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Retroactivity of the Proposed SEP Regulation: A Legal Analysis

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RETROACTIVITY OF THE PROPOSED SEP REGULATION: A LEGAL ANALYSIS

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INTRODUCTION

Standard essential patents (SEPs) are patents that protect technology that has been declared as potentially essential to a technical standard or specification developed by a standard development organisation (SDO). The draft SEP regulation[2], as amended by the European Parliament (EP) in February 2024, covers European patents declared to standards that will be adopted after the new regulation comes into force, except for standards where there is sufficient evidence that licensing negotiations "do not give rise to significant difficulties or inefficiencies affecting the functioning of the internal market."

However, the text of SEP regulation, specifically Article 1(4), provides that, if adopted, the regulation will also apply to European patents declared to some standards published before the date on which the regulation becomes applicable. The scope of such existing standards to be covered will be determined in a delegated act ("DA")[3] after the regulation has come into force, and will potentially include important standards such as 4G, on which many IoT applications run. Whether such standards will be retrospectively included may have significant bearing on the scale of the implementation.

Delegated acts are increasingly used to expand the scope of laws or to introduce substantive and onerous new requirements. This is perceived as controversial when the Commission operates in a more politicised and less technocratic way. Critics have argued that the Commission has often ignored negative opinions from stakeholders and more expert bodies when drafting delegated acts, although there is admittedly no binding obligation for the responsible Directorate to "consider all evidence and expert opinions" as referred to in Article 65c of the draft SEP Regulation. Rather research suggests that many DAs were introduced without a proper impact assessment, while opinions of stakeholders and expert bodies have often been ignored. [4] Furthermore, the surge in reliance on executive acts such as DAs, which are not subject to any form of prior 'competitiveness check', is the subject of increasing criticism. [5]

This paper focuses on a particular feature of the planned DA – that is, the retroactive effects of the proposed regulation. It assesses the legality of the proposed approach in the current draft Article 1(4), which provides that the regulation could apply to standards published before the entry into force of the Regulation, therefore giving potential retroactive effect to it. It asks if powers can be legally delegated to the European Commission to determine which existing standards will be covered by the new regime and on the basis of procedures and substantive criteria which it would further develop in a delegated act. It investigates four sets of relevant questions on the potential impact of these regulatory procedures in greater detail and concludes that the proposed approach is highly problematic.

1 I am thankful to 4iP Council for the financial support of this paper. All opinions expressed in this paper are my own.

2 On 27 April 2023, the European Commission published its proposal for a regulation on standard essential patents (SEPs); Proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU)2017/1001

3 See for the current text of the proposal, Article 1(4) of the draft of the regulation, as amended by the European Parliament – P9-TA (2024)0100. This Opinion is based on the text put forward by the EP.

4 See for example the position paper published by Business Europe, 'Delegated Acts, Streamlining the Scrutiny'; https://www.businesseurope.eu/sites/buseur/files/media/position_papers/internal_market/2022-10-06_pp_delegated_acts.pdf.

5 See for example the proposal for a Delegated Act on reporting standards under the Corporate Sustainability Reporting Directive. The draft published by EFRAG last November, in its current form, represents a gigantic sum of extremely granular reporting obligations in the environmental, social and governance fields). See, "Reduction of reporting obligations - Letter from Fredrik Persson and Markus J. Beyrer to Ursula von der Leyen", Brussels) https://epc.eu/content/Regulatory_DP_v3.pdf

A. What are the procedural guarantees that should be complied with if and when the proposed DA is adopted?

The DA provides to the Commission ample discretion in determining the scope of a regulation. In drafting an eventual DA to include existing standards within the scope of the draft SEP Regulation, it is essentially left to the discretion of the Commission to decide on the procedures to be followed, including which evidence is pertinent to identify the standards that would be subject to the regulation, who may submit such evidence, and whether any expert opinions should be commissioned prior to drafting a DA. [6] It is also left to the discretion of the Commission as to whether it will follow that expert advice. In other words, there are few formally binding safeguards in place to make sure that this procedure does not become a lobby competition that will impose an unnecessary burden on companies that operate in the standardization field. Not surprisingly, and in part due to the opacity of the adoption procedures, the surge in the reliance on delegated legislation is the subject of growing criticism, as explained more in detail below.

B. What legal limitations on the eventual scope of the DA can be derived from EU law?

The Court of Justice of the European Union (CJEU) has repeatedly held that the power to adopt any rules entailing political choices falling within the responsibilities of the Union legislature can<u>not</u> be delegated to the Commission through delegated acts[7]. The EU intends to delegate the power to the Commission to extend the draft SEP Regulation to potentially impact all categories of existing standards such as 4G, 5G, Wi-Fi, HEVC, AVC or DVB, in all fields of technology.

In accordance with the case law of the CJEU, essential political choices as to what existing categories of standards could be covered under the new rules would be inevitable. Such choices, as explained below, should not be delegated – but must be made by the co-legislators.

It is highly questionable whether this legal test is met when the Commission is given the power to decide on which, if any existing standards should be subject to regulation. As this is a political choice it should be accomplished by legislative act – and not by delegation.

C. What are the criteria to be deployed in determining the scope of the DA?

Following its amendment by the EP, the draft SEP regulation provides that the DA, if adopted would provide a procedure extending its scope to standards published before the entry into force of the SEP regulation if "*the functioning of the internal market is severely distorted due to significant difficulties or inefficiencies in the licensing of SEPs for certain implementations, standards and parts thereof.*"

Beyond a recital 4a, no further guidance is provided in the draft on how this assessment is to be made (and by whom), the procedures to be followed, the standard of proof required, as well as the rights of the affected parties to be involved in that assessment or to eventually challenge it.

It is important to stress that these complex assessments are not merely technical; they involve economic assessments and choices. The basic tests as well as the procedures to be followed and the guarantees of the rights of the parties involved must be specified in legislation – and not left to be

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6 The Commission recently published a tender that asks experts to propose methodologies to define if "the functioning of the internal market is severely distorted due to significant difficulties or inefficiencies in the licensing of SEPs for certain implementations, standards and parts thereof." See: https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/tender-details/d8343414-ea8e-44e7-92fc-24a2d81ff190-CN?isExactMatch=true&order=DESC&pageNumber=1&pageSize=50&sortBy=startDate

7 Judgment of the Court of Justice of 5 September 2012, Parliament v Council, C-355/10, ECLI:EU:C:2012:516, paragraphs 64, 65 and 76; Judgment of the Court of 26 July 2017, Czech Republic v Commission, C-696/15 P, ECLI:EU:C:2017:595, paragraph 78; Judgment of the Court of Justice of 11 May 2017, Dyson v Commission, C-44/16 P, ECLI:EU:C:2017:357, paragraphs 61 and 62. See also T- 628/22 Repasi ECLI:EU:T:2023:353

developed in delegated legislation. In that sense, the selection of existing standards that will be subject to the legislation is not a technical choice, but rather a political one.

D. What is the impact of the principle of retroactivity?

The protection of legitimate expectations and legal certainty are fundamental principles of the EU law.[8] One of the most obvious applications of these principles is the prohibition of retroactivity.[9]

All rules (including secondary legislation and delegated legislation) involving negative consequences for individuals (natural and legal persons) should be clear and precise, and their application predictable for those subject to them.

Rules incorporating existing standards into the new regulatory system could breach this fundamental principle irrespective of whether they are dealt with in the proposed SEP regulation itself or in a DA based on that regulation.

This paper primarily focuses on institutional issues – on the powers of the EU to extend the scope of the draft SEP Regulation by way of a delegated act and on the formalities that apply to the adoption of this type of measure. It concludes that here are few formal obligations on the EC that translate into procedural guarantees for stakeholders. This paper emphasises that it is even more important to bear in mind the legal limitations on the exercise of the EC's discretion in the drafting of a DA such as that proposed under the draft SEP regulation. This paper recalls the strict case law of the European Court of Justice – the power to adopt any rules entailing political choices must remain the responsibility of the Union legislature and should not be delegated. It is very difficult to conclude that the eventual extension of the new regime to various categories of existing standards does not entail a political choice. Finally, the paper underlines that the use of a delegated act to introduce retroactive obligations would also appear to be unprecedented and untested before the European courts. In general, the principle of legal certainty normally precludes measures arising from secondary legislation including delegated legislation from taking effect before their entry into force

II. THE DRAFT SEP |REGULATION

The stated goal of the proposed SEP regulation is to facilitate SEPs licensing by increasing transparency about SEPs, and facilitating the agreement on fair, reasonable and non-discriminatory (FRAND) licences. The Commission is proposing to set up a competence centre at the EU Intellectual Property Office (EUIPO) that would be tasked with administering a SEPs registry and database. SEP holders would have to register their SEP with the EUIPO, which would administer essentiality checks and the non-binding process for the determination of FRAND licensing terms. By setting up this system, the Commission seeks to facilitate SEP licensing negotiations for both SEP holders and implementers, by reducing current uncertainties as to the level of SEP exposure (implementers) and return on research and development activities (SEP owners) thereby also lowering the transaction costs. [10]

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8 C-17/03, VEMW [2005] E.C.R. I-4983; C-104/97 P Atlanta v European Community [1999] ECR I-6983, para. 52; and Joined Cases C-37/02 and C-38/02 Di Lenardo and Dilexport [2004] ECR I-6945, para. 70.

9 As the Court held with respect to penal and administrative sanctions: "First of all that it is clear from the Court's case-law that the principle that penal provisions may not have retroactive effect constitutes a general principle of EU law (see, to that effect, judgments of 10 July 1984, Kirk, 63/83, EU:C:1984:255, paragraph 22, and of 8 February 2007, Groupe Danone v Commission, C 3/06 P, EU:C:2007:88, paragraph 87). That general principle of law requires the infringement attributed to a person and the penalty imposed on that basis to correspond to those which were laid down at the time when the action or omission constituting the infringement occurred (see, to that effect, judgments of 10 July 1984, Kirk, 63/83, EU:C:1984:255, paragraph 21, and of 8 September 2015, Taricco and Others, C 105/14, EU:C:2015:555, paragraph 56). More specifically, first, that general principle of law is also applicable to fines of an administrative nature (see, to that effect, judgment of 28 June 2005, Dansk Rørindustri and Others v Commission, C 189/02 P, C 202/02 P, C 205/02 P to C 208/02 P and C 213/02 P, EU:C:2005:408, paragraph 202)." (at 145-146), Case C521/15 Spain v Council, C: 2017; 982.

10 See European Commission impact assessment on p. 27.

The European Commission ("the Commission" or 'EC') already acknowledges the strong impact that the proposed legislation would have on the SEPs market worldwide. In fact, the SEPs licensing scope is rarely national. International standards cover technologies, such as 4G, 5G, Wi-Fi, HEVC, AVC or DVB, and are often implemented in products sold worldwide. Therefore, licensing contracts are usually global in scope. [11]

The terms of the draft Regulation and its impact on future standards have already been the subject of extensive and often adverse commentary.[12] This paper will not recall that analysis. Its focus is on the legality of the proposed extension of many of the provisions of the draft Regulation to **existing standards**. If the DA is adopted, it will extend the reach of the SEP Regulation to certain standards published well before the date on which that regulation becomes applicable, including potentially, to important standards such as 4G and 5G, on which many IoT applications run. Such existing standards would be determined in the DA and may consequently have to be notified to the competence centre within a limited time after the date of application to trigger the registration process for the standard. European patents declared to those standards would then have to be registered at the EUIPO within the time limits set by the regulation. As of July 2023, approximately 60,000 patent families have been declared to 5G and approximately 24,000 to 4G, many of which patent families will contain at least one European patent[13].

Nevertheless, the draft regulation contains a provision enabling the Commission to review licensing practices covering **existing standards** in certain situations and thereafter to adopt a **delegated act** to add them to the list of standards covered by the new regulation. Yet, many critics have argued that, as part of its shift towards being more political, the Commission has often ignored negative opinions from stakeholders and more expert bodies when drafting delegated acts. Indeed, there is admittedly no binding obligation for the responsible DG to "consider all evidence and expert opinions" as referred to in Article 65c of the draft SEP Regulation. Research suggests that many DAs were introduced without a proper impact assessment, while opinions of stakeholders and expert bodies have often been ignored. [14] Furthermore, the surge in reliance on executive acts such as DAs, which are not subject to any form of prior 'competitiveness check', is the subject of increasing criticism.

Against this background and in order to understand the proper scope of the proposed delegated act, the procedures for its eventual adoption as well as the duties of the Commission and the rights of stakeholders in this process, this paper examines several key procedural and substantive legal issues related to the use of DA. As explained in detail below, the extension of the proposed SEP regulation to existing standards by way of a delegated act appears to breach a number of basic principles of European law.

III. THE DELEGATED ACT

The Draft SEP Regulation as amended by the EP, states that DAs can be adopted by the EC - on the basis of Article 290 TFEU - in two cases[15] :

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[11] See the Explanatory Memorandum accompanying the proposal for the draft Regulation, Com (2023) 232 of 27.4.2023, p.4.

[12] https://www.4ipcouncil.com/application/files/4616/8847/4214/2023.07.03_Proposed_Regulation_on_Standard_Essential_Patents__1.pdf

[13] https://www.lexisnexisip.com/resources/5g-patent-ownership-booms-who-is-leading-the-pack/#:~:text=As%20of%20July%202023%2C%20the,5%2C000%20patent%20families%20granted%20annually.

[14] See for example the position paper published by Business Europe, 'Delegated Acts, Streamlining the Scrutiny'; https://www.businesseurope.eu/sites/buseur/files/media/position_papers/internal_market/2022-10-06_pp_delegated_acts.pdf.

[15] Article 1(4) para 1 'Where there is sufficient evidence that, as regards identified use cases of certain standards or parts thereof, SEP licensing negotiations on FRAND terms do not give rise to significant difficulties or inefficiencies affecting the functioning of the internal market, the Commission shall, after an appropriate consultation process, by means of a delegated act pursuant to Article 67, establish a list of such use cases, standards or parts thereof, for the purposes of paragraph 3.

EP Amendment 56 adds a further amendment to Article 1(4) .

- (i) to remove use cases or standards no longer deemed essential or (ii) to extend the application of the Regulation ‘to patents that are essential to a standard that has been published by a standard development organisation, to which the SEP holder has made a commitment to license its SEPs on fair, reasonable and non-discriminatory (FRAND) terms and conditions before the entry into force of this Regulation. The exercise of this delegated power is governed by draft Articles 65 - 67. This opinion only deals with the extension of the proposed Regulation to existing standards (Article 1(4),

The TFEU introduced new articles that allow the Council and Parliament to delegate power to the Commission in two ways: i. regulating a particular field only partially, leaving the Commission with responsibility for supplementing the regulations with quasi-legislative measures (‘delegated acts’, Article 290 TFEU), and ii. entrusting the Commission with responsibility for ensuring the harmonised implementation of EU Directives or Regulations (through ‘implementing acts’, Article 291 TFEU)[16]. DAs are acts of general application, meaning that a DA applies to objectively determined situations and entails legal effects for categories of persons envisaged generally and in the abstract.[17] Measures of individual application may not be adopted by delegated acts.

Where reference is made in an EU regulation (usually referred to as the ‘basic act’) to Article 290 TFEU, the Council and Parliament, as the co-legislators, delegate to the Commission the power to adopt measures that they could have adopted themselves but in the interests of efficiency chose not to. This could be for a number of reasons; for example, because the subject matter is particularly technical and better handled by sector experts, or because delegated acts are more easily amended than regulations or directives that take an average of 14-18 months to be passed under the standard legislative procedure.

It is always the legislators who choose to delegate this power. When the Commission receives the power to adopt delegated acts under Article 290 TFEU, it is authorised to ‘supplement or amend’ the work of the legislator in a quasi-legislative role[18]. The Commission’s preparatory work on a DA includes consulting national authorities of the 27 Member States, through (new or existing) expert groups and other stakeholders, research, analysis and hearings[19]. Delegated acts are formally adopted by the College of 27 European Commissioners and take the form of Commission Regulations or Commission Directives as appropriate.

It is also important to stress that a |DA can only amend or supplement the basic act (i.e. the draft S|EP Regulation) but it cannot amend or supplement its <u>essential</u> elements. The key principle as recently recalled by the CJEU in the Dyson case[20] is that the essential elements of legislation must be determined in the basic legislative act. Therefore, the power to adopt rules entailing political choices falls within the responsibilities of the Union legislature, especially if that requires the conflicting interests at issue to be weighed up.

16 See recital 48 of the Draft on reliance on IAs.

17 Judgment of the General Court of 14 June 2012, Stichting Natuur en Milieu and Pesticide Action Network Europe v Commission, T-338/08, ECLI:EU:T:2012:300, paragraph 30; Judgment of the General Court of 7 March 2013, Bilbaína de Alquitranes and others v ECHA, T-93/10, ECLI:EU:T:2013:106, paragraphs 32 and 56.

18 The Alternative Investment Fund Managers Directive (AIFMD) invokes Article 290 TFEU. Delegated acts are required by a total of 25 articles of the AIFMD and will cover everything from the calculation of thresholds and leverage, to the European passport regime and the risk management and conflict of interest policies applicable to alternative investment fund managers. The issues may be grouped together so that 25 separate acts are not required. Articles 47b, 47c and 47d of the AIFMD set out the limits of the delegated power, covering – respectively – the duration of the delegation, the procedure and implications of a revocation and the handling of objections from the Council and Parliament. The amended Regulation on Credit Rating Agencies (CRA) also calls for delegated acts to be prepared in accordance with Article 290 in relation to fees, setting out the criteria for assessing the equivalence of the regulatory and supervisory framework of a third country, and laying out detailed rules on fines and penalty payments. The duration of the delegation, the procedure and implications of a revocation and the handling of objections from the Council and Parliament are set out in Articles 38a, 38b and 38c of the Regulation respectively.

19 See also recital 47 of the Draft on consultation and on availability of comments.

20 Dyson v Commission, C-44/16 P, ECLI :EU :C :2017 :357, paragraphs 61 and 62.

The next section briefly explains the standard procedures for adopting delegated acts and the scope for *ex ante* input and eventual control by the co-legislators (the Council and the EP) as well as the consultation procedures preceding the adoption of a DA. We then go on to summarize the growing critique of the delegation procedures – a critique which is highly relevant to the proposed DAs to be adopted under the draft SEP Regulation. The discussion then turns to the legal limitations on the scope of DAs.

A. Scrutinising the Commission's use of the delegated power ex ante

1. The Role of the Council and EP

Because the EP and Council delegate power to adopt a measure to the Commission, they also control its use through a right of revocation and/or by expressing objections (a right of objection) within agreed time limits. The time limits will be set out in the original regulation. The Commission usually applies as a standard approach a period of two months for expressing objections (with an automatic one-month extension if requested by the Council and/or Parliament)[21].

Revocation is a general and absolute withdrawal of the delegated power from the Commission. There is no right of partial revocation or amendment. Where the Council and/or Parliament oppose(s) the delegated act, it cannot enter into force without either being amended to take account of objections or replaced by new legislation if the objections are based on the argument that the Commission has overstepped the powers delegated to it. In order to exercise either of these powers of control, Council must act by qualified majority and Parliament by a majority of its members. Additional limits are often imposed on the delegation of power in the original regulation: these may be material limits (for example outlining whether the Commission may amend all or only part of an annex) and/or temporal limits (for example through the insertion of sunset clauses which would bring an automatic end to a delegation of power)[22].

Parliament must act to veto by a majority of its component members instead of the default, simple majority of votes. In practice, that veto power has only been used in highly exceptional circumstances[23].

2. The Role of Stakeholders

Given the limited powers of the co-legislators, the role of experts in drafting DAs is crucial. In addition, stakeholders should have the possibility to provide feedback on the draft texts of delegated and implementing acts and regulatory procedure with scrutiny (RPS) measures, with exceptions (see below). This feedback period normally lasts for four weeks.

With the 2016 Interinstitutional Agreement on Better Law-Making, the Commission formally agreed to consult experts designated by each Member State in the preparation of draft delegated acts[24]. Research reveals that often the same individuals are involved in both (national) expert groups

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21 The Alternative Investment Fund Managers Directive (AIFMD) sets a time period of three months for the Council and/or Parliament to object to a delegated act.

22 Article 290 1. A legislative act may delegate to the Commission the power to adopt non-legislative acts of general application to supplement or amend certain non-essential elements of the legislative act. The objectives, content, scope and duration of the delegation of power shall be explicitly defined in the legislative acts. The essential elements of an area shall be reserved for the legislative act and accordingly shall not be the subject of a delegation of power. 2. Legislative acts shall explicitly lay down the conditions to which the delegation is subject; these conditions may be as follows: (a) the European Parliament or the Council may decide to revoke the delegation; (b) the delegated act may enter into force only if no objection has been expressed by the European Parliament or the Council within a period set by the legislative act. For the purposes of (a) and (b), the European Parliament shall act by a majority of its component members, and the Council by a qualified majority

23 The manner in which the Council and Parliament can revoke the delegated power will be set out in the basic act which initially referred to Article 290.

24 Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Better Law-Making, OJ L 123, 12 May 2016, para 28

and so-called comitology committees, responsible for the adoption of implementing acts (IAs)[25]. These expert groups, however, have a broader mandate and may be consulted not only on the drafting of delegated acts, but also for the drawing up of legislative proposals, policy initiatives and even in the early preparation of an implementing act before sending it to comitology[26].

The Commission claims that it is opening up the making of delegated and implementing acts to sector experts, stakeholders and the public. It promises, in the preparation of delegated acts, "with a view to enhancing transparency and consultation," to gather, prior to the adoption of delegated acts, "all necessary expertise, including through the consultation of Member States' experts and through public consultations". Moreover, the Commission commits, whenever broader expertise is needed in the early preparation of draft implementing acts, to use expert groups, consult targeted stakeholders and carry out public consultations, as appropriate[27]. However, the Commission views the consultation of stakeholders primarily as an important instrument to collect information for evidence-based policymaking, as their views, practical experience and data will help deliver higher quality and more credible policy initiatives and evaluations. It thus collects, in the context of the preparation of delegated acts, the feedback of those stakeholders who can express general views on a specific document, although this process is not usually based on specific questions or a consultation background document.

The Commission's 'Better Regulation Toolbox 'explains the difference between 'feedback' and 'consultation' stages – with the former aiming to gather general views on an issue, whereas the latter is structured and seeks evidence[28]. In practice, this means that the relevant Directorate General (DG) needs to consider, already at the planning stage, whether an upcoming act qualifies for the feedback mechanism. The list of upcoming delegated and implementing acts that will be published for feedback is made available at regular intervals on the 'Have Your Say' webpage on Commission Europa, in order to allow stakeholders to plan ahead and prepare. For delegated acts, information on stakeholder input in general, including feedback, should in addition be referred to in the explanatory memorandum published together with the draft DA[29]. No specific replies are expected from the Commission in response to individual feedback. Following the standard four-week period the lead DG assesses the feedback received and is expected to explain how it took it into account in the explanatory memorandum accompanying the delegated act. However, there is no legally binding requirement on it to do so.

Discussions in the expert group can precede, run in parallel or come after the feedback period, depending on the nature of the act and the amount of technical expertise required for its preparation. In any case, Member State experts shall be given the opportunity to see the last version of the draft (i.e., the one incorporating the feedback), prior to the launch of the adoption procedure by the College. Many DGs carry out extensive targeted stakeholder consultations in the preparatory phase. Such early targeted consultations are discretionary, and do not replace the wider public feedback, which gives the public at large the possibility to react to and comment on the actual draft act. In some cases, e.g., when an impact assessment is required, a public consultation is carried out in the preparatory stages, which, similarly to targeted consultations, does not replace the feedback

25 The procedures for the adoption of an IA differ from those pertaining to the adoption of DA but research suggests that the same expert groups are involved for both Das and Ias – V Marissen, "The European Parliament and EU Secondary Legislation: Improved Scrutiny Practices and Upstream Involvement for Delegated Acts and Implementing Acts" in O Costa (ed), The European Parliament in Times of EU Crisis: Dynamics and Transformations (Springer 2019) : See also European Parliament, "Resolution of 13 March 2014 on the Implementation of the Treaty of Lisbon with Respect to the European Parliament" (2014) 2013/2130(INI) paras 34–35; European Parliament, "Resolution of 25 February 2014 on Follow-up on the Delegation of Legislative Powers and Control by Member States of the Commission's Exercise of Implementing Powers

26 See Art 3 of Commission Decision of 30 May 2016 establishing horizontal rules on the creation and operation of Commission expert groups, C(2016) 3301 final

27 Interinstitutional Agreement on Better Law-Making, para 28.

28 https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox/better-regulation-toolbox_en

29 Better regulation' toolbox 2023. European Commission, chap 7. https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox/better-regulation-toolbox_en

mechanisms (given that the purpose of the latter is to allow stakeholders to comment on the actual draft text).

B. Procedural shortcomings in ex ante control

1. The Co-legislators

Delayed access to information, lack of resources and short timeframes to exercise oversight were problematic issues experienced by 2014 that made the Parliament call upon the Commission to improve its involvement in the preparation of delegated acts[30]. Experts from the Parliament and from the Council systematically now have access to the meetings of Commission expert groups to which Member States' experts are invited and which concern the preparation of delegated acts but in practice, the Parliament seems to rarely make use of its right to participate in these meetings[31].

Both the Council and the Parliament have used their right to object, but the number of objections is extremely modest[32]. While the low number of objections by the Council is not surprising in light of the involvement of Member States' experts in the preparation of delegated acts, the relatively low number of objections by the Parliament has been explained by reference to the technical nature of the acts, the institution's workload and the high majority threshold for the adoption of a veto motion.

2. Stakeholders Consultation

The Commission's Better Regulation Guidelines and Toolbox streamlines the DA adoption procedure[33]. These non-binding Guidelines explicitly state that stakeholders must be given a possibility to comment on draft delegated acts. Moreover, the toolbox (tool#42: Delegated and Implementing Acts) states that impact assessments should be prepared for delegated and implementing acts "when the expected economic, environmental or social impacts of EU action are likely to be significant and the Commission has a margin of discretion regarding the content of the act." Nevertheless, it would seem that this procedure is not systematically followed, and it is up to the individual DG to compile an impact assessment where it deems appropriate[34].

Recent research suggests that many DAs were introduced without a proper impact assessment, while opinions of stakeholders and expert bodies have often been ignored. The Commission can choose to ignore negative opinions from stakeholders and more expert bodies when making delegated acts. For example, some commentators have accused the Commission of ignoring many of the recommendations of the European Banking Authority (EBA) when it imposed new rules on payments security. This was unexpected given that the EBA had engaged closely with the banks

30 V Marissen, "The European Parliament and EU Secondary Legislation: Improved Scrutiny Practices and Upstream Involvement for Delegated Acts and Implementing Acts" in O Costa (ed), The European Parliament in Times of EU Crisis: Dynamics and Transformations (Springer 2019) : See also European Parliament, "Resolution of 13 March 2014 on the Implementation of the Treaty of Lisbon with Respect to the European Parliament" (2014) 2013/2130(INI) paras 34–35; European Parliament, "Resolution of 25 February 2014 on Follow-up on the Delegation of Legislative Powers and Control by Member States of the Commission's Exercise of Implementing Powers".

31 GJ Brandsma, "Holding the European Commission to Account: The Promise of Delegated Acts" (2016) 82 International Review of Administrative Sciences 656, 666

32 For example, in 2019 the EP objected to a delegated act in the area of migration, establishing "controlled centers". The EP questioned the legality because such a notion – as essential – did not exist in the EU legislation and co-legislators should have first introduced it. In December 2021 the Council objected a delegated decision on waste. The Council Working Party on Environment justified its objection on grounds of the scope of the draft delegated act that went beyond delegation granted by the basic act.

33 https://commission.europa.eu/document/download/9c8d2189-8abd-4f29-84e9-abc843cc68e0_en?filename=BR%20toolbox%20-%20Jul%202023%20-%20FINAL.pdf

34 See for example the position paper published by Business Europe, 'Delegated Acts, Streamlining the Scrutiny'; https://www.businesseurope.eu/sites/buseur/files/media/position_papers/internal_market/2022-10-06_pp_delegated_acts.pdf.

which would have to implement the new laws, and as an expert regulator it had opined that the Commission's changes would create confusion and ambiguity.

Similarly, the adoption of the highly contentious DA to include nuclear energy in the so-called Taxonomy Regulation was at odds with advice from the relevant expert committee. Commentators argued that the impact assessment and public consultation were wrongly omitted, and that the expert group of the Member States and the designated Platform were insufficiently involved. Moreover, the assessment of the compatibility of the contested regulation with the objectives of the European Climate Change Act, as required by Article 6(4) of that Act, was lacking[35].

Although the collection of feedback is supposed to be the rule, as explained above, this is not done when one of the grounds for exception applies. First, the Commission exempts certain (product or standard) authorization decisions from the feedback mechanisms, where extensive consultation has already occurred during a risk assessment phase, where required. Second, the application of exceptions seems to remain entirely within the Commission's discretion, without any review mechanism or duty to state reasons. Third, the Commission may waive consultation altogether if it deems the matters to be highly technical. There are also other means for (more limited) stakeholder participation[36]. The Commission may choose to also include for instance non-governmental stakeholders in the expert groups, either as members or observers. Expert groups may then provide an additional, but uncertain opportunity for stakeholder participation. More systematic research on these matters at Lund University of Sweden indicates a very mixed record on the frequency, scope and duration of consultation on DAs. These researchers observe that currently the Commission only commits to participatory engagement in a limited manner and rather for the substantive rationale, that is to enhance the quality of the decision to be adopted[37]. Where a measure has proved highly contentious but also technical, the relevant DG has commissioned extensive reports. One could compare here the development of the draft DA on so-called 'additionality' for green hydrogen[38]. But there are no hard rules or obligations in this respect – the preparation of the DA in question is at the discretion of the Commission[39]. It is entirely up to the Commission to choose to follow such expert advice.

It follows that there is no a priori restriction on who can be considered "relevant stakeholders" in the consultation process leading up to a DA on existing standards such as that foreseen by the draft SEP Regulation. In principle all stakeholders have the same, albeit limited, rights to participate in a consultation or feedback. Formally, there are no preferential rights for any particular group to participate in this part of the process. As DAs must be of general application these measures should not revise or otherwise concern single SEP owners' licensing practices only. Nevertheless, as explained, a DG may carry out a targeted consultation at its discretion and this will allow selected parties to provide greater input but there is no binding obligation for the responsible DG to "consider all evidence and expert opinions" as referred to in Article 65c the draft SEP Regulation.

In the case of a DA adopted under the proposed SEP regulation, it is up to DG Grow to decide on its scope and which standards are to be included, to decide what evidence is pertinent, who may submit such evidence, and whether any expert opinions should be commissioned.

In conclusion, there are few *ex ante* safeguards in place to make sure that this procedure does not become a lobby competition that will impose an unnecessary burden on companies that operate in

35 See for example, the comments by Bruegel. https://www.bruegel.org/blog-post/europes-sustainable-taxonomy-sideshow. See further, the action brought on 7 October 2022 – Austria v Commission (Case T-625/22).

36 European Commission (2021a) Better Regulation Toolbox European Commission (2021b) Better Regulation Guidelines

37 See also Stromvik and Verhij, 'Transparency and Stakeholder Participation in executive EU law making', https://www.cfe.lu.se/sites/cfe.lu.se/files/2022-09/Delegated%20acts%20for%20web_0.pdf

38 Commission Delegated Regulation (EU) 2023/1185 of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a minimum threshold for greenhouse gas emissions savings of recycled carbon fuels and by specifying a methodology for assessing greenhouse gas emissions savings from renewable liquid and gaseous transport fuels of non-biological origin and from recycled carbon fuels. – https://op.europa.eu/en/publication-detail/-/publication/77c04db6-b0d4-11ed-8912-01aa75ed71a1/language-en

39 See for example, the discussions around the DA on Taxonomy: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13237-Sustainable-investment-EU-environmental-taxonomy_en

the standardization field. Business Europe has recently claimed that "There are numerous challenges the business community faces, as very often delegated acts make the regulatory frameworks less certain and business environment in general less predictable, instead of doing the opposite ."[40]

Furthermore, the surge in reliance on far-reaching and often very granular DAs which are not subject to any form of prior 'competitiveness check' or any real analysis of their impact on innovation is now the subject of rapidly growing criticism which it is hoped that the new Commission will urgently respond to.[41] A similar criticism has been levelled at the draft SEP regulation.[42] .

Delegated acts are also increasingly used to expand the scope of laws or to introduce substantive and onerous new requirements – a process that can lead to considerable regulatory uncertainty. The new Artificial Intelligence Act, for example[43], sets out that some AI systems are 'high-risk' and must comply with onerous requirements[44]. The Commission has been delegated the power to decide that in the future, additional systems are 'high-risk' and must become tightly regulated. As such, this is a decision that may impose significant compliance costs on businesses, potentially causing them to leave the market entirely[45].

Given the limited ex ante controls and guarantees of effective stakeholder consultation on the scope of the proposed DA, it is all the more important to ensure that the Commission remains within the limits of its competence to adopt a DA. These limits are spelled out in Article 290 TFEU as interpreted by the Court of Justice of the European Union (CJEU) and those limits must be interpreted in the light of the objectives of the basic act. Those parties adversely impacted by the DA may have a right of appeal to the CJEU if they can establish that they have standing[46]. There may also be an appeal against a decision to amend the list of additional standards on the basis of an annual review, as any such measure must also take the form of a DA. An appeal to the CJEU does not have suspensory effect, however.

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40 'Streamlining Scrutiny, at p. 4. https://www.businesseurope.eu/sites/buseur/files/media/position_papers/internal_market/2022-10-06_pp_delegated_acts.pdf

41 See for example the proposal for a Delegated Act on reporting standards under the Corporate Sustainability Reporting Directive. The draft published by EFRAG last November, in its current form, represents a gigantic sum of extremely granular legislation on reporting obligations in the environmental, social and governance fields (Business Europe (2023), "Reduction of reporting obligations. See further, Letter from Fredrik Persson and Markus J. Beyrer to Ursula von der Leyen", Brussels) https://epc.eu/content/Regulatory_DP_v3.pdf.

42 'Fathers of MP3' call for EU to abandon proposed SEP regulation - IAM (iam-media.com)]

43 Artificial Intelligence Act (Regulation (EU) 2024/1689), Official Journal version of 13 June 2024'. Interinstitutional File: 2021/0106(COD) See its recital 53 and its Art 97 https://artificialintelligenceact.eu/recital/53/.

44 Article 4 of the AI Act empowers the Commission to adopt a delegated act to update Annex 1 which contains a detailed list of approaches and techniques for the development of AI (linked to the definition of AI). A delegated act is also used in the Act to update the list in Annex 3 (which basically concerns the scope of the AI Act) by adding high-risk AI systems under certain conditions and based on a list of criteria.

45 Furthermore, in making such a decision, the Commission only needs to consider certain factors – there are no 'hard rules' that the Commission is required to meet. This level of discretion risks creating large uncertainty across the European AI sector – an industry that the EU is trying to nurture. See further, https://www.cer.eu/publications/archive/policy-brief/2024/better-regulation-europe-action-plan, March 2024]

46 The admissibility of an action brought by a natural or legal person against an act which is not addressed to them, in accordance with the fourth paragraph of Article 263 TFEU, is subject to the condition that they have standing to bring proceedings, which arises in two situations. First, such proceedings may be instituted if the act is of direct and individual concern to them. Second, such persons may bring proceedings against a regulatory act not entailing implementing measures if that act is of direct concern to them (judgments of 19 December 2013, Telefónica v Commission, C 274/12 P, EU:C:2013:852, paragraph 19, and of 13 March 2018, Industrias Químicas del Vallés v Commission, C 244/16 P, EU:C:2018:177, paragraph 39). See for standing of an MEP to appeal against a DA: Repasi v Commission (Case T-628/22, EU:T:2023:353, now under appeal, Case C-552/23 . For the failure of an interest group to establish standing to appeal against a DA see Case T-567/22; now under appeal ATPN v Commission Case C-340/23 P.

IV. SCOPE OF DAS

As already mentioned, a |DA can amend or supplement the basic act (i.e. the draft S|EP Regulation) but it cannot amend or supplement its essential elements. The key principle as recently recalled by the CJEU in the Dyson case[47] is that the essential elements of legislation must be determined in the basic legislative act. Therefore, the power to adopt rules entailing political choices falls within the responsibilities of the Union legislature, especially if that requires the conflicting interests at issue to be weighed up.

The Council and Parliament must assess whether the future measure specifically adds new 'non-essential' rules which change the framework of the Regulation, leaving a margin of discretion to the Commission. If it does, the measure could be deemed to supplement the basic instrument. A joint (non-binding) document adopted by the Council, Commission and EP restates this principle, and recalls the case law of the ECJ

As that joint document recalls:

> *"Therefore, the power to adopt rules entailing political choices falling within the responsibilities of the Union legislature, for example in that it requires the conflicting interests at issue to be weighed up on the basis of a number of assessments, may not be conferred on the Commission. When it exercises delegated or implementing powers, the Commission must fully respect the essential elements of the enabling act "48.*

A. Essential v Non-Essential

Whenever a decision requires political choices, it is up to the political legislator to make them, not the Commission. It is then exclusively up to the EU legislature to make these choices in accordance with the respective legislative procedures. They are the only democratically legitimate institutions to make such choices. Even essential elements that may even be contained in an annex to a legislative act are subject to this test.[49]

This principle was clearly stated by the Grand Chamber of the Court of Justice in case C-355/10 of 5 September 2012 on the legality of Council Decision 2010/252/EU supplementing the Schengen Borders Code as regards the surveillance of the sea external borders. The Court of Justice stated: '*provisions which, in order to be adopted, require political choices falling within the responsibilities of the European Union legislature cannot be delegated*.' (at para 65)

The Court further explained that political choices are necessary when 'the conflicting interests at issue [are] to be weighed up on the basis of a number of assessments' (para. 76). This weighing exercise becomes pertinent where there is a broad range and variety of political convictions about a certain subject-matter. Further, the Court found it "*important to point out that provisions on conferring powers of public authority […] mean that fundamental rights of the persons concerned may be interfered with to such an extent that the involvement of the EU legislature is required*" (para 77).

The '*Schengen Borders'* case stands for the general rule that interference with fundamental rights is connected to essential elements. [50]

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47 Dyson v Commission, C-44/16 P, ECLI:EU:C:2017:357, paragraphs 61 and 62.

48 Judgment of the Court of Justice of 11 May 2017, Dyson v Commission, C-44/16 P, ECLI:EU:C:2017:357, paragraph 65

49 Joined Cases T-339/16, T-352/16 and T-391/16, Paris, Brussels, Madrid v. Commission, ECLI:EU: T:2018:927, para 118. In its judgement, the Court found that the limits on emissions contained in an annex to the basic act were an essential element of the basic act, and 'in fact the central element, since the sole purpose of the inclusion of all the provisions of the regulation is to ensure that those limits are observed'.

50 In the more recent 'Europol' Case- C-363/14 - the Court has held that "even if a decision […] involves certain compromises with technical and political dimensions, such a decision cannot be regarded as requiring political choices falling within the responsibility of the EU legislature" (para 51). However importantly, the Court reasoned that sufficient safeguards were in place in the basic act so as not to allow the DA at issue in this case to amount to any real interference with fundamental rights.

The preamble to the draft SEP Regulation itself already acknowledges that for future standards, it impacts and interferes with the intellectual property rights of patent holders (Article 17(2) of the EU Charter of Fundamental Rights), in that it includes a restriction on the ability to enforce a SEP that has not been registered within the prescribed time-limits and that it introduces a requirement to conduct conciliation (FRAND determination) prior to enforcing individual SEPs. This in itself confirms that these matters should be regarded as essential and that the extension of these same rules to cover as yet unspecified categories of existing standards cannot be accomplished by a delegated measure. [51]

Furthermore, the adverse impact of the draft Regulation on future standards, as well as the interference with the rights of patent holders as laid down in TRIPS has already been commented upon. [52] International treaties concluded by the EU are binding upon it and derogations from these international obligations are not permissible.[53] The retroactive extension of the relevant provisions of the draft Regulation to various categories of existing standards by way of a DA would obviously result in interference with the intellectual property rights of holders of existing patents again underlining that decisions on essential elements would be delegated to the Commission in this instance.

It follows from the above that if the EU wants to extend the SEP Regulation to potentially also impact any existing standards such as 4G, 5G, Wi-Fi, HEVC, AVC or DVB this should be accomplished by legislative act – and not by delegation, especially given the potential impact of the measure. European patents declared to those standards would then have to be registered at the EUIPO within the time limits set by the regulation. As of July 2023, approximately 60,000 patent families have been declared to 5G and approximately 24,000 to 4G, many of which patent families will contain at least one European patent. In accordance with the case law of the CJEU, essential political choices as to what existing categories of standards could be covered under the new rules would be inevitable. Such choices should not be delegated – but must be made by the co-legislators.

Indeed, and unsurprisingly, several governments have already openly questioned the Commission's competence to adopt DAs under the draft Regulation. [54]

V. THE CRITERIA FOR DETERMINING WHETHER A SPECIFIC EXISTING STANDARD SHOULD FALL WITHIN THE SCOPE OF THE PROPOSED DA?

It will be recalled that the current version of Art 1(4) (as introduced by the EP) states that the provisions of the (draft) SEP Regulation may apply to patents in force before the entry into force of the Regulation before the entry into force of the regulation, where '(i) the functioning of the internal market is severely distorted due to (ii) significant difficulties or inefficiencies in the licensing of SEPs.'

It is however unclear from this draft provision how these vague tests are to be developed and operationalised in the subsequent DA, given the actual workings of the market and the complexity of the licensing process, and given the absence of empirical evidence of either 'severe market distortion' or inefficiencies in the licensing process.[55] Furthermore the tests are unrelated to the

51 Standing case law of the Court of Justice of the European Union (CJEU) confirms the principle that all EU acts must respect fundamental rights, which are an integral part of the general principles of law protected by the CJEU (***Internationale Handelsgesellschaft***). Only under strict conditions (see also art. 52(1) of the EU Charter) there is room to restrict these fundamental rights.

52 https://www.aipla.org/docs/default-source/advocacy/aipla-comments-to-eu-on-proposed-sep-regulation-8.10.23.pdf?sfvrsn=f5e8fe80_1

53 Case C-366/10 Air Transport Association of America and Others v Commission.

54 For a brief overview see http://www.fosspatents.com/2023/10/governments-of-three-medium-sized-eu.html

55 The available evidence, moreover, does not indicate the existence of market failure, due to the burdens of SEP related litigation, that would justify intrusive market intervention (. In fact, the Commission's own empirical evidence points to no systemic negative effects on SEP owners and implementers (**Empirical Assessment of Potential Challenges in SEP Licensing**, p. 185). See also K Gupta and C. Borges, January 2024 'Standard Essential Patents and European Economic Security' (csis.org).

existing standards themselves and seem to focus on how the market might evolve going forward – and indeed the market might initially react favourably to a standard in the early adoption phase but might subsequently react unfavourably in a later adoption phase.

Notably, the EC itself has recognised that '*while increasingly complex end products conform to a large number of technology standards subject to (declared) SEPs, individual standards are implemented in a very large number of products in diverse industries. The WiFi (IEEE 802.11) series of standards for example has been implemented in a very large number of different products. Considering only those products that it has certified to be compliant with one or multiple WiFi standards (likely to be a subset of an even larger universe of WiFi-compliant products), the WiFi alliance currently lists 67,663 different WiFi implementations from 602 different manufacturers*.'[56]

According to the second subparagraph of Article 290(1) TFEU, a legislative act delegating to the Commission a power to adopt a non-legislative act of general application to supplement or amend certain non-essential elements, as discussed above, must also explicitly define the objectives, content, scope and duration of that delegation of power. This is an important test which governs the inclusion of certain existing standards, parts thereof or use cases, even if their inclusion within the scope of the draft regulation is deemed 'non-essential'.

The purpose of granting a delegated power can therefore serve only to achieve the adoption of rules coming within the regulatory framework as defined by the basic legislative act.[57] The definition of the power conferred must, in particular, be sufficiently precise and specific,[58] in that it must indicate clearly the limits of the power and must enable the Commission's use of the power to be reviewed by reference to objective criteria fixed by the EU[59] in the basic act. Arguably, these tests are not met. The DA is intended be applied to existing technical standards that meet the two very vague criteria specified in the draft Article 1(4) of the draft regulation.

Yet no further guidance in the basic act itself is provided as to how these criteria are to be applied. Recital 4a merely notes that "multiple legal disputes, challenges or litigations" could be considered such evidence. Recital 5 considers market failures that hinder investment in the Single Market or the roll-out of innovative technologies, and emerging implementations. [60] Recitals only have an interpretative function and can serve to supplement but not substitute for clearly drafted criteria.

The basic act - i.e., the draft SEP Regulation - should therefore set out in more detail the required objective criteria for making these complex assessments. The provisions of a DA extending the reach of the SEP Regulation to existing technical standards (and parts thereof and the relevant implementations) should be limited to determining fair and transparent procedures to be followed in order to meet these very stringent criteria which must be clearly defined in the basic act. [61]

56 The data from the Wi-Fi Alliance "Product finder" (https://www.wi-fi.org/product-finder) was retrieved on January 17, 2022. It is cited in the study was commissioned by the European Commission (GROW/2021/MVP/0010): https://www.lexisnexisip.com/wp-content/uploads/2023/09/Empirical-Assessment-of-Potential-Challenges-in-SEP-Licensing.pdf

57 CJEU, judgment of 18 March 2014, C-427/12, EU:C:2014:170, paragraph 38

58 See further, A Volpato, 'Delegation of Power in EU Legislation', Routledge 2022, at 143.

59 CJEU, judgment of 26 July 2017, C-696/15 P, EU:C:2017:595, paragraph 49.

60 The Commission has however not been able to identify concrete market failures on the basis of the research commissioned by it – see in particular the expert 'Empirical Assessment of Potential Challenges in SEP Licensing', 2023. See further, K Gupta and C. Borges, January 2024 'Standard Essential Patents and European Economic Security' (csis.org). ' .. the 2023 study authorized by the commission found that SEP litigation is decreasing over time. Disputes over FRAND terms peaked in 2014, and 2021, the most recent year with data, had the fewest number of FRAND disputes. Notably, the study also found no evidence that companies were "opting out" of the system and avoiding utilizing technology protected by an SEP. Researchers from Stanford and UC Berkeley have found widespread availability of licensing agreements and comparatively low royalties in SEP-reliant industries, while a separate 2023 paper found that SMEs, the most vulnerable entities in the ecosystem that the commission intends to protect, are rarely the subject of litigation regarding SEPs'.

61 Case- C-363/14 'Europol'.

VI. RETROSPECTIVE OR RETROACTIVE APPLICATION

The question of retroactive application of the SEP regulation (i.e., if the regulation is applied to standards published before the regulation entered into force) raises additional concerns.

A retrospective application of a law refers to a situation where new laws change the future legal consequences of actions that took place prior to the new rules being enacted. Here, the new rules apply only from the date of their entry-into-force, but these new rules also have implications to activities that have been commenced (but not completed) in the past. Retroactive application on the other hand, refers to a situation where laws apply to transactions that have been concluded before the enactment of a new law[62].

A DA applying the draft SEP Regulation to existing standards would have retroactive application on patented technologies that have been already contributed to a standard. When participating in the development of a standard, innovators consider the rules for licensing SEPs when deciding whether to contribute their technology to a standard. If the rules are too stringent, because for example they make it too onerous for the innovator to enforce its patents and obtain a fair compensation, the innovator might opt against contributing its technology to a standard. The SEP regulation would however change this rule ex post, after innovators have already made their decision to contribute their patented technologies.

It can be recalled that in its detailed impact assessment accompanying the draft SEP Regulation the Commission considered five separate options on how to achieve its stated aims, but it expressly noted that "*For options 1 to 5 a sub-option to cover all past standards (e.g. 3G) was discarded as too costly, because of the large number of patents that would need to be registered, and having the effect of reducing legal certainty for existing contracts*".[63] It is therefore all the more surprising that retroactivity for some vaguely defined standards is still included in the Regulation and the scope of that retroactive application will be determined in a DA.

A retrospective application of national law may be triggered when the legislation in force is adjusted, for example because there is new evidence showing that the assumptions on which the legislation was based are no longer correct, or because of changes in the political environment. Retroactive application is that such laws apply back before their publication and to facts that have occurred entirely in the past and change the legal consequences of those "completed" transactions. Given the likelihood that legitimate interests will be adversely affected, the latter form of retroactive application of laws is rather rare in most national legal systems.

The protection of legitimate expectations and legal certainty remains a fundamental principle of the EU law[64]. These closely related legal principles have a number of different applications in the EU legal system. Among other things, these principles require that rules (including secondary legislation such as directives and regulations) involving negative consequences for individuals (natural and legal persons) should be clear and precise, and their application predictable for those subject to them[65].

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[62] D. Fouquet and J. Nysten, Retroactive and retrospective changes and moratoria to RES support (Becker, Buttnes Held Policy Brief, March 2015). The authors give as an example of retrospective change: "Applied to changes in RES support schemes, this would mean that the law would enter into force on a given date and from that date on e.g. the support also for RES installations existing and operating already prior to the entry into force of the law would be adjusted."

[63] European Commission Impact Assessment at p 35 - https://single-market-economy.ec.europa.eu/system/files/2023-04/SWD_2023_124_1_EN_impact_assessment_part1_v4.pdf.

[64] C-17/03, VEMW [2005] E.C.R. I-4983; C-104/97 P Atlanta v European Community [1999] ECR I-6983, para. 52; and Joined Cases C-37/02 and C-38/02 Di Lenardo and Dilexport [2004] ECR I-6945, para. 70.

[65] C-17/03, VEMW [2005] E.C.R. I-4983, para 80; 325/85 Ireland v Commission [1987] ECR 5041; C-143/93 Van Es Douane Agenten [1996] ECR I-431, para. 27; and Case C-63/93 Duff and Others [1996] ECR I-569, para. 20.

One of the most obvious applications of these principles is the prohibition of retroactivity.[66] As the General Court has repeatedly confirmed, "The principle of the protection of legitimate expectations is a general principle of EU law which, as such, is applicable in any context falling within the scope of EU law. "[67] Yet the DA would apply to existing standards without any temporal limitation. Moreover, retroactive application of the draft Regulation can also practically disrupt how settlements are completed and how FRAND terms are negotiated in future. In other words, there seems a high likelihood that - due to the retroactive application - already completed settlements and those still outstanding will not arrive at the same FRAND terms.

It can also be doubted that the proportionality principle can be respected if the proposed legislation is applied retroactively. The proportionality principles is a fundamental principle of EU law, and according to settled case-law, fundamental rights as guaranteed by the EU Charter can be restricted only provided that those restrictions correspond to objectives of general interest pursued by the EU and do not constitute, with regard to the aim pursued, a disproportionate and intolerable interference which infringes the very essence of the rights guaranteed.[68] It is not clear that any, let alone all of those requirement are satisfied in the case of the proposed SEP regulation.

Transitional periods and retroactivity

In general, the principle of legal certainty normally precludes measures arising from secondary legislation including delegated legislation from taking effect before their entry into force, or at the earliest from their publication. It may exceptionally be otherwise where the purpose to be achieved so demands and where the legitimate expectations of those concerned are duly respected.[69] The principle of legal certainty, as interpreted by the CJEU, equally requires that special situations of economic operators should be taken into account in order to protect these operators from sudden changes in the legislative framework that have a significant negative impact on their investments or their economic viability.

The principle of legal certainty requires, particularly, that rules of law be clear, precise and predictable in their effects, in particular where they may have negative consequences on individuals and undertakings.[70] One technique to protect legitimate expectations and maintain some degree of legal certainty for existing players is to build in adequate transitional periods. Importantly, and in order to protect those affected by sudden legislative changes at EU level, the CJEU has required the implementation of such new rules to be combined with a transitional period ('grand fathering') to allow market players to adapt their positions to these novel 'rules of the game'. [71] This transitional period may only be excluded where there is an overriding consideration of public interest.[72]

66 As the Court held with respect to penal and administrative sanctions: "First of all that it is clear from the Court's case-law that the principle that penal provisions may not have retroactive effect constitutes a general principle of EU law (see, to that effect, judgments of 10 July 1984, Kirk, 63/83, EU:C:1984:255, paragraph 22, and of 8 February 2007, Groupe Danone v Commission, C- 3/06 P, EU:C:2007:88, paragraph 87). That general principle of law requires the infringement attributed to a person and the penalty imposed on that basis to correspond to those which were laid down at the time when the action or omission constituting the infringement occurred (see, to that effect, judgments of 10 July 1984, Kirk, 63/83, EU:C:1984:255, paragraph 21, and of 8 September 2015, Taricco and Others, C-05/14, EU:C:2015:555, paragraph 56). More specifically, first, that general principle of law is also applicable to fines of an administrative nature (see, to that effect, judgment of 28 June 2005, Dansk Rørindustri and Others v Commission, C- 189/02 P, C- 202/02 P, C- 205/02 P to - 208/02 P and C 213/02 P, EU:C:2005:408, paragraph 202)." (at 145-146), Case C-521/15 Spain v Council, C: 2017; 982.

67 T-217/17 FVE v Commission, 20 September 2019, at 68.

68 The draft refers at its footnote 26 to Judgment of the Court of Justice of 13 December 1979, Hauer v. Land Rheinland-Pfalz, C-44/79, EU:C:1979:290, para. 32; judgment of the Court of Justice of 11 July 1989, Hermann Schräder HS Kraftfutter GmbH & Co. KG v. Hauptzollamt Gronau, C-256/87, EU:C:1999:332, para. 15, and judgment of the Court of Justice of 13 July 1989, Hubert Wachauf v. Bundesamt für Ernährung und Forstwirtschaft, C-5/88, ECLI:EU:C:1989:321, paras. 17 and 18.

69 Case 98/78, A. Racke v Hauptzollamt Mainz [1979] ECR 69, para 20–22

70 Case C-17/03 VEMW and Others [2005] ECR I-4983, paragraph 80 and the case-law cited

71 C-17/03, VEMW [2005] ECR I-4983 and C-347/06, ASM Brescia C-347/06, ASM Brescia [2008] ECR I-5641.

72 Case 74/74, Comptoir national technique agricole (CNTA) SA v Commission [1975] ECR 53.

As the Court held in the ASM Bresia case, "*the principle of legal certainty not only permits but also requires that the termination of [the disputed rights] be coupled with a transitional period which enables the contracting parties to untie their contractual relations on acceptable term*s..."[73]

To date the CJEU has not had occasion to rule on the legality of a retroactive application of a basic act via a DA. [74] In practice the Commission usually respects the above principles and should at a minimum include a transitional period in a DA. The so-called 'Additionality' Delegated Act[75] is a good example of 'grandfathering' existing investments in a DA [76]. That DA sets out the conditions that must be met for the supply of electricity from renewable energy sources (RES) to green hydrogen production facilities to qualify as fully renewable. It stipulates that the hydrogen component of such RES fuels can be produced through one or more of production pathways. The green hydrogen fuel producer can show that it has entered into a Power Purchase Agreement (PPA)[77] (directly, or via intermediaries) with one or more RES producers and such RES generation facility is no older than 36 months at start-up of the new fuel facility. This requirement is however 'grand-fathered'. The DA will apply from 1 January 2028, except for green hydrogen fuel facilities commencing operations before that date, in which case they will only apply 10 years later – i.e., as from 1 January 2038.

At the same time the inclusion of a transitional period for existing standards might not be of practical significance. A SEP holder cannot withdraw the commitment it made to the SDO to license its SEP on FRAND terms. Nor is it possible in practical terms to remove a particular technical feature from a published standard. The only choice a SEP holder has is whether to contribute its technology to a standard that is under development but not yet published. In effect a technology developer would have to withdraw from the standardisation process. A longer implementation period would give developers a better opportunity to assess the situation and make their choice. However, this would not resolve all the problems. The enforceability of the SEP is still at risk. If rules are amended retrospectively, then technology developers working with standardisation bodies will no longer be able to rely on established law when making commercial decisions. Even to the contrary, transitional periods - when combined with retractive application - could artificially create a "hold out" situation where implementers intentionally wait until the expiry of the transitional period before they start negotiations. Transitional periods may not resolve the problem as retroactive application remains possible even throughout such periods.

VII. FINAL REMARKS

The draft SEP Regulation has been the subject of considerable criticism. In so far as it would impact new standards, adopted after its entry into force, it is argued that by devaluing European intellectual property rights, the proposal may ultimately undermine European innovation. As the European Union is a research and development powerhouse for the technologies protected by SEPs, such as cellular devices, IoT devices, and connected automobiles, it is predicted that the EU economy is likely to be a net loser if the balance between holders and implementers is changed. The centrality of Europe in standard setting is already declining and reforms that undermine the integrity of

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73 C-347/06, ASM Brescia C-347/06, ASM Brescia [2008] ECR I-5641, paragraph 71.

74 As indicated, in the pending case C-376 /23 the Advocate General has opined on 11 July 2024, at 66- 69, that in accordance with the principle of legitimate expectations no retroactive departure from existing legal rights is permissible in an executive measure.

75 The Delegated Act defines the production requirements for "renewable fuels of non-biological origin" (RFNBO) (i.e. green hydrogen and derivative fuels.

76 Hydrogen production not relying strictly on additional resources will pose serious risks of competition with other end-uses for precious renewable electricity generation. If the increased electricity demand from electrolysers is not matched by additional renewable generation capacity, this will also increase demand for fossil-based generation – increasing emissions overall

77 A PPA with additionality is a long term commitment where the contract for the use of renewable energy is of a duration of some 5-15 years..

standards and the SEPs system will accelerate this development and work against Europe's broader interest.[78] The extension of the new regime to existing standards may well exacerbate these trends. Yet, as explained in this paper, the potential inclusion of existing standards has not yet been the subject of any impact assessment by the Commission (EC).

This paper has primarily focussed on institutional issues – on the powers of the EU to extend the scope of the draft SEP Regulation by way of a delegated act and on the formalities that apply to the adoption of this type of measure. It has pointed out that although the EC has published various codes and guidance on how it should consult and with whom, prior to the adoption of a DA, there are few formal obligations on the EC that translate into procedural guarantees for stakeholders. The Commission enjoys substantial discretion in drafting a DA. Even if a more detailed impact assessment would now be conducted before the inclusion of existing standards into the proposed regime, there are no procedural guarantees that the EC would reflect the results of that impact assessment in the subsequent DA. Indeed, as we have seen, the failure of the EC to conduct a full competitiveness check prior to the adoption of controversial DAs is attracting growing criticism.

It is therefore even more important to bear in mind the legal limitations on the exercise of the EC's discretion in the drafting of a DA such as that proposed under the draft SEP regulation. This paper has recalled the strict case law of the European Court of Justice – the power to adopt any rules entailing political choices must remain the responsibility of the Union legislature and should not be delegated. It is very difficult to conclude that the eventual extension of the new regime to various categories of existing standards does not entail a political choice. Furthermore, and even if the draft Regulation provides that existing standards or parts thereof or use cases will only be covered by it if certain criteria are met, these criteria are vaguely drafted and do not appear to be compliant with the case law on delegation.

Finally, the use of a delegated act to introduce retroactive obligations would also appear to be unprecedented and untested before the European courts. In general, the principle of legal certainty normally precludes measures arising from secondary legislation including delegated legislation from taking effect before their entry into force. The legitimate expectations of those concerned must be duly respected. One technique to protect legitimate expectations for holders of existing rights in certain sectors has been to build in adequate transitional periods –. However, it is doubtful if the incorporation of transitional periods in the draft Regulation or the proposed DA could accommodate all the legitimate interests at stake.

[78] See, Fredrik Erixon and Oscar Guinea 'Reforming Standard Essential Patents: Trade, Specialisation, and International Jurisprudence', ECI_23_PolicyBrief_04-2023_LY01.pdf (ecipe.org).