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## Fair Standards Alliance Submission to the European Commission in Response to Consultation on the Proposal for a Regulation on Standard Essential Patents

### Summary

- The FSA welcomes the European Commission's proposed SEP Regulation
- The SEP Regulation provides a timely response to urgent and necessary SEPs licencing reform
- If clarified and amended where appropriate, the SEP Regulation will enhance fairness, transparency, and predictability in the licensing of SEPs

### I. Introduction

The Fair Standards Alliance (FSA) is an industry organisation representing more than 45 European and global companies that advocates for the licensing of standardised technologies on fair, reasonable, and non-discriminatory (FRAND) terms, based on a set of [principles](#) our members adhere to. Our membership is broad and diverse, ranging from multinationals to SMEs and coming from different levels of the supply chain across multiple industry sectors. The FSA thanks the European Commission for the opportunity to provide comments to its public consultation on the proposal for a regulation on standard essential patents [COM(2023) 232 final 2023/0133 (COD)] ("SEP Regulation").

Our members significantly contribute to innovation in Europe and beyond. Annually, the aggregate turnover of FSA members is more than EUR 2.5 trillion, and our members invest more than EUR 180 billion on R&D per year. Our members own more than 600,000 patents, including tens of thousands of standard essential patents (SEPs), that are either granted or pending. Our membership has strongly supported standardisation for decades, participating in hundreds of standardisation activities around the world, including the development of connectivity standards, such as cellular and Wi-Fi. Because many of the FSA members are both owners of SEPs and licensees, this allows us to bring a balanced perspective to this consultation.

The proposed SEP Regulation reflects industry realities and recognises that SEP licensing is currently inefficient, unpredictable, and non-transparent, which in turn hinders Europe's competitiveness and innovation. While the current version of the draft SEP Regulation may require amendments to clarify some of the provisions, we believe the proposal is a meaningful step towards creating a fair, transparent, and predictable licensing environment for licensing SEPs.

We take this opportunity to thank the European Commission for proposing the SEP Regulation and believe it could significantly improve SEP licensing for companies across different sectors, including licensors, licensees, and consumers.

Virtually all of the main areas of economic activity in Europe will be directly (and adversely) affected by connectivity SEP licensing as businesses introduce digitalisation into their products and services. European businesses in multiple industries already are or will soon become potential SEP licensees for standards such as WiFi, LTE, and other wireless communication standards. With this comes the added complexity of finding an equitable licensing solution for the thousands of device manufacturers involved in nascent Internet of Things markets.

It is also equally important to consider the interests of the end-users of standards – European consumers. Improving conditions for SEP licensing will ultimately ensure that consumers are able to access the latest technological standards at fair and reasonable prices.

## II. SEP Licensing Challenges that Businesses Face

Businesses, large and small, encounter many challenges related to licensing of SEPs. In this section, we draw attention to the three most common challenges businesses face in relation to SEP licensing: (i) hold-up; (ii) refusal to license; and (iii) lack of transparency.<sup>1</sup>

The first challenge, patent hold-up, stems from the power conferred by SEPs to their holders. SEPs differ from other patents because of the specific context in which they are declared as essential to technology standards. This significantly enhances their market power compared to the “legal monopoly” that comes with patents that are not SEPs. Once a technology standard is set and multiple industry players have made substantial investments to rely on it, innovating and developing products complying with the standard, they become effectively “locked-in” as it is virtually impossible to design around the standardised technology.

This lock-in enables SEP holders to engage in patent hold-up by leveraging their market position to exclude (or threaten to exclude) manufacturers to extract excessive royalty fees or otherwise unfair licensing terms. Lock-in makes SEP licensing prone to competition concerns. To address these concerns, SEP holders are required to voluntarily make a commitment to license their SEPs to any company on FRAND terms, rather than to exclude others. Both the Commission’s case practice and the Court of Justice of the EU’s (CJEU) case law<sup>2</sup> have confirmed the central role for competition law in the specific context of standardisation and licensing of SEPs.

However, we have witnessed in practice that SEP holders often do not abide by their FRAND commitments. Patent holders typically exert hold-up pressure by threatening to seek or by seeking injunctions (or other exclusionary measures) for SEPs for which a FRAND commitment has been pledged – a major concern we elaborate on below. Such pressure not only enables patent holders to extract excessive royalties that are not FRAND, but to engage in other hold-up practices. For example, some SEP holders use hold-up pressure to (i) oblige a licensee to conclude a global SEP portfolio licence under threat of being deemed an “unwilling licensee” and thereby potentially being excluded from a certain market; (ii) refuse to grant a direct licence to a potential licensee and, instead, force the licensee to license SEPs from a patent pool.

The Commission and the CJEU in *Huawei v ZTE* sought to ensure that the threat of SEP-based injunctions could not be used by SEP holders as illegitimate leverage to obtain unjustified royalties or other unfavourable terms. The Commission and the CJEU acknowledged that the indispensable nature of SEPs and the legitimate expectation that SEP holders would grant FRAND licences amounted to “exceptional circumstances” that distinguish SEP licensing disputes from other cases in which an IPR holder is generally free to seek injunctive relief.<sup>3</sup>

Both the Commission and the CJEU have thus recognised that the FRAND commitment in the standardisation context limits an SEP holder’s freedom to license its SEPs according to any commercial strategy it might choose.

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<sup>1</sup> Note that there are many issues with licensing of SEPs, however, here we are trying to provide a high level overview of the issues which we have observed and documented in the past years. Please refer to the FSA website for detailed position papers on a range of issues related to SEP licensing: <https://fair-standards.org/resources/position-papers/>.

<sup>2</sup> Judgment of 16 July 2015, *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, C-170/13, EU:C:2015:477 (*Huawei v ZTE*)

<sup>3</sup> *Huawei v ZTE*; *Motorola* paras. 417 and 521.

Otherwise, SEP holders would be able to use the threat of exclusion through injunctions to effectively force potential licensees to accept licensing terms that may not be FRAND.

However, SEP-based injunctions continue to be illegitimately used contrary to both the purpose and the letter of the *Huawei v ZTE* judgment. This is of critical importance to industry.

This situation forces companies, including SMEs, to accept licence terms that are not FRAND.<sup>4</sup> In fact, recent case law from the United Kingdom, where courts have examined the terms sought by SEP holders in Europe and elsewhere, demonstrates that patent holders do engage in patent hold-up by refusing to offer licences on FRAND terms and instead seeking injunctions to force potential licensees to accept excessive licensing terms.<sup>5</sup> These findings are in line with those reflected in court rulings in other non-EU countries that have engaged in determining FRAND rates.<sup>6</sup>

This exemplifies that the existing EU regulatory framework does not provide sufficient means to ensure SEP holders abide by their FRAND commitments. This makes the proposed SEP Regulation vitally important to ensure that innovative businesses in Europe take up standardised connectivity technologies, continue innovating and thrive, thereby contributing to European competitiveness and technological sovereignty.

The second challenge is the refusal to license, where numerous businesses are routinely refused SEP licences on FRAND terms even when they proactively seek such a licence.<sup>7</sup> This most commonly occurs for companies manufacturing components complying with a standard, particularly, components enabling connectivity which are then sold to end product manufacturers.

Companies in this situation are stuck between a rock and hard place: they manufacture products for which SEP holders refuse to offer them licences despite their component using the standard and infringing the SEP. In turn, their customers, which expect suppliers to sell them products with an indemnity (as is common industry practice), are exposed to patent infringement claims from patent holders. The problem is particularly acute in low-margin, high-volume markets such as the Internet of Things, thus affecting numerous IoT market players that are invariably SMEs. This reduces incentives for investment and innovation in downstream markets, which is having a detrimental effect on European policy goals on the green/sustainable and digital transitions. Without clear rules that create an avenue for companies to attain FRAND licences, Europe risks undermining its policy objectives and growth.

The third challenge is the lack of transparency in SEP licensing.<sup>8</sup> This includes the lack of transparency about (i) which patents in a portfolio are truly essential to a standard, (ii) valuation of SEPs,<sup>9</sup> and (iii) information in the negotiation process such as prior licences to suppliers or customers of the potential licensees.<sup>10</sup> Typical examples

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<sup>4</sup> FSA Position Paper, “Injunction in accordance with the principles of equity and proportionality” (January 2017). Available here: <https://fair-standards.org/2017/01/23/injunction-in-accordance-with-the-principles-of-equity-and-proportionality/>;

<sup>5</sup> *InterDigital Tech. Corp. v. Lenovo Group Ltd.* [2023] EWHC 1583 (Pat) (4<sup>th</sup> July, 2023) at ¶ 928: “Overall, however, I am driven to the conclusion that by consistently seeking supra-FRAND rates, InterDigital did not act as a willing licensor.”]; *Optis Cellular Technology LLC v Apple Inc.* [2023] EWHC 1095 (Ch) at ¶ 9(i): “Hold Up is undesirable: it gives the owners of patents included in an agreed Standard excessive power to disrupt an otherwise global market to the prejudice of manufacturers and developers using the Standard (Implementers) by exacting excessive royalties for the use of their inventions by threatening (and even obtaining) injunctions against the use of this technology in one or more jurisdictions.”

<sup>6</sup> Baron et al., Empirical Assessment of Potential Challenges in SEP Licensing, European Commission, DG GROW, 2023, Table A 4, 200.

<sup>7</sup> FSA Position Paper, “Competitive and Industry Harms Related to Refusals to License SEPs and Other Forms of “Level Discrimination” in SEP licensing” (December 2020). Available here: <https://fair-standards.org/2020/12/02/competitive-and-industry-harms-related-to-refusals-to-license-seps-and-other-forms-of-level-discrimination-in-sep-licensing/>; FSA Position Paper, “SEP licenses available to all” (June 2016). Available here: <https://fair-standards.org/2016/06/24/sep-licenses-available-to-all/>.

<sup>8</sup> FSA Position Paper, “Transparency Issues with Standard-Essential Patents” (August 2021). Available here: <https://fair-standards.org/2021/08/02/transparency-issues-with-standard-essential-patents/>.

<sup>9</sup> FSA Position Paper, “Timely licensing for SEPs – how to avoid opportunities for hold-up and royalty stacking” (June 2021). Available here: <https://fair-standards.org/2021/06/24/timely-licensing-for-seps-how-to-avoid-opportunities-for-hold-up-and-royalty-stacking/>.

<sup>10</sup> FSA Position Paper, “Transparency FRAND: The use (and misuse) of confidentiality obligations in FRAND licensing negotiations” (February 2017). Available here: <https://fair-standards.org/2017/02/13/transparency-frand-the-use-and-misuse-of-confidentiality-obligations-in-frand-licensing-negotiations/>.

include the lack of transparency in the proposed SEP licensing terms and conditions, and the refusal to provide evidence allowing potential licensees to verify whether a given offer is FRAND or not; the use of overly secretive non-disclosure agreements, some of which do not even allow licensees to verify whether their suppliers have concluded relevant licences, etc.

The lack of transparency creates an information asymmetry to the detriment of licensees which patent holders are able to exploit to extract non-FRAND royalties. Where courts have examined the full range of comparable licensing agreements of a patent holder, they find SMEs and smaller licensees in particular are discriminated against to their competitive disadvantage.<sup>11</sup>

The lack of transparency makes it extremely difficult for companies – both those familiar with SEP licensing and new market entrants alike – to understand where to start in an SEP licensing negotiation.

For the reasons outlined above, the FSA welcomes the Commission’s SEP Regulation proposal aiming to address the challenges which many businesses, including our members, face. The current SEP licensing situation calls for a regulatory initiative. We believe the proposed SEP Regulation is very timely given that many new firms are starting to use standardised connectivity technologies, whereas licensing of connectivity SEPs in particular has led to the surge of litigation in recent years. Heterogenous markets associated with the Internet of Things represent a step-change from the traditional SEP licensing models in smartphones due to the highly fragmented nature of the market and the sheer number of market participants. The SEP Regulation is therefore a critically important solution for FRAND licensing to the thousands of device manufacturers that are implanting connectivity standards into their products and services. An efficient SEP Regulation will facilitate the uptake of standardised technologies without the same level of disputes and market friction that we have seen in past years.

Finally, the SEP Regulation is also needed to support Europe’s industrial competitiveness and technological sovereignty. Unless SEP licensing is improved through regulation, Europe will miss out on the next wave of innovation in IoT markets.

### **III. SEP Regulation Contribution to Resolving SEP Licensing Challenges**

The Commission’s proposal for the SEP Regulation has four main elements that, taken together, could alleviate many SEP licensing challenges we have outlined above:

- Expert opinion on an aggregate royalty
- FRAND rate determination process
- SEP register
- Essentiality checks system

While we have comments on how some aspects of the proposed SEP Regulation should be improved, we would like to stress that the overall design and goals of the envisaged system have a strong potential to alleviate concerns about many of the challenges the industry currently faces.

The proposed process for providing a non-binding expert opinion on the aggregate royalty will provide greater transparency and predictability on the maximum potential cost of implementing a standard before investments are made into product development and companies are locked into the standard. This could also serve as key input for the FRAND rate determination process.

This will assist companies in making more informed decisions about which standards to invest in and support. We believe this is a key aspect of the SEP Regulation that must be preserved, although improved so that more stakeholders can give input to the process.

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<sup>11</sup> *InterDigital Tech. Corp. v. Lenovo Group Ltd.* [2023] EWHC 1583 (Pat) (4<sup>th</sup> July, 2023) at ¶ 358: “InterDigital operates a ‘flexible’ licensing ‘program’ in which InterDigital charges smaller licensees at a much higher rate than it charges the biggest handset sellers in the market.” The Judge also stated at para 495: “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”.

The proposal for the FRAND determination process could significantly lower the risk of illegitimate hold-up pressure because negotiations could take place without the immediate threat of injunctions, which otherwise tilt the negotiation from the outset, giving an upper hand to SEP holders.

We believe that an appropriate FRAND determination process is necessary for the parties to properly negotiate a licence without the threat of an injunction compelling one party of the negotiation to agree to terms they consider unfair. It also gives an avenue for both sides to have a neutral third party assess whether the offered terms (from both the licensor and licensee) are FRAND. Providing a safe harbour for the parties to work toward a FRAND agreement free from the threat of injunction is a critical piece of the system that must be preserved and strengthened. It could also be beneficial for licensors as it could save considerable litigation costs. As most litigation processes are typically launched after unsuccessful negotiations, the proposed FRAND determination process could also save time for both licensors and licensees.

Moreover, the proposed FRAND determination process on its face is open to any party. This is very welcome as it will also help companies that seek an SEP licence to be able to get one. This could therefore mitigate the issue of the refusal to license.

The proposed FRAND determination process is also likely to enhance transparency. If properly applied, the process would likely lead to a body of “case law” and knowledge of comparable licences. This will, in turn, improve trust between both sides that they are getting a fair rate. This is especially important for smaller market players that are routinely charged higher SEP royalties than larger companies that, unlike SMEs, might have the resources to challenge in court non-FRAND licensing terms.

The proposed SEP register, together with the essentiality check system, will give the market an initial better understanding of which patents are essential to the standard. The creation of a centralised registration system as the SEP Regulation sets forth will bring about much-needed transparency to SEP licensing. Some standards development organisations (SDOs) require the identification of potential SEPs by participants to the standardization process (e.g., ETSI), for other SDOs doing so is optional (e.g., IEEE). Due to the timing and purpose of those declarations, SEP databases by SDOs show significant over-declaration.

Requiring a separate registration of SEPs for any standard that is within the scope of the Regulation to generate visibility is hence important, and will act as a necessary input to other aspects of the Regulation such as essentiality checks, aggregate royalty determination, and FRAND determination. For those standards that are developed under IPR policies requiring the declaration of potential SEPs, as well as for those SEP holders that participate in patent pools, SEP registration can leverage information that has already been shared elsewhere.

#### **IV. Comments on Specific Proposals in the Draft SEP Regulation**

##### *(a) Scope of SEP Regulation*

We support the Commission’s proposal to exclude from the scope of the SEP Regulation those standards that do not suffer from licensing difficulties or inefficiencies that adversely affect the functioning of the internal market. However, our support for excluding these “unproblematic” standards is with the understanding that the SEP Regulation will have within its scope pre-existing standards that have proven to raise multiple licensing challenges.

Specifically, we recommend that a handful of specific pre-existing standards that have seen licensing issues be explicitly listed as falling within the scope of the SEP Regulation from the outset, e.g., Wi-Fi, HEVC, and LTE, including 5G. We strongly disagree with the reference to “standards for wireless communications” in Recital 4, which may imply that standards such as Wi-Fi, HEVC, and LTE (4G, 5G etc.) fall outside the scope of the SEP Regulation. We recommend removing this reference in its entirety to avoid any confusion.

In Article 1(4) and elsewhere in the SEP Regulation, references are made to “use cases.” The SEP Regulation does not provide for a definition of a “use case”. Indeed, we consider it would be more appropriate to refer to “standards”. We recommend amending Article 1(4) to make it consistent with Article 66 and instead refer to the standard itself, not use cases, and making similar amendments throughout the text of the SEP Regulation.

A standard may be not problematic at a given time when the Commission takes its decision to deem it as falling outside the scope of the SEP Regulation, but later, issues may arise with licensing of SEPs declared essential to that standard. As such, it would be prudent to amend the SEP Regulation to give the Commission discretion to re-assess the licensing situation at a later time and withdraw an exemption if problems, such as high rate of litigation and/or licensing inefficiencies, are identified.

Article 1(2) should be amended to clarify that the FRAND commitment does not cease to apply when ownership of SEPs changes. The provision should clarify that even if the current SEP holder did not originally make the commitment, the SEP Regulation still applies to those patents for which the FRAND commitment was previously made.

The definition of “standard” in Article 2(3) refers to a technical specification “with which compliance is not compulsory.” However, the inclusion of this language is in tension with the fact that EU law requires manufacturers to comply with certain standards. For instance, EU law provides that vehicles must be equipped with functions for automatic emergency calls via a cellular connection (eCall).<sup>12</sup> Hence, respective components of vehicles must comply with cellular communication standards. Accordingly, standards to which compliance is compulsory can be extensively disseminated and should therefore be within the scope of the Regulation. The language “with which compliance is not compulsory” should be removed from Article 2(3) to ensure this is the case.

The proposed SEP Regulation is silent on Licensing Negotiation Groups (LNGs).<sup>13</sup> An LNG, a group of potential licensees, can jointly negotiate licence terms with SEP holders and/or patent pools. The SEP Regulation could establish a safe-harbour criteria (and accompanying guidance) for LNGs, given efficiencies and potential pro-competitive effects LNGs could provide the industry with.

Last but not least, it is important to clarify that licences for all SEPs – whether for a standard that is within or outside the scope of the SEP Regulation – for which the FRAND commitment had been made, must not be refused to any party seeking a FRAND licence, regardless of where in the supply chain they operate. In this respect, we recommend adding a new article that explicitly clarifies this point.

#### *(b) SEP register*

Article 9(h) requires publication by patent pools of their royalty policy. We suggest enhancing the requirement of disclosure to include more detail, such as how the royalty has actually been calculated (e.g., aggregate royalty rate retained and detail of calculation per SEP owner within the pool).

We recommend maintaining information on any SEP that has been removed from the register under Articles 23 or 25 so that this information is preserved in the interest of transparency.

#### *(c) Essentiality checks*

Essentiality checks done outside of the competence centre as referenced in Article 8 of SEP Regulation are not a substitute for a separate essentiality check through the random selection process foreseen in Article 29(1). While we agree that these prior essentiality checks should be included in the register, they will likely involve different methodologies and may be biased due to the incentives involved.

Article 29(4) should therefore be revised to reflect this, as should the reference in Recital 27 to prior essentiality checks by patent pools. In addition, SEP holders could redirect essentiality check budgets from patent pools to the new competence centre to leverage that process and avoid additional spend.

#### *(d) Expert opinion on an aggregate royalty*

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<sup>12</sup> Regulation (EU) 2015/758 concerning type-approval requirements for the deployment of the eCall in-vehicle system based on the 112 service

<sup>13</sup> See FSA position paper entitled “Using Licensing Negotiation Groups (LNGs) when Licensing Standard Essential Patents on FRAND Terms: at [https://fair-standards.org/wp-content/uploads/2022/07/2022-7-26\\_FSA\\_Position\\_Paper\\_on\\_LNGs\\_28final29.pdf](https://fair-standards.org/wp-content/uploads/2022/07/2022-7-26_FSA_Position_Paper_on_LNGs_28final29.pdf)

As a key input to any subsequent FRAND determination, the aggregate royalty should ideally be determined *before* the FRAND determination takes place. Having a published aggregate royalty that is determined through a thorough, public, and balanced process can facilitate FRAND licensing negotiations between SEP holders and potential licensees through the increased transparency it provides.

To help bring this about, we propose simplifying the request for the aggregate royalty determination process in Article 18(6) as set forth below, which will make it more likely for the threshold to be met so that this critical aspect of the SEP Regulation can move forward.

We agree with the provision that a single SEP holder or implementer may request a non-binding expert opinion on a global aggregate royalty in Article 18(1). However, we disagree with the approach to determining that a threshold level of participation has been met as set forth in Article 18(6).

As currently drafted, Article 18(6) enables SEP holders to foreclose the process from moving forward by refusing to participate, which is a real possibility given the incentives. In addition, the focus on “market share” for implementers is complex and would be difficult to demonstrate; and ignores the important role that entities planning to implement the standard would have in an aggregate royalty determination process. We suggest amending Article 18(6) to address these concerns and ensure that the aggregate royalty determination process can take place when there has been a demonstrated interest by a clear number of stakeholders, whether those are SEP holders or implementers.

One option is to amend Article 18(6) to read: *“If the requests for participation include any combination of five SEP holders, implementers, or potential implementers.”* Another option is to amend Article 18(6) to read: *“If the requests for participation include SEP holders representing collectively at least an estimated 20% of all SEPs for the standard, or at least five current or potential implementers.”*

As currently drafted, Article 18(5) refers to users of standards providing information “on any relevant implementations of the standard” when expressing interest in participation. The SEP Regulation should be amended to ensure that both current and future users of the standard can participate in the process, as the interests of those who are seeking to incorporate the standard into their products or services are just as relevant as those who are currently doing so. We recommend modifying Article 18(5) to: *“Implementers shall provide information on any relevant current or potential implementations of the standard.”*

The aggregate royalty determination process will be most informative when it leverages input from various stakeholders, which includes SEP holders, as currently scoped in Article 18(8), as well as participating implementers and entities outside of the process that can have valuable insights to offer. The process of Article 18 should therefore be expanded to include the opportunity for participating implementers to provide input, as well as making this opportunity available to non-participants.

#### *(e) FRAND determination*

The SEP Regulation seeks to enable parties to resolve issues arising in SEP disputes without the threat and expense of litigation impacting the negotiation dynamic. We recommend removing Article 34(4) of the SEP Regulation, which otherwise allows for a “provisional injunction of a financial nature,” and the related language in Recital 35. This provision introduces terminology that is not used in many member states (although it is used in the UPC) and creates legal uncertainty as a result. If it is maintained, it should be adapted to be consistent with the framework established in the CJEU *Huawei v ZTE* judgment.

As currently drafted, the SEP Regulation envisages that only one conciliator be appointed to make the FRAND determination. But given the complexity of SEP disputes and the short timeframe, we recommend that more than one conciliator be appointed for FRAND determination. Relatedly, we recommend giving the conciliators discretion to extend the very tight timeframe of the FRAND determination process, in addition to the existing ability of the parties to jointly agree to such an extension.

Further, the FRAND determination should be non-binding by design. As currently drafted, the commitment to be bound by the outcome of the FRAND determination process happens at its outset in Article 38. This should instead take place after the process has run its course and the resulting written report has been shared in Article 57. If a party desires to signal its pre-commitment to the outcome voluntarily at some point before the

written report is issued, it may do so, but the SEP Regulation should foresee only one commitment, after the written report. Specifically, none of the steps described in Article 38 should be contingent on either party's commitment to comply with the outcome. In this context, we also note that the CJEU has, in prior rulings regarding national legislation that imposes implementation of out-of-court settlement procedures before court litigation, stressed that the concerned laws do not conflict with the principles of equivalence and effectiveness or the principle of effective judicial protection, provided that that procedure (a.o.) does not result in a decision which is binding on the parties.<sup>14</sup> The reasons this should be the case include the lack of procedural safeguards in the process, which make it improper to require a licensee to commit to paying an amount where it cannot adequately challenge the evidence submitted by a licensor. In addition, without consideration of validity, enforceability, or infringement, the FRAND determination does not consider critical patent merits issues, and therefore it is unfair to bind a licensee or licensor to such a determination. Ensuring that the FRAND determination is non-binding by design does not minimize its important role in resolving disputes and limiting litigation, as exemplified in existing provisions for mandatory non-binding pre-litigation arbitration provisions.

We strongly believe that the SEP Regulation should provide guiding principles on what "FRAND" means. To enhance legal certainty, the SEP Regulation could make the guidance in this respect consistent with the European Commission's Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements (Horizontal Guidelines).

To better address the issue of a pool licence or multiple licensees attempting to negotiate licences, the SEP Regulation should provide the conciliator with discretion to consolidate multiple FRAND determination proceedings to allow for a unified determination across all licensors of a patent pool or, with the consent of the licensees concerned, across multiple licensees. The SEP Regulation should also allow for a requesting party to include multiple SEP holders as the "responding party" where those SEP holders are participants in a patent pool. To facilitate this, Article 36(1) could be amended to state "Where the requesting party is an implementer, the responding party can consist of multiple SEP holders participating in a patent pool."

Article 56(4) requires that a court not proceed on the merits of a FRAND claim until it has been served with a notice of termination of the FRAND determination by the competence centre. While the intent of this language is to ensure that the merits of a case are not heard until the FRAND determination is concluded, it would be more straightforward to prohibit initiation of the court proceedings by the parties until the FRAND determination has concluded. That way, the resources of the court and the parties would not be wasted while the FRAND determination is in process. Saving resources and avoiding two proceedings running in parallel is of particular importance for SMEs, which the SEP Regulation is designed to support.

## V. Comments on the Legal Basis for the Draft SEP Regulation

Judicial practice on SEP licensing disputes has been highly inconsistent across EU member states. The SEP Regulation seeks to create a uniform framework for SEP licensing and SEP enforcement. The EU, thus, has the competence to adopt the proposed SEP Regulation pursuant to Article 114 TFEU. In the absence of specific statutory rules, member states have applied a framework to SEP licensing and enforcement under Art. 102 TFEU (and corresponding national provisions), or under contract law, that is largely shaped by the guidance provided by the CJEU in *Huawei v ZTE*.

However, even within individual member states, courts interpret the *Huawei v ZTE* precedent very differently, as shown in the developments following the decisions by the German Federal Supreme Court<sup>15</sup> and the subsequent request for a CJEU preliminary ruling by the Düsseldorf Regional Court.<sup>16</sup> The single market therefore not only faces the risk of divergent developments in member state law, but the risk has already materialised.

Inconsistent judicial practice in member states creates further legal uncertainty across the IoT sector. The large number of European IoT companies seeking to innovate and use technical standards are already facing a

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<sup>14</sup> CJEU, decision of 18 March 2010, C-317/08 to C-320/08 – *Alassini*, 68.

<sup>15</sup> German Federal Supreme Court, decision of 5 May 2020, KZR 36/17 – *FRAND-Einwand* and decision of 26 November 2020, KZR 35/17 – *FRAND-Einwand II*.

<sup>16</sup> Düsseldorf Regional Court, decision of 6 November 2020, 4 c O 17/19.



scattered legal framework. Diverging court interpretations as to whether SEP-based injunctions should be readily available creates undesirable and often premature reduction of innovation efforts across entire industries and supply chains. The risk of market exclusion under diverging legal interpretation by courts harms European innovation and places it at a disadvantage compared to other major economies.

These developments threaten the realisation of a single digital market which justifies EU regulation according to standing case law by the CJEU on Art. 114 TFEU.<sup>17</sup> The Commission has shown that the current unbalanced SEP licensing system: (i) limits incentives for European companies to innovate; (ii) reduces sustainable competitiveness; and (iii) adversely affects supply chain security.<sup>18</sup> The Commission has collected examples showing that especially SMEs in the EU are reluctant to implement new royalty-bearing standards. Instead, these SMEs look for alternative and cheaper technologies in order to avoid licensing costs, even if those cheaper technologies are technically inferior.<sup>19</sup> That shows the severe risk that European innovation and Europe as a whole will fall behind in the IoT.

Mandatory conciliation has already been determined to be constitutional both in the EU and in member states, such as Germany. It has been suggested that the proposed SEP Regulation would limit access to the courts in an unconstitutional way. However, the concept of a mandatory conciliation attempt before starting litigation, as embodied in the FRAND determination step of the proposed SEP Regulation, is already applied in other areas in some member states and has been confirmed by the CJEU to be compatible with the Charter of Fundamental Rights.<sup>20</sup> The key consideration is that the mandatory conciliation is simply a procedural step, does not deny access to courts, and it does not take more time than is reasonable under the circumstances to try to resolve a dispute outside of court.

Based on considerable experience with applying the *Huawei-ZTE* framework in FRAND disputes, a growing number of judges have recently promoted making conciliation a mandatory step prior to court proceedings in this field. This includes Richard Arnold from the UK Court of Appeal as well as Axel Walz, Sebastian Benz, and Tobias Pichlmaier from the Munich Regional Court.<sup>21</sup>

The proposal for a SEP Regulation is compliant with the TRIPS Agreement. Rights for patent holders – including holders of SEPs – are enshrined in the TRIPS Agreement, of which the European Union and Member States are signatories. The Proposed Regulation carefully specifies all measures necessary to fully implement protections for these rights. Article 41 of the TRIPS Agreement in particular calls out the general obligations for the enforcement of Intellectual Property Rights. Article 41 (2) and (3) of the TRIPS Agreement give details on how enforcement procedures are to proceed:

*(2) Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.*

*(3) Decisions on the merits of a case shall preferably be in writing and reasoned. They shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard.*

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<sup>17</sup> CJEU, decision of 8 Jun 2011, C-58/08 – *Vodafone*; decision of 10 December 2002, C-491/01 – *British American Tobacco*; decision of 2 May 2006, C-217/04 – *United Kingdom v Parliament and Council*; decision of 5 October 2000, C-376/98 – *Germany v Parliament and Council*.

<sup>18</sup> European Commission, Impact Assessment Report, SWD(2023) 124 final, 27 April 2023 pp. 23 -27, and Annex 2.

<sup>19</sup> Id, p. 68: E.g. the European Commission collected a testimonial from a European SME that had developed a robot assisting in construction works which is innovative due to an inventive electro-mechanical structure of the robot arm, wheel drive and motion control. The user controls this robot with a tablet comprising a specific Human-Machine-Interface. The communication between tablet and robot could be wired or preferably wireless. The most desired option would be WiFi, but due to the SEP license, the SME ultimately implemented Bluetooth as it is fully licensed at chip level.

<sup>20</sup> CJEU, decision of 18 March 2010, C-317/08 to C-320/08 – *Alasini*; decision of 14 June 2017, C-75/16 *Menini*; decision of 27 September 2017, C-73/16 – *Puškár*;

<sup>21</sup> Arnold: SEPs, FRAND and Mandatory Global Arbitration, FS Meier-Beck, GRUR 2021, 123; Walz/Benz/Pichlmaier: Obligatorische Schlichtung bei FRAND-Streitigkeiten (Teil 1) GRUR 2022, 446; Walz/Benz/Pichlmaier: Obligatorische Schlichtung bei FRAND-Streitigkeiten (Teil 2) GRUR 2022, 513.

We consider these TRIPS provisions in turn. Article 41(2) Sentence 1 requires that procedures be fair and equitable. The proposed SEP Regulation foresees the establishment of an independent Competence Centre at the EUIPO tasked with providing SEP expert opinions and determinations. None of the opinions and determinations will have a force of law, so all enforcement for patents concerned is in the realm of the ordinary courts of law of the EU and member states – as is already the case today. Fairness and equity are ensured by giving competence for enforcement uniquely to the existing courts.

Article 41(2) Sentence 2 requires that the procedures not be unnecessarily complicated nor entail unwarranted delays. All of the measures envisaged in the proposed regulation are minimally intrusive and simplified wherever possible. For example, establishing the essentiality of patents – a necessary step for determining if a patent is even concerned by the regulation – is proposed for just a sample subset of all patents, in the interest of saving time and money. Delays are also kept to a minimum with aggressive scheduling.

Here we point out that, according to a recent study by Baron *et al.*, more than two years typically elapse between first contact and the start of litigation<sup>22</sup>. This timespan clearly allows for a nine-month FRAND determination process in the current draft (or even more time), especially given the additional information the determination will provide to both parties, and the possibility that a third-party determination will resolve any disputes without litigation.

Article 41(3) Sentence 1 calls for the decisions to be reasoned and in writing. As noted above, the Competence Centre will provide expert opinions and determinations, but not decisions with a force of law. Nevertheless, the expert opinions and determinations are all specified as to be provided in writing and with the corresponding reasoning, see e.g. proposed SEP Regulation Art. 18(11), Art. 31(5), Art. 55(1). Thus, even though Article 41(3) Sentence 1 formally does not apply, *arguendo* if it does, the conditions are fulfilled by the proposed SEP Regulation.

Article 41(3) Sentence 2 requires that decisions be made available without delay. While expert opinions and determinations do not constitute ‘decisions’ under the TRIPS Agreement, they are to be provided directly and without delay of any kind, thus fulfilling the requirements of this clause if it did apply.

Article 41(3) Sentence 3 calls for decisions to be made only after parties are heard. While as stated above expert opinions and determinations do not constitute ‘decisions’ under the TRIPS Agreement, the expert opinions and determinations are to be provided only after the parties have the opportunity to be heard, c.f. Art. 18(5,8,9), Art. 30, and Art. 55(2).

Thus, the requirements of the TRIPS Agreement, and in particular the safeguards of Article 41, are respected by the proposed SEP Regulation.

## **VI. Comments on the Proposed “Competence Centre” at the EUIPO**

The FSA welcomes the establishment of one overarching Competence Centre at the European Union Intellectual Property Office (EUIPO). The Competence Centre will bundle all administrative tasks that arise from the proposed SEP Regulation, e.g., setting up and maintaining registers, ensuring information sharing, administering procedural issues, and managing the roster of evaluators and conciliators (Art. 3). Creating a single European administrator for all these steps will ensure the smooth interaction of the various processes and measures from the registration of a standard to the administration of the FRAND determination and the publication of the non-confidential FRAND reports.

The tasks set out in the proposed SEP Regulation for the new Competence Centre are administrative in nature and the EUIPO will be able to gradually accumulate expertise in patents. In comparison to other entities that have experience in patents, such as the EPO and the UPC, the EUIPO is an EU agency and is available and legally entitled to take up the tasks that are assigned to it by the SEP Regulation.

The EUIPO does not undermine the UPC’s newly established responsibilities and jurisdiction, and overall, the SEP Regulation accounts for the UPC as if it were a member state court. Parties, including SEP holders, remain

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<sup>22</sup> Baron et al, “Empirical Assessment of Potential Challenges in SEP Licensing”, European Commission 2023, P. 145.

entirely free to access the UPC. The SEP Regulation will merely provide guidance on FRAND terms to UPC judges in SEP enforcement cases, which will ensure a more efficient, uniform and well-informed adjudication of SEP disputes at the UPC as we have seen before member state courts in the past.

Performance of the EUIPO's tasks requires expertise in managing large data, maintaining efficient registers, sharing information, and being a neutral administrator to different processes. The EUIPO has proven to be fully capable to coordinate and manage such administrative tasks with high efficiency for trademarks and designs. The work of conciliators and evaluators such as essentiality checks, determination of aggregate royalties, or bilateral FRAND determinations will surely require substantial knowledge in the field of patents and patent licensing. But the SEP Regulation does not require the staff of EUIPO to take on those tasks. The Competence Centre will rely on industry experts with EUIPO supplying the formal framework for such experts to operate. Those experts are merely appointed by the Competence Centre, with the requirements to be met being defined in Articles 27 and 26(5) of the SEP Regulation and ensuing Implementing Acts.

## **VII. Concluding Remarks**

The FSA welcomes the draft SEP Regulation. If properly developed and implemented, the SEP Regulation will improve transparency, predictability, and fairness in the licensing of SEPs. This will in turn support uptake of standardised technologies that are helping the EU in its twin digital and green transitions. The SEP Regulation will also create a system to fairly remunerate SEP holders and will support innovation in Europe. The SEP Regulation will encourage greater investment into products and services complying with standards and enable Europe to benefit from the next wave of innovation in the Internet of Things.

While the FSA supports the SEP Regulation, some modifications to the text will be needed during the legislative process to clarify things and to make it fit-for-purpose. We look forward to engaging with the Commission and other stakeholders in the co-legislative process to work on the necessary changes to the text.

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NOTE: The positions and statements presented in this paper do not necessarily reflect the detailed individual corporate positions of each member.