



American Intellectual Property Law Association

August 10, 2023

European Commission
Rue de la Loi / Wetstraat 200
1049 Brussels
Belgium

Re : The Proposal for SEP Regulation published on April 27, 2023

Dear Sir or Madam:

The American Intellectual Property Law Association (“AIPLA”) appreciates the opportunity to comment on the proposal for SEP Regulation published on April 27, 2023 (“Proposed Regulations”).

AIPLA is a U.S. national bar association of approximately 7,000 members engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property, and the resolution of disputes in these areas. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public’s interest in healthy competition, reasonable costs, and basic fairness.

Because many of our members represent companies that own patents within the European Union (EU) and are engaged in licensing patent families within and outside the EU, AIPLA is grateful for the opportunity to provide these comments on the Proposed Regulations.

Generally, we believe that (i) some provisions of the Proposed Regulations may violate various international and European laws, (ii) that even if the Proposed Regulations do not violate such laws, there are several reasons why they are not needed and should not be ratified, and (iii) if, despite our feedback here, the EC believes the Proposed Regulations are needed, several issues should be addressed before issuing Proposed Regulations. Due to the length of the Proposed Regulations, AIPLA is not providing feedback on an article-by-article basis but, rather, is offering higher level comments identifying certain fundamental issues with the Proposed Regulations. Our silence on specific provisions does not indicate our agreement or acquiescence with these provisions. We would be pleased to answer any questions you may have about these comments or our views concerning any specific provisions of the Proposed Regulations.

Table of Contents

I.	The Proposed Regulations May Violate International and European Laws	3
A.	The Proposed Regulations include several provisions that, if enacted, could violate key obligations of the EU and EU Member States under the TRIPS Agreement.....	3
1.	The Proposed Regulations potentially violate the TRIPS Agreement when a SEP holder does not register its SEPs on a timely basis.....	4
2.	The Proposed Regulations potentially violate the TRIPS Agreement, even when a SEP holder does register its SEPs on a timely basis	6
B.	The Proposed Regulations likely violate fundamental rights granted under the European Convention	7
II.	Even if the EC believes that the Proposed Regulations are lawful, they should not be adopted because they are unnecessarily broad, untested, and will require substantially more resources than currently contemplated.....	8
A.	The Proposed Regulations are too broad and fail to rely on less onerous alternatives	9
1.	The EC does not provide sufficient data to justify the Proposed Regulations	10
2.	The EC failed to consider less onerous alternatives.....	12
B.	Budget and resources needed appear to be underestimated and are not sufficiently detailed to assess the financial viability of the proposed registry, essentiality check, and FRAND conciliation processes.....	14
C.	The Proposed Regulations may impose burdensome financial obligations for participants.....	15
1.	SEP holders, even SMEs, must deploy substantial resources to comply with the Proposed Regulations.....	15
2.	SEP holders that would have only used their SEPs defensively will now have to expend substantial resources to comply with the Proposed Regulations and as a result may choose to seek licenses for their SEPs.....	16
III.	If the EC determines that regulations are needed, AIPLA suggests that the EC address a number of concerns by modifying or limiting the scope of the Proposed Regulations	17
A.	The Proposed Regulations should clearly state that SDO policies, not EU regulations, should control SEP disclosure, essentiality, and FRAND licensing matters where such SDO policies are binding on SEP holders	17
B.	The processes for registration and FRAND, Aggregate Royalty, and Essentiality determinations should not be mandatory.....	21
1.	The new mandatory processes create incentives that are likely to result in confusion and less transparency	21
2.	Mandatory FRAND determinations provided under the Proposed Regulations are unlikely to provide more transparency for either licensors or implementers	22
3.	The proposed FRAND conciliation process is unvetted, unduly resource-intensive and unnecessary	22
4.	FRAND licenses, like all patent licenses, are complex and rates may not be compared without comparison of other terms and conditions	23
5.	The proposed FRAND conciliation process will reduce the flexibility of bilateral license negotiation.....	24
C.	The Proposed Regulations should not address an aggregate royalty for all SEPs for a given standard without considering substantially more stakeholder input.....	24
IV.	Conclusion.....	27

I. The Proposed Regulations May Violate International and European Laws

The Proposed Regulations¹, if enacted, may violate multiple provisions of the World Trade Organization (“WTO”) Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”),² including the core provisions requiring WTO Members to accord substantive protections to patent owners, and key IP enforcement-related provisions. In addition, the proposed requirements to register SEPs and obtain a FRAND determination before initiating litigation may deny patent holders access to justice in EU courts, including the new Unified Patent Court. AIPLA urges the EC to consider the impact that challenges of this nature would have on the effectiveness of the Proposed Regulations if ratified and implemented within the EU.

A. *The Proposed Regulations include several provisions that, if enacted, could violate key obligations of the EU and EU Member States under the TRIPS Agreement*

The TRIPS Agreement requires all WTO Members to provide patent owners with minimum substantive protections, as well as access to effective enforcement procedures.³ Absent these protections, patent rights would lose their value. The Proposed Regulations would limit the ability of certain patent rights holders in the EU to enforce their patent rights, collect royalties, and seek an injunction in the Unified Patent Court or a national court of an EU Member State. For the reasons set out below, if enacted, these limitations could violate the EU and EU Member States’ obligations under the WTO.

The Proposed Regulations impose consequences for failing to register a SEP under the EU’s proposed system, as follows:

1. A SEP that is not registered within the [required] time-limit⁴ . . . *may not be enforced in relation to the implementation of the standard* for which a registration is required in a competent court of a Member State, from the [end of the required] time-limit . . . until its registration in the register.
2. A SEP holder that has not registered its SEPs within the [required] time-limit . . . *shall not be entitled to receive royalties or seek damages for infringement of such SEPs* in relation to the implementation of the standard for which registration is required, from the [end of the required] time-limit until its registration in the register. . . .

¹ Proposal for a Regulation of the European Parliament and of the Council on Standard Essential Patents and Amending Regulation (EU)2017/1001, COM (2023) 232 final (Apr. 27, 2023) [hereinafter *Proposed Regulations*], available at https://single-market-economy.ec.europa.eu/system/files/2023-04/COM_2023_232_1_EN_ACT_part1_v13.pdf.

² Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994).

³ TRIPS Agreement, Part II (Standards Concerning the Availability, Scope, and Use of Intellectual Property Rights), § 5 (Patents), and Part III (Enforcement of Intellectual Property Rights).

⁴ The time limit is set out in the Proposed Regulations as follows: “The request for registration shall be made within 6 months from the publication of the notice pursuant to Article 19(2). In case the SEP is only granted by a national or European patent office after the publication of the notice pursuant to Article 19(2), the request for registration shall be made within 6 months from the grant of the SEP by the relevant patent office.” Proposed Regulations, art. 20(3).

5. A competent court of a Member State requested to decide on any issue related to a SEP in force in one or more Member States, *shall verify whether the SEP is registered as part of the decision on admissibility of the action.*⁵

Thus, if a SEP owner fails to participate in the EU's new SEP regime, the owner will lose the following rights, each of which are protected by TRIPS: (1) the exclusive right to prevent third parties from making, using, offering for sale, selling, or importing the patented technology; (2) the right to receive royalties for the patented technology; and (3) the right to enforce the patent right through civil or administrative judicial procedures and remedies.

Once registered, Title VI of the Proposed Regulations proposes a FRAND determination be made by a "competence center" and its "conciliators," rather than through market-based negotiations between patent owners and implementers. This would represent a fundamental shift in the manner of determining FRAND rates for SEPs. Further, it would interfere with the rights of SEP owners, in the EU and potentially beyond (given the reference to a "global SEP license"⁶).

1. The Proposed Regulations potentially violate the TRIPS Agreement when a SEP holder does not register its SEPs on a timely basis

As discussed, the penalty for failing to timely register a SEP would be loss of the SEP owner's rights to: (1) prevent third parties from making, using, offering for sale, selling, or importing the patented technology; (2) receive royalties for the patented technology; and (3) enforce the patent right through judicial procedures. These restrictions could violate Articles 28.1, 28.2, 41.1, 41.2, 42, 45, and 27.1 of the TRIPS Agreement.

Article 28.1 of the TRIPS Agreement provides that WTO Members must accord to patent owners the exclusive rights "to prevent third parties not having the owner's consent from the acts of: making, using offering for sale, selling, or importing" a patented technology (or the product obtained from a patented process). The Proposed Regulations provide that SEPs that are not registered before the end of the applicable time limit "may not be enforced in relation to the implementation of the standard," at least until the time that the SEPs are registered (if ever).⁷ By precluding this core right of SEP owners that fail to timely register, the Proposed Regulations appear to violate Article 28.1 of the TRIPS Agreement.⁸

Article 28.2 of the TRIPS Agreement provides that WTO Members must provide patent owners with "the right to . . . conclude licensing agreements." The Proposed Regulations

⁵ Proposed Regulations, p. 41, art. 24 (emphasis added).

⁶ *Id.* at 49, art. 38(6).

⁷ *Id.* at 41, art. 24(1).

⁸ While Article 30 of the TRIPS Agreement allows for certain "limited exceptions to the exclusive rights conferred by a patent," a measure that may potentially extinguish the core patent right for the life of a SEP would not be "limited" within the meaning of the TRIPS Agreement. Even if it were "limited," the restrictions on patent rights would not fit within the scope of Article 30, given the requirement that any exception does "not unreasonably conflict with a normal exploitation of the patent and [does] not unreasonably prejudice the legitimate interests of the patent owner." TRIPS Agreement, Article 30. *See generally* Eric M. Solovy and Deepak Raju, *A manufacturing-for-export exception to patent protection: a proposal for exporting violations of the TRIPS Agreement and beyond?*, *Journal of Intellectual Property Law & Practice*, Volume 13, Issue 1, January 2018, pp. 68–77 (setting out the interpretation of Article 30 of the TRIPS Agreement, pursuant to rules of interpretation in the Vienna Convention on the Law of Treaties), available at <https://doi.org/10.1093/jiplp/jpx161> (also available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3004845).

provide that a SEP owner that fails to participate in the new regime “shall not be entitled to receive royalties . . . in relation to the implementation of the standard for which registration is required,” at least until the time that the SEPs are registered (if ever).⁹ One of the most important reasons for a SEP owner to enter into a licensing agreement is to share in the revenue generated from the SEP license. Removing the ability to receive royalties precludes such licensing agreements. Thus, the Proposed Regulations would appear to violate Article 28.2 of the TRIPS Agreement.

Article 41.1 of the TRIPS Agreement provides that WTO Members shall “ensure that enforcement procedures . . . are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement.” The Proposed Regulations provide that a “competent court of a Member State requested to decide on any issue related to a SEP in force in one or more Member States, shall verify whether the SEP is registered as part of the decision on admissibility of the action.”¹⁰ In other words, if the SEP owner fails to timely register, civil enforcement procedures are unavailable, contrary to Article 41.1 of the TRIPS Agreement.

Article 41.2 of the TRIPS Agreement provides that “[p]rocedures concerning the enforcement of intellectual property rights . . . shall not be unnecessarily complicated or costly, or entail . . . unwarranted delays.” A failure to register a SEP (or a delay in registration) under the Proposed Regulations would lead to unwarranted delays and costs to access civil judicial procedures for SEP owners, contrary to Article 41.2 of the TRIPS Agreement.

Article 42 of the TRIPS Agreement requires WTO Members to “make available to right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement.” By foreclosing the ability of SEP owners to access civil judicial procedures to enforce their rights when those SEP owners fail to participate (or to delay participation), the Proposed Regulations would appear to violate Article 42 of the TRIPS Agreement.

Article 45 of the TRIPS Agreement provides that judicial authorities “shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person’s intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.” The Proposed Regulations provide that a SEP owner that fails to register under the new regime “shall not be entitled to . . . seek damages for infringement of such SEPs in relation to the implementation of the standard for which registration is required,” at least until the time that the SEPs are registered (if ever).¹¹ Thus, the Proposed Regulations would appear to violate Article 45 of the TRIPS Agreement.

Article 27.1 of the TRIPS Agreement provides that “patents shall be available and patent rights enjoyable without discrimination as to . . . the field of technology.”¹² The Proposed Regulations’ limitations on patent rights and enforcement thereof, as set out above, would impact only those patents in fields of technology covered by SEPs. As set forth in the

⁹ Proposed Regulations, p. 41, art. 24(2).

¹⁰ Proposed Regulations, p. 41, art. 24(5).

¹¹ Proposed Regulations, p. 41, art. 24(2).

¹² For an interpretation of the prohibition against discrimination in Article 27.1 of the TRIPS Agreement, pursuant to the rules of interpretation in the Vienna Convention on the Law of Treaties, see Eric M. Solovy & Pavan S. Krishnamurthy, *TRIPS Agreement Flexibilities and Their Limitations: A Response to the UN Secretary General’s High-Level Panel Report on Access to Medicines*, 50 Geo. Wash. Int’l L. Rev. 69 (2017), pp. 111-114.

Proposed Regulations, “[t]he international standards in question cover technologies such as 4G, 5G, Wi-Fi, HEVC, AVC, DVB and others that ensure interoperability of products worldwide.”¹³ There is no other EU or EU Member State measure impacting patents covering other technologies that do not require interoperability, such as patents claiming products or processes involving pharmaceuticals, medical devices, and many other fields of science. Thus, as a *de facto* matter, the Proposed Regulations, which impact the ability to “enjoy” patent rights, discriminate as to the field of technology and therefore appear to violate Article 27.1 of the TRIPS Agreement.

2. The Proposed Regulations potentially violate the TRIPS Agreement, even when a SEP holder does register its SEPs on a timely basis

As the European Union, itself, has explained in a different context, a rate setting process that restricts the right of SEP owners to conclude licensing contracts would violate Article 28.2 of the TRIPS Agreement.¹⁴

While a SEP owner may have made a FRAND commitment when it agreed to an SDO’s patent policy, SEP owners do not agree to an upper limit on the FRAND rate for each possible implementer, nor how to determine a specific FRAND rate, nor its applicability to any given agreement. FRAND rates depend on many different factors, negotiated in an arms’ length transaction. Setting an aggregate royalty would limit each and every SEP.

In a dispute currently pending before the WTO, *China – Enforcement of Intellectual Property Rights* (DS611),¹⁵ the EU claims that China violates the TRIPS Agreement through measures which “in the context of standard essential patents litigation, [prohibit] patent holders from asserting their rights protected by the TRIPS Agreement in other jurisdictions by empowering Chinese courts to issue provisional measures (‘anti-suit injunctions’) . . . enforced through daily penalties.”¹⁶ In the course of advancing the claims, the EU provides the following interpretation of Article 28.2 of the TRIPS Agreement:

As regard the owners of [SEPs] subject to a FRAND commitment, the right to conclude licensing contracts includes the right to license their SEPs in accordance with terms that are fair, reasonable and non-discriminatory.

In order to give effect to the right to conclude licensing contracts conferred on patent owners by Article 28.2 of the TRIPS Agreement, WTO Members are required to refrain from adopting or applying measures that restrict, or seek to restrict, the exercise of that right.¹⁷

The EU has asserted the right of SEPs owners to “license their SEPs in accordance with terms that are fair, reasonable and non-discriminatory” is protected by Article 28.2 of the TRIPS Agreement.

¹³ Proposed Regulations, Explanatory Memo, p. 4.

¹⁴ First Written Submission by the European Union, *China – Enforcement of Intellectual Property Rights* (DS611) (June 8, 2023), paras. 372-375 [hereinafter EU First Written Submission], available at <https://circabc.europa.eu/ui/group/cd37f0ff-d492-4181-91a2-89f1da140e2f/library/aaa60c17-81f6-4f31-9378-a9946dab6af8/details>.

¹⁵ *China – Enforcement of intellectual property rights*, DS611, Summary by WTO Secretariat, available at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds611_e.htm.

¹⁶ EU First Written Submission, para. 12.

¹⁷ *Id.*, paras. 374-375.

The Proposed Regulations could affect this right not only in the EU and its Member States but in other countries. Royalty rates set by conciliators in the new competence center, before negotiations begin, may have extraterritorial effect. By including the possibility for setting a “global SEP license,” the EU is potentially impairing the ability of SEP owners to negotiate FRAND rates “in other jurisdictions.”

Thus, the proposed process for determining aggregate FRAND rates would appear to violate the obligations in Article 28.2 of the TRIPS Agreement, as understood by the EU, itself.

B. The Proposed Regulations likely violate fundamental rights granted under the European Convention

According to the Proposed Regulations, only a European court—including the new Unitary Patent Courts, may conduct SEP infringement proceedings or other related proceedings to determine FRAND terms after the FRAND determination proceedings have been terminated.¹⁸ The completion or termination of this new FRAND determination proceeding is therefore a precondition for admissibility to the courts. During the FRAND determination proceedings, any statute of limitations is suspended.¹⁹ After termination of the proceedings, the entire spectrum of judicial remedies is available.²⁰

AIPLA believes that this mandatory requirement to conduct a FRAND determination proceeding prior to any FRAND/SEP litigation in the EU violates the proportionality principle.²¹ For the reasons discussed below, this requirement does not comply with the EU Charter of Fundamental Rights.²² While certain limitations on the exercise of intellectual property rights are allowed under the EU Charter,²³ they must be proportional. These are not.

First, the Proposed Regulations apply to all parties, even if they have already had extensive pre-litigation negotiations. According to the principles set up by the Court of Justice of the European Union in *Huawei v. ZTE* in 2015, and subsequent decisions in Europe, any SEP litigation in Europe requesting injunctive relief can only be brought if certain pre-litigation, good faith negotiations have been conducted between the parties. Requiring parties to follow

¹⁸ Proposed Regulations, p. 54, art. 56(4) {“ A competent court of a Member State, asked to decide on determination of FRAND terms and conditions, including in abuse of dominance cases among private parties, or SEP infringement claim concerning a SEP in force in one or more Member States subject to the FRAND determination shall not proceed with the examination of the merits of that claim, unless it has been served with a notice of termination of the FRAND determination, or, in the cases foreseen in Article 38(3)(b) and Article 38(4)(c), with a notice of commitment pursuant to Article 38(5).”}

¹⁹ *Id.* at 47, art. 37(2).

²⁰ *Id.* at 47, art. 34(5).

²¹ Art. 52 EU Charter of Fundamental rights: “Any limitation on the exercise of the rights and freedoms recognised by this Charter must be provided for by law and respect the essence of those rights and freedoms. Subject to the principle of proportionality, limitations may be made only if they are necessary and genuinely meet objectives of general interest recognised by the Union or the need to protect the rights and freedoms of others.”

²² This view has also been expressed by Klaus Grabinski, chief judge of the UPC Court of Appeals and former judge in the Federal Court of Justice in Germany in 2009. See <https://www.managingip.com/article/2bqbf0uyrki1fniy9ou8/breaking-upc-chief-urges-eu-to-rethink-sep-plan>. At the Federal Court of Justice he was allocated to the 10th Civil Division, which has inter alia jurisdiction in patent dispute matters.

²³ Judgment of the Court of Justice of 13 December 1979, *Hauer v. Land Rheinland-Pfalz*, C-44/79, EU:C:1979:290, para. 32; judgment of the Court of Justice of 11 July 1989, *Hermann Schröder HS Kraftfutter GmbH & Co. KG v. Hauptzollamt Gronau*, C-256/87, EU:C:1989:332, para. 15, and judgment of the Court of Justice of 13 July 1989, *Hubert Wachauf v. Bundesamt für Ernährung und Forstwirtschaft*, C-5/88, ECLI:EU:C:1989:321, paras. 17 and 18.

the additional—and untested—procedure set out in Art. 36, *et seq.*, of the Proposed Regulations is disproportional. AIPLA acknowledges that certain alternative dispute measures may be helpful where the parties have not made any effort to negotiate. As currently proposed, requiring parties to avail themselves to an untested procedure where the parties may have already had extensive pre-litigation negotiations, or participated in other well-regarded alternative dispute resolution procedures, does not satisfy the proportionality principle.

Second, the very principle of proportionality requires that an action should not be more severe than is necessary and that competing interests in this regard should be carefully balanced. AIPLA believes there are less onerous alternatives that would achieve the stated objectives. The EC references proportionality only relative to the register that ought to provide transparency. They fail to address the essentiality and FRAND determination procedures. The statement that “actions at EU level will be efficient and save costs for stakeholders” is unsupported and AIPLA believes is untrue. A mandatory FRAND determination proceeding will add substantial cost, particularly for parties that have already attempted negotiations or other alternative dispute resolution procedures. Nor has the EC considered the effects of mandatory additional proceedings for SEPs that are close to the end of their lifetime. Where time is of the essence, these mandatory proceedings could hinder enforcement and impair securing a return on investment.

Third, one of the objectives of the Proposed Regulations is to make IP protection more effective and more affordable, especially for small and medium-sized EU enterprises (SMEs). This goal is not met by the Proposed Regulations. Instead, they would be harmful to SMEs, not beneficial. The Proposed Regulations allow a party to terminate the mandatory FRAND determination proceedings where parallel proceedings are pending before the court of a state outside the European Union or if such proceedings are brought during the dispute resolution proceedings and at least one party is involved in both proceedings.²⁴ If a plaintiff seeks to avoid pre-litigation FRAND determination proceedings, it need only initiate a proceeding outside the EU—e.g., in the US or UK. Well-resourced SEP holders could do so; most SMEs could not. Consequently, the Proposed Regulations may make it much more difficult for SME SEP holders to enforce their SEPs than well-resourced SEP holders.

In sum, the Proposed Regulations limit the exercise of intellectual property rights and appear to violate the EU Charter because: (i) SEP holders can be subjected to unnecessary and extended delays before they can enforce their SEPs, and (ii) the Proposed Regulations may make it more difficult for SMEs to enforce their SEPs, rather than less difficult. AIPLA, therefore, respectfully requests that the EC (i) re-assess a more balanced, proportional approach and the interest of all stakeholders when enforcing SEPs, and (ii) consider whether a mandatory FRAND determination proceeding is justified in all circumstances (i.e. where parties have properly negotiated prior to litigation, etc.).

II. Even if the EC believes that the Proposed Regulations are lawful, they should not be adopted because they are unnecessarily broad, untested, and will require substantially more resources than currently contemplated

In addition to the legal challenges AIPLA believes may follow if the Proposed Regulations are implemented, AIPLA believes the Proposed Regulations in their current form should not

²⁴ Proposed Regulations, p. 51, art. 47.

be adopted. First, the Proposed Regulations fail to identify specific problems or goals they are intended to address. While the EC has identified a few high-level concerns with SEP transparency and FRAND licensing efficiency, i.e., which patents are SEPs and what terms are FRAND, such concerns are largely expressed as unsupported conclusions and speculation. Without some baseline supported by data it is not possible to assess whether the Proposed Regulations could improve SEP licensing efficiency. Nonetheless, the EC is proposing sweeping regulations to address problems that may be minor or non-existent, or otherwise could be addressed with less onerous measures. In addition, AIPLA believes that the EC has incompletely analyzed the costs associated with implementing the Proposed Regulations (e.g., has overlooked several costs and underestimated others). AIPLA urges the EC to clearly identify specific problems or goals that it is seeking to address and evaluate existing or less onerous and costly measures that could be useful in addressing such problems or achieving its goals before advancing the Proposed Regulations.

A. The Proposed Regulations are too broad and fail to rely on less onerous alternatives

The scope of the Proposed Regulations is too broad for at least two reasons. First there is a lack of data supporting either the need for increased transparency or establishing how more transparency, if created, would achieve the objectives described by the EC. Second, the EC has not established that it considered and rejected less onerous alternatives than mandatory requirements for SEP registration and FRAND determinations, among other requirements imposed by the Proposed Regulations.

The European Parliament (EP) did not direct the EC to regulate SEPs or their licensing but rather (i) suggested that the EC “looks into possible incentives for negotiation to avoid litigation,” (ii) “welcomed” the EC pilot study on essentiality, (iii) asked the EC “to further investigate ... the requirements for an independent, neutral and transparent system of third party essentiality checks,” (iv) called for the EC to “monitor” industry developments and case law, (v) recalled the prior “call” for the EC to “publish” reports, and (vi) called on the EC “to continue observing the conduct of third country companies” standards involvement and foreign court decisions.²⁵ None of these actions dictate the need, or even provide a basis, for the EC to promulgate broad regulations that contravene standard patent rights by depriving SEP holders of their right to enforce their SEPs, imposing artificial limits on patent royalties, and requiring SEP holders to incur significant financial and other resources before entering into licensing negotiations with prospective implementers.

The EP’s Resolution of November 11, 2021 does include the following:

*[The European Parliament notes] the importance of transparency and the need to proactively provide necessary information in advance when licensing standard essential patents on FRAND terms in a way that will ensure a fair outcome of good faith negotiations between parties; highlights that the question of whether a SEP holder may choose the level of licensing in a supply chain or whether any company in the value chain must have access to a license is not clarified yet, and therefore asks the Commission to cooperate with the relevant stakeholders in order to find an approach to this issue and to address it.*²⁶

²⁵ European Parliament Resolution on an Intellectual Property Action Plan to Support the EU’s Recovery and Resilience, pp. 15-19 (Nov. 11, 2021), available at https://www.europarl.europa.eu/doceo/document/TA-9-2021-0453_EN.html.

²⁶ *Id.* at 20.

The Proposed Regulations go far beyond an approach to this issue and such regulations are not what the EP requested in scope nor in spirit when read with the EP's other requests relating to SEPs. While several committees provided opinions relating to the Proposed Regulations, they focused on ownership, biological specimens and benefits of the unitary patent system, as well as access to affordable vaccines.²⁷ Before sweeping resource-intensive regulations are imposed, more careful analysis should be exercised to evaluate what problems are being solved and how these regulations will solve them. To the extent the regulations are being designed to achieve future goals, AIPLA recommends further analysis to determine whether less onerous alternatives including existing measures could be used to achieve these goals.

1. The EC does not provide sufficient data to justify the Proposed Regulations

As discussed in more detail below, the EC has not provided a definition or even clarification as to what it means by “transparency” or why “transparency” would lead to any improvements.²⁸ The Proposed Regulations, if needed at all, should be limited to problems that need to be addressed through regulation or to goals that cannot be achieved through less burdensome mandates. The Proposed Regulations include a number of reasons and objectives for the proposal.²⁹ However, the stated objectives are overbroad, disconnected from the EP's Resolution, and do not stem from specific problems. The Proposed Regulations state that:

The overall objectives of this proposed initiative are to: (i) ensure that end users, including small businesses and EU consumers benefit from products based on the latest standardised technologies; (ii) make the EU attractive for standards innovation; and (iii) encourage both SEP holders and implementers to innovate in the EU, make and sell products in the EU and be competitive in non-EU markets. The initiative aims to incentivise participation by European firms in the standard development process and the broad implementation of such standardised technologies, particularly in IoT industries.

In this context, the initiative seeks to: (i) make available detailed information on SEPs and existing FRAND terms and conditions to facilitate licensing negotiations; (ii) raise awareness of SEP licensing in the value chain and (iii) provide for an alternative dispute resolution mechanism for setting FRAND terms and conditions.³⁰

Unfortunately, the EC did not provide a rational basis with supporting data to conclude that mandatory essentiality checks for all SEPs on all standards, the provision of substantial data to be recorded and maintained in an EU registry, mandatory FRAND determinations as well as a determination of a maximum royalty for SEPs for a given standard, are individually and collectively necessary to achieve these objectives. The EC did note:

²⁷ E.g., Opinion of the Committee on the Internal Market and Consumer Protection, 22.6.2021, available at Comm. On Legal Affs., Rep. on an Intellectual Property Action Plan to Support the EU's Recovery and Resilience, at 31, Doc. A9-0284 (Oct. 14, 2021), https://www.europarl.europa.eu/doceo/document/A-9-2021-0284_EN.html.

²⁸ Sec. 20 of the EP Resolutions concludes that transparency is needed for fair negotiations but does not identify what information would be needed with the exception of specifying whether or not all companies in the value chain must have access to a license. See European Parliament Resolution on an Intellectual Property Action Plan, at 20 (2021). An answer to such question in no way justifies a mandatory registry and mandatory FRAND and/or aggregate FRAND determinations.

²⁹ Proposed Regulations, COM (2023).

³⁰ *Id.* at 1.

- The need for increased transparency,³¹ but without providing examples showing that the lack of transparency has resulted in EU companies being unable to conclude SEP licenses or EU consumers being deprived of the best standards-related technologies because SEPs could not be reasonably licensed.
- That it was asked to make access to SEPs “more affordable, especially for small and medium-sized EU enterprises (SMEs)”³²; yet the EC provided no data supporting that SMEs have been unable to license SEPs at an affordable price.
- That SEP licensing disputes have increased in the automotive sector and such disputes could potentially occur in the IoT sectors, but without providing any supporting data such as the overall number of disputes versus the number of concluded license deals.
- Extraterritorial regulations and global FRAND rate setting require action by the EC³³; but the Proposed Regulations could escalate disputes because they are likely to cause retaliatory measures.

The proposed registry is based on the Pilot Study for Essentiality Assessment of Standard Essential Patents,³⁴ which acknowledges that “[u]ltimately, the verdict of essentiality (and infringement) lies with an authorised court, and there are very, very few cases where this verdict is drawn (far too few to be able to serve as reference point for a study like this).”³⁵ While a voluntary registry may have some benefit and experimentation might be useful at this time, the pilot itself suggests there is insufficient data to support the need for a mandatory registry for SEPs.

Without specific goals that include some form of metrics for success or problems to be addressed that are supported by actual data, it is not possible to evaluate whether the Proposed Regulations are likely to achieve the EU’s broad-based objectives or solve any particular problem. Rather than collecting such data and conducting the necessary research, the EC has instead proposed sweeping regulations and provided a complicated mechanism to exclude certain standards and SEPs from the FRAND determinations, but not the essentiality and registration processes.³⁶ However, the Proposed Regulations are not tied to specific data or use cases illustrating that the stated goals will be achieved. In sum, the EC presumes there is evidence to support its all-encompassing regulations until substantial evidence can be provided that such regulations are not needed.

³¹ The EC states that the EP agreed with the EC’s position that “the transparency necessary for fair licensing negotiations depends in large part on the availability of information about the existence, scope and essentiality of SEPs.” *Id.* at 2. We found no such agreement by the EP that more information about the existence, scope and essentiality of patents is needed to ensure fair licensing, or more importantly, that the provision of such information must be regulated by the EU. Rather, as discussed above, the EP asked the EC to monitor, report, investigate, and to answer the question about supply chain licensing involving SEPs. *Id.*

³² *Id.*

³³ See Paul Ragusa and Hanyuan Zhang, *Anti-Suit Injunctions in Litigation in The United States*, AIPLA S&OS Newsletter, May 2023, published at <https://community.aipla.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=8fb779b1-bfda-4377-bb67-01889738de85&forceDialog=0> (and citations therein).

³⁴ See Rudi Bekkers et al., *Pilot Study for Essentiality Assessment of Standard Essential Patents* (Nikolaus Thumm ed., 2020).

³⁵ *Id.* at 73.

³⁶ Proposed Regulations at 26 (“Where there is sufficient evidence that, as regards identified use cases of certain standards or parts thereof, SEP licensing negotiations on FRAND terms do not give rise to significant difficulties or inefficiencies affecting the functioning of the internal market, the Commission shall, after an appropriate consultation process, by means of a delegated act pursuant to Article 67 [Exercise of delegation of power], establish a list of such use cases, standards or parts thereof, for the purposes of paragraph 3 [FRAND determinations “shall not apply” to SEPs that are essential to these use cases].”).

2. The EC failed to consider less onerous alternatives

We understand from the Proposed Regulations that the EC has concluded that both a determination of essentiality and FRAND rates are needed to ensure a fair outcome in licensing negotiations. While we do not concur with that view, we would like to take this opportunity to note a few less onerous options that should be investigated before a mandatory registration and FRAND determination process are required for all SEPs issued by European Member States.

Many standards have few or no essential patent claims that need to be licensed by implementers. The registry nonetheless applies to all standards development organizations and all non-proprietary technical specifications adopted by those organizations.³⁷ Many of the standards that appear to be of interest are developed by the same SDOs and are focused on telecommunications and wireless connectivity. Only a handful of SDOs develop internationally recognized standards in these areas. The EC should first identify those “use cases,” if any, that require government regulation to ensure that SEPs can be fairly and reasonably licensed and that the applicable standards can be implemented in commercial products and services in the EU. Short of that, the EC should consider narrowing down its definition of “standards development organization” to those SDOs and the specific standards that such SDOs develop and adopt that result in large numbers of patent declarations and broad application to products and services in many different industries, and then only to the extent that the relevant industry players are unable to form voluntary patent pools or otherwise conclude SEP licenses.

The EC has not established the need for regulating all non-proprietary standards adopted by all SDOs, including standards that have few or no patent declarations, or patent declarations held by SEP holder(s) for defensive purposes. In both cases, declared SEPs are unlikely to result in litigation, nor is there a need to regulate license negotiations among relevant stakeholders. The Proposed Regulations, if deemed necessary, should be limited to those standards likely to involve SEPs that are licensed and/or enforced for which voluntary mechanisms such as patent pools have failed to address widespread problems. The EC itself only mentions the automotive industry and future IoT industries where SEP licensing disputes, in the EC’s view, are or could be increasing. It would seem prudent then to limit any regulations to those industries and only where any increase in disputes is having an impact on the EU’s goals involving standards and IP.

Patent pools routinely provide existing mechanisms for checking essentiality, and their package SEP licenses make licensing more efficient for some licensors and implementers. The EC has not provided any analysis of whether voluntary patent pools would be sufficient to address any actual SEP licensing problems in the automotive sector.³⁸ While we note that

³⁷ See *id.* at 27, 38 (Prop. Regs. Definitions of “standards development organization” and “technical specification” and Art. 19). Although “proprietary” is not defined, we understand the EC to be excluding specifications that are not published and are developed/adopted by organizations with membership requirements that are closed to at least some parties.

³⁸ The Impact Assessment states:

Although patent pools are likely to emerge for certain IoT applications, such as Sisvel pools for Wi-Fi 6 products, smart meters and tracking devices, such pools will not represent all SEP owners. Consequently, most implementers will not be fully licensed and will operate under the threat of an injunction (particularly if they become successful with higher volumes). Furthermore, due to the increasing number of SEP implementers in an increasingly connected world, SEP holders could choose to outsource SEP licensing (and resulting litigations) to specialized patent assertion entities¹²⁸ in the future.

there have been some disputes among some SEP licensors and automotive companies, there are far more licenses concluded with automotive companies involving SEPs.³⁹ The Avanci 4G patent pool is one example where a voluntary industry solution seems to have addressed the vast majority of licensing issues for 4G in the automotive sector.⁴⁰

The EC has also failed to explain why the existing voluntary WIPO FRAND mediation process is not sufficient to meet the needs of the EU with regard to efficient and cost-effective SEP licensing. WIPO has already conducted 70 FRAND mediations including the following.

- *Requests for WIPO Mediation relating to licensing negotiations between a patent pool administrator and implementers in relation to ongoing unsuccessful patent licensing negotiations. These cases included parties from 19 jurisdictions (50% of cases involved parties based in Asia including China, India, Japan and the Republic of Korea). Mediation requests prompted renewed licensing negotiations.*
- *IP courts in China have referred ten ICT patent infringement cases to WIPO Mediation. Seven of those cases involved claimants from Europe.*
- *In the course of litigation before a court in a EU Member State, a large Asian manufacturer submitted a unilateral request to WIPO Mediation concerning its SEP infringement litigation against a large European SEP holder.*⁴¹

Despite overwhelming evidence that this process is increasingly being used to effectively facilitate resolution of FRAND disputes, the EC has not considered whether this process is sufficient, or if not sufficient, what deficiencies need to be addressed.

The Proposed Regulations also include several provisions that are intended to assist SMEs, yet there is no underlying data highlighting the assistance SMEs may need. Prior to implementing the Proposed Regulations, the EC should conduct studies to assess how many SMEs have been asked to accept SEP licenses and how many have been unable to negotiate

Impact Assessment Report, Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, p. 26 [hereinafter EU Proposal Impact Assessment]. For years, most implementers practice standards without licenses from many SEP holders because many SEP holders only use their SEPs for defensive purposes. SEP holders license SEPs at a different point in the supply chain and do not seek licenses from many suppliers, end users and/or operators, and for many other reasons. To conclude, without evidence, that “most implementers” will not be licensed and will operate “under the threat of injunction” is entirely speculative and not at all consistent with the past or the present “reality.” Similarly, that because there may be more SEPs in an increasingly connected world will in fact lead to more SEP assertions by PAEs, seems equally speculative. In any event, if the EC is concerned about possible activities of PAEs, regulations directed to PAE assertions seem more in line with the scope of this potential risk than the sweeping regulations proposed here.

³⁹ The Avanci Vehicle 4G and Avanci Aftermarket pools are examples; the latter is a pool for aftermarket devices that are typically not installed on vehicles at the time of purchase, including monitoring systems, tool collection devices, trackers. See *Samsung joins Avanci’s automotive standard-essential patent pools as licensor (in addition to previously announced participation in Avanci Broadcast)*, FOSS Patents (Apr. 18, 2023, 3:00 PM), <http://www.fosspatents.com/2023/04/samsung-joins-avancis-automotive.html> (explaining that patent pools can streamline the licensing process). See also Tim Pohlmann, *The Role of Standard-Essential Patents for the Auto Industry*, IPWatchdog (Sept. 27, 2021, 7:15 AM), <https://ipwatchdog.com/2021/09/27/role-standard-essential-patents-auto-industry/id=138080/> (Figure 4, listing published standards that describe vehicle connectivity).

⁴⁰ See *Avanci Vehicle 4G*, Avanci, <https://www.avanci.com/vehicle/4g/>. Continental’s multi-jurisdictional claims against Avanci and other licensors may be viewed as a strong data point showing that the patent pool has not been effective. Upon analysis, however, Continental’s dispute is merely an outlier. See e.g., *Continental gives up antitrust battle against Avanci patent pool—no cert petition filed—but keeps pursuing long-shot case against Nokia in Delaware Chancery Court*, FOSS Patents (Nov. 3, 2022, 7:24 AM), <http://www.fosspatents.com/2022/11/continental-gives-up-antitrust-battle.html>.

⁴¹ See *WIPO ADR for FRAND Disputes*, WIPO, <https://www.wipo.int/amc/en/center/specific-sectors/ict/frand/>.

what they believe to be FRAND licenses. Contentions from large technology companies that SMEs are unable to implement standards due to SEP licensing concerns should be backed up with actual data.⁴² The EC should also consider examples of SMEs who lack sufficient resources to enforce their SEPs against large well-resourced entities who can litigate a host of patent and other related SEP/FRAND issues hoping for a potential holding that the SEPs are invalid, not infringed or otherwise not enforceable, or at a minimum that the judicially determined FRAND rate is more favorable than what the large entity could have negotiated prior to extensive litigation. If the Proposed Regulations are intended to assist SMEs, challenges that SMEs have in licensing and enforcing their SEPs against large well-resourced implementers should be addressed. Potential regulations limited to this use case may be warranted but would not require mandatory essentiality checks (even if provided at no-cost), registration, and FRAND determinations where other mechanisms such as the WIPO mediation process already exists, i.e., a large technology implementer that refuses to participate in good faith in a reputable mediation process could be deemed an unwilling licensee.

In sum, we respectfully request that the EC: (i) provide data and specific examples supporting the problems it is seeking to address, and (ii) analyze existing mechanisms as well as other less onerous alternatives that will address those problems.

B. Budget and resources needed appear to be underestimated and are not sufficiently detailed to assess the financial viability of the proposed registry, essentiality check, and FRAND conciliation processes

The Proposed Regulations lack critical information in determining if the budget for implementation of the proposal is sufficient. Specifically, the Proposed Regulations merely provide an estimate of set up costs for the competence center and register to be “around EUR 2.4 million and may involve work of up to 12 FTEs.”⁴³ However, the accompanying Impact Assessment Report shows that the IT requirements for the competence center are extensive. The register is discussed as reflecting i) SEP holder submissions, ii) results of essentiality checks performed by the competence center, iii) essentiality checks conducted by independent parties in the context of pools or court proceedings, iv) court decisions determining essentiality or lack thereof.⁴⁴ The Impact Assessment Report lists tasks for the initial set up to include:

[S]etting up a case management/distribution system, management of conflicts of interest; creating work instructions, templates and check lists; defining and implement quality controls (formal checks); setting up performance management system (define indicators, define measuring system and implement automatic measuring); trainings for evaluators (including materials); setting up SEP examination outcome review

⁴² We are aware of one case in the UK, *Optis v. Apple* [2023] EWHC 1095 (Ch), where a patent assertion entity procured licenses with SMEs to argue for a higher royalty rate with a large technology company. See [Optis v Apple: English Court gets to the core of the saga - Kluwer Patent Blog \(kluweriplaw.com\)](#) (reporting on non-confidential aspects of the decision). Given that the judge in that case was critical of the practice, it is unlikely that others will follow this practice, which may be isolated to the plaintiff in this case. We also acknowledge that there could possibly be other instances of similar practices, but the EC has procured no data or other research to assess whether such practices are common or widespread.

⁴³ Proposed Regulations at 11.

⁴⁴ Proposed Regulations Impact Assessment at 38.

mechanism (substantive quality controls); setting up examiners/experts payment system.⁴⁵

The Proposed Regulations do not provide detailed information regarding estimates for IT infrastructure including registry development and maintenance, training, quality control, customer support, and financial systems. In addition, the Impact Assessment Report provides an estimated cost of EUR 3.7 million initially, and the discrepancy in estimates for set up costs between the Proposed Regulations and Impact Assessment is not explained. In addition, funding for the registry is expected to come from fees paid by service users.⁴⁶ However, the Impact Assessment Report indicates that different usage scenarios for the register have widely varying numbers of registered patent families, mentioning scenarios for initially registered patent families from as few as 3 550 up to 72 000. The Impact Assessment Report acknowledges that under the different scenarios “the EUIPO back office costs would remain roughly the same.”⁴⁷ For representative sampling of SEPs, the Impact Assessment Report indicates that the registration fee that should cover the costs is estimated at EUR 100 per patent.⁴⁸ Based on the wide range of the estimated numbers of registered patent families under different usage scenarios, the budget for implementation of the proposal may have a significant shortfall, and the Proposed Regulations do not indicate how the shortfall may be filled. Thus, the Proposed Regulations may fail its goal of being fully self-funded, or possibly have to pass on unexpectedly high registration fees to cover costs if the registry sees usage on the lower end of the expected range.

C. The Proposed Regulations may impose burdensome financial obligations for participants

The Proposed Regulations require SEP holders to register SEPs in addition to submitting information regarding the SEP and essentiality. However, it is unclear from the Proposed Regulations what the financial burden will be on SEP holders regarding SEP registration and essentiality checks.

1. SEP holders, even SMEs, must deploy substantial resources to comply with the Proposed Regulations

In general, the SEP registration requirement adds additional cost to SEP holders’ enforcement options while infringers will gain additional time to delay entering into a license agreement. Indeed, an implementer is incited under the Proposed Regulations to wait and see if SEP holders miss deadlines so that such implementers may avoid license fees associated with SEPs that were not registered or registered in time.⁴⁹ While this is problematic for all SEP holders, this new hurdle will be especially troublesome for SMEs wishing to enforce their SEPs even if the registration fees are waived for them because SEP holders need (i) resources to do internal essentiality analyses in advance of submitting SEPs to an EU IPO evaluator, (ii) to monitor the official announcements of standards to comply with the Proposed Regulations, and (iii) to

⁴⁵ *Id.* at 99.

⁴⁶ Proposed Regulations at 10.

⁴⁷ Proposed Regulations Impact Assessment at 100.

⁴⁸ *Id.* at 102.

⁴⁹ One time limit is set out in Article 20(3) of the Proposed EU Regulation, which provides: “The request for registration shall be made within 6 months from the publication of the notice pursuant to Article 19(2). In case the SEP is only granted by a national or European patent office after the publication of the notice pursuant to Article 19(2), the request for registration shall be made within 6 months from the grant of the SEP by the relevant patent office.”

participate in FRAND determination or aggregate royalty determinations required by the Proposed Regulations.

The proposal indicates that SEP holders will be given an opportunity to submit a claim chart for SEPs selected for essentiality checks, but makes the assumption that SEP holders already have claim charts or can generate them internally and thus does not assess a cost to the claim charts.⁵⁰ However, many SEP holders—especially SMEs—do not have sufficient resources internally to generate claim charts for substantial numbers of SEPs each year and will likely need to utilize outside resources, incurring substantial cost for each SEP.

Although the Proposed Regulations do not appear to make submission of claim charts mandatory,⁵¹ SEP holders would likely be reluctant to allow an essentiality evaluation to be performed without submitting a claim chart. In practice, it would be incredibly difficult for even very knowledgeable evaluators to make an essentiality determination without a claim chart or at least detailed mapping information for key claim terms.⁵² It is also unclear how many essentiality checks will be performed. The Impact Assessment states only that “[t]he Commission will commission a study to develop the sampling methodology,” and that sampling will have “acceptably low margin of error,” without stating the acceptable error or confidence level. Thus, SEP holders will be in practice obligated to provide claim charts for an unknown number of SEPs selected for sampling each year. The Impact Assessment Report estimates that preparation of each claim chart may cost EUR 5 000,⁵³ and thus this financial burden on SEP holders is potentially onerous.

2. SEP holders that would have only used their SEPs defensively will now have to expend substantial resources to comply with the Proposed Regulations and as a result may choose to seek licenses for their SEPs

Some patent holders use their SEPs primarily for defensive purposes. Such SEP holders generally employ revenue models that rely on the sale of products and services that utilize standardized technology, rather than on licensing their SEPs. These entities often participate in standards development to ensure that they have early access to the standards being developed and to ensure that the standards work well with their product designs and provide the infrastructure they need to successfully deploy their products and services. They may contribute patented technology to the standard under development specifically for this purpose. These entities disclose SEPs to SDOs (if required) to ensure they can continue to use them defensively because failure to do so may render undisclosed SEPs unenforceable or subject the SEP holder to many serious legal claims. The Proposed Regulations require all SEPs to be registered, even ones that will only be used for defensive purposes, and further require engagement in a FRAND determination process.⁵⁴ It will then be incumbent on SMEs and other entities who implement the standard to seek licenses from these SEP holders who—after a finding of essentiality and obtaining a FRAND determination—will have little business

⁵⁰ *Id.* at 38.

⁵¹ *Id.* at 31 (indicating that “[t]he SEP holder will have an opportunity to submit a claim chart”).

⁵² For example, 3GPP 5G standards are several thousand pages and evaluating essentiality for a claim which may use terminology that varies from the standard terminology without knowing exactly how the claim terms correspond would not be feasible within any limited amount of time, and thus essentiality determinations without a claim chart would likely be prejudicial against the SEP holder.

⁵³ Proposed Regulations Impact Assessment, p. 105, tbl. 16.

⁵⁴ The Proposed Regulations suggest that the Commission may determine whether there are no significant difficulties or inefficiencies in licensing on FRAND terms and thus waive the FRAND determination, otherwise it is mandatory. Proposed EU Regulations, p. 21, § 33.

incentive not to seek licensing revenue. Along with added transaction costs, there will likely be additional disputes as those transactions are negotiated.

AIPLA recommends that the EC verify its set-up estimates for the registry and collect data on the costs associated with evaluating patents for essentiality including the preparation of claim charts before advancing the Proposed Regulations.

III. If the EC determines that regulations are needed, AIPLA suggests that the EC address a number of concerns by modifying or limiting the scope of the Proposed Regulations

For the reasons stated in Sections I and II, AIPLA urges the EC (i) to reconsider whether the Proposed Regulations comply the TRIPS Agreement and other EU laws, (ii) better define its concerns and goals, (iii) gather more data, (iv) look into less costly or onerous alternatives, and (v) more narrowly focus any regulations to those that require government-mandated processes to solve existing or imminent widespread problems that are not currently being addressed, or likely to be addressed, in the marketplace. If, however, the EC believes that the Proposed Regulations are needed, AIPLA suggests that they should be modified or limited in a number of ways. First, the Proposed Regulations should permit SDOs to adopt their own patent policies and should not impose a one-size -fits all policy on all European SEP holders because doing so will create confusion and inhibit competition and innovation. Second, the Proposed Regulations should avoid imposing substantial burdens on patent holders by mandating several new processes involving the registration of SEPs and determinations of FRAND terms, none of which are likely to improve SEP licensing efficiency or transparency. Consequently, those new processes should not be made mandatory. Finally, AIPLA has numerous concerns about the processes to determine an aggregate royalty rate for all SEPs for a given standard and believes that an aggregate royalty determined pursuant to these processes is unnecessary and not useful. On that basis, AIPLA urges the EC to seek and consider additional stakeholder feedback on the aggregate royalty determination processes set forth in the Proposed Regulations before adopting any such processes.

A. The Proposed Regulations should clearly state that SDO policies, not EU regulations, should control SEP disclosure, essentiality, and FRAND licensing matters where such SDO policies are binding on SEP holders

Patent policies are meant to balance the rights of SEP holders and implementers. Each SDO achieves a different balance based on a variety of factors such as its members, its technology focus, the processes and procedures it uses to develop and approve standards, the scope of its influence, its operating budget, and many other factors. The Proposed Regulations appears to dismiss these carefully crafted policies and substitute their own definitions for important terms such as essentiality and standards essential patents, as well as the disclosure and licensing requirements that SDOs along with their members adopted. Such substitutions are likely to cause significant confusion about what rules apply and will effectively prohibit SDOs from adopting appropriate policies under their own particular circumstances.

AIPLA favors SDOs having the flexibility to formulate their own policies and procedures, and AIPLA does not support legislative, regulatory, judicial, or administrative action that requires all SDOs to adopt a single prescribed intellectual property rights/licensing and disclosure

policy.⁵⁵ Indeed AIPLA has reasoned that the diversity of SDO patent policies promotes competition and innovation.

*Standard Setting Organizations (“SSOs”) diversity has created a dynamic and flexible standards ecosystem, able to respond to market needs as they change and, importantly, able to ensure that standards do not limit competition but instead promote competition and innovation. Diversity among SSO IPR policies is encouraged to allow each SSO to develop an IPR policy that fits its particular circumstances – one size does not fit all. After careful negotiation among many skilled lawyers representing varied and disparate interests, well-known SSOs have not all reached the same conclusions and have not all agreed to adopt the same IP policy approaches. Indeed, the patent policies of any two different SSOs could be quite different, but each SSO’s policy could be optimal for that organization and its membership. It is counterintuitive to believe that the same patent policy provisions or framework would somehow serve as the right balance for all SSOs in light of the differences in technology and industry, and that the memberships in disparate SSOs may be comprised of different businesses, individuals, and public entities, each with their own unique goals and interests. The diversity among SSOs is generally recognized as a strength of the information and communications technology standards ecosystem—enabling agility and innovation in SSO approaches and promoting healthy competition and choice. With the understanding that each SSO should adopt IPR policies that fit their particular circumstances and encouraging the resultant diversity, AIPLA presents below some general concepts that SSOs may consider in developing their unique IPR policies. (p. 8)*⁵⁶

AIPLA urges the EC to adopt a more flexible approach recognizing the diversity of SDO patent policies and encouraging SDOs to continue to adopt policies that strike the best balance given each SDO’s unique circumstances. Doing so will not only promote innovation and competition in the EU but will allow SDOs to continue to experiment with different patent policy constructs as emerging technologies and new industries develop.

Article 2 of the Proposed Regulations provide a unitary definition for standards essential patents and essential patent claims.

(1) ‘standard essential patent’ or ‘SEP’ means any patent that is essential to a standard;

⁵⁵ AIPLA has a resolution on point and has taken this position in several other public letters and comments to government proposals and inquiries. See AIPLA Resolution 272-03, Standards Development Organizations, Retained as amended by Board of Directors Meeting on September 10, 2021 (“RESOLVED, that AIPLA favors SDOs having the flexibility to formulate their own policies and procedures, and AIPLA does not support legislative, regulatory, judicial, or administrative action that requires all SDOs to adopt a single prescribed intellectual property rights/licensing and disclosure policy.”), available at https://www.aipla.org/docs/default-source/committee-documents/committee-leadership-files/past-action-manual-2021-2022-final-101221.pdf?sfvrsn=40f5f946_2; AIPLA Response to Questionnaire on Patents and Standards, available at <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aiplalettertoeconpatentsandstandards-2-13-15.pdf>; AIPLA Comments on Discussion Paper On Standard Essential Patents And Their Availability On FRAND Terms, available at <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aipla-comments-on-india-dipp-4-22-16-final.pdf>

⁵⁶ AIPLA Comments on Discussion Paper On Standard Essential Patents And Their Availability On FRAND Terms, p. 8 (in response to the following prompt: “b) What should be the IPR policy of Indian Standard Setting Organizations in developing Standards for Telecommunications sector and other sectors in India where Standard Essential Patents are used?”), available at <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aipla-comments-on-india-dipp-4-22-16-final.pdf>.

(2) 'essential to a standard' means that the patent contains at least one claim for which it is not possible on technical grounds to make or use an implementation or method which complies with a standard, including options therein, without infringing the patent under the current state of the art and normal technical practice;

To the extent that a patent holder has agreed to abide by an SDO patent policy or has made a FRAND assurance, these definitions are important, not only for determining whether a patent should be disclosed as a SEP but also as to which patent claims are subject to a FRAND licensing obligation.

The EC mentions two SDOs at the outset of the Proposed Regulation, ETSI and IEEE.⁵⁷ These SDOs' policies provide useful examples illustrating how differences between an SDO's patent policy and the Proposed Regulations will likely result in differing rules and outcomes, along with considerable confusion. For example, an analysis of essentiality under the IEEE's definitions could render different results than an analysis under the Proposed Regulation's definitions. The IEEE provides the following definition Essential Patent Claim in its patent policy:

*"Essential Patent Claim" shall mean any Patent Claim the practice of which was necessary to implement either a mandatory or optional portion of a normative clause of the IEEE Standard when, at the time of the IEEE Standard's approval, there was no commercially and technically feasible non-infringing alternative implementation method for such mandatory or optional portion of the normative clause. An Essential Patent Claim does not include any Patent Claim that was essential only for Enabling Technology or any claim other than that set forth above even if contained in the same patent as the Essential Patent Claim.*⁵⁸

First, it should be noted that the IEEE would consider a patent claim essential only if there are no feasible non-infringing alternatives on technical and commercial grounds. By comparison, the Proposed Regulations would consider a patent claim essential so long as there are no technically feasible non-infringing alternatives not taking into account commercial feasibility.

Second, the Proposed Regulation would define any patent claim that reads on a purely optional feature of a standard as essential whereas the IEEE policy would only apply to options that are part of a mandatory feature. The IEEE policy would also consider claims that read solely on enabling technologies non-essential whereas the Proposed Regulation have no such exclusion. These differences illustrate how an essentiality analysis using the IEEE definitions versus the definitions included in the Proposed Regulations could result in different determinations regarding essentiality.

These conflicting definitions also cause contradictory obligations relating to patent disclosure and licensing. For example, the IEEE patent policy is very clear that the FRAND assurance applies only to those patent claims that are essential, not to all claims in the patent that contains them.

⁵⁷ Proposed Regulations at 1 ("Standardisation is a key contributor to industrial innovation and competitiveness. Successful standards rest on cutting-edge technologies, which require substantial investments in research and development. Under the rules of many standards development organisations (SDOs), such as the ETSI and the IEEE (references omitted), companies and individuals may patent their technical contributions to a standard.").

⁵⁸ IEEE SA, Standards Board Bylaws (emphasis added), available at <https://standards.ieee.org/about/policies/bylaws/sect6-7/#6>

“Letter of Assurance” and “LOA” shall mean a document, including any attachments, stating the Submitter’s position regarding ownership, enforcement, or licensing of Essential Patent Claims for a specifically referenced IEEE Standard, submitted in a form (PDF) acceptable to the IEEE SA.

By contrast the Proposed Regulations require that FRAND licensing terms and conditions apply to all patent claims contained in a SEP.⁵⁹ AIPLA opposes any mandatory regulation that would impose a FRAND licensing obligations on all patent claims contained in a patent where such claims are not essential, and especially where such requirement is not imposed by an applicable SDO patent policy.⁶⁰

The ETSI patent policy makes it clear that a SEP owner is not required to conduct a patent search of its patent portfolio to ascertain whether it should disclose its SEP to ETSI.

Subject to Clause 4.2 below, each MEMBER shall use its reasonable endeavours, in particular during the development of a STANDARD or TECHNICAL SPECIFICATION where it participates, to inform ETSI of ESSENTIAL IPRs in a timely fashion. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER’s IPR which might be ESSENTIAL if that proposal is adopted.

*4.2 The obligations pursuant to Clause 4.1 above do however not imply any obligation on MEMBERS to conduct IPR searches.*⁶¹

The Proposed Regulations require all SEP holders (even those not subject to the SDO’s patent policy) to disclose their SEPs, pay for essentiality determinations, and register any patents determined to be SEPs before enforcing them. Such registration is required within 6 months after the standard has been notified by the competence center. Failure to register a SEP in a timely manner will result in forfeiting all pre-registration royalties.⁶²

As a result, all SEP holders will need to search their patent portfolios to identify potential SEPs to avoid (i) forfeiting damages including back royalties, and (ii) a regulated delay in enforcing their patents. Such searches will become necessary even for patent holders who are not required to do so under any SDO patent policy (including patent holders who are not members of the SDO).

Differences between SDO patent policies and the requirements of the Proposed Regulations will yield different determinations as to (i) whether a patent claim is essential, (ii) whether and when the patents containing such patent claims must be registered with the competence center and disclosed to the SDO, and (iii) what obligations patent holders incur with regard to patent licensing and negotiations. AIPLA strongly opposes any preemption of voluntary consensus-

⁵⁹ Proposed Regulations, p. 27, art. 2(8) and (9).

⁶⁰ See Comments of the American Intellectual Property Law Association on National Standards Formulation and Revision Plan of Standardization Administration of China, the Disposal Rules for the Inclusion of Patents in National Standards at <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy-shared-documents/com-2010-03-01-oi-chinanationalstandards.pdf> (p. 5) (“First, individual patent claims, not entire patents, are essential to a standard. The licensing statement should extend only to these claims, not the patent as a whole.”)

⁶¹ ETSI IPR Policy, clause 4, available at <https://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>.

⁶² Proposed Regulations at 19 (“SEP holders may register after the indicated time limit. However, in that case, SEP holders should not be able to collect royalties and claim damages for the period of delay.”).

based patent policies adopted by SDOs absent a showing that government-mandated policies are needed to remedy violations of law or some other extraordinary circumstance that cannot be addressed without imposing a one-size-fits-all patent policy for standards on all patent holders seeking to license or enforce patents in Europe.

B. The processes for registration and FRAND, Aggregate Royalty, and Essentiality determinations should not be mandatory

The Proposed Regulations make the registration of SEPs mandatory and require that a SEP holder register its SEP before commencing the new mandatory conciliation processes (e.g., FRAND determination), and before the SEP holder may enforce its SEP.⁶³ The Proposed Regulations establish at least four new procedures to implement the registration and FRAND determination processes. The first process includes an official announcement of a standard and a requirement that all SEP holders, irrespective of whether they participated in the standard development activity, register their SEPs. Secondly, in order to register a SEP, the SEP holder must procure an advisory determination from an EUIPO-appointed evaluator of essentiality. Thirdly, the Proposed Regulations include a complex procedure for engaging in a non-binding FRAND determination before the SEP may be enforced, and if registration and the FRAND determination are not completed within the regulatory timeframe, the SEP holder is also prohibited from seeking past damages.⁶⁴ In addition to these three new process, there is a fourth process that involves the determination of an aggregate royalty for all SEPs in combination for a given standard.⁶⁵ An aggregate royalty sets a maximum compensation value for each SEP by setting an upper limit for the value of all SEPs for a standard. Finding the aggregate royalty involves notifications to the SDO that created the standard and agreement among SEP holders and potential use of expert opinion.

Compliance with these new processes and procedures is a substantial undertaking for all SEP holders in terms of monetary and non-monetary resources. AIPLA does not believe that the Proposed Regulations will yield greater transparency and that any incremental transparency as to which patents are SEPs and what terms between two unique parties may be FRAND resulting from the Proposed Regulations do not justify the costs imposed on SEP holders.

1. The new mandatory processes create incentives that are likely to result in confusion and less transparency

Even if a patent turns out not to be essential according to the competence center, it does not mean that an accused infringer is not infringing the patent. If the patent is not a SEP the patent

⁶³ Proposed Regulations, p. 41, art. 24. Article 24 sets out consequences for failing to register an SEP under the EU's proposed system. It provides, in relevant part:

1. A SEP that is not registered within the [required] time-limit . . . may not be enforced in relation to the implementation of the standard for which a registration is required in a competent court of a Member State, from the [end of the required] time-limit . . . until its registration in the register.
2. A SEP holder that has not registered its SEPs within the [required] time-limit . . . shall not be entitled to receive royalties or seek damages for infringement of such SEPs in relation to the implementation of the standard for which registration is required, from the [end of the required] time-limit until its registration in the register.

However, the Proposed Regulations do allow for either party to request - pending the FRAND determination - a "provisional injunction of a financial nature against the infringer" in a court of a Member State, so long as the competent court is asked to suspend any existing proceedings on the merits for the duration of the FRAND determination, and that such court consider that ongoing FRAND determination. Proposed EU Regulation, p. 46, art. 34.

⁶⁴ Proposed Regulations, p. 41, art. 24(2).

⁶⁵ Proposed Regulations, pp. 34-38, arts. 14-18.

holder has no obligation to grant a license even on FRAND terms, and for this reason many patentees may take the position that their patents are not SEPs, and accordingly, would not register them. An accused infringer will argue that the patent is a SEP and was not registered and is therefore not enforceable pursuant to the Proposed Regulation. In other words, implementers have no incentive to take a license prior to the 6-month registration requirement in hope that the SEP holder will miss the deadline and patent holders may have good reason to argue their patents are not SEPs and do not need to be licensed at all. Ultimately such disagreements can be decided by the courts but only after this new set of disputes arises.

2. Mandatory FRAND determinations provided under the Proposed Regulations are unlikely to provide more transparency for either licensors or implementers

Mediation, where the parties negotiate on a bilateral basis before litigating any specific issues, could be a helpful process to potentially avoid litigation or narrow down the issues that might be litigated. Mediation, however, is different than the process proposed by the EC. The Proposed Regulation requires the SEP holder to register the relevant SEPs and obtain (or at least participate in) a FRAND determination prior to bringing an enforcement action and there are steep penalties for failing to do so including significant delays for seeking complete remedies for infringement and potential bars to recovering past damages. This process is not only complex but has not been vetted and is not tailored to any particular problem identified by the EC. Following these complex procedures will be time-consuming and expensive for all parties involved. Moreover, the FRAND determination for one implementer may be of little use for another implementer who is interested in different terms or different business arrangements with the licensor. As a result, FRAND determinations for some parties are not likely to provide the transparency the EC is seeking, despite substantial costs, delays, and penalties imposed on SEP holders. For these reasons, AIPLA urges the EC to remove all requirements to procure a FRAND determination pursuant to the Proposed Regulations, or at least to pilot the conciliation process prior to implementing it.

3. The proposed FRAND conciliation process is unvetted, unduly resource-intensive and unnecessary

The FRAND conciliation process under the Proposed Regulations is complex—involving different parties seeking FRAND determinations and various timeframes for initiation and for parties to agree to be bound by the determination. As discussed below, parties are expected to bilaterally negotiate their own FRAND licenses and each license may be unique. A separate FRAND determination appears to be required for each implementer potentially resulting in SEP holders having to participate and/or seek multiple parallel FRAND determinations. This situation would be untenable for at least some SEP holders such as SMEs.

The Proposed Regulations also permit any implementer to request a FRAND determination even where the SEP holder has not approached the implementer for a license.⁶⁶ The SEP holder could be barred for up to 9 months from the time the request is made from bringing any claims in an EU court (unless the SEP holder has agreed to abide by the FRAND determination and the implementer has not). While there are numerous procedural events that could result in an earlier termination of the FRAND determination, the Proposed Regulations prohibit any EU Member court to proceed with any claims until it has received a notice of termination or a notice that one of the parties refuses to comply with (or agree to) the FRAND determination. There are no time limits imposed on the competence center for providing these

⁶⁶ See section above and associated footnotes.

notices and there is no timeframe provided for EU Member courts to process these notices once received, potentially resulting in further delays.

A conciliator, rather than a mediator, is appointed to make the FRAND determination. The conciliator will make legal determinations regarding objections specifically made on “legal grounds” such as the existence of a prior binding FRAND determination, will hear evidence including oral testimony from fact and expert witnesses, and ultimately make a FRAND determination.⁶⁷ This process appears to be more closely aligned with an arbitration proceeding than a mediation proceeding. Preparing fact and expert witnesses is a costly and time-consuming process, especially if the SEP holder must do so for each implementer. The EC has not pointed to any trials or pilots where this process has been used successfully, and as discussed above (in Section II. A), the EC has not offered any rationale why the current WIPO ADR process or other similar processes already in existence are not sufficient for resolving most FRAND disputes.

4. FRAND licenses, like all patent licenses, are complex and rates may not be compared without comparison of other terms and conditions

As AIPLA has noted before, FRAND negotiations especially involving larger portfolios are complex and require tradeoffs among many different terms and conditions. Some deals might involve cross-licenses or other business transactions with different implementers. For example, AIPLA has previously stated:

AIPLA is unaware of a formula or other detailed framework that can value an SEP outside of the specific transaction at issue. Rather, license terms often vary for different implementers because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses and other business relations between specific parties. Although the FRAND commitment represents a representation of a patentee’s right to refuse to license its technology to willing counterparties, it does not standing alone contain any other express substantive limitations on the licensing of SEPs, provided that the ultimate terms are “reasonable.”⁶⁸

⁶⁷ Proposed Regulations, pp. 38-56, arts. 34-58.

⁶⁸ AIPLA Response to the European Commission request for public comment on the interplay between standardization and intellectual property rights (“IPR”) such as patents, p. 6, February 13, 2015, *available at* <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aiplettertoeconpatentsandstandards-2-13-15.pdf>; see also AIPLA Comments on Discussion Paper On Standard Essential Patents And Their Availability On FRAND Terms, April 22, 2016 (“License terms often vary for different licensees because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses, and other business issues between specific parties. Although the FRAND commitment is a representation of a patentee’s willingness to license its technology to willing counterparties, it does not, standing alone, contain any other express substantive limitations on the licensing of SEPs, provided that the ultimate terms are “reasonable.”), *available at* <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aippla-comments-on-india-dipp-4-22-16-final.pdf>; see also AIPLA Comments in response to the Notice of the Intellectual Property High Court of Japan inviting Public Comments on the Grand Panel Case, p. 4, March 20, 2014 (“A determination of what constitutes a FRAND rate depends not only on all of the other terms and conditions that the relevant parties must negotiate as part of a license or cross-license involving SEPs, but also on whether SEPs alone are to be licensed, or whether they are to be licensed by the SEP owner along with its other patents or IPRs. Indeed, AIPLA is unaware of a formula or other detailed framework that can value an SEP outside of the specific transaction at issue.”), *available at* <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aippla-comments-to-ip-high-court-of-japan-via-samsung-3-20-14.pdf>

Some implementers may prefer different royalty or fee structures, e.g., per unit royalties versus annual lump sums, different percentage royalties based on different revenue bases, royalty on revenues versus royalty on profits. Other terms and conditions also affect the compensation agreed upon, such as the scope of the licensed rights, e.g., coverage for suppliers, certain combinations or indirect infringement, as well as representations, indemnities and limitations on liability, among many more. A single FRAND determination, which presumably includes all of the terms and conditions, not just a royalty rate, for one implementer may have very little value for a different implementer in dissimilar circumstances or with a different business model.

5. The proposed FRAND conciliation process will reduce the flexibility of bilateral license negotiation

Regarding the importance of flexible bilateral license negotiation, AIPLA has stated:

AIPLA supports SSOs' traditional approach of not establishing specific licensing terms, including monetary terms, which should be left to the negotiations of the parties. Fundamentally, all licensing terms have value, whether monetary or non-monetary terms, so negotiating parties cannot consider monetary terms in isolation. Patent holders may want to seek royalties, but they also may want the ability to expand design freedom through reciprocal licensing requirements and defensive suspension provisions. Thus, an SSO participant could agree to license patents essential to implement a standard in return for a reciprocal licensing commitment from the implementer of the standard. The importance of maintaining incentives to innovate that lead to patents does not change simply because the patent owner has made a FRAND commitment with respect to SEPs⁶⁹

The non-confidential description of such an agreement will hold even less value. Because different implementers will want to negotiate different terms with a SEP holder, multiple FRAND determinations may need to be permitted all within the same 9-month window putting an enormous burden on the SEP holder to avoid losing its rights to enforce its SEPs and seek past damages.

In sum, AIPLA urges the EC to avoid making the registration and any of the FRAND determination processes mandatory. If the EC, notwithstanding the many reasons provided here, believes that such mandatory processes are needed, AIPLA urges the EC to first pilot each of those processes or require parties to utilize an existing non-binding mediation or binding arbitration process such as processes offered by WIPO that have been increasingly used.

C. The Proposed Regulations should not address an aggregate royalty for all SEPs for a given standard without considering substantially more stakeholder input

The Proposed Regulations indicate that “an aggregate royalty makes sense because implementers value the standard as a whole, not a collection of inventions represented by an

⁶⁹ AIPLA Response to the European Commission request for public comment on the interplay between standardization and intellectual property rights (“IPR”) such as patents, p. 7, available at <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aiplalettertoeconpatentsandstandards-2-13-15.pdf>

incomplete portfolio of SEPs.”⁷⁰ In addition, the Proposed Regulations suggest that setting an aggregate royalty “may also help to overcome problems of royalty stacking.”⁷¹ However, to justify the need for setting an aggregate royalty, the Proposed Regulations rely primarily on concerns expressed by implementors related to cost planning for implementors.⁷² As acknowledged in the Impact Assessment Report, aggregate royalties for standards tend to be self-limited by SEP holders because an excessive aggregate royalty suppresses adoption of the standard, going against the interests of the SEP holders.⁷³ Additional reasons that the theoretical royalty stacking concern has not actually become a problem is because voluntary patent pool agreements often adjust for SEPs that may have been licensed in different transactions and SEP holders often include royalty reduction provisions in their licenses that are triggered if and when a royalty stacking issue actually arises.

We believe that the process for determination of an aggregate royalty for all SEPs is unnecessary without substantial evidence that royalty stacking is more than a theoretical concern with regard to SEPs. The Impact Assessment Report highlights a 2010 analysis that found that the sum of published maximum expected royalty rates representing 60% of declared SEPs amounted to 14.8% of the sales price.⁷⁴ However, the Impact Assessment Report provides no evidence that implementors actually paid the indicated maximum expected royalty rates. In addition, the aggregate royalty shown in the analysis may be a FRAND rate. For example, the added value of operation according to a standard may have an impact to the sales price that would be in a similar range as the aggregate royalty found in the study.⁷⁵ The Impact Assessment Report also states that the decision of the U.S. District Court in *Microsoft Corp. v. Motorola, Inc.* in 2013 is “[a] clear illustration of the problem of royalty stacking.”⁷⁶ In particular, the Impact Assessment Report quotes the court statement that “the royalty rate that implicates such clear stacking concerns cannot be a [FRAND] royalty rate.”⁷⁷ However, the court in *Microsoft Corp. v. Motorola, Inc.* did not use an aggregate royalty rate to determine the correct FRAND rate, and instead used comparable licenses and evaluation of the importance of the patents in question to determine a reasonable royalty rate, and used an aggregate royalty only as a check on FRAND rates determined using other evidence.⁷⁸

Because a primary goal of the Proposed Regulations in setting an aggregate royalty is to provide knowledge of a potential total royalty for implementor cost determinations, the Proposed Regulations are directed toward the aggregate royalty being used in a “top-down” approach for calculating SEP royalties for SEP holders.⁷⁹ Although patent counting is tempting in determining royalty rates for a standard with many contributors and declared SEPs, it suffers from a sensitivity to variability in validity and essentiality rate determinations, and does not account for relative valuation of patents having wildly different scope and

⁷⁰ Impact Assessment Report, Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, p. 44 [hereinafter Proposed Regulations Impact Assessment].

⁷¹ *Id.*

⁷² *Id.*

⁷³ Proposed Regulations Impact Assessment, p. 45

⁷⁴ *Id.* at 45.

⁷⁵ See e.g., Phone Arena, iPad WiFi vs iPad Cellular: which one should you get?

https://www.phonearena.com/news/ipad-wifi-vs-cellular_id127422 (noting a price difference of \$100 to \$150 for iPads with cellular connectivity).

⁷⁶ Proposed Regulations Impact Assessment, p. 118.

⁷⁷ *Id.*

⁷⁸ *Microsoft Corp. v. Motorola, Inc.*, 2013 U.S. Dist. LEXIS 60233 at *242-59 (W.D. Wash. 2013).

⁷⁹ Proposed Regulations Impact Assessment, p. 118.

technical contributions.⁸⁰ Although the Proposed Regulations indicate that the aggregate royalty will be non-binding, the Proposed Regulations appear to have the goal of endorsing a “top-down” approach to drive licensing negotiations based on the determined aggregate royalty.⁸¹ This approach fails to recognize that bilateral agreements between licensors and implementers often have terms other than royalties that may impact the royalty rate or other compensation and thus the Proposed Regulations may impact the flexibility otherwise present in license negotiations.⁸²

The Proposed Regulations provide two processes for determinations of an aggregate royalty. The first process involves SEP holders for a standard either jointly notifying the competence center of the aggregate royalty for SEPs covering the standard or requesting that the competence center appoint a conciliator to mediate discussions to determine an aggregate royalty. However, the Proposed Regulations do not indicate how multiple different SEP holders are to reach a consensus aggregate royalty. Furthermore, the Proposed Regulations would appear to encourage SEP holders, which are independent operators in the SEP licensing market, to discuss and come to a horizontal agreement on price for not only their SEPs, but all SEPs of a standard. This may cause concerns under antitrust laws in several jurisdiction, including possibly in the EU.⁸³ Thus, further safeguards may be warranted in ensuring that the Proposed Regulations does not expose SEP holders to antitrust liability.

Nonetheless, because SEP holders for many standards have widely varying approaches to SEP development and licensing, it is unlikely that consensus would be achieved among SEP holders. Thus, it is likely that at least some SEP holders will request that the competence center appoint a conciliator to mediate discussions for an aggregate royalty. However, unless a substantial number of the SEP holders participate in the conciliation process, the aggregate royalty determined from the conciliation process is unlikely to represent a consensus of SEP holders for a standard.

The second process involves a SEP holder or an implementer seeking a non-binding aggregate royalty determination. It is unclear how such a determination would be useful and what impact it would have on other SEP holders and implementers. The fact that it is not binding does not mean that it would not be persuasive or influential even when the facts and circumstances don't support the determination being broadly used. AIPLA does not believe

⁸⁰ Keith Mallinson, SEP sampling in top-down FRAND-rate setting, September 30, 2021, SSRN# 3933944, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3933944; Microsoft Corp. v. Motorola, Inc., 2013 U.S. Dist. LEXIS 60233 at *161 (W.D. Wash. 2013) (finding that the court has “no tools” with which to evaluate relative importance of SEPs to the standard).

⁸¹ Proposed Regulations Impact Assessment, p. 118.

⁸² See, e.g., AIPLA Response to the European Commission request for public comment on the interplay between standardization and intellectual property rights (“IPR”) such as patents, February 13, 2015, (noting that “AIPLA is unaware of a formula or other detailed framework that can value an SEP outside of the specific transaction at issue. Rather, license terms often vary for different licensees because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses and other business relations between specific parties.”), available at <https://www.aipla.org/docs/default-source/uploadedfiles/documents/advocacy/intl/documents/aiplalettertoeconpatentsandstandards-2-13-15.pdf>

⁸³ U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION, Ch. 3, § I, at 57 (Apr. 2007), (noting the possible concern with patent pools that “participants in the pool might be able to use it to collude, for example, by exchanging competitively sensitive information, such as pricing, marketing, or R&D information through the mechanism of the pool”), available at <https://www.justice.gov/sites/default/files/atr/legacy/2007/07/11/222655.pdf>; Article 101 of the Treaty on the Functioning of the European Union prohibits agreements that “directly or indirectly fix purchase or selling prices.” TFEU, Article 101, para. 1(a).

that unproven royalty stacking concerns justify lower royalty rates for all SEP holders where the evidence of royalty stacking actually affecting the SEP licensing market is circumstantial.

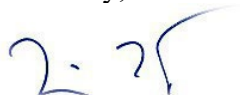
Regardless of the process option taken, the Impact Assessment Report itself lists several problems with determining an appropriate aggregate royalty. For example, the Impact Assessment Report describes that “[e]x-post aggregate royalty determination is difficult also because the implementing products began using the standard without knowing or taking into account the need to pay FRAND royalties,” and that for ex-ante aggregate royalty determinations “[i]t is . . . very difficult to establish a fair value for a standard before it is even developed, and to predict the success, nature and scope of implementations.”⁸⁴ In addition, there are often many different implementations of a given standard that use different features and options, and determining an aggregate royalty for each implementation may result in high costs for the competence center which the Proposed Regulations do not address in budgeting.⁸⁵ For example, the Impact Assessment estimates cost for a single assessment to be EU 135 800, and estimates only three assessments per year.⁸⁶ One would expect such assessments to be conducted many times per year if royalty stacking is so problematic that the Proposed Regulations are needed to address it. There are many standards promulgated each year and if only three will have possible stacking concerns, patent pools and private negotiation should be sufficient to ensure that commercialization is not hampered by SEP royalty stacking concerns.

As outlined above, AIPLA believe that the approach described in the Proposed Regulations for determining aggregate royalty rates is both unnecessary where evidence that SEP royalty stacking is a theoretical and unproven concern, and potentially detrimental to bilateral SEP license negotiations, many of which have been successfully concluded without an aggregate royalty determination. In addition, the processes for determining an aggregate royalty provided in the Proposed Regulations have several legal and practical problems for implementation, and may result in budgetary pressure the competence center is unprepared for. Accordingly, AIPLA believes that the aggregate royalty procedure should be omitted from the Proposed Regulations until additional stakeholder input is solicited and considered.

IV. Conclusion

AIPLA is grateful for the opportunity to submit these comments in response to the Proposed Regulations. However, we urge the EC to reconsider the need for such sweeping regulations given the costly impact these regulations will have on SEP holders, including SMES, as well on innovation and competition in Europe and internationally if the Proposed Regulations are adopted. AIPLA appreciates the opportunity to provide these comments. Please contact us if you would like us to provide additional information on any issues discussed above.

Sincerely,



Brian H. Batzli
President
American Intellectual Property Law Association

⁸⁴ Proposed Regulations Impact Assessment, pp. 90, 119.

⁸⁵ *Id.* at 108.

⁸⁶ *Id.*