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## **EC Draft SEP Regulation and the TRIPS Agreement compatibility assessment**

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# EC Draft SEP Regulation and the TRIPS Agreement Compatibility Assessment

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## I. Introduction

Over the past few months, the global intellectual property (IP) law community has been experiencing an atmosphere of heightened tension owing to the European Commission's (the Commission's) divisive and controversial draft Standard Essential Patent (SEP) Regulation (the draft regulation).<sup>1</sup> The controversy arises from several fronts. First, because an earlier version of the draft was surreptitiously leaked to the public.<sup>2</sup> Second, due to the heated debate amongst IP and Competition law experts regarding the content of both the leaked and official draft.<sup>3</sup>

There are many issues stemming from the draft proposal which continue to fuel discussions and encourage disagreement among scholars and practitioners alike.<sup>4</sup> The issue of prime importance to the author is the question of accessibility and availability of civil judicial remedies in patent litigation. Certain provisions proposed in the draft regulation appear to interfere with rights already guaranteed by the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS Agreement). Specifically, Articles 21 and 43, relate to procedures which litigants must fulfil as a prerequisite to obtaining access to courts in patent litigation. This paper, therefore, seeks to investigate the enforcement limitations imposed by the draft regulations *vis-*

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<sup>1</sup> European Commission (2023) "Draft Standard Essential Patents Framework Regulation" accessed at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_2454](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2454) on 5 June 2023.

<sup>2</sup> E. Bonadio & D. Pandya (2023), "A Short Summary of the Recently Leaked EU Regulation Proposal on Standard Essential Patents" Kluwer Patent Blog accessed at <https://patentblog.kluweriplaw.com/2023/04/05/a-short-summary-of-the-recently-leaked-eu-regulation-proposal-on-standard-essential-patents/> on 5 June 2023.

<sup>3</sup> T. Müller & T Müller-Stoy (2023) "Updated IP Report on draft SEP Regulation" Bardehle Pagenberg Übersicht IP News accessed at <https://www.bardehle.com/de/ip-news-wissen/ip-news/news-detail/updated-ip-report-on-draft-sep-regulation> on 5 June 2023.

<sup>4</sup> T. Müller & T Müller-Stoy (2023) "Germany: Leak Of Draft Impact Assessment And Draft SEP Regulation" Mondaq.com Contribution accessed at <https://www.mondaq.com/germany/patent/1311732/leak-of-draft-impact-assessment-and-draft-sep-regulation> on 6 June 2023.

à-vis the entitlements to approach the courts in patent disputes provided for under the TRIPS Agreement.

## II. Analysis of the draft regulation

As mentioned above, the draft regulation has sent shockwaves across the IP law community. The list of commenters responding to the draft is lengthy and is representative of the various parties who could be affected by it.<sup>5</sup> The motivations chosen by the Commission as justification for intervening in how SEPs are licensed and enforced follow below.

In the official press statement which accompanied the draft regulation, the Commission claimed that, “for many years, the current system has suffered from a lack of transparency, predictability, and lengthy disputes and litigation.”<sup>6</sup> While it is clear that the Commission has noble goals to streamline the litigation process, this article will attempt to show that the Commission’s draft will not fulfil these worthy ambitions. In addition, from the perspective of other commenters, it appears that there is very little empirical evidence to support the findings that the Commission is relying upon.<sup>7</sup> As such, the Commission could consider making some amendments to its draft text.

The proliferation of the ‘Internet of Things’ (IoT) will support the connectivity of multiple devices needed for everyday life. This will undoubtedly result in a greater use of cutting-edge technologies protected by SEPs. The reason for the wide adoption of SEPs is that they are typically available on fair, reasonable and non-discriminatory

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<sup>5</sup> The initial leak on 24<sup>th</sup> March 2023 sparked widespread debate amongst scholars, experts and professionals. See further A. White (2023) “European Commission has published new EU SEP regulation, promising a boost in innovation and investment” Mathys & Squire accessed at <https://www.mathys-squire.com/insights-and-events/news/european-commission-has-published-new-eu-sep-regulation-promising-a-boost-in-innovation-and-investment/> on 5 June 2023. See also ETSI Director-General Luis Jorge Romero Saro in “DG-23-07\_Proposal for a Regulation on SEPs – ETSI views” a letter raising serious concerns accessed at [https://www.documentcloud.org/documents/23780757-dg-23-07\\_proposal-for-a-regulation-on-seps-etsi-views56](https://www.documentcloud.org/documents/23780757-dg-23-07_proposal-for-a-regulation-on-seps-etsi-views56) and dated 14 April 2023. See also IP Europe (2023) “A European Commission proposal on SEPs must support EU leadership in open standards” accessed at <https://ipeurope.org/press-release/a-european-commission-proposal-on-seps-must-support-eu-leadership-in-open-standards/> on 6 June 2023.

<sup>6</sup> Commission Press Statement.

<sup>7</sup> IP Europe (2023) “IP Europe Regrets European Commission Patents Proposal, Calls on Parliament and Council to Support European IP Leadership” accessed at <https://ipeurope.org/press-release/ip-europe-regrets-european-commission-patents-proposal-calls-on-parliament-and-council-to-support-european-ip-leadership/> on 6 June 2023. C. 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/>

(FRAND) terms and conditions, which are determined by the parties in good faith licensing negotiations.<sup>8</sup> Specifically this is the case for connectivity standards such as 3G to 5G).<sup>9</sup> However, in the absence of empirical evidence, the Commission's first port of call should not be to introduce a regulation to intervene in a well-functioning ecosystem.<sup>10</sup> The official impact assessment conducted by the Commission's Directorate-General (DG-GROW) relies almost exclusively on select submissions from undisclosed companies. These submissions present a range of narratives, some of which lack credibility or any substantial evidence. Moreover, only 37 SMEs from the 3.800 SMEs the Commission considered potential implementers provided feedback to the Commission.<sup>11</sup>

Against this background, one needs to emphasize the need for the EU to establish a functional system that promotes access to technologies and incentivizes innovation to maintain its technological sovereignty.<sup>12</sup> This is an important goal considering how matters pertaining to global communication standards and technology are increasingly becoming geo-political matters. China's emergence as a peer technology competitor and increased presence in global standard development organisations has raised concerns. China's approach to digital governance architecture, characterized by state-led standards-setting, diverges significantly from the market-led and more open models historically embraced by the United States and European Union.<sup>13</sup> European

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<sup>8</sup> S. Makris and H. Tsilikas, Standard Essential Patents and Injunctions: The Key Role of Good Faith in Major Jurisdictions, IEEE Communications Standards Magazine, December 2021; L. Herranz and C. Tapia, Good and Bad Practices in FRAND Licence Negotiation (chapter) in Resolving IP Disputes, Zeiler/Zojer (eds), pp. 49 -68, 2018; B. Heiden, J. Padilla, R. Peters, The Value of Standard Essential Patents and the Level of Licensing (October 23, 2020).

<sup>9</sup> In the context above, 3G or Third Generation, 4G (Fourth Generation) and 5G (Fifth Generation) refer to the continuously developing generations of mobile communication technology that enable wireless data transmission and communication between devices. Technical standards of this nature are defined by international telecommunications organizations such as standards development organizations (SDOs) and industry consortia to establish a harmonized framework for wireless networks which guarantees interoperability and delivery of high quality goods for consumers.

<sup>10</sup> G. Effraimidis and K. 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>

<sup>11</sup> Commission's Impact Assessment, p. 11, [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en)

<sup>12</sup> Simmons and Simmons (2023) "The New Standards – The Commission's Latest Guidance on SEPs" [https://assets.contentstack.io/v3/assets/blt3de4d56151f717f2/blt83a4e93b11fc3956/5d73f23e94f0766f9f071025/The\\_new\\_standards.pdf](https://assets.contentstack.io/v3/assets/blt3de4d56151f717f2/blt83a4e93b11fc3956/5d73f23e94f0766f9f071025/The_new_standards.pdf) on 6 June 2023.

<sup>13</sup> S. Faaborg-Andersen & L. Temes (2022) "The Geopolitics of Digital Standards" Belfer Center for Science and International Affairs, Harvard Kennedy School accessed at <https://www.belfercenter.org/publication/geopolitics-digital-standards> on 19 June 2023. See also G. Colangelo and V. Torti, (2022) "Anti-Suit Injunctions and Geopolitics in Transnational SEPs Litigation"

key leaders in standardisation have already warned that the Draft Regulation would endanger Europe and that it “not only introduces a wide-ranging and experimental system, but it does so without committing the resources and expertise needed to deliver on it.”<sup>14</sup>

If the goal of the proposed SEP licensing framework is to establish a fair and balanced system, then it follows that the Commission should try to support the attainment of technological sovereignty, instead of jeopardizing it.

In addition, the Commission should reconcile the differing objectives of technology implementers and patent owners.<sup>15</sup> Therefore, the following sections examine whether the Commission’s draft regulation strikes the appropriate balance of fairness and efficiency whilst simultaneously enabling the EU to maintain control over its mobile communications technology. A properly functioning framework should aim to create global standards by promoting transparency in SEP licensing, reducing conflicts, and facilitating efficient negotiations.<sup>16</sup>

#### a) Scope and limitations of the draft regulation on enforcing SEPs

In the explanatory memorandum, the Commission begins by acknowledging the entitlement of a patent owner to enforce its SEPs.<sup>17</sup> The Commission refers to the authority in the landmark decision of *Huawei v. ZTE*, wherein the Court of Justice of the European Union (CJEU) recognised the right of the SEP owner to seek to enforce its patents in national courts.<sup>18</sup>

Furthermore, the Commission recognized that the Court established the steps that must be fulfilled to prevent abuse of dominant position by an SEP owner when seeking

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EJLS [EJLS Online First, 1 September 2022] <<https://doi.org/10.2924/EJLS.2022.019>> accessed 15 June 2023.

<sup>14</sup> J. Wild, Technology security makes EU SEP licensing plans tough to justify, IAM, 15 June 2023 [https://www.iam-media.com/article/jw-column-15th-june-2023-sep-licensing-regulation-technology-security?utm\\_source=IAM\\_linkedin&utm\\_medium=image&utm\\_id=weekly\\_column](https://www.iam-media.com/article/jw-column-15th-june-2023-sep-licensing-regulation-technology-security?utm_source=IAM_linkedin&utm_medium=image&utm_id=weekly_column). See also C.

Pettersson, EU SEP reform gambles Europe’s long-term future, Politico, 13 June 2023 at <https://www.politico.eu/sponsored-content/eu-sep-reform-gambles-europes-long-term-future/>

<sup>15</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Making the most of the EU’s innovative potential. An intellectual property action plan to support the EU’s recovery and resilience of 25 November 2020, COM (2020) 760 final.

<sup>16</sup> EC Press Release.

<sup>17</sup> European Commission “Draft Standard Essential Patents Framework Regulation” page 3.

<sup>18</sup> Judgment of the Court of justice of 16 July 2015, Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH, C-170/13, ECLI:EU:C:2015:477.

an injunction.<sup>19</sup> This ‘FRAND ‘dance’ will be addressed in more detail in the sections that follow.

#### i. Impact of registration requirements under Article 20(3)

Article 20(3) as read with articles 24 (1) and (2) create new requirements that a patent owner must satisfy before having the right of access courts to enforce their patent(s). Article 20 mandates a patent owner to register any patent in force in one or more Member States and falling within the scope of the regulation that is essential for a standard.<sup>20</sup> Such patents are to be registered with a yet to be established competence centre within the EUIPO. Furthermore, Article 20 requires that an SEP must be registered within 6 months after the competence centre has opened the registration process for SEPs relevant to a specific standard, or after the relevant SEPs have been granted, whichever is earlier.

The requirement to register to be able to enforce a SEP directly conflicts with the patent owner's ability to access justice. Article 24 of the draft regulation elaborates on the effects of non-registration as required in Article 20. It provides that a SEP which is not registered within the time limit (six months) established in Article 20(3) is unenforceable in relation to the implementation of the standard for which registration is required in a competent court of a Member State. The suspension of enforceability runs from the time-limit set out in Article 20(3) until the SEPs registration in the EUIPO competence centre register.<sup>21</sup> This means that if a SEP owner has yet to register their patent with the competence centre, there can be no patent prosecution or instigation of legal proceedings against a potential infringer or an unwilling licensee.

Article 24 goes further and provides that the owner of a SEP who fails to register their patents within the timeframe specified in Article 20(3) shall not be entitled to receive royalties or pursue damages for infringement of those SEPs concerning the implementation of the standard requiring registration.<sup>22</sup> This restriction applies from the time-limit stated in Article 20(3) until the SEP is registered in the designated register.

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<sup>19</sup> European Commission (2023) “Draft Standard Essential Patents Framework Regulation” Page 3 [https://single-market-economy.ec.europa.eu/system/files/2023-04/COM\\_2023\\_232\\_1\\_EN\\_ACT\\_part1\\_v13.pdf](https://single-market-economy.ec.europa.eu/system/files/2023-04/COM_2023_232_1_EN_ACT_part1_v13.pdf)

<sup>20</sup> Article 20 (1) of the draft Regulation of The European Parliament and of the council on Standard Essential Patents and amending Regulation (EU) 2017/1001, cited as 2023/0133 (COD) (the draft Regulation).

<sup>21</sup> Article 24(1) of the draft regulation.

<sup>22</sup> Article 24 (2) of the draft regulation.

## ii. Interpretation and implications of the time limit outlined in Article 20(3).

The process of SEP registration is initiated when contributors or implementers inform the EUIPO competence centre about a standard, including the royalty rates and discount policies and the specific implementations of the standard. This alone should raise alarm since, by that time, it is unclear what the value of the technology would be. Moreover, the value varies depending on the use case.

## iii. The FRAND determination process stipulated in Art. 34 and removal from the register

The Commission envisages a FRAND-determination process that would be concluded within nine months and set up as a mandatory step before patent owners can take legal action against infringements.<sup>23</sup> Moreover, Recital 33 states that the FRAND determination process would also be a mandatory step which must be completed before an implementer can request a competent court of a Member State to make determination or assessment of FRAND terms and conditions.<sup>24</sup> However, the obligation to initiate the FRAND determination process prior to any court proceedings should be optional for SEPs covering those use cases of standards for which the Commission establishes that there are no significant difficulties or inefficiencies in licensing on FRAND terms.<sup>25</sup>

The hurdles created by Article 34 create an imbalance of rights between parties in litigation.<sup>26</sup> For example, implementers can file declaratory proceedings for non-infringement. However, SEP owners are not entitled to file actions seeking a determination of FRAND terms and conditions before court without a prior FRAND determination by the EUIPO. Because of this imbalance, the draft regulations could be stated to incline more in favour of SEP implementers than patent owners.

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<sup>23</sup> F. Chee (2023) "Exclusive: EU patent body to oversee tech-standard patent royalties -EU draft rule" Reuters accessed at <https://www.reuters.com/technology/eu-patent-body-be-involved-tech-standard-patent-royalties-eu-draft-rule-2023-03-28/#:~:text=The%20draft%20regulation%20requires%20EUIPO%20to%20set%20up,claimed%20SEP%20subject%20to%20registration%2C%22%20the%20document%20said.>

<sup>24</sup> Recital 33 in the draft Regulation at page 21 n1 above.

<sup>25</sup> Recital 4 and 33 in the draft Regulation at pages 15 and 21 n1 above.

<sup>26</sup> T. Müller & T Müller-Stoy (2023) "Germany: Leak Of Draft Impact Assessment And Draft SEP Regulation" Mondaq.com Contribution accessed at <https://www.mondaq.com/germany/patent/1311732/leak-of-draft-impact-assessment-and-draft-sep-regulation> on 6 June 2023.

The requirement that an SEP owner must obtain a FRAND determination from the EUIPO before demanding FRAND royalties or enforcing its SEPs would also add delay and risk to the enforcement process.<sup>27</sup> This one-sided approach denies the other party the opportunity to file counterclaims or defences.<sup>28</sup>

The mechanism outlined in the draft regulations concerning commitments to comply with the results of the FRAND determination is also noteworthy. It explains that if either party refuses to commit, the other party can continue or terminate the procedure, allowing access to courts. However, the passage highlights that this mechanism may favour implementers over SEP owners. Under the proposal, implementers can quickly terminate the process and initiate declaratory action, while SEP owners may face restrictions on litigation until the procedure is concluded. This discrepancy could lead SEP owners to prefer court litigation outside the EU over engaging in the FRAND determination process.

### III. The TRIPS Agreement and Patent Rights

#### a. Overview of the TRIPS Agreement and its significance

The TRIPS Agreement, established under the World Trade Organization (WTO), is a robust global framework for IP rights, including patents. It aims to strike a balance between promoting innovation and safeguarding public interests.<sup>29</sup> Understanding the role of injunctions within this legal regime is crucial for ensuring a fair and timely resolution of patent disputes while upholding the fundamental principles of the TRIPS Agreement.<sup>30</sup> The TRIPS agreement aims to guarantee minimum standards for all its Member States. It creates privileges for patent owners to access judicial and administrative procedures. The enforcement of patent rights depends on a patent owner's court access. This enables patent owners to protect their investments in innovative solutions.

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<sup>27</sup> B. Uphoff, A. Parikh, N. Schuneman & A. Kapadia (2023) "Delving Into the EU'S Draft Regulations on SEP Licensing" IPWatchDog accessed at <https://ipwatchdog.com/2023/04/21/delving-eus-draft-regulations-sep-licensing/id=159902/> on 5 June 2023.

<sup>28</sup> Müller & Müller-Stoy, "Updated IP Report on draft SEP Regulation" n3 above under heading 3. Aggregate Royalty and FRAND Determination.

<sup>29</sup> A. Brown, (2004), "The interface between intellectual property, competition and human rights: Overview of field and proposed contribution to knowledge" accessed at

<sup>30</sup> TRIPS Agreement Article 28.  
[https://era.ed.ac.uk/bitstream/handle/1842/2529/28\\_brownipcompandhroverview.pdf?sequence=1](https://era.ed.ac.uk/bitstream/handle/1842/2529/28_brownipcompandhroverview.pdf?sequence=1) on 21 June 2023.

Article 28 of the TRIPS agreement serves as a foundation for patent protection. It grants patent owners exclusive rights, enabling them to prevent unauthorised individuals from making, using, selling, or importing their patented inventions without consent.<sup>31</sup> These exclusive rights safeguard their innovations and provide a competitive edge in the market. Moreover, Article 28 ensures that patents are available across all technological fields as long as they meet specific criteria such as novelty, inventive step, and industrial applicability. This broad coverage empowers patentees to defend their creations across multiple sectors.

In the realm of patent litigation, Article 41 assumes immense importance. It establishes the measures that should be available to rights owners to effectively enforce their IP rights.<sup>32</sup> Patentees benefit from this provision in several ways. Firstly, it mandates members to provide adequate procedures and remedies to deter and redress IP infringements. These remedies can include injunctive relief, damages, and other appropriate measures. By utilising these enforcement procedures, patentees can seek legal recourse and protect their patent rights.

Secondly, Article 41 emphasises the need for fair and equitable enforcement procedures.<sup>33</sup> Patentees can expect an impartial, efficient, and manageable judicial system. This ensures a level playing field during patent litigation, enabling patentees to present their case effectively and assert their rights in a just and reasonable manner.

Thirdly, the TRIPS agreement requests the establishment of civil and administrative procedures to address patent infringement cases.<sup>34</sup> These procedures offer patentees a clear path to seek legal remedies, including provisional measures, that can swiftly protect their patent rights. With access to such systems, patentees can take timely action and prevent further infringement.

#### b. Conflicts between the draft regulation and the TRIPS agreement

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<sup>31</sup> W. von Meibom, & R. Nack, (2009) "Patents without Injunctions?—Trolls, Hold-ups, Ambushes, and Other Patent Warfare" *Patents and Technological Progress in a Globalized World: Liber Amicorum Joseph Straus*, 495 accessed at [https://link.springer.com/chapter/10.1007/978-3-540-88743-0\\_35](https://link.springer.com/chapter/10.1007/978-3-540-88743-0_35) on 23 June 2023.

<sup>32</sup> Article 41 of the TRIPS Agreement.

<sup>33</sup> P. Vandoren, (2002), "TRIPs: An EU Perspective" *Int'l Intell. Prop. L. & Pol'y* 79-, 7, 1 accessed at <https://heinonline.org/HOL/LandingPage?handle=hein.journals/inteproy7&div=83&id=&page=> on 24 June 2023.

<sup>34</sup> Article 28 and 41 of the TRIPS Agreement.

The draft regulation sparks debate on its compatibility with EU TRIPS-related legal obligations. The draft regulation, which seeks to ensure fair and reasonable licensing practices for SEPs, has faced scrutiny for potential conflicts with the TRIPS Agreement. Article 28.2 of the TRIPS Agreement grants patent owners the right to conclude licensing contracts, including SEPs, for which a commitment on FRAND terms and conditions is given.<sup>35</sup> Be that as it may, the draft regulation imposes obligations on SEP owners that could interfere with their negotiation of FRAND licences. This contradicts the EU's recent legal arguments in a WTO case against China dealt with by the Dispute Settlement Body (DSB).<sup>36</sup> The EU argued before the DSB that countries do not have the right under TRIPS to interfere with FRAND negotiations, raising concerns about the regulatory inconsistency.<sup>37</sup>

Moreover, the EU's SEP regulation highlights potential violations of Article 27.1 of the TRIPS Agreement, which prohibits discrimination against patent rights based on the "field of technology."<sup>38</sup> The draft regulation subjects SEPs to a specific regulatory regime and threatens patent holders with the loss of rights if they do not participate. This stands in contrast to other sectors where patent rights are not subjected to similar conditions.

The differing treatment of SEPs and other patents raises questions about the EU's compliance with the principle of non-discrimination outlined in the TRIPS agreement.<sup>39</sup> As countries continue to navigate the complexities of IP rights in the digital age, ensuring consistency and harmonization between national regulations and

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<sup>35</sup> Article 28.2 of the TRIPS Agreement provides that patent owners are entitled to the right to assign, or transfer by succession, the patent and to conclude licensing contracts.

<sup>36</sup> WT/DS611 - China – Enforcement of intellectual property rights (WTO dispute settlement case - Case launched by the EU) accessed on 4 July 2023 at [https://policy.trade.ec.europa.eu/enforcement-and-protection/dispute-settlement/wto-dispute-settlement/wto-disputes-cases-involving-eu/wtds611-china-enforcement-intellectual-property-rights\\_en#:~:text=Chinese%20manufacturers%20request%20these%20anti-suit%20injunctions%20to%20benefit,foreign%20court%20to%20protect%20and%20use%20their%20patents.](https://policy.trade.ec.europa.eu/enforcement-and-protection/dispute-settlement/wto-dispute-settlement/wto-disputes-cases-involving-eu/wtds611-china-enforcement-intellectual-property-rights_en#:~:text=Chinese%20manufacturers%20request%20these%20anti-suit%20injunctions%20to%20benefit,foreign%20court%20to%20protect%20and%20use%20their%20patents.)

<sup>37</sup> EU (2023) First Written Submission by the European Union - 8 June 2023 accessed at [https://circabc.europa.eu/ui/group/cd37f0ff-d492-4181-91a2-89f1da140e2f/library/aaa60c17-81f6-4f31-9378-a9946dab6af8/details\\_on\\_4\\_July\\_2023.](https://circabc.europa.eu/ui/group/cd37f0ff-d492-4181-91a2-89f1da140e2f/library/aaa60c17-81f6-4f31-9378-a9946dab6af8/details_on_4_July_2023)

<sup>38</sup> Article 27.1 of the TRIPS Agreement.

<sup>39</sup> Non-discrimination is a fundamental pillar that is an integral part of the WTO framework. To make the rights provided for to patentees effective, Article 28.2 requires member states to refrain from adopting or applying measures that restrict, or seek to restrict, the exercise of the right to conclude licensing contracts on FRAND terms.

international agreements remains a critical challenge for policymakers and stakeholders alike.

#### IV. Huawei v ZTE and patent enforcement in the EU

There is extensive discourse surrounding the most prevalent type of licensing commitment, which involves promising to license patents on FRAND terms. This topic has been extensively explored in legal and economic literature.<sup>40</sup> However, the precise interpretation of FRAND remains a subject of significant controversy.

Within the economic realm, there are varying viewpoints regarding the implications of FRAND commitments. Many economists argue that such obligations restrict the ability of a patent owner with declared SEPs to seek injunctive relief.<sup>41</sup> against willing licensees. Additionally, they contend that FRAND commitments aim to establish pricing limitations, ensuring that licensing fees align with an ex-ante competitive rate that reflects the value of essential patents compared to available alternatives at the time of standardisation. Studies support this perspective.<sup>42</sup>

However, it is relevant to note that this viewpoint is only sometimes accepted, and the issue of FRAND compliance may arise in SEP litigation.

##### a) Huawei v ZTE and access to justice.

In the case of *Huawei vs ZTE*,<sup>43</sup> the CJEU addressed the issue of availability of injunctive relief in the context of SEPs.

The CJEU's judgment established a framework of mutual affirmative conduct obligations for SEP owners and implementers, adherence to which provides, on the one hand, a 'safe-harbour' in competition law terms for SEP owners and, on the other hands, allows implementers to defend themselves against exclusionary claims. Some

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<sup>40</sup> J. Farrell, J. Hayes, C. Shapiro, T. Sullivan "Standard setting, patents and hold-up" *Antitrust Law J.*, 74 (3) (2007), pp. 603-670. See also J. Contreras (2017), "The Cambridge Handbook of Technical Standardization Law: Competition, Antitrust and Patents", Cambridge University Press, Cambridge, UK

<sup>41</sup> D. Swanson, W. Baumol (2005) "Reasonable and non-discriminatory (RAND) royalties, standards selection, and control of market power" *Antitrust Law J.*, 73 (1) (2005), pp. 1-58

<sup>42</sup> J. Contreras, A. Layne-Farrar (2017) "Non-discrimination and FRAND commitments" in J. Contreras (Ed.), *The Cambridge Handbook of Technical Standardization Law: Competition, Antitrust, And Patents*, Cambridge University Press, Cambridge.

<sup>43</sup> *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH* Judgment of the Court (Fifth Chamber) of 16 July 2015 C:2015:477 accessed at [EUR-Lex - 62013CJ0170 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/eur-lex.europa.eu/) on 9 June 2023.

scholars and professionals refer to this framework as “the FRAND dance”.<sup>44</sup> The Court recognised that while SEP owners – even those having a dominant market position – have the right to seek injunctive relief against infringing implementers, they must also act in good faith.

According to the CJEU, by initiating legal proceedings seeking an injunction, the SEP owner does not abuse a (potential) market dominant position, as long as prior to filing the action, it has notified the implementer about the infringement, and – after the alleged infringer has demonstrated willingness to conclude a FRAND licensing agreement – presented a respective offer to the latter. Conversely, the implementer is required to diligently respond by making a counteroffer on FRAND terms, and – in case the SEP owner rejects the counteroffer– provide adequate security.<sup>45</sup>

The CJEU's judgment struck a balance between the rights of SEP owners to enforce their patents and the need to ensure access to essential technologies for implementers. It highlighted the importance of good faith negotiations and the obligations of both parties to engage in constructive dialogue.<sup>46</sup>

Huawei v ZTE and its subsequent interpretation by national courts<sup>47</sup> are highly significant because they establish a balanced framework. The CJEU ruling ensures the rights of SEP owners to enforce their patents are protected, whilst also recognising the need to allow implementers to access essential technologies on fair and reasonable terms. The CJEU clarified that FRAND licensing is a two-way street. In doing so, the Court made an important contribution towards mitigating the risks of patent holdup and holdout associated with the licensing of FRAND-committed SEPs.<sup>48</sup>

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<sup>44</sup> M. Schächinger (2021) “SEP holder’s obligation to grant FRAND license in multi-level supply chains” Taylor Wessing Insights accessed at <https://www.taylorwessing.com/en/insights-and-events/insights/2021/01/de-sep-holders-obligation-to-grant-frand-license-in-multi-level-supply-chains>

<sup>45</sup> Huawei Technologies Co. Ltd v ZTE Corp n33 above.

<sup>46</sup> C. Tapia & S. Makris (2018) “Negotiating SEP licences in Europe after Huawei v ZTE: guidance from national courts” 4iP Council Research accessed at <https://www.4ipcouncil.com/research/negotiating-sep-licenses-europe-after-huawei-v-zte-guidance> on 11 June 2023.

<sup>47</sup> H. Tsilikas, (2017) “Huawei v. ZTE in context–EU competition policy and collaborative standardization in wireless telecommunications” *IIC-International Review of Intellectual Property and Competition Law*, 48(2), 151 accessed at <https://link.springer.com/article/10.1007/s40319-017-0560-7> on 25 June 2023. See summary of FRAND case-law in Europe at 4iPCouncil case-law, [https://caselaw.4ipcouncil.com/?\\_gl=1\\*b3liyv\\*\\_ga\\*NDY1MDg3ODk4LjE2NzE2NDA3MzA.\\*\\_ga\\_VP07T\\_ML3VF\\*MTY4ODExNzk3NC4xMTQuMC4xNjg4MTE3OTc0LjYwLjAuMA](https://caselaw.4ipcouncil.com/?_gl=1*b3liyv*_ga*NDY1MDg3ODk4LjE2NzE2NDA3MzA.*_ga_VP07T_ML3VF*MTY4ODExNzk3NC4xMTQuMC4xNjg4MTE3OTc0LjYwLjAuMA)

<sup>48</sup> V. Angwenyi, (2017) “Holdup, Holdout and F/RAND: The Quest For Balance”, GRUR Int. 2017, pp. 105-114.

## V. Conclusion: Does the draft regulation address the issues?

In the Commission's own words, the draft regulation was developed to help companies, in particular SMEs, make the most of their inventions, leverage new technologies and contribute to the EU's competitiveness and technological sovereignty.<sup>49</sup>

While the intention behind incentivising registration and providing legal certainty is understandable, it is crucial to acknowledge that it erodes the right of patent owners to seek judicial remedies when their patents have been infringed but have yet to be registered. This limitation may conflict with the original intent of the legislature or the WTO when enacting provisions to enable effective patent enforcement. The balance between encouraging registration and preserving the rights of patent owners to protect their intellectual property should be carefully considered so as to ensure a fair and equitable system for all stakeholders involved.

In addition, some scholars have noted that the draft regulation provides no safeguards to ensure the competence centre of the EUIPO's impartiality and independence.<sup>50</sup>

The draft regulation needs to be appropriately calibrated and proportional to the goals it seeks to accomplish. In its current format, the draft regulation goes far beyond what is necessary. It should be reimagined with greater stakeholder participation (clearly more than 1,5% of SMEs potential licensees as it is today) and be based upon strong empirical research. The evidence should show that there is market failure in the mobile telecommunications market that justifies this regulatory regime. At the moment, the evidence suggests the opposite.<sup>51</sup> While this draft regulation introduces restrictions on unregistered SEPs and mandates conciliation for FRAND determinations prior to

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<sup>49</sup> European Commission (2023) "Intellectual property: harmonised EU patent rules boost innovation, investment and competitiveness in the Single Market" Press Release accessed at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_2454](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2454) on 19 June 2023.

<sup>50</sup> T. Niedermaier, & P. Picht (2023) "FRAND Dispute Resolution under the Data Act and the SEP Regulation" Accessed at <http://dx.doi.org/10.2139/ssrn.4447930> on 19 June 2023. The authors suggest that the wording of who can be appointed a conciliator is remarkable unimpressive especially when compared to the leaked draft referred to in the beginning of this article. They state that the officially published draft Regulation only states that the conciliators "shall adhere to a code of conduct" and delegates its further specification to an implementing act by the Commission (Art. 26(3), (5)(a) SEP-Reg).

<sup>51</sup> G. Effraimidis & K. 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>; 4iPCouncil interview to Prof Bowman Heiden on economic value, [https://www.4ipcouncil.com/application/files/5415/9134/9553/FINAL\\_Draft\\_QA\\_Bowman\\_Heiden\\_-\\_5-6-20.pdf](https://www.4ipcouncil.com/application/files/5415/9134/9553/FINAL_Draft_QA_Bowman_Heiden_-_5-6-20.pdf)

enforcement, it is crucial to critically assess its compatibility with the provisions outlined in TRIPS Articles 28 and 41.

Considering these factors, it becomes pertinent to analyse the clash between the proposed draft and the provisions of the TRIPS agreement. The proposal serves the public interest by offering a consistent, transparent, and predictable approach to SEPs at Union level. However, it raises concerns regarding the dissemination of technology and mutual benefits for both SEP owners and implementers. Although the rules concerning FRAND determinations are time-limited and aimed at streamlining the process, they lack an ultimate binding force.

While excluding the right to effective enforcement due to non-registration is temporary and serves objectives of general interest, assessing whether this limitation is necessary and proportionate is crucial.<sup>52</sup>

Within the framework of the TRIPS Agreement, no provision explicitly authorizes WTO Member States to impose the legal prerequisites proposed by the Commission before exercising patent rights. The TRIPS agreement is very clear on conditions for patentability and the stipulations concerning patent applicants. Although the TRIPS Agreement grants Member States the prerogative to establish "reasonable procedures and formalities" to uphold IP rights, the draft SEP regime that has been the subject of this article appears to deviate from the nature of procedures and formalities envisioned under the TRIPS agreement.<sup>53</sup> By introducing these new requirements for patent rights registration and enforcement, the Commission attempts to limit access to courts, guaranteed by the TRIPS agreement. The draft regulation is unnecessary considering that this area of law is well-addressed by procedures established by the courts of law.

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<sup>52</sup> The forfeiture of rights is contingent upon the voluntary engagement of SEP holders within the registration system, implying that such loss is merely of a temporary nature. However, if SEP holders opt not to participate, the deprivation of those rights becomes permanent. This condition poses a significant concern, as SEP holders should not be compelled or obligated to partake in the registration system in the first place.

<sup>53</sup> Article 62.1 of the TRIPS Agreement.