EIP

Late Change to Commission SEP Proposal Suggests Flawed Process

The European Commission today published it's Proposal for a Regulation on Standard Essential Patents (COM(2023) 232 final 2023/0133 (COD)). An initial and amended version had both been leaked shortly before publication, and so the content was not a complete surprise, but nevertheless, the published version included a further last minute change, seemingly in response to the raft of criticism the Proposal has received.

The Commission's intention is to set up a system in which Standard Essential Patents ("SEPs") are registered and analysed for essentiality, the aggregate royalty for all of the SEPs in a standard is assessed, and the FRAND licensing terms between licensors and licensees are determined. All of this is stated to be non-binding with the aim of improving efficiency in SEP licensing.

SEP holders will be required to register their SEPs with the EUIPO, the European Intellectual Property Office, which despite its name deals mainly with trade marks and registered designs, and has no prior experience of patents. If a SEP is not registered in time, then it cannot be enforced in an EU Member state until it is registered, nor can damages or reasonable royalties be received during the period in which the SEP should have been registered.

A proportion of the registered SEPs will be selected by the EUIPO to be assessed as to whether they are actually essential to the standard to which they relate. In addition, patent holders and implementers will each be allowed to select up to 100 patents a year for analysis. SEP owners can submit claim charts to assist in the analysis, and should the SEP owner disagree with the EUIPO's conclusions, it can request that the analysis is

"peer reviewed". Even if claim charts are provided, and assuming a statistically significant sample of patents is analysed, this will be a considerable undertaking for the EUIPO. For example, there are believed to be over 50,000 patent families which have been declared to be essential to 5G alone, and the Commission Proposal is not limited to cellular standards. The cost of this is seemingly to be covered by charging a fee for each SEP being registered with the EUIPO.

The EUIPO will also oversee a process of assessing the aggregate royalty rate for each standard in question. This is to be based on the input of those involved in the sector and experts in the field; however SEP holders and implementers generally disagree on this point, and there is significant uncertainty as to how this will be resolved.

Finally, the EUIPO will oversee a process by which fair, reasonable and non-discriminatory ("FRAND") terms between two parties are determined. This process must be gone through before a party can commence court proceedings in the EU in relation to infringement or licensing of the SEP(s) in question. Although the process is non-binding, the Proposal was revised shortly before publication, seemingly to provide encouragement to parties to voluntarily agree to be bound by the EUIPO determination. The parties will be invited to commit to comply with the outcome of the determination. If one party does not commit, then the other party can request the termination of the determination, and that terminating party is then free to bring court proceedings in the EU. If instead, the determination continues, then the party which has committed to abide by the outcome can bring proceedings before a national court but only to seek "a provisional injunction of a financial nature"; this appears to envisage an interim payment of royalties being awarded whilst the EUIPO determination is ongoing, although this author is not aware of any court in the EU which currently makes this type of order.

Whilst it was not entirely clear on the initial draft, the Proposal now clearly states that the determination of the aggregate royalty rate and FRAND terms will be on a global basis. As such the Commission is seemingly setting up the EUIPO as a global arbiter of FRAND rates. This is potentially inconsistent with the EU's WTO complaint against China in relation to China's approach to issuing anti-suit injunctions preventing FRAND enforcement in other countries. Notably, whilst the Proposal does not (and could not) block a party from bringing proceedings abroad, if a party does bring SEP proceedings against another party in an non-EU state, before the EUIPO FRAND determination is complete (or has even begun), that other party can terminate any EUIPO FRAND determination, leaving it free to take action before the EU courts.

Although this Proposal has been welcomed by some SEP implementers, such as Apple and Volkswagen as bringing increased transparency to SEP licensing, others, including

the European Telecommunications Standards Institute ("ETSI") and a series of former heads of US government departments (the Department of Justice, Fair Trade Commission and US Intellectual Property Office) have been highly critical. There are fears that hindering the enforcement of patents in the manner envisaged will serve to reduce the royalty rates for licensing patents, as SEP owners will be under increased pressure to accept less favourable terms. This may in turn decrease investment in standardized technology, to the overall detriment of European industry. There is also a sense that this Proposal is a solution in search of a problem. The Commission has shown very little evidence that there are the kind of significant problems in SEP licensing that could justify this approach, and the Commission's own reasoning for this Proposal seems speculative at best.

It is presumably in response to this last criticism that the Commission introduce a late amendment to its Proposal, only a few days before the Proposal was published. The Proposal now states that the aggregate royalty and FRAND Licensing determinations will not apply in areas which the Commission believes SEP licensing does not give rise to significant difficulties. In particular, the Commission seem to have in mind cellular licensing such as 4G, 5G etc, although it is not clear if this is solely in relation to cellular handset licensing rather than automotive or IoT aspects. How this will work in practice, and what happens in the interim whilst the commission decides if a sector is functioning properly, is not stated, which is perhaps not surprising given the last minute nature of what is a significant change to the scope of the Proposal. The need to register SEPs and the penalties for not doing so would still apply, even in those sectors in which the Commission believes SEP licensing is working well, although perhaps with more time to reflect, these provisions may also be disapplied.

The fact the Commission felt the need to make a major change to the Proposal so late in the process does raise questions about the Proposal as a whole. This amendment was seemingly made due to the criticism received, and so, it must be presumed, due to points not properly considered by the Commission. Given that is the case, one does wonder whether it would have been better for the Commission to take more time, and properly reassess the entire regime it is now proposing.

The Proposal will need to be approved by both the EU Member States and the European parliament before it becomes law.