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A Short Summary of the Recently Leaked EU Regulation Proposal on Standard Essential Patents

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EU institutions have recently paid attention to Standard Essential Patents (SEPs) and how the SEPs framework could be improved to encourage innovation while also promoting competition and satisfying consumers' interests. In its 2020 Intellectual Property Action Plan on IP, for example, the Commission stressed the need to set the right conditions for a transparent, predictable, and efficient SEPs system; and in February 2022, it invited parties to express their views and experiences to improve such system, in particular the transparency and predictability of the licensing framework.

But the fresh news is that last week a few media outfits leaked a draft Commission Regulation Proposal on SEPs. The final proposal is set to be announced on 26 April 2023 by the Commission's Vice President Margrethe Vestager. In this short blogpost we briefly highlight an overview of the leaked draft.

Firstly, let us note that the proposal emphasises the impact of the SEPs framework on small and medium-sized enterprises (SMEs) and start-ups. It also acknowledges the positive role the latter play as they often produce and implement innovation that brings substantial value to consumers, and it notes that standards provide the opportunity for SMEs to compete with larger firms in an open innovation market.

Further, the draft Regulation highlights the need to promote and advance transparency for the entire SEP ecosystem through the creation of a Competence Centre under the purview of the Alicante-based European Union Intellectual Property Office (EUIPO). Such centre would set up and maintain a register for SEPs. SEP holders would be obliged to register their patents (Article 21) and would not be entitled to any royalties or past damages for the period before the registration. However, should a SEP holder fail to register its patent within the time limit, it would lose its rights to enforce the patent, which may be problematic. The proposal allows for modifications of registrations to fix any errors and inaccuracies – however, if the patent is found invalid or non-essential by a court or the EUIPO, it will be removed (Article 22).

The draft regulation also proposes to create and manage a system for essentiality assessments through "sampling from SEP portfolios" (art. 25) as well as administer the process for non-binding FRAND determinations. Transparency would be guaranteed through the publication of *inter alia* essentiality checks of "up to 100 registered SEPs" (resulting in essentiality ratios: Article 26),

FRAND methodologies (and their determinations where the parties have agreed to it), and summaries of SEPs case law (also from non-EU countries).

Specifically, the proposed procedure should simplify and speed up negotiations concerning FRAND terms. This would turn out to be a mandatory step before SEPs owners can start patent infringement proceedings or before an implementer can begin FRAND determination proceedings before a national court of a Member State or before the UPC. Of course, proceedings could still be initiated outside of the EU, which suggests that this Regulation proposal may not necessarily lead to less litigation, but it may just shift battle-fields.

When making FRAND determinations – the proposed Regulation stresses – the Centre's conciliators should follow the decision of the Court of Justice of the European Union (CJEU) in Huawei, the Commission's 2017 Communication 'Setting out the EU approach to Standard Essential Patents' and any EU acquis and CJEU's SEPs-related decisions.

The draft regulation points to the need to protect the rights of SEP owners under Article 17(2) of the EU Charter of Fundamental Rights, which includes IP. It includes a restriction on the ability to enforce a SEP that has not been registered within a certain time-limit and introduces a requirement to conduct a FRAND determination before enforcement. This particular restriction may be viewed as disproportionate as it could effectively undermine the value and enforceability of SEPs. Fundamental rights can be restricted provided that those restrictions correspond to objectives of general interest and do not constitute a disproportionate and intolerable interference that infringes the very essence of the rights guaranteed.

Furthermore, the draft plainly supports that if a patent owner makes a FRAND commitment, it cannot refuse to license its SEP to a party who is willing to agree to FRAND terms and conditions. The draft acknowledges the role of royalty-free approaches to SEP FRAND licensing and highlights that FRAND commitments do remain in place in the event of a transfer of the relevant patent rights. By mandating that patent owners must license to any party willing to accept FRAND terms, there is a risk that this provision could undermine the bargaining position of patent owners and potentially lead to undervalued licenses.

While the draft Regulation and its aim to enhance transparency (especially in the telecommunication market) should be considered a step forward, there are parts within the draft regulation that put these efforts two steps backward. For example, there are concerns that the EUIPO now would lack the required experience needed for licensing patents and SEPs. The draft could make clear that injunctions on FRAND-committed SEPs should only be available in limited circumstances. It could then clarify that a reasonable rate for a valid, infringed, and enforceable FRAND-committed SEP should be based on the value of the actual patented invention apart from its inclusion in the standard; and ensures that conciliator panels reflect the balance needed to produce fair and appropriate outcomes.

All in all, it remains to be seen how the revised version will come to action.

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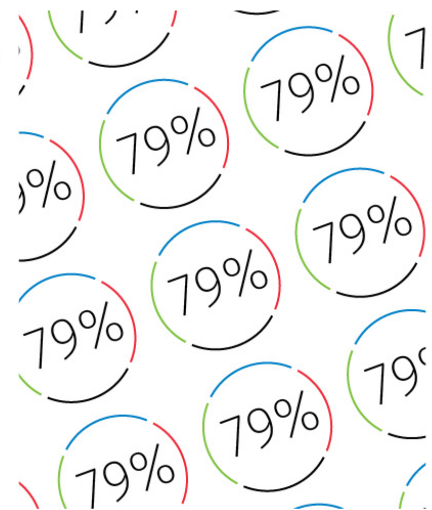

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