

IoT SEP Negotiations: New Players in a Complicated Game

A photograph of a modern building's curved glass facade, showing multiple stories of windows with dark frames, set against a light blue sky.

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Why should internet of things (IoT) manufacturers prepare to be approached by standard essential patent (SEP) holders? A recent trend suggests that many implementers may soon have to negotiate licenses that implicate IoT-specific concerns.

Traditionally, SEP holders have depended primarily on cell phone manufacturers for their licensing royalties. However, as SEP holders seek to expand and diversify their revenue streams, they have focused more and more on a diverse set of IoT products and have continued to refine their approach to IoT licensing. Product developers in the IoT markets should therefore prepare to be approached by experienced adversaries.

According to reports, not only has litigation surrounding SEPs increased, but new patent applications have shifted away from smartphones and toward new industry applications, such as connected vehicles, smart homes, smart factories, smart energy, and healthcare applications. Many of the largest SEP holders have also publicly announced their focus on IoT, both through the development of new licensing campaigns and announcements of executed licensing arrangements. For instance, Nokia, a prominent SEP holder, has recently stepped up its IoT licensing program, inking 2023 deals with mobile payment company Block, smart meter manufacturer Landis+Gyr, and one of the world's largest point-of-sale terminal manufacturers. A prominent patent pool, Avanci, has also seen success in SEP licensing in automotive and continues to expand into other forms of IoT.

Often, SEP negotiations lead to litigation. For example, when Avanci's initial efforts to license automotive stalled, it used an aggressive litigation campaign to secure additional licensees. The same could happen in IoT.

The consequences of mishandling licensing negotiations can be severe. Generally, SEP implementers are entitled to a license on fair, reasonable, and non-discriminatory (FRAND) terms. But a failure to act in good faith could result in a waiver of that right. As an example, the court in *3G Licensing S.A. v. HTC* recently confirmed that a licensee's failure to negotiate in good faith resulted in such a waiver. And earlier this year, the court in *G+ Communications v. Samsung* similarly held that an implementer's failure to act in good faith suspends the SEP holder's obligation to act in good faith. In certain circumstances, the implementer may be required to pay attorney fees to an SEP holder who is forced to litigate, according to the court.

For an IoT implementer, preparation is key because there is a general imbalance of knowledge and experience in favor of the SEP holder. Entities like Nokia and Avanci are seasoned SEP negotiators. IoT developers, who are often new to technology standards, may not be.

The legal framework for what it means to comply with FRAND or to act in good faith is also complex. This complexity is compounded for companies with exposure in multiple countries because the precedent surrounding FRAND tends to differ. In fact, no court has offered a bright-line definition of a FRAND license. Nor have many courts provided much guidance for industries outside of cell phones. Therefore, negotiating a FRAND license requires an approach both consistent with legal precedent and tailored to the economic and technical realities of different product markets.

For instance, IoT developers must ensure they agree to royalties only on the value of the patented technology, rather than the value already inherent in their products. The primary purpose of IoT products is generally not communication. Most IoT products therefore derive less value from implementing communication standards than other products that implement those standards. For example, a thermostat derives less value from using Wi-Fi than a smartphone because, even without using Wi-Fi standards, a thermostat can still perform its core function. A FRAND royalty rate for a thermostat should therefore look much different than one for a cell phone.

Due to the potential complexities and pitfalls, IoT developers should prepare in advance for SEP negotiations. The first steps are to analyze your exposure to different countries, standards, and products and develop a framework consistent with both the law and your business goals. It's also important to do so proactively because developing an SEP strategy too late could result in the waiver of your right to a FRAND license.

While many Standards Development Organisations (SDOs) require participants to license patents essential to the standard on FRAND terms, US courts are increasingly recognising that prospective licensees have concomitant FRAND obligations, and a violation of those obligations may result in licensees forfeiting their right to a FRAND licence.

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