THE CHARTERED INSTITUTE OF PATENT ATTORNEYS

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A consultation response from the Chartered Institute of Patent Attorneys (CIPA)
Standard Essential Patents (SEPs)

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The Chartered Institute of Patent Attorneys (CIPA) is the professional body and approved regulator for patent attorneys in the UK. Founded in 1882 and incorporated by Royal Charter in 1891, CIPA is one of the oldest intellectual property organisations in the world. With almost 5,000 members including 2,900 Fellows (Chartered Patent Attorneys), 1,000 student members and 700 paralegal members, CIPA is the largest IP membership body in the UK. CIPA's Royal Charter covers IP practitioners with expertise in patents, trade marks, designs, copyright and all other forms of intellectual property. CIPA is governed by its elected Council, in whose name this consultation response is made.

CIPA is supportive of the IPO's SEP policy objectives of (1) helping implementers, especially Small and Medium-sized enterprises (SMEs), navigate and better understand the SEP ecosystem; (2) improving transparency and (3) achieving greater efficiency in dispute resolution. We also endorse the Government and IPO's mission to drive economic growth by accelerating innovation and productivity through world-class science and development, supported by an IP system that fosters investment in innovation and creativity.

As we move into the future, SEPs and knowledge of SEPs are and will become increasingly important to global innovation. CIPA therefore requests that the UK government continue to engage with users of the IPR system, including the CIPA, and international stakeholders. CIPA members remain committed to constructive dialogue on these important issues. Drawing upon our members' collective expertise, CIPA looks forward to working with the IPO to help shape a SEP framework that serves the interests of UK innovation and competitiveness

Yours sincerely

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General observations

1. Licensing and use of SEPs is a global business, so it is important that any proposed measures do not add significantly to the burden of doing business in the UK. We note that the IPO does co-ordinate with other patent offices and such global co-ordination is welcome in this area.

2. There are a large number of standards in a wide range of technical areas. Any new measures should only apply to those standards where, after due consultation, it appears that real problems exist. Doing so would ensure that the innovative industry is not unnecessarily burdened by red tape. In particular, in the absence of clear evidence of market failures in industry, we question whether intervention is necessary. The vast majority of SEP licensing takes place without litigation, and virtually all SEP litigation relates to the mobile telecommunications sector and is between large companies rather than SMEs and start-ups.

3. For many standards, well-functioning market solutions exist in the form of patent pools, which are basically a one-stop-shop platform for obtaining licences under standard-essential patents from multiple patentees in one transaction. These patent pools usually have websites that are transparent about which patents are licensed.

4. Care needs to be taken in the implementation of any potential measures that these do not discourage the establishment or maintenance of UK domiciled businesses. We also note that measures making it simpler for SMEs to request rate determination may also make it more attractive for some patent owners (such as small NPEs) to pursue SMEs for a licence which might not have been done with the existing system.

5. In new application areas, it may not even be possible to determine an appropriate royalty rate initially. The royalty rate for a particular application should be determined by reference to the value of the standardised technology to the end user. In existing application areas (e.g. mobile phones, computers, automotive, media players) this value is well-established and underlies existing royalty rates, but in new areas the value proposition may need some time to become established before a robust royalty rate determination is possible.

Potential measure 1: Rate Determination Track (RDT)

General

6. We encourage the government to carefully consider in what circumstances the rate determining track (**RDT**) would be seized of a rate determination.

7. The government's proposal appears to be directed to all standard essential patents (**SEPs**). However, not all standards include a policy of mandatory licensing on fair, reasonable and non-discriminatory (**FRAND**) terms. For example, there are proprietary standards where patents are owned by one company with no FRAND commitment (e,g, Apple's lightning connector), as well as standards with royalty-free policies (e.g. Bluetooth). The jurisdiction should be exclusive to those standards which are subject to FRAND terms.

8. Further, the government proposes that the RDT would only apply where infringement, validity and essentiality are not in dispute. This may be impracticable. Prospective licensees often (if not always) contend that at least some of the patents in issue are not infringed, are invalid, and/or are not essential. This subsequently forms part of the licence negotiations and any subsequent licence rate.

9. This is reflected in the FRAND determinations made by the Court. For example, in Unwired Planet v. Huawei & Others [2017] EWHC 711 (Pat), Birss J (as he then was) used essentiality ratios to adjust the royalty rates derived (see for example ¶201). Further, he accepted that future deductions may be made to the FRAND rate if it were subsequently determined that a licensed patent was not-infringed, invalid or non-essential.

10. Furthermore, the government does not indicate whether both the licensor and prospective licensee need to consent to the rate determination being subject to the RDT or whether only one party may apply for this. In so doing, the government should consider how this would interrelate with the RDT only applying where infringement, validity and essentiality are not in dispute.

11. For example, where a rate is disputed, the (public) determination of that rate will typically only favour one of the parties. This means that both parties are unlikely to consent. If mutual consent is required, this may result in the RDT being used (significantly) less.

12. In turn, if either party may apply for a rate to be determined by the RDT, where infringement, validity and essentiality cannot be factored into the assessment of the rate, the prospective licensee may be reluctant to apply for a rate determination or (if the subject of the application) may dispute the jurisdiction of the RDT. Again, this may result in the RDT being used (significantly) less.

13. Furthermore, the government does not explain whether the RDT will only have jurisdiction over the UK-limb of any multi-jurisdictional portfolio or the entire portfolio. If the entire portfolio, the government should consider the following:

    a. On what basis would the court be exercising the extra-territorial jurisdiction?

    b. The royalty rate applicable may differ depending on the jurisdiction, necessitating significantly more evidence and court time. For example, in Unwired Planet v Huawei

& Others, Birss J accepted that certain developing countries would attract a lower rate.

14. On the other hand, licensing is typically done on a global basis, as this is the most efficient means of licensing for both licensor and licensee. A UK-only licence will, in most cases, not lead to a settlement of any dispute without more, and would also need to take into account the fact that other licences are global with rates reflecting this fact (i.e. lower rates than a UK-only licence).

15. Also, the government does not explain how a rate determination would be enforced. In so doing, the government should consider how this would interrelate with a multi-jurisdictional portfolio.

16. For example, if a licensor with a multi-jurisdictional portfolio did not accept the rate determined, would it be precluded from enforcing its patents against the prospective licensee? If so, would this apply only to the United Kingdom or to other jurisdictions as well? If it applies to other jurisdictions, on what basis would the court be exercising the extra-territorial jurisdiction?

17. Conversely, if a prospective licensee of a multi-jurisdictional portfolio brought a case under the RDT but then did not accept the rate determined, what sanctions would there be (e.g. an automatic injunction preventing the prospective licensee from implementing the portfolio, or would it still need to establish that one or more of its patents was infringed and valid)? Under existing precedent, no injunction is possible without a finding that at least one patent is infringed and valid, and a FRAND injunction applies to UK sales when a licensee does not take a global licence on terms judged by a UK court to be FRAND.

18. It is also important to note that the determination of a licence and royalty rate is always contextual and dynamic. Therefore, we would encourage the government not to be prescriptive about how the terms of a licence or a rate are determined. Rather, this should be assessed on the basis of, *inter alia,* the evidence including the standard, patent portfolio, prospective licensee, market, sector and technology.

Question 1: Would an RDT within IPEC meet our objectives of providing fast and efficient rate determinations?

19. We are of the view that it may be possible to establish a judicial or tribunal mechanism which will expedite the determination of rates for SEPs but it is critical that any such track is correctly structured, resourced and implemented. Failure to adequately fund the track or failure to recruit sufficient people with the right skills to make rate assessments would have the opposite effect and result in further cost, delays and uncertainties for both rights holders and implementers.

20. We are also of the view that the Intellectual Property Enterprise Court (IPEC) may be suited to perform rate determination for certain cases. However, in view of the structure and resourcing of the IPEC, we do not consider that it will suit all cases.

21. For example, the IPEC is resourced by one full-time judge and is structured for small to medium sized parties[1], non-complex cases (which can typically be determined at trial within 2 days), has a damages cap of £500,000 and has a costs recovery cap of £60,000 for liability and £30,000 for damages/account of profits.

22. By contract, Unwired Planet v. Huawei & Others was in relation to a large-multinational companies, was highly-complex (being determined at a 20 day trial), resulted in a multi-million FRAND determination and legal costs (for Unwired Planet) of approximately £12.4 million.

23. An RDT in IPEC, the Patents Court (Shorter Trials Scheme)[2] *and* the Patents Court will allow the courts to accommodate a range of portfolios and prospective licensees (including SMEs). It also has the advantage of the Patents Court (Shorter Trials Scheme) and the Patents Court providing judicial precedent on larger cases which can be used by the IPEC in smaller cases. Before introducing an RDT it should be demonstrated that the proposed scheme has real advantages over the possibilities afforded by existing case management rules (including whether there are likely to be any cases which are sufficiently simple).

Question 2: Locating an RDT in an existing court structure has advantages, but are there any alternatives that could achieve the government's objectives?

24. The use of the intellectual property courts brings certain advantages. It will allow the government to draw on the experience of the judiciary (Meade J, Mellor J and HHJ Hacon), bar and solicitors in FRAND determination and the existing court structures. Further, any discussion of FRAND cannot be divorced (entirely) from the patents which underpin them. Any appeal would then be to the Court of Appeal (Arnold LJ, Birss LJ), which is similarly well-versed in these issues.

25. A further benefit of locating an RDT in an existing court structure is the ability of the share previous license agreements under prescribed confidentiality agreements (e.g. confidentiality clubs for outside counsel eyes only). This ability to easily share previous license agreements can be one of the biggest hurdles to overcome in SEP licensing negotiations. As such, a streamlined, cost-effective way of making these licenses available may result in an increase in transparency and licensing efficiency, although we note that most FRAND cases are complex and of high value, meaning that parties typically want to argue their cases to the fullest extent possible. Hence the degree of transparency will need to be balanced with the wish for efficiency.

26. Nonetheless, we also see the logic in the government considering alternative courts or tribunals, although significant legal hurdles may need to be overcome to enable these and there is a risk of conflicting decisions when there are more venues. In practice, the intellectual property courts have been making FRAND determinations because the FRAND licensing commitment provided by a SEP holder creates a defence against a patent assertion from that SEP holder. Before a court makes a FRAND determination and issues a

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[1] Typically defined as a company with fewer than 250 employees with either an annual turnover under €50 million or a balance sheet of less than €43 million.

[2] A scheme in the Patents Court which provides a streamlined procedure and caps costs recovery at £500,000.

FRAND injunction, at least one patent in the portfolio being licensed must have been judged infringed, valid and essential. The government's proposal appears to seek to remove this requirement. In so doing, the FRAND declaration becomes largely (but not exclusively) an economic (not an intellectual property) argument. In this way, other courts or tribunals may also be suited to hearing the issue. We also note that a rate determination on the request of only one party is unlikely to resolve a licensing dispute.

27. Examples of alternative courts or tribunals may be the UK Intellectual Property Office, Competition & Markets Authority or a form of alternative dispute resolution. However, in each instance the government is likely to be faced with recruiting the relevant judiciary/arbitrator, training said judiciary/arbitrator and upskilling the bar and solicitors. Further, not all of these offerings will have the necessary remedies available to them to encourage uptake of the licence and rate when determined (for example, the ability to award injunctive relief). Furthermore, it is unclear whether there would be a right of appeal and to where that appeal may lie.

28. The government should also be mindful of other courts which may offer or are offering extra-judicial determinations of FRAND (for example, the Unified Patents Court and/or the Chinese courts). As to the Unified Patents Court, subject to the political will, it is possible for the United Kingdom to join this.

Question 3: What are your views on how the government could ensure a rate determination route is accessible to SMEs?

29. For the reasons set out at paragraph 22 above, we encourage the government to consider the benefits and drawbacks of an RDT in IPEC, the Patents Court (Shorter Trials Scheme)[3] *and* the Patents Court. We note that, to date, no SME has been sued by a SEP holder in the UK, and that this may become more likely if an RDT is implemented. Conversely, it may become easier for SME SEP holders to enforce their patents. Care also needs to be taken to ensure that any new measures do not encourage disputes rather than incentivising good-faith behaviour on both sides.

30. The ability to prescribe a definite timeline and predictable process for rate determination is critical – potential delays and uncertainties will leave all parties, in particular SMEs, in a worse position than before.

31. Fees could easily be prohibitive for SMEs. As such, basing fees on impacted revenue may encourage SMEs to make use of this track, although care is needed to ensure that UK SMEs are not disadvantaged compared to their competitors in other jurisdictions since enforcement would be limited to the UK.

Question 4: What should the remit and scope of an RDT be e.g. reasonable licence rates and terms; who brings the claim (licensor, licensee or other parties)?

32. If an RDT is adopted, we encourage the government to allow the court to:

    a. determine whether the terms of a licence and rate offered are FRAND; and

[3] A scheme in the Patents Court which provides a streamlined procedure and caps costs recovery at £500,000.

b. absent the terms of a licence and rate being FRAND, for the court to determine said terms and rate.

This will allow the court to operate efficiently (if a licence and rate are FRAND, the court will not have to go any further), while offering the parties an opportunity to settle their dispute before further costs are entailed in determining the patent issues (if a licence and rate are not FRAND, the court can determine what is in the circumstances). It is important to keep in mind that the rate is only one of many inter-related elements that together make a FRAND licence.

33. We do not suggest that the government should prescribe how the terms of a licence or the royalty rate should be determined. Rather, we suggest that this is assessed by reference to the standard, evidence available and evolving judicial precedent (see ¶24 above)

Question 5: Are you aware of any additional evidence or research the IPO could utilise to inform the development of the RDT, or alternatives to the RDT that achieve the same outcomes?

34. Rates published by patent pools can be used as evidence of rates supported by the market. Furthermore, there are a number of third party vendors (e.g. Lexis Nexis) who provide analytics on rates being adopted in the market. The IPO could commission such vendors to perform a detailed analysis to help inform the development of the RDT, although great care would need to be taken to ensure impartiality.

Question 6: How do you think an RDT should be structured and resourced to be effective and accessible (e.g. composition of a panel with relevant expertise, decision-making processes, procedural rules)?

35. We encourage the government to consider the following procedures:

a. All claims are docketed to the same judge who is responsible for their case management and determination at trial.

b. As comparable licences are often a material factor in determining the terms of a licence and its rate, it should be available for the licensor and prospective licensee to obtain an order for disclosure of all said comparable licences at an early stage in the proceedings, while ensuring an appropriate confidentiality club is set up. As these licences will be confidential, any disclosure should be subject to terms of confidence.

c. As the number of allegedly infringing products is relevant to determining the terms of a licence and its rate, it should be available for the licensor to obtain an order for disclosure of all sales and other relevant information to inform it of whether its offer may be FRAND (e.g. sales forecasts) at an early stage in the proceedings, in a similar manner as noted above to protect confidential information.

d. Following the conclusion of statements of case, the case management conference should carefully consider: a) whether any further disclosure is required; b) whether witness evidence is necessary (and, if so, in relation to what); and c) whether expert evidence is necessary (and if so, in relation to what). Should the court wish to reduce time and cost it should carefully consider whether one joint expert can be appointed or if two experts are to be appointed whether they should meet with a view to narrowing the issues. The RDT panel should include legally qualified specialists and, as required, experts in IP valuation, economics and/or FRAND methodologies, preferably with expertise in FRAND cases. While legal expertise can be met by appointing judiciary members from, e.g., the Patents Court, valuation experts will likely need to be selected from industry. Further consideration will need to be given to the availability of these experts. The RDT will need to establish clear procedures and safeguards to ensure impartiality, especially in such a small sector where the chances of experts being conflicted by working either with/for implementers or SEP owners are high. In addition, the Consultation's estimated cost for these experts (hourly rate of £50-£100) are significantly below current market rates, which could affect the practical feasibility of the RDT (e.g. will the RDT find the necessary personnel?) or, if costs need to be revised to match existing market rates, the cost-effectiveness that the RDT aims to achieve. It should also be noted that redirecting resource away from the Patents Court may put further strain on the Patents Court.

e. At trial, cross-examination of any witnesses and the experts should be carefully controlled.

f. Any panels of experts sitting alongside a judge must be staffed with sufficient members all of whom have the relevant expertise, and no conflicts of interest. The RDT must be sufficiently funded and resourced to allow it to work to a predefined timeline which cannot be delayed by actions of the parties.

Question 7: In your view, how would the government's proposed RDT provide efficiencies above and beyond what is available elsewhere in the High Court?

36. The government's proposed RDT could provide significant efficiencies beyond which is available in the United Kingdom or other jurisdictions, depending on how it is implemented and subject to the rules being balanced and not open to abuse.

37. In the United Kingdom, typically a court only determines the terms of a licence and a royalty rate once at least one patent from a portfolio is infringed, valid and essential. This typically takes at least one to two years, depending on any appeal. This introduces significant delays and costs.

38. In other jurisdictions, typically a court will not determine whether a licence or rate is FRAND or, it will only determine whether an offer of a licence or rate is FRAND (but will not make a declaration as to what is a licence or rate).

39. However, even with the need for at least one patent from a portfolio being infringed, valid and essential being removed, it is likely that costs will remain high (whether in the IPEC, Patents Court (Shorter Trials Scheme) or Patents Court. Such costs may reduce in the event that the courts develop a body of consistent case law. Further, they may be reduced by curtailing disclosure, witness evidence, expert evidence or cross-examination. However, the latter may compromise the quality and predictability of the decisions, and also increases the risk of unfair determinations for one or other party.

Question 8: What would be your preferred model to base licence rate calculations? What specific methodologies or principles do you believe should be considered?

40. As the determination of the licence terms and royalty are contextual and dynamic (see ¶18 above), we caution against the government prescribing one model. However, the prescription of parameters on which rate calculation is based would make it much easier for users, and in particular SMEs, to understand and predict outcomes – this could result in an increase in transparency and efficiency. However, each case is different and the court will ultimately need the flexibility to make its determination based on the facts before it and the commercial practices existing in the appropriate technology space.

41. We would caution against relying on untested or purely theoretical approaches that are not grounded in commercial realities or substantiated by independent expert evidence. Such approaches are not only impractical, they also fail to provide clear and predictable guidance (because they are not rooted in commercial market practice) and may ultimately risk devaluing standardised technologies, reducing royalties to sub-FRAND levels, and undermining incentives to participate in standardisation.

Question 9: What factors should determine which calculation method is used, or be taken into consideration (e.g. license facts such as duration, scope, age, term, previous royalty rates, fee structure; and company specific data such as size, sales volume, products)?

42. As the determination of the licence terms and royalty are contextual and dynamic (see ¶18 above), we caution against the government prescribing one model. All of the factors listed are examples of evidence which may be relevant.

Question 10: Do certain sectors or technologies require their own specific methodology? Please provide examples.

43. As the determination of the licence terms and royalty are contextual and dynamic (see ¶18 above), we caution against the government prescribing one model for all sectors and technologies. It is likely that different sectors and technologies will produce different evidence which will require different methodologies. For example, a product sold to a consumer by subscription will likely use a different methodology to a device sold. Equally, some products (for example, smart meters) which are offered to consumers at no charge will likely use a different methodology to a subscription.

Question 11: Would publication of decisions be an enabler of transparency or discourage use of the RDT?

44. It would enable transparency and help all rights holders and implementers beyond those using the RDT. Nevertheless, the court will need to be mindful of redacting confidential information. Publication may also increase adoption of standards by SMEs as they would have data to allow them to plan financially whether adoption of a given standard would be affordable.

45. Finding the right balance between protecting confidential information and the government's goal of increasing transparency will be crucial. Transparency efforts should not undermine the parties' rights and obligations but instead focus on ensuring that only information relevant to the broader ecosystem is disclosed.

Question 12: What powers or procedural rules should be implemented to ensure the RDT operates effectively and facilitates accessible, quick and cost-effective rate determinations?

46. If an RDT is adopted, we encourage the government to adopt (or at least model) the civil procedure rules (amended to accommodate the RDT).

Question 13: What powers and rules of procedures would be most useful to ensure the RDT can encourage its use by all parties in the SEP ecosystem?

47. If an RDT is adopted, we encourage the government to adopt (or at least model) the civil procedure rules (amended to accommodate the RDT).

Potential measure 2: Searchable standard related patent information

Question 14: In your view, would this proposal meet the government's aims of increasing transparency and reducing information asymmetry? Please explain why.

48. A database of information that is limited to GB or EP(UK) patents offers limited benefits for businesses operating in global markets. SEP families almost always have coverage across multiple jurisdictions, products are often sold internationally, and licences are often global in scope. Many more non-GB patents will be disclosed as potentially essential than those in the UK IPO database, so it is difficult to see how this information will assist any business which intends to trade outside the UK.

49. Where SEPs are licensed through patent pools, there is generally no problem with transparency or information asymmetry. Further, owing to the development of case law in this area, a SEP holder will in practice provide a prospective licensee with an up to date list of the patents it believes to be essential and a set of claims charts for its SEPs. A negotiation will then often ensue to discuss the merits of the patent portfolio in the context of the standard and use case.

50. Note that for telecom standards such information is mostly already present in the ETSI IPR database, so all that the proposal would add is information relating to patent grants. The fact that more patents are disclosed than are truly essential is inherent in ETSI's rationale (to ensure that implementation of its standards cannot be blocked), and has been encouraged by foreign court decisions. For example, the *Core Wireless* decision from the US Court of Appeals for the Federal Circuit[4] held that failure to disclose a patent early could lead to that patent being unenforceable. Although generally considered bad law, this decision has encouraged SEP owners to play safe by disclosing patents early and broadly, and it is unrealistic to expect any different behaviour in respect of any UK database.

Question 15: How should the government provide legal certainty for users on what is in scope of this proposed mandatory requirement (e.g., specific provisions enshrined in law outlining when the requirement to provide information is triggered or what is excluded from the requirement)?

51. As we mentioned in the beginning of our response, we strongly believe that any new mandatory requirements should only be imposed if and to the extent that, after due consultation, it is clear that problems exist for UK-based implementers. Hence, any mandatory requirements should only apply to standards where such problems have been explicitly identified.

52. Further, it would be preferable to work together with Standard Development Organisations (SDOs) to ensure that appropriate information is available rather than adding UK-specific requirements. If there are to be any additional requirements for UK essentiality disclosures, it is essential that these requirements are proportionate and do not impose unnecessary costs and burdens on any party.

[4] *Core Wireless Licensing S.A.R.L. v Apple Inc*, 899 F.3d 1356 (Fed. Cir. 2018)

Question 16: What standard related patents information should rightsholders be required to submit to the IPO to build a useful data set (e.g. technical specification or standard the patent relates to, FRAND commitment, availability of licences)?

53. Subject to what has been submitted above, that information indeed seems useful, but is also mostly already available (e.g. in the ETSI IPR database). Further, the more information expected, the more challenging implementing any database will become – not least as there are a very large number of SDOs and standards, with a range of different nomenclature, licensing commitments, etc.

Question 17: Are there alternative mechanisms or routes that might more easily achieve the government's objectives of increasing transparency and reducing information asymmetry?

54. It is not clear that implementers (particularly SMEs) require information on the status and essentiality of individual patents (particularly in the case of standards with thousands of disclosed patents). More useful might be an extension to the IPO's SEPs Resource Hub to include information about patent pools applicable to various standards, market studies on SEP landscapes, and expert advisors. To the extent that there are still information gaps relevant to UK-based implementers, these will typically be global in nature. It would therefore be more useful for the IPO to work with other offices and SDOs to develop global best practice.

Question 18: What, if any, sanctions should the government consider introducing to deal with non-compliance issues (e.g. invalidity, enforceability, public listing of non-compliant patent owners, fines, administrative fees)?

55. The government should not impose additional costs and burdens on patent holders. Accordingly, sanctions would not be appropriate. Should the government seek to impose sanctions it must be mindful of its international obligations (e.g. under TRIPS) and the sanctions must be proportionate to the harm done.

Question 19: How should the IPO ensure information is supplied accurately by the rightsholder (e.g penalties, incentives such as reduced fees)?

56. Incentives are preferable to penalties. Any sanctions will discourage investment in the UK by global companies (or the setting up of new companies). Further, making the provision of information mandatory would require IPO oversight with compliance mechanisms, with additional administrative and cost burdens.

<u>Potential measure 3: Assessing the need for a Specialist SEP Pre-Action Protocol</u>

Question 20: In your view, do the general pre-action protocols as laid out in the Civil Procedure Rules encourage sufficient information exchange to reduce the need for litigation, including on SEP pricing and essentiality?

57. We do not consider that the pre-action protocols encourage sufficient information to be exchanged, nor can they. Moreover, the prescription of detailed pre-action steps may in many cases prevent efficient and open exchange of information as both parties are being cautious to follow prescribed steps so that any attempt to 'cut to the chase' can later be used against them. Additionally, the prescription of detailed pre-action protocols significantly increases the complexity, time and cost for both parties and makes it very difficult to achieve efficient outcomes.

58. First, a breach of the pre-action protocols is rarely enforced. In particular, the court rarely grants the relief afforded in ¶13 *et sequitur* of the Practice Direction – Pre-Action Conduct and Protocols. If such a sanction were given, it is largely inconsequential relative to the litigation.

59. Second, the parties are often unable to disclose information which is confidential to third parties without a court order. For example, a licensor is unable to disclose comparable licences which are confidential to another licensee without a court order.

60. Third, many of the pre-action steps are governed by Huawei Technologies v ZTE (Case C-170/13), which prescribes a safe harbour to a SEP holder, who has given a FRAND licensing commitment, seeking an injunction where there is a dominant position and competition law is engaged, provided that the following steps are adhered to:

    a. The SEP holder must alert the implementer in writing of the infringement complained of by noting the relevant SEP and how it is alleged to be infringed.

    b. The implementer must express a willingness to conclude a licensing agreement on FRAND terms.

    c. When willingness is shown, the SEP holder must provide a specific, written offer for a licence on FRAND terms. The offer must specify the amount of the royalty and how it is calculated.

    d. The implementer must "*diligently*" respond to that offer, in accordance with recognised commercial practices and in good faith, which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.

    e. If the implementer does not accept the offer made to it, a counter offer that corresponds to FRAND terms must be made promptly and in writing to the SEP holder.

    f. If the implementer is using the teachings of the SEP before a licensing agreement has been concluded, the implementer must provide appropriate security in respect of its past and future use of the SEP.

g. Where an agreement has not been reached on the details of the FRAND terms following the counter-offer by the implementer, the parties may, by agreement, request that the amount of the royalty be determined by an independent third party.

h. The implementer cannot be criticised for challenging, in parallel to negotiations for a grant of licence, the validity of the SEP or the essential nature of the SEP or for reserving the right to do so in the future.

Question 21: Are you aware of any instances where pre-action protocols are ineffective or not adhered to, either generally or specifically in SEP disputes?

61. See ¶58 above.

Question 22: Do you think the introduction of a SEP specialist pre-action protocol would address information asymmetry on pricing and essentiality by providing clear expectations on information exchange at an early stage?

62. A specialist pre-action protocol may assist. However, it is should not circumvent the obligations under Huawei v ZTE decision or the need for a court order to facilitate disclosure. Furthermore, as discussed above, strict prescription of steps to be followed can inhibit early disclosure of information.

Question 23: In your view, what should be included in any specialist SEP pre-action protocols to facilitate early disclosure of significant SEP information (e.g. claim charts, standard and version, essentiality data, how the FRAND rate was arrived at)?

63. Any specialist pre-action protocol should require the following in addition to disclosure of relevant documents where possible:

a. Identification of the patents in the patent portfolio;

b. Identification of the standard in issue;

c. Identification of the products in issue;

d. An explanation as to why (at least some) of the patents in the patent portfolio are essential (with a claim chart);

e. An explanation as to why (at least some) of the products in issue implement the standard;

f. An explanation as to the terms of the licence and rate sought and why it is FRAND.

<u>Potential measure 4: Assessing market provision of essentiality checking services</u>

Question 24: Have you used commercial essentiality services? Yes / No

64. CIPA does not use commercial essentiality service, but CIPA members work for companies that have used these services. The current users of these services are typically commercially, legally and technically astute and understand the benefits and weaknesses of such services. Typical users include companies or experts engaged in SEP licensing. They may also be used by patent pools to prevent non-essential patents inadvertently being included in the bundle of licensed SEPs, and also to ensure that the royalty distribution by the patent pool to the participating patent owners is based on likely essential patents only. These services are also sometimes used by companies seeking an opinion on whether a patent that they own or one that may be asserted against them is standards essential, for example as a starting point for negotiation or other interaction. Also, patent pools will usually appoint an independent assessor to assess whether the patents forming part of the pool (or at least a reasonable number of them) are likely standard essential.

Question 25: If you have used commercial services to assess essentiality, what are your views on:

- **accessibility (e.g. cost)?**
- **accuracy and reliability?**
- **how you used the data (e.g. for licensing negotiations, or valuation of a portfolio)?**
- **whether the services provide value for money?**

65. There are a range of service providers, including patent attorneys (who tend to be higher cost, but provide high quality of services) and IP advisory providers (who typically offer lower cost bulk analysis, but quality can vary considerably).

66. A competitive industry already exists in providing these services, which should allow their clients to choose the right service provider for their requirements. Our understanding is that CIPA members are satisfied by the services available and the value for money.

67. A related area with commercial services provided is that of landscape reports, which identify companies holding patents relevant to a particular standard and give some information on their relative holdings. Members have encountered some of these reports being used in licensing negotiations and in litigation, but there are often problems including a lack of rigour and a lack of transparency regarding key elements (e.g. methodology, evaluator expertise, time spent per assessment, and sponsorship with the potential for bias). Consequently, such reports may produce misleading, inaccurate and conflicting outcomes.

Question 26: Are you a provider of commercial services? Yes / No

68. Although CIPA does not itself provide such commercial services, many CIPA members work for providers of commercial essentiality checking services.

Question 27: If you are a service provider, can you provide details on:

- **services / packages you provide?**
- **methodologies you use to determine essentiality, or probability of essentiality?**
- **what you charge for your services, and whether you offer discounts for smaller users?**

- **how you ensure reliability of the data?**
- **your main clients (e.g. SEP holders/licensees/others)?**
- **what your services are used for (e.g. assessing the value of a whole portfolio, dispute resolution)**

69. CIPA members providing these services provide a range of options and packages, including individual and bulk analyses. Essentiality is an infringement-based test and patent attorneys are in principle very well-qualified for making such assessments, through their training, continued professional development and subject matter expertise. Note that determining essentiality to complex standard specifications (such as those developed by 3GPP) requires additional expert knowledge of the standard, which is a specialist skill and which may attract a premium.

70. Charges are typically made based on a fixed price basis or hourly rates, although fee arrangements are possible. CIPA members offering such services would also typically offer discounts where feasible.

71. Clients of CIPA members span the full range of industry players including SEP holders, licensees, SMEs and those looking to enter the industry. The services provided are used for a variety of purposes, including: patent pool entry; valuation; licensing negotiation; and dispute resolution. Currently, AI is not typically used in these assessments, but it is envisaged that patent attorneys will increasingly use AI to provide the foundation for their analysis, which will reduce costs accordingly.

Question 28: Do you think there is value in a government-led essentiality review mechanism at the IPO?

72. The IPO opinion service already provides the possibility for a SEP determination, based on infringement by use of a standard-compliant device. At a cost of £200 per opinion (far lower than any commercial provider), there is no reason for any party to feel unable to receive an objective SEP assessment based on cost. We note that this opinion is non-binding and that the IPO has some discretion as to whether to give an opinion, but it is not clear how that discretion would be used if an essentiality check were requested. In view of the comments above, an opinion at this cost must be heavily subsidised if it is to be accurate and reliable.

73. Whilst an additional government provision could be useful to some small businesses or as an alternative to commercial providers, we do not see the need at this time. We note that the Japan Patent Office has offered a "Hantei" (Advisory Opinion) service for essentiality checking since 2018, with the purpose to facilitate licensing negotiations and dispute resolution by providing a fair and independent assessment. Our understanding is that this service is not widely used. In particular, as of 2020, no cases were submitted to the JPO. Possible reasons for the low uptake may include the local nature of the initiative, as well as the individual patent approach, thereby generating no insights on essentiality at the portfolio level. See Rudi Bekkers, Joachim Henkel, Elena M Tur, Tommy van der Vorst, Menno Driesse, Byeongwoo Kang, Arianna Martinelli, Wim Maas, Bram Nijhof, Emilio Raiteri, Lisa Teubner, 'Pilot Study for Essentiality Assessment of Standard Essential Patents' (2020) JRC Report, p. 54 [5].

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[5] https://publications.jrc.ec.europa.eu/repository/handle/JRC119894

74. It is also worth noting that any opinion provided by the IPO would, by necessity, be based only on an assessment under UK law and only apply to UK patent rights. The benefits of such an assessment may be quite limited to any party. In view of the global context of Standard Essential Patents, a geographically limited assessment may not be of substantial value.

75. Commercial providers of essentiality checking services are also subject to professional liability in case of negligent assessment. As a Crown body, the IPO would presumably disclaim all liability. This may make any assessment less valuable to parties.

Question 29: How could the government provide value for money, so affordable essentiality assessments are available?

76. An essentiality assessment is basically an infringement test and, as noted above, the IPO already offers a non-binding advisory opinion service in respect of infringement at a low cost (much lower than any commercial provider could offer). Therefore, patent examiners could similarly undertake these assessments and thereby provide a low-cost service. However, this would basically be a rebrand of the existing service, which is not currently well used for this scenario.

77. It is not clear that the government could improve value for money in what is already a competitive market with many commercial providers.

Question 30: What do you anticipate the primary use of an IPO led essentiality checking service would be? Who would primarily make use of it and for what purpose?

78. We do not know if there would be a high take up for these services, as requesters might be fearful of receiving an opinion that goes counter to their aims. In some cases, such an opinion could be useful to patent owners or prospective licensees, but we would anticipate relatively little take up without either making the service mandatory (which would be very negatively viewed by patent owners and technology users alike) or significant marketing of the service to demonstrate its value.

79. Individual patent essentiality assessments may, in some very specific circumstances, support negotiations, particularly where less experienced parties wish to have a punctual, third-party opinion on the case, and where a small and untested SEP portfolio is concerned. It is hard to estimate the demand for such cases, especially considering that, parties involved in SEP licensing would often have internal resources and/or have external counsel to support the negotiations, including in technical matters. Furthermore, for larger portfolios with negotiations between experienced companies, it is not clear what additional value an essentiality assessment of an individual patent would bring.

80. In addition, the mechanism may have limited utility in the context of disputes, which are rarely confined to issues of essentiality. There is also a risk that the mechanism could be exploited to facilitate hold-out practices.

Question 31: What other options could you suggest to provide cost-effective essentiality assessments for SMEs and startups?

81. Other patent offices, such as the EPO, could also offer such a service. Grants could also be offered together with use of accredited providers, along the lines of the existing IP Audit scheme.

82. Whilst there may be very little added value in a service that provides a single essentiality assessment (e.g. Hantei) for a portfolio of hundreds or thousands of SEP families, it may be useful to continue to raise awareness through the SEPs Resource Hub and partnerships with relevant industry associations, about the existence of landscape exercises and about the value of essentiality amongst the other elements that impact the value of a SEP portfolio.

<u>Potential measure 5a: Remedies and dispute resolution</u>

General

83. On the grant of a patent, a patentee is conferred a limited right to exclude, which is enforceable via an injunction. It is, therefore, inherent, in the ownership of a patent that the patentee may seek an injunction against an infringer.

84. It follows that, where a FRAND licence has been offered but not accepted by a licensee, a patentee may seek an injunction where it establishes that one or more of its patents are infringed, valid and essential.

85. If a FRAND licence is not offered, but an injunction threatened, the licensor risks being in breach of Huawei v ZTE (see ¶60 above) and, as such, abusing a dominant position. In these circumstances, the court may decline to grant an injunction and/or may sanction the licensor.

86. We therefore question the premise of some of the questions. Where a FRAND licence has been offered, the prospect of an injunction will *always* play a part in licence negotiations for a SEP. It is, therefore, not "bad behaviour" to rely on this.

Question 32: Does the current patent framework provide adequate remedies for SEP litigation?

87. Yes.

Question 33: How can bad behaviours in licensing negotiations be addressed or prevented?

88. We question the premise of the question (see ¶83 to 86 above). The issue of penalties for hold-out could be considered. Bad faith implementers that engage in years of hold-out face little real downside from such behaviour: even when taken to court, they ultimately still benefit from a licence on FRAND terms and conditions – often after several years of litigation. There is no penalty for holding out and thus very little incentive on the side of the implementer to enter into a SEP licence. Bad faith implementers can deliberately delay and resist, knowing that every reduction in (or non-payment of) royalties adds value to their business, and that they will at worst end up with a FRAND licence.

Question 34: Has the threat of injunctions ever played a part in your SEP negotiations? YES/NO

89. We question the premise of the question (see ¶83 to 86 above).

Question 35: If you believe the threat of injunctions had an impact on your SEP negotiations, please explain what that impact was, providing appropriate data and evidence.

90. We question the premise of the question (see ¶83 to 86 above).

Question 36: Could the other proposals presented by the government in this consultation help deal with 'bad faith' behaviours, including the threat of injunctions?

91. We question the premise of the question (see ¶83 to 86 above).

92. Nonetheless, the implementation of Huawei v ZTE in a pre-action protocol and/or the offering of a RDT will assist the parties in determining a licence and rate more cost effectively.

<u>Potential measure 5b: Alternative dispute resolution</u>

Question 37: How aware are you of ADR services available to resolve SEP licensing disputes?

93. We are aware of the ADR services from the London Court of International Arbitration, the International Chamber of Commerce (ICC), the Singapore International Arbitration Centre, the Hong Kong International Arbitration Centre, the International Centre for Dispute Resolution, the China International Economic Trade Arbitration Committee, the World Intellectual Property Office (WIPO) and (soon to be implement by) the Unified Patent Court.

Question 38: Have you used ADR services to resolve a SEP disputes? Please explain your answer.

94. Not applicable.

Question 39: What barriers, if any, have affected your ability to use ADR services to resolve a SEP dispute?

95. There are a number of barriers to using ADR (and, in particular, binding arbitration) in a SEP dispute.

96. It is for the parties to agree to be subject to a binding arbitration and then determine the terms of reference and procedure. It is rare for both parties to agree to be bound. Even then, the parties often cannot agree the terms of reference or procedure.

97. For example, in most SEP disputes, the validity of the SEPs will be in issue. However, the arbitral body has no power to order that a SEP be revoked. It therefore falls on the SEP owner to contractually agree that it will remove any SEP from the register if it is held to be invalid. It is often reluctant to do so.

Question 40: Are you an ADR provider?

98. No.

Question 41: In your view, is there a need for the government to expand the IPO's mediation services to support businesses to resolve their SEP disputes, or are existing ADR services adequate?

99. In any mediation, it is likely that the parties will place significant value in the experience of the mediator. At present, the IPO mediation service does not identify its mediators or give the parties the opportunity to choose said mediator. As a result, confidence in the mediation process is low.

100. Should the IPO wish to improve its mediation service it should offer a panel of mediators with the relevant experience in patent law, SEPs, licensing and/or litigation. These mediators should be accredited by a respected body (for example, CEDR) and should be supported by Professional Indemnity Insurance. The UK IPO should also offer suitable facilities for the mediation to occur.

Current non-regulatory measures

Question 42: Do you think these non-regulatory measures are the right ones?

101. Yes.

Question 43: Do you think there is more government can do in its non-regulatory work?

102. Consider expanding the SEPs Resource Hub to provide links to patent pools, landscape studies and guidance on suitable experts, so that implementers can have more information and guidance on where to go.

Assessment of Impacts

Question 44: Do you agree with the assumptions we have used in our assessment of the impacts? (Yes/No/Don't know)
If not, please explain why you did not agree with the assessment

103. The RDT impact assessment assumes three expert panel members paid £50-£100 per hour, which is rather cheap for experts in FRAND valuation.
104. The type of case incurring multi-million £ court fees is likely to include infringement/validity questions and therefore be unsuitable for the RDT.

Question 45: Are there any other significant costs or benefits that should be included? (Yes/No/Don't know)
If yes, what are they?

105. Don't know.

Question 46: Are you aware of any data or other information that could help us to quantify:
- **the potential cost savings to businesses using RDT rather than the courts?**
- **the potential time and other efficiency savings from using RDT rather than courts?**
- **the benefits of reducing barriers to market entry through publishing rates determined by the RDT?**

(Yes/No/Don't know)
If yes, what are they?

106. Don't know.

Question 47: Please supply any other information which you consider would be useful to help us assess the impacts of the options.

107. Please see the general observations at the beginning of our reply and at the start of various sections.