

The SEP Regulation Proposal

Results of the Public Consultation and Institutional Perspectives

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Centre for a Digital Society (CDS) est. 2022

Areas

Competition

Regulation

Innovation

Democracy



Activities

Research

Executive
Training

Policy Events

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Niccolò Innocenti
Affiliated Researcher

CDS – Next Activities

▪ **Annual Training: 3rd edition; online; 6 weeks per module:**

- 14 Feb. – 20 March 2024: *Regulating Digital Networks and Infrastructures*.
- 5 June – 10 July 2024: *Regulating Digital Platforms*.

▪ **Hybrid conferences (residential + Zoom):**

11-12 April 2024, CDS Scientific Seminar, *Regulators and Regulation in the Digital Era*. EUI campus.

29 - 31 May 2024: *32nd Postal Delivery and Economics Conference*, UPU headquarters, Bern.

17 - 18 June 2024: Summer Conference, jointly organised with OECD. EUI campus.

▪ **Seminars:**

30 Nov. 2023, CDS Talk with Giuseppe Mazziotti: *Fairness within the music sector*

14 Dec. 2023, *The Digital Markets Act: towards meaningful consumer choice in the digital age?*

6 Dec. 2023, CDS Talk with Natalia Menendez: Book presentation '*Artificial Intelligence and Human Rights*'

17 Jan. 2024, CDS Talk with Jasminka Pecotickauffman: *Competition Law Enforcement in Central and Eastern Europe*

Today's Program

- **14.00 - 14.30 Intro** on the results from the public consultation and state of play of the Proposal
- **14.30 - 15.00 Keynote speech by MEP Catharina Rinzema and Q&A chaired by Marco Botta:** overview of the parliamentary debate and legislative work
- 15.00 - 15.15 Break
- **15.15 - 16.45 Industry roundtable, chaired by Niccolò Galli**
 - **Vincent Angwenyi**, Sisvel | **Peter Berg**, Infineon | **Thomas Dreiser**, Huawei
 - **Agnieszka Kupzok**, Nokia | **Kristian Saether**, Nordic Semiconductor
- 16.45 - 17.00 Break
- **17.00 - 18.30 Institutional roundtable, chaired by Maria Alessandra Rossi**
 - **Michael Fröhlich**, EPO | **Rian Kalden**, UPC / The Court of Appeal of The Hague
 - **Christian Loyau**, ETSI | **Lluís Saurí**, DG COMP - European Commission
 - **Daniel Severinsson**, Patent and Market Court of Sweden
- **18.30 Closing remarks by Pier Luigi Parcu**

Today's Rules of the Game

- **Hybrid format:**

- 1) The entire conference is streamed via Zoom.
- 2) In-person participants can raise questions directly.
- 3) Registered Zoom participants can:
 - Ask questions to the panellists via the chat
 - No microphone and camera.

- **After the conference:** video recordings (and these slides) will be available on the event webpage.

- **DISCLAIMER: All panellists are speaking in their personal capacity and not representing the views of their past or current employers.**

What Makes SEPs Special?

Standard essential patent = patent or patent application (*rectius*, any IPR other than trademarks and trade secrets) that is inevitably infringed when implementing the underlying standard (ETSI IPRs Policy Rule 15(6)).

Normative features of SEPs:

- **Disclosure obligations of potential SEPs before SDOs** (but no duty of IPR searches) → to avoid inadvertently including proprietary technologies in standards that owners might refuse to license (i.e., under-declaration).
 - Risk of over-declaration of self-assessed SEPs to avoid antitrust liability;
- **SEP status obtained in return for FRAND licensing commitments** → to guarantee the diffusion of standards at FRAND prices (**not more and not less**).
 - Patentees renounce patent exclusivity in exchange for large-scale FRAND licensing.
 - Risk of over-declaration because SEP status is attractive for licensing and cross-licensing.

Reported SEP Problems – EU Perspective

Hold-out → implementers avoid and delay taking a FRAND license without extensive litigation.

- **Implementers already use the standard** (no need for technology transfer);
- **Damages are limited to FRAND + litigation is expensive** and **fragmented** among Member States (but now see UPC); SEP holders have incentives to settle for lower royalty demands;
- **Jungle of IoT implementations**: impossible to license every implementer;
- **FRAND level playing field**: do other complementary SEP holders ask too much or too little compared to me?

Hold-up → SEP holders opportunistically charge supra-FRAND conditions that implementers would not accept if the patent was not standard-essential.

- **Impossible to design around indispensable standards**;
- **Unavailability of licenses limits innovation by implementers** exposed to litigation;
- **Limited transparency on SEPs** validity, essentiality, ownership and licensing costs;
- **FRAND level playing field**: do my rivals pay as much as I do?

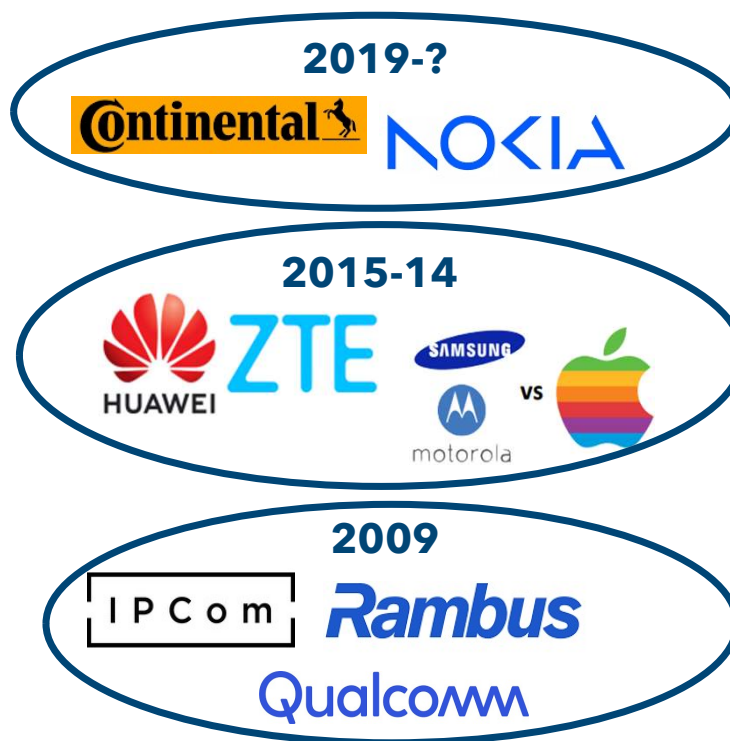
EU Competition Law & SEPs

- **A truly essential** and **valid SEP** relating to **non-optional features of a standard** might **confer market power in the relevant technology market** if the **underlying standard is indispensable** to compete in the downstream product market;

Art. 101 TFEU & SEP licensing:

- DG COMP dialogue with ETSI (e.g., 1995, 2005-06, 2012-13)
- HCG and SEP disclosure and FRAND licensing obligations;
- TTBER excluded restrictions of exclusive grant-back and no-challenge clauses;
- TTG guidance on patent pools (building on pre 2003 comfort letters);

Art. 102 TFEU & dominant SEP holders



EU Merger control and SEPs

Qualcomm **NXP** 2018

NOKIA Alcatel-Lucent 2015

Microsoft **NOKIA** 2013

G **M** 2012

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EU Commission SEP Policy Initiatives



Background of the EC Proposal

Justifications:

- **High transaction costs and SEP licensing uncertainty.**
- **New challenges with IoT Markets:** disagreements about FRAND can increase.
- **Special problems with SMEs:** lack of resources and expertise for negotiation and litigation.
- **Insufficient self-regulation** through industry-led initiatives.

Aims → intentions are good!

- **Transparent and smoother SEP licensing:** lower transaction costs.
- **Ensure continued participation** in standardisation and diffusion of standards.
- **Efficient and sustainable SEP ecosystem, balancing SEP holders and implementers.**
- **Promote the EU's** role in standardisation.

Content:

- **Transparency provisions: EUIPO SEP register** with **essentiality checks.**
- **Global non-binding FRAND aggregate royalty rate + conciliation.**
- **Mandatory FRAND determination.**
- **Special treatment and advice for SMEs.**

Transparency Provisions

EUIPO Competence Centre: SEP register + Database

- **Failure to register SEPs** within the 6-month deadline **precludes enforcement** against the relevant standard implementation and bars compensation for past infringement (Art. 24);
 - ... **but patent portfolio safe harbour**: the limitation on the enforcement of non-registered SEPs does not invalidate clauses in broad portfolio licenses that shield royalty rates from individual SEPs' invalidity, non-essentiality or unenforceability (Art. 24(5))

- Essentiality check system:** non-binding analysis of the essentiality of a sample of registered SEPs from different patent families from each SEP holder with respect to each specific standard (Arts. 28ff);
- Up to 100 proposals per SEP holder and implementer for each standard (Art. 29(4)/(5))

Aggregate Royalty Setting

SEP holders may jointly notify the (possibly global) aggregate royalty for SEPs covering a standard (unanimity of all SEP holders is not needed) **within 120 days from the publication of the standard or the awareness of a new use of an existing standard** (Art. 15).

Non-binding conciliation if agreement cannot be reached (initiated by SEP holders holding at least 20% of all SEPs) (Art. 17).

Non-binding expert opinion on a global aggregate royalty initiated by either SEP holders or implementers within 8-14-month timeframe (Art. 18).

Mandatory FRAND Determination

Arbitration-like procedure (Arts. 34-59) initiated by:

- SEP owner prior to initiation of certain types of litigation (e.g., injunctions) in the EU.
- Implementer prior to any request for determination of FRAND terms in the EU.

9-month timeframe (can be extended)

Can be unilaterally conducted

Parallel proceedings in third countries: not prohibited, but if initiated the conciliator shall terminate the FRAND determination upon the request of any party.

Non-binding outcomes:

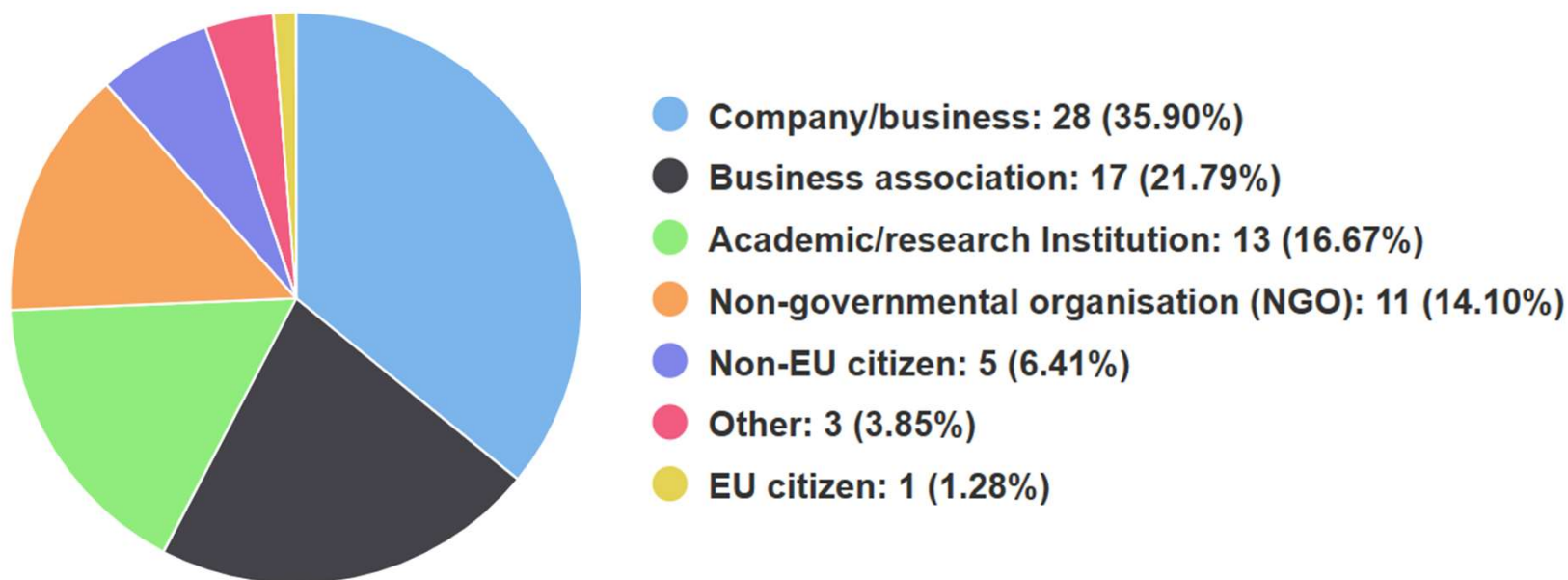
- **positive outcomes** such as settlement or joint acceptance of the FRAND determination;
- **report of the conciliator for negative outcomes:** confidential FRAND determination + non-confidential methodology and the assessment of the FRAND determination published in the SEP database.

EC Commission Public Consultation

Feedback period 27 April - 10 August 2023

78 valid responses (some reiterated other's submission or sent more than one submission)

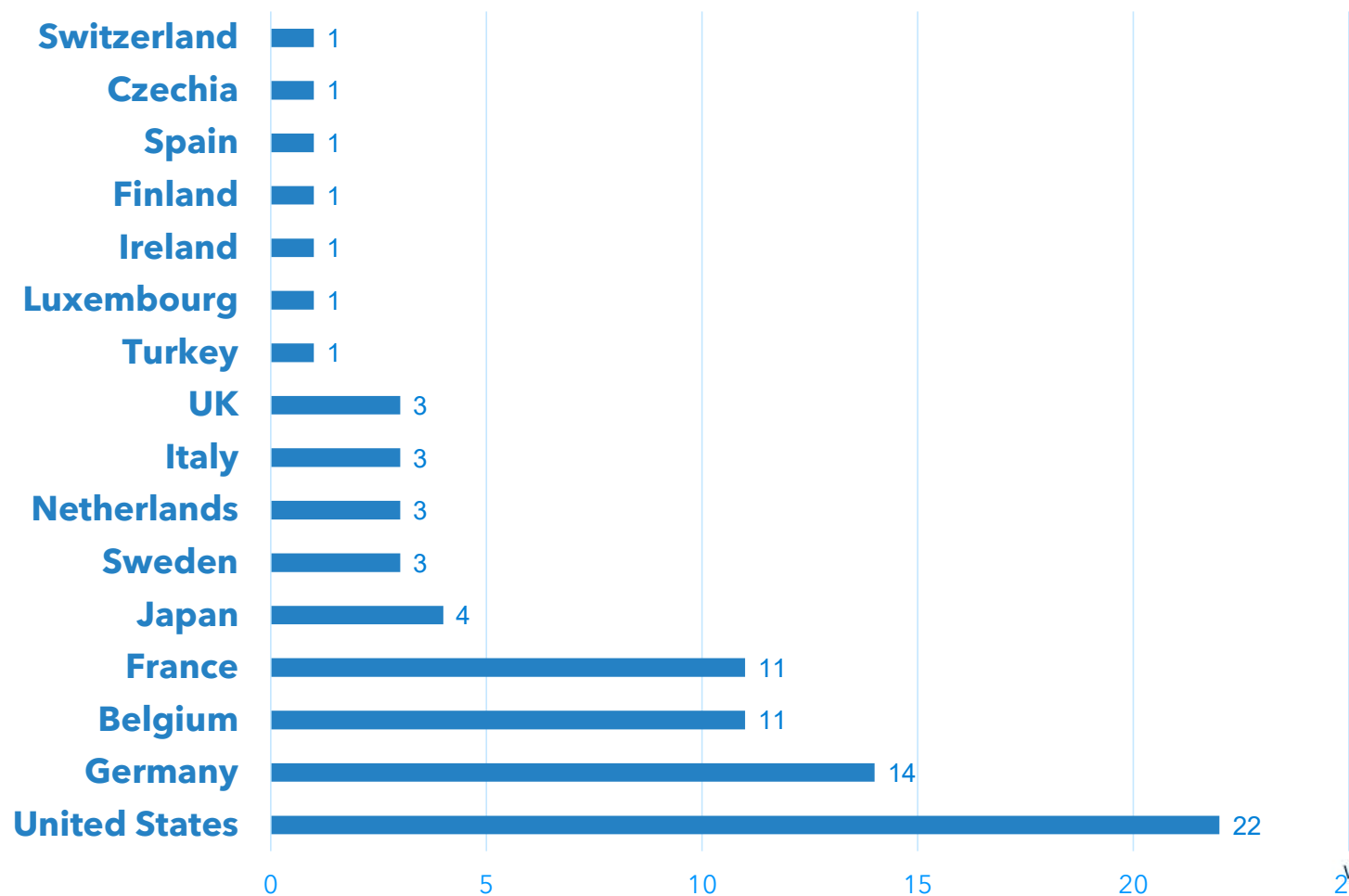
Respondent category



Source: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/feedback_en?p_id=32054345

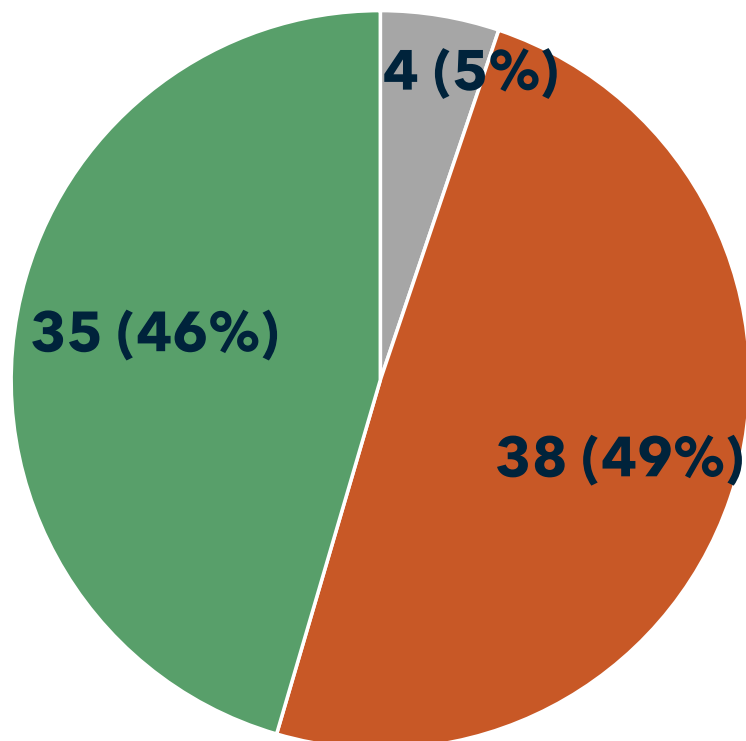
EC Commission Public Consultation

Respondents by country



EC Commission Public Consultation

Overall Position



■ Neutral ■ Against ■ In favour

Broad brush categories:

- **In favour: implementers from any industry** (particularly automotive and smart meters), **open-source software community, individual experts;**
- **Against: SEP holders** (both vertically integrated ones and net SEP-licensors are against), **patent pools, academic institutions, IP lawyers/patent attorneys;**

EC Commission Public Consultation

Debated Pros and Cons



More balanced negotiations (especially for resource-constrained and unprepared IoT firms)

Increased legal certainty and predictability

EU manufacturers' interest

Fairness in the value chains

Efficient dispute resolution (thanks to EUIPO as one-stop-shop)

Increased follow-on innovation

Unrelated public policy benefits (e.g., sustainability, energy transition, digitalization)

Pro-SMEs treatment

Lack of EU legal basis (+breach of subsidiarity and proportionality principles)

Poor empirical support (more study is needed)

Too broad scope of application

Inconsistency with other EU economic & trade policies (e.g., UPC, TRIPS)

Unbalanced against SEP holders (against fundamental rights, top-down price regulation)

Unneeded one-size-fits-all administrative burdens;

EUIPO is inapt + lack of qualified, affordable and independent external experts

EC Commission Public Consultation

additional debated Cons



Redundancy vis-à-vis existing institutions and market-based solutions (pools, SDO databases, UPC, patent registers, SEP information services)

Uncertain extra-territorial impact

Poor drafting (e.g., inconsistency with SDOs' policies)

More options for opportunistic behaviour by both stakeholder groups

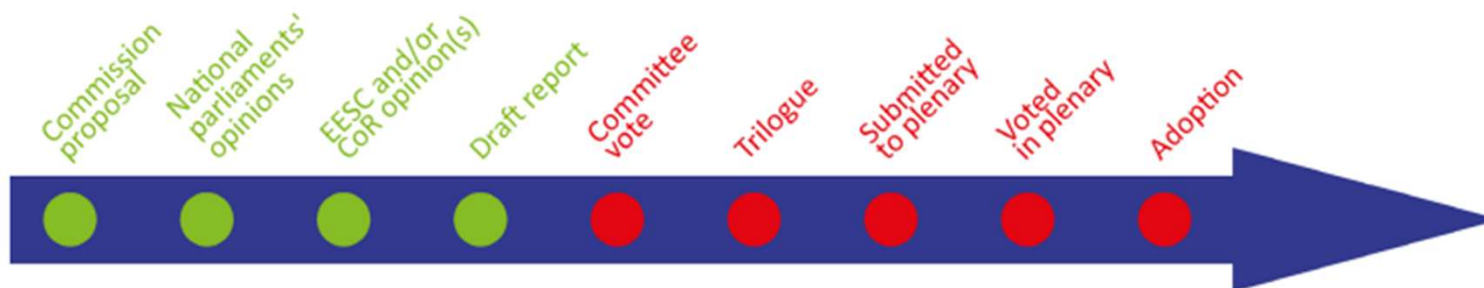
Competition law lacunae (e.g., licensing levels, LNGs)

Too much leeway for implementing and delegated legislation by the Commission

Unworkable timeframes

Political Snapshot

Proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU)2017/1001		
<i>Committee responsible:</i>	Committee on Legal Affairs (JURI)	COM(2023) 232
<i>Rapporteur:</i>	Marion Walsmann (EPP, Germany)	27.4.2023 2023/0133(COD)
<i>Shadow rapporteurs:</i>	Tiemo Wölken (SD, Germany) Adrián Vázquez Lázara (Renew, Spain) Emmanuel Maurel (GUE/NGL, France)	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	Committee vote	



Parliamentary Work

European Economic and Social Committee EESC (20 Sep '23):

- **EC should further investigate the matter** involving other competent authorities;
- **UPC should be more integrated** (e.g., manage appeals against EUIPO SEP decisions);
- **Doubts regarding EUIPO resources** and **additional red tape for SEP holders**;

Legal Affairs Committee JURI, rapporteur draft report, 118 amendments (2 Oct '23):

- **More legal certainty on scope** (standards inclusion and exclusion);
- **Parallel foreign proceedings should not block FRAND determinations**;
- **Commitment to comply with FRAND determination postponed** to its outcome;
- **Safeguards against NPEs**;

Parliamentary Work

International Trade Committee INTA, draft opinion, 134 amendments (2 Oct '23):

- **Limits to extra-territoriality** and **objective scope** of application;
- **FRAND determination to run in parallel to patent litigation**;
- **Deletion of aggregate royalty rate setting**;
- **Implementers should not be able to request essentiality checks**;
- **No one-sided continuation of FRAND determinations**;
- **More consistency with SDOs' terminology**;
- More **balanced information reporting duties** between SEP holders and implementers;
- Protection of **confidentiality** of ADRs;
- **Failure to register SEPs should not impair their enforceability**;

Internal Market and Consumer Protection Committee IMCO, draft opinion, 75 amend. (19 Oct '23)

- Supportive of **broader scope** (all present and future standards);
- **More extensive essentiality checks** beyond sampling and one patent per SEP family;
- **More involvement of implementers in aggregate royalty rate conciliations**;
- **SEP database should be free**;
- **FRAND determinations could run in parallel to foreign litigation**;
- **Safeguards against NPEs**;

Parliamentary Work

662 (conflicting) **Amendments tabled in JURI Committee** (31 October 2023):

- **Limits to extra-territoriality and objective scope** of application;
- **Asymmetric application to identified standards;**
- **Wireless communication standards explicit inclusion;**
- **Replacement of EPO to EUIPO;**
- **Deletion of essentiality checks;**
- **Deletion of aggregate royalty rate setting;**
- **Failure to register SEPs should not impair their enforceability;**
- **Endorsement of license to all approach;**
- **New technical conciliation procedure;**
- **No one-sided continuation** of FRAND determination;
- **More protection of confidentiality;**
- **Public list of unwilling licensees;**

...

Keynote speech

Catharina Rinzema

Member of the European Parliament



Photo by Suzan Alberts

Thank you for your attention!

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