

# SEP Licensing Q&A

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## Q1. What is a patent?

A “patent” is an exclusionary right usually granted on a national basis for a new innovation or invention. It enables the patent owner to prevent others from using the idea or invention without the patent owner’s permission (or “license”).

To obtain a patent, technical information has to be disclosed in an application to a patent office. The patent office decides whether the invention is new and inventive, and may refuse or grant a patent accordingly. The patent explains what the invention is and how it works. Following this explanation is a set of numbered “claims”. The claims define the scope of the protection.

A patent application should be filed before the invention is made public otherwise the opportunity to obtain a patent may be lost. As a result, applications are often made at a very early stage of development, before it is known if and how an invention will be used. In many areas of technology it is usual to apply for patent protection in several countries or regions. A granted patent usually lasts for 20 years after the application is filed, after which the patented invention is free for anyone to use.

Patents can also be bought and sold, so the current owner may not be the original inventor(s).

## Q2. What is a Standard Essential Patent (SEP) and why are SEPs important?

In the ICT sector, standards are often developed through cooperation between research engineers working for many different companies. The standard development process involves considering the proposed technical solutions and deciding by consensus how to create the best possible technical solution for the given requirement.

Once an industry standard is adopted (for example, for mobile communications, video compression or audio compression) it is usually published in the form of detailed technical specifications. These specifications enable a company to develop products or services that comply with the standard and so have full compatibility and interoperability with other devices or services using the same industry standard. Examples are the successive generations of mobile communication standards often referred to as 2G, 3G and 4G.

There are many types of technical standards, which vary in the extent of the technology they cover; some are wide ranging, others are narrow. For example, mobile communication standards are extremely complex and incorporate technical developments from many different contributors.

A “Standard Essential Patent” (SEP) is a patent covering technology that must be used by a product or service to comply with a mandatory or optional part of a given industry standard. The exact meaning and scope of what is “essential” depends on the relevant Standard Development Organization’s (SDOs) Intellectual Property Rights (IPR) Policy.

### **Q3. What is a FRAND commitment?**

To ensure any proposed technical solution will be available for third parties to use, SDOs usually ask participants to commit that they will offer to license their SEPs on Fair, Reasonable and Non-Discriminatory” (FRAND) terms - i.e. to make a “FRAND commitment”. FRAND commitments are often subject to reciprocity, i.e conditional on the potential licensee making available its relevant SEPs on FRAND terms.

The form and extent of the FRAND commitment may vary between SDOs. Some SDOs have provisions to ensure that anyone who purchases a SEP subject to a FRAND commitment will also make a FRAND commitment.

### **Q4. What is a global portfolio license?**

Patents are usually national rights, so there will often be separate patents for the same invention in many different countries. This is particularly so for technologies used worldwide, such as mobile communication standards. A global portfolio license provides a license to all of the SEP owner’s relevant SEPs around the world, so enabling a licensee to manufacture and sell its products or services anywhere in the world. The license will usually require the licensee to account for all worldwide sales and pay a royalty to the licensor for those sales.

Global portfolio licensing is a common practice. However, there may be circumstances when it may not be appropriate, for example, if the SEP owner has a portfolio in a single country.

### **Q5. I want to develop a product/service for the Internet of Things. Will I need to obtain licenses to SEPs?**

This is a broad question because the Internet of Things (IoT) will incorporate many technologies, many of which will be standardized. It depends on, among other things, what standards you are going to use, whether those standards incorporate patented technology,

the IPR policies of the SDOs which developed those standards, industry practice and the licensing practices of any company that owns relevant SEPs.

If your product or service incorporates communications technology like 3G UMTS, 4G LTE, Wi-Fi, NB-IoT, Cat-M or video codecs such as H.264, it is likely that one or more SEP owners will seek to license you or someone else in the supply chain (see Q6 below). The same may be true of other standards.

It is advisable to seek publicly available information identifying principal SEP owners for the standards in question, to understand from whom a license may need to be obtained. Some SDOs have databases to support this. Information can also be obtained from specialist consultancies and professional advisers.

In some circumstances you may not need to obtain a license yourself; for example, if another company in the supply chain has a license covering all relevant patent rights.

The likelihood and cost of SEP licensing should be considered during product development. Your business plan may need to include a reasonable allocation for potential licensing fees.

## **Q6. Does every party in a supply chain for a given product or service need a license?**

No, there is usually one point or level in the supply chain where a SEP owner will choose to license its technology for a given product or service. This is to simplify licensing, reduce costs for all parties and maintain a level playing field between licensees. For communications technology, the licensing point is often at the end-user equipment level. This may vary between different industries.

Therefore whether you need a license will depend on where in the supply chain the licensing is taking place, and on the licensing terms.

If you are relying on a license to another company that is your supplier (i.e. upstream in the supply chain) or a customer (i.e. downstream), then you should confirm with them that their license rights cover all your needs.

## **Q7. What is a patent pool and how do they work?**

A patent pool is an agreement between patent owners to jointly license their patents. In the context of SEPs, patents in a patent pool relate to the same standard. A patent pool administrator may run different patent pools for different standards and there may be

multiple patent pools covering the same standard. For SEP owners, patent pools can be a useful alternative to running their own licensing programs. For potential licensees, they can help to: lower transaction costs by reducing the number of licenses, provide access to SEPs owned by all the members of the patent pool – but not to other SEPs – under a single license, and increase transparency by providing clarity on aggregate licensing fees for the SEPs in the patent pool.

Some SEP owners may not license patents via patent pools. It is therefore possible that additional licenses will need to be obtained through bilateral licensing, i.e. by agreement with the SEP owners.

Patent pools may approach potential licensees who they believe are using relevant standardized technology. However, please note that even if SEPs are in a pool the SEP owner may also be required to offer a bilateral license.

## **Q8. What happens if a SEP owner contacts me?**

In this event, the SEP owner should explain why it believes you may need a license and provide you with information about its relevant patents (see Q9 below). The SEP owner may also request information regarding your use or intended use of the relevant standard.

You, as an implementer, may also approach a SEP owner to ask for a license. The SEP owner will usually then make an offer but may not do so if, for example, it does not have a licensing program or if its licensing practice is to license at a different level in the supply chain. If the SEP owner does not make an offer, it should not prevent you from using the standard.

Currently, fully published license terms are not generally available and most SEP licenses are individually negotiated. This document describes current practice. However, in the future as more products and services begin to be developed for the IoT, SEP owners may begin to offer licenses on published fixed terms for particular types of product or use. For instance, a SEP owner might offer a license on published terms for the manufacture of domestic equipment, such as refrigerators, cookers and washing machines, or for household security systems, or personal location devices.

## **Q9. As a potential licensee, what type of information should I expect from the SEP owner?**

First, the SEP owner should provide a list (or, if too large, an exemplary list) of its patents that it believes are likely SEPs that your products or services are infringing, or will infringe, and explain the basis for its belief (usually that your product or service implements or complies with a standard). The SEP owner may provide further information at this stage to assist you, such as specific references to the relevant standard and section(s) of the standard for some or all of its relevant SEPs. The SEP owner should also provide additional information (see Q11 below). This may include sensitive commercial information, requiring the parties to agree to an NDA (see Q10 below).

## **Q10. If I am asked to sign a confidentiality/non-disclosure agreement (NDA), do I have to?**

An NDA is important for both licensor and licensee as confidential information may need to be exchanged as part of licensing discussions, and confidentiality concerns are sometimes a cause of delay. The information involved may be confidential to either party, for example: “claim charts” that demonstrate how the claims of a patent are being infringed by the potential licensee, commercial information relating to the potential licensee's products or services, and the license terms and financial proposals being offered by either party. Therefore it is common practice for parties to enter into a confidentiality agreement or NDA prior to exchanging confidential information.

Most lawyers are familiar with such arrangements, so legal advice can be easily obtained. In addition, although drafted from the perspective of a joint R&D collaboration, template NDAs such as those provided by the European IPR Helpdesk<sup>8</sup> may offer a suitable reference.

It should be noted that undue delay in agreeing an NDA, without well-founded reasons, might be taken as evidence of a lack of good faith in negotiations, which could have significance in any future court proceedings (see Q21 and Q22 below).

## **Q11. After signing an NDA, what further information should I, as a potential licensee, expect from a SEP owner?**

The following additional information should be provided by a SEP owner:

- *A sample set of claim charts* identifying the features disclosed in the SEP owner's patents and mapping these features to the standard. This is a convenient way to present and analyze technical information relating to patent claims. These charts usually set out in detail the reasoning behind a SEP owner's assertion of infringement by breaking down the relevant claims of a patent into separate elements (sometimes referred to as "integers") and mapping these to a standard and/or the potential licensee's products or services. A chart typically has two columns: the left-hand side sets out the patent claim with rows separating the integers of the claim; the right-hand column contains the relevant technical information in the standard (or product) relating to each integer of the claim.
- *An offer of a license or a term sheet* including details of the most important terms and conditions such as the term of the agreement, the products or services covered by the agreement, and the compensation/royalties requested (see Q15 and 16 below).
- *An explanation* of why the SEP owner believes its offer is FRAND.

## **Q12. As a SEP owner, what types of information should I expect from the potential licensee?**

This information can include, subject to competition law, relevant present and future product information (e.g. a list of products using relevant standards), sales prices of the products, any past sales volumes and possibly future sales forecasts depending on how royalty compensation might be paid (see Q16 below).

## **Q13. What is a typical SEP licensing negotiation process - technical and commercial discussions?**

There is no one typical licensing negotiation process. The process can depend on the scope and value of the license, both as to the size of the SEP owner's patent portfolio (which may comprise thousands of patents) and the extent of the commercial activity to be licensed (at one extreme, the manufacture of hundreds of millions of handsets to be sold worldwide).

In the context of disputes, courts in Europe, USA and Asia have started to describe negotiation processes that they consider should be observed before either party seeks legal relief against the other. The description that follows is informed by those court decisions, which are evolving, so any description is necessarily in broad terms. For most



parties, of whatever size, it should be possible to negotiate and conclude a FRAND license without recourse to legal proceedings - which should be the objective of both parties. Court proceedings are very much the exception, and not the norm.

It is common for both commercial and technical negotiations to take place. Commercial negotiations will relate to the terms and conditions of the license (see Q15 below), including the term of the license, the products or services covered by the license, the remuneration/royalty requested by the SEP owner for the use of its SEPs. Technical negotiations will usually consider technical issues relating to the relevant SEPs. In the case of large patent portfolios, these will often be focused on a sample set of patents. It is worth noting that technical negotiations may not be required if commercial negotiations are productive, and significant costs can be avoided by not pursuing them.

## **Q14. As a potential licensee, how should I respond to a SEP owner's offer?**

If you wish to accept the offer, you should sign the license promptly. If you wish to reject an offer, you should inform the SEP owner in a timely way and make a counter-offer - and explain why you believe its offer was not FRAND and how your counter-offer is FRAND. Reasons may be that the royalty is too high or is not structured properly (see Q16 below), the term is too long or short, there are circumstances that make a global portfolio license inappropriate (see Q4 above), etc. The reasons should be clearly justified to enable timely and efficient progress to be made in negotiations.

## **Q15. What principal terms are included in a typical SEP patent license?**

The principal terms of a typical SEP license will include:

- The standards covered and therefore the SEPs licensed
- Products/services and fields of use covered
- Territories covered, usually global (see Q4 above)
- Term/duration of the license
- Royalties, payment terms and auditing rights
- Dispute resolution clauses, which may also cover future licensing

If agreed, licenses may also include non-SEPs (see Q18 below) or a cross-license of the potential licensee's relevant SEPs or other commercial terms, each of which may influence the remuneration/royalty payable to the SEP owner.

## **Q16. How can the royalty in a SEP license be structured?**

There is no single rule. Common royalty calculation terms - depending on the SEP owner's practices, circumstances and technology - are structured as either a per unit cost, or a percentage of the net selling price of the licensed product or service, or as lump sum payments. Equally, a calculation might include a cap or a floor, and the percentage, rate per unit or lump sum costs may be adjusted depending on sales volumes.

## **Q17. How can I assess what might be a fair and reasonable license?**

This will be fact dependent, and various valuation methods exist; you may wish to seek expert advice. Methods used by courts can include looking to license of similarly situated companies and wider economic evidence. A complicating factor is that licenses are often subject to confidentiality provisions and so not available to third parties. In the absence of such information, a potential licensee can look to publicly available market data to provide some guidance on whether a license offer is FRAND. Such data and sources may contain factual information that can be helpful. They include:

- Public announcements on royalties by SEP owning companies and patent pools
- Information on royalties and licensing terms available from court decisions

Third party patent "landscape" reports may also provide a broad guide to the relative portfolios of different companies, and are usually obtainable for a fee from patent consulting companies. Equally, press releases and company/patent pool websites may help to indicate which SEP owners seek to license their patents and for what technologies.

SEP owners should be mindful that SMEs may lack information from which to draw assurance that proposed terms are FRAND, and should provide such information as they can under NDA to help the negotiation process. Equally, where a SEP owner is an SME, a more experienced potential licensee should take a similar approach.

## **Q18. What if a patent owner offers me a license to both SEPs and non-SEPs?**

A potential licensee is entitled to require that any license offer be limited to SEPs. However, the SEP owner may also own other patents that cover non-standardized technology that the potential licensee wants to use in its products or services. A SEP owner may not require a potential licensee to license non-SEPs as a condition for licensing SEPs. Nevertheless,

non-SEPs may be included in the same license as SEPs provided it remains the case that the SEPs are being licensed on FRAND terms.

## **Q19. What is the time period for parties to respond to offers and counter-offers, and what is the overall time limit for negotiations?**

FRAND principles require willingness and good faith behavior by both parties during negotiations. One aspect of this is that the exchange of offers and the conclusion of a license should happen in a timely and efficient manner and both parties should avoid tactical behavior leading to delay in agreeing terms.

A reasonable time period for negotiations can vary depending on the circumstances. For complex negotiations, such as those involving hundreds of patents for which licensing terms have not been widely accepted, several months may be needed to offer an informed response or counter-offer; after such time any response will need to be comprehensive. In simpler situations, such as those involving fixed terms that have been widely accepted, the time limit for responding will be much shorter.

## **Q20. How should the parties proceed if both offer(s) and counter-offer(s) are rejected?**

Generally speaking, both parties should persist in actively continuing negotiations with the aim of concluding a FRAND license in a timely manner. If an impasse becomes apparent, the parties should try to find other means to resolve the dispute - e.g. by using alternative dispute resolution mechanisms (see Q21 below). At this stage both parties should seek legal advice on available dispute resolution mechanisms and how to use them, to understand and assess alternatives to agreeing a license.

## **Q21. If there is a dispute between a SEP owner and a potential licensee, how might this be resolved?**

What is alternative dispute resolution? Parties should aim to resolve a dispute between themselves. If this is not possible through negotiation then resolution may occur through mediation, court proceedings or arbitration. Mediation can be used on a voluntary basis to try to reach an agreement at any time and in any circumstances, including when court or arbitration proceedings are ongoing. Arbitration proceedings are a voluntary alternative to

court proceedings. Mediation and arbitration are often described as “alternative dispute resolution”.

*Mediation* is a non-binding process with a mediator helping parties to come to a negotiated resolution; a successful mediation is therefore not a decision taken by the mediator but rather an agreement between the parties facilitated by the mediator. This can be helpful where the parties' positions are not too far apart or they have reason to maintain a good working relationship in other respects. Mediation is worthwhile if resolution of a dispute or any significant issue within it appears possible, but is not a cure-all for all circumstances where parties have a dispute, and it may cause delay. A mediator should be alert to ensuring both parties are entering into mediation in good faith, and may halt a mediation if they are not.

Court proceedings relating to SEP disputes can take several forms, may arise in more than one country, and can become very complex and costly. For example, a SEP owner might start patent infringement proceedings in a particular country seeking an injunction (see Q22 below) against a potential licensee. The potential licensee might respond by challenging the validity or essentiality of the SEP owner's patents, possibly in another country, in addition to responding in the infringement proceedings.

When deciding whether to impose an injunction, courts may consider whether an offer made was FRAND or, in some cases, determine what the FRAND compensation should be or set the terms of a FRAND license. Alternatively, instead of patent infringement proceedings, either party may ask a court to resolve the licensing dispute as a whole. In some countries courts may be willing to do this, especially if both parties agree. However, this may not be possible in other countries, and issues of jurisdiction may arise, including which country's courts should resolve the dispute. Therefore arbitration may be the best option for both parties where they want a global resolution.

*Arbitration* is usually a binding process agreed by the parties, including the rules and procedures under which arbitration proceeds; these are much like court proceedings but have the advantages of being international and confidential. The parties define the issues to be resolved. Arbitrations are generally not subject to appeal except on very limited grounds. An award made by an arbitration panel can be enforced through national courts in most principal countries.

Recognized arbitration bodies (such as the International Chamber of Commerce (ICC)) provide their own rules, which parties may choose to adopt or modify, and administrative facilities for arbitration with information on their processes available on their websites. The World Intellectual Property Organisation (WIPO)<sup>10</sup> has developed an example of an arbitration agreement designed for FRAND arbitration.

Offers for alternative dispute resolution should be considered carefully and, if rejected, clear reasons given to allow an amended offer. Neither offers nor rejections should be aimed at delaying the negotiation process. Recognizing the importance of timely conduct, any dispute resolution proceedings should be run in a timely and cost-effective manner relative to the complexity and value of the dispute.

## **Q22. What is an injunction and how might this affect my organization?**

An injunction is a court-ordered remedy requiring the party subject to it not to perform certain acts, and imposing penalties in the event they breach the injunction. Court-awarded injunctions against patent infringement typically require the infringer to stop selling and manufacturing, and require the recall and destruction of any infringing products or services.

The willingness of a court to award an injunction will differ from country to country. In some, the award is often granted, whilst in others it may be an unusual outcome. Courts have various tests and requirements; for example, the court may consider whether a monetary award will be an adequate remedy without the need for an injunction.

Where a dispute concerns SEPs, competition/anti-trust law may also be relevant to whether a court will award an injunction. Again, this differs by country. Factors taken into account may include:

- The nature of the offers made by either party, including whether they were FRAND
- The behavior of the parties, such as whether they showed willingness to negotiate and conclude a FRAND license and acted in good faith
- Duration of negotiations, including whether either party used delaying tactics
- Whether financial security of some form has been provided by the potential licensee
- The particular circumstances of each party

In some cases, where a court has determined the FRAND compensation or set the terms of a FRAND license, an injunction may be awarded by the court against the potential licensee if it refuses to accept a license on those terms. If proceedings appear likely a potential licensee should seek legal advice, in particular on the question of financial security.