parts of) its IPR (including the right to license that IPR) is bound by that commitment without exception. We encourage the Commission to acknowledge both that patent pools can provide efficiencies to the SEP licensing process along **and** that abuse by SEP pools will amplify the harmful and anticompetitive effects of SEP licensor abuses.

#### *Provision 484:*

Provision 484 specifies the purpose of the FRAND commitment, which is to ensure that essential IPR protected technology incorporated in a standard is available to the users of that standard on FRAND terms. However, there is no further specification on the definition of fair, reasonable, and non-discriminatory, except for the condition that FRAND commitments allow IPR holders to obtain a reasonable return on their investments in R&D. R&D investments are inherently risky, and a return is not guaranteed. A SEP holder should, thus, not be compensated on the basis of their investment but on the basis of the intrinsic value of their technology. The new Guidelines’ version provides an additional specification on the FRAND commitments, specifying that they will need to allow IPR holders to monetise their technologies via FRAND royalties and obtain a reasonable return on their investment in R&D, concluding that this can ensure continued incentives to contribute the best available technology to the standard.

#### *Provision 485:*

Provision 485 in the revised Guidelines continues to provide that SDOs do not need to verify whether licensing terms of participants comply with the FRAND commitment, leaving such assessment to a court in case of a dispute. The App Association supports the retention of Provision 485 as proposed in the draft Guidelines.

#### *Provision 486:*

The revised Guidelines introduce that the ‘present value-added of the covered IPR’ should form the basis of the FRAND rate and that it ‘should be irrespective of the market success of the products which is unrelated to the patent technology’. We welcome this change, although we note that present added value can be a confusing concept and might wrongly incorporate features that are not SEP-related. Instead, we suggest the Commission consider SEPs to reflect the ex-ante value of the IPR. As

<sup>21</sup> E.g., Section 2.3 of Communication COM (2017) 712, ‘Setting out the EU Approach to Standard Essential Patents’.

<sup>22</sup> Jurata, Jay and Luken, Emily ‘Glory Days: Do the Anticompetitive Risks of Standards-Essential Patent Pools Outweigh Their Procompetitive Benefits?’ San Diego Law Review, Vol. 58, No. 2, 2021  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3622615](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3622615)

<sup>23</sup> Continental Automotive Systems, Inc. v Avanci, LLC, ND Cal (2019), Case 5:19-cv-02520.

the EC noted in its 2017 SEP Communication, the economic value ‘primarily needs to focus on the technology itself and in principle should not include any element resulting from the decision to include the technology in the standard’.<sup>24</sup> Additionally, an appropriate royalty rate should ‘take into account a reasonable aggregate rate for the standard, assessing the overall added value of the technology’.<sup>25</sup> In many cases this will involve focusing on the smallest component that practices the SEP, not the end product incorporating additional technologies. We have long proposed the smallest saleable patent-practising unit (SSPPU) as the most reliable pricing methodology for objectively assessing a FRAND royalty. This methodology protects against several potential anti-competitive harms inherent within standard setting and licensing of patented technology, namely: royalty stacking, discrimination between licensees, and the accurate valuation of the patents before inclusion within the standard. This methodology also goes together with the fact that patent holders must offer licences at all levels of the supply chain. Too frequently patent holders’ licensing offers use royalty methodologies that they, at best, decided on an ad hoc basis, meaning there are no objective criteria by which the patent holder arrived at the stated royalty rate. In doing so, certain patent holders inflate the value of their standard-essential patent portfolio and capture value from the inclusion of the patent in the standard and value from downstream innovation entirely unrelated to the patented technology. It is further important that SDOs’ IPR policies reflect these FRAND valuation principles considering that decisions about whether to contribute and to include patented technologies in the standard are taken at this level. Finally, the App Association emphasises that SMEs today face a SEP landscape with many thousands of patents covering the standards they wish to use in their products, and the SSPPU methodology ensures that they pay a fair price for the use of these technologies.

#### *Provision 487:*

The revised Guidelines account for the different assessment methods available for the purpose of cross-checking the consistency and reliability of final valuation results, both ex-ante and ex-post. We have also previously suggested comparable licensing as one method of cross-checking results and welcome its inclusion in the revised guidelines. The comparable licensing methodology can be a useful reference tool in certain circumstances. Industry experience reports, however, that some SEP holders deliberately and unreasonably obscure the terms of the licences they have offered to other licensees based on claims of confidentiality and trade secrets. Even when the comparable licences are shared, the patent holder has often signed an additional and separate rebate agreement that lowers the effective royalty rate that a licensee is paying. Thus, although on paper the licensing offer is comparable to those offered to other licensees, in reality the offer is much higher and the ecosystem is plagued by intentional vagueness.<sup>26</sup> Thus, comparable licensing is only effective when appropriate transparency safeguards and best practices are implemented by patent holders. CWA 95000 provides an overview of the kinds of information that can and should be made available to prospective licensees without restriction in order to enable that prospective licensee to be able to make appropriate determinations of validity, essentiality, and infringement, and to respond reasonably;<sup>27</sup> we strongly urge the Commission to align Provision 487 with these recommendations.

Provision 487 also endorses independent expert assessments but does not further define or clarify ‘independent’. Expert assessment can be helpful; however, some safeguards need to be put in place

<sup>24</sup> Ibid. at § 2.1.

<sup>25</sup> Ibid.

<sup>26</sup> Brian J. Love & Christian Helmers, Are Market Prices for Patent Licenses Observable? Evidence from 4G and 5G Licensing (Working Paper 2022), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4020536](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4020536).

<sup>27</sup> CEN Workshop Agreement (CWA) 95000 (Core Principles and Approaches for Licensing of Standard Essential Patents) available at <https://2020.standict.eu/sites/default/files/CWA95000.pdf>

to ensure that the results are impartial and that such assessment does not shift the burden of proof or prevent the parties from bringing the relevant matters before the courts that have jurisdiction. Comparable licences can provide helpful efficiencies in the licensing process, but only when they are reasonably comparable. Furthermore, comparable licenses should never be presumed to be FRAND. Our members experience SEP holders offering licences as ‘comparable’ that are wildly different and have no relation to the negotiation at hand, and which would never survive a proportionality examination by a court. We believe the conclusions of such assessment need to be impartial, and its outcome shall not be binding to the parties, create a presumption regarding essentiality, validity or infringement or shift any burden of proof and shall allow the parties to seek recourse before courts. We encourage the Commission to further revise provision 487 accordingly.

*Provision 488:*

This provision adds ‘alternative methods of dispute resolution’ to the right of parties to resolve the dispute about the level of FRAND royalty rates in front of a competent civil or commercial court. We believe that alternative dispute resolution (ADR) (e.g., mediation or arbitration) before litigation takes place is a voluntary option. Unless a court orders mediation, or under other exceptionally rare circumstances, ADR should not be mandatory, and parties should not have to participate if they choose not to. Accordingly, a party’s decision not to enter ADR should not be a determining factor to consider it ‘unwilling’ to license. Although footnote 289 clarifies that arbitration is voluntary, the App Association encourages the Commission to clarify that a licensee should not be considered unwilling for not entering arbitration.

In cases where both parties voluntarily agree to ADR, the parties have the flexibility to design the process as they see fit. However, without an express and voluntary waiver of particular rules or rights, we believe parties should follow traditional substantive and procedural rules, and burdens of proof, even in ADR. Similarly, if the ADR concerns FRAND encumbered SEPs, the ADR should apply FRAND principles, and parties should structure it in a way that achieves a FRAND result. ADR may appeal to some, and we believe that it could be a consideration in SEP licensing agreements under the above premises. We also note that most ADR decisions are confidential, and, therefore, cannot contribute to a broader understanding of FRAND behavioural norms. Again, we emphasise that the parties shall respect the jurisdictions of courts that issue judgements regarding the validity, infringement, and essentiality of the IPR issued in their territories, and that they should not use national judgements as a tool to introduce global portfolio licenses.

*Provision 489:*

This provision introduces a sector/industry-specific evaluation of the analysis of standardisation agreements in the concerned market. The new draft text also adds that licences accessible on discriminatory or excessive terms are potentially competition-restricting behaviours. We very much welcome the changes to this provision, and further, encourage the Commission to introduce the term ‘refusal to license’ as a competition restricting behaviour as well.

*Provision 492:*

Provision 492 requires a case-by-case assessment of effective access to the standard depending on different types of IPR disclosure models. As a general principle, it states: ‘Standard development agreements providing for the disclosure of information regarding characteristics and value-added of each IPR to a standard and, thereby, increasing transparency to parties involved in the development of a standard will not, in principle, restrict competition within the meaning of Article 101(1)’. We welcome this provision and would appreciate further clarification that neither party to a FRAND



negotiation should seek to force the other party into overbroad secrecy arrangements. Increasing transparency helps competition rather than restricting it. When a licensor seeks to initiate a negotiation, a licensor should be prepared to provide a base level of information regarding the SEPs to requesting licensees without a non-disclosure agreement (NDA). This base level of information, elaborated on in the CWA 95000 best practices,<sup>28</sup> would include information to enable the putative licensee (and its supply chain) to understand the SEPs, a sufficiently detailed specification (e.g., claim charts) describing how the patents are allegedly infringed by the products implementing the standard, and other relevant information needed by the licensee to evaluate claims of infringement, validity, and essentiality.

#### *Provision 497:*

We welcome the inclusion of additional stakeholders' representation in provision 497, specifying that 'in certain situations, the potential negative effects of restricted participation may be removed or at least lessened by ensuring that stakeholders are kept informed and consulted on the work in progress'. We agree with the Commission that the more stakeholders can influence the process leading to the selection of the standard and the more transparent the procedure for adopting the standard, the more likely it is that the adopted standard will consider the interests of all stakeholders.

#### *Provision 502:*

Provision 502 continues to specify that to achieve efficiency gains in standardisation, the information necessary to apply the standard must be effectively available to those wishing to enter the market. We appreciate the continuous emphasis on the need for transparency of information throughout the revised guidelines.

#### *Introduction of a new paragraph*

The App Association again urges the Commission to introduce a paragraph prohibiting forced portfolio licensing and patent bundling. SEP holders should not use SEP injunctions to force potential licensees into accepting global portfolio licences. Patent bundling and forced portfolio licensing are critical issues for SMEs that often develop devices less complex than larger corporations that have the extensive resources to develop highly complex devices. Furthermore, the circulation of their products is generally limited to a few jurisdictions, in some cases within the European Union only. Thus, an offer to license a portfolio of patents entirely unrelated to their product is tantamount to asking someone to pay for nothing. The inclusion of a new paragraph on forced bundling and portfolio licensing would also bring the Guidelines in line with European Commission Communication 2017/712 section 3.3 which states 'SEP holders may offer more patents, including non-SEPs, but cannot require a licensee to accept a licence for these other patents as well'.

#### *[NEW PROPOSED PARAGRAPH] – Portfolio Licensing and Patent Bundling*

Although some users of the standard may wish to acquire a licence that covers both essential and non-essential IPR, a portfolio licence offer of both essential and non-essential IPR should never be a condition for acquiring a SEP licence, and such a practice should constitute potential anticompetitive tying/patent bundling. Therefore, a license offer on FRAND terms should not require the licensing of a portfolio of non-essential IPR. Moreover, a licensor, if requested, should offer a licence of individual essential IPR that only covers the standards or major optional functions which the licensee

<sup>28</sup> CEN Workshop Agreement (CWA) 95000 (Core Principles and Approaches for Licensing of Standard Essential Patents) available at <https://2020.standict.eu/sites/default/files/CWA95000.pdf>



implements. Requiring a licence of essential IPR to other standards which the licensee does not practice would have the effect of restricting competition.

## V/ Conclusion

The App Association welcomes the Commission's positive revisions to the Guidelines. Specifically, we appreciate the following changes and encourage the Commission to move forward with those revisions:

- Including the definition of Patent Assertion Entities (PAE) as upstream undertaking in §468, considering a large share of the litigations – and consequently of litigation costs – in the EU is driven by such entities.
- Introducing an obligation to update the disclosure as the standard develops and when the standard is adopted, declaring blanked disclosure less likely to enable the industry to make informed choices (§ 483).
- Linking SEP valuation to the value of the patented invention itself, irrespective of the market success of the products which is unrelated to the patent technology. (§ 487)
- Recognising the relevance of case-by-case evaluations when dealing with the assessment of abuse of market power. (§ 492).
- Emphasising the relevance of sector-specific evaluations and importance of transparency and stakeholder representation as tools to produce efficiency gains in the market and guarantee adequate levels of competition.

While the App Association believes that the Guidelines help provide guidance on standardisation agreements (e.g. by clarifying that 'FRAND commitments can prevent IPR holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees'),<sup>29</sup> the general coherence and utility of EU competition law would be furthered by the Guidelines providing additional needed clarity in Section 7 concerning SEP licensing to address abusive SEP licensing practices that violate EU competition law, and which pose a significant threat to European IoT innovation by SMEs. In this context, we again strongly encourage revisions to Section 7 that align with the cross-sectoral consensus views captured in CWA 95000. We thus invite the Commission to use the revision to fill the remaining gaps and clarify the current interpretation of the guidelines to increase transparency and legal certainty. Specifically, we urge the Commission to revisit the following points in the revised Guidelines:

- The absence of any additional provision specifying that neither party to a FRAND commitment should force the other into unreasonably extensive secrecy arrangements (P. 483).
- The introduction of 'patent hold-out' as a concerning factor, especially for its low pertinence to competition issues (P.470).
- The introduction of 'Alternative Dispute Resolutions' as an encouraged resolution tool among the parties while disregarding the suggested addition mentioning that a party is not to be considered unwilling for preferring dispute resolution by court, or for challenging essentiality, validity and infringement and that courts decisions should not be used to impose global portfolio licenses (P. 488).
- Lack of a clear definition of the FRAND Commitment, and the lack of specifications regarding access to SEP licenses to any willing licensee on FRAND terms, regardless of where they are in the value chain (P. 480)

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<sup>29</sup> Horizontal Guidelines at §287.

- The minor or absent reference to SMEs within the Guidelines, despite having mentioned them in the Inception Impact Assessment in June 2021 and the goal of wider representation and inclusion of stakeholders in the new text (p.497).

Making improvements to the above paragraphs will enable companies to self-assess their compliance with the Guidelines, enabling better business planning as well as reducing legal costs and other related financial and administrative burdens. In addition, as noted in the Commission's Inception Impact Assessment last year, the clarification of the current framework of the Guidelines would also improve consumer certainty and welfare.

Since the purpose of the revisions of the Guidelines is to reduce the administrative burden and increase legal certainty, the introduction of the further guidance elements listed above is fundamental for enabling smoother cooperation among companies, especially SMEs that face challenges with complex legal issues and liabilities. SMEs, in particular, heavily rely on these voluntary FRAND commitments to provide certainty if they can obtain the FRAND licences needed to simply use standardised technologies. Through the FRAND commitment, patent holders voluntarily agree to license a patent essential to a standard on FRAND terms in exchange for a wider pool of potential licensees (anyone utilising the standard). This is a promise on which App Association members seek to be able to rely. SEP holders fail to abide by their FRAND commitments when they try to hold up innovators like our members, by seeking to force them into agreeing to excessive terms or exclude them from the market. Legal certainty and a fair competitive marketplace will boost innovation in smaller firms, enabling a refocus of resources on product development. For example, the Guidelines must ensure that all companies wishing to develop standard-compliant products can receive a licence to do so. This is even more important in those sectors where certain types of standards are mandated.<sup>30</sup>

The App Association thanks the Commission for the opportunity to comment on the Inception Impact Assessment for a Revision of the two Block Exemption Regulations for horizontal cooperation agreements and the Horizontal Guidelines. We look forward to engaging with Commission constructively on this topic in the future.

Sincerely,



**Mike Sax**  
Founder and Chairperson

**Brian Scarpelli**  
Senior Global Policy Counsel

**Anna Bosch**  
Senior Policy Associate, EU

<sup>30</sup> Regulation (EU) 2015/758 concerning type-approval requirements for the deployment of the eCall in-vehicle system based on the 112 service and amending Directive 2007/46/EC.

## VI/ Annex: Suggested text revisions

Below are the sections of the Horizontal Guidelines with suggested text edits and justification based on feedback from members to improve their clarity on standard essential patents and FRAND licensing. The selected paragraphs are the pertinent sections of the Guidelines related to standard-essential patents that could benefit from added clarity and is not a complete or exhaustive analysis of the entire Guidelines text. Red font indicates new text suggestions, while strike through indicates suggested deletion.

### 470 - possible effects of standard-setting on competition

Third, standardisation may lead to anti-competitive results by preventing certain undertakings from obtaining effective access to the results of the standard development process (that is to say, the specification and/or the essential IPR for implementing the standard). If an undertaking is either completely prevented from obtaining access to the result of the standard or is only granted access on prohibitive or discriminatory terms, there is a risk of an anti-competitive effect. A system where potentially relevant IPR is disclosed up-front may increase the likelihood of effective access being granted to the standard since it allows the participants to identify which technologies are covered by IPR and which are not. Intellectual property laws and competition laws share the same objectives of promoting consumer welfare and innovation as well as an efficient allocation of resources. IPR promote dynamic competition by encouraging undertakings to invest in developing new or improved products and processes. IPR are therefore in general pro- competitive. However, by virtue of its IPR, a participant holding IPR essential for implementing the standard, could, in the specific context of standard development, also acquire control over the use of a standard. When the standard constitutes a barrier to entry, the undertaking could thereby control the product or service market to which the standard relates. This in turn could allow undertakings to behave in anti-competitive ways, for example by refusing to license the necessary IPR or by extracting excess rents by way of discriminatory or excessive royalty fees thereby preventing effective access to the standard ('hold-up'). ~~The reverse situation may also arise if licensing negotiations are drawn out for reasons attributable solely to the user of the standard. This could include for example a refusal to pay a FRAND royalty fee or using dilatory strategies ('hold-out').~~

*Justification:* Patent holders claim that hold-out occurs when alleged infringers of patents use negotiating tactics to delay paying royalties and that this issue is widespread although little evidence exists to support this claim.<sup>31</sup> We caution the Commission against considering hold-out as an equivalent theory of SEP abuse as hold-up since SEP licensees cannot occupy a gatekeeping position as SEP holders do. In all major jurisdictions every stakeholder is entitled to the right to a fair trial (Article 47 CFR) and the right to a defence (Article 48 CFR). It follows from this that when accused of patent infringement one is allowed to avail themselves of any and all defences - including challenging the validity of the patents they are accused of infringing. Furthermore, there is a strong public interest in invalidating patents because studies show that many, if not most, patents challenged are found to be invalid (U.S. PTAB: 80 per cent, EPO: 33 per cent).<sup>32</sup> No prospective licensee should be faulted or categorised as 'unwilling' because they exercise their right to fully challenge a patent's validity, essentiality, or alleged infringement. We, thus, urge the Commission to delete the sentence that characterises 'hold-out' as an issue of concern for competition.

<sup>31</sup> Brian J. Love & Christian Helmers, An Empirical Test of Patent Hold-Out Theory: Evidence from Litigation of Standard Essential Patents, Working Paper (2021), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3950060](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3950060).

<sup>32</sup> [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_941\\_2018-chapter1.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter1.pdf)

#### 480 – Access on FRAND terms

Furthermore, the standard development organisation's rules would need to ensure effective access to the standard on fair, reasonable and non-discriminatory terms **through SEP licenses to any willing licensee on fair, reasonable and non-discriminatory terms. This will mean, in effect, license availability for all willing licensees wishing to practice the standard regardless of where in the supply chain they are situated. Holders of essential IPR should not discriminate between willing licensees, particularly with respect to their location in a given supply chain.**

*Justification:* Further, a clarification of what access on FRAND terms means in the context of standard setting would be beneficial for SMEs that rely on their suppliers to provide them products they can use or sell without concerns of being accused of patent infringement of a technology they know nothing about. Our members report that some holders of essential patents refuse to offer licenses to companies that supply them with the hardware for their products despite the plain meaning of the FRAND commitment the SEP holders made on the SEP(s) at issue. The European Commission should make clear that FRAND access simply means that FRAND licenses must be made available upon request to any willing licensee, without exception.

#### 482 – Transfer of FRAND commitment

To ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms ('FRAND commitment'). That commitment should be given prior to the adoption of the standard. At the same time, the IPR policy should allow IPR holders to exclude specified technology from the standard development process and thereby from the commitment to offer to license, providing that exclusion takes place at an early stage in the development of the standard. To ensure the effectiveness of the FRAND commitment, there would also need to be a requirement on all participating IPR holders who provide such a commitment to ensure that any undertaking, **including patent pools**, to which the IPR owner transfers its IPR (including the right to license that IPR) is bound by that commitment **without exception**, for example through a contractual clause between buyer and seller. **In particular, the FRAND commitment should be upheld by undertakings licensing on behalf of standard-essential patent holders in patent pools (footnote: paragraph 261(e) 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).** It should be noted that FRAND can also cover royalty-free licensing.

*Justification:* We believe that the European Commission's position on transfers and the FRAND commitment have been clear, but we continue to experience gamesmanship by SEP holders that should be addressed. For example, patent pools are increasingly considered by many to be a pro-competitive solution to issues arising in SEP licensing disputes.<sup>33</sup> As such, although the European Commission sets out in paragraph 261(e) of the European Commission Communication, 'Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements' recently the App Association has observed that Avanci denies that it is required to license 'the pooled technologies (...) to all potential licensees on FRAND terms'.<sup>34</sup> A cross-reference to the Communication on technology

<sup>33</sup>Section 2.3 of Communication COM (2017) 712, 'Setting out the EU Approach to Standard Essential Patents'.

<sup>34</sup> Continental Automotive Systems, Inc. v Avanci, LLC, ND Cal (2019), Case 5:19-cv-02520.

transfer agreements would be useful clarification on this point as the application of the FRAND commitment following the transfer of one patent holder to another applies equally to patent pools. Clarification is needed, in particular, because patent pools are not sold the patents. The patent pool administrator instead acts as an agent on behalf of the patent holder contributing to the pool. The European Commission should make clear that any company, including patent pools, to which the IPR owner transfers its IPR (including the right to license that IPR) is bound by that commitment without exception.

#### 483 – Disclosure

Moreover, the IPR policy would need to require good faith disclosure, by participants, of their IPR that might be essential for the implementation of the standard under development. This is relevant for (i) enabling the industry to make an informed choice of technology to be included in a standard and (ii) assisting in achieving the goal of effective access to the standard. Such a disclosure obligation could be based on reasonable endeavours to identify IPR reading on the potential standard<sup>280</sup> and to update the disclosure as the standard develops. With respect to patents, the IPR disclosure should include at least the patent number or patent application number. If this information is not yet publicly available, then it is also sufficient if the participant declares that it is likely to have IPR claims over a particular technology without identifying specific IPR claims or applications for IPR (so-called blanket disclosure). Except for this case, blanket disclosure would be less likely to enable the industry to make an informed choice of technology and to ensure effective access to the standard. Participants should also be encouraged to update their disclosures at the time of adoption of a standard, in particular if there are any changes which may have an impact on the essentiality or validity of their IPRs.

Since the risks regarding effective access are not the same in the case of a standard development organisation with a royalty-free standards policy, IPR disclosure would not be relevant in that context. **Neither party to a FRAND negotiation should seek to force the other party into overbroad secrecy arrangements.**

*Justification:* When a licensor seeks to initiate a negotiation, a licensor should be prepared to provide a base level of information regarding the SEPs to requesting licensees without an NDA. This base level of information would include information to enable the putative licensee (and its supply chain) to understand the SEPs, a sufficiently detailed specification (e.g., claim charts) describing how the patents are allegedly infringed by the products implementing the standard, and other relevant information needed by the licensee to evaluate claims of infringement, validity, and essentiality.

#### 488 – Dispute resolution

However, it should be emphasised that nothing in these Guidelines prejudices the possibility for parties to resolve their disputes about the level of FRAND royalty rates by having recourse to the competent civil or commercial courts or **voluntary** alternative methods of dispute resolution. **Parties should not have to participate in arbitration or mediation if they choose not to. Accordingly, a party's decision not to enter ADR should not be a determining factor to consider it 'unwilling' to license.**

*Justification:* While 'alternative methods of dispute resolution' are among the rights of parties to resolve the dispute about the level of FRAND royalty rates in front of a competent civil or commercial court, a party doesn't become unwilling for seeking or refusing these legal remedies. We believe that Alternative Dispute Resolution (ADR) (e.g., mediation or arbitration) before litigation takes place is a voluntary option. Unless a court orders mediation, or under other

exceptionally rare circumstances, ADR should not be mandatory, and parties should not have to participate if they choose not to. Accordingly, a party's decision not to enter ADR should not be a determining factor to consider it 'unwilling' to license.

**[NEW PROPOSED PARAGRAPH] – Portfolio Licensing and Patent Bundling**

Although some users of the standard may wish to acquire a licence which covers both essential and non-essential IPR, a portfolio licence offer of both essential and non-essential IPR should never be a condition for acquiring a SEP licence, and such a practice should constitute potential anticompetitive tying/patent bundling. Therefore, a licence offer on FRAND terms should not require the licensing of a portfolio of non-essential IPR. Moreover, a licensor, if requested, should offer a licence of the essential IPR that only covers the standards or major optional functions which the licensee implements. Requiring a license of essential IPR to other standards which the licensee does not practice would have the effect of restricting competition.

*Justification:* Patent bundling and forced portfolio licensing are critical issues for SMEs that often develop devices less complex than larger corporations that have the extensive resources to develop highly complex devices. Furthermore, the circulation of their products is generally limited to a few jurisdictions, usually within the European Union. Thus, an offer to license a portfolio of patents entirely unrelated to their product is tantamount to asking someone to pay for nothing. The inclusion of new paragraph on forced bundling and portfolio licensing would also bring the Guidelines in line with European Commission Communication 2017/712 section 3.3 which states 'SEP holders may offer more patents, including non-SEPs, but cannot require a licensee to accept a licence for these other patents as well'.