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Position of

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on the

Regulation of the European Parliament and of
the Council on standard essential patents and
amending Regulation (EU) 2017/1001

Position paper on the European Union new Framework for Standard-Essential Patents

I. Executive summary

ACT | The App Association ('The App Association') views the proposed European Union (EU) standard essential patent (SEP) Regulation as a crucial step towards establishing a transparent and fair SEP licensing framework within the EU. The Regulation aims to address concerns raised by the European Commission in 2017 regarding the SEP licensing landscape and its impact on innovation and competition. The App Association, representing small and medium-sized enterprises (SMEs), believes that clear guidance and measures to mitigate anticompetitive SEP licensing practises are essential to foster innovation and support SMEs.

To support innovation and competition, EU policy must reflect key SEP licensing consensus principles, including that SEP licences are made available to all willing stakeholders; that injunctions are awarded only in exceptional circumstances, such as when monetary remedies are not available; that the tying of non-essential patents in with SEP licensing requirements is prohibited; and that fair, reasonable, and non-discriminatory (FRAND) royalties are based on the value of the patented technology itself. Where standards development organisation (SDO) patent policies are insufficient to guide a clear and predictable understanding of FRAND, the European Commission (EC) should provide guidance to its stakeholders. We recognise the significance of SMEs in the EU economy and their challenges in SEP negotiations due to limited resources and support the proposed mechanisms under the EU SEP Regulation to remove their significant barriers to competition. We also support a non-binding FRAND conciliation process, aggregate royalty rate determination, and essentiality assessment process performed under the auspices of the EU Intellectual Property Office (EUIPO) and independent expert conciliators and evaluators. EUIPO competence centre procedures proposed in the EU SEP Regulation will allow SEP licensing parties to amicably conclude fair SEP licences and avoid expensive litigation.

The App Association strongly believes that the implementation of a robust EU SEP Regulation is necessary for a balanced SEP framework and provides necessary modifications that align with the European Commission's goals for transparency and effectiveness. We emphasise the inclusion of necessary definitions in the Regulation, such as for essentiality checks and SMEs. Even where the European Commission provides important definitions elsewhere, there should be explicit reference to those definitions in the Regulation. We also stress the importance of EUIPO conducting consistent essentiality checks for SEPs registered with the competence centre, without allowing their determination of essentiality for one patent to have bearing on the essentiality of another patent in a respective patent family that may have been issued in a different jurisdiction. When one patent in a patent family is declared essential by the competence centre, the SEP holder should bear the burden to prove the essentiality for all other patents that they own in that patent family.

In addition, we believe that the EU SEP Regulation offers loopholes for SEP holders to continue exerting undue pressure on implementing standards users, by allowing for preliminary injunctions based on the vague and undefined element of 'financial nature' and providing exceptions for certain use cases of a standard from undergoing a mandatory aggregate royalty rate determination and FRAND conciliation process. Analysing these exceptions based on use cases, instead of the standard alone, does not address that significant difficulties or inefficiencies affecting the functioning of the internal market are caused by SEP licensing abuses, which impacts many market sectors. Standards that have a negative effect on EU competition and

should always be subject to competence centre procedures include wireless communications, cellular, Wi-Fi, and audio/video codec standards.

The EU SEP Regulation, with the recommended modifications, will indisputably establish a transparent, predictable, and efficient SEP licensing framework that fosters innovation, supports SMEs, and creates a competitive environment that benefits both SEP holders and implementers, ultimately serving the interests of the EU economy and consumers. Minor adjustments in SEP policy are slow to provide a balance in the SEP ecosystem. The European Commission should take into consideration the implementation of the proposed changes to the EU SEP Regulation to build an equitable SEP licensing ecosystem that will promote innovation and will be open to new players.

II. Background and overview

ACT | The App Association is a policy trade association for the **small business technology developer community**. Our members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with markets across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology. Today, the ecosystem the App Association represents—which we call the app economy—is valued at approximately €830 billion globally and is responsible for more than 1.3 million jobs in the European Union (EU).¹

Many of our members create internet of things (IoT) devices. The IoT ecosystem is expected to generate EUR 12.5 billion for the global economy by 2030, significantly contributing to economic growth and job creation within the EU.² The IoT sector relies heavily on the seamless licensing and implementation of SEPs. Unfortunately, the IoT market is ‘very fragmented, competitive and cost sensitive’.³

The App Association developed this paper to build on comments that we submitted to the European Commission (EC) on 10 August 2023 to highlight how the proposed **Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001** (*the EU SEP Regulation*) would provide a balanced, transparent, and predictable standard-essential patent (SEP) framework for the EU. Following our comments submitted to the EC, we provided our membership views to 12 EU Member States.⁴ The App Association held multiple meetings with members of the EC, European Parliament (EP), and EU Member States.

Our message is simple: we believe that clear guidance that mitigates anticompetitive effects of SEP licensing abuse is necessary to enable EU innovation. Our position paper on *Standards, Patents, and Competition Policy to Drive Small Business Innovation* provides our

¹ See <https://actonline.org/wp-content/uploads/Deloitte-The-App-Economy-in-the-EU-2020.pdf>.

² See Impact assessment accompanying the proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, Page 10

³ Ibid, Page 14

⁴ See <https://actonline.org/2023/10/05/the-european-unions-proposal-for-a-transparent-fair-and-reliable-standard-essential-patent-landscape/>.

detailed views on principles that support a SEP licensing ecosystem that combats abusive tactics currently at play.⁵

The EC has long recognised that abusive SEP licensing practices distort competition, publishing communications on these concerns as early as the EU’s inception in 1992.⁶ In 2009, the EC accepted commitments from Rambus, addressing its anticompetitive activities in SEP licensing, such as ‘patent ambush’ and the charging of unfair/unreasonable royalty fees.⁷ In 2011, the EC published its guidelines regarding horizontal co-operation agreements, discussing the anticompetitive threat of patent hold-up in the SDO context and the importance of the effective use of FRAND commitments in combating that threat.⁸ In 2014, the EC made two antitrust decisions, namely regarding Samsung⁹ and Motorola,¹⁰ recognising that injunctions can be used by SEP holders to exert pressure in licensing negotiations, constituting an abuse of dominant position.¹¹ This view on injunctions was later reinforced by the Court of Justice of the European Union (CJEU) in its *Huawei v. ZTE* case, where it laid down general guidelines on how to avoid antitrust abuse in SEP licensing.¹² Unfortunately, the varying interpretation of the CJEU’s guidelines by European national courts have introduced ambiguities, resulting in loopholes that have been exploited by SEP holders to continue the use of abusive injunctions.

In 2017, the EC took issue with the SEP licensing landscape and called for a balanced approach based on increased transparency. On 25 November 2020, the Commission developed an intellectual property (IP) action plan that would restructure the SEP licensing system to promote transparency and predictability in technology-based innovation. This plan was supported by the European Council Conclusions¹³ and the European Parliament in its Resolution.¹⁴ On 14 February 2022, the European Commission held a call for evidence for an impact assessment,¹⁵ on which

⁵ See <https://actonline.org/wp-content/uploads/ACT-SEP-Gen-Position-Paper-sent-081619.pdf>.

⁶ In 1992 the European Commission published its Communication on Intellectual Property Rights and Standardization: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:51992DC0445>. In 1995 the European Commission published its Green Paper on Innovation: https://eur-lex.europa.eu/resource.html?uri=cellar:eb5dae41-104d-4724-ac99-d7cbcfa11b86.0006.01/DOC_1&format=PDF. Both of these documents discuss the competition implications of improper SEP licensing.

⁷ EU Commission Decision, Case COMP/38.636 – RAMBUS (2009) Paragraphs 27 and 66 https://ec.europa.eu/competition/antitrust/cases/dec_docs/38636/38636_1203_1.pdf.

⁸ Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreement, Par. 285 (Jan. 14, 2011). [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023XC0721\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023XC0721(01)).

⁹ EU Commission Decision, Case AT.39939 - SAMSUNG – Enforcement of UMTS Standard Essential Patents (2014).

¹⁰ EU Commission Decision, Case AT.39985 - Motorola – Enforcement of GPRS standard essential patents (2014).

¹¹ See https://ec.europa.eu/commission/presscorner/detail/en/MEMO_14_322.

¹² Court of Justice of the European Union, Case C-170/13 - Huawei v ZTE (2015), <https://curia.europa.eu/juris/document/document.jsf?sessionId=C917B2ADA4191E15F7BDE34824FBED0E?text=&docid=165911&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=3300003>.

¹³ Council conclusions on intellectual property policy, as approved by the Council (Economic and Financial Affairs) at its meeting on 18 June 2021.

¹⁴ European Parliament resolution of 11 November 2021 on an intellectual property action plan to support the EU’s recovery and resilience (2021/2007(INI)).

¹⁵ See https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

the App Association provided feedback.¹⁶ Building on our initial comments on the EU SEP Regulation, we provide our position in response to the regulatory text that passed the EP plenary vote on 28 February 2024, which included amendments by the Committee on Legal Affairs (JURI).

III. Detailed views of ACT | The App Association on the EU SEP Regulation

The App Association supports the adoption of the EU SEP Regulation with some modifications that align with the Commission’s goal of establishing a **transparent, predictable, and efficient SEP licensing framework**. The EU SEP Regulation includes important objectives that address concerns that our SME community has raised regarding SEP holders committing to license their SEPs on fair, reasonable, and non-discriminatory (FRAND) terms to a standard development organisation (SDO) and later exploiting or revoking that obligation. Opportunistic SEP holders have taken advantage of SDO policies that have ambiguous definitions of FRAND to manipulate a fair licensing negotiation process. Many SEP holders have breached their FRAND commitment with no legal reprimand. Since SDOs facilitate access to technical standards that touch various industries, these **opportunistic SEP holders plague many verticals**, always looking for the next market to extract additional and unrelated value for their SEP. The anticompetitive harms experienced in the SEP licensing ecosystem disrupt fair usage of technical standards that support efficient innovation.

It is important that SDOs maintain the autonomy they need to be responsive to their members and standards process participants. But where SDOs fail to provide sufficient guidance on essential elements of a SEP licensing negotiation, such as the meaning of FRAND, **jurisdictions should provide clarifications for their stakeholders**. From a competition perspective, standard development should be recognised as an artificial market intervention by industry participants, with disruptive effects on markets. We don’t advocate for regulatory intervention in standardisation processes, instead, we advocate for the recognition of the potential harmful effects of such industry market interventions, which are in turn balanced by voluntary FRAND commitments by those whose technologies win the race of standardisation negotiations, namely getting adopted into standards.

SEP licensing has a long history that has unveiled foundational principles that underlie the FRAND commitment to ensure a system that is competitive and beneficial to consumers. These principles have been identified in empirical evidence,¹⁷ high-profile court cases,¹⁸ and through stakeholder

¹⁶ See https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3257503_en.

¹⁷ *E.g.*, Love, Brian J. and Lefouili, Yassine and Helmers, Christian and Helmers, Christian, Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets (February 7, 2023). Available at SSRN: <https://ssrn.com/abstract=3727085> or <http://dx.doi.org/10.2139/ssrn.3727085>; Simcoe, Timothy S. and Zhang, Qing, Does Patent Monetization Promote SSO Participation? (November 29, 2021) at 10-14. Available at SSRN: <https://ssrn.com/abstract=3973585> or <http://dx.doi.org/10.2139/ssrn.3973585>.

¹⁸ *Interdigital Technology Co. v. Lenovo Group Ltd.* [2023] EWHC 126, 539 (Pat). (“Having considered all the evidence on the issue of volume discounts I have reached the clear conclusion that the volume discounts said to have been applied to the largest InterDigital licensees (i.e., in the range of 60%-80%) do not have any economic or other justification. Instead, their primary purpose is to attempt to shore up InterDigital’s chosen ‘program rates’. Their primary effect is discrimination against smaller licensees.”); *Optis Cellular Technology v. Apple Retail UK* [2023] EWHC 1095 (Ch) (“[G]iven the nature of Optis’ counterparties to the Optis Comparables – generally small players in the market, with low or at least not massive sales volumes – there is a question whether these licences properly reflect a FRAND rate for a counterparty like Apple.”); *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1030-31 (9th Cir. 2015)

consensus documents like the CWA 95000, *Core Principles and Approaches for Licensing of Standard Essential Patents* (CWA 95000), developed by a broad cross-section of European stakeholders through the CEN/CENELEC Workshop Agreement.¹⁹ The CWA 95000 was established in response to growing problems of abuse of both standardisation and SEP licensing now affecting a range of sectors and market segments in the EU. We believe that this evidence is best positioned to inform the Commission on how to establish an equitable SEP licensing ecosystem for both experienced and inexperienced SEP negotiators that promotes the goals and interests of industry, standardisation and, ultimately, consumers.²⁰ Consistent with the CWA 95000, we recommend that the Regulation align with the following principles:

1. **The FRAND Commitment means all can license** – A holder of a FRAND-committed SEP must license that SEP to all companies, organisations, and individuals who use or wish to use the standard on FRAND terms.
2. **Prohibitive orders on FRAND-committed SEPs should only be allowed in Rare circumstances** – Prohibitive orders (including federal district court injunctions and U.S. International Trade Commission exclusion orders) should not be sought by SEP holders or allowed for FRAND-committed SEPs except in rare circumstances where monetary remedies are not available.
3. **FRAND royalties** – A reasonable rate for a valid, infringed, and enforceable FRAND-committed SEP should be based on the value of the actual patented invention itself to the smallest saleable patent practicing unit, which is separate from purported value due to that patent's inclusion in the standard, hypothetical downstream uses, or other factors unrelated to invention's value.
4. **FRAND-committed SEPs should respect patent territoriality** – Patents are creatures of national law, and courts should respect the jurisdiction of foreign patent laws to avoid overreach with respect to SEP remedies. Absent agreement by both parties, no court should impose global licensing terms on pain of a national injunction.
5. **The FRAND commitment prohibits harmful tying practices** – While some licensees may wish to get broader licenses, a SEP holder that has made a FRAND commitment cannot require licensees to take or grant licenses to other patents not essential to the standard, invalid, unenforceable, and/or not infringed.
6. **The FRAND commitment follows the transfer of a SEP** – As many jurisdictions have recognised, if a FRAND-committed SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.

(standardization “creates an opportunity for companies to engage in anti-competitive behavior”); see *also* ETSI, ETSI Guidelines for Antitrust Compliance, §§ A-B (ETSI is “a forum in which competitors interact with each other. Therefore, the market-related rules apply to the decisions which are adopted by the Institute as a standardization body as well as with regard to the activities of Members within ETSI”; accordingly, “[t]he imposition of discriminatory and unfair conditions by the dominant company, to any categories of users, or any other company having contractual relationships with the dominant company, is abusive”), *available at*

<http://www.etsi.org/images/files/IPR/etsi%20guidelines%20for%20antitrust%20compliance.pdf>.

¹⁹ See <https://www.cenelec.eu/media/CEN-CENELEC/CWAs/ICT/cwa95000.pdf>.

²⁰ *Id.*

The EU SEP Regulation aims to strike a balance between the interests of patent holders and implementing standards users by incorporating **three important components of a balanced SEP licensing regulation**:

1. identifying universal principles defining the FRAND licensing of SEPs;
2. removing disproportionate barriers to innovation for small and medium-sized entities (SMEs); and;
3. appointing a competence centre to facilitate mechanisms for fair SEP licensing negotiations under the guidance of expert conciliators.

The EU SEP Regulation represents positive steps taken by the European Commission to provide a more balanced SEP licensing framework. Modifications should be made to support a procompetitive SEP licensing process.

A. Recognised key principles underlying the definition of FRAND

The text of the EU SEP Regulation acknowledges key principles of FRAND that often hinder SME innovators from entering or succeeding in standardised technology-based industries. In **Recital 3** of the EU SEP Regulation, the Commission recognises that **wide implementation determines the success of a standard** and, therefore, **all stakeholders should be able to use the standard**.²¹ In this section, the Commission explains that SDOs require SEP holders to commit to licensing their SEP on FRAND terms for this purpose.²² Known opportunistic SEP holders refuse to licence to certain entities in a value chain, while instead licensing to downstream stakeholders, such as end product manufacturers, from whom the SEP holder can extract additional value for their patented technology from unrelated features of the implementing technology. This section correctly identifies that the **commitment to licence to all implementing standards users should be respected by subsequent SEP holders**.²³ In order to enable wide implementation of a standard, the FRAND commitment must attach to the SEP regardless of the holder since the patented technology was contributed to the standard prior the transfer of patent ownership.

To provide the most effective version of the EU SEP Regulation, the Commission must explicitly acknowledge all universal principles of FRAND that we have outlined above and that have been agreed upon by EU stakeholders. Therefore, the Regulation still lacks consideration of the following:

1. injunctions should only be available in **exceptional circumstances**, when monetary remedies are not available;
2. SEP holders should not offer **overbroad licensing**; and
3. the analysis to determine a reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP should be based on the **value of the actual patented invention** apart from its inclusion in the standard.

²¹ See COM(2023)232, Recital 3 at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

²² *Id.*

²³ *Id.*

We are confident that excessive judicial awards of injunctive relief and over-valuation of royalty rates in SEP licensing disputes will be properly mitigated under the auspices of the EU Intellectual Property Office (EUIPO) competence centre. The EUIPO is an established venue for mediation amongst parties in intellectual property disputes.²⁴ By contrast, the issue of **overbroad licensing may not be fully addressed** if the Regulation does not provide for specific language that states that forcing implementing standards users to license irrelevant patents is not compliant with a balanced and transparent SEP licensing process. During a SEP licensing negotiation, some patent holders persistently require SMEs to license patents that are invalid, nonessential, or otherwise unenforceable along with the relevant SEP. It is important that the Regulation clarifies that imposing licensing conditions that require a cross-license of non-SEPs, or other patents, is non-compliant with the FRAND commitment and that it indicates unreasonableness on the part of the licensor.

B. Mechanisms to remove barriers for SMEs in the SEP licensing ecosystem

Recital 1 and Article 3 of the EU SEP Regulation properly acknowledges **SMEs as important stakeholders in the standards process** and implements mechanisms that support their ability to be competitive in technology-based industries. Through this Regulation, the EUIPO can alleviate SME challenges to engaging in a fair SEP licensing process by providing reduced or omitted fees, free advice, and free trainings. These mechanisms provided through the Regulation will reduce barriers for SMEs and ensure that they are able to make informed decisions during a SEP licensing negotiation without making a difficult cost-efficiency analysis on whether to incur standards usage costs and hire outside legal and professional help.

The Commission's Impact Assessment accompanying the proposal for the EU SEP Regulation²⁵ found that 84 per cent of European SEP implementers were SMEs.²⁶ SMEs operate with minimal financial and professional resources and often find it challenging to secure investments for their products. SMEs also rely on fairness and predictability and are reluctant to depend on a standards process that invites uncertainties and risk. For example, 80 per cent of SMEs responding to the SME survey said they did not know who owns SEPs relevant to the standard they use and 90 per cent did not know if patents presented to them during negotiations were essential to the standard.²⁷ Most SEP portfolios are held by international companies, leaving **SMEs in the EU vulnerable to potential abuses of market power by well-funded and well-resourced entities**.²⁸ These entities make up a **small group of stakeholders that benefit from the current system and are working hard to oppose the implementation of the EU SEP Regulation**. SMEs make up 90 to 95 per cent of all non-financial businesses in the EU, contribute more than half of Europe's gross domestic product (GDP), and participate in every sector of the economy.²⁹ They are indispensable for Europe's industrial ecosystems, economic and technological sovereignty, and resilience to external shocks. SMEs are vital for the EU's innovation ecosystem, economic growth, and job retention. We view hostility towards the EU SEP Regulation as an

²⁴ See <https://www.euipo.europa.eu/en/manage-ip/mediation-centre/resources>.

²⁵ Impact assessment accompanying the proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001

²⁶ Ibid. page 11.

²⁷ Ibid. page 19.

²⁸ See <https://www.copperpodip.com/post/seps-standard-essential-patents-the-status-quo>.

²⁹ See https://single-market-economy.ec.europa.eu/document/download/b7d8f71f-4784-4537-8ecf-7f4b53d5fe24_en?filename=Annual%20Report%20on%20European%20SMEs%202023_FINAL.pdf.

attempt to disrupt competition for the benefit of a few profit-seeking SEP holders with large portfolios.

C. Non-binding, expert adjudication of SEP licensing disputes through the EUIPO

Establishing a **competence centre** to facilitate essentiality checks, aggregate royalty rate setting, and FRAND conciliations addresses important issues that arise in SEP licensing disputes. Under **Title 3, Chapter 3** of the EU SEP Regulation, stakeholders must register their SEP with the competence centre. The competence centre will then perform **essentiality checks to avoid over-registration through procedures defined in Title 5**. SMEs are often harmed by the threat of frivolous lawsuits by SEP holders that have declared their patent ‘essential’ while providing little-to-no proof of evidence to SDOs, patent pools, or national jurisdictions. The Commission’s impact assessment highlights that only between 25-40 per cent of declared SEPs are estimated as truly essential, or as low as 15 per cent in the case of 5G.³⁰ SDOs often find it difficult to expend resources or properly allocate the burden of expending resources on essentiality checks. It is proper for the EU to fill this gap to ensure that stakeholders can rely on essentiality determinations.

Article 17 of the EU SEP Regulation also provides that the competence centre will **facilitate agreements on aggregate royalty determinations** for the SEPs covering a particular standard. This process will likely reduce the ability for certain SEP licensors to extract excessive royalties for their SEP from implementing standards users. This process will require relevant SEP holders to disclose the scope of the aggregate royalty rate, including their determination of whether the rate is global.³¹ Setting **global rates is harmful to SMEs**, including those that participate in the EU economy, because it would allow SEP holders to determine a potentially disproportionate royalty rate that, if not agreed to by the implementing standards user, would **allow the SEP holder to seek a national injunction** based on extraterritorial conduct. The EU should focus solely on their stakeholders and **limit aggregate royalty rate determinations to its own economy**.

The third process that would be handled by the competence centre would be a **mandatory and non-binding FRAND conciliation** process facilitated by independent expert evaluators and conciliators with extensive experience in dispute resolution and the economics of licensing on FRAND terms. The FRAND conciliation process is outlined in **Title 6** of the EU SEP Regulation. This process will allow licensing parties to amicably reach an agreement as to the terms of a SEP license without the threat of litigation. The EU SEP Regulation should further define the rules and procedures around this dispute resolution mechanism to ensure that its process is fair for all stakeholders. It would be appropriate for the EUIPO to seek guidance from the CWA 95000 to develop foundational understandings of FRAND.

IV. Necessary modifications to the EU SEP Regulation that enable a balanced SEP licensing ecosystem in the EU

Effective regulations require sufficient clarity for the most unsophisticated entity affected by its guidance. The most fundamental aspect of a clear regulation is **proper definitions of essential terms**. We hope that more clarity and reliability will be added into the text of the Regulation, by clarifying the definition of ‘essentiality checks’. We are pleased to observe that the European

³⁰ Impact assessment accompanying the proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, p. 19.

³¹ See COM(2023)232, Article 15(2)(g)) at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

Parliament has introduced definitions for certain terms that were previously undefined, such as ‘evaluator’ and ‘conciliator’.

The Regulation should also ensure that its definitions do not leave room for broad interpretation. For example, the EC’s proposed regulatory text defines ‘**standard essential patent**’ as ‘any patent that is essential to a standard’, while the EP’s proposed amendments define a ‘**standard essential patent**’ as ‘any patent that a **SEP holder claims to be** is essential to a standard’. A more accurate definition for a standard-essential patent would be ‘any patent that is contributed and declared essential to a standard’. The proposed definition of ‘**FRAND determination**’ should also be clarified to include how the process is initiated, that it is conducted prior to filing a suit in a competent court of a Member State, and that an independent conciliator will be facilitating this procedure by collecting evidence from the parties and issuing a non-binding opinion.

A. Essentiality checks must be consistent for all registered patents

The EU SEP Regulation’s text regarding essentiality checks is crucial to ensuring that claimed SEP holders are not fraudulently seeking additional profits for their patent. We support the facilitation of essentiality checks under the auspices of the EUIPO and expert guidance of an independent evaluator, however the current structure does not achieve the European Commission’s transparency goals. **Essentiality checks are necessary to avoid false SEP claims that lead to over-declaration. Article 28** does not accomplish this goal and should be modified to ensure that non-essential patents claiming to be SEPs are not registered with the EUIPO and, therefore, not held out to be SEPs by the European government. **Article 28(3)** of the EU SEP Regulation states that essentiality checks should not be performed for more than one SEP of a respective patent family. This system would allow potentially non-essential patents in a patent family be enforced as a SEP in the EU unless and until later disproven by a competent court of a Member State. While the competence centre annually selects a sampling of registered SEPs to perform essentiality checks, it is likely that non-essential patents held out as SEPs will have already caused damage to the SEP licensing ecosystem. We note that considering differences between the patent laws of EU Member States and jurisdictions outside the EU, **it is not reasonable to determine that a patent is essential in one jurisdiction because it is essential in another jurisdiction**. It is harmful to the SEP licensing process for the EU to hold patents out to be essential based on these metrics. This understanding should apply to practising and non-practising stakeholders that hold a declared SEP. Therefore, the **SEP holder(s)** that declare(s) their patent(s) essential **should bear the burden to prove the essentiality** for all their respective patents in a patent family **after the competence centre has determined one of those patents to be essential**.

Recital 27 of the EC’s proposed regulatory text also works against this goal by adopting existing essentiality checks by patent pools prior to the Regulation’s entry into force without ensuring that the checks meet the methodological standards set forth by the competence centre. Unless provided through judicial authority, **essentiality checks should be conducted regardless of prior evaluations of essentiality by an independent entity**. The EP proposed amendments provide a positive qualification when the evaluator has an ‘objective reason to believe, based on sufficient evidence, that the prior essentiality check was inaccurate’. While this provision is helpful, we urge for consistent essentiality checks. Some SEP holders try to cleverly circumvent fair process through the guise of their patent pool. Some well-known **patent pools** have argued that they are not held to the FRAND commitment although they **are agents of a FRAND-encumbered SEP holder. Honouring a patent pool’s previous essentiality check** will provide opportunistic SEP holders, through their patent pools, with **an opportunity to assert potentially non-essential patents on non-FRAND terms**. Per the EC’s proposed text, the

only evidence that the EUIPO seeks to accept previous independent examinations of essentiality are the SEP registration number, the identity of the patent pool and its administrator, and the evaluator.³² This should not be considered sufficient evidence. While the EP’s proposed amendments provide helpful language that allows the EUIPO-appointed evaluator to challenge the essentiality assessment of a SEP holder or patent pool based on objective reasoning, the inconsistent essentiality determinations will cause unnecessary loopholes to this process.

B. Broad exceptions to mandatory processes will diminish the Regulation’s effect on the SEP licensing ecosystem

The Commission includes two broad **exceptions** to undergoing the outlined mandatory **aggregate royalty rate** and **FRAND conciliation processes** through the competence centre that invite abuse and defeat the purpose of establishing such procedures.

1. Provisional Injunctions of a ‘financial nature’

Article 34(4) of the regulatory text states that either party may request, pending a FRAND determination, a competent court of a Member State to issue a provisional injunction of a financial nature against an alleged infringer. It is unclear what would constitute a ‘financial nature’ that would qualify for provisional injunctive relief. Smaller stakeholders would be most harmed from this ambiguous provision. If an SME were subjected to a provisional injunction, they would likely suffer unrecoverable and massive revenue and investment losses even if a court would decide later that there was no actual infringement of the SEP in question. While the Commission might be considering SME innovators that are SEP holders, it is likely that this provision will be used by the minority of large portfolio patent holders that have often exploited ambiguities in the law and in regulation to the detriment of implementing standards users. This process would also make the purpose of a mandatory FRAND conciliation process prior to asserting claims at the UPC or a competent court of a Member State ineffective because SEP holders would be able to bypass this requirement.

2. Standards deemed mature and well-developed

The Regulation also provides a **carve out** for **identified use cases** of certain standards where there is sufficient evidence that SEP licensing negotiations subject to FRAND terms do not give rise to **significant difficulties or inefficiencies affecting the functioning of the internal market**.³³ The Commission reasons that mature standards may have well-developed commercial relationships and licensing practices for certain use cases of a standard, citing wireless communications. By contrast, the Commission states that such use cases should be treated differently than novel use cases, even of the same standards, with less mature markets.

Analysing carve outs based on ‘use cases’, instead of the standard alone, does not address the fact that the significant difficulties or inefficiencies affecting the functioning of the internal market **are caused by lack of access to the standard itself**, which impacts many market verticals.

³² See COM (2023)232, Article 8(b)) at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

³³ See COM(2023)232, Recital 4; Article 1(3)(4); Article 66(4)); Article 17; Article 18; Article 34(1) at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

Therefore, **the analysis** to determine exceptions to the mechanisms performed under the competence centre **should be based on the standard** for existing and future standards.

It is also well known that licensing disputes in **wireless communication, cellular, Wi-Fi, and audio/video codec standards** are still impacting the **efficiency of competition and innovation** in the **EU's internal market** due to bad-faith SEP holders that participate in those standards and utilise **ambiguous SDO definitions of FRAND** to their advantage in **SEP licensing negotiations**, including **distorting the value of their patented technology** to receive **greater royalties**. Most recently, a UK High Court identified that a prominent SEP holder, InterDigital Technology Corporation, attempted to extract the value of the entire implementing technology (a mobile phone), which included features (e.g. screen size, processor power, brand) unrelated to the SEP technology.³⁴ The Court recognized that the value of a SEP should not have reflected premium prices unrelated to the components of the implementing technology that function due to the SEP.³⁵ The Court also recently unveiled in **both *InterDigital v. Lenovo* and in *Optis v. Apple*** that the **SEP licensor** in question had a **consistent practise** of offering **unreasonable and discriminatory licences** to '**smaller players**' and using those licences as comparables in disputes with larger licensees.³⁶ Not only do **smaller licensees** not have the experience or resources necessary to determine what a reasonable royalty rate should be for a given SEP,³⁷ but they are often **integral** to a larger **profit-seeking scheme** by certain SEP holders. As a result, **the large volume of SMEs** that make up the EU's internal economy **experience competitive setbacks** that have a **domino effect on entire markets**.³⁸

The most **mature and litigious use cases** for a standard **lie in the wireless communications space**, which the Commission cites as having well-developed commercial relationships and licensing practises. When certain **SEP licensors** are unable to force implementing standards users into unreasonable licensing terms, despite their FRAND obligation, they **utilise favourable jurisdictions** to handle the outcome of their disputes.³⁹ **Courts have even recognised that they should not interject** in SEP licensing negotiations, namely **the determination of FRAND terms**, but endeavour to provide tools to solve such matters.⁴⁰ These SEP licensing disputes are based on the **unclear definition of FRAND** outlined by the **European Telecommunications Standards Institute (ETSI)**, which is roughly **responsible for 75 per cent of SEP litigation around the world**.⁴¹ SMEs cannot afford such a costly occurrence and may not want to risk entering a market that has a high potential of resulting in litigation.

³⁴ Interdigital Technology Co. v. Lenovo Group Ltd. [2023] EWHC 539 (Pat).

³⁵ *Id.*

³⁶ Interdigital Technology Co. v. Lenovo Group Ltd. [2023] EWHC 126, 539 (Pat). ("Having considered all the evidence on the issue of volume discounts I have reached the clear conclusion that the volume discounts said to have been applied to the largest InterDigital licensees (i.e., in the range of 60%-80%) do not have any economic or other justification. Instead, their primary purpose is to attempt to shore up InterDigital's chosen 'program rates'. Their primary effect is discrimination against smaller licensees."); *Optis Cellular Technology v. Apple Retail UK* [2023] EWHC 1095 (Ch) ("[G]iven the nature of Optis' counterparties to the Optis Comparables – generally small players in the market, with low or at least not massive sales volumes – there is a question whether these licences properly reflect a FRAND rate for a counterparty like Apple.").

³⁷ See European Commission, SME survey annex, Q12.

³⁸ 65% (17 out of 26) and 64% (18 out of 28) respectively. See Annex 8.3 SME Survey, Q16.

³⁹ See *Sisvel International S.A. v. Haier Deutschland GmbH* (FCJ 2020); see *Motorola Mobility Inc. v. Microsoft Corp* (2013).

⁴⁰ *Interdigital Technology Co. v. Lenovo Group Ltd.*, p. 16, [2023] EWHC 539 (Pat).

⁴¹ IPLytics, *SEP Litigation Trends and Licensing Realities 7* (2021), <https://actonline.org/seplitigation-trends-and-licensing-realities-ipwatchdog-and-iplytics-march-2021/>.

Mature standards, such as **wireless communication, cellular, W-Fi, and audio/video codec standards** provide many SEP licensing disputes and **justify the EU’s intervention** to set mechanisms in place to alleviate the amount of SEP licensing disputes that reach litigation. Therefore, it is necessary for wireless communication, cellular, Wi-Fi, and audio/video codec standards be subject to competence centre mechanisms under **Article 17, Article 18, and Article 34(1)** until the Commission determines that commercial relationships have been well established.

V. Conclusion

The EU SEP Regulation should be implemented to provide European stakeholders with guidance and procedures to undergo **fair, predictable, and reliable SEP licensing negotiations**. The objectives of the Regulation consider the most disadvantaged and underrepresented stakeholders, namely **SMEs**. With modifications to strengthen the utility of the competence centre in facilitating fair SEP licensing negotiations and providing parties with basic information and tools to make the most informed decision during the licensing process, the EU SEP Regulation will **restrain abusive conduct and encourage innovation and competition**.

Sincerely,



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