

Standard Essential Patents Policy guidelines

For an EU patent regulation that adapts to the
digital transformation in the mobility ecosystem



Executive summary



A patent is an exclusive right granted for an invention, which is a product or a process that offers a new technological solution. To receive a patent, technical information regarding the invention must be publicly disclosed in the patent application.

The basic principle of a patent system is to create an incentive to improve and further develop technologies for the benefit of the general public. This goal is achieved through a balance of two opposing forces, the monopoly and the design-around.

The first force is the exclusivity given the ingenious inventor. An inventor who has made a fundamental and important invention should be remunerated accordingly, and so get a limited-time monopoly.

In practice, many inventions are not licensed, but the second force of the patent system intervenes here in order to not infringe existing patents. The second force of the patent system, the design-around, stimulates those who have not yet made their own invention on a given technical problem to become creative and to design around the existing patent which can result in a new invention and gives another a monopoly.

Why it is important that a patent regulation adapts to the new tech development era?



Enables a variety of technical solutions to a given problem



Additional technical solutions can compete with the existing ones



Empowers and recognises device interoperability

Patent regulation should adapt to new tech development era



This approach of design-around is expressly desired because it enriches technology for the benefit of all. By creating a need for a variety of technical solutions to a given problem, the patent system produces new technical solutions, and it becomes possible to produce high-quality end products cost-effectively, which in turn gives the end consumer a high degree of choice and thus stimulates competition. All for the common good and for the technological progress of society.

In standardisation, the selection of individual technical solutions takes place in committees in many cases made up of competitors. A single technical solution (which may be patented) becomes anchored in the standard, and all other solutions that existed or could still be developed are effectively excluded from competition.

For the purpose of device interoperability, this selection is necessary. This is exactly what standardisation means. However, the second force of the patenting system is deliberately shut down here. There is no longer any possibility of a design-around, nor the option to use other (patented or non-patented) solutions, and so the balance of forces is gone.

Leaving this uncorrected would give every invention, no matter how small, that finds its way into the standard, the same impact as a fundamental and ingenious invention that lies outside the standard, even though the monopoly of those technical solutions having found their way into the standard is based on coordination during standardization, and not on having defeated other technical solutions through competition. This would obviously be completely erroneous and unjustified.

Efficient pathway to prevent monopolies and ensure fair competition

It is precisely this creation of monopoly power through standardisation, and its potential misuse, that gave rise to the “FRAND” concept: SEPs must be licensed on “fair reasonable and non-discriminatory terms”, whereby only the technical contribution of the invention may be assessed and under no circumstances should the impact of the patent be increased by including the protected subject matter in the standard.

The SEP must be evaluated as if it were a normal patent that was not included in the standard. All possible technical alternatives must be considered, because these would lead to a design-around in the non-standardized technology world and thus regulate competition in the market for inventions.

If the important corrective power of the design-around—that leads to the second force and balance of power in licensing of patents—is taken away by including patent protected subject matter into a standard specification, then the assessment of the value of the patents has to be carried out very carefully and precisely.

Here the European Commission has provided guidance. Having recognised the missing balance and the risk that the economic monopoly of SEPs can be abused to extract excessive royalties, the European Commission has come up with guidelines that should be applied to calculate the value of a patent:

Licensing terms have to bear a clear relationship to the economic value of the patented technology. That 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.¹

Given the billions of euros that change hands every year for SEP licensing, there is an incentive to misuse the imbalance of forces. When it comes to regulation of SEP licensing and enforcement, there is currently too much variation and not enough certainty in the EU. For whom licenses for SEPs are available and how exactly FRAND conditions are to be determined, for example, are questions that are subject to great legal uncertainty in the European Union, making business planning increasingly difficult. This is particularly true when planning new products using new standards.

German courts for example have refused many European innovators, such as module makers, a right to FRAND licenses for SEPs. And that is despite the clear guidance from the European Commission² as well as the European Court of Justice³ that the FRAND undertaking creates the expectation and is to ensure that FRAND licences are available to all third parties. In addition, many German courts grant injunctions for SEPs based on a pure willingness assessment. Whether the terms offered by SEP holders are indeed FRAND, and whether a standard user is thus willing to negotiate towards terms that are truly FRAND, is pushed aside and ultimately ignored. And that is once again despite the guidance from the ECJ that SEP holders are obligated to make licenses available on FRAND terms. Injunctions are thus granted by many German courts to enforce licensing terms that might in many cases not be FRAND – there simply is no judicial review. And in the very limited cases where German courts have looked at terms offered, they have not distinguished between the incremental technological value and the economic value created through standardisation as the European Commission has requested. This is precisely the risk that the European Commission has identified and labelled as anticompetitive in its Motorola decision⁴, and which the FRAND commitment is intended to prevent: Injunctions can be used to enforce excessive licence rates given that no innovator has the possibility to design around the monopoly created through standardisation.

And the problem is taken to the extreme when, by means of an injunction for a single SEP in one European Member State, a worldwide licence for a pool portfolio of 40, 50 or more SEP holders is enforced - without any sort of judicial examination of the value of the portfolio or whether any portfolio patents in other states are infringed and legally valid.

¹ COM(2017) 712 'Setting out the EU Approach to Standard Essential Patents', p. 6.

² Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements Text with EEA relevance, 2011/C 11/01, no. 285.

³ ECJ, decision of 16 July 2015, C-170/13 – Huawei/ZTE.

⁴ European Commission, decision of 29 April 2014, CASE AT.39985 – Motorola



Why does SEP regulation matter to automotive suppliers' contribution to the future of mobility?

Automotive is one of the industries outside of traditional telecommunications facing Standard Essential Patents (SEP) licensing abuse. Automotive suppliers invest, innovate, build and market next-generation products advancing the future of mobility. In fact, automotive suppliers register over 39000 patents each year.

Companies in the automotive supply industry need certainty and predictability to reliably invest in the development of new technologies using new standards. That is why creating a balanced system of licensing for the use of standards will motivate SEP holders and implementers to engage in good faith negotiations.

An effective way forward to boost innovation

1. An EU-wide legislation

The current lack of a regulation of SEP licensing and enforcement at the European level clashes with the European transnational scenario, where innovation goes beyond borders. An EU-level legal framework is needed to provide a better balance between the interests of SEP owners and those of implementers of standardised technology, and to limit unfair SEP licensing practices.

2. Accessible FRAND license for innovators

Every willing licensee, at every level of the value chain, should be able to obtain a licence on Fair, Reasonable, and Not Discriminatory (FRAND) terms, where SEPs are assessed based on the incremental contribution of the SEP to the technology and that assessment is neutral, transparent, and subject to judicial review. Licensing fees should reflect the value of the technology itself, and not be based on the value of the end product and/or the standardisation process.

3. Clear instructions on patent license terms

Policymakers and standardisation organisations should provide clear guidelines on the scope and content of FRAND terms, on the obligation to issue licences to any willing licensee, as well as on the proper valuation of SEPs and SEP portfolios.

4. Legal certainty for purchases

Standard implementers should enjoy legal certainty, whether they have acquired their own licence or are purchasing products from suppliers which have already been licensed themselves.

5. A solid legal framework

Policymakers should provide legal guidance or a legal framework that prevents the unfair use of court injunctions by patent holders to force licensing agreements that seek to extract excessive terms or bundle NEPs and SEPs. Licensees should not be forced into an agreement solely due to the economic risk created by such an injunction or the threat of such an injunction.

About CLEPA



CLEPA, the European Association of Automotive Suppliers, represents over 3,000 companies supplying state-of-the-art components and innovative technologies for safe, smart, and sustainable mobility.

CLEPA brings together over 120 global suppliers of car parts, systems, and modules and more than 20 national trade associations and European sector associations. CLEPA is the voice of the EU automotive supplier industry linking the sector to policy makers.



The automotive sector accounts for **30% of R&D** in the EU, making it the number one investor.



European automotive suppliers invest over **30 billion euros** yearly in research and development.



Automotive suppliers register over **39000 new patents** each year.



Automotive suppliers in Europe generate **1.7 million** direct jobs.



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