

10 August 2023

Response of

ACT | The App Association
Rue de la Loi 23,
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to the

European Commission

to its

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 EU SEP Regulation as a crucial step towards establishing a transparent and fair SEP licensing framework within the European Union. 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 anti-competitive SEP licensing practises are essential to foster innovation and support SMEs.

We strongly support key principles in SEP licensing, including offering SEP licences to all willing stakeholders, awarding injunctions only in limited circumstances, avoiding overbroad licensing, and evaluating FRAND royalties based on the value of the patented technology. Where SDO patent policies are insufficient to guide a clear and predictable understanding of FRAND, The European Commission should provide guidance to its stakeholders. We recognize 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 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 strong 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 emphasize 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 out 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 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 lack of access to the standard itself, which impacts many market verticals. Standards that have a negative effect on EU competition and should always be subject to competence centre procedures include wireless communications, cellular, WIFI, 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 a fair and accessible 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 verticals 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 over 1.3 million jobs in the European Union (EU).¹

The App Association developed this paper 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)** can provide a balanced, transparent, and predictable standard essential patent (SEP) framework for the European Union (EU). We believe that clear guidance that mitigates anti-competitive 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 detailed views on principles that support a SEP licensing ecosystem that combats abusive tactics currently at play.²

In 2017, the European Commission 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 Conclusions³ and the European Parliament in its Resolution.⁴ On February 14, 2022, the European Commission held a call for evidence for an impact assessment,⁵ for which the App Association provided feedback.⁶ We now provide our position in response to the Commission's open consultation on the adoption of the EU SEP Regulation.

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

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

² See <https://actonline.org/wp-content/uploads/ACT-SEP-Gen-Position-Paper-sent-081619.pdf>.

³ Council conclusions on intellectual property policy, as approved by the Council (Economic and Financial Affairs) at its meeting on 18 June 2021.

⁴ European Parliament resolution of 11 November 2021 on an intellectual property action plan to support the EU's recovery and resilience (2021/2007(INI)).

⁵ See https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

⁶ See https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3257503_en.

The App Association supports the adoption of the EU SEP Regulation with 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. Other 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 access to technical standards that support efficient innovation.

It is important that SDOs maintain their autonomy from government intervention. But where SDOs fail to provide guidance on essential elements of a SEP licensing negotiation, such as the meaning of FRAND, **jurisdictions should provide clarifications for their stakeholders**. 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 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.⁷ 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. Therefore, we believe that the CWA 95000 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.⁸ These principles include:

- **Fair and Reasonable to All** – A holder of an SEP subject to a FRAND commitment must licence such SEP on fair, reasonable, and non-discriminatory terms to all companies, organisations, and individuals who implement or wish to implement the standard.
- **Injunctions Available Only in Certain Circumstances** – Injunctions and other exclusionary remedies should not be sought by SEP holders or allowed except in limited circumstances where monetary remedies are not available. The implementer or licensee is always entitled to assert claims and defences.
- **FRAND Promise Extends if Transferred** – If a FRAND-encumbered SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.
- **No Overbroad Licensing** – While some licensees may wish to get broader licences, the patent holder should not require implementers to take or grant licences to a declared SEP that is not essential to the standard, unenforceable, or not infringed, or invalid.
- **FRAND Royalties** – 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 and should consider the anticipated overall royalty-rate

⁷ See <https://www.cencenelec.eu/media/CEN-CENELEC/CWAs/ICT/cwa95000.pdf>.

⁸ *Id.*

for all SEPs relevant to a particular standard, and the innovative impact of an SEP to the specific standard. A reasonable rate must not be assessed in a vacuum.

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 certain principles related to the FRAND licensing of SEPs;
- 2) removing disproportionate barriers to innovation for small and medium-sized entities (SMEs); and;
- 3) appointing the European Intellectual Property Office (EUIPO) facilitate mechanisms under expert guidance for SEP licensing disputes.

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**.⁹ In this section, the Commission explains that SDOs require SEP holders to commit to licensing their SEP on FRAND terms for this purpose.¹⁰ Some 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**.¹¹ 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 other **foundational principles of FRAND** that we have identified and that have been agreed upon by EU stakeholders:

- 1) injunctions only available in limited circumstances,
- 2) no overbroad licensing, and
- 3) guiding an analysis to determine a reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP based on the value of the actual patented invention apart from its inclusion in the standard

⁹ 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.

¹⁰ *Id.*

¹¹ *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 EUIPO competence centre. 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 licence irrelevant patents is not compliant with a balanced and fair SEP licensing process. During a SEP licensing negotiation, some patent holders persistently require SMEs to licence patents that are invalid, nonessential, or otherwise unenforceable along with the relevant SEP. It is important that the Commission 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 having a fair SEP licensing process by providing reduced or omitted access 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 access fees and hire outside legal and professional help.

By 2022, there were **84.6 million EU citizens** making up the SME community that was **at risk of SEP licensing abuses**.¹² 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 access to standards that invite uncertainties and risk. 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**.¹³ Currently, 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 99 percent of all businesses in the EU, contribute more than half of Europe's GDP, and participate in every sector of the economy.¹⁴ 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 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 frivolous lawsuits by SEP holders that may have declared their patent 'essential' while providing little to no

¹² See <https://www.statista.com/statistics/936845/employment-by-smes-in-european-union/#statisticContainer>.

¹³ See <https://www.copperpodip.com/post/seps-standard-essential-patents-the-status-quo>.

¹⁴ A number of studies on various key technologies suggest that when rigorously tested, only between 10% and 50% of declared patents are essential (CRA, 2016 and IPlytics, 2017).

evidence to SDOs, patent pools, or national jurisdictions. 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 if the rate is global.¹⁵ Setting **global rates is harmful to SMEs**, including those that interact with 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 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**. Under **Article 2** of the Regulation text, many important terms are not included or are too narrowly defined. **Article 2** should be modified to provide more clarity and reliability. Terms that are not defined in the Regulation that are crucial to its meaning include: **1) Essentiality Check, 2) Evaluator, 3) Conciliator, and 4) Micro, Small and Medium-sized Entities**. To assist the most unsophisticated stakeholder, if any of these terms are defined generally by the Commission or other parts of the European government and are applicable to the EU SEP Regulation, the text should indicate that with an explicit reference to the definition.

The Regulation should also ensure that its definitions do not leave room for broad interpretation. For example, the Regulation currently defines ‘**standard essential patent**’ as ‘any patent that 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.

¹⁵ 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.

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 of their respective patents in a patent family **after the competence centre has determined one of those patents to be essential.**

Recital 27 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.** 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.** 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.¹⁶ This should not be considered sufficient evidence.

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'

¹⁶ 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.

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 Commission 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**.¹⁷ 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. 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, WiFi, 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.¹⁸ 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.¹⁹ 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

¹⁷ 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.

¹⁸ InterDigital Technology Co. v. Lenovo Group Ltd. [2023] EWHC 539 (Pat).

¹⁹ *Id.*

those licences as comparables in disputes with larger licensees.²⁰ Not only do **smaller licensees** not have the experience or resources necessary to determine what a reasonable royalty rate should be for a given SEP²¹, 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**²².

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.²³ **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.²⁴ 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 percent of SEP litigation around the world**.²⁵ 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.

Mature standards, such as **wireless communication, cellular, WIFI, 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, WIFI, 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 **strain abusive conduct and encourage innovation and competition**.

²⁰ 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.").

²¹ See European Commission, SME survey annex, Q12.

²² 65% (17 out of 26) and 64% (18 out of 28) respectively. See Annex 8.3 SME Survey, Q16.

²³ See Sisvel International S.A. v. Haier Deutschland GmbH (FCJ 2020); see Motorola Mobility Inc. v. Microsoft Corp (2013).

²⁴ Interdigital Technology Co. v. Lenovo Group Ltd., p. 16, [2023] EWHC 539 (Pat).

²⁵ IPLytics, SEP Litigation Trends and Licensing Realities 7 (2021), <https://actonline.org/seplitigation-trends-and-licensing-realities-ipwatchdog-and-iplytics-march-2021/>.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Sax", with a stylized flourish at the end.

Mike Sax
Founder and Chairperson

Brian Scarpelli
Senior Global Policy Counsel

Priya Nair
Intellectual Property Policy Counsel

Annex: Suggested Text Edits and Justifications

ACT | The App Association (the App Association) provides suggested text edits and justifications below for the proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001) (the “EU SEP Regulation”). Our suggested text edits and justifications are based on feedback from App Association members to improve their clarity on the evaluation of standard essential patents (SEPs) and Fair, Reasonable and Non-Discriminatory (FRAND) licensing procedures provided in the EU SEP Regulation. The selected paragraphs are the pertinent sections of the proposal for a Regulation that could benefit from added clarity and is not a complete or exhaustive analysis of the entire regulatory text.

Recital Sections¹

4 – Exceptions to Competence Centre Proceedings

There are well established commercial relationships and licensing practices for certain ~~use cases of~~ standards, ~~such as the standards for wireless communications,~~ with iterations over multiple generations leading to considerable mutual dependency and significant value visibly accruing to both SEP holders and implementers. ~~These standards should be identified by stakeholders in accordance with Article 66.~~ There are other, ~~typically more novel standards use cases – sometimes of the same standards or subsets thereof –~~ with less mature markets, more diffuse and less consolidated implementer communities, for which unpredictability of royalty and other licensing conditions and the prospect of complex patent assessments and valuations and related litigation weigh more heavily on the incentives to deploy standardised technologies in innovative products. Therefore, in order to ensure a proportionate and well targeted response, certain procedures under this Regulation, namely the aggregate royalty determination and the compulsory FRAND determination prior to litigation, should not be applied to identified ~~use cases of certain~~ standards or parts thereof for which there is sufficient evidence that SEP licensing negotiations on FRAND terms do not give rise to significant difficulties or inefficiencies. ~~Wireless communications, cellular, WIFI, and audio/video codec standards have provided significant evidence of giving rise to significant difficulties and inefficiencies affecting the functioning of the internal market and should be subject to Article 17 and 18, and Article 34(1) until the Commission determines that commercial relationships have been well established.~~

Justification: Recital 4 should be modified in accordance with the above recommendations. Standards often impact multiple markets and determining best practices for “use cases” does not capture the commercial relationship and licensing practices relevant to any one standard. Therefore, the analysis should be based on the standard itself for existing and future standards. It is well-known that licensing disputes in wireless communication, cellular, WIFI, and audio/video codec standards are still impacting the efficiency of competition and innovation in the EU’s internal market because bad-faith SEP developers that participate in those standards utilise ambiguous Standard Development Organisations (SDOs) definitions of FRAND to their advantage in SEP licensing negotiations, including distorting the value of their patented technology to receive greater royalties. These standards provide many SEP licensing disputes and justify the EU’s intervention to set mechanisms in place to introduce a clear and

¹ The title accompanying the preamble number does not appear in the EU SEP Regulation and is only indicative of the subject matter to which the paragraph relates.

predictable licensing system for SEPs. Particularly, SMEs cannot afford a costly licensing dispute and may not want to risk entering a market that has a high potential of resulting in litigation. Therefore, those standards should be evaluated under procedures of the EUIPO competence centre.

27 – Essentiality Checks

Any ~~assessment of essentiality of SEPs conducted by an independent entity prior to the entry into force of the Regulation, for example through patent pools, as well as~~ essentiality determinations by judicial authorities should be indicated in the register ~~and. These SEPs~~ should not be re-checked for essentiality after the relevant evidence supporting the information in the register is provided to the competence centre.

Justification: Recital 27 should be modified to omit independent essentiality determinations by patent pools. Unless provided through judicial authority, essentiality checks should be conducted for all SEPs registered with the competence centre regardless of prior evaluations of essentiality by an independent entity. 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 patent pools with the ability to assert potentially non-essential patents by EUIPO standards on non-FRAND terms. Under Article 8(b) of the EU SEP Regulation, the only evidence necessary to accept previous independent examinations of essentiality are the SEP registration number, the identity of the patent pool and its administrator, and the evaluator. This evidence is not sufficient to confirm that a patented innovation is essential to a relevant technical standard.

Articles²

1.3 & 1.4 – Exceptions to Competence Centre Proceedings (Existing Standards)

3. Articles 17 and 18 and Article 34(1) shall not apply to SEPs to the extent that they are implemented for ~~standards use-cases~~ identified by the Commission in accordance with paragraph 4. ~~Wireless communications, cellular, WIFI, and audio/video codec standards have provided significant evidence of giving rise to significant difficulties and inefficiencies affecting the functioning of the internal market and should be subject to Article 17 and 18, and Article 34(1) until the Commission determines that commercial relationships have been well established.~~
4. Where there is sufficient evidence that, as regards identified ~~use-cases of certain~~ standards or parts thereof, SEP licensing negotiations on FRAND terms do not give rise to significant difficulties or inefficiencies affecting the functioning of the internal market, the Commission shall, after an appropriate consultation process, by means of a delegated act pursuant to

² The titles accompanying the article numbers do not appear in the EU SEP Regulation and are only indicative of the subject matter to which the paragraph relates.

Article 67, establish a list of ~~such use cases~~, standards or parts thereof, for the purposes of paragraph 3.

Justification: Paragraph 3 and 4 of Article 1 should be modified with the following recommendations. Our reasoning for these suggested edits is consistent with our justification provided for Recital 4.

2.9 & (Proposed 2.19-2.23) – Clear and Defined Terms

9. 'FRAND determination' means a structured procedure for the determination of the FRAND terms and conditions of a SEP licence **initiated at the request of one party, in which a neutral person, a conciliator, assists the parties to determine FRAND terms and conditions, may request evidence from the parties and should issue a non-binding proposal and a report, if the parties are unable to resolve their dispute;**
10. 'aggregate royalty' means the maximum amount of royalty for all patents essential to a standard;
11. 'patent pool' means an entity created by an agreement between two or more SEP holders to license one or more of their patents to one another or to third parties;
12. 'peer evaluation' means a process for the re-examination of the preliminary results of essentiality checks by evaluators other than those that carried out the original essentiality check;
13. 'claim chart' means a presentation of correspondence between the elements (features) of one patent claim and at least one requirement of a standard or recommendation of a standard;
14. 'requirement of a standard' means expression, in the content of a document, that conveys objectively verifiable criteria to be fulfilled and from which no deviation is permitted if conformance with the document is to be claimed;
15. 'recommendation of a standard' means expression, in the content of a document, that conveys a suggested possible choice or course of action deemed to be particularly suitable without necessarily mentioning or excluding others;
16. 'patent family' means a collection of patent documents that cover the same invention and whose members have the same priorities;
17. 'stakeholder' means any person that can demonstrate a legitimate interest in SEPs, including a SEP holder, an implementer, an agent for a SEP holder or an implementer, or an association representing the interests of SEP holders and implementers;
18. 'competence centre' means the EUIPO administrative units that fulfil the tasks entrusted to EUIPO under this regulation.
19. **'essentiality check' means the process of evaluating whether a claimed SEP is essential to a standard as designed in this regulation by an evaluator from the list of evaluators created under this Regulation;**
20. **'evaluator' means a person that performs essentiality checks;**
21. **'conciliator' means a person that serves in a FRAND determination or is called upon to assist parties in establishing an aggregate royalty;**
22. **'peer evaluation' means a process for the re-examination of the results of essentiality checks by evaluators other than those that carried out the original essentiality check;**
23. **'micro, small and medium-sized enterprises' (SMEs) means enterprises as defined by Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises**

Justification: Paragraph 9 should be modified and proposed paragraph 19 through 23 should be included in Article 2. To accomplish the Commission's goals of promoting transparency and predictability in SEP licensing, the Commission must strive to clarify and define all terms that are essential to the provisions of the EU SEP Regulation. Clear definitions are particularly important for SMEs that operate with minimal financial and professional resources during the licensing process. The redlines that we provide define terms that are integral to understanding this regulation. For this reason, we urge the Commission to clearly define all terms that are crucial to the transparency and predictability of the EU SEP Regulation.

Proposed Article 3 – Essential Principles of the FRAND Obligations

The obligation to license a SEP on fair, reasonable, and non-discriminatory (FRAND) terms, must include that:

1. A SEP holder cannot refuse to license its SEPs to a party who is willing to agree to FRAND terms and conditions;
2. A FRAND obligation in respect of a SEP that binds a patent owner, shall bind any subsequent patent owner and their agents, including patent pools;
3. A SEP holder should not require implementers to take or grant licences to a FRAND-encumbered SEP that is not essential to the standard, unenforceable, or not infringed, or invalid;
4. A SEP holder should not seek injunctions and other exclusionary remedies except in limited circumstances where monetary remedies are not available;
5. 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 and should consider the anticipated overall royalty-rate for all SEPs relevant to a particular standard.

Justification: The proposed article should be included in this regulation text. The redlined text above includes five widely held principles for ensuring a balanced SEP licensing process. Many SDOs that require a FRAND commitment often fail to provide a clear definition, which enables abusive tactics by SEP holders, including the exploitation of ambiguities in the FRAND commitment. Where SDOs lack transparency, the Commission must provide guidance to EU stakeholders. Paragraph 1 of this proposed article mitigates the ability for a SEP holder to refuse to grant a license to a willing licensee in order to abuse competitors in their market and extract additional value for their SEP from certain licensees, commonly an end product manufacturer. Paragraph 2 of this proposed article ensures that SEP holders do not utilise transfer tactics in order for the assignee to evade a FRAND commitment. Therefore, we request that the Commission introduces this new proposed article defining two integral elements of the FRAND commitment.

8(b) – Independent Essentiality Check Evaluations

A SEP holder shall provide to the competence centre the following information to be included in the database and referenced in the register:

(a) a final decision on essentiality for a registered SEP made by a competent court of a Member State within 6 months from the publication of such decision.

~~(b) any essentiality check prior to [OJ: please insert the date = 24 months from entry into force of this regulation] by an independent evaluator in the context of a pool, identifying the SEP registration number, the identity of the patent pool and its administrator, and the evaluator.~~

Justification: For reasons stated for suggested modifications in Recital 27, part (b) of Article 8 should be omitted.

15(2)(g) – EU-Specific Aggregate Royalty Rate Setting

2. The notification made in accordance with paragraph (1) shall contain the information on the following:

- (a) the commercial name of the standard;
- (b) the list of technical specifications that define the standard;
- (c) the names of the SEP holders making the notification referred to in paragraph (1);
- (d) the estimated percentage the SEP holders referred to in paragraph (1) represent from all SEP holders;
- (e) the estimated percentage of SEPs they own collectively from all SEPs for the standard;
- (f) the implementations known to the SEP holders referred to in point (c);
- (g) the ~~global~~ aggregate royalty; ~~unless the notifying parties specify that the aggregate royalty is not global;~~
- (h) any period for which the aggregate royalty referred to in paragraph (1) is valid.

Justification: Paragraph 2(g) of Article 15 should be omitted. Parties should only be able to agree upon a royalty rate specific to the European Union. Setting global royalty rates is harmful to stakeholders, including SMEs, because it allows 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 worldwide injunction. Certain European jurisdictions have enabled these abusive tactics, leading other countries to follow suit in defence of their innovators. Therefore, the result has led to a battle of the jurisdictions that refuse to uphold the injunction relief granted by another jurisdiction. The EU should focus solely on their stakeholders and limit aggregate royalty rate setting to its own economy.

18(1) – EU Specific Aggregate Royalty Rate Setting

1. A SEP holder or an implementer may request the competence centre for a nonbinding expert opinion on a ~~global~~ aggregate royalty.

Justification: Paragraph 1 of Article 18 should be modified to ensure that aggregate royalty rates are EU specific. While we realise that not allowing global royalty rate setting will leave a fragmentation issue across the globe, this regulation is one step towards a

broader solution. Overtime, jurisdictions must work together to develop a broader international mechanism for harmonising efforts within the international SEP licensing landscape. This regulation will serve to stimulate the EU economy while providing other jurisdictions with a model framework for their internal economies.

28(3) – Consistent Essentiality Check Procedure

1. The competence centre shall administer a system of essentiality checks, ensuring that they are conducted in an objective and impartial manner and that confidentiality of the information obtained is safeguarded.
2. The essentiality check shall be conducted by an evaluator selected pursuant to Article 27. Evaluators shall conduct essentiality checks of registered SEPs for the standard for which they are registered.
- ~~3. Essentiality checks shall not be done on all more than one SEPs registered with the competence centre, in accordance with Article 20 from the respective patent family.~~
4. The lack of an essentiality check or an ongoing essentiality check shall not preclude licensing negotiations or any court or administrative procedure in relation to a registered SEP.
5. The evaluator shall summarise the result of the essentiality check and the reasons for it in a reasoned opinion, or, in case of peer evaluation, in a final reasoned opinion, which shall not be legally binding.
6. The result of the essentiality check conducted and the reasoned opinion of the evaluator or the final reasoned opinion of the peer evaluator may be used as evidence before stakeholders, patent pools, public authorities, courts or arbitrators.

~~[Proposed Paragraph 7] Within a reasonable amount of time determined on a case-by-case basis by the competence centre, and if the evaluator opines that one patent of a patent family is essential, the SEP holder(s) bear the burden to prove the essentiality for all other of their respective patents in the patent family.~~

Justification: Paragraph 3 of Article 28 should be omitted and proposed paragraph 7 should be included to ensure a predictable and reliable essentiality check process. It is important that the Commission accounts for overbroad licensing of non-relevant and non-essential patents. The ability for one SEP in a patent family to determine the essentiality of other patents in the patent family will enable potentially non-essential patents be enforced as a SEP in the EU unless and until later disproven by a competent court of a Member State or the SEP is selected in an annual essentiality check. In either case, the potentially non-essential patent will have already caused damage to the SEP licensing ecosystem. In light of differences between the patent laws of member states and jurisdictions outside the EU, it is not reasonable to determine that a patent is essential in one jurisdiction based on the fact that it is essential in another jurisdiction. It is harmful to the SEP licensing ecosystem 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 of their respective patents

in a patent family after the competence centre has determined one of those patents to be essential.

33 – Consistent Essentiality Checks

1. The competence centre shall enter the result of the essentiality check or of the peer evaluation in the register and the reasoned opinion and final reasoned opinion in the database. ~~The result of the essentiality check under this Regulation shall be valid for all SEPs from the same patent family.~~
2. The competence centre shall publish in the register the percentage of sampled SEPs per SEP holder and per specific registered standard that passed successfully the essentiality test.
3. Where the publication of the results contains an error attributable to the competence centre, the competence centre shall of its own motion or at the request of the SEP holder registrant correct the error and publish the correction.

Justification: The suggested revision to paragraph 1 of Article 33 should be made, as consistent with Article 28(3) and Recital 3 of the proposed EU SEP Regulation.

34 – Broad Exceptions to Mandatory Competence Centre Proceedings (Provisional Injunctions)

1. The FRAND determination in respect of a standard and implementation for which an entry in the register has been created, shall be initiated by any of the following persons:
 - (a) SEP holder, prior to any initiation of a SEP infringement claim before a competent court of a Member State;
 - (b) an implementer of a SEP prior to any request for the determination or assessment of FRAND terms and conditions of a SEP licence before a competent court of a Member State.
2. The party requesting the FRAND determination shall be referred to as the ‘requesting party’, any party responding to the request as the ‘responding party’, and both shall be referred to as the ‘parties’ for the purposes of FRAND determination.
3. The FRAND determination may be initiated by a party or entered into by the parties to resolve disputes related to FRAND terms and conditions voluntarily.
- ~~4. The obligation to initiate FRAND determination pursuant to paragraph 1 prior to the court proceedings is without prejudice to the possibility for either party to request, pending the FRAND determination, the competent court of a Member State to issue a provisional injunction of a financial nature against the alleged infringer. The provisional injunction shall exclude the seizure of property of the alleged infringer and the seizure or delivery up of the products suspected of infringing a SEP. Where national law provides that the provisional injunction of a financial nature can only be requested where a case is pending on the merits, either party may bring a case on the merits before the competent court of a Member State for that purpose. However, the parties shall request the competent court of a Member State to suspend the EN 47 EN proceedings on~~

~~the merits for the duration of the FRAND determination. In deciding whether to grant the provisional injunction, the competent court of a Member State shall consider that a procedure for FRAND determination is ongoing.~~

5. Once the FRAND determination is terminated, the whole range of measures, including provisional, precautionary and corrective measures, shall be available to parties.

Justification: Paragraph 4 of Article 34 should be omitted in its entirety. The lack of clarity around what would constitute a ‘financial nature’ for purposes of provisional injunctive relief would be most harmful to small stakeholders. SMEs are less likely to innovate on top of standards when there is less reliability and transparency in key policy and legal frameworks. If an SME was 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 determination 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.

66 – Broad Exceptions to Mandatory Competence Centre Proceedings (Existing Standards)

1. Until [OJ: please insert the date = 28 months from the entry into force of this regulation] holders of SEPs essential to a standard published before the entry into force of this Regulation (‘existing standards’), for which FRAND commitments have been made, may notify the competence centre pursuant to Articles 14, 15 and 17 of any of the existing standards or parts thereof that will be determined in the delegated act in accordance with paragraph (4). The procedures, notification and publication requirements set out in this Regulation apply mutatis mutandis.

2. Until [OJ: please insert the date = 28 months from entry into force of this regulation] implementers of a standard, standard published before the entry into force of this Regulation, for which FRAND commitments have been made may notify pursuant to Article 14(4) the competence centre of any of the existing standards or parts thereof, that will be determined in the delegated act in accordance with paragraph (4). The procedures, notification and publication requirements set out in this Regulation apply mutatis mutandis.

3. Until [OJ: please insert the date = 30 months from entry into force of this regulation] a SEP holder or an implementer may request an expert opinion pursuant to Article 18 regarding SEPs essential to an existing standard or parts thereof, that will be determined in the delegated act in accordance with paragraph (4). The requirements and procedures set out in Article 18 apply mutatis mutandis.

4. Where the functioning of the internal market is severely distorted due to inefficiencies in the licensing of SEPs **covering a standard**, the Commission shall, after an appropriate consultation process, by means of a delegated act pursuant to Article 67, determine which of the existing standards, parts thereof ~~or relevant use cases~~ can be notified in accordance with paragraph (1) or paragraph (2), or for which an expert opinion can be requested in accordance with paragraph

(3). The delegated act shall also determine which procedures, notification and publication requirements set out in this Regulation apply to those existing standards. The delegated act shall be adopted EN 59 EN within [OJ: please insert the date = 18 months from entry into force of this regulation].

5. This article shall apply without prejudice to any acts concluded and rights acquired by [OJ: please insert the date = 28 months from entry into force of this regulation].

Justification: Article 66 should be modified with the following recommendations. Our reasoning for these suggested edits are consistent with our justification provided for Recital 4 and Article 1.