EARTO Position Paper on the EC Draft Proposal for a Regulation on Standard Essential Patents (SEPs)

31 May 2023

The European Commission (EC) has recently published a draft proposal for a regulation on Standard Essential Patents (SEPs). In the frame of the discussions on such regulation, EARTO hereby provides its input to the EC's formal amending regulation (EU)2017/1001 of 27 April 2023. EARTO agrees with the EC that technical standardisation and SEP licensing are of the utmost importance to the European innovation ecosystem, and welcomes the attention given by the EC to this topic. However, EARTO is concerned that the proposed Regulation, if adopted, would be detrimental to the functioning of the European innovation ecosystem and ultimately to the European consumers of technologically advanced products.
Accordingly, if this regulation is confirmed as necessary by Member States, EARTO calls on the EC to ensure that its new Regulation will:

- not induce new insecurities for market players,
- not lead to new hurdles (additional red tape and additional costs) for Intellectual Property (IP) owners to participate in SEP licensing,
- consider aspects of global competitiveness and,
- not come to the detriment of the European RD&I actors.

EARTO expresses its great concern with the following:

1. **Proportionality:** The proposed Regulation is too far-reaching, overreaching its stated objectives.
2. **Contra-productive:** The proposed Regulation will disrupt the global processes for technology transfer.
3. **Increasing Costs:** The proposed Regulation will severely increase the costs for IP owners to participate in technical standardisation processes and SEP licensing. This would discourage RD&I actors such as universities and RTOs from participating in the process.
4. **Unbalanced and In Contradiction with other EU Policies & Regulations:** The proposed Regulation is out of tune with other EU Policies, especially RD&I Policy and EU Competition law.
5. **Global competitiveness:** The approach chosen by the EC would amount to territorial overreach and would probability trigger similar measures by other jurisdictions as well as probably contrary to the TRIPS Agreement.

EARTO summarises below why its members, Research and Technology Organisations (RTOs), are seriously concerned by this proposed SEP Regulation. RTOs have many transfer activities linked to the EU Digital Single Market. In addition, RTOs are very active in EU and International technical standardisation. Accordingly, already fearing a deterioration of the regulatory context for SEPs and innovators in Europe, EARTO had taken position numerous times on this subject since 2017.

1. Legislative measures are not needed at this moment

In 2017, the EC issued its Communication "Setting out the EU approach on Standards Essential Patents", calling for a comprehensive and balanced approach to SEP licensing to incentivise the contribution of the best technology to global standardisation efforts and foster efficient access to standardised technologies. Although EARTO did not submit a paper on the subject during the consultation process, EARTO acknowledged those objectives.

However, EARTO cannot today endorse the currently proposed measures not viewing their necessity in the current market for high-tech products. From EARTO's perspective, the problems the Regulation seeks to tackle are clearly overstated.

For example:

1. Yes, there is an over declaration in the ETSI SEP database. However, this is caused by ETSI's IPR policy requiring participants in standard setting procedures to file their potential SEPs in a very early stage when the market is often not yet known. In this case, all participants in the standardisation committee know the IP positions of the other stakeholders even before the standard is adopted. Furthermore, the Regulation seems particularly motivated by market developments in the fields of mobile telecom and Internet of Things (IoT) that cannot be extended

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to all fields. And especially in those mobile telecoms and IoT fields, transparency of SEPs is of lesser importance. In these fields, SEP licensing is largely taken care of by private patent pools. As required by competition law, a licensing declaration in the IP database of a Standard-setting organisation (SSO) will not suffice here. The essentiality of such patents to a standard must be vetted by an independent evaluator before it can be admitted to the pool.
Private patent pools are only set up very downstream of the process when the standards are definitively set, and the market is known. Patent pool administrators are highly professional organisations that know how to organise such essentiality checks. This has also been clearly highlighted in the EC Joint Research Centre (JRC) pilot study[1].

2. And yes, there is ongoing litigation between IP owners and technology implementers. However, the litigation propensity is in fact quite low. The great majority of SEP licensing is done on a voluntary basis: either bilateral or via patent pools. There is in itself nothing unusual or unethical about courts taking decisions on business disputes. There is a limit to the level of detailing of any legislation. In the case of business disputes that cannot be resolved amicably, recourse is taken to the courts. The fact that the great majority of disputes is NOT taken to the courts actually indicates that the current SEP licensing system is functioning rather well. The courts in the Member States and the Court of Justice of the European Union (CJEU) or the newly established Unified Patent Court can deal with the challenges arising from SEP license negotiations. Adding additional layers to this existing system will not improve the situation and simply add additional clutter.

3. Yes, the system may be perceived as rather untransparent for SMEs, judging by the fact that SMEs are underrepresented as SEP licensees. However, SMEs usually often remain "below the radar" of large licensors, including patent pools. Why? Because there usually is no viable business case for large licensors to do so: licensing being a business. On the other side, there are genuine hurdles for universities, RTOs and SMEs alike to participate in standard-setting processes. Participation by these RD&I actors in SSOs should be promoted, to do so RD&I actors need to be financially incentivised by the EC.

Accordingly, EARTO does not perceive a compelling need for a further Regulation on SEPs as we do not recognise the problems supposedly identified. There are no strong indications that our current SEP licensing system poses a hurdle to either innovation or access to technology in Europe.

2. Not effective

The measures proposed in the regulation will not allow to reach the envisaged goals. The present system has grown over the years as a time-tested balance of the various business interests between innovators and technology implementors. Any legislation that aims to divert from the existing practice significantly and fundamentally should be based on a broad consensus of stakeholders. A functioning technology marketplace should not overlook the interests of the IP owners as revenue on IP licensing pays for the research performed. Instead, the proposed measures will create some deterrents for licensors to 1) exercise or enforce their patent rights and to develop new technology as well as to 2) participate in standardisation.

Some of those deterrents our members identified are among others:

- Mandatory essentiality checks by a European Union Intellectual Property Office (EUIPO) that has no prior experience in this field.
- Registration of SEPs with the EUIPO before (enforced) licensing may take place.
- The possibility that the EUIPO sets a royalty cap on royalties for SEPs.

3. Increasing Costs

RTOs are key players in the EU Digital Single Market and active in EU and international technical standardisation. An effective EU standardisation regulatory framework should not weaken the well-functioning EU IPR system: standards and patents are complementary. In this respect, EARTO is concerned that this proposed Regulation risks weakening this well-functioning EU IPR system by adding significant administrative constraints and significant costs for SEPs holders. This would only discourage RTOs from participating in standardisation and from protecting and declaring SEPs in standards.

As the saying goes: "the cost comes before the benefit". If adopted the proposed Regulation could easily result in a demotivation of technology providers to participate in the development of open standards as:

- it would increase the administrative and financial burden and,

[1] « Pilot study for essentiality assessment of standard essential patents, Publications Office of the European Union», Bekkers, R., Henkel, J., Tur, E. M., et al., 2020.

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- it would induce new costs linked to SEPs.
- it would reduce the chances for technology providers to earn sufficient royalties to induce them to innovate and participate in open standards development.

The now proposed Regulation would further increase those provisional costs:

- A mandatory registration process of essential patents with the EUIPO would be required before any licensing revenue or IP enforcement might occur. The SEP owner would be exposed to mandatory essentiality checks in a mandated format.
- In particular, an SEPs' owner would now have to bear the costs of such essentiality checks long before any substantial financial return through royalties may be expected. Such fees would then be added to the already substantial provisional costs of filing, prosecuting and maintaining patents with the various patent offices (WIPO, EPO, etc.).

While this may not be a major obstacle for larger industrial players, it would surely be another substantial disincentive for RD&I actors such as universities and RTOs.

4. Unbalanced and In Contradiction with other EU Policies & Regulations

Proportionality is a general principle of EU law. It restricts authorities in the exercise of their powers by requiring them to strike a balance between the means used and the intended aim. EARTO considers the proposed draft to be unbalanced, creating more problems than it intends to solve.

By putting in place provisions likely to demotivate researchers and research organisations from participating in the developments of open standards, this regulation would also go against the objectives of the EC own recent code of practice on standardisation in the European Research Area (ERA) recommending greater participation by researchers in standardisation. The EU should develop measures encouraging researchers and research performing organisations to participate more in standardisation rather than setting up an increasingly demotivating regulatory framework.

RTOs are technology providers. EC's recommendation on a code of practice on standardisation for researchers in the ERA recognises that standardisation can be a powerful lever for technology transfer in addition to the system based on licenses and patents. This raises the question of SEPs in particular. RTOs do not directly exploit their results since their vocation and their missions given by their national level is to transfer their results to the economy: RTOs results are directly exploited by industry. Therefore, the only return of investment on SEPs that RTOs can hope for are the FRAND royalties earned on SEPs.

If royalties are an important issue for RTOs, it is neither RTOs' main source of income nor their goal per se: RTOs aim to carry out efficient technology transfer mainly through their Intellectual Property and Licensing efforts. Royalties are important to cover RTOs' patent costs and because RTOs use their royalty earnings to fund new RD&I programmes. Generally, RTOs receive public funding (i.e. taxpayers' money) and are under the clear obligation to use public investments efficiently.

In addition, with the new proposed Regulation, RTOs' SEPs would be subject to the fixing of artificial royalty caps determined in advance without considering the reality of specific markets. Consequently, the prices of the licenses would not correspond to the market price, whereas RTOs, as Research and Knowledge Dissemination Organisations, are required by national and European state-aid legislation to grant licenses at market price.

5. Global competitiveness

Following similar reasons as set out in this paper, the USA have chosen not to regulate SEPs, but instead have opted to cooperate with WIPO on this subject. The USA Government picked a much softer approach to reflect on and disseminate good practices in this area as well as by relying on and strengthening the skills of the WIPO Arbitration and Mediation Center in the event of lawsuits or disputes.

Keeping global competitiveness was one clear reasons behind the USA's choice for this softer approach refraining from direct interference with the market. In this context, EARTO would like to emphasis the rather stark warning given by six high ranking former US officials from "both sides of the aisle", recently send to EC President von der Leyen and EU Commissioner Breton on this topic. In this letter, the writers refer to the China's controversial policy of allowing anti-suit injunctions. A practice that denies patent holders from asserting their patent rights against infringers before European courts. A practice that, according to the EC would be contrary to Article 28 of the TRIPS Agreement. However, if the draft Regulation is adopted, Europe will take unilateral action that may have very similar effects.

Such territorial overreach may have detrimental or even disruptive effects on collaboration with other jurisdictions outside the EU. Currently, we have a worldwide system of largely global technical standards spanning multiple jurisdictions where licenses on SEPs are often available on a one-stop-shopping basis. This acquis may be jeopardised by adopting the proposed Regulation. Nothing will stop other jurisdictions from adopting similar legislation. It may be assumed that such development will lead to lower revenue

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rates on IP with a race to the bottom between jurisdictions in lowering the production costs of their home industry. This would jeopardise the trade surplus that the EU has created by enormous investments made over the years in technology research and development. The USA government has clearly voiced such concerns, concerns that EARTO clearly shares being a key EU producer of technical research and development.

EARTO remains at the disposal of the EU Institutions to further discuss this input and recommendations and support the EC in its work on technical standardisation and SEP licensing for the well-functioning of the European innovation ecosystem.

RTOs - Research and Technology Organisations: *From the lab to your everyday life. RTOs innovate to improve your health and well-being, your safety and security, your mobility and connectivity. RTOs' technologies cover all scientific fields. Their work ranges from basic research to new products and services development. RTOs are not-for-profit organisations with public missions to support society. To do so, they closely collaborate with industries, large and small, as well as a wide array of public actors.*

EARTO - European Association of Research and Technology Organisations: *Founded in 1999, EARTO promotes RTOs and represents their interest in Europe. EARTO network counts over 350 RTOs in more than 31 countries. EARTO members represent 150.000 highly-skilled researchers and engineers managing a wide range of technology infrastructures.*

Read more on EARTO's previous papers linked to this topic:

- *EARTO Response to the EC Consultation on draft Code of Practice on standardisation for researchers, 13 June 2022*
- *EARTO Answer to the EC Consultation on Standard Essential Patents, 09 May 2022*
- *EARTO Response to the EC Consultation on EU Standardisation Strategy, 28 July 2021*
- *EARTO views on the EC Communication on Standard Essential Patents, 22 December 2017*
- *EARTO Position Paper on the European Licencing Framework for Standard Essential Patents, 8 November 2017*

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