

Will Europe become the global hub for FRAND rate setting? – An analysis of the European Commission's proposal for a Regulation on SEPs

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1 Objective, subject matter and scope of the Regulation

On 27 April 2023, the European Commission announced a proposal for a regulation on standard essential patents (**SEP**) and to amend Regulation (EU)2017/1001 (the **Regulation**).¹ The main objective of the Regulation is two-fold: to provide transparency regarding the number of SEPs, their ownership and applicable rates, and to provide a swift, fair and cost-efficient way in which disputes relating to SEPs and FRAND determinations can be resolved (Recitals 15, 31, and 52). Judging from the Regulation and the related draft Impact Assessment Report, the Commission is clearly concerned with a lack of transparency in SEP licensing and a lack of efficient dispute resolution options.

The two main goals of the Regulation are (i) the development of an SEP register (**Register**) (including essentiality checks of the registered patents) and (ii) the establishment of a procedure for the determination of FRAND rates for SEPs. The European Union Intellectual Property Office (**EUIPO**) will be tasked with handling both the SEP register and the FRAND determination procedure through a Competence Centre that will be created, and that will draw upon the EUIPO's experience with eg electronic registers and databases (Recitals 11, 12).

The Regulation will apply to all standards that will be published by standard development organisations (**SDO**) **after** the Regulation's entry into force. Notably, it takes a wide aim by including optional parts of standards in its definition of 'essential to a standard' (Article 2(2)). The Regulation will **generally not apply** to standards that have been published by SDOs **prior** to the Regulation's entry into force (Article 1). However, if the Commission determines that there are inefficiencies in the licensing of SEPs that affect the single market, it may decide that such prior standards will be subject to the procedures under the Regulation (Article 66).

In addition, the following can be noted regarding the Regulation's scope and potential impact: First, the determination of aggregate royalties and FRAND terms under the Regulation shall refer to **global rates and conditions**. Thus, the EUIPO's competence to determine FRAND royalties for patents and products/services under the Regulation will reach beyond the EU. Secondly, the Commission may exempt identified use cases of certain standards (or parts thereof) from some of the Regulation's measures (such as aggregate royalty determination and compulsory FRAND determination) before litigation is initiated. An example of this may be wireless communications standards, since well-established licensing practices seem to exist. Depending on the Commission's inclination to grant exemptions, the scope and impact of the Regulation may be significantly limited. However, the Regulation provides no clear criteria for the determination of whether there is a well-established licensing practice that should be exempted.

2 The Competence Centre

A cornerstone of the Regulation is the "**Competence Centre**" which will be established at the EUIPO. In accordance with Article 3 of the Regulation this centre will administer databases, the Register and the procedures for essentiality checks of SEPs, aggregate royalty determinations, and

¹ [COM 2023 232 1 EN ACT part1 v13.pdf \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/2023/232/1/en/act_part1_v13.pdf).

the FRAND determinations. The Competence Centre will also be responsible for providing training, support and general advice on SEPs to SMEs and for raising awareness of SEP licensing.

THE ROLE OF THE EUIPO

The EUIPO was chosen to administer the elements of the proposal through the Competence Centre, due to the EUIPO's capacity and experience with the management of an IPR registration system and its also experience in offering alternative dispute settlement processes. However, the choice of the EUIPO has faced some criticism on points such as a lack of expertise in patent or SEP matters and the fact that dispute resolution proceedings at the EUIPO could significantly delay patent infringement litigation.

It should be noted that although the EUIPO will be the administrator of the various services, the actual aggregate royalty determination, essentiality checks and FRAND determination will be carried out by selected external experts.

Still, the Regulation's potential should not be underestimated, since essentiality checks at the EUIPO promise **increased transparency**, may help **avoid over-registration of SEPs**, and may impact on per-standard license fees.

HOW WILL THE COMPETENCE CENTRE OBTAIN THE RELEVANT INFORMATION?

The provision of documents and information to the Competence Centre will be the responsibility of various entities that own or use a SEP.

The **SEP holder** should provide a final decision on essentiality for a registered SEP and any essentiality check. In turn, **patent pools** should publish on their websites various business-related information (eg apart from a list of SEPs, a list of licensable products, relations between standards, fee amounts, lists of licensees, etc) and inform the Competence Centre of the same. In addition, information on SEP proceedings should be provided by the **courts**, and any person with information on such proceedings can also do so. Any person involved in alternative dispute resolution proceedings concerning SEPs in force in a Member State must disclose to the Competence Centre the relevant standards and implementations, as well as the methodology used for calculating FRAND royalties.

The Regulation requires **all parties involved in the development of a standard** to notify the Competence Centre of the technical specification of the standard. Similarly, holders of SEPs for which FRAND commitments have been made may jointly notify the Competence Centre of the aggregate royalties for the SEPs covering a standard.

FEES

The Competence Centre shall charge, at least, the following administrative fees:

- (a) fees for **registration** of SEPs (Article 20);
- (b) fees for **aggregate royalty determination** (Article 63);
- (c) fees for **essentiality checks** (including peer evaluation) (Article 63); and
- (d) fees for **FRAND determination** (Article 63).

The fees shall be reasonable, shall correspond to the costs of the services and shall consider the situation of micro, small and medium-sized enterprises. Within 18 months from the entry into force of the Regulation, the Commission will adopt implementing acts to determine the administrative fees, and the fees for expert opinions on aggregate royalty, evaluators and conciliators, the amounts to be charged and the payment methods (Article 63).

The Regulation aims as much as possible to impose costs on SEP holders and at the same time to give SMEs preferential treatment. In fact, the Regulation offers SME implementers and SME SEP

holders reduced fees for the use of the services of the Competence Centre, as well as free advisory services. The costs for this will be borne by the EUIPO.

It should be highlighted that most of the information in the Register shall be available free of charge to the public. However, some specific detailed information, will be available only on registration and for a fee, for example, information on particular SEPs or on reports on FRAND determinations.

3 Available information on SEPs

SEP REGISTER AND DATABASE

Title III of the Regulation provides for the establishment of the Register and how the Register will obtain information on SEPs. The Register will be maintained by the Competence Centre. The aim is to enable all parties, in particular those interested in using a SEP, to obtain relevant information.

The Register should include information on both the standard (eg the version of the standard, its technical specification, etc) and, most importantly, the SEP itself, including bibliographic data of the SEP and contact details of the right holder (and parent company, if the right holder operates in a group). The information will relate to licensing conditions, including royalties, availability of licensing through patent pools and relevant contact details. Also of interest will be information on essentiality checks and rulings on the validity of SEPs in specific jurisdictions. The Commission will be entitled to make changes to the categories of data to be included in the Register.

In addition to the Register, an **electronic database** is to be created, which will contain data of a more business-oriented nature, such as: public standard terms and conditions for SEPs, information regarding known products, and SEP implementation.

An interesting point is the requirement that a party claiming the confidentiality of information submitted to the Register or database must provide a non-confidential version of the information with sufficient detail to allow a reasonable understanding of its substance. However, it seems likely that the interpretation of this requirement may be the source of much dispute.

OVERVIEW OF THE SEP REGISTRATION PROCESS.

One of the core functions of the Competence Centre and the Register is the registration of a standard for which FRAND commitments have been made. The Competence Centre, at the request of a SEP holder, will register any patent in force in one or more Member States that falls within the scope of the Regulation and that is essential for a standard. At least one patent claim should refer to the standard in question. The request for registration must be made within **six months** after the grant of the SEP or after publishing a notice that an entry of the standard in the Register has been made.

A sample of SEP registrations will be checked annually for completeness and correctness. In the case of incompleteness or incorrectness, the SEP holder will need to provide the complete and correct information within a period of no less than two months. Additionally, any third party may request the Competence Centre to correct a SEP registration or information contained in the database. If the SEP holder fails to provide the complete and correct information, the registration will be suspended from the Register until the incompleteness or inaccuracy is remedied.

EFFECTS OF NON-REGISTRATION

A key issue for the Regulation is what will happen with SEPs that are not registered, or for which the registration is suspended (Art. 22(4), 23(5)). Namely, a SEP that is not registered within the time limit or that is suspended may not be enforced regarding the implementation of the standard for which a registration is required, from the expiry of the time limit set in the Regulation until its registration in the Register. Consequently, a SEP holder that has not registered its SEPs within the time limit or whose registration has been suspended is not entitled to receive royalties or seek damages for the infringement of those SEPs in relation to the implementation of the standard for which registration is required, during the period from the expiry of the time limit (Art. 20 (3)) until the time of registration in

the Register or end of the suspension if the registration. However, this does not affect provisions included in contracts setting a royalty for a broad portfolio of patents.

SEPs are removed from the Register and the database in the case of obvious circumstances such as the expiry or invalidation of the patent, but also other specific cases, for example in case of a final judgment of a competent court of a Member State that the registered patent is not essential to the relevant standard, or in case of an essentiality check.

4 Essentiality checks

In order to ensure the quality of the information published on the Register, prevent potential abuse and ultimately preserve the usefulness of the proposed system, the Regulation addresses the need to assess whether a patent is actually essential to implement a standard or merely declared as such by the owner.

Articles 28 to 33 lay down general rules concerning essentiality checks, that will be carried out on registered SEPs sampled by the Competence Centre on an annual basis, according to the technical rules that will be adopted by the Commission. SEPs owned by micro and small enterprises will not be subject to this annual sampling process.

In any case, only one SEP per patent family will be checked, and the results of the examination will extend to all the SEPs of the same family. Each SEP holder and implementer may insofar annually propose up to 100 registered SEPs from different families to be checked.

The assessment will be carried out by an independent evaluator with expertise in the relevant field of technology, selected from a roster that will be established by the Competence Centre. The identity of the evaluator will be unknown to the SEP holder during the examination phase and until the opinion is issued and served upon the SEP holder. The essentiality check will be conducted according to a methodology that shall be defined in an implementing act to be adopted by the European Commission.

Once the SEPs for the essentiality check have been selected, the Competence Centre shall publish the list of designated SEPs and notify the respective owners who may submit technical information in support of the essential nature of the patent, including a claim chart with a maximum of five correspondences between the SEP and the standard at issue. The filing of comments by the SEP holder may also be requested by the appointed evaluator. Within 90 days from the publication of the list, the stakeholders may also submit observations concerning the essentiality that can be then commented on by the SEP holders.

Should the appointed evaluator be of the preliminary opinion that the SEP is **not essential** to the standard, the Competence Centre will inform the SEP holder who will be allowed time to file comments or an amended claim chart before the reasoned opinion will be published. Within the same term, the SEP holder may also require a peer evaluation to be carried out by another evaluator appointed by the Competence Centre. In case the preliminary opinion of the first evaluator is confirmed by the peer evaluator, further observations are requested from the SEP holder before the final reasoned opinion is issued within three months from the appointment of the peer evaluator.

The results of the essentiality checks will be published on the Register and the reasoned opinion or final reasoned opinion will be published on the database.

However, the result of the essentiality checks - whether positive or negative – **is not legally binding** and will not prevent an implementer from challenging the essentiality of a SEP before a court.

UNCERTAINTIES

While one of the main goals of the Regulation is transparency, there is still much to be determined. Moreover, the Regulation, which is silent on some key points, seems not always to address its objectives.

For example, an essentiality check shall be conducted only on one SEP per patent family, but the result will be valid for all SEPs from the same family. It is not clear how the Competence Centre shall select the one patent among others in the same family. Further, although the limitation to one patent per family aims to make the whole process and workload streamlined, it may limit transparency. In reality, not necessarily all patents are standard-essential merely because they belong to the same patent family of the sampled SEP and, conversely, not all of them are non-essential in case the selected SEP fails the essentiality check.

With respect to the substantive essentiality check it is doubtful that an infringement analysis (that being the nature of the essentiality check) can be carried out on the basis of a "*claim chart with a maximum of five correspondences between the SEP and the relevant standard*", as provided in Article 29.2 of the Regulation.

The proposed approach does not take into due account the delicate issues concerning proper claim construction, in particular the lack of harmonized claim construction standards among different European jurisdictions.

5 Aggregate Royalties

The role of the Competence Centre is also to facilitate the determination of aggregate royalties. Holders of SEPs that are in force in one or more Member States representing at least 20% of all SEPs of a standard may request that the Competence Centre appoint a conciliator to mediate discussions for a joint submission of aggregate royalties (Article 17(1)). This should be accompanied by the technical and business details affecting the royalties. The mediation procedure should no longer than six months. Notwithstanding this procedure, a SEP holder or an implementer may ask the Competence Centre for a non-binding expert opinion on global aggregate royalties. Any interested party may request to participate in the process after explaining the basis of its interest. The question therefore arises as to what will happen when the implementer is a small importer or seller. It is possible that in the case of established royalties, a full procedure will not be carried out, which requires particular care on the part of SEP holders so that they are not tempted to ignore small proceedings.

However, if the requests for participation include SEP holders representing collectively at least an estimated 20% of all SEPs for the standard, and implementers holding collectively at least 10% of the relevant market share in the EU or at least ten SMEs, the Competence Centre will appoint a panel of three conciliators. The panel may decide to suspend the proceedings for the expert opinion on aggregate royalties for an initial period of no longer than six months, which can be extended. The panel must provide the expert opinion within eight months from the end of the suspension period and it should also be published (Article 17(10), (13)).

6 FRAND determination

OVERVIEW

The first critical point on FRAND determination is that it must take place prior to SEP infringement proceedings or proceedings with the goal of setting a FRAND rate **before any EU competent court**. The intention is that a FRAND determination, which could well bring about settlement of the claim, should be compulsory before those proceedings.

The requesting party, who may be a SEP holder or a SEP implementer, initiates the FRAND determination via written request to the Competence Centre with some initial basic information. The Competence Centre only has nine months to conclude the determination unless the parties agree otherwise. As a result, time periods for taking steps are quite short.

The procedure relies heavily on the cooperation of the parties, ie on the requesting and the responding parties deciding to participate in the FRAND determination. If either party fails to respond in time during the procedure or fails to commit to comply with the outcome then, in some

circumstances, the conciliator may proceed with the involvement of only one party. Otherwise, the FRAND determination procedure will be terminated.

If a responding party fails to commit to the procedure and to comply with its outcome, the requesting party can pursue SEP infringement litigation in parallel to the determination. This means that (preliminary) injunctions will be available, impacting new product launches of responding parties, extending to import bans, the seizure of property and the delivery up of infringing products. Responding parties can try to avoid this by committing to the procedure but objecting to the FRAND determination. If the conciliator decides that the objection is founded before considering the merits of the case, they shall terminate the proceedings in accordance with Article 44(3), otherwise the proceedings will continue, and the issue may be included in the examination of the merits (Article 44(2)).

Where parties do commit to the determination, the Competence Centre suggests candidates as conciliator. If the parties are unable to agree on a conciliator, the Competence Centre selects a candidate from the roster.

The next step is the written procedure according to Article 43. The parties may submit written submissions including simple arguments as well as offer evidence in the form of witnesses or expert opinions for the determination. The parties may also make a proposal of what they consider to be FRAND terms. Four months after the start of the procedure, the conciliator must make a **first written recommendation of a FRAND determination**. Following this recommendation, the parties must submit a reasoned proposal if they have not yet done so. After these suggestions have been exchanged, an oral hearing will take place within 20 days where the conciliator deems such a hearing necessary or upon the request of a party.

The Regulation does not provide specific rules on evidence such as the burden of proof for the parties. In accordance with Article 48 the conciliator may request documents from the parties or consider information available at the Competence Centre, including information originating in other proceedings.

In theory, the determination procedure can produce a reliable and robust result. However, the proposal does not give the conciliator powers to force parties to provide proper disclosure. This means that parties can choose to disclose only comparable licenses which support their case and won't be forced to hand over inconvenient material. Any failure by a party to provide properly relevant disclosure is unlikely to instill confidence in the FRAND determination outcome.

In accordance with Article 55(1), the conciliator provides the parties with a reasoned proposal to determine FRAND terms at least 45 days before the end of the proceedings (ie about seven and a half months from inception). The parties can submit observations on the proposal and suggest amendments, which may result in a reformulated proposal from the conciliator. The procedure then terminates and, if one or both of the parties refuse to accept the reasoned proposal from the conciliator or fails to reply to it, the conciliator provides the parties with a (largely confidential) written report on the outcome of the FRAND determination, but also containing a non-confidential methodology and assessment of FRAND terms.

CAN GLOBAL FRAND RATES BE DETERMINED ACCORDING TO THE REGULATION? IF SO, DOES THE EUROPEAN COMMISSION HAVE COMPETENCE FOR THIS?

The short answer is yes to both questions. Article 38(6) provides that the FRAND determination procedure should lead to global FRAND terms, unless the parties agree otherwise or, if the procedure goes ahead with one party only, that party requests a restricted territorial scope. Where the determination process proceeds with consent from both parties, this amounts to an agreement between the parties and a territorial scope outside the EU should be effective as a quasi-contractual dispute. SMEs may request a more limited territorial scope.

However, based on the TFEU, there is an argument that anticompetitive behavior outside the boundaries of the EU should not be subject to its rules, with the potential exception of actions outside the EU having consequences in the single market. The Regulation names Article 114 TFEU

as basis for the FRAND determination. Arguably, a scope limited to the single market would have been sufficient.

OBLIGATION TO INITIATE FRAND DETERMINATION PROCEEDINGS

The Regulation seems clear that parties must enter into the FRAND determination procedure before initiating SEP infringement proceedings or a FRAND assessment by a court in the EU. However, there is no sanction for failure to comply with that requirement. Given how EU regulations are typically enforced, it seems likely that national courts will interpret the Regulation, if enacted, as a pre-litigation procedural requirement before permitting any claim before them to proceed. Recital 33 also reiterates that the FRAND determination is to be interpreted as being a mandatory prerequisite to initiating any national proceedings.

In contrast, proceedings for a preliminary injunction of a financial nature are explicitly allowed (eg to require royalties to be paid into escrow). It is also permissible to initiate substantive patent infringement proceedings if, under national law, they are mandatory in the context of PI proceedings. To avoid undermining the FRAND determination before the Competence Centre, the Regulation requires the parties to request a stay of said proceedings until the FRAND determination has been concluded.

TERMINATION OPTIONS

It is also worth noting that there are a number of opportunities for parties to exit before conclusion of the FRAND determination procedure. Following the notification phase of the determination, termination of the procedure may occur in various ways including where there is a settlement between the parties (Article 56(1)(a)) or where a party:

- (a) fails to comply with any request of the conciliator (Article 46(1)(a));
- (b) jointly requests termination with the other party (Article 45(5));
- (c) withdraws a commitment to comply with the outcome of the FRAND determination (Article 46(1));
- (d) fails to comply with any requirement in the determination (Article 46(1)(c));
- (e) initiates parallel proceedings concerning the same standard and product implementation in a third country (eg the UK, China or USA), even if against a different group company (Article 47);
- (f) signs a written declaration with the other party accepting the reasoned proposal of the conciliator (Article 56(1)(c));
- (g) makes a written declaration not to accept the conciliator's reasoned proposal (Article 56(1)(c)); and
- (h) does not submit a reply to the conciliator's reasoned proposal (Article 56(1)(d)).

TERMINATION IN THE EVENT OF PARALLEL PROCEEDINGS IN A THIRD COUNTRY

One point worth emphasizing in more detail is the potential door opened to parties wishing to exit FRAND determinations by initiating parallel proceedings concerning the same standard and product implementation in a third country (eg the UK, China or the USA), even if against a different group company. This does not result in an automatic termination of the determination. Rather, the other party only has the option to request termination.

The result of any such termination is not that only the party requesting termination (as would be the case for most other termination options) is then free to start SEP infringement or FRAND litigation before an EU national court. Rather, both parties are free to do so.

MULTIPLE FRAND DETERMINATIONS (?)

This of course does not answer the question of how potentially different results of the multiple FRAND determinations will relate to each other around the world. There is no answer to this issue in the regulation. However, in the FRAND decision in *Unwired Planet v Huawei*², it was envisaged by the UK Supreme Court that FRAND rates set in different jurisdictions were possible and a global license could be adjusted to take into account national infringement and validity challenges potentially reducing the SEP portfolio size and value.

From a practical point of view, however, the first fully reasoned and detailed FRAND decision, based on a full and frank disclosure of comparable licenses by both parties, is likely to lead to a settlement between the parties. Unfortunately, the FRAND determination procedure proposed in the Regulation does not fall into that category given the lack of powers vested in the Competence Centre regarding disclosure. Only time will tell whether the proposed FRAND determinations will be a success, doing a "good enough" job at a considerably cheaper price than full scale FRAND litigation before a court.

7 Conclusion

The establishment of an EU-wide regulation for setting FRAND terms is basically welcome since it could minimize the different approaches between the jurisdictions within the European Union. To which extent the procedures as set out in the draft regulation can provide for reliable solutions, will pretty much depend on the expertise of the Competence Centre and the experts that will be appointed in those proceedings. However, also the draft regulation of the EU commission cannot entirely answer why it is indeed within the competence of a certain body to set global FRAND rates while on the other hand its jurisdiction is clearly limited to a specific jurisdiction (here the EU member states). It therefore will need to be seen on practical cases how reliable the FRAND rates that will be set are and whether those will be accepted by the involved parties.

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Unwired Planet International Ltd v Huawei Technologies (UK) Co Ltd [2020] UKSC 37

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