CPI Columns
Intellectual Property

March 2024

What's FRAND Got to Do With It: How Will Fair, Reasonable, and Non-Discriminatory Terms be Determined for Accessing Digital Platforms?

By Richard S. Taffet and Nina Jayne Carroll
Morgan, Lewis & Bockius

What's FRAND Got to Do With It: How Will Fair, Reasonable, and Non-Discriminatory Terms be Determined for Accessing Digital Platforms?

By Richard S. Taffet and Nina Jayne Carroll[1]

I. INTRODUCTION

FRAND is now a well-recognized acronym referring to licensing standard essential patents ("SEPs") on fair, reasonable, and non-discriminatory terms. Increasingly, however, the FRAND concept has been adopted in a different context - how access will be, or indeed must be, afforded by operators of digital platforms to third parties. This context is most prominently illustrated by the inclusion of FRAND obligations in the European Union's Digital Market Act ("DMA"). The largest digital platform operators have been designated "gatekeepers" under the DMA. The DMA imposes certain obligations on these companies to provide access to their platforms on FRAND terms.

In the SEP context, substantial volumes of literature exist that address FRAND licensing issues. A steady number of cases in various jurisdictions around the world have also weighed in on FRAND-related disputes, analyzing possible methodologies for determining the value of SEPs and the license terms that will be considered FRAND. The converse is present in the context of digital platforms, with a general lack of discussion of what FRAND means in this space. The question then arises whether existing FRAND SEP licensing case law and commentary can adequately inform FRAND determinations when applied to digital platforms. We discuss in this article that experience with FRAND SEP licensing may provide minimal guidance in connection with digital platforms. Rather, unique attributes of digital platforms call for deliberate consideration regarding how FRAND principles might best be applied in that context so incentives remain supporting continuous investment that improve user experiences, as well as competition.

In SEP licensing, FRAND principles are rooted in the intellectual property rights ("IPR") policies of standards development organizations ("SDOs"), which seek to balance the interests of innovators investing in and contributing patented technologies to standardization. In contrast, the DMA offers no guidance regarding whether a similar balanced approach should apply when considering FRAND terms for accessing digital platforms. However, similar to SEP licensing, ensuring that platform operators have incentives to make necessary initial and ongoing investments, so their platforms meet continuously evolving user demands is critical to enhance consumer welfare and competition. Restricting platform operators' abilities to realize returns on their investment in underlying intangible assets, while affording platform users FRAND access, would chill investment incentives and consequently, diminish competition-enhancing innovation that benefits end users.

Even if a framework based on balancing interests is accepted when applying FRAND to digital platforms, questions still remain regarding how such a balance would be achieved. In contrast to SEP licensing, where the intangible asset to be assessed is a patent right and where there is a body of work that can be and is used to address FRAND issues, the nature and value of intangible assets underpinning a digital platform are not as readily identifiable. Further, they may vary from platform to platform. In large measure, we are in unexplored territory when it comes to assessing the underlying value of digital platforms, even more so when it comes to applying FRAND principles to define the respective rights of platform operators and third parties seeking access to digital platforms.

[1] Richard Taffet is a partner in the New York office of Morgan, Lewis & Bockius, and Nina Jayne Carroll is an associate in Morgan Lewis' London office. The views expressed in this article are solely those of the authors, who are solely responsible for its content, and do not necessarily represent the views of Morgan, Lewis or any Morgan, Lewis client.

II. FRAND SEP LICENSING

FRAND licensing of SEPs arises from contractual commitments made by SEP owners to SDOs.[2] The purpose of such commitments is "*to facilitate widespread access to the technology while ensuring that intellectual property holders are compensated adequately for their contribution.*"[3] This purpose is revealed by the express terms of SDO IPR policies. For example, "*the ETSI IPR POLICY seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPRs*."[4] Similarly, the ITU's IPR policy is intended to "*strike a working balance between the interests of SEP owners and implementers . . . by ensuring that owners of intellectual property will be motivated to contribute their patented technologies to the standards-development process and that the standards incorporating these technologies will remain widely available to implementers*."[5]

SDO IPR policies, however, leave it to SEP owners and potential implementers to negotiate FRAND license terms. Where the parties cannot or will not agree, litigation has ensued and FRAND terms have been defined by courts seeking to determine the value of the SEPs involved to ensure that SEP owners will continue to be incentivized to invest in innovation and contribute the fruits of such efforts to standards.

In so doing, courts have adopted a variety of methodologies for valuing SEPs. For example, in early decisions, courts in the United States adopted a modified approach based on the *Georgia-Pacific* factors, which are often used to determine what constitutes a reasonable royalty for awarding damages under United States patent law.[6] Other courts have used a comparable license approach, also borrowed from patent litigation jurisprudence.[7] Yet other courts have used a comparable license approach combined with a "top-down" approach.[8] There has also been other approaches, including combining a multitude of different methodologies.[9]

Thus, while there is no single universally accepted method for defining a FRAND rate for SEPs, courts have uniformly focused on the value of the specific SEPs at issue in the particular case in an attempt to reward the SEP owner a reasonable return while affording the implementer FRAND access to the SEPs.

III. FRAND AND DIGITAL PLATFORMS

How FRAND principles will be applied in the context of digital platforms is a question that is now ripe for consideration. Large platform operators that have been identified as "gatekeepers" under the DMA, for example, are

---

[2] See, e.g. *Microsoft v. Motorola*, 696 F.3d 872, 884 (9th Cir. 2012)("*Motorola's [FRAND] declarations to the ITU created a contract enforceable by Microsoft as a third-party beneficiary*"); EUR-LEX, *Summary of EU Commission Decision AT, 39985, Motorola-Enforcement of GPRS Standard Essential Patents* ¶ 9 (Apr. 29, 2014)("*the [FRAND] commitment [to ETSI] is a quid pro quo for a patented technology to be included in [a] standard*"), https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52014XC1002(01).

[3] Statement of Interest of the United States at 5, *Lenovo (United States Inc. v. IPCom GmbH & Co.*, No. 5:19-cv-01389-EJD (N.D. Cal. Oct. 25, 2019).

[4] ETSI, *Intellectual Property Rights Policy*, § 3.1 (Rules of Procedure, November 29-30, 2022), *available at* https://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf.

[5] ITU News, *Balancing Innovation & Intellectual Property Rights in a Standards-Setting Context*, No. 9 (2012), https://itunews.itu.int/en/3049--Balancing-innovation-and-intellectual-property-rights-in-a-standards-setting-context.note.aspx / https://www.itu.int/bibar/ITUJournal/DocLibrary/ITU011-2012-09-en.pdf.

[6] Ga.-Pac. Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970). See, *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, *18-20 (W.D. Wash. Apr. 25, 2013); *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609, *4-5 (N.D. Ill. Sept. 27, 2013).

[7] See, e.g. *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014); see also *Unwired Planet International Ltd. v. Huawei Technologies (UK) Co. Ltd.*, [2017] EWHC 711 (Pat), affirmed *Unwired Planet International Ltd and another v. Huawei Technologies (UK) Co. Ltd. and another* [2018] EWCA CIV 2344, *Unwired Planet International Ltd and another v. Huawei Technologies (UK) Co. Ltd. and another* [2020] UKSC 37.

[8] See, e.g. *TCL Communication Technology Holdings, Ltd. V. Telefonaktiebolaget LM Ericsson*, 2018 WL 4488286, at *50-51 (C.D. Cal. Sept. 14, 2018), *vacated in part, reversed in part, and remanded on other grounds,* 943 F.3d 1360, (Fed. Cir. 2019); *InterDigital Technology Corporation & Ors. V. Lenovo Group Limited & Ors.* [2023] EWHC 539 (Pat), *Advanced Codec Technologies v Oppo* (Sup. People's Ct) no 907, 910, 911, 916, 917 and 918 [12 December 2023].

[9] See, e.g. *Huawei Techs. Co. v. Samsung Elecs. Co.* (Shenzhen Intermediate Court Jan. 11, 2018) (combining consideration of proposed cross-licenses with a "top down" methodology as a cross-check); *Unwired Planet International Ltd and another v. Huawei Technologies (UK) Co. Ltd. and another* [2020] UKSC 37 (combining both the "top down" methodology and the comparable licenses methodology, reference also made to the ex-ante valuation approach.).

required to afford FRAND access to their platforms. The DMA specifically requires gatekeepers to:

- Furnish any third party providing online search engines, at their request, with access on FRAND terms to ranking, query, click and view data in relation to free and paid search generated by end users on online search engines;[10] and
- Apply FRAND general conditions of access for business users to software application stores, online search engines and online social networking services.[11]

Although not expressly referring to FRAND, questions involving how reasonable access to technology platforms will be defined have also recently arisen in other contexts. One such example is the UK Competition and Markets Authority's report on AI Foundation Models. This report cites the importance of small developers having the ability to access key inputs granted by AI providers on "*reasonable terms.*"[12] Additionally, issues involving terms by which a third party may access digital platforms arose in recent litigation in the United States in *Epic Games v. Apple Inc.*[13]

Again, questions of what FRAND access means and how FRAND terms will be determined in these circumstances persist. FRAND SEP licensing may provide some guidance, but with significant limitations. For example, FRAND access in the digital platform context should in theory reflect a similar balance of interests to that which underpins FRAND SEP licensing; namely, a balance of interests that fosters *both* incentives to innovate and access to the resulting innovations. In the context of FRAND SEP licensing, this balanced approach supports incentives of SEP owners to continually invest in innovation and contribute patented technologies to standardization, and also seeks to afford implementers access to those technologies. Similarly, platform operators must make risky investments in R&D and otherwise to establish and maintain their platforms and meet demands of platform users. Absent incentives supporting such investments – i.e. the ability to realize a FRAND return – innovation will be lessened, as will procompetitive and consumer benefits supported by the effective operation of digital platforms. Beyond this framework, how to balance interests in the digital platform context may involve unique considerations, distinct from those arising in connection with FRAND SEP licensing.

First, what intangible assets should be considered when defining FRAND access to digital platforms? In connection with FRAND SEP licensing, SEPs are the intangible assets at issue and, as mentioned, a number of valuation methodologies have been used to define FRAND terms. It is uncertain, at a minimum, whether such methodologies can serve to reliably assess the value of intangible assets that underpin digital platforms. Investment in technical R&D is required to ensure that platform user experiences are positive, however that typically does not result in patentable inventions necessary for access to a platform. In addition, digital platforms may often be two-sided transaction platforms, requiring sufficient users on both sides of the platform to realize positive indirect network effects. This in turn can lead to positive feedback loops. In other words, digital platforms succeed when there are sufficient users on one side of the platform to incentivize users on the other side to also use the platform. To achieve such network effects, substantial investment of capital is required. Additionally, network effects may not be durable, thus requiring further investment to maintain positive user experiences. This may include investments to ensure ever-increasing transaction speeds and diminished latency, improving graphics and information flows, and enhancing security against cyber threats.

How should these potential investments and the resulting intangible assets be identified and

[10] Regulation (EU) 2022/1925 of the European Parliament and of the Council of 14 September 2022 on contestable and fair markets in the digital sector and amending Directives (EU) 2019/1937 and (EU) 2020/1828 (Digital Markets Act) [2022] OJ L 265, 12.10.2022, art 6 para 11.

[11] *Id*, art 6 para 12.

[12] Competition and Markets Authority, *AI Foundation Models: Initial Report* (18 September 2023), https://www.gov.uk/government/publications/ai-foundation-models-initial-report.

[13] 67 F.4th 646 (9th Cir. 2023).

valued when attempting to define FRAND terms for accessing digital platforms? Which underling intangible assets should be considered more relevant or important for such purposes? These questions and others, if not carefully considered, could lead to unreliable assessments that undermine incentives to create and maintain digital platforms and thereby diminish, rather than increase, consumer benefits and competition overall.

Second, the same risk will arise, whatever intangible assets are deemed relevant for a digital platform FRAND determination, if objective and reliable methodologies are not identified for valuing a platform operator's necessary investments and the corresponding return on those investments for the platform operator to launch and continuously support the platform. Again, FRAND SEP licensing may not provide meaningful guidance here. Long-established principles of patent law and patent valuation inform how FRAND has been determined for SEP licensing. As the case law reveals, unsurprisingly, no single universally applicable methodology exists – the exercise of SEP valuation must be case specific and consider myriad variables that may exist with respect to a license negotiation between two discrete parties, a SEP licensor, and a standards implementer. Yet, patent law has provided reliable methodological frameworks for valuing SEPs for FRAND purposes that have withstood scrutiny over time.

Similar guidance does not appear to exist for determining FRAND terms by which a third party can access a digital platform. Further, any valuation methodologies that are advanced for such purposes, if they are to be objective, reliable and support a balancing of interests incentivizing innovation and access thereto, must accept the unique complexities of digital platforms. Besides being two-sided, with two distinct sets of consumers involved, each with its own demands, other factors may add to the complexity of determining FRAND terms for accessing digital platforms. For example, if a benchmarking approach is taken and a platform will be compared to other digital platforms, how will appropriate comparable firms be identified so an apples-to-apples comparison can be made? Will the similarity of initial and ongoing R&D be relevant? Will there need to be commonality between the types of transactions occurring over the subject platform and possible benchmarks? Will the fact that some platforms operate as standalone firms while others are discrete businesses within much larger firms make a difference? Will commonality of accounting practices be necessary for a digital platform to be considered as a proper benchmark to another?

We do not profess to have definitive answers to these questions. A failure to consider them carefully, however, whether in connection with regulatory enforcement or private litigation, could lead to unreliable assessments, create an imbalance of stakeholder interests, diminish investment in innovation, and deprive platform users the quality and scope of services they would otherwise obtain. Moreover, absent objective and reliable methodologies for determining access to digital platforms on FRAND terms, courts, regulators, and enforcers will have little guidance on how they should proceed in balancing the rights and obligations of parties with conflicting interest to achieve procompetitive and consumer welfare-enhancing outcomes.

IV. CONCLUSION

FRAND is now a concept that must be considered in relation to digital platforms. This is so by virtue of regulations such as the DMA, and because digital platforms have become economic drivers giving rise to competing and distinct interests that readily persist between suppliers and users of goods and services (here, digital platforms), with each acting in their own self-interest.

This article seeks to identify some of the issues and questions that should be considered when FRAND principles define terms for third-party access to digital platforms. Many more will certainly arise, and it is imperative to find objective, balanced responses to ensure that innovation-enhancing procompetitive outcomes result.