

# SEP licensing lessons from the recent past

The landscape around SEPs is producing inefficiencies for licensees, licensors and other interested parties. A new approach is needed

By Daniel P McCurdy

In the next few years, SEPs will undoubtedly be one of the key drivers of patent risk as industries ranging from high-tech and financial services, to automotive and the Internet of Things continue to adopt standards-dependent technologies. As patent owners and licensees consider how to resolve licensing issues over SEPs there are lessons to be learned from the recent past.

In the US patent market of the early 2000s the NPE litigation boom was gathering steam. Many of the techniques adopted to deal with that emerging NPE licensing activity will likely prove useful in efficiently concluding current and future SEP licensing negotiations. These techniques include effective collaboration among potential licensors and licensees, which is appropriately facilitated by the actions of trusted intermediaries.

In the early 2000s, long before the America Invents Act was passed, a series of important patent-related decisions from the Supreme Court were issued that favoured licensors. These factors incentivised the rise of litigation by NPEs, which was fuelled by their strategic accumulation of patents and bolstered by readily available capital and contingent legal arrangements to pursue patent enforcement.

In response, operating companies initiated actions to change laws and regulations; shared information about patent enforcement activities to collectively obtain a greater level of knowledge; and combined funds to purchase patents or patent licences, thereby achieving greater efficiency and predictability.

There are parallels with the current SEP landscape. A significant source of uncertainty in the present SEP climate is the large number of patents that have been declared standard essential, and many others thought to be relevant to products that implement a standard even though they have not been declared essential. IPIytics data from July 2019 shows that globally, approximately 300,000 patent assets have been declared essential. From a licensee's perspective, this makes evaluating the infringement risk of a given product impractical since numerous declared patents may be associated with a specific standard and a single product may itself practise many standards.

That risk is compounded by the fact that the licensing behaviour of the entities that own those patent assets varies widely. SEPs are held by a diverse group of owners with ownership, licensing and enforcement rights also held by patent pools, aggregators and other intermediaries. Some of those entities may be trigger-happy litigants, others may be methodically conservative and some may lack experience with litigation and enforcement altogether. There may also be multiple patent owners with portfolios that purportedly cover the same standard.

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SEPs are also of diverse origins, and their ownership histories can be minefields of uncertainty in jurisdictions such as Germany, where a court recently held that commitments to license patents on FRAND terms are treated as if they are attached to the patents themselves and are binding on subsequent purchasers. The same court also ruled that the prior licensing activity of those former owners will serve as a benchmark for deciding what constitutes a FRAND licence in future.

Further, the body of case law surrounding SEP licensing issues is both narrow and constantly evolving, which makes it difficult for parties to know how such a dispute would play out in the courts. Determining a party-specific, FRAND royalty rate for a large, global patent portfolio is an inherently complex, fact-intensive exercise. FRAND licensing has also been an ongoing focal point for various government bodies and agencies in the United States, Europe and China have turned a critical eye towards the antitrust implications of SEP licensing behaviour.

Given that the current SEP landscape presents many of the same challenges as those early days of the NPE boom, there are lessons to be learned about how to improve cooperation in a manner that can structure the landscape to better and more effectively license SEPs. After all, various types of cooperative restructuring have been used to achieve common goals in matters involving technology and intellectual property, such as MPEG-LA, Allied Security Trust, Open Invention Network, LOT Network and RPX.

The key element of this badly needed restructuring is to develop and implement mechanisms which allow for the aggregation of both SEP licensors and licensees – and to do so in a way that promotes, rather than inhibits, competition. This will remove the massive inefficiency of each licensor dealing individually with each licensee and better align the similar interests of parties on both sides of the table.

While SEP-related patent pools have helped to bring patents together, they are often limited in scope and tend to be directed at an individual standard, rather than trying to more comprehensively aggregate patents from separate standards that may cover interrelated functions of a complete device. How many different standards are used in a smartphone, and how many separate licences must be independently negotiated? Inefficiency reigns.

Resolving these inefficiencies requires a new paradigm. While the blueprints for collaborative SEP aggregation exist (including the December 2018 transaction between Sisvel and RPX involving Wi-Fi patents), significant effort is required to build those blueprints into sustainable licensing behaviours that dramatically reduce the enormously wasteful transactional costs that squander net compensation to licensors and skyrocket the costs for licensees.

Governments and companies worldwide should recognise the urgency of removing these wasteful transaction costs and provide certainty and encourage pro-competitive structures and mechanisms to achieve much greater licensing efficiency. Licensors, licensees and consumers will all benefit tremendously. iam