Transcript – April 24th 2023

Panel discussion: The EC's leaked draft regulation on essentiality checks and SEPs

[Moderator]

Welcome everyone! It's great to have you all here at this 4iP Council's panel discussion on **the European Commission's leaked draft regulation on essentiality checks and SEPs**. My name is Axel Ferrazzini, I'm the Managing Director of 4iP Council, and I'll be the moderator today.

As you may know, 4iP Council is a non-for-profit research organization focused on the link between IP and innovation. We identify the most relevant topics and produce empirical research in collaboration with academics. *The 4iP Council's website has a dedicated webpage on SEPs and essentiality checks that you can access directly from the homepage – just go to 4iPcouncil.com.*

As you might know, members of standards development organizations typically make their patents essential to a standard (standard essential patents or SEPs) available on fair, reasonable and non-discriminatory terms and conditions. FRAND is commonly negotiated by the parties in bilateral good faith negotiations. In the few occasions where parties cannot agree on FRAND terms, we see FRAND disputes. This means parties may end up in litigation or, if both agree, in mediation or arbitration. Today we will discuss the leaked draft regulation proposal from the European Commission on SEPs. We will also assess possible implications from intellectual property law, constitutional law and competition law perspectives of the proposal for regulation on SEPs.

It is my pleasure today to welcome our three panellists, eminent professors teaching in highly recognised universities in Germany, Italy and France.

Let me introduce:

Professor Mary-Rose McGuire who is a Professor at University of Osnabrück in Germany, she is also Chair of Civil Law, Intellectual Property Law and German and European Civil Procedure Law as well as Executive Director of the Center for Business Law e.V.

Professor Laurent Manderieux who is Professor of Intellectual Property Law at the Bocconi University in Milan, Italy, he is a Member of the Directorate Board, Bocconi LL.M in Law of Internet Technology, as well as the Chair of the European IP Teachers' Network and Coordinator of the Transatlantic IP Academy.

And Professor Nicolas Binctin who is a Professor at the Faculty of Law of the University of Poitiers, Paris II and visiting professor at Bocconi university, Alicante University and at the African Organisation of Intellectual Property. He also manages the Master program on Research and Innovation Development Law and a Master program on IP Law.

Thank you for having accepted this invitation and being here today.

To kick-off this discussion, I would like to start with the following question:

[Moderator]

To support the need for a regulation the European Commission has argued that European courts have been ineffective in addressing disputes over FRAND terms. The proposal even mentions the "unavailability of dispute resolution procedures suitable for resolving FRAND disputes." Do you share this view? How competent have been European courts in addressing FRAND disputes?

[Prof. Mary-Rose McGuire]
Sure, thank you. I've read this, 'unavailability of dispute resolution' and it took me by surprise. We can discuss whether FRAND litigation is perfect, but we cannot say it's unavailable. We see we have different routes of enforcement or also FRAND disputes before courts. We have patent litigations which necessarily will imply FRAND arguments. But there's also arbitration. So, I would say there are manifold ways to actually litigate FRAND disputes. It could be either before a state court or an arbitration. We see that the parties use the court system. We see judgments and reasonable time. So yes, there may be room for improvement, but I think the statement 'it is unavailable', is just not justified against the current practice.

[Prof. Nicolas Binctin]
I think the Huawei v ZTE decision has been well implemented by the courts in Europe and if there is some forum shopping based on this case it is maybe not according to the quality of courts in Europe, but mainly in front of the jurisdictions strategy of the players in the FRAND system.

[Prof. Laurent Manderieux]
Indeed, in this situation, the proposal of the Commission is no doubt premature in the sense that there are dispute resolution mechanisms, of course, or advanced dispute resolution mechanisms that have proven to be valid. There are always, as mentioned, by my colleagues earlier, ways to improve such mechanism that to say that the mechanisms are unavailable is not the right approach and the right, the correct approach.

[Prof. Mary-Rose McGuire]
I would like to add, even if there is a problem - or perhaps room for improvement - I am surprised about the time of this proposal. Because all of Europe is awaiting for the Unified Patent Court to open its doors and start. And we all expect that this will be a very efficient and high-quality dispute resolution mechanism. And so it would be natural to see and await this new system starting. And if then we see after a few years that the workload is too high, it takes too long or whatever, then we could think of how we further improve the system. But I'm worried that this is not the right moment to take action.

[Prof. Laurent Manderieux]
If I may add, I would totally share this comment. Again, the proposal is premature, or the draft proposal is premature in the sense that we need to wait a few years until understanding how the UPC is functioning. And whether new problems arise and whether the workload of the UPC creates a problem in this area or not.

[Moderator]

To provide a solution to deal with FRAND disputes more efficiently than courts the European Commission proposes to create an administrative body (within the EUIPO). What are your thoughts on this?

[Prof. Laurent Manderieux]
With pleasure, I think, in academia, in the business world, in the consumers world, there's major esteem for the work performed by the European Union Intellectual Property Office, located in Alicante. However, there is no current competence of EUIPO on patent matters or patent related matters. In case there is a need for an institution for handling this matter, is it the right place? How long could it take to EUIPO to create an

authoritative institution to handle the matter? This is a big question mark. The Executive Director of the EUIPO had declared, not long ago, that the institution has no competence on patent matters. Of course, nobody prohibits that this competence be started but this would take an immense lapse of time. In addition, it is really necessary to do it so, OK EUIPO handles with third countries cooperation programs that involve activities on patents that are delegated most of the time to the EPO. But this is in the sector that is very different than the one we are considering. And we are facing an issue of competence building. And of course, opportunity of the needs and costs for the European taxpayer.

[Prof. Mary-Rose McGuire]
I think that the European Union Intellectual Property Office, without doubt, is a very competent authority. But when it comes to SEP and FRAND, we have to say that standardization from a legal perspective is very straightforward, everyone knows how it is supposed to work. But it's very complicated in practice, because so many people are involved. Now when it comes to patents, we have a highly renowned European Patent Office, and we have the standardization organizations. What I think is very surprising is that all the information we need is sitting either in the patent register or with the standardization organizations, whereas the EUIPO itself has no information. And that's what we take from this draft: A lot of duties or obligation imposed on the stakeholders are to provide information to the EUIPO because they don't have this information themselves. So they want to know which patents are included in the standards, the standardization organizations might know it already; they want to know if the patent is valid? And of course, who better than the register might know this already. So why do we want to put in a new third prominent player which doesn't have any knowledge of its own at the moment. They can build up resources, but at the moment they don't have knowledge of their own and they have to draw the information from players we have already. So if we want to foster transparency and standardization, I think it would come more naturally to put the competence to one of the existing players, instead of trying to create a new one.

[Prof. Nicolas Binctin]
And maybe we can also see in this proposition of the Commission, a deep evolution of the Commission in front of the IP and the Commission promotes an administrative regulation of the IP. It's already the case for trademark. It will be the case for design rights. And we can see that there is already some the same dynamic for some state members who want to have an administrative regulation of the patent. So the fact is that. It's hard to combine a global qualification of IP as an ownership right, a private ownership right. And an administrative regulation for an ownership right and in front of that we can imagine that a new dynamic for the IP can be identified in such a proposition, which is IP less and less an ownership right and just a kind of administrative authorization which can be adopted. Not changed by an administrative decision and in front of that I think such a proposition has a deep impact on our global analysis, global qualification of the IP law and it is really important to put it on the table because step by step we try to re-found the qualification of the IP because when the IP is an ownership right, we have to respect the ownership and the private ownership, which is one of our fundamental rights. Can we imagine that we can decide how you have to share or rent your home just through an administrative body decision? I think it's not right.

[Moderator]

Thank you, this is very helpful. Then to follow-up,
Some have suggested that the draft SEP regulation is circumventing, to a certain extent, the Court of Justice of the European Union, national courts, as well as the newly established Unified Patent Court. Any thoughts on that? What are your views regarding the constitutionality of the proposal?

[Prof. Nicolas Binctin]

Thank you for the question. It's quite complex. I'm not sure that I'm able to answer to the constitutionality aspect of the question, but I think we must clearly distinguish between the European Court of Justice and the UPC. The 1st is an EU legal body and not the second. So, in front of EU regulation, we may imagine that the competence of each court will be different when you just focus on patent and the other one maybe will be able to give the interpretation and control this new regulation. For the European Court of Justice, the decision of the new administrative body, which can be loaded into the regulation this the decision will be covered, maybe by the European Court of Justice competence, which can [inaudible] and control this administrative decision. But, of course, if there is some discussions about the quality of the patent, the UPC will be in this area too to discuss this part, and we can also imagine inside some portfolio of SEP patents may remain under national patent law with the opt-out solution for example, and in that case the UPC will not be able to discuss the quality of the patent, so it will be under the National court and we have to combine it with the regulating body who controls the financial and then the FRAND aspect of the license. So, at the end of the day, we set a new regulation, we can imagine that we have to combine, more or less, four legal different systems together: the national, the EPO, the UPC, and this new European administrative body so it can be just a nightmare for any user of the patent system. Just imagine that you have a key patent of the standard in the portfolio. If this is covered by national law, whatever is the UPC because the UPC is not competent for this part of the patent law.

[Prof. Laurent Manderieux]
A nightmare and a cost.

[Prof. Nicolas Binctin]
There is no doubt, and you can have also of course this administrative body which is involved in a case. I don't think that such an academic hypothesis with is something far from the reality, and we can imagine the difficulty for the users of the legal system to organize something in front of that.

[Prof. Mary-Rose McGuire]
You've raised the question, whether it's an issue that it's an administrative body. And actually when you start reading the regulation, you first get the impression it's all about transparency and it's basically a service provided to the SEP community. But then the further you get on, it seems that the Commission was worried that not everyone would take interest or comply; and then it turns from a service to an obligation. If you don't register, if you don't register on time, or if you don't adopt, then you may have other disadvantages in going before courts, for instance, because you're blocked for a while. And I think that's a real problem in this regulation, it is somewhere in between an administrative body and a quasi-court, because if you want to have an efficient remedy, you will have to wait. You have to ask the administrative body before you go before a court. But then this administrative body doesn't provide the same standard of procedure as a real court would. So, it's somewhere stuck in between. And I think this just does not live up to our expectation to fair proceedings: To be heard, to have your confidentiality preserved, to have your fair hearing with independent judges. So, it's somewhere in between and I think whatever is coming would really have to make a decision: Is it just a service provided to the SEP community or is it a court procedure in place of what we have. But, at the meantime, it's in between and I think this is very unsatisfactory.

[Moderator]

This is indeed very concerning which leads me to the following point:
According to the proposal the SEP owners cannot refuse to license their patents to a party who is willing to agree to FRAND terms. This seems to contradict commercial practice to license to a single point of the value chain. What would be the implications of changing the commercial practice, in your opinion?

[Prof. Mary-Rose McGuire]
This is also something which was worrying me when I read the draft. It's like a one-size-fits-all solution for all types of industries. But when we look at industry practice, the industries for the different sectors - for historical or traditional reasons -, they have organized themselves well, but in different styles. And now we would force one functioning system from functioning in one sector on all the other ones. Now if everyone asks a license and we have industry sectors with manifold players then we need so many license contracts and so many license negotiations that the transaction costs are just excessive. So, I think if there is a real problem in a specific sector, then perhaps it is worthwhile tackling this issue. But it would be very detrimental - and a disadvantage in comparison to what we have now - to impose a system on everyone, and even on those sectors where it is functioning very well.

[Prof. Nicolas Binctin]
Yes, maybe we can add that we already have some legal license in IP system. We can imagine legal license for a copyright or legal license for producer right. But in those two cases, we also have collective management organizations that discuss the revenues linked to these with those legal license and of course the collective management organization is supported by the owner [inaudible] in the present project I think that the Commission has an idea but has no tool to organize and it refuses to have a global analysis of the market, so we just try to find a quick answer for consumers and prices, but we are missing the global organization, the global balancing system of the market, and that can be a problem because without any global analysis, without any global comprehension of the system, it will be difficult to have such legal license for patents, and of course, in the case of SEPs two, so such a regulation may have a deep impact on the market, but maybe not as the Commission wants, and I think we must conclude again that we can feel or we can see the limited ambition of the European Union in front of the patent law. We refuse to have EU patent and then we try to create some small elements for small tools to regulate something which we refuse to have. Clearly, inside the EU legal scope, and it is clearly a problem again with this kind of license.

[Prof. Laurent Manderieux]
I totally share my colleagues' views and the one-size-fits-all there though to corresponding to international treaties and to EU practice on compulsory licensing brings a problem of lack of sufficient market analysis sector by sector and brings an issue of effectiveness. In other words, once and again the draft proposal needs to be further reviewed in this part of it.

[Moderator]

Moving on, another element that created a lot of reactions is the following, the draft SEP regulation imposes limitations on the patent holder's rights – an interesting detail is that it would apply to the entire patent, including essential claims and non-essential claims. In particular it would require the parties to engage in a conciliation process that will last 9 months. Only after this period the patent holder will be able to exercise its rights in court. How appropriate and proportionate is to "freeze" the patent holder's rights for 9 months?

[Prof. Laurent Manderieux]
I think that this is not a great move, the European Commission's tentative draft proposal introduces a concept that may be not working very well and above all that leaves doubts on whether the European Commission and in particular DG TRADE, could defend it in case of critics or attacks at the World Trade Organization. Article 28 of the TRIPS agreement that was recently invoked by the European Commission in a case against a major non-OECD superpower recently, clearly enough would probably not permit such provisions. So there it is, in the interest of the EU, but also of OECD countries, to probably pull back on this and adopt a more nuanced approach.

[Prof. Mary-Rose McGuire]
I believe also from the perspective of Civil Procedure and fair proceedings it is very worrying. The whole regulation sets out to make everything more efficient. Now we have a nine-month procedure up front, which is supposed to put the court litigation on freeze. But then there are courts in Europe which are actually able to litigate a full patent infringement case within nine or ten months. So, it would double the time and I think it's particularly worrisome that there's no exception for interim relief. Obviously, if a patent is infringed the first turn usually is to ask for interim relief in order to freeze the market and not freeze the litigation. Now the regulation has some rules on parallel proceedings, but it only focuses on parallel full litigation; and you don't have a word about interim relief. Now if interim relief would be also blocked, this really would be harming our principle of effective remedies. I think this is just not a workable solution.

[Prof. Nicolas Binctin]
Yes, I agree with my colleagues, and I think we have to check the compatibility with TRIPS. We may add to that we know that it's possible to have adaptation of ownership in front of general interest in front of market adaptation. It has to be proportionate, and it has to be deeply discussed with the Plain Packet regulation for IP for tobacco industry and we had lot of discussion about proportionality and ownership, proportionality, ownership and general interest. So we know that we can attack maybe the ownership system based on the general interest, but we don't know if we are in the right case and we don't know if those nine months are clearly in shape with this kind of goals. I'm not sure that it is the right solution at the right moment.

[Moderator]

But you there is a next step in this entire system which is the regulation also includes provisions regarding a so-called aggregate royalty for SEPs. Specifically, it provides that contributors to a standard may "jointly notify" the aggregate royalty for the SEPs included in a given standard. In your opinion, what would need to be considered in this "joint notification" under competition law?

[Prof. Nicolas Binctin]
Thank you. That's a nice question. It's quite a funny point because it's a very, very classical discussion. The combination between patent law in front of standard and competition law and everything comes from that point, maybe, but we know that we have "*to create a cartel"* to be able to develop standard, and we know that in front of the competition law, the standard, the cartel is not something very nice. So we have to be sure that the cartel can be included in the paragraph 3 of the Article 101 of the EU Treaty and we are never sure that we are able to reach the criteria of the paragraph 3 and we know that according to block regulation for core development technologies, one of the limits of the block regulation is the cooperation in front of the price. So, in that case we are clearly in conflict with the block regulation, which comes from the European Commission too. So how we can combine this regulation with the block regulation? I have no idea, of course, because they are clearly not in the same in the same idea of the same mood. And we know that if there is cooperation between parties in the standard on the price, it is clearly something which cannot be relevant in front of the Article 101. So such point is something strange and we imagine that maybe the Commission just wants to discuss or open a discussion and maybe the Commission has also difficulty to accept that standardization is something which can be good for the market, but standardization also has deep impact on the market dynamic in front of cooperation between party and in front of competition.

[Prof. Mary-Rose McGuire]
I would have two very short points to add: one is a lack of respect for trade secrets. If the different competitors have to share information in order to notify on the aggregate royalty rate, they will have to share information to make their case that they get an adequate part of it. Which they don't want to share. That's a real issue. And the second is this whole setup that the parties are obliged to tell this new competence

center what an adequate aggregate royalty rate would be. It just underlines this inconsistency we mentioned before. The European Intellectual Property Office at this point has no knowledge of the patent system. They have to draw the information from other people and when they look at the price, they thereby acknowledge that the parties know best. They are the only ones who know how much investments they made, where the patents are and how they are implemented, what the cost structure is etc. So it is just undermines the idea of a competence center, if they don't have competence of their own, but draw on the standardization organizations, the European Patent Office and the stakeholders.

[Prof. Laurent Manderieux]
I totally share my colleagues' views.

[Moderator]

Just to add on this specific point, it is also possible for "At least 5 % of all contributors to the standard and/or 5 implementers or potential implementers of the standard" to request the agency to issue for a non-binding expert opinion on an aggregate royalty. What are the practical consequences of this approach in your opinion?

[Prof. Nicolas Binctin]
Ohh, I think that the previous remarks may be apply again at that point, but we can also add some point and and of course it's look complex to be able to implement such a possibility. 5% of contributors is a very low level of contributors, and we know that 5% of the contributors is not 5% of the patents because each contributor is not able to bring the same volume of patents in the standard. 5 implementers is also very low, so it's a kind of very easy tool which has to be able to be put in action. That the first point, the second point, and I think it's more relevant in our case is that the evaluation of license rates is something which is really complex. It is not just a question of a piece of bread. It is something which is deeply involved in a global strategy of a company. According to the investment, according to the business model of the company, according to the perspective of the company. And to be able to identify a license rate, we must be able to use all those criteria and take them into account. So of course, there is a problem with secrecy. There is problem with appreciation of the company's strategy. Do we have to imagine that this expert opinion can discuss the legitimacy of strategy of a company? Can we have to imagine that all companies must have the same business model and the same strategy to be able to have such aggregated royalty appreciation? Of course not. Or it is the end of a free market. We just have a kind of communism organization with a single price coming from a kind of political decision. And then last but not least, what we have to do with non-binding expert opinion as a kind of information, an information which is based on approximation without any deep legitimacy. And how do we have to imagine the non-binding opinion would be the base of the discussion? Can we imagine that this non-binding opinion would influence the judge in case of conflict between the parties? It's something very strange and the last point is that we may have different rates according to different categories. So this non-binding opinion can be for a single category of clients, single category of users of the standard, but maybe not for all kind of users of the standard and the cost would be just amazing because it's a very complex job to be able to identify and aggregate royalty rates which is proportionate and which respect the interests of the owners and the interests of the users. And let but not least, we have to discuss then, how we share the money between the owners, which is another point in that case. We will have a lot of discussions on that in the future for sure.

[Prof. Mary-Rose McGuire]
I would also be worried about the numbers of 5 implementers and of 5% as it is a very low rate and we all know that there are fierce negotiations going on in the FRAND area. So, I could easily imagine that five implementers just tell the other side 'we want this or that share' or 'this or that FRAND rate'. And if you do

not agree, we will make sure that there will be a procedure before this new competence center, which will cost a lot of time and some money. This is just a new means of leverage in the negotiations. It doesn't make it more efficient. It makes a new potential hold up in a very different situation.

[Prof. Laurent Manderieux]
I would further add that to be consistent with what my colleagues mentioned, this red tape provision basically is also favoring very much non-European or basically non-OECD new entrants. Who in this way could get access or push to lower the threshold of standards in a sense that is not necessarily favorable to European innovation, the European innovation system.

[Prof. Nicolas Binctin]
Yes, if I may have to a point, we can imagine that in front of the European Commission's opinion, we have very limited volume of contributors in the EU market, just implementers.

So we try to protect the implementers and at the end of the day the consumers, but nothing is organized for the contributors, and it means that we are already out of the market, out of the business for technological standards, which is very bad news for us.

[Moderator]

And finally, European courts have been playing an important role in developing the jurisprudence on SEP-related disputes so far and had a visible influence on decisions in foreign jurisdictions. Do you foresee any change after the adoption of this regulation? If so, do you expect European courts to win or lose in their relevance?

[Prof. Mary-Rose McGuire]
I think it's quite obvious. In particular, this freeze is very concerning because it means that people have to wait and go through an additional procedure before they can enforce their claim before a court. And this requirement can only bind European courts or the Unified Patent Court, whereas you could go and litigate as you always have in every other third country. So it would naturally incentivize parties to go to third countries or to go to arbitration. And both would be detrimental in order to foster transparency and efficiency in the market, as we have highly renowned and working patent courts in Europe. We are all looking at - or waiting for - the Unified Patent Court, and we put out an incentive to go to third countries or to go to arbitration. And we all know that arbitration is effective, but it is costly and of course the amount of information which gets back, which can be used by the market and society, is even less. So yes, the European courts and the newly set up Unified Patent Court would lose a major part of these disputes. And I think it would be to the detriment of everyone.

[Prof. Nicolas Binctin]
I think yes, I think we can see that the European Commission and maybe the European Union is missing the 21st century patent challenge, so we refuse an EU patent. We refuse an EU jurisdiction for patents. And then we try to build some kind of pure technical administrative solution for something which is really important for all of us, the SEP regulation and the FRAND system, and we just create a very complex legal environment which can be interesting for global players. But not for SMEs, not for the European market, not for the innovation in the European environment. So, we are missing lot of goals and we just want to have a quick simple solution far from the reality of the legal environment. So, I think we must have a global reflection on patenting them and rebuild our patent system in the EU.

[Prof. Laurent Manderieux]

And I would add that the issue relates to patenting, enforcement and circulation of rights, and in this very respect, the issue of circulation of rights, cannot be detached from the other contexts, and this is why it is it is wise to further reflect before launching this draft proposal in the arena draft proposal that has weaknesses in the sense of competition law, consumer law, trade law and that can have a negative impact on innovation in Europe. And on the position of European innovation in the worldwide environment. That's why it's useful, interesting and important to wait, consult and construct in an organized way, appropriate replies, if necessary, to questions that are not well established and therefore not well replied to.

[Moderator]

Thank you, Professor McGuire, Professor Manderieux and Professor Binctin for providing us with such an insightful discussion. Your expertise and knowledge on this very complex topic were truly valuable and greatly appreciated.

Thank you all for joining us and goodbye!