

Regulatory And Legislative Trends Impacting Standard Essential Patents (SEPs) In The United States And Europe

By Natalie Raffoul, John Donch Jr., Peter Toto and Stéphane Tronchon

Introduction

Standard Essential Patents (SEPs) are patents that cover technologies that are essential to the implementation of voluntary industry standards. These patents play a crucial role in promoting innovation and the writing of standards containing these innovations enables interoperability among different products and services competing on the market. However, the licensing and rate setting processes for SEPs, which are handled outside of the standard setting process, have been subject to significant scrutiny and debate. In addition to court decisions, regulatory and legislative trends are shaping the landscape for patent owners and implementers of SEPs. This article will explore recent and predicted regulatory and legislative developments impacting SEPs in the United States, Europe, and globally, while considering the perspectives of both patent owners and implementers of SEPs.

Recent Initiatives

1. European Commission's Proposal for Regulation of Transparent Licensing of SEPs

The European Commission has determined that there is need for a more transparent and efficient framework for licensing SEPs to help small and medium enterprises (SMEs) in the IoT market. To address this, they have proposed on 27 April 2023 a draft regulation to the European Parliament and EU Council that aims to establish unprecedented rules for SEP licensing. The proposal includes several key elements:

- a) **EUIPO Competence Centre for SEP-related disputes:** The proposal suggests the establishment of a Competence Centre within the European Union Intellectual Property Office (EUIPO) to provide expertise and guidance in SEP-related disputes. The Competence Centre would facilitate the non-binding resolution of licensing disputes, offer technical advice on patent validity and essentiality, and promote best practices in licensing negotiations.
- b) **SEP register with essentiality checks:** The European Commission's proposal introduces the concept of a SEP register, which would contain detailed information on declared SEPs to Standards Setting Organizations. Patent holders would be required to provide detailed information on the essentiality and validity of their patents when registering them. More-

over, a mechanism is foreseen to screen the essentiality of declared SEPs based on a two-prong sampling system and with the involvement of external evaluators. The SEP register would aim to provide transparency and enable implementers to access accurate and up-to-date information about SEPs.

c) **Aggregate royalty calculations:** The proposal suggests the use of early aggregate royalty calculations upon the adoption of standards to determine fair, reasonable, and non-discriminatory (FRAND) licensing terms. This approach aims to address the issue of royalty stacking, where implementers face the challenge of aggregating royalties for multiple SEPs in a single product or service. By considering the cumulative effect of royalties, the proposal seeks to ensure that licensing terms are reasonable and proportionate.

d) **FRAND determination:** The European Commission's proposal emphasizes the need for a clear and transparent FRAND determination methodology and establishes a mandatory preliminary mechanism of FRAND determination with the involvement of external conciliators and resulting in a non-binding opinion. Within the proposed EUIPO Competence Centre, it encourages the use of dispute resolution mechanisms,

■ Natalie Raffoul,
Patent Lawyer,
Managing Partner,
Brion Raffoul LLP,
Ottawa, ON, Canada,
E-mail: nraffoul@brionraffoul.com

■ John Donch Jr.,
President and Shareholder,
Volpe Koenig,
Philadelphia, PA, USA
E-mail: jdonch@vklaw.com

■ Peter Toto,
Senior Vice President
Intellectual Property
Department,
Sony Corp. Of America,
Park Ridge, New Jersey, USA
E-mail: peter.toto@am.sony.com

■ Stéphane Tronchon,
Senior Director of Standards
and Competition Policy,
Interdigital,
Paris, France
E-mail: stephane.tronchon@interdigital.com

such as mediation and arbitration, to resolve licensing disputes when negotiations fail. The goal is to provide a balanced approach that allows both patent owners and implementers to reach fair and reasonable licensing agreements.

e) Support measures for SMEs: Recognizing the importance of small and medium-sized enterprises (SMEs) in driving innovation, the proposal includes measures to support SMEs in navigating SEP licensing. These measures may include providing financial and legal assistance, promoting information sharing, and facilitating access to expert advice.

2. U.S. Standard Essential Royalty Act (SERA)

In the United States, the Standard Essential Royalty Act (SERA) has been introduced to address the rate-setting challenge for SEPs. SERA seeks to establish special patent courts dedicated to SEP licensing and rate determinations, providing a streamlined and efficient approach to resolving licensing disputes.

3. Defending American Courts Act (Anti-suit Injunctions)

The Defending American Courts Act aims to restrict so-called anti-suit injunctions issued in non-U.S. jurisdictions that purport to limit the ability of American companies to file or maintain claims related to patent infringement in US courts or the International Trade Commission. This legislation seeks to impose financial disincentives to a party found liable of patent infringement where the party attempted to restrict the patent owner's infringement claim through the use of an anti-suit injunction.

4. United States Innovation and Competition Act of 2021 (S.1260)

The United States Innovation and Competition Act of 2021, among other things, seeks to enhance U.S. innovation by providing significant funding for research and development in U.S. technology. While not yet finalized, the amount of funding may be in the hundreds of billions of U.S. dollars. This level of investment will result in a very significant amount of innovation (and corresponding patent filings) in various technology industries, thereby making the need for handling SEP and non-SEP disputes with transparency, balance and efficiency even more acute.

5. USPTO, DOJ, NIST 2022 Withdrawal of the DOJ 2019 Policy Statement

The withdrawal of the Department of Justice (DOJ) 2019 Policy Statement on infringement of SEPs by the United States Patent and Trademark Office (USPTO), DOJ, and National Institute of Standards and Technology (NIST) indicates a shift in policy. The most significant provision of the now-withdrawn 2019 Statement was that it indicated that SEP holders are able to seek

injunctions against infringing implementers, which was seen by some as favoring patent holders over implementers. The full implications of this withdrawal are yet to be fully realized, but signal a potential change in the approach to SEP licensing and infringement issues.

Balancing Perspectives and Addressing Key Questions

1. Regulatory and Legislative Tools for Efficient SEP Licensing and Rate Setting

Efficient SEP licensing and rate setting may be encouraged through a combination of regulatory and legislative measures. These tools include the establishment of specialized patent courts, essentiality checks, transparent FRAND determination methodologies, and measures to support SMEs. Actors involved in shaping these policies include governmental bodies, regulatory agencies, industry organizations, and patent owners.

The international legal framework does not contain any specific, targeted SEP-related provisions, but international trade law, including the rules on Trade-related Barriers to Trade and the TRIPS Agreement, features some points that are relevant for the policy makers of WTO members. This is how a dispute between the EU and China on the latter's anti-suit injunction practice could emerge, the EU invoking TRIPS provisions to challenge the conduct of Chinese courts.

On a government level, the policy framework for SEPs may be part of broader innovation or industrial strategies or take the form of SEP-specific communications (such as the European Commission's Communication on SEPs in 2017 or the withdrawn Policy Statement of the U.S. authorities).

Until now, legislation targeting the licensing of patents that are bound to be used when implementing a standard has been the exception rather than the rule. Most of the FRAND disputes are cross-border, and it was the national judiciaries that grappled with disputes involving SEPs, applying antitrust law, patent law, and the rules on civil procedure to come to a decision.

Over time, some national courts showed a readiness to set FRAND rates for a global SEP portfolio, while the national injunction hung over the implementer. Parties and courts around the world have displayed different tendencies, which resulted in forum shopping and judicial competition.

To focus resources and to avoid lengthy and costly litigation, different means of alternative dispute resolution (such as mediation, arbitration and expert determination provided, among others, by the WIPO Arbitration and Mediation Center involving "neutrals") are also available to parties that willingly submit their differences to such procedures.

In the meantime, industry has developed tools of

self-regulation, where the intellectual property rights (IPRs) policies of standard-setting organizations and the one-stop-shops created for transactional efficiencies such as patent pools play a significant role.

In the light of the above, the European Commission's (EC) proposal represents an attempt at a novel and somewhat duplicative approach by creating a dedicated authority with administrative powers in the field of SEPs. While the EC's proposal and the U.S. legislation aim to create more efficient frameworks for SEP licensing and a process for rate determination, debates exist regarding the effectiveness and inclusivity of these approaches. The EC's approach has been widely criticized by stakeholders of all natures and is likely to validate existing global FRAND-setting mechanisms in other jurisdictions and encourage new competing ones. The non-binding nature of the EUIPO's processes also raises concerns about the potential for delays and inevitable litigation. It remains to be seen how the proposed legislation in the United States will be implemented and its impact on the resolution of SEP disputes, but there has been little momentum to date.

2. Role of Regional/National Courts in Efficient SEP Licensing and Rate Setting

Regional and national courts play a vital role in determining licensing terms and rates for SEPs, both locally and globally. Their expertise and understanding of local market dynamics can contribute to fair and efficient licensing practices. However, harmonization of approaches and collaboration between courts across jurisdictions is essential to avoid fragmentation and conflicting decisions.

International cooperation between regional and national courts is crucial to ensure consistent and predictable outcomes in SEP disputes. Efforts should be made to harmonize approaches, share best practices, and establish mechanisms for coordination between courts across different jurisdictions. This will help create a more cohesive and globally recognized framework for SEP licensing and rate setting.

3. Importance for Innovators and Implementors

For innovators and contributors to the standard setting organizations, a framework that ensures fair compensation for their patented technologies is crucial. Implementors of standards, on the other hand, require access to essential patents on fair and reasonable terms to foster competition and take a license. Striking the right balance is key to incentivizing innovation while promoting market access and competition.

Both innovators and implementors have valid concerns and interests in the SEP ecosystem. Innovators rely on their patents as a reward for their research and development efforts disseminated in the standards, while implementors need access to essential and innovative

technologies contained in standards to compete in the market. It is essential to find a middle ground that recognizes and respects the rights of both parties, promoting a fair and mutually beneficial licensing environment.

A fair question to ask is whether the existing patchwork of national approaches is in a state of crisis requiring radical solutions of the type proposed by the EC. Certainly, there are problematic aspects of the current system(s) such as forum shopping and anti-suit injunctions competing with anti-anti-suit injunctions. But the overwhelming majority of SEP licensing is done company-to-company without judicial intervention, and those cases that find their way to the courthouse are often settled at relatively early stages. The outliers are the ones that receive the media attention, but they do not represent the norm in the business of SEP licensing.

4. Role of Legislative and Regulatory Bodies vs. Courts

Legislative and regulatory bodies play a role in setting the overall framework and providing guidelines for SEP licensing. Their role is to establish fair and transparent rules that promote competition, innovation, and access to essential technologies. However, courts are responsible for interpreting and applying these rules in specific cases, and filling in all of the details in a manner consistent with legislative intent. This ensures a case-by-case approach that considers the unique circumstances of each dispute.

A balance must be struck between the roles of legislative and regulatory bodies and the courts. Courts are often at the front line of these issues while legislatures and regulators follow in their wake, making adjustments to the rules as necessary. Courts have the ability to focus in detail on real and immediate issues in the cases before them while legislative and regulatory bodies provide the broader framework. As such, the SEP licensing environment seems to be best served when regulators and legislatures use a relatively light touch that provides a general framework with enough clarity to provide predictability and fairness in a wide variety of fact patterns, with courts having responsibility for applying the rules and filling the gaps in specific contexts. Collaboration and communication between these entities are essential to ensure that the overall framework aligns with practical realities and delivers fair and effective outcomes.

5. Role of Licensing Executives Society International (LESI)

LESI can play a significant role in facilitating efficient SEP licensing by fostering communication between patent owners and implementors. LESI can provide education and expertise to policymakers, promoting a deeper understanding of the complexities surrounding SEP licensing and rate setting. By encouraging dialogue and

collaboration, LESI can contribute to the development of more balanced and effective licensing practices.

LESI's role in facilitating communication and knowledge-sharing is crucial in the SEP landscape. By providing a platform for discussion and cooperation, LESI can help bridge the gap between patent owners and implementors, fostering an environment of trust and mutual understanding. LESI's expertise can also support policymakers in crafting effective legislation and regulations that address the challenges and concerns of all stakeholders.

Conclusion

As court decisions continue to shape the SEP landscape, regulatory and legislative trends are emerging as influential factors in determining the licensing and rate-setting processes. The European Commission's proposal, U.S. legislation, such as SERA and the Defending American Courts Act, and the withdrawal of the DOJ 2019 Policy Statement all indicate a shift in the regulatory and legislative approaches to SEPs. However, debates exist regarding the efficacy, inclusivity, and

potential consequences of these initiatives.

Striking a balance between the interests of patent owners and implementors of SEPs is essential for promoting innovation, fair competition, and efficient licensing practices. International collaboration between regional and national courts, along with the involvement of organizations like LESI, can contribute to the development of more effective frameworks for SEP licensing and rate determination. By fostering dialogue and understanding, stakeholders can work towards a cohesive global SEP ecosystem that encourages innovation while ensuring access to essential technologies. ■

Disclaimer

The views of the authors are personal and do not reflect the views of their employers.

A special thanks to András Jókúti, Director of the Patent and Technology Law Division at the World Intellectual Property Office (WIPO) for his participation in the panel discussion at the LESI Annual Meeting in May 2023 that formed the basis of this article.

