Recitals

Recital 3

The recital appears to be based upon the premise that open standards are not effectively accessible, which is simply not true. Standards are available for implementation with or without a licence (CJEU decision Huawei v ZTE). The IP Policy of the relevant SDO plays a role in determining the appropriate licensing attach point. The last sentence asserts an incorrect interpretation of the FRAND commitment, namely that a direct FRAND licence must be provided upon any implementer’s request.

Recital 4

FRAND is a voluntary commitment, which takes into account all types of contributors to standards (that is, it is business model neutral). A contributor may have to generate licensing revenue as it cannot participate in downstream activity in the market (e.g. manufacturing or generating advertising revenue). Recital 4 makes it clear that significant additional burdens, and the blocking of rights, is only directed towards a subset of contributors to standards. This impacts IP rights, the business of licensing, the application of Huawei v ZTE, as well as ability to participate in standards development (thus contrary to TBT Principles). It would also result in a two-tier system for the application of the Horizontal Guidelines and Technology Transfer Guidelines vis-a-vis SEPs.

Recital 5

This recital appears to imply that the owner of an SEP automatically has a dominant position in the market. This is not true. This is assessed on a case-by-case basis.

Recital 6

There has been a relatively small number of cases relating to infringement of SEPs in Member State national courts. The courts are well equipped to resolve disputes relating to SEPs.

Recital 7

The statement that dispute resolution procedures suitable for resolving FRAND disputes is factually incorrect. Not only are there amply dispute resolution procedures available today and new venues will become available once the UPC will become operational. Furthermore, existing dispute resolution procedures have successfully been used to resolved FRAND disputes.

Recital 8
The last sentence refers to the "financial risks associated with using standards". However, the requirement to seek a FRAND licence when using patented standardised technology cannot properly be described as a "risk", as it is a legal obligation.

Recital 10

The second sentence asserts that royalty-free licensing policies of SDOs "do not raise concerns". This is incorrect, because mandatory royalty free policies at SDOs have the effect of excluding contributors that depend on licensing for income, reserving standardisation to large industry players that operate a vertical model. Circumstances of this kind have, to our knowledge, recently been seen as fit for investigation by the Commission. Nor is it the case that royalty free licences are necessarily FRAND, since non-royalty terms of a licence may be imposed that are anti-competitive. We note that footnote 6 relies upon paragraph 285 of the Horizontal Guidelines, which has been the subject of extensive comment in the recent consultation.

Recitals 11 - 12

The proposal appears to suggest a newly formed ‘competence centre’ could undertake activities which will have extra-territorial effect given the global nature of licensing international standards. At a European level, for all the roles it could undertake, there is no evidence that there could be compliance with the requirements of Huawei v ZTE (the user of SEPs does have legal obligations when implementing a standard, and ensuring there is no undue delay). Recital 15

The recitals appear to refer to "SEPs" in the generic sense of patents that have been disclosed at SDOs as potentially essential, it being understood that essentiality can only be established through legal process (and is a question for the national court of a national patent, or the UPC). In this context the term "aggregate royalty" appears to refer to the total royalty burden attaching to a standard for licences from all SEP holders for all SEPs, and this is the sense in which it is generally used in courts and elsewhere. However, the scheme set out in the draft Regulation uses the term "aggregate royalty" to refer to the total royalty burden for all "SEPs" as they are defined in the Regulation. Article 2(1) defines an SEP as an EU patent that has been both registered and found to be essential (Recital 27 appears to indicate that this would include earlier independent assessments). Therefore the "aggregate royalty" (as defined at Art.2(11)) agreed, proposed or assessed under the Regulation can only be a small part of the "aggregate royalty" referred to in this Recital. The Regulation therefore does not meet the objective of this Recital, namely to make public "the required information on total royalty burdens (aggregate royalty)".

Recitals 16-18

The same point arises in respect of the processes described in these Recitals. An "aggregate royalty" as it is generally understood within the industry, and as the term is used here, is a much wider measure than the aggregate royalty as defined in the Articles. It is also unclear if this artificial aggregate royalty would just be for within the EU, when it is known that there is global licensing of SEPs. The processes described here therefore do not achieve the claimed effects when enacted under the Articles. It would be impossible for a group of less than all
SEP holders to agree upon an aggregate royalty, without prejudicing those who did not participate. Further, it is unclear why it would be contributor to a standard that can decide/propose an aggregate royalty; a contributor to a standard (time barred?) is not necessarily a SEP holder.

Recital 21

This states that registration by SEP owners who use them only for cross-licensing or defensive purposes is important for establishing the SEP landscape, but there are no measures in the Regulation that seek to achieve this.

It is unclear how the compulsory registration process for the targeted subclass of SEP owners will impact on the ability to rely on limitation periods for the exercise of rights, national level compulsory licensing provisions, commercial laws which are operational at national level (good faith requirements, due diligence requirements) or generally Huawei v ZTE.

Recital 33

It is clear from the Recital that although the result of a "FRAND determination" is not binding, it is intended to have effects in the market. It is therefore remarkable that there are no provisions for appeal of this measure, nor indeed of any of the other measures established by the Regulation. Thus, the Regulation establishes a body akin to a court, with legal powers of investigation, thereby limiting access to courts, but with no safeguards.

It is also questionable whether it will be of any assistance for the competence centre to publish the methodology and terms proposed when the exercise has been unsuccessful because the parties did not settle.

Recitals 34-36

The Recitals do not set out the legal basis relied upon for the Regulation. Nor (if Article 114 TFEU is relied on) do they identify any market failure or regulatory fragmentation. Recital 35 contrasts the normal exploitation of SEPs for licensing with circumstances where court proceedings are instituted and states: "Thus, exploitation rights should be more strictly defined or limited for FRAND encumbered SEPs because of concerns regarding potential restrictions to fair competition and discrimination". However, we are not aware what the Commission's evidence may be for this assertion, nor have we been consulted on it. Further, the FRAND commitment does precisely deal with the potential concerns raised in this Recital 35; the FRAND ensures that the technology covered by SEPs is made available to all for implementation in products/services; this is done at FRAND terms and conditions (thus non-discriminatory).

Recital 38

The statement that "SEP licensing causes frictions in the value chains that have so far not been exposed to SEPs" is incapable of support (and nonsensical) if read literally, since any
such exposure and frictions have yet to occur. It appears the statement is expressed in the present tense in order to obscure the fact that it is an unsupported prediction, albeit one on which much of the justification for the Regulation depends. Further, it should be remembered that ‘value chains that have so far not been exposed to SEPs’ are not under any obligation to become exposed to SEPs. The integration of standardised technology in existing products or services is a commercial decision with commercial consequences. Characterizing this as ‘a cause for friction in the value chain’ shows a lack of understanding of commercial realities and bias against SEP licensing.

Articles

1(2): It is not clear on what legal basis the Regulation purports to bind Standard Development Organisations that have no connection with the European Union, or to bind a "standard" (which has no legal personality). See also the SDO definition at 2(6).

1(5): The court proceeding brought by a SEP owner is a claim for infringement, so this cannot be correct. We infer "non-infringement" was intended. The fact that SEP owners' claims for infringement are constrained but implementers' attacks on validity and applications for declarations of non-infringement or non-essentiality are not (see Art.36(1)) shows a lack of balance.

2(1): The definition of a SEP has the narrowing consequences on the aggregate royalty procedure that are outlined in our comments to Recitals 15 to 18 above. Significantly, the definition also narrows the scope of the FRAND assessment. However, the locus between EU jurisdiction, standards, SEP owners and implementers appears to be that the patent at issue is an EU patent, and so this constricted approach appears unavoidable. The value and effectiveness of the Regulation's measures in a global context is thereby called into question.

The requirement that the SEP has been "found to be essential" lacks particularity, but see Recital 27 and Art.10(b).

2(4): This definition of a standard is incorrect; a standard usually comprises more than one technical specification. The correct usage is at Arts.16(1)(b), 17(2)(b) and 20(3)(b), for instance.

2(10): Use of the term "determination" with respect to the procedure for a FRAND proposal (as here) and for the aggregate royalty expert opinion (see Art.19) is a mischaracterisation, since the procedures yield non-binding results.

2(14): The term "claimed SEP" is not used consistently within the Regulation. For instance, the references to a "SEP owner" in Article 22 should be to a "claimed SEP owner". This needs checking throughout.
(15): This definition of "essentiality check" is limited to checks conducted pursuant to the Regulation. However elsewhere in the Regulation the term is used to encompass earlier independent checks; see for example Article 10(b).

(22) This definition of “patent family” is different from the one used in the ETSI IPR Policy ("PATENT FAMILY" shall mean all the documents having at least one priority in common, including the priority document(s) themselves. For the avoidance of doubt, "documents" refers to patents, utility models, and applications therefor). Other SDOs may have other definitions. This will impact obligations specified in the Regulation; register of SEPs Article 7 (3)(c); essentiality assessment in Articles 29(2) and 34 (1) and analysis of parallel proceedings in Article 48 (1)(b).

3: It is questionable whether this provision can have the legal effect of binding a subsequent owner to a previous owner’s FRAND commitment. However, we do not disagree with the objective, and in practice this is not an issue since SEP owners seek to license their patents.

7(3)(d) This could be understood to imply that the SEP owner is obliged to provide the competence centre with all mappings of a claimed SEP to the standard. Such a requirement might jeopardise the enforcement of an SEP if a mapping was relied upon that had not been previously identified. An example mapping would be possible (although that currently exceeds the ETSI requirement, which itself exceeds other SDOs' requirements). The approach is different at Art.11(f).

7(3)(f) This requires that the identities of "any past owners" be provided. In some instances this will not be possible, as there is no register of patent owners and earlier transactions may not be known to the current owner.

9(a): This requires an SEP owner to provide information on all existing known implementations of a standard. This is perhaps unclear; read literally, it would comprise a list of every product or service that implements a standard (for instance, all mobile phone models, worldwide) and would require constant updating. With the advent of the IoT the scope of this requirement would become impossible to meet (if it is not already).

10(b): The requirement to provide information on earlier essentiality checks by third parties will be impossible to meet lawfully where that information is subject to confidentiality obligations. It further puts into question the transparency goal of the Regulation as there is ample evidence of the vast difference in quality between essentiality assessments. Mandating essentiality checks, and the format for an essentiality check, for the targeted subclass of SEP owners is contrary to the Guidelines to Article 101 TFEU (Tech Transfer). This also undermines the efficiency and commerciality of transactions.

12(2): Alternative dispute resolution procedures such as mediation and arbitration are almost invariably confidential, not least in order to encourage their use. This provision appears to invite persons with knowledge of particular ADR events to act in breach of confidentiality.

13(1): The requirement of persons involved in ADR proceedings to inform the competence centre about them directly contradicts the contractual obligation of confidence which is
integral to virtually all such proceedings (for instance under the rules of arbitration bodies). Most SEP owners' portfolios will contain SEPs as defined under the Regulation. It follows that if this provision were to become law then worldwide mediation and arbitration of SEP licensing disputes would be likely to cease. The provision at 13(2) protecting third party information would not prevent this. Nor would the provision at Art.15(8), since all information about an ADR procedure is confidential, including the fact of the event, the names of the parties, the methodology and the terms arrived at. As well as SEP owners and implementers this provision directly affects the business of arbitration bodies worldwide (and the proposed ADR centre of the UPC).

16(1): It is not clear on what legal basis contributors to standards, worldwide, are engaged by the Regulation. Nor how SDOs, worldwide, are engaged. It is also unclear whether SDOs, worldwide, have and/or maintain records from which the identity of contributors can be ascertained.

17: It is unclear what is meant by an aggregate royalty determined by contributors. For instance, may a limited group of contributors express a view as to the aggregate royalty for all SEPs as defined, or only those in their ownership, since their agreement as to anything wider cannot be of any effect? As indicated above, contributors are not necessarily SEP owners.

17(3): The time limit here is of little effect since new implementations appear constantly (and see 9(a) above). This also means that the provision in Article 16 that notification within 12 months of publication would be of no effect.

20: The procedure for requesting an expert opinion on aggregate royalty for a registered standard is problematic. It appears from the definitions of "aggregate royalty" and "SEP" that the aggregate royalty to be assessed will be limited to those EU SEPs that have been both registered by the competence centre and held to be essential. The utility of that calculation in negotiations for global licences is questionable.

20(2): A time limit of 120 days after a new implementation appears is of very limited effect, because new products and services are constantly being launched on the market. A definition of "implementation" is lacking (for instance, is it limited to the EU market?).

20(3)(c) A list of relevant products or processes for any widely adopted standard (for instance Wi-Fi or 5G) will comprise a very long list of competing products.

20(6): Stakeholders are asked to submit a list of "claimed SEPs"; this is at odds with the definition of "aggregate royalty" and it is therefore unclear what is intended.

20(8): This provides that "participants shall each submit all relevant documents necessary to produce an opinion on the aggregate royalty". This is vague and unclear, for instance will participants be permitted to submit legal and economic arguments as to the methodology for assessing the aggregate royalty? What will be the process for responding to arguments made by other participants?
20(11): The panel has 6 months to provide an opinion. But in practice it is likely to need a great deal longer. The stakeholders for any aggregate royalty assessment of a widely adopted standard will include all the contributors, and all the implementers. Major contributors and implementers can all be expected to participate. This is a much wider objective and procedure than, for instance, a FRAND assessment. It is also unclear how exactly the scope of the procedure will be determined; this is an important element as the scope (which implementing products/services will be addressed by the aggregate royalty assessment) may substantially impact the value the standardised technology brings to the implementing product/service. It is also quite unlike court proceedings, in which there are usually only two parties represented, and it will require a lot of procedure, management and time. It will also be costly for participants as they will need to consider the evidence and arguments of other participants and to put forward their own evidence and arguments. These are likely to include complex economic arguments and evidence from economic experts.

20(13): Similarly, it is unrealistic to suppose that the panel will be able to meaningfully consider "the potential impact of the aggregate royalty on the innovation incentives of both SEP owners and stakeholders in the value chain where licensing will take place" within the timetable provided for, particularly in view of the likely volume and complexity of evidence from SEP owners and value chain stakeholders. However, we very much agree that such consideration would be necessary to arrive at a fair result.

22: The distinction between "claimed SEP" and "SEP" is not correctly maintained in the drafting of this article (see, for instance, 22(7)).

22(3): The use of “whichever is earlier” here, rather than “later”, makes it impossible for a patent holder to timely register any patent issued more than six months before the standard is opened for registration.

24(4): Removal from the register (see the last sentence) appears to be a final measure and entirely excludes the patent from enforcement. Is it intended that an owner may re-apply for registration in this event?

30(2): Whilst Recital 26 implies that this service will be made available to SEP owners this article does not commit the competence centre to conducting essentiality checks on SEPs requested by owners. Nor is it clear whether 100 patents is a limit for all time or for a period.

32: This Article opens the essentiality assessment procedure to observations by third parties. Whilst this may appear desirable it may also result in an overwhelming volume of evidence and argument against essentiality being submitted to the evaluator, and to the SEP owner for its response. This will be costly and time consuming and will damage the economic feasibility of essentiality checks.

35(5) and (6): In combination, these provisions imply that there will be no peer-checking of any essentiality check that concludes a patent is not essential. This shows a lack of balance in the underlying approach.
36(1)(b): This restriction on court action by an implementer should also include claims for declarations of non-infringement and/or non-essentiality.

38: We note the 9 month time limit runs from completion of the Article 39 procedure to ascertain whether the other party will participate. The time for determination is therefore probably limited at around 12 months.

39(4): This appears to be the last sentence of Article 39(3), otherwise it is ambiguous.

40(2): The alternative that "there is no opposition of the party requesting the continuation of the FRAND determination on the composition of FRAND determination panel" is unclear since Article 40(1) appears to say that that party could choose the conciliator.

49(3): This appears to imply that any document request will be automatically implemented by the panel, which has no discretion to refuse the request. It also appears to imply that confidentiality will be no bar to disclosure.

50(1) and (2): 50(1) appears to imply that expert witnesses may be put forward by either side, but 50(2) appears to suggest that there will be a single court-appointed expert witness on any issue requiring expert evidence.

50(3): Since the panel does not issue binding conclusions, is not a court, and is not subject to any appeal procedures, we do not think it should have court powers such as the ability to compel witnesses to appear before it.

51(5): As with the aggregate royalty (Article 20) provision, we very much agree that consideration of the impact on incentives to innovation is key to arriving at a fair result. We do not fully understand how the potential impact on the value chain should be taken into account for a FRAND determination, as the value the standardised technology adds should not be determined by the level of licensing. However, we are concerned that, for the reasons outlined re Article 20 above, determination of an aggregate royalty in the context of a FRAND determination will be a large and complex task requiring extensive evidence and argument.

54: It is unclear what is meant by "written and reasoned FRAND licence offers". Is this the same as a "suggestion for a FRAND offer" (per Article 51)?

58(4): This Article appears intended to block access to EU courts to resolve SEP licensing disputes until a panel established by the EUIPO's competence centre has had a period of approximately 12 months in which to attempt to reconcile the parties. It appears this will be attempted by canvassing alternative FRAND terms proposals. However, none of the court proceedings of which we are aware, which have all involved disputes over very large licences, would have been susceptible to this approach. Further, it is unrealistic to assume that court proceedings will be commenced in circumstances in which this approach could succeed. Since the FRAND conciliation mechanism is a central feature of the scheme but is entirely untested it is not appropriate or prudent to make it mandatory at this stage.
59(2)(b) and (d): These both include the phrase "assessment of the FRAND determination" but it cannot mean the same thing in both places (since one instance is confidential and the other is not – see the first sentence of Article 60).

62(3): Whilst this provision may appear reasonable it has no foundation in SEP licensing practice. SEP owners do not conclude licence agreements with implementers for low sales volumes because it is not cost-effective to do so. From an economic perspective the opposite is more likely to arise – i.e. an owner might offer a volume discount or a cap on royalties above a certain amount.

63(1): Article 68(2) states that the EUIPO will meet the cost of any services for which it does not charge fees under the Regulation. Owners and implementers will meet the full cost of services for which fees are chargeable and will subsidise the cost of services to SMEs (see 63(2)). The distinction is therefore important, but 63(1) is only a non-exhaustive list and does not limit the activities for which fees are chargeable (the scope of which is presumably in the EUIPO's discretion). We also observe that the services to be provided will be unavoidably costly, not least for the reasons we have explained above.

73(1): We note that the Regulation will allow 8 years before the effectiveness of the competence centre is to be assessed. This is far too long, since the competence centre will need to be operating to good effect within a much shorter period if its interventions are to be mandatory.

75(b): The proposed amendment to article 151(3) of Regulation (EU) 2017/1001 is not appropriate as it appears to provide that the EUIPO may offer arbitration services, which goes beyond the services provided for in this Regulation, and that the FRAND and royalties assessment services it may offer can be binding (that being the usual sense of "determination").

76: The time foreseen for the EUIPO to set up and operate the competence center is unrealistic as all new functions of the competence center are unprecedented and will have to be ready (almost) simultaneously. The scope and complexity of the task is totally underestimated and may lead to less transparency and more hold out. Nothing is foreseen in the Regulation to deal with a scenario where registration obligations or FRAND determination cannot be done within a reasonable timeframe.

General

More generally, the proposed Regulation (in particular the mandatory registration and mandatory conciliation aspects of the initiative) would run contrary to the EU’s own Charter of Fundamental Rights, the WTO’s TRIPS Agreement, freedom to contract and the international norms of arbitration. Article 30 TRIPs cannot be relied upon