

Comments of the Public Interest Patent Law Institute on the European Commission’s Proposal for a Regulation of the European Parliament and of the Council on Standard Essential Patents and Amending Regulation (EU)2017/1001

The Public Interest Patent Law Institute (“PIPLI”) is grateful for the opportunity to provide feedback regarding the European Commission’s Proposal for a Regulation of the European Parliament and of the Council on Standard Essential Patents and Amending Regulation (EU)2017/1001 (“Proposed Regulation”).

PIPLI is a nonprofit, nonpartisan public interest organization dedicated to ensuring that patents promote innovation and access for the benefit of all who make and use technology. These constituencies include individuals and groups who contribute to and depend on scientific advances, but do not own or assert patents, such as researchers, open source developers, repair technicians, organic farmers, medical patients, and smartphone users. Because they do not own or assert patents, they rarely participate in the processes through which patent law and policy are made, which makes it more difficult for policymakers to adequately address their needs. PIPLI’s mission is to enhance participation and representation of these constituencies’ interests in patent policymaking processes so that the outcomes of these processes reflect the needs of all affected by them. Patent policies which reflect the needs of all affected members of the public will more effectively and equitably encourage technological innovation as well as access to its benefits.

In service of its mission, PIPLI conducts research; educates policymakers, the press, and public on patent-related issues; provides free counseling to people affected by patents, including technology creators and users; advocates for greater transparency in government processes relating to patent policy; and submits amicus briefs and comments to courts, government agencies, and standard-setting organizations.

I. OVERVIEW

PIPLI commends the European Commission for proposing regulations to bring more transparency, efficiency, and fairness to Standard Essential Patents (“SEP”) licensing, and save it from the uncertainty, friction, and resulting proliferation of jurisdiction-spanning litigation. We strongly support the principles and goals of the Proposed Regulation, and believe it has enormous potential to ensure patents and standards do what they are designed to do: foster technological innovation, spur the development and widespread adoption of technology standards, promote competition in related markets, and ensure consumer access to the intended benefits of standardization.

We see especially great promise in the proposed competence centre as a central clearinghouse for SEP-related information that the public, policymakers, and technology creators urgently need. We also believe that a mechanism for FRAND determinations in which all stakeholders can participate is critical to enhancing efficiency in SEP licensing markets and stemming the tide of exorbitantly expensive litigation.

While we support central aspects of the proposal, we are deeply concerned about certain details—particularly, its inapplicability to developed standards, approach to essentiality determinations, and restrictions on access to FRAND determination proceedings based on the share of SEPs owned or market share held by the requesting entities. These aspects of the Proposed Regulation, in addition to others discussed below, compromise its capacity to accomplish the EC’s vitally important objectives.

We therefore commend the EC on developing a proposal with enormous potential and urge it to make refinements that are necessary to ensure it can achieve its objectives of making SEP licensing more transparent, efficient, and consistent with the underlying goals of patent protection and technology standardization.

II. COMMENTS

A. The Importance of Accessible Information on SEPs.

We strongly support the Proposed Regulation’s creation of a competence centre for information related to SEPs and SEP licenses. This critical initiative addresses a pressing need for greater transparency and public access to information on this kind. The current SEP landscape suffers from significant information asymmetry, hindering efficient licensing markets, dragging out licensing disputes, and thus necessitating substantial expenditures on legal fees instead of productive activities, like researching and developing new technologies or products, hiring and training employees, and reducing prices or improving products for consumers.

The competence centre, acting as a central clearinghouse for SEP-related information, has the potential to reduce the informational asymmetry currently separating SEP owners and those working on their behalf from policymakers, scholars, and implementers. This type of mechanism is a necessary and transformative step toward making SEP licensing more transparent, fair, and efficient. In the following sections, we will detail our support for this initiative and its potential to reshape the SEP environment in a manner that is beneficial for all stakeholders.

1. **The current informational asymmetry.** SEP owners and administrators currently enjoy an immense informational advantage because they know (or can readily determine) what patents they own, the extent to which they are essential, and what the terms of their licenses are. None of this information is available to potential licensees, policymakers, scholars, or nongovernmental organizations. Some of this information may be available through discovery procedures in litigation, but only at an extremely high cost, especially in the United States, and only for implementers with the resources to spend on litigation, likely excluding most if not all SMEs. This imbalance is highly detrimental to market efficiency and the FRAND regime as a whole. While perfect information might be an unrealistic ideal, the existing disparity promotes market failure, and the proposed clearinghouse is an essential step towards balance.

2. **The benefits of greater transparency.** More transparency about SEPs—particularly, the identification of specific patents (preferably, specific patent claims) deemed essential, the identification of their owners or entities with rights to license or sublicense them (exclusively or non-exclusively), the basis for the designation of essentiality, and their licensing rates and terms.

This information is necessary for a wide array of members of the public to make well-informed decisions on a similarly wide array of issues, including SEP-related policy matters, research, investment, and product development.

This information will also significantly increase the efficiency of license negotiations and facilitate resolution of disputes without as much (or any) expensive, and often jurisdiction-spanning, litigation. and information about royalty rates and terms available—even in an aggregated form—will streamline decision-making for implementers. This transparency can lead to more voluntary resolutions, reducing costly litigation, and ensuring that royalties are based on the value of contributions rather than informational advantage. The competence centre will thus be pivotal in advancing the goals of patent protection and standard-setting.

3. The feasibility of greater transparency: The compatibility of transparency with successful SEP licensing is already demonstrated by many highly profitable SEP licensing programs. Examples include MPEG-LA’s licensing of SEPs in connection with the AVC/H.264 video coding standard¹ and Access Advance’s licensing of SEPs in connection with the HEVC/H.264 video coding standard,² which both provide publicly available patent lists as well as standard licensing fees, among other information. These instances demonstrate that greater transparency is not only attainable, but also conducive to thriving SEP licensing.

4. The need for strong compliance mechanisms: An information clearinghouse can only succeed if there are sufficient incentives for potential registrants to provide the requisite information. We believe the requirement of registration in advance of litigation is a positive step in this direction, but it is unlikely to be sufficient on its own, especially if extensions and exceptions are freely granted. We therefore urge the EC to maintain and strengthen the requirement of registration in advance of litigation or other actions to enforce SEPs against technology users as well as to consider other enforcement mechanisms, such as the imposition of substantial fees on SEP owners that initiate enforcement actions without complying with registration requirements. Such fees could include, for example, payment of some or all of an opponent’s litigation costs, or a percentage of any damages or settlement payment obtained.

In sum, the proposed competence centre represents a commendable stride towards enhancing transparency in SEP licensing. By addressing the existing information asymmetry and facilitating efficient negotiations, it can foster an environment that supports innovation, fairness, and economic vitality for all stakeholders, including consumers whose lives and livelihoods depend on standard-compliant products. We wholeheartedly support this initiative.

5. Government funding disclosures: Many SEPs, particularly those owned by entities in EU members states, derive from research that relied on government funding. We urge the EC to require SEP owners to indicate whether (and ideally, to what extent) SEPs in the register claim inventions that were developed with (full or partial) government support. This is necessary to understand the full impact of SEP licensing on the public and thus to inform policy decisions, including about government-funded research and the terms of such grants.

¹ Via Licensing Alliance, *AVC/H.264*, <https://www.via-la.com/licensing/avc-h-264/> (last visited Aug. 9, 2023).

² Access Advance, *HEVC Advance Patent Pool*, <https://accessadvance.com/licensing-programs/hevc-advance/> (last visited Aug. 9, 2023).

B. The Need to Include Developed Standards

While we support much of the Proposed Regulation, we are deeply concerned about its application only to standards that have not yet been developed. The 4G standard is still widely used and will be for many years while deployment of the 5G standard is only beginning. These standards are and will be implemented by an enormous array of devices touching all aspects of human life—not only automobiles and smartphones, but medical devices, such as heart monitors, other types of medical care, such as genetic tests, and agricultural equipment, such as automated sprinklers and crop sprayers. We may already live in a world of interconnected devices, but we have yet to see the full extent of interconnectivity that already-developed standards can facilitate. Creating a competence centre that has no role to play in the disputes affecting markets, supply chains, and people today and, at the very least, the next decade would be a Sisyphean task, laborious yet futile.

Given the enormous benefits that the Proposed Regulation promises, we urge the EC in the strongest possible term to revise it so that it affects developed standards for wireless communication—at least those standards which are in the early stages of deployment, particularly 5G and WiFi 6.

Applying the Proposed Regulations to developed standards is not only vitally important to people who use standard-compliant devices, it also makes technical sense. Many standards that are widely used are iterations of previous standards, including 5G and WiFi 6, and those that come next. As such, they typically require compliance with previous standards as well. Therefore, registration of SEPs in connection with as-yet undeveloped standards will require much of the same information that registration of SEPs for developed standards requires. Even if the implementation of some requirements is staggered in time, the disclosure requirements should take effect as soon as possible. Most, if not all, of the information the register requires is information that SEP owners would have to provide in negotiations, litigations, or tax filings.

There is no reason they cannot provide this information to the proposed competence centre today. Their contentions to the contrary merely reflect their desire to maintain the informational advantage they have held for so long. Patents confer no right to secrecy. In fact, the word “patent” comes from the Latin word, “patere,” which means “to lie open.”³ It is past time for SEP owners to tell the public which patents are deemed essential, the basis for those essentiality designations, and the license fees associated with those SEPs. We commend the EC for proposing a mechanism to facilitate the centralized collection of this information, and urge it to make that mechanism effective without delay.

³ Colleen V. Chien, *Contextualizing Patent Disclosure*, 69 *Vanderbilt Law Review* 1849, 1850 & n. 1 (2019) <https://scholarship.law.vanderbilt.edu/vlr/vol69/iss6/13> (citations omitted).

C. The Efficiency of Essentiality Determinations by SEP Owners

We commend the EC for addressing the vitally important issue of essentiality assessments. But we believe that leaving essentiality determinations to those who make essentiality designations—SEP owners—is not only more efficient than burdening the EC with that task, but the most efficient way these assessments can be done. For the reasons discussed below, this is not unduly burdensome for SEP owners, who will in any event have to assess—and demonstrate—essentiality to enforce their rights successfully in judicial proceedings. But to the extent it is burdensome, SEPs have the power to reduce the burden by reducing the number of SEPs they designate in the first place. An important consequence of any short-term burden will be its deterrent effect on the problem of over-declaration, thus reducing that problem and the burden associated with essentiality assessments in the long term.

1. The problem of over-declaration of SEPs: The problem of over-declaration of SEPs is substantial and well-established.⁴ Over-declaration creates challenges for all aspects of SEP licensing and litigation that follow. The core of the problem is the fact that SEP owners declare patents and patent applications en masse and often do not conduct essentiality analyses before designating them essential or at any subsequent time. This forces implementers, and potentially the EC, to conduct essentiality determinations despite playing no role in the essentiality designations necessitating them.

2. The efficiency of essentiality assessments by SEP owners: SEP owners have access to all information required to make essentiality determinations—in fact, they have access to the *best* information available because they have access to records of the work underlying their patents and, often, to the named inventors who actually did that work. As participants in standard-setting, they also have access to information about the relevant standard’s specifications and the work underlying its creation. As such, SEP owners uniquely well-equipped to conduct essentiality assessments efficiently. To the extent this may be burdensome, SEP owners are also uniquely well-positioned to reduce the burden by declaring fewer SEPs in the first place. Expecting SEP owners to do essentiality assessments thus ensures optimal efficiency while deterring over-declaration.

3. The feasibility of essentiality assessments by SEP owners: One objection may be that SEP owners declare patent applications essential before standards are finalized, and thus before essentiality determinations can be made. For patents such as these, registration with the competence centre is an appropriate point in time to require essentiality determinations—and evidence, such as claim charts, of their underlying basis. Because standard specifications and patent claims are necessarily public, evidence of a patent’s essentiality is necessarily public, non-confidential information. It is also evidence that will be required in judicial proceedings involving determinations of infringement with respect to SEPs.⁵ In the U.S., it is common practice for patent

⁴ See, e.g., Mark A. Lemley and Timothy Simcoe, *How Essential Are Standard-Essential Patents?*, 104 Cornell L. Rev. 607 (2019), available at: <https://scholarship.law.cornell.edu/clr/vol104/iss3/2>, and Robin Stitzing, Pekka Säskilähti, Jimmy Royer, and Marc Van Audenrode, *Over-Declaration of Standard Essential Patents and Determinants of Essentiality* (October 27, 2017), available at: <https://ssrn.com/abstract=2951617>.

⁵ PIPLI is not aware of any jurisdiction in which proof of infringement is not required. In the U.S., courts permit SEP owners to prove infringement through proof of essentiality when accusing products that indisputably comply with the relevant standard. See, e.g., *Godo Kaisha IP Bridge 1 v. TCL Commc'n Tech. Holdings Ltd.*, 967 F.3d 1380,

owners to provide claim charts *before* litigation, for example, in letters providing notice of infringement allegations, to demonstrate their good-faith basis.

That said, many patent applications that become SEPs are not filed, let alone designated essential, until after the relevant standard's specification is finalized and published. Empirical research shows that more than half of all (U.S.) SEPs are filed *after* a standard is published.⁶ Applications that are filed after a standard is published are necessarily designated essential after the standard is final. As such, SEP owners have ample information to ensure such designations are accurate, and thus to conduct essentiality analyses in advance of designation, and thus of registration.

Requiring SEP owners to provide documentation corroborating their essentiality claims with the competence center in advance of enforcement actions is therefore entirely appropriate, though additional time to provide such documentation (e.g., six months) might also be appropriate. Given how much of the Proposed Regulation addresses essentiality determinations, substantial time, effort, and expense would be saved by leaving those determinations to the entities best equipped to make them: the entities claiming essentiality in the first place.

4. The need to consider the essentiality of all patents. We are troubled by the proposal to treat individual patents as representative of entire patent “families” for purposes of essentiality, at least when U.S. patents are at issue. Unlike the patent systems of many EU member states and the European Patent Office, the U.S. Patents and Trademark Office allows many kinds of follow-on patent applications, including continuations, continuations-in-part, divisionals, and divisionals-in-part, that typically (or necessarily) differ in scope from the original (or parent) application. For example, continuations-in-part and divisionals by definition add subject matter not described in the original (or parent) application. It is highly likely that follow-on patents such as these raise different essentiality issues that may lead to different conclusions. In other words, the essentiality of an original patent says nothing about the essentiality of follow-on patents that claim and describe patentably distinct inventions. The inapplicability of essentiality assessments to different patents within the same “family” is yet another reason why essentiality assessments must be made on a patent-by-patent basis, as will be required in the event of their assertion.

5. The need to apply essentiality-related requirements to SMEs: We strongly object to exempting SMEs from essentiality-related requirements for at least the following key reasons:

First, non-practicing entities and patent license administrators may qualify as SMEs simply because relatively few employees are required to engage in patent licensing and litigation. These licensing administrators may assert patents belonging to and generating revenue for major corporations with dominant market positions. Thus, the exemptions would ultimately benefit and further entrench the advantages of incumbents.

1383 (Fed. Cir. 2020) (“In cases involving standard essential patents, we have endorsed standard compliance as a way of proving infringement.”) (citations omitted).

⁶ Cesar Righi and Timothy Simcoe, *Patenting Inventions or Inventing Patents? Continuation Practice at the USPTO*, Barcelona School of Economics Working Paper (Feb. 2022), available at: <https://bse.eu/research/working-papers/patenting-inventions-or-inventing-patents-continuation-practice-uspto>.

Second, big corporations can easily create and hide behind SMEs, enhancing their advantage over the very entities the exemptions are designed to help. Moreover, hiding between shell corporations will be especially easy for companies based outside of Europe, which do not have to provide information about themselves to any EU member state or governmental entity. SMEs may also be genuine subsidiaries of foreign corporations operating as satellite branches with limited staff and infrastructure—and thus as SMEs—in the EU while benefiting from and contributing to substantial advantages of larger parent corporations based in other jurisdictions.

Third, and most importantly, an entity's size is irrelevant to SEP licensing. What matters is the *scale* or *volume* of a company's businesses, whether measured in numbers of licensed or manufactured products. Accordingly, many SEP licensing programs, including the MPEG-LA and Access Advance programs cited above, use volume tiering to assess licensing fees.⁷ Volume-based fee tiers, often accompanied by discounts for low volume implementers and capped fees for high volume implementers, have substantial benefits to the public. Lower fees for low volume implementers encourage entry by new, small, and niche businesses. Capped fees for high volume implementers encourage high volume production and efficiency gains that ever-increasing fees might discourage.

We share the EC's concerns about the impact of regulations on small and new businesses, but we believe the best way to support their success is to focus on the scale of an entity's output (measured in products, services, or licenses) rather than its corporate structure.

D. The Need for a FRAND Determination Mechanism

1. Benefits to all stakeholders. A centralized mechanism for FRAND determinations brings numerous benefits to stakeholders on all sides. For implementers, it provides the much-needed certainty and predictability that enable them to make sound investment decisions. This streamlined process promotes efficiency and reduces the time and resources spent in negotiation and dispute resolution. SEP owners also benefit as they can enforce their rights without resorting to protracted and expensive litigation. This fosters a more cooperative environment and ensures that patent rights are respected without unduly burdening implementers or SEP owners, and thus impeding or eroding adoption of the standard. The public stands to gain from this approach as well. The reduction in legal expenses allows more funds to be directed towards research, production, and other areas that directly benefit consumers, such as price reduction. By minimizing legal conflicts and focusing on innovation and economic activity, a centralized mechanism for FRAND determinations enhances the overall value and dynamism of the technology industry.

2. Accessibility to all stakeholders. For the reasons above, we commend the EC for proposing a mechanism for obtaining FRAND determinations outside of courts in proceedings that can include a wide array of stakeholders, not only the private parties involved in a particular case. But the provisions limiting access based on the percentage of SEPs or market share possessed are contrary to the goal and inimical to the objectives of this mechanism.

⁷ See *supra*, notes 1 and 2.

Given the preliminary stage of the current proposal, any predetermined access restrictions are premature at this time. To the extent any access restrictions are appropriate, they should turn on (1) the actual or potential scale of the relevant standard's adoption and/or (2) the importance of access to the standardized technology. For example, licensing fees for SEPs relevant to a standard for wireless communication used by mobile phones has the potential to impact billions of people around the world.⁸ If FRAND licensing rates are in dispute, billions of consumers' access is at stake, and access should not be limited by the number of declared SEPs or market share of affected implementers.

By making access turn on the share of SEPs owned (especially for as-yet undeveloped standards), the Proposed Regulation perversely incentivizes over-declaration so that individual SEP owners have more control and so that the requisite threshold is harder to reach. By making access turn on the market share of implementers, the Proposed Regulations undermines its efforts to increase participation by SMEs. If one SME interested in entering the smartphone market cannot obtain a FRAND license, it should be able to trigger a FRAND determination proceeding. Ten SMEs may sound like a small number, but given the highly concentrated markets that exist in the real world, especially in technology sectors, it is insurmountable barrier to access.

3. Continuation of proceedings despite external litigation. We are deeply concerned about provisions requiring termination of FRAND determination proceedings whenever a parallel proceeding has been initiated.

There are numerous, compelling benefits to their continuation: judicial proceedings are adversarial proceedings between private parties with particular interests at stake. They do not include all interested entities, do not account for the interests of other SEP owners, implementers, or consumers, and do not affect their rights or obligations. Nor do any judicial proceedings have binding effect in every jurisdiction in the world. A parallel proceeding therefore will not allow participation by the wide range of entities that can present their views to the EC's proposed FRAND tribunal, will not consider the interests of these entities, and will not necessarily affect, let alone resolve, the issues affecting their interests. This is especially likely if the parallel proceedings take place outside of the EU and involve non-EU patents. Continuing the FRAND determination proceeding within the EC ensures that the interests of these entities can be considered while also allowing for determinations that would not be made in the parallel proceeding—such as royalty rates applied within particular EU member states or the essentiality of patents issued by other EU members states.

Because the Proposed Regulation does not make FRAND determinations binding, it is not apparent how the continuation of such proceedings could be harmful or even impactful to a pending proceeding elsewhere. It is far more likely that the determination would affect future proceedings that occur when the FRAND determination has been made and can be considered. A parallel proceeding occurring at the same time as a FRAND determination proceeding is much less

⁸ Statista, *Forecast number of mobile users worldwide from 2020 to 2025*, <https://www.statista.com/statistics/218984/number-of-global-mobile-users-since-2010/> (“In 2021, the number of mobile users worldwide stood at 7.1 billion, with forecasts suggesting this is likely to rise to 7.26 billion by 2022. In 2025, the number of mobile users worldwide is projected to reach 7.49 billion.”).

likely to consider the determination given the likelihood that it will have begun to make its own decision, and may reach a final decision, before the FRAND determination has been made.

III. CONCLUSION

We are grateful for the opportunity to comment on these important issues. We are also grateful for the EC for demonstrating leadership and commitment to improving the SEP licensing landscape so that patents and standards can do what they are designed to do: encourage the creation and dissemination of cutting-edge technology. We look forward to further progress, refinements of the current proposal, and opportunities to provide feedback on how these issues affect people in EU members states and around the world.

Respectfully submitted,



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