Summary

Are collecting agencies a model that fits to SEP licensing?[1]

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In the latest years, cellular standards have reached new sectors and markets due to the increasing number of 'things' being connected via the Internet (Internet of Things or IoT). Being the result of massive R&D investments, standardized technologies are often protected by patents, known as Standard Essential Patents or SEPs. SEPs are typically accessible under FRAND (Fair, Reasonable and Non-Discriminatory) terms, which are determined in bilateral good faith licensing negotiations. However, new market players lacking experience in the cellular field may find FRAND negotiations challenging. Therefore, decision-makers are exploring a different way for the determination of FRAND terms. Specifically, a similar model to collective management, currently applied in the copyright field, has been suggested for the licensing of SEPs.

Collective management organizations (CMOs) were created with the intention to facilitate the transactions between licensors and licensees. The main reason was that the countless number of right holders and consumers in the copyright field made it impossible to identify each right holder for every work for would a license was desired. CMOs have been implemented in different ways around the world and with diverse governing bodies. Nevertheless, in general, CMOs have something in common: they have improved the economic efficiency of copyright license transactions and play an important role in the enforcement of copyrights. Therefore, it is worth analyzing whether a CMO similar model would lead to a more efficient licensing of SEPs in the IoT world.

Schaefer and Czychowski[3] outlined the general concept of such an idea in 2018. The proposal consisted of the following main elements:

a) The establishment of an independent private-sector agency that SEP holders could join on a voluntary basis. Such agency would determine FRAND royalties for the different use cases of the corresponding standard. However, contrary to a copyright CMO, the agency would not receive any rights from the SEP holders to enforce their patents.
b) In case parties disagree with the determined fees, the agency would provide a similar internal arbitration system as the one usually applied to employee inventions and copyright collecting societies. The decisions of the internal arbitral scheme would be appealable before courts.
c) The agency would establish a system for the distribution of the collected royalties based on the relative strength of each patent covered. Such a mechanism should take into account the fact that further SEP holders could join the agency in the future.
d) By taking part in the agency system, the SEP holder would be automatically considered compliant with the FRAND commitment.

Another proposal[4] went one step further by suggesting the following:

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[1] Rui Li, Axel Contreras, Are collecting agencies a model that fits to SEP licensing?, *Journal of Intellectual Property Law & Practice*, 2021;, jpab101, https://doi.org/10.1093/jiplp/jpab101.

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[3] Martin Schaefer and Christian Czychowski, 'Wer bestimmt, das FRAND ist? - Ein Blick über den patentrechtlichen Tellerrand', *GRUR* 2018, P582; also presented http://www.grur.org/uploads/tx_meeting/Czychowski.pdf.

a) The agency could be automatically created upon the release of a new standard to manage the licensing of all the SEPs belonging to that standard.
b) The agency would be entitled to negotiate license agreements for all SEPs reading on the standard. It would only grant licenses upon user requests. Nonetheless, it would neither approach implementers to offer licenses nor enforce SEPs in court.
c) The agency would determine the aggregate royalty for the standard and develop a licensing scheme.
d) SEP holders would retain the ability to enter into bilateral licensing agreements for their own SEPs.
e) The revenues earned from the licenses would be distributed to the licensors after a period of at least 5 years.

CMOs for SEPs would in practice act as a limitation to the rights of the SEP holders, potentially harming FRAND negotiations, even for those not licensing via the agencies. The automatic creation of the agencies, combined with their power to license all SEPs of the standard, would amount to mandatory collective management, in contradiction to FRAND commercial practices and interfering with the rights of SEP holders. Even in the copyright field, mandatory management has been applied only under very specific circumstances and with clear definitions, e.g., with the rights to remuneration for rental and lending in Germany.

Another downside of such a proposal would be the passive role that the agency would play by not approaching infringers to try to obtain a license. In practice, an implementer could in principle infringe SEPs and, only after being sued and/or after a non-favorable result in litigation, seek a license from the agency. In the meantime, it would enjoy a competitive advantage versus those who have paid for the SEPs they are using.

It is also unclear how the agency would be able to accurately estimate the royalty rates and properly distribute the revenues, considering that royalty determination is a complicated task. Highly experienced stakeholders usually invest significant time and resources to determine FRAND terms. This exercise requires an ample understanding of the patent's technical value, how to analyze the market, a deep legal knowledge, and familiarity with the standardization and the business. This know-how generally relies on the parties. However, when this is not the case, one or both parties can hire experts for advice or license via e.g. a patent pool.

Furthermore, the time required for the suggested agency to process revenue sharing is far too long. Companies which rely on the licensing income would not be able to continue contributing to standardization, leading to lower quality standards or more expensive standardized products.

Besides, as copyrighted works and patented technologies represent totally different types of rights, they should not be licensed in the same way. Copyright comprises a bundle of exclusive rights such as reproduction, distribution, performance, adaptation, transformation, and more. CMOs only license a part of the whole bundle of rights. The owners maintain control of most of the rights which they can efficiently license, while CMOs are allowed to license purely those rights which require greater effort given the market structure, such as broadcasting rights. Nevertheless, in the case of SEPs, there is no

[4] Ada Sofie Altobelli, Report describing Judge Fabian Hoffmann's proposal of 'GEMA Type Agencies as a Solution for FRAND'. IPDR Munich IP Dispute Resolution Forum. December 4, 2019. Available at https://www.ipdr-forum.org/events/gema-type-frand-agencies/.

division of rights since a patent confers an integrated exclusive right to commercially exploit an invention. Moreover, SEP licensors are easily identifiable, and standardized technology is already available on FRAND terms.

To conclude, while CMOs may suit well for the licensing of certain rights within the copyright field, they would only add a new layer of complexity and lead to increased litigation in the SEP framework. On the other hand, bilateral licensing negotiations and patent pools appear to be better placed to address the international nature of SEP licensing. Therefore, for the time being, it seems unnecessary to create new structures to fulfill similar roles.