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The Proposed EU SEP Regulation:

Checking balancing incentives, and compatibility with EU Fundamental Rights, and TRIPS Regime

by Mohammad Ataul Karim, LL.M

4iP Council

The Proposed EU SEP Regulation: Checking Balancing Incentives, and compatibility with EU Fundamental Rights, and the TRIPS Regime

By Mohammad Ataul Karim, LL.M[1]

I. Introduction

Standard essential patents (SEPs) have been at the centre of discussions for quite some time. These patents, as the name suggests, are essential to standards, meaning that whoever wishes to implement the standard, requires explicit or implicit consent from the SEP owner.[2] Standards, such as cellular standards, 2G to 5G, are becoming increasingly important to industry and society and, therefore, to governments around the world. This is because they provide reliable and ultra-fast connectivity, key to the Internet of Things (IoT). To enable wide adoption of the standards, SEP owners (also known as SEP holders) typically make their patents available on fair, reasonable, and non-discriminatory (FRAND) terms and conditions. FRAND is determined by the parties in good faith licensing negotiations.[3]

Whether and how the State should intervene and regulate the SEP system is open to debate. Recently, the European Commission (the Commission) published its proposal for a regulation on SEPs (the Draft SEP Regulation).[4] The aim to achieve further SEP market transparency and efficiency is very much welcome. However, any regulation must ensure balanced incentives and effective legal remedies for the stakeholders as well as comply with relevant domestic and international legal standards.

This paper interrogates three related issues of the Draft SEP Regulation, namely; i) balancing incentives for both SEP owners and implementers, ii) the compatibility of the mandatory FRAND determination and the restriction of SEP enforcement proposed in the Draft SEP Regulation with the EU Fundamental Rights, and iii) the compatibility of the Draft SEP Regulation with the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).[5] Section II analyses the different incentives for SEP owners and

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[2] Either via a license or have-made rights. See Richard Vary, The case for the defence: Access for all v. license to all, April 2020, https://www.twobirds.com/~/media/pdfs/practice-areas/ip/the-case-for-the-defence.pdf?la=en&hash=A5A88D21EF55BE81B47C5FB16774785FBBD64B12.

[3] Luis Herranz and Claudia Tapia, Good and Bad Practices in FRAND Licence Negotiation (chapter) in Resolving IP Disputes, (2018), Zeiler/Zojer (eds), pp. 49 -68

[4] 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, Brussels, 27.4.2023.

[5] The Charter of Fundamental Rights of the European Union, 2012, The Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS), 1995.

implementers, and shows an imbalance of incentives between them in favour of implementers. Sections III and IV provide an analysis of EU Fundamental Rights and TRIPS compatibility respectively. Finally, section V of the paper draws some conclusions.

II. Balancing Incentives in the Draft EU SEP Regulation

On 27th April 2023, the Commission published the text for the Draft SEP Regulation.[6] The proposal is based on article 114 of the TFEU for improving conditions, establishing, and functioning of the single market. It specifically aims to improve the "efficiency of SEPs licensing, facilitating lawful access to the standards, and promoting wider adoption of standards."[7]

The aims of the proposed regulation to enhance the efficiency and transparency of SEP licensing are well appreciated.[8] However, the proposal should ensure the balancing of incentives and the principle of proportionality, considering current and future innovation incentives. The Commission's empirical study and public consultations show that EU firms have invested heavily in R&D and have borne the market risks. The Draft SEP Regulation imposes some new responsibilities on SEP owners. Surely, the implementation of the Draft SEP Regulation will involve a significant increase in SEP management costs for SEP owners, including registration, update, administration, and other transactional costs. In fact, the Commission recognises that "the majority of quantifiable benefits will accrue to standards implementers, while SEP holders are expected to face additional costs".[9] The Draft SEP Regulation offers fewer burdens and more opportunities and financial incentives to implementers. Perhaps, this is one of the reasons for the divisive positions of the SEP owners and implementers towards the proposed regulation.[10] However, a possible counter argument

[6] 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, Brussels, 27.4.2023, p.4. See also, Conde Gallego, B., Drexl, J. IoT Connectivity Standards: How Adaptive is the Current SEP Regulatory Framework? IIC 50, 135–156 (2019), https://doi.org/10.1007/s40319-018-00774-w.

[7] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27.4.2023. p. 27

[8] Giuseppe Colangelo, Finding an efficiency-oriented approach to scrutinise the essentiality of potential SEPs: a survey, Journal of Intellectual Property Law & Practice, (2023), jpad053, https://doi.org/10.1093/jiplp/jpad053

[9] EC Impact Assessment, Brussels, 27.4.2023, SWD (2023) 124 final, p. 114.

[10] The European Automobile Manufacturers' Association (ACEA) praised the new SEP Regulation. According to them, it will increase more investments and less litigations. https://www.acea.auto/news/new-eu-sep-licensing-rules-less-litigation-more-investment/. However key SEP owners, such as Ericsson and Nokia, warn about the harm of the Draft SEP Regulation could do to Europe, putting in danger its innovation, growth, and security. See EU SEP reform gambles Europe's long-term future, https://www.politico.eu/sponsored-content/eu-sep-reform-gambles-europes-long-term-future/ and https://www.iam-media.com/article/jw-column-15th-june-2023-sep-

could be: the unequal responsibilities and incentives for SEP owners and implementers are merely reflections of what is required and proportionate to achieve the regulation's goals. If so, robust evidence should have been brought in support of that argument, which is, however, questioned.[11] In fact the market is booming. Five interrelated cellular markets are estimated to generate approximately $3 trillion by 2025.[12] Moreover, it is important to ensure that the regulation does not harm the existing innovation and global competitiveness of the EU SEP ecosystem. Indeed, the responsibility to protect and foster the EU SEP ecosystem lies with the Commission.

III. The Compatibility with EU Fundamental Rights

The proposal establishes a competence centre within the EUIPO to, amongst others; i) manage common databases and a register for SEPs, ii) to maintain and facilitate essentiality checks of SEPs, and iii) to facilitate FRAND determinations.[13] Once a standard is notified to the competence centre, it will inform stakeholders by a notice published on the EUIPO website and notify the SEP owners individually by electronic means.[14]

More precisely, two statutory requirements of the Draft SEP Regulation could potentially limit the rights and effective remedies of SEP owners. First, according to the proposal, upon the request of the SEP owner, the competence centre shall register any SEP in force in one or more member states which falls within the standard(s) for which a notice is published.[15] The registration must be done within six months of the publication of a new standard on the EUIPO website or later granted patents at the national patent office or at the EPO.[16] Subsequently, the

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licensing-regulation-technologysecurity?utm_source=IAM_linkedin&utm_medium=image&utm_id=weekly_column.

[11] Nokia & Ericsson, SEP-Change: Will Changes to Patent Rules Stifle European Innovation? 29 June 2023, https://www.theparliamentmagazine.eu/news/article/sepchange-will-changes-to-patent-rules-stifle-european-innovation; Claudia Tapia, Building the house from the roof down: The Standard Essential Patent (SEP) Draft Regulation, The Patent Lawyer, 29. (June 2023), https://patentlawyermagazine.com/building-the-house-from-the-roof-down-the-standard-essential-patent-sep-draft-regulation/; FOSS, Draft SEP regulation threatens EU Commission's credibility at WTO level, may backfire big-time: issues outlined by former U.S. government officials and senior Qualcomm lawyer, 21 April 2023, http://www.fosspatents.com/2023/04/draft-sep-regulation-threatens-eu.html#letter

[12] Bowman Heiden, The Value of Cellular Connectivity – From Mobile Devices to the Internet-of-Things (IoT), 9 August 2020, https://ssrn.com/abstract=3670222 or http://dx.doi.org/10.2139/ssrn.3670222; Georgios Effraimidis and Kirti Gupta, 5G standards and the stark divide between innovators and implementers, 8 June 2022, https://www.4ipcouncil.com/research/5g-standards-and-stark-divide-between-innovators-and-implementers.

[13] Article 3 (Title II), The 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, Brussels, 27 April 2023.

[14] Article 19, Ibid.

[15] Article 20(1), Ibid.

[16] Article 20 (3), Ibid.

SEP owner is also required to update information in the database, within six months of any changes to the SEP.[17] An unregistered SEP is barred from enforcement in the competent court for the implementation of standards, beginning from the due date for registration until its registration.[18] Moreover, if the SEP is not registered within the six months, the SEP owner shall not be entitled to receive royalties or seek damages for infringement of such SEPs from the due date for registration until its registration[19]

Second, the proposal requires a specified FRAND determination process (conciliation) as a pre-condition to enforce SEPs.[20] Regarding a normative analysis, the limitations on enforcing SEPs and collecting royalties must overcome a domestic and an international test. At the domestic level, the requirements must be consistent with EU fundamental rights.[21] At the international level, they must pass the TRIPS compatibility test.[22]

Intellectual property (IP) is specifically covered within the right to property under article 17(2) of the EU Charter of Fundamental Rights (CFR).[23] However, the combined reading of article 17(1) and (2) of the CFR treats IP as property subject to certain limitations.[24] The limitations must be within the legal parameters primarily set by article 17(1) the CFR. It permits regulation of the use of property by law *"in so far as is necessary for the general interest"* of the EU.[25] In other words, SEPs as part of IP enjoys the property status and its use can be regulated based on *the proportionality principle*.

[17] Article 20 (5), Ibid.
[18] Article 24(1), Ibid; Niccolò Galli, The EC SEP Regulation Proposal: New Rules To be FRAND?, Kluwer Competition Law Blog, May 15, 2023, https://competitionlawblog.kluwercompetitionlaw.com/2023/05/15/the-ec-sep-regulation-proposal-new-rules-to-be-frand/.
[19] Article 24 (2), The 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, Brussels, 27. April 2023.
[20] Title VI, Ibid.
[21] Article 17, the Charter of Fundamental Rights of the European Union, 2012, ELI: http://data.europa.eu/eli/treaty/char_2012/oj.
[22] In the sense that it complies with relevant provisions, in this case article 27, 28, and 30 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS), 1995
[23] Article 17 of the Charter of Fundamental Rights of the European Union, 2012. Article 17(1) states that "Everyone has the right to own, use, dispose of and bequeath his or her lawfully acquired possessions. No one may be deprived of his or her possessions, except in the public interest and in the cases and under the conditions provided for by law, subject to fair compensation being paid in good time for their loss. The use of property may be regulated by law in so far as is necessary for the general interest." Article 17(2) clearly includes IP by stating that "Intellectual property shall be protected."
[24] Christophe Geiger, '"Intellectual Property Shall be Protected!?" – Article 17 (2) of the Charter of Fundamental Rights of the European Union: A Mysterious Provision with an Unclear Scope' (2009) 31(3) European Intellectual Property Review, 115.
[25] Article 17 (1) of the Charter of Fundamental Rights of the European Union, 2012, ELI: http://data.europa.eu/eli/treaty/char_2012/oj

The Commission's impact assessment report briefly outlines why the imposed limitations on SEP enforcement are consistent with EU fundamental rights.[26] The main premise is that IP rights (IPRs) in the EU are not absolute but subject to restrictions so long as they are neither disproportionate nor intolerable (which infringes the very essence of the rights guaranteed) to achieving the objectives of general interests of the EU.[27] The Draft SEP Regulation is for the public interest to provide "uniform, open and predictable information and outcome on SEPs" and to promote innovation and technological dissemination for "the mutual benefits of the SEP holder and implementer".[28] Therefore, the objective consideration of general interests, the Commission seems to indicate, should permit this regulation. The Commission's report further submits that it is consistent with "the right to an effective remedy and access to justice (under article 47 of the Charter) as the implementer and the SEP holder fully retain those rights."[29] The restrictions on SEP enforcement and FRAND determination for legal remedy, the Commission believes, is limited, temporary and necessary to achieve objectives of general interest of the EU.[30] Therefore, the Commission concludes, the limitations potentially pass the EU fundamental rights test.[31]

The justifications and rationales for the proposed limitations seemingly convincing to achieve the larger goals. However, the appropriateness of the restricted SEP enforcement is not so straightforward. For example, it may be asked: how does the restricting of SEP enforcement mutually benefit the SEP owner and implementer? Not only access to justice and remedy but also *effective* remedy should be ensured. The Commission argues that FRAND determination is an alternative dispute resolution (ADR) before access to court. Therefore, the Commission believes it is justified by the case-law of the CJEU.[32] In other words, according to the Commission, since CJEU jurisprudence allows ADR before access to court the FRAND

[26] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27 April 2023. p. 48, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023SC0124
[27] Ibid, p. 48.
[28] Ibid.
[29] Ibid, p.49.
[30] Ibid.
[31] It cited jurisprudence from the previous decisions of the CJEU, Case C-44/79 Hauer of 13 December 1979, para. 32; ECJ Case C-265/87 Schräder of 11 July 1989, para. 15, and Case C-5/88 Wachauf of 13 July 1989, paras. 17 and 18.
[32] Cited by the proposal in the recital paragraph-43, "Judgment of the Court of Justice of 18 March 2010, Rosalba Alassini v Telecom Italia SpA (C-317/08), Filomena Califano v Wind SpA (C-318/08), Lucia Anna Giorgia Iacono v Telecom Italia SpA (C319/08) and Multiservice Srl v Telecom Italia SpA (C-320/08), Joined cases C-317/08, C-318/08, C319/08 and C-320/08, EU:C:2010:146, and judgement of the Court of Justice of 14 June 2017,Livio Menini and Maria Antonia Rampanelli v Banco Popolare – Società Cooperativa, C-75/16, EU:C:2017:457"

determination through an ADR should also be legally permissible. After the mandatory but non-binding FRAND determination, the SEP owner has, according to the proposal, the option to access court and seek legal remedy. However, the SEP owner is deprived of legal remedy and of access to court for a limited period. Because of this delay, the question remains whether this constitutes a deprivation of effective remedy? It is a complicated issue which requires extensive analysis.

It can briefly be argued that the Draft SEP Regulation has changed the balance between the parties in obtaining effective remedy: it will hinder effective remedy for SEP owners. First, as per the *Huawei v. ZTE* framework, an SEP owner when having a dominant position must follow a *good faith negotiations path* to claim legal remedy (such as an injunction) within the scheme of abuse of dominant position under article 102 of TFEU. Second, competition law can always intervene, as it has done in the past, in cases of anti-competitive behaviour by an SEP owner. The Draft SEP Regulation aims to include a complementary option to the enforcement of FRAND obligations arising from article 102 of the TFEU.[33] In the current system, there is a balance of arguments between parties, which treats them equally before legal proceedings. The Draft SEP Regulation eliminates this balance by making the enforcement of SEPs dependent upon registration of those SEPs, and participation in FRAND determination. Thus, it is not complementary to the article 102 of the TFEU. Instead, it takes an overriding effect.

The registration of SEPs at the EUIPO competence centre is intended to ensure transparency.[34] To that end, it is attached with restricting the enforcement of SEPs and royalty collection or suspension of the SEP registration for failure of timely update.[35] Understandably, such restrictive rules are framed to incentivise the registration of the SEP. However, to be EU fundamental rights compliant they must resolve whether they are proportionately justified. Are there any less restrictive measures available? Do the restrictions on the SEP enforcement and collecting royalty limit access to an 'effective remedy' of the SEP owner?

IV. The TRIPS Compatibility Analysis

[33] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27.4.2023. p. 56.
[34] Recital 19, The 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.
[35] Recital 19 and 22, Ibid.

The TRIPS Agreement is one of the Agreements that established the World Trade Organization ('WTO Agreement').[36] Since TRIPS is an integral part of the WTO package, its members are required to implement the TRIPS provisions in their domestic laws.[37] It provides a minimum standard for member states in designing their domestic legal frameworks.[38] However, members enjoy the freedom to adopt innovative measures if they remain TRIPS compliant. In other words, the TRIPS compatibility test is a precondition for any domestic IP legislation and measure for WTO members. Therefore, the proposed Draft SEP Regulation requiring, *inter alia*, registration of SEPs, restricting the enforcement of unregistered SEPs, and mandating FRAND determination participation prior to access to justice, must pass the TRIPS compatibility test.

The first relevant provision of TRIPS in this respect is Article 28. The SEP owner enjoys exclusivity as per article 28(1) and is entitled to exclude others "not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing".[39] Apparently, the imposed restriction by the Draft SEP Regulation limits the rights of SEP owners to prevent use of the SEP without their consent. In other words, the very essence of the exclusionary effects of the patent is dismantled.

However, the rights of SEP owners are subject to exceptions under article 30 of TRIPS. Therefore, it is required to check whether the limitations on the SEP owner are within the conditions of Article 30. Article 30 of the TRIPS has laid down a three-step test. First, the relevant exception must be "limited", second, it should not "unreasonably conflict with a normal exploitation of the patent", and finally, it should not "unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties".[40] All three conditions are cumulative.

[36]The TRIPS Agreement is an Annex 1C of the Marrakesh Agreement, which was adopted on15 April 1994, which entered into force on 1 January 1995.
[37] Taubman, Antony, Hannu Wager, and Jayashree Watal, eds. A handbook on the WTO TRIPS agreement. Cambridge University Press, (2020), p. 13.
[38] Article 1(1), The TRIPS Agreement, 1995.
[39] Article 28(1) "A patent shall confer on its owner the following exclusive rights:
(a)where the subject matter of a patent is a product, to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing (6) for these purposes that product;
(b)where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process."
[40] Article 30, The TRIPS Agreement, 1995.

The Commission's impact assessment report states that the FRAND determination and SEP enforcement restrictions are likely to be TRIPS coherent.[41] The assumption is primarily based on the scope of narrowing patent rights under article 30. The interpretation is guided by the public policy clause of articles 7 and 8 of the TRIPS.[42] The position of the report relied on the WTO Panel report on the Canada-Patents dispute (the only WTO panel report deciding article 30).[43] It also partially refers to the Australia-Tobacco Plain Packaging.[44] In the following, an analysis of the TRIPS compatibility considering the Commission's position will be presented.

A. Different Contexts Yet Similar Outcomes?

The Commission's impact assessment report bases its arguments on above WTO panel reports. But they are premised on the significantly different contexts and subjects. First, the Canada-Patent dispute deals with limiting patent rights for 'regulatory review exception' and 'stockpiling exception' of pharmaceutical drugs. The analysis of the WTO panel report shows that while limitations for regulatory review were permitted, limitations for stockpiling of patented drugs was not under article 30 of the TRIPS.[45] The outcome was different, *inter alia*, because of the analysis of the circumstances and scope of the exceptions. The proposed limitations of the SEP rights are quite different in terms of technology, scope of exception, and circumstances. Therefore, the outcome is likely to be different.

Second, Canada created a specific exception to allow third parties to utilise patented drugs for 'regulatory review' and 'stockpiling'. Here, the EU has proposed restrictions on enforcement of unregistered SEPs against infringers for a limited period. The former is an 'enabling provision' for regulatory regime and stockpiling to support health sector whereas the latter restricts the SEP owner from legal remedy. Third, the Australia-Tobacco Plain Packaging is purely a trademark dispute (not patent) which should be different from the SEP issue at hand. It also had a public health consideration. Precisely, the conditions for assessment are quite different under article 16.1 (exclusive rights of the trademarks owner) and article 20

[41] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27 April 2023. p. 56.
[42] Ibid.
[43] Panel Report, Canada-Patent Protection of Pharmaceutical Products, WTO WT/DS114/R of 17 March 2000
[44] Panel Report in Australia–Certain Measures Concerning Trademarks, Geographical Indications and other Plain Packaging Requirements Applicable to Tobacco Products and Packaging, cases WT/DS435/R, WT/DS441/R, WT/DS458/R, WT/DS467/R of 28 June 2018; Appellate Body Report, case WT/DS435/R, WT/DS441/R of 9 June 2020.
[45] Panel Report, Canada-Patent Protection of Pharmaceutical Products, WTO WT/DS114/R of 17 March 2000, p. 174.

(prohibiting unjustifiable measures in trademark use) from the assessment criteria under article 30 the TRIPS.

Third, the Commission's report heavily relied on Articles 7 and 8 of the TRIPS agreement as an interpretative tool. Although their interpretative role was recognised, they were not effectively used in any of the disputes to decide the substantive issue. In the Plain Packaging Panel Report, Articles 7 and 8 were used to interpret words 'unjustifiably' in relation to the use of the trademarks under article 20.[46] However, this was not substantively decisive for deciding the dispute.

Finally, on 22 February 2022, the Commission initiated a TRIPS compatibility complaint at the WTO dispute settlement process against Anti-Suit Injunction (ASI) of the Chinese Courts.[47] One of the key arguments of the Commission is that the Chinese practice of ASIs curtails the effective remedy of SEP owners to access foreign courts and to exercise their right to conclude licensing contracts under Article 28 of TRIPS.[48] Specifically, in its first written submission on 8 June 2023, the Commission submitted that an SEP owner has the right to license its SEPs on FRAND terms and conditions.[49] To give effect to such a right, as guaranteed by the Article 28.2 of the TRIPS, "WTO members are required to refrain from adopting or applying measures that restrict, or seek to restrict, the exercise of that right."[50]

Clearly, the WTO dispute is a case-by-case analysis and ASIs represent different subject matter than what is addressed by the Draft SEP Regulation. However, there is still a common issue covered by the Commission's ASI complaint and the Draft SEP Regulation. In both respects, there is a temporary restriction on the rights of SEP owners as conferred by Article 28.2 of the TRIPS. In the ASI case, the Commission is against any measures by WTO members that restrict the right of SEP owners to effectively exercise FRAND licensing. On other hand, in the Draft SEP Regulation, the Commission is proposing new forms of restrictions on SEP owners that may hinder effective exercise of FRAND licensing and access to courts. It is, therefore,

[46] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27.4.2023. p. 120.
[47] https://www.wto.org/english/news_e/news22_e/ds611rfc_22feb22_e.htm accessed on 03 July 2023.
[48] China – Enforcement of Intellectual Property Rights, Request for Consultations by The European Union, WT/DS611/1 P/D/43 G/L/1427, 22 February 2022.
[49] China-Enforcement of Intellectual Property Rights, (DS611), First Written Submission by the European Union, para- 374, p. 103.
[50] Ibid.

seemingly contradictory and may impact on the Commission's credibility and comity at the international level.

B. Analysis in the Context of SEPs

In the SEP context, we should analyse the three conditions under article 30 of the TRIPS. First, whether the proposed restrictions are "limited", second, whether they "unreasonably conflict with a normal exploitation of the patent", and finally, whether they "unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties".[51] The three conditions are cumulative and must be fulfilled. Thus, non-compliance with any one of the three conditions results in the Article 30 exception being disallowed.[52] The rules of interpretation of the WTO treaty are governed by articles 31 and 32 of the Vienna Convention.[53] In the instant case, it should be primarily governed only by the article 31 since this is a hypothetical analysis and we do not have actual parties for considering any subsequent practice. Article 31 of the Vienna Convention states that "[a] treaty is to be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose."[54]

B.I. Whether restrictions are limited?

On the first condition, the Commission's report argues that "the current initiative restricts the right of the patent owner to prevent use without consent but does so only for a limited period of time".[55] Therefore, the Commission believes, they are limited and justified. Moreover, according to Commission, the restrictions should be permitted because of their broader goals and purposes, namely promoting the dissemination of technology (standards) for the mutual benefit of SEP owners and users (article 7), and technological (standards) development for the public interests (article 8.1).[56] This balancing and goal-oriented interpretation is very persuasive.

However, a deeper analysis is required. The relevant question should be: what is understood by 'limited'? Is it limited in terms of time or scope of the SEP? In the Canada-Patent dispute,

[51] Article 30, the TRIPS Agreement, 1995.
[52] TRIPS Agreement–Article 30 (DS reports), WTO Analytical Index, https://www.wto.org/english/res_e/publications_e/ai17_e/trips_art30_jur.pdf, p. 1.
[53] The Vienna Convention on the Law of Treaties 1969, entered into force on 27 January 1980.
[54] Ibid.
[55] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27 April 2023, p. 121.
[56] Ibid, p. 121.

Canada argued that the word "limited" should be interpreted as per ordinary meaning of the word "confined within definite limits", or "restricted in scope, extent, amount".[57] The EC , on other hand, interpreted the word "limited" as "narrow, small, minor, insignificant or restricted".[58] It is further argued that the qualitative assessment of the patent owner's right to exclude- making, using, or importing- within the meaning of article 28.1 of the TRIPS.[59]

Whether the restrictions on enforcement and collection of royalties for unregistered SEPs is a substantial curtailment of the exclusionary rights of the SEP owner? If so, it should be 'not limited'. This would be a coherent interpretation within the WTO Panel's view of the Canada-Patent dispute.[60] The Panel concluded that six-month limitations on the exclusionary rights of the patentee (without restricting volume of production and market allocation of drugs by others) was 'not limited' under article 30.[61] In the Draft SEP Regulation, the SEP owner is restricted from enforcing its patent and collecting royalties for the unregistered period, meaning six months, plus-as long as SEP remains unregistered. Therefore, it is likely to be 'not limited'. When the first condition is not complied with, the remaining two conditions are not required to be examined.[62]

B. II. Whether they unreasonably conflict with a normal exploitation of the patent?

For the second condition, we must examine whether restrictions "unreasonably conflict with a normal exploitation of the patent". It essentially depends on the interpretations of the following terms: *normal exploitation* and *unreasonable conflict*. In Canada-Patent Dispute, Canada took the position that the exploitation of patent means extraction of commercial value from the patent by working the patent: either by selling patented products in the market (excluding competitors), by licensing others to do so, or by selling patent rights.[63] The EC also agreed with the position of Canada.[64] However, they disagreed with the interpretation of the word *normal*. The Panel agreed that "exploitation" refers to the commercial activities of the patentee to extract economic value from the patent.[65] The normal is connected to the commercial activities

[57] Panel Report, Canada-Patent Protection of Pharmaceutical Products, WTO WT/DS114/R of 17 March 2000, p. 154.
[58] Ibid.
[59] Ibid.
[60] Ibid, p.156.
[61] Ibid.
[62] Ibid, p.157.
[63] Ibid, p.160.
[64] Ibid.
[65] Ibid, p.161.

that article 30 seeks to protect.[66] The word normal in its dictionary meaning is: regular, usual, typical, ordinary, conventional.[67] The Panel concluded that "normal" in article 30 is the combination of normative standards of entitlements and empirical analysis of what is common in the relevant community.[68] The Panel recognised that the protection of all normal practices is the key component of the patent policy.[69]

The Commission's report seems to consider that the *normal exploitation* of the SEP should be interpreted narrower than other patents.[70] The goal of an SEP owner according to the Commission is not to exclude others but to collect FRAND royalties.[71] Therefore, SEP owners often tolerate infringements of the SEPs to allow wide incorporation of the standards into products.[72] While the argument is plausible, it requires further analysis. An SEP owner is entitled (and has a discretionary power whether) to bring an infringement action under patent law. This legal entitlement is now curtailed by the Draft SEP Regulation (for limited time). Moreover, the discretion is now completely removed. It essentially reduces the normal practices of SEP owners to enforcing the SEP and collecting royalties. It could lead to a reduction in the effective duration of the patent (reducing minimum 20 years).[73] The public consultations show that SEP owners normally wait 2 to 4 years for incorporation of the standards by markets and implementers.[74] Seemingly, the SEP owner has very limited effective time to secure a return on its investments. In consequence, it is likely to be inconsistent with the second condition of Article 30 of the TRIPS.

B.III. Whether they unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties?

Finally, *the third condition,* the interpretation of 'legitimate interests' of the patent owners and third parties is important. In Canada-Patent Dispute, the EC took the view of the "legitimate interests" of the patentee in two senses. First, legitimate interest of the patentee is equal to legal

[66] Ibid.
[67] Ibid.
[68] Ibid.
[69] Ibid.
[70] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27 April 2023. p.122.
[71] Ibid, p.121.
[72] Ibid, p.121.
[73] Article 33, the TRIPS Agreement, 1995.
[74] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27 April 2023. p.12.

interests protected in article 28.1 of the TRIPS.[75] Second, legitimate interest means the economic interests of the patentee to effectively benefit from the patented solution.[76] As regards the legitimate interests of third parties, the Commission argued that it only extends to the competitors of the patentee, in the given case the generic pharma companies.[77] The arguments boiled down to the conclusion that, (a) the regulatory exception of the Canadian Patent law prejudice the legitimate interests of the patentee (article 28.1), and (b) in the absence of contrary third party legitimate interests, it is substantial enough to be 'unreasonable'.[78] Canada contested the interpretation of 'legitimate interests' and 'third party'. Canada's position prevailed in the sense that Commission's interpretation of the 'legitimate interest' equal to 'legal interests' does not make sense and third-party interests should include broader goals such as societal interests as guided by articles 7 and 8.1 of the TRIPS.[79]

The Commission's report seems to consider that the legitimate interests of SEP owners are to collect FRAND royalties.[80] On the legitimate interests of third parties, it takes account of potential abusive behaviour of SEP owners such as rent seeking, litigation, and slowing down or undermining the objectives of standards.[81] This could unreasonably undermine the legitimate interests of third parties, for example, consumers. This would need legal and factual analysis. Perhaps, an argument could be made whether less restrictive measures such as deploying EU competition law to prevent abusive conducts is more desirable than restricting SEP enforcement. In fact, the Commission has acknowledged that the measures are consistent with article 40 of the TRIPS to "prevent some licensing practices or conditions pertaining to intellectual property rights which restrain competition that may impede the transfer and dissemination of technology".[82]

On the interests of the consumers the Commission has a good position in the third condition of the article 30 of the TRIPS. Under this view, one could conclude that it is likely to be TRIPS compliant. On the other hand, restricting so heavily the rights of SEP owners might well lead to disincentive to invest in future generations of standards. Leading European companies and

[75] Panel Report, Canada-Patent Protection of Pharmaceutical Products, WTO WT/DS114/R of 17 March 2000, p.162.
[76] Ibid, p.167.
[77] Ibid, p.163
[78] Ibid.
[79] Ibid, p. 164 and 168.
[80] The EU commission's staff working document impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, SWD (2023) 124 final, Brussels, 27 April 2023. p. 122.
[81] Ibid.
[82] Ibid.

major contributors to standardisation, such as Ericsson and Nokia, have recently warned that European innovation, security, and growth are under risk with the proposal.[83] Should these and similar innovative companies decide to leave the standardisation field, consumers would likely face in the medium term high priced, non-secured, low quality standardised products or be driven to an expensive and closed proprietary ecosystem. It will negatively impact on the long-term interests of the consumers. Then, the current position of the Commission is not as strong as it seems to be. Thus, it could lead to the interpretation that the proposal might not be TRIPS compliant on the third condition of Article 30.

V. Conclusions

The Draft SEP Regulation introduced a set of new responsibilities, assigned to SEP owners, which will increase the overall SEP innovation and management costs. While further market transparency, legal certainty, and efficiency on SEP licensing is a very much welcome initiative, the Draft SEP Regulation needs to ensure the balancing of incentives among market participants. It should duly take note of the innovation and investment of the EU SEP industry, global competitiveness, and leadership. The limitations on enforcing SEPs and collecting royalties in the proposed regulation must meet EU fundamental rights and the TRIPS compatibility tests. It is likely that the restrictions on SEP enforcement and FRAND determination as the precondition for access to justice fall short of EU fundamental rights and the TRIPS compatibility tests.

[83] See EU SEP reform gambles Europe's long-term future, 13 June 2023, https://www.politico.eu/sponsored-content/eu-sep-reform-gambles-europes-long-term-future/; Technology security makes EU SEP licensing plans tough to justify, IAM Magazine, 15 June 2023, https://www.iam-media.com/article/jw-column-15th-june-2023-sep-licensing-regulation-technology-security.