



A Proposed New Framework for Licensing of SEPs by Procompetitive Patent Pools*

Access Advance thanks the State Administration of Market Regulation of China (“SAMR”) for the opportunity to provide comments on the *Anti-Monopoly Guidelines on Standard Essential Patents (Draft for Comment)* (“Guidelines”). Access Advance is a patent pool administrator formed to lead the development, administration, and management of patent pools for licensing essential patents of the most important standards-based video codec technologies. Access Advance currently manages two patent pools, one for the HEVC video codec and another newly established for the VVC video codec. Both of these programs have received wide market support, including from many major Chinese companies who have joined these patent pools as licensors and/or licensees, including Huawei, Oppo, Vivo, ZTE, Skyworth, Honor, Alibaba, DJI Technology, Kuaishou, ByteDance, Tencent, and many others.

We believe and have demonstrated that patent pools, when done properly, can balance the interest of both patentees and implementers, encourage innovation, and promote competition, benefitting consumers, implementers, and patent owners. We propose that licensing by such patent pools be treated differently from bilateral licensing for the reasons and according to the details explained in detail in this “Proposed New Framework for SEP Licensing by Procompetitive Patent Pools” (“New Framework”). We make this proposal based on our team’s experience in establishing and managing our HEVC and VVC patent pools, and our prior experience in earlier patent pools including MPEG LA’s MPEG 2 and AVC patent pools.

This Proposal is divided into seven Sections. In Section I we provide our detailed New Framework. In Section II we provide details about the HEVC Advance Patent Pool as an example of a Procompetitive Patent Pool. In Section III we describe how essentiality is determined in a Procompetitive Patent Pool. In Section IV we provide a detailed explanation of how the formation of a Procompetitive Patent Pool results in FRAND rates and terms. In Section V we provide an analysis of why the market’s broad acceptance of a pool’s rates and terms by both licensors and licensees is the most meaningful test of whether the pool’s rates and terms are FRAND. In Section VI we provide an analysis of why it is appropriate to apply the presumptions proposed in our New Framework to a potential licensee that has shown itself to be “unwilling” by not acting in good faith. And in Section VII we provide a brief conclusion.

* This paper is provided in both English and Mandarin. The English language version is controlling.

We would welcome a further discussion with SAMR. Please feel free to contact our Chinese counsel He Jing at hejing@genlaw.com and our worldwide antitrust counsel Jeff Blumenfeld at jeff.blumenfeld@accessadvance.com.

I. Proposed New Framework for Licensing of SEPs by Procompetitive Patent Pools

Our Proposed New Framework for Licensing of SEPs by Procompetitive Patent Pools is summarized in the bullet points below and explained in the body of this paper.

- Not every joint licensing arrangement or patent joint venture is a patent pool in any modern sense of that term.
- And not every entity that calls itself a patent pool is a Procompetitive Patent Pool following the best practices described below.
- Competition authorities and courts should recognize that a different approach on key issues in SEP licensing is appropriate for patent pools that (a) conform to the guidance of competition agencies, and (b) are organized and operated in conformance with the best practices described in this paper (“Procompetitive Patent Pools”) and (c) also have reached a threshold of reasonably broad acceptance in the market.¹
- To be deemed a Procompetitive Patent Pool, a joint licensing arrangement or patent joint venture must satisfy conditions (a) and (b) above, namely:
 - must conform with the guidance issued by competition authorities for the purpose of safeguarding against the potential anticompetitive risks of joint licensing;² and also

¹ It is important to recognize that an entity that decides to make and sell products or services that implement and comply with a standard has a choice of methods by which to become licensed to practice the patents essential to that implementation. One alternative is obtaining a license from a patent pool (if there is one licensing SEPs on the relevant standard). Another alternative is to seek a license from each holder of SEPs. Such bilateral licensing is the customary approach and for many implementers it may be the best approach. Because patent pools (for the most part) offer a single license—the pool license, which includes all the SEPs of all the pool licensors—the bilateral approach may also be particularly well-suited to the implementer that has an existing licensing relationship with and existing licenses from some of the most important SEP holders.

² Such guidance includes but is not limited to the guidance provided by the United States Department of Justice (“Department” or DoJ”) in the several favorable Business Review Letters it has issued relating to proposed patent pools (*see, e.g.*, 26 June 1997 letter from Joel Klein, Assistant Attorney General for Antitrust, re request for a business review letter for licensing patents essential to compliance with the MPEG-2 video compression standard, found at <https://www.justice.gov/atr/response-trustees-columbia-university-fujitsu-limited-general-instrument-corp-lucent>; 10 June 1999 letter from Joel Klein, Assistant Attorney General for Antitrust, re request for a business review letter for a pool licensing patents under the DVD-ROM and DVD-Video standards, found at <https://www.justice.gov/sites/default/files/atr/legacy/2012/08/01/2485.pdf>) and that meet the “safe harbor” criteria set forth in the European Commission’s Guidelines on Technology Transfer Agreements (found at <https://ec.europa.eu/competition/antitrust/legislation/transfer.html>) and summarized at pages 151-152 of the January 2021 Report of the SEPs Expert Group (“SEPs Expert Group Report” found at <https://ec.europa.eu/docsroom/documents/45217>). (The EC issued a proposal for a revised guidelines https://single-market-economy.ec.europa.eu/publications/com2023232-proposal-regulation-standard-essential-patents_en). *See also*, the 2014 World Intellectual Property Organization (WIPO) report on “Patent Pools and Antitrust – A Comparative Analysis” (found at https://www.wipo.int/export/sites/www/ip-competition/en/studies/patent_pools_report.pdf), and the JPO draft “Guide to Licensing Negotiations Involving Standard Essential Patents” (Draft Revision, May 2022, found at https://www.jpo.go.jp/e/news/public/document/220509_hyojun-hissu_e/01_e.pdf).

- must be formed and operated in a manner that conforms substantially to the best practices described below.
- The competition authorities' guidance provides:³
 - that the patent pool portfolio should include only patents that read on the standard and are complements rather than substitutes (“Standard Essential Patents” or “SEPs”);
 - that the determination of whether a patent is a SEP should be made by a patent expert who is independent of the patent owner licensors;
 - that the patent pool should be administered by an independent licensing administrator (and professional staff) that makes the licensing decisions;
 - that the pool administrator should safeguard the confidential and competitively-sensitive information⁴ of licensors and licensee (such as price, capacity, and strategic plans);
 - pool licensors who practice the standard should be treated like any other licensees;
 - pool licensors should not be prevented from licensing bilaterally;
 - licensees are not prohibited from challenging validity or infringement;
 - licensees and licensors are not prohibited from developing or using competing technology; and
 - the pool portfolio license should not include patents that have expired⁵ or been found invalid.
- The formation of a Procompetitive Patent Pool guided by best practices will result in rates and terms that minimize friction in licensing, thus minimizing the cost of licensing for both implementers and licensors and maximizing the efficiency and speed of negotiation, in turn maximizing both the speed and the scope of adoption of the standard being licensed. To accomplish these goals:
 - The participants in the formation of a Procompetitive Patent Pool guided by best practices therefore will include:
 - likely SEP holders whose business model is largely driven by selling standard-compliant devices or services, so that their incentives are largely those of implementers; as well as

³ The points listed here are not meant to be exhaustive of all the guidance provided by competition agencies in various countries. Note also that many of these points track prohibitions on conduct that may constitute abuse of dominance under the competition laws of various jurisdictions.

⁴ See, e.g., State Administration for Market Regulation, “Provisions on Prohibiting Abuse of Intellectual Property Rights to Exclude and Restrict Competition (Draft for comments)” (June 2022). Article 14 and “Anti-Monopoly Guidelines on Standard Essential Patents (Draft for Comment) (July 2023) Article 9.

⁵ Note that under the patent laws of some jurisdictions a patentee has the legal right to recover damages for prior infringement during a patent’s life even if the patent has since expired; that is, infringing practice that occurred during a patent’s life can be the basis of liability and damages even if the patent is expired at the time of a lawsuit. A pool licensee obtains protection against infringement claims of this type for expired patents of the patent pool’s licensors.

- likely SEP holders whose business model is largely driven by licensing revenues, so that their incentives are largely those of patent owners.
 - Setting rates and terms by owners among which there is this balance of interests simulates market negotiation and therefore results in rates and terms that balance the interest of licensees and licensors.
- The operation of a Procompetitive Patent Pool guided by best practices will include:
 - a single pool license that is offered to all licensees including pool licensors who practice the standard;
 - licensing by a Procompetitive Patent Pool will be run as a business-like sales activity:
 - the licensing professionals of a Procompetitive Patent Pool will engage in consultative sales, working with potential licensees to address their good faith questions and requests for information, with the goal of a consensual license.
 - offering licensees and potential licensees transparency, including making at least the following information available on its website:
 - regularly updated list of licensors and licensees;
 - key terms of the license, including royalty rates;
 - regularly updated list of patents that have been evaluated as essential, showing specific provisions of the standard on which patent claims were found essential;
 - the rights and obligations of both licensors and licensees, including the licensees' option to pursue bilateral licenses; and
 - exemplar license agreement available by download or email.
- A Procompetitive Patent Pool offers multiple benefits to licensees.
 - These benefits include:
 - offering transparency in rates;
 - offering transparency in license terms;
 - bringing together essential patents of multiple patent holders thus offering licensees broad coverage to a standard's SEPs;
 - reducing transaction costs and increasing efficiency by offering broad coverage of SEPs in a single transaction;
 - clearing blocking positions;
 - reducing the exposure of licensees to infringement litigation;
 - enabling willing licensees to efficiently integrate complementary technologies;
 - enabling willing licensees to efficiently achieve economies of scale; and
 - offering licensing rates that generally are lower (and often substantially lower) than bilateral license rates for equivalent patent coverage.

- These benefits make licensing fair, reasonable, and non-discriminatory—as well as more efficient—for all licensees and potential licensees, and may be particularly helpful to:
 - small and medium businesses, including those new to licensing SEPs such as licensees in IoT;
 - potential licensees that have limited experience in licensing SEPs; and
 - potential licensees that have limited in-house licensing resources or financial resources to fund outside expertise.
- These benefits also help consumers by:
 - reducing licensing costs;
 - accelerating adoption of the standard; and
 - encouraging more companies to offer products and services that comply with the standard, thereby
 - creating a competitive downstream market of compliant products and services.
- To demonstrate “good faith” and/or “willingness” to take a FRAND license (such that it should be seen as a “willing licensee”) an implementer should have the following initial obligations and responsibilities:⁶
 - to determine whether there is a patent pool licensing SEPs for the standard it is practicing, and if there is, to educate itself about the patent pool and its offering by reviewing all the available information from such a patent pool; and
 - to open negotiations for licenses for its practice of the standard by initiating contact with the patent pool (or each of the pool licensors)⁷ either before, but no later than within a commercially reasonable time after,⁸ it first begins to make and sell products and/or services that practice the applicable standard.⁹

⁶ These obligations are in addition to the obligations set forth in the CJEU’s decision in *Huawei v ZTE* and other guidance from courts and competition agencies, just as the obligations of a Procompetitive Patent Pool are in addition to the obligations set forth in CJEU’s decision in *Huawei v ZTE*. See, *Huawei v ZTE*, Case 2015-10-170/13, ECLI:EU:C:2015:477 (July 16, 2015) found at <http://curia.europa.eu/juris/document/document.jsf?text=&docid=165911&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=10325480>.

⁷ This obligation applies with respect to all patent pools (not just Procompetitive Patent Pools) so long as the existence of the patent pool can be determined from public sources. But note that an implementer that has failed to discover and educate itself about a patent pool, and/or has failed to initiate negotiations for a license to the pool’s SEPs is *not* subject to the rebuttable presumption unless the patent pool at issue both satisfies the criteria to be considered a Procompetitive Patent Pool and also has met a threshold of reasonably broad acceptance in the market.

⁸ The timing indicated here would mean that a compliant implementer would initiate licensing discussions no later than when it begins to practice the standard, a fair and reasonable way to limit the period of unlicensed practice.

⁹ Note that these are the reciprocal of the responsibilities SEP negotiation guidelines routinely place on SEP holders in the bilateral context, e.g., to determine which products of the implementer infringe which of its SEPs, and to provide sufficient information to the implementer to allow it to determine if it is infringing.

- The market's broad acceptance of a patent pool's license in consensual license transactions is the best evidence that the terms of the standard license are FRAND and not an abuse of dominance (even assuming the patent pool is determined to be dominant).¹⁰
- If an implementer fails in those obligations and responsibilities, a patent pool¹¹ that has met the criteria to be considered a Procompetitive Patent Pool and also has met a threshold of reasonably broad acceptance in the market should be entitled to a rebuttable presumption^{12, 13} that the implementer is "unwilling" and/or not acting in good faith.
- Thereafter the implementer would have the burden of rebutting the presumption that it is "unwilling" and/or not acting in good faith in dealing with the patent pool.
 - As an example, the implementer might be able to carry that burden by:
 - Producing clear evidence that it was unaware of the existence of the patent pool and also producing clear evidence that it made reasonable and good faith efforts to learn of the pool's existence.¹⁴ Merely asserting that it was unaware of the pool's existence will not meet that burden.
 - Or
 - Producing evidence of alternative good faith efforts to become licensed to the pool's SEPs such as having initiated contact with each of the individual pool licensors. Merely asserting that it intends to negotiate directly with the pool licensors would not meet that burden; nor would having initiated contact with only a few of the pool licensors.
- If an implementer fails to meet its burden to rebut the presumptions of "unwillingness" or not acting in good faith, the SEP holders who participate in the pool should be entitled to seek, and courts should have the ability to grant, an injunction against further infringement, taking into account all other relevant factors.
- In licensing negotiations with the patent pool, an implementer must start from the position that the patent pool's rates and terms are FRAND.
 - An implementer may try to establish that it is sufficiently different from every other patent pool licensee that the pool's terms are not FRAND for it.

¹⁰ As a matter of logic and law, it should be the case that licensing terms that are FRAND do not constitute an abuse of dominance, even assuming the patent pool at issue is deemed to be a dominant entity. Therefore, where this paper states that licensing rates and terms should be seen as, understood to be, or presumed to be FRAND, that phrase should be read to mean "FRAND and not an abuse of dominance, even assuming the patent pool is held to occupy a dominant position in the relevant markets."

¹¹ Depending on the structure of a pool, the authority and legal ability to assert the pool's patents against an infringer may be vested only in the individual SEP holders.

¹² See n. 7 *supra*.

¹³ Advance fully recognizes the significant obligations that apply to SEP holders as have been spelled out repeatedly and in detail in court decisions and policy statements by competition agencies.

¹⁴ This standard for assessing the implementer's claim that it was not aware of the pool's existence is important to foreclose the possibility that the implementer's purposeful ignorance could be used as indicating good faith when purposeful ignorance clearly is bad faith.

- An implementer that begins negotiations as if starting from a blank slate—that is, as if the license terms had not already been validated as FRAND—or simply reserves to itself the right to determine what is FRAND for the patent pool will be subject to a rebuttable presumption that it is not a “willing” licensee and/or not acting in good faith.
- Fulfilling its obligations and responsibilities to educate itself about the pool and to open good faith negotiations with the pool are necessary but not sufficient for an implementer to be characterized as a “willing licensee.”
 - After fulfilling these responsibilities and to continue to be characterized as a “willing licensee” the implementer must continue to work with the patent pool actively, and in good faith, in the same manner in which it would act in a commercial negotiation in which it sought to reach an agreement.¹⁵
 - An implementer that pursues a course of conduct indicating a policy of delay, or otherwise acts in a manner inconsistent with a good faith intent to attempt to conclude a license in the same manner it would in a commercial negotiation in which it sought to reach an agreement, would lose its status as “willing” and be subject to a rebuttal presumption that it is “unwilling” and/or not acting in good faith.
- In any court proceeding between an implementer and the patent pool (or its SEP holders) the implementer would have the burden of producing evidence to rebut the presumption that it is “unwilling” and/or not acting in good faith, and the burden of convincing the tribunal that it has succeeded in rebutting the presumption.
- If the implementer fails to meet its burden, the SEP holders who participate in the pool should be entitled to seek, and courts should have the ability to grant, an injunction against further infringement, taking into account all other relevant factors as well.

¹⁵ Of course, the patent pool and/or its SEP holders also must continue to work actively and in good faith throughout the process, acting in the same manner in which it would act in pursuing a commercial opportunity in which it sought to reach an agreement.

II. The HEVC Advance Patent Pool is a Procompetitive Patent Pool.¹⁶

Access Advance (“Advance”) is an independent licensing administrator¹⁷ leading the development, administration, and management of patent pools for licensing essential patents for inventions underlying the most important standards-based video codec technologies. Advance currently manages two patent pools, one for the H.265/HEVC video codec and another more recently established for the H.266/VVC video codec. Both programs have received wide market support, including from many major Chinese companies who have joined these patent pools as licensors and/or licensees, including Huawei, Oppo, Vivo, ZTE, Skyworth Digital, Honor, Alibaba, DJI Technology, Kuaishou, ByteDance, Tencent, and many others.

Advance was founded in 2014 for the express purpose of licensing video codec SEPs on FRAND terms that balance interests of implementers and SEP holders. Since its launch in 2015, Advance’s HEVC patent pool (the “HEVC Advance patent pool”) has grown to include¹⁸:

- 40+ licensors¹⁹ from the United States, Germany, Netherlands, China, Japan, South Korea, and Taiwan, who are estimated collectively to hold
 - more than 21,000 patents (determined by an independent technical expert to be essential patents for the H.265/HEVC Standard (HEVC SEPs))
 - in approximately 800 patent families
 - which we estimate to collectively account for more than 75% of all worldwide HEVC SEPs²⁰

¹⁶ See also Sections III and IV, below.

¹⁷ Access Advance provides a balanced, transparent, and efficient licensing mechanism for both patent owners and patent implementers. Access Advance currently manages and administers the HEVC Advance Patent Pool for licensing patents essential to H.265/HEVC technology, and the separate and independent VVC Advance Patent Pool for licensing essential patents to H.266/ VVC technology. The HEVC Advance Patent Pool and the VVC Advance Patent Pool are elements of the Access Advance Video Codec Platform Initiative, including the Multi-Codec Bridging Agreement that seamlessly incorporates HEVC and VVC technologies into a single discounted royalty rate structure with simplified reporting and payment obligations for Licensees whose products include both codecs. This innovation responds to the market’s desire for an even more efficient next-generation pool licensing structure. More information is available on our website at www.accessadvance.com.

¹⁸ All data in this Proposed New Framework are accurate as of July 27, 2022.

¹⁹ The list of current licensors is found at <https://accessadvance.com/hevc-advance-patent-pool-licensors/> and is updated as new licensors are added to the program. As part of our business-oriented approach to licensing, Access Advance offers a significant amount of information on its website <https://accessadvance.com> and we invite the reader to explore the site. Access Advance was the first—and to our knowledge is still the only—patent pool to offer a whitepaper analysis demonstrating that the pool’s terms are FRAND. The information offered on the site includes the full list of licensors and licensees, additional overview information for licensors and licensees, information on the terms and obligations of a licensor in the HEVC patent pool, a brief explanation of the technology behind the HEVC/H.265 video compression standard, an overview of the licensing program, a link to download an Excel spreadsheet listing the patents that have been evaluated essential along with an identification of the specific provisions of the standard on which one or more patent claims has been found essential, a description of the process for submitting patents for essentiality evaluation, branding guidelines, and patent marking guidelines, among other information.

²⁰ A visual depiction of the data is found at <https://accessadvance.com/hevc-worldwide-patent-landscape/>.

- and nearly 300 licensees,²¹ comprising companies from a broad range of industries in the United States and in 29 other countries and territories including in Europe, India, Japan, Korea, and China (as noted above).

The licensors in the HEVC Advance patent pool represent a broad range of interests and incentives with regards to FRAND issues. They include both some who are “net licensees” in the sense that their financial incentives are primarily those of an implementer/licensee, and some who are “net licensors” in the sense that their financial incentives are primarily those of a SEP owner/licensor.

Many licensors are multinational operating companies that have made significant investments in the research and development of video codecs, which they have implemented in their products or services, including Google, Huawei, Dolby, Canon, LG Electronics, Microsoft, Mitsubishi Electric, Panasonic, Samsung, Sony, NTT/NTT DOCOMO, MediaTek, and SK Telecom. The HEVC Advance patent pool also includes many licensors who own a small number of patents but also contribute to the pool’s royalty revenue as licensees, including Arris, Humax, OPPO, and ZTE. And, finally, the pool includes many licensors who have invested heavily in the research and development of video codecs where their primary purpose was to contribute their innovation to international standards and license those innovations, including GE, Fraunhofer, ETRI, and several research institutes and universities.

The diversity of the pool’s licensors, both geographically and in terms of their economic interests, enables the HEVC Advance patent pool to achieve the critical balance of the interests of both rights holders and implementers necessary to build a successful patent pool based on the principles of FRAND. The benefits brought by such a broad base of licensors reflecting the balance of interests of rights holders and implementers underlies the pool’s success in gaining wide market acceptance by implementers.

III. Determination of Essentiality

One of the hallmarks of a Procompetitive Patent Pool operated in conformance with best practices is the method by which it determines whether patents are essential. Such patent pools do not rely on patent holders’ declarations of essentiality, which are well known to overstate the essentiality of their patents by anywhere from 20% to well above 50%.²² Instead, such patent pools retain one or more patent attorneys and technical experts to serve as independent

²¹ The list of current licensees is found at <https://accessadvance.com/hevc-advance-patent-pool-licensees/> and is updated as new licensees are added to the program. It is worth noting that the ability to attract this large a number of willing licensees is common for patent pools, but less common in bilateral licensing.

²² “An average essentiality ratio [of the share of actual SEPs among declared SEPs] somewhere between 25% and 40% seems realistic, with substantial variation between standards and portfolios.” *See* SEPs Expert Group Report at 34-35. Similarly, the UK’s Court of Appeal found: “Over- declaration is a substantial problem as illustrated by the judge’s assessment that up to 72% of declared SEPs are not truly essential. . . [W]e recognise the existence of the practice of over-declaration and we acknowledge that it is a problem.” *Unwired Planet Int’l Ltd v. Huawei Techs. Co. Ltd*, [2018] EWCA Civ 2344 (Lord Kitchen at ¶¶ 92, 96). *See also*, ” Guide to Licensing Negotiations Involving Standard Essential Patents, Draft Revisions of May 2022 (“JPO SEP Negotiation Guide”) found at ["Guide to Licensing Negotiations Involving Standard Essential Patents"\(PDF: 520KB\)](#), at 2, 13.

evaluators²³ to determine the essentiality of each of the candidate patent's claims. These evaluators have expertise in patent law in the relevant jurisdictions, in the standard for which licenses will be offered, in the technologies at issue, and in what "essentiality" means and why it matters. The evaluators are hired by the pool administrator as attorneys to the patent pool; the evaluators are not and do not act as attorneys for any potential licensor. The evaluators are compensated based on effort, not results; the compensation for each evaluation is not dependent on the outcome of any evaluation and is not dependent in any way on the number of patents determined to be essential.

Only those patents with claims that have been evaluated as essential²⁴ are included in the pool's list of essential patents,²⁵ but all the essential claims of the pool's licensors patents that are in fact essential are included in the patent pool license even if they are not included in the list of essential patents. The SEP owners who agree to be pool licensors agree to this principle in the documents by which they become pool licensors. As a result, pool licensees are licensed to every essential claim in the SEPs of every pool licensor, even for patents the patent owner did not submit for evaluation or did not realize was essential, and pool licensees have a license defense to an assertion of infringement of essential claims included in every SEP of every pool licensor, even if a pool licensor asserts a patent not included on the pool's list of essential patents but which a court determines to be essential. This also means that as more SEP owners become pool licensors, and as patents continue to issue to pool licensors, all patents that are SEPs are automatically folded into the license. And the license granted by the patent pool continues to encumber the pool SEPs if they are sold, or any rights are assigned, to an entity that is not a pool licensor.²⁶

IV. Formation of a Procompetitive Patent Pool Results in Fair and Reasonable Rates and Terms

As SAMR, the Japan Patent Office, the US Department of Justice, the US Federal Trade Commission, and the EU's SEPs Expert Group all have recognized at various times, patent pools can provide many benefits to the adoption of a standard and the creation of a competitive market for compliant products and services, including by reducing the transaction costs of multiple licensing negotiations and mitigating royalty stacking and hold-up problems that can occur when multiple patent holders individually demand royalties from a licensee.²⁷ At the most basic level,

²³ The evaluators' incentives for each evaluation are not related to the interests of the entity submitting patents for evaluation, but rather to the interests of the pool. Those include the incentive to ensure the accuracy of the evaluation results, which are integral to the overall health of the pool, for both business and legal reasons.

²⁴ The process of evaluating a patent claim is both intensive and expensive, commonly costing a patent owner \$5,000 - \$10,000 per patent claim. This significant cost is a strong indicator of the licensors' focus on ensuring that the pool license includes only SEPs.

²⁵ The list of patents in which one or more claims has been determined to be essential can be downloaded in native .xls format (allowing potential licensees to analyze the data) at <https://accessadvance.com/hevc-advance-patent-list/>.

²⁶ The statements in this and the previous sentence are correct for many patent pools, *supra* note 2, including the Advance HEVC and VVC patent pools, but may not be correct for other patent pools, depending on their formation procedures, the contents of their formation documents and licenses, and patent law in the relevant jurisdiction.

²⁷ State Administration of Market Regulation of China, Provisions on the Prohibition of Abuse of Intellectual Property Rights to Exclude or Restrict Competition, at Article 9; U.S. Dep't of Justice & Federal Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property §5.5 (2017) (since withdrawn), available at

a patent pool enables an implementer to obtain a single license to a large number of patents in a single transaction, and to do so at royalty rates substantially lower than the cumulative rates of individual bilateral licenses to the same number of patents, as discussed further below. Those efficiencies and results are the direct product of the way patent pools are formed and in which they operate.

Finding the right participants

The formation of a patent pool guided by best practices begins with an effort to locate entities that likely own or otherwise have the right to license patents that likely include one or more essential claims. This is a logical first step for a valid business reason: the success of the patent pool's business will be determined by its ability to attract implementers to take licenses, which will depend in large part on the SEP coverage and quality of the pool's offering. Therefore, to attract implementers once it begins offering licenses, the pool must first attract patent owners that can offer the volume and quality of SEP coverage implementers will want to license.

The overall goal of the formation process for a Procompetitive Patent Pool is finding consensus on patent license coverage, as well as on rates and other terms, that will incentivize large numbers of licensors and large numbers of licensees, with minimum friction, to agree to participate in the program. The success of a Procompetitive Patent Pool depends on finding terms that are mutually acceptable to implementers and innovators alike, with the goal that the vast majority of license transactions are consensual and not litigation driven.

Negotiating rates and terms

Formation of a patent pool guided by best practices and done correctly—that is, intending to result in a Procompetitive Patent Pool—brings together some owners of high quality SEPs with finances primarily driven by monetizing their IP through licensing, and others with finances primarily driven by monetizing their IP through selling compliant products, as well as some who monetize their IP through a combination of both methods. That group of likely SEP owners negotiates the royalty rate²⁸ and other licensing terms the pool will take to market.

The negotiation during pool formation simulates, and is a good proxy for, market negotiations between patent owners and implementers: both the “licensor-driven” and the “implementer-driven” models and incentives drive the process, ensuring a balance of interests between those business models. The resulting rate, therefore, is also a balance: likely somewhat lower than patent owners might like and somewhat higher than implementers might like, but acceptable to

<https://www.justice.gov/atr/IPguidelines/download>; see also SEPs Experts Report at 151-152; JPO SEP Negotiation Guide at 11, 40.

²⁸ In some cases, different rates are set for different categories of products, such as mobile devices, televisions, and other connected home devices. The discussion of “a rate” should be understood, where applicable, to mean “a rate for each product category” or as it is sometimes called “a rate card.” This approach ensures that the rates reflect the different value the technology provides in different product categories, while ensuring non-discrimination among licensees within each product category. The negotiation during formation is for a rate (per category, where applicable) to license the entire package of patents. That is, the process is *not* that each patent holder states its desired royalty for its patents and then those individual rates are added together to calculate the total pool rate (per category, where applicable).

both as a fair compromise; that is the definition of a market rate that is fair and reasonable and is the rate that would prevail in a competitive market.²⁹

The basic business model of a Procompetitive Patent Pool is driven by efficiency concerns, one of which relevant here is removing friction from the licensing process. That motivates Procompetitive Patent Pools to be transparent in providing a great deal of very detailed information publicly on their websites so that prospective licensees can educate themselves even before engaging in discussions with the pool.

Those same efficiency concerns create an incentive to remove friction over the Procompetitive Patent Pool's rates. The mix of pool licensors with "rights holder incentives" and with "implementer incentives" drives the process to rates that are a compromise between those two sets of incentives; the efficiency incentives drive the process to rates at the lower end of that compromise to reduce pushback based on the pool's rates.

Due to pool efficiencies, the royalty rate charged by a Procompetitive Patent Pool is substantially lower than the sum of what a licensee would pay for bilaterals to all the SEPs of all the pool licensors. Put another way, the "per unit" distribution each pool licensor receives from royalty revenue likely is substantially lower than the amount each licensor would receive "per unit" in bilateral licenses. In essence, pool licensors make the conscious decision to accept lower per-patent "unit rates" in return for a larger number of licensees; it is the classic tradeoff of unit price for volume. That tradeoff is a rational business decision justified by the pool's efficiencies. Therefore, in deciding to be a licensor in a Procompetitive Patent Pool, the patent owner is explicitly agreeing that it is willing to forgo higher per unit revenue in favor of broader and more rapid implementation.

That tradeoff by Procompetitive Patent Pool licensors is consistent with the view of the Procompetitive Patent Pool as a business, and with the view that licensing is a sales activity, not a litigation activity. The "highest rate" makes the pool offer less attractive to potential licensees and therefore makes selling more difficult, which makes for longer sales cycles, which in turn makes sales more expensive, and therefore reduces both the rate of growth of the pool and the net royalty revenues distributed to the licensors. In addition, higher rates mean higher risk in the SEP licensing environment. All these consequences are contrary to the long-run business interests of the pool.

From the perspective of the SEP owners involved in forming a Procompetitive Patent Pool a fair and reasonable rate is a rate that enables implementers to obtain a license at an acceptable price and that also fairly compensates patent owners for producing the inventions underlying the

²⁹ "In patent pools, wide participation by rights holders and implementers may produce licensing terms that balance the interests of both, which may boost the efficiency of licensing negotiations compared to individual bilateral negotiations amongst multiple parties." JPO SEP Negotiation Guide, at 40.

applicable standard and creating the essential patents that can be licensed in the pool, thus balancing the interests of licensors and licensees, as FRAND requires.³⁰

And from the perspective of a Procompetitive Patent Pool as a business—which includes approaching licensing as a sales activity—a reasonable royalty rate (and other reasonable licensing terms) result in less friction, and therefore shorter sales cycles, lower cost of sales, and lower risk. Reasonable rates and terms also result in more rapid and voluntary adoption by implementers, which in turn means that over a shorter time the pool will experience more licensees signing and higher total revenue. Because a Procompetitive Patent Pool focuses on minimizing friction in licensing, the rates it offers will be at the lower end of a fair balance between licensor and licensee interests.

V. Market Test of FRAND

The test of whether the market regards the Procompetitive Patent Pool's rates and other terms as FRAND is whether those rates and terms are broadly—and willingly—accepted in the marketplace. The ideal economic evidence of the market's assessment of any contract's rates and terms is conduct observed in the market in which the contract is offered. From an economic perspective, observed royalty rates that are broadly accepted in the market are the best indication of reasonable royalty rates for a portfolio of patents. Put another way, the best test of whether rates and terms reflect what the market would find FRAND and therefore acceptable is whether the rate and terms are in fact accepted in the marketplace.

A fundamental point of our Proposed New Framework is the need for recognition that once a Procompetitive Patent Pool has achieved a threshold of reasonably broad acceptance in the market, the rates and other licensing terms of the pool should be presumptively seen as FRAND, since that broad acceptance is the best empirical evidence on the issue. As the Dusseldorf Regional Court has observed:

It should be noted in this context that a mathematically exact derivation of a FRAND-compliant license fee is not necessary; the acceptance of the required license rates on the market must be sufficiently demonstrated by means of license agreements already concluded (LG Dusseldorf, judgement of 13 July 2017, 4a O 154/15, marginal no. 311, quoted). The presentation of already concluded contracts has priority. It is easier to prove the FRAND standard by means of the results of different, already successful license agreements and to determine it more reliably than by presenting individual factors which can or should play a more or less important role in license agreement negotiations (LG Dusseldorf, Judgement of 13 July 2017, 4a O 154/15, para. 311, cited by juris). 13 July 2017, 4a O 154/15, para. 311).

³⁰ “[I]t is not correct to say that the FRAND undertaking is simply for the benefit of implementers. Its purpose is to strike a balance between the respective rights of patentees and implementers.” *Unwired Planet v Huawei*, [2017] EWHC 2988 (Pat), *supra* note 6, at ¶ 161. See also, e.g., ETSI Overview, found at <https://www.etsi.org/intellectual-property-rights>. (“The main objective of the ETSI IPR Policy is to balance the rights and interests of IPR holders to be fairly and adequately rewarded for the use of their SEPs in the implementation of ETSI standards and the need for implementers to get access to the technology defined in ETSI standards under FRAND terms and conditions.”)

The determination of what constitutes reasonably broad acceptance of the Procompetitive Patent Pool's rates and terms such that they are presumptively FRAND may depend on the particular facts. But whatever may be the minimum number we suggest it is certainly not 300 and almost certainly not 100 or even 50.³¹

The HEVC Advance patent pool license also satisfies the criterion of broad acceptance in the market under any rational standard, with nearly 300 licensees having signed a license voluntarily based on negotiations, and without litigation.³²

A review of Advance's licensee list also demonstrates that our license has been accepted by implementers across a broad range of industry groups including those who account for half or more³³ of sales (by volume) in key market segments:

- 54% of the mobile and tablet market
- 88% of the set-top-box market
- 51% of the UHD television market
- 80% of the drone market
- 45% of the surveillance market.

These licensees include the top brands and companies by volume:

- In the smartphone market, 7 out of the top 10 smartphone brands (Samsung, OPPO, Realme, Vivo, Huawei, Lenovo, and Honor)
- In the set top box market, 9 out of the top 10 vendors worldwide (Skyworth Digital, Technicolor, ZTE, Arris, Sagemcom, Jiuzhou, Kaon Media, Humax, and Changhong)
- In the UHD TV market, 3 out of the top 5 brands (including Samsung, LG, and Sony) worldwide
- In the game console market, 2 out of the top 3 companies (including Microsoft and Sony)

³¹ The Düsseldorf Regional Court has found that 12 license agreements were sufficient evidence to prove the existence of an established royalty for the patents in suit. (Saint Lawrence v. Vodafone, Case No. 4a O 73/14, Landgericht [LG] Düsseldorf [Düsseldorf Regional Court] 31 March 2016 (Ger.)). More recently, the Court found that 40 license agreements were sufficient to prove the existence of an established royalty for the patents in suit. (Dolby Int'l AB v. MAS Elektronik Aktiengesellschaft, Case No. 4c O 44/18 Landgericht [LG] Düsseldorf [Düsseldorf Regional Court] 7 May 2020 (Ger.)). Note also that Presiding Judge Dr. Thomas Kühnen of the Oberlandesgericht Düsseldorf has reasoned in his treatise on patent litigation that every license agreement for a given set of patents is market evidence of a reasonable royalty for those patents, and that the indication of an established royalty further crystallizes with every additional license. (Thomas Kühnen, Handbuch der Patentverletzung [Patent Litigation Proceedings in Germany: A Handbook for Practitioners] § I.III.3 ¶ 2609 (Frank Peterreins trans., Wolters Kluwer 7th ed. 2014)).

³² Only two licensees were involved in litigation before signing a license; all other licensees signed after discussions and with no litigation.

³³ Percentages are based on share of all HEVC-enabled devices (by volume) sold in the market.

Not only is the HEVC Advance patent pool widely accepted in these markets that involve a large volume of consumer devices, the pool license also is accepted by market leaders in non-consumer markets, including GE (aircraft and medical), Boeing (defense and aircraft), Honeywell (defense and security), Bosch (industrial and security), Hitachi (industrial), and DJI (drones).

Similar to the diverse interests of the pool licensors, Advance's HEVC patent pool licensees also represent a broad spectrum of interests with regard to FRAND. And while some licensees are also licensors, most licensees are not licensors, as is clear from the numbers.³⁴ The pool licensees include, for example:

- large licensees (as measured by volume) who are also large licensors, *e.g.*, Canon, Microsoft, Samsung, LG, Huawei, Sony;³⁵
- large licensees (as measured by volume) who are small licensors, *e.g.*, Google, Arris, ZTE, Humax, OPPO;
- large licensees who are not licensors, *e.g.*, Vivo, Technicolor, Sagemcom, Honor, Skyworth;
- small and medium-size licensees who are large licensors, *e.g.*, JVCKENWOOD, Panasonic, Mitsubishi Electric;
- small and medium-size licensees who are small licensors, *e.g.*, Humax, Philips, NEC, Warner Bros;
- small and medium-size licensees who are not licensors, *e.g.*, D-Link, Fujifilm, Hitachi, Logitech, Nikon, Telekom Deutschland, and many more.

Given the broad acceptance of the Access Advance HEVC patent pool by implementers across industries and geographies, it is reasonable to conclude that the licensee market has determined that the pool license is fair and reasonable and non-discriminatory.

Once a patent pool has met the criteria to be considered a Procompetitive Patent Pool and also has met a threshold of reasonably broad acceptance in the market, it would be unreasonable to analyze that pool's license offer on a blank slate, as if it were being offered for the first time. Instead, competition authorities and courts should consider that it would be reasonable to assume, and courts would be entitled to afford the pool license a rebuttal presumption, that its terms are FRAND. Of course, such a presumption would not preclude an implementer from challenging

³⁴ Advance requires that any patent pool licensor who is also an implementer must also become a patent pool licensee, signing the same license agreement signed by every other licensee. Note also that the fact that the Access Advance HEVC pool includes 40 licensors, and more than 260 licensees means, by definition, that the vast majority of licensees are not also licensors.

³⁵ A "large" licensee is one who makes and sells a large volume of product and therefore pays a large amount of total royalties. These companies are "net licensees" in the sense that their financial incentives are primarily those of an implementer/licensee. A "large" licensor is one who has a large patent portfolio of SEPs, and therefore receives a large amount of the distribution of royalties within the pool. These companies are "net licensors" in the sense that their financial incentives are primarily those of a SEP owner/licensor. Note that some are both large licensors and large licensees; their financial incentives are balanced between licensor and licensee incentives.

that conclusion in court, but it would mean that the burden is on the implementer to rebut by clear evidence the presumption that the pool license is FRAND.

VI. The Rebuttable Presumption and “Willingness”

Adopting our Proposed New Framework also would be helpful in achieving the policy objectives of various government agencies that have provided guidance on SEP licensing. These policy objectives include, for example: encouraging good faith negotiations between an unlicensed implementer and a patent pool (as noted by SAMR,³⁶ the United States Department of Justice, Patent and Trademark Office, and National Institute of Standards (“the US Competition Agencies”)³⁷); the necessity of an effective intellectual property framework to strike a balance between promoting innovation by protecting IP on the one hand and not blocking companies’ access to IP and to the single market on the other (as noted by the European Commission in issuing its Call for Evidence for the Initiative on Intellectual Property – New Framework for Standard-Essential Patents);³⁸ and the “aim[] to enhance transparency and predictability, facilitate negotiations between rights holders and implementers, and help prevent or quickly resolve disputes concerning the licensing of standard essential patents”³⁹ (as noted by the Japan Patent Office in issuing its Draft Guide to Licensing Negotiations involving Standard Essential Patents).

For example, if competition authorities agree that at some level of market acceptance the Procompetitive Patent Pool’s license is entitled to a rebuttable presumption that it is FRAND, then in licensing negotiations the burden should be on the implementer to rebut that presumption with evidence that the license is not FRAND as to itself, even though it is FRAND for a large number of licensees.⁴⁰

The US Competition Agencies have noted the potential loss of competition that can arise from an implementer’s unwillingness to accept a F/RAND license or—rather than refusing outright, which no intelligent infringer would do—to delay licensing negotiations in bad faith:

³⁶ “SEPs holders and the implementers of the standards should engage in good-faith negotiations regarding licensing conditions such as royalty rates, quantities, and time limits for the licensing of SEPs in order to achieve FRAND licensing terms.” Guidelines, Article 7. *See also* Article 12, #1; Article 13, #1; Article 14, #1; Article 15, #1; Article 16, #1; Article 17.

³⁷ Draft Policy Statement on Licensing Negotiations and Remedies For Standards-Essential Patents Subject to Voluntary F/RAND Commitments, offered by The U.S. Patent & Trademark Office (USPTO), the National Institute of Standards and Technology (NIST), and the U.S. Department of Justice, Antitrust Division (DOJ) (December 6, 2021) (“Draft Policy Statement”) (available at <https://www.justice.gov/opa/press-release/file/1453826/download>) at 8 (since withdrawn).

³⁸ Call for Evidence for the Initiative on Intellectual Property – New Framework for Standard-Essential Patents (“Call for Evidence”), at 1 (available at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en).

³⁹ JPO SEP Negotiation Guide at 1.

⁴⁰ The rebuttable presumption also would be helpful in identifying an important exception to the Draft Policy Statement view that “[a]s a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP holder for infringement.” Draft Policy Statement, *supra* note 37, at 8 (since withdrawn).

[W]hen standards implementers are unwilling to accept a F/RAND license or delay licensing negotiations in bad faith, these strategies can lessen patent holders' incentives to participate in the development process or contribute technologies to standards voluntarily. Without adequate incentives to contribute to a consensus-based process, patent holders may opt for closed, proprietary standards that do not offer the same benefits of interoperability and enhanced consumer choice.⁴¹

In the context of a Procompetitive Patent Pool license that has met whatever benchmark is appropriate to conclude that it is presumptively FRAND and yet is not accepted by the 50th or the 100th—or for that matter the 300th—unlicensed implementer, we suggest it would be appropriate for competition authorities to consider what would be the right approach to preserving the incentives for innovation that encouraged the dozens of SEP holders in the pool to invest both the resources in R&D as well as the resources in the years-long effort to form the pool.⁴²

An “unlicensed implementer” is—by definition—an entity that is already actively practicing the standard, selling products and/or services that practice the standard. An unlicensed implementer therefore is—again by definition—infringing SEPs that read on the standard, and has been infringing, almost certainly knowingly, throughout the period of its practice.⁴³ Ongoing infringement by implementers who are or should be⁴⁴ well aware of the availability of a patent pool license that has met both the criteria to be considered a Procompetitive Patent Pool and also has met the threshold to be entitled to a presumption that it is FRAND, should be among the “individual circumstances of licensing negotiations between patent holders and potential licensees [that] will affect the appropriate remedy for infringement of a valid and enforceable SEP,”⁴⁵ that is, among the criteria used to determine whether an implementer is “willing.” Similarly the *Anti-Monopoly Guidelines on Standard Essential Patents (Draft for Comment)* of the State Administration for Market Regulation of China (“SAMR Guidelines”) establish the principle that both SEP holder and implementers have the responsibility to negotiate in good faith, and the responsibility to be able to prove that they have done so by demonstrating “no fault in the . . . process, [as well as to] provide relevant evidence, and bear responsibility for the authenticity of the evidence provided.” (SAMR Guidelines at Article 7)

⁴¹ *Id.*, at 4 (since withdrawn).

⁴² For a discussion of several issues common to both where the “SEP holder” is a single entity and where it is a patent pool, including issues of hold-up, hold-out, and the adequacy of monetary damages, *see, e.g.*, Jeffrey Blumenfeld, *Should FRAND Excuse “Efficient Infringement”?*, 5 *Criterion J. on Innovation* 143 (2020), found at <https://www.criterioninnovation.com/articles/blumenfeld-should-frand-excuse-efficient-infringement.pdf>.

⁴³ *See, e.g.*, “When patents are SEPs and the details of patent claims are consistent with standards documents, and if the implementers advertise that their products conform to the applicable standards, the act of indicating the correspondence between patent claims and standards may be sufficient. Thus, mapping patent claims to actual products may not always be necessary.” JPO SEP Negotiation Guide at 12. “In *Fujitsu v. Netgear* (U.S., CAFC, 2010), the court stated that if an accused product operates in accordance with the standards, then comparing the claims to the standard is the same as comparing the claims to the accused product.” JPO SEP Negotiation Guide at 12, note 23. Access Advance’s website, for example, allows anyone to see a list of the patents in the pool that have been determined essential by the patent evaluator, and for each patent the specific portions of the standard on which claims of the patent were determined by the patent evaluator to be essential.

⁴⁴ *See* discussion of this issue in this Response above at note 8 and accompanying text.

⁴⁵ Draft Policy Statement, *supra* note 37, at 7 (since withdrawn).

Much has been written about the issue of “willingness” of the potential licensee as an integral part of the implementer’s ability to raise a FRAND defense to infringement litigation brought by SEP holders. That issue was further clarified by two decisions of the German Federal Supreme Court (Bundesgerichtshof, generally referred to as the Federal Court of Justice, or “FCJ” in English) in the *Sisvel v. Haier* litigation.⁴⁶

In the case of a standard-essential patent, lower requirements do not result from the fact that the patent proprietor, who has submitted a declaration of willingness to take a licence, has only limited leverage to enforce the IP right, if necessary by taking legal action . . . and is dependent on concluding licence agreements for the economic exploitation of his patent. On the contrary, the patent infringer may not exploit this structural disadvantage for the purpose of “patent hold-out” . . . without exposing himself to the accusation of dishonest conduct. Otherwise, the restriction of the enforceability of the patent by legal action for the purpose of avoiding an abuse of market power would lead to another distortion of the conditions of competition in that the patent infringer could obtain an unjustified advantage over those competitors who have to seek a licence in due time and therefore pay the appropriate remuneration for the use of standard-essential patents.⁴⁷

The FCJ went on to further elaborate on the concept of “willingness” and how an implementer must conduct itself throughout the negotiations to retain the status of a “willing licensee”⁴⁸ which is worth reviewing at some length:

Contrary to the defendant's view, the declaration of willingness to take a licence is thus not a "mere gateway" for the start of the actual negotiations, even according to the case law of the European Court of Justice. Rather, the continued willingness to take a licence is an indispensable prerequisite for successful licensing negotiations and thus also for the accusation of abuse of market power against the patent proprietor in the event of their failure. This is also clear from the context of the *Huawei/ZTE* decision.

The guidelines formulated by the Union Court are based on a proposal by Advocate General Wathelet. This was based on the assumption that an abuse [of dominance defence] can only be considered against a patent infringer who is objectively ready, willing and able to enter into a FRAND licence agreement

⁴⁶ *Sisvel v. Haier II*, Bundesgerichtshof [BGH] [Federal Court of Justice] November 24, 2020, KZR 35/17, (Internal citations omitted, spellings retained) (English translation found at <https://www.katheraugenstein.com/en/federal-court-of-justice-frand-defence-ii>). The German courts have been the venue of a large volume of SEP litigation over the past several years, with cases filed both by SEP holders against implementers, and by implementers against SEP holders. As a result, the German courts have had repeated opportunities to examine in detail the behavior of both SEP holders and implementers in the negotiations that led to the litigation.

⁴⁷ *Id.* at ¶ 61 (internal citations omitted).

⁴⁸ “[S]imply satisfying the various elements noted in this Guide provides no guarantee of recognition of good faith. Rather, a comprehensive assessment of the negotiating process as a whole needs to be made in each case.” JPO SEP Negotiation Guide at 10.

Incidentally, this is also in line with the Commission's view in a decision preceding the decision of the Court of Justice of the Union, in which the Commission expresses that the patent proprietor may seek and enforce an injunction against a potential licensee if the latter is unwilling to enter into a FRAND agreement

Such an objective willingness to conclude a FRAND licence agreement is regularly demonstrated, according to the business practices recognised in all areas of economic life and also emphasised by the European Court of Justice as decisive, by the active promotion of negotiations oriented towards the common goal of a successful conclusion. The negotiation steps of parties interested in concluding a contract build on each other. A duty to promote therefore always exists if and insofar as the next negotiation step is to be expected according to business practice and the principles of good faith⁴⁹

The German courts and the UK courts⁵⁰ have been venues for significant SEP litigation over the past several years, resulting in repeated opportunities to examine in detail the behavior of both SEP holders and implementers in the negotiations that led to the litigation. Therefore, they have been well-placed to present fact-based conclusions about the occurrence of hold-up and hold-out. Courts in both countries have recognized that under current FRAND rules and policies, hold-out by implementers can be a viable strategy, and therefore that an implementer loses its status as “willing” and its FRAND defense if it engages in hold-out. Yet—to our knowledge—no court or government agency with jurisdiction over SEP and FRAND issues has considered the particular meaning of “willingness” in the context of licensing between an implementer and a patent pool rather than in the context of bilateral licensing in which each of the patent holder and the implementer is a single company. The differences of the patent pool context should be relevant to the competition authorities and courts in determining how best to “encourage parties . . . in pursuit of such negotiation”⁵¹ to act in conformance with F/RAND obligations.

As with all guidance from agencies and courts around the world, the CJEU decision in *Huawei v ZTE* held that the first step in SEP licensing negotiation should be taken by the patent holder, to notify the implementer that the patent holder owns or controls SEPs that the implementer is likely infringing.⁵² This is logical and reasonable in the context of an individual SEP holder. It is possible that the implementer may not be aware that a particular entity is a patent holder, or that its patents are SEPs, or that the implementer is infringing those SEPs. That may even be particularly true when the patents are SEPs, because there are likely to be dozens of entities that own SEPs for whatever standard or standards the implementer’s devices or services practice.

⁴⁹ *Id.* at ¶ 68 (internal citations omitted) (additional paragraph breaks added).

⁵⁰ For UK court decisions that have recognized the reality of the hold-out strategy in addition to those cited elsewhere in this New Framework proposal *see, e.g., Optis v Apple* [2021] EWHC 2564 (Pat), at ¶ 72 *et seq.* (Meade J) (drawing on the multiple *Unwired Planet* decisions of the UK courts).

⁵¹ Draft Policy Statement, *supra* note 37, at 5 (since withdrawn).

⁵² *Huawei v ZTE*, *supra* note 6, at par. 51.

But that guidance should be modified in the context of a patent pool because the underlying assumption that the implementer is unaware of the existence of the relevant patent pool is neither logical nor reasonable. Moreover, as distinct from whether an implementer is aware of any individual SEP holder, it is unlikely to be correct that the implementer is unaware of the existence of a patent pool licensing the standard. Rather, we suggest, it is highly likely that an implementer is—and in any event should be⁵³—aware of the existence of a patent pool for the standard in question, and, thanks to the internet, can easily discover a great deal of relevant information about the pool and its licensing program.⁵⁴ Moreover, the implementer likely is—and in any event should be—be aware of the patent pool’s process for independent evaluation of essentiality and should recognize that it offers an assurance that a licensee does not normally have in a bilateral negotiation, where, as courts have observed, the implementer is dependent on the licensor’s unilateral declaration of whether patents are essential.⁵⁵

As an example, by navigating to the website of the HEVC Advance patent pool and following the links provided to the additional relevant pages of the website,⁵⁶ an implementer can—among other relevant information—see a list of the patents in the pool that have been determined essential by the patent evaluator, can see for each patent the specific portions of the standard on which claims of the patent were determined by the patent evaluator to be essential, can see the list of licensors, can see the list of licensees, can obtain and examine a White Paper explaining why the pool’s rates are FRAND⁵⁷, and can request an exemplar copy of the pool license to review.

Simply put, in the context of patent pools, patent licensing should not be the only market in which the customer has no responsibility to approach the seller before taking and using the seller’s property, and the only market in which the customer is instead entitled to take, use, and profit from the seller’s property without any affirmative effort to pay or even to negotiate to pay,⁵⁸ and the only market in which the customer further is entitled to demonstrate “willingness”

⁵³ See discussion of this issue in this Response above at n. 8 and accompanying text.

⁵⁴ An examination of a patent pool’s website and of the material available on or from the website will, in most cases, be sufficient to determine if the patent pool meets the criteria to be considered a Procompetitive Patent Pool as set forth above.

⁵⁵ “There is no ‘quality control’ by independent third parties [to assure true essentiality of declared SEPs], unless the patents in question are examined in litigation *or by a person assigned by a patent pool*. . . . Some stakeholders and observers have criticised the existing assessments as inherently unreliable, citing, for example, e.g. the limited workload allocated to the assessment of each patent as compared to the *substantially more thorough essentiality assessment carried out by patent pools* or during litigation for the patents under dispute.” Call for Evidence at 2 (emphasis added).

⁵⁶ <https://accessadvance.com/licensing-programs/hevc-advance/>.

⁵⁷ Advance was the first patent pool—and to our knowledge is still the only—patent pool to offer such an analysis on its website. Ours was first posted in 2018.

⁵⁸ As Mr. Justice (now Lord Justice) Birss observed:

simply by claiming that it is willing to engage in a discussion once it has been tracked down and confronted.

The proposition that a Procompetitive Patent Pool that has reached a threshold of reasonably broad acceptance in the market should be entitled to a presumption that its rates and terms are FRAND should inform the negotiation between a patent pool and an implementer from the earliest stages and throughout the negotiation. For example, however the negotiation is initiated—whether by the implementer fulfilling its responsibilities to educate itself and proactively initiate contact with the pool, or by the pool reaching out to the implementer—it would be unreasonable for the implementer’s opening position to be that the pool’s rates and terms are not FRAND, or that there is no existing benchmark for the pool’s rates, or that the first step should be that the patent pool must “prove” to the implementer that its rates and terms are FRAND.⁵⁹ Without clear and convincing evidence that the implementer’s situation is materially distinct from the situations of the existing pool licensees and warrants different rates and terms, the articulation by an implementer of any of these positions should be seen as bad faith and evidencing an intent to delay, by which an implementer loses its status as “willing.”

The “alleged infringer”—in the words of the CJEU and of SAMR—has the obligation “diligently to respond” to a specific written offer from the SEP holder.⁶⁰ It is important to note that, in our experience, failing to respond in a timely manner is both the most obvious and least frequent method by which implementers act to delay the process (when that is their purpose) and thereby extend their period of unpaid infringement. Rather, implementers intent on delay tend to engage in more sophisticated tactics, such as the ones described above. Or they continue to inquire about issues well-explained in the material available to them on the website, or about issues explained to them in detail in prior meetings. In our experience, perhaps the most common tactic for delay by implementers is to mimic the actions of a willing licensee but without the good faith intentions: they correspond, they meet—even, perhaps, on a regular basis—but without any intent or even desire to reach an agreement, and certainly evidencing no urgency to do so.

Courts have observed that the challenge facing a SEP holder in such a situation is that the only available approach to obtaining signed licenses from infringing implementers is to seek them out one-by-one, file patent infringement cases against them one-by-one, spend the time and resources over the years necessary to achieve a verdict of infringement in each case, spend more

The implementers can and do implement the inventions the subject of SEPs simply by making standards compliant equipment. Unlike a market for goods or services, what the implementer actually wants is something it has ready access to, namely information, all of which is freely available in the standards. Normally a seller of a product can restrict practical access to his or her goods without payment just by refusing to sell them. The holder of an intellectual property right like a SEP cannot do that. That is of course why the right to exclude given by the injunction plays such a significant part of intellectual property disputes, because it is the means by which the law seeks to put the intellectual property owner into the analogous position to an owner of tangible property such as a product or land.

Unwired Planet Int’l Ltd v. Huawei Techs. Co. [2017] EWHC 2988 (Pat), *supra* note 6, at ¶ 658.

⁵⁹ In our experience those are among the most common position that were taken, and continue to be taken, by implementers—all of whom claimed to be following the mandates of the case—after the CJEU decision in *Huawei v ZTE*.

⁶⁰ *Id.* at ¶¶ 63, 65; SAMR Guidelines at Article 7.

time and resources defending an appeal of the infringement verdict, and if ultimately successful, then be entitled to money damages.⁶¹ After pursuing that course for, say the 50th or the 100th—or for that matter the 300th—infringing implementer, the SEP holder would then turn to the 51st or the 101st or the 300th and so on. Of course, some number of infringing implementers could be litigated against simultaneously, but that simply raises the level of resources that must be expended simultaneously. And if the money damages for past practice is limited to being calculated by applying FRAND rates to the volume of past practice, the attractiveness to implementers of, and the incentives of implementers to pursue, the hold-out strategy are readily apparent.

Therefore, once a Procompetitive Patent Pool has reached a threshold of reasonably broad acceptance in the market, the rebuttable presumption that its rates and terms are FRAND should apply at the earliest stages of negotiations and throughout any litigation, unless and until the implementer has successfully rebutted the presumption as determined by a court the patent pool (or its SEP holders) should be entitled to request and a court should be entitled to consider granting an injunction.

VII. Conclusion and Recommendations

Our Proposed New Framework for Licensing of SEPs by Procompetitive Patent Pools recognizes that a different approach on key issues is appropriate for Procompetitive Patent Pools that have reached a threshold of reasonably broad acceptance in the market, including on issues such as the determination of FRAND and of implementer “willingness.” Our Proposed New Framework will result in significant benefits to licensees, consumers, and the entire ecosystem around a standard including less hold-out, more rapid and widespread adoption, even lower transaction costs, a more level playing field with less distortion of downstream competition, lower prices, and a more diverse and robust market for consumer of compliant devices and services.

⁶¹ It is worth noting that hold-out by implementers, especially large companies, encourages hold-out by other implementers, large and small, and that money damages to the SEP holders do not address the fact that many other companies that compete with the hold-out implementers recognized their obligation to be licensed and paid royalties throughout the time the hold-out implementers have been engaged in hold-out. *See, e.g., Should FRAND Excuse “Efficient Infringement”?*, *supra* note 42, at 151-152.