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epi's comments on the Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU)2017/1001 (in the following referred to as *EU Regulation*), 27th April 2023¹

epi, the Institute of Professional Representatives before the European Patent Office, welcomes the Commission's thoughts and efforts to strengthen intangible assets including inventions and patents by fostering EU's IP system and IP enforcement.

epi is the professional body representing all European Patent Attorneys. Currently the Institute has about 14,000 European Patent Attorneys as members coming from each of the 39 Contracting States of the European Patent Convention who work either in industry or in private practice. European Patent Attorneys help their clients and employers, which include international big corporations, SMEs and private inventors, to protect and create value from their inventive ideas, thus supporting an innovative ecosystem within as well as outside the Contracting States.

The suggested EU Regulation concerns highly technical topics (patents and standards), has several interdependencies and far-reaching impact on global standardisation and the EU's role in it. The need of increased transparency in the SEP field is partly also a consequence of unverified declarations of patents as being standard essential. The standards development organizations' IPR policies (SDO) usually don't require detailed reasoning from patent holders why their patents should be classified as standard essential. A European requirement for patent holders to map the claim elements of a selection of asserted SEPs to the features of the respective standard specification would facilitate essentiality evaluations also for SMEs without burdening European authorities.

The proposal introduces different untested methods and processes in one step rather than in an incremental approach and without industry consultation as to the efficiency of such taken measures. Any regulation should be proportionate and careful not to interfere with market pricing. The suggested radical changes seem not warranted by the issues confirmed by any empirical evidence² nor are they likely to address the overall goals of the regulation, as will be discussed in the following.

¹ https://single-market-economy.ec.europa.eu/publications/com2023232-proposal-regulation-standard-essential-patents_en

² e.g. see p. 185 – <https://www.iplytics.com/wp-content/uploads/2023/04/Empirical-Assessment-of-Potential-Challenges-in-SEP-Licensing.pdf>

1. Union Register

1.1. Register content

Easy access to reliable information about SEPs is crucial for implementers but also the owners of SEPs. It should be the task of standard development organizations (SDO) to achieve this target.

Many SDOs administer IPR databases already for a long period and keep records of the IPR declarations submitted by SEP holders. By way of example, see IPR Online Databases of ETSI, ITU, IEEE, IEC, ISO³. The databases include SEPs from various jurisdictions and thus offer information about the global patent landscape rather than limited to SEPs that are effective in an EU Member State.

A Union Register for SEPs is expected to always be incomplete and thus unreliable as the Competence Centre shall register on request of a SEP holder only patents in force in one or more Member States (Article 20 - all references to Articles refer to the EU Regulation unless otherwise indicated). Furthermore, the register would at least be partially redundant to the current SDO IPR databases. It would be unclear to users which database should prevail. When it comes to the determination of royalty rates for SEP licenses it usually means global rates. The Union Register would compete with the SDO's IPR databases with worldwide coverage and legacy data. It's questionable if the Commission's goal to increase transparency will be achieved by an independent Union Register in addition to SDO's existing IPR databases.

It seems to us that generally the best place for any information about a patent's essentiality, in case no appropriate database is provided by the SDOs, is the patent register of competent patent authorities. Thereby, users looking only to one place will have all the information and will not need to retrieve data from different registers.

A Union Register for FRAND terms and conditions related to SEP licensing may at face value appear to be useful. However, the additional efforts to collect the data don't seem to be proportionate to its benefit. As the principle of contract autonomy also applies to SEP license agreements the terms and conditions of the license agreements may, despite being FRAND, vary very much thereby making it difficult to compare the royalty rates of different agreements. Percentage, per product rates, lump-sums, instalments, license and sales deals, cross-licensing value and all combinations thereof will contribute to this variation. Submission of a SEP holder's comparable license agreements, as often requested by courts to qualify as a FRAND licensor, puts the implementer into a position to review the terms and conditions in the specific case ensuring not to be discriminated by this SEP holder against implementer's competitors. A Union Register for FRAND terms and conditions will not support the determination of an aggregate royalty rate since regularly no FRAND terms and conditions will be available at the point in time such determination is to be initiated (90/120/150 days, see Article 17.2 and Article 18.2).

³ <https://ipr.etsi.org/> <https://www.itu.int/net4/ipr/search.aspx> <https://standards.ieee.org/about/sasb/patcom/patents/>
https://patents.iec.ch/iec/pa.nsf/pa_h.xsp?v=0 <https://www.iso.org/iso-standards-and-patents.html>

1.2. Consequences of registration non-compliance

According to Article 24 a SEP that is not registered within the time-limit set out in Article 20.3 (6 months) may not be enforced from the time-limit set out in Article 20(3) until its registration in the register. Further, a SEP holder who has not registered its SEPs within the time-limit set out in Article 20(3) shall not be entitled to receive royalties or seek damages for infringement of such SEPs until its registration in the register. These restrictions constitute a drastic interference with the SEP holders' rights deriving from their intellectual property. A period of 6 months won't be sufficient in many cases to identify a potential SEP, to draft a claim chart, to select an evaluator and to have the SEP evaluated. The harsh restrictions may easily lead to over-registration of alleged SEPs resulting in less reliability of the Union Register and an increased uncertainty for all affected parties. The time constraints will pose challenges especially to SMEs that will have to coordinate registrations with outside counsel. Moreover, outside counsel run the risk to be made liable for failures to register as well as for essentiality assessments that aren't confirmed by the essentiality checks according to Article 29. Instead of asserting a SEP in the EU a SEP holder may decide to file an infringement case outside the EU, e.g. in the United Kingdom, to achieve a worldwide SEP license agreement with an implementer.

The Commission may consider specifying criteria for SEP databases' minimum requirements and to encourage national patent offices to create a SEP register for patents granted by them only for those SDOs that don't provide a SEP database that meets the requirements within a reasonable time needed for implementation.

2. Out-of-court dispute resolution mechanism

Many organizations that have a long experience with patents already offer alternative dispute resolution (ADR) mechanisms, by way of example WIPO and ICC. It's not clear how an additional authority located at the EUIPO could add value to the established arbitration proceedings. International institutions like WIPO and ICC are well accepted by implementers and SEP holders from the EU but also outside the EU. The number of experts who are competent for the demanding role of an arbitrator or conciliator for FRAND cases is limited. A competition for such experts could impact their availability, increase the duration of proceedings and result in forum shopping. FRAND cases are usually based on SEPs in all relevant markets and deal with worldwide licenses. If a FRAND determination must be initiated prior to any initiation of a SEP infringement claim before a competent court of a Member State (Article 34) SEP holders may have a strong motivation to file their infringement actions outside the EU where such a prerequisite isn't imposed on the SEP holder. The EU as a venue for SEP litigations would lose attraction both because the added layer of cost but also due to the unclear procedural rules, e.g., binding nature and possibility of appeal. We can already observe now that the United Kingdom has apparently become an attractive venue for FRAND litigations.⁴

⁴ Unwired Planet v. Huawei, [2017] EWHC 1304 (Pat); Optis v. Apple, [2020] EWHC 2746 (Pat); Nokia v. Oppo [2021] EWHC 2952 (Pat); Interdigital v. Lenovo [2023] EWHC 539 (Pat).

A guideline created by the Commission could support and foster organizations like WIPO and ICC to apply a set of common recommendations for FRAND cases that includes specifics for SMEs. Also the newly created Mediation and Arbitration Center of the UPC may in the future play a role to resolve disputes around SEPs.

3. SEP aggregate royalty determination process

According to Article 18 a SEP holder or an implementer may request the Competence Centre for a non-binding expert opinion on a global aggregate royalty. Global aggregate royalties are a key factor to determine a FRAND royalty rate for a specific standard, a specific SEP holder and a specific product in the value chain when a so-called top-down approach is selected. Applying this approach means in a nutshell to put the total number of SEPs declared for a specific standard in relation to the number of the SEP holder's SEPs whose FRAND royalty rate is to be determined. In such cases where comparable SEP license agreements are available the cumbersome derivation of a global aggregate royalty can be avoided. The comparable SEP license agreements constitute references that a subsequent FRAND license agreement with another party must be in compliance with in order to fulfil the Non-Discriminatory requirement.

We fully agree that it is for ordinary courts including the Unified Patent Court to determine binding global aggregate royalties. The Competence Centre shouldn't be able to initiate an expert opinion on a global aggregate royalty due to its non-binding nature but high potential for market impact. Such global aggregate royalties would not only be susceptible of lobbying by interest groups representing different parts of the value chain or by patent holders/implementers. Licensed products would also relate to different parts of a standardized overall system architecture whereby different users would need access to different parts of the standard having differing value.

It's not clear how the global aggregate royalty rate which is defined as "the maximum amount of royalty for all patents essential for a standard" (see Article 2(10)) is to be determined, if for the same standard some use cases are within the scope of the EU Regulation whilst for other use cases the procedure for aggregate royalty determination shall not apply (see Recital(4)). The timing of such determination also brings unclarity since at the time of the publication of the standard, it is not possible to have certainty about the exposure of an implementation.

epi would suggest drafting criteria for the determination of global aggregate royalties to ensure a uniform approach of the panel's conciliators for various determination processes.

4. Competence Centre

The EU Regulation provides the formation of a Competence Centre within EUIPO to administer databases, a register and the procedures for essentiality checks of SEPs and the FRAND determination. The Commission expects "essentiality checks for an estimated number of 14,500 SEPs" in the initial year(s)(see Explanatory Memorandum, point 4).

4.1. Essentiality checks

The evaluation of a SEP in view of essentiality requires skills usually acquired in profound technical and legal studies. The compensation will reflect the evaluation experts' high degree of education (usually patent attorneys). To our knowledge a typical evaluation fee for one (assumed) SEP is about 10.000 USD (the evaluation fee of Via LA's AAC pools is 10.500 USD)⁵. That means that additional costs of 135 million Euros will be imposed on SEP holders and/or implementers in the initial year(s) only. As companies' IPR budgets are regularly limited we fear that the additional efforts will be compensated by a lower patent activity weakening the European patent system. Some patent applicants may decide to increase their (first) filings outside the EU (GB, US, CN) and to file an application with the EPO or a national patent office of an EU Member State only if essentiality of the first filing can be confirmed within the priority period. This would result in a decline of EP applications/national applications for the EU territory. Patents can generally be seen as a proxy for investments in the R&D leading to the standardization and checking a sample of a party's patents is thereby only a proxy for portfolio strength. Different features of a standard (e.g. optional vs. mandatory) will have different value for end products. Validity is not clearly taken into account by the SEP proposal. In addition, ways of interpretations of patent claims varies between European courts, whereby an official essentiality check would need to take into account also Court practice of the relevant jurisdictions.

4.2. Evaluators

The selection of the evaluators will be made by the European Commission following practical and operational arrangements to be adopted within 18 months of the entry into force of the Regulation (see Article 26(5)). Given that the evaluators will have a very important role in the whole process the practical and operational arrangements should already be incorporated in the Regulation and not left for subsequent elaboration. General acceptance of the evaluators' work and opinions will only be achieved if a high degree of legal certainty as far as objectivity, predictability, consistency, coordination etc. is assured.

4.3. Evaluation costs

Training, advising and supporting to SMEs shall be free of charge (see Article 61(3)) and thus have to be borne by EUIPO. It's questionable whether the fees according to Article 6 will ever cover such costs. EUIPO has recently informed about a drop in EUTM filings of 15% in 2022 and is considering increasing its fees. This means that any free of charge services EUIPO might need to provide will be paid by applicants of EUIPO services, most of them not involved at all in matters related with SEPs.

The tasks of the Competence Centre include, according to Articles 3 (2) (h) and Article 61, providing "support and general advice on SEPs to SMEs". It has proven that substantiated advice can be given best by professionals like European Patent Attorneys who have the knowledge, the experience, and

⁵ <https://www.via-la.com/licensing/aac/aac-patent-submission/>



are bound by specific code of conducts, including the obligation of not incurring in conflicts of interests.

We would suggest to set up a guideline for the evaluation of patents in view of essentiality to allow application of uniform standards for evaluators.

5. Conclusion

A Union Register resting upon patents only in force in one or more Member States wouldn't add any value to implementers in an international environment but jeopardize the Commission's transparency goal.

As out-of-court dispute resolution mechanism do not only exist already but are well established and accepted (e.g. those of WIPO, ICC and in future the UPC) the added value of another mechanism offered by the EUIPO is questionable.

Essentiality checks would only add value if able to ensure the reliability, consistency, and impartiality of the checks. Time and money to build the competence would be needed, which isn't provided by the EU Regulation, and which would ultimately have to be borne by the users of the system.

The determination of a global SEP aggregate royalty through the Competence Centre will inevitably lead to superposition with royalty determinations conducted by any authority outside the EU as well as court decisions that aren't based on the expert opinions published by the Competence Centre.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Peter R. Thomsen', written in a cursive style.

Peter R. Thomsen
President