

## The New Standards – The Commission’s Latest Guidance on SEPs

The European Commission today published a **Fact Sheet** on Intellectual Property Rights Enforcement and a **Communication** setting out the EU’s approach to Standard Essential Patents (SEPs).

In recognition of what it perceives as the strategic importance of SEPs and Europe’s need to grasp the enormous potential of 5G and the Internet of Things, the Commission has presented its views on how to improve the SEP licensing framework to help build a “*sustainable, balanced and efficient standardisation ecosystem*” for businesses. In practice, the measures it has published fall short of firm directive action. However, they do provide a useful insight into the Commission’s thinking on this subject, while leaving the door open to more prescriptive guidance and legislation at a later date if the Commission deems this necessary.

In its attempt to reconcile the differing objectives of product manufacturers and patent-holders, the Commission invokes a dual objective of “*efficiency*” and “*balance*”, in three aspects: (1) a more transparent environment for negotiations between SEP holders and potential licensees; (2) basic valuation principles for SEPs; and (3) a balanced and predictable enforcement regime. The Commission’s explanation (as set out in the Fact Sheet) and additional recommendations in respect of each of these are noted below.

- **A more transparent environment for negotiations between SEP holders and potential licensees:** improving the quality of information recorded in standard-setting organisations; making it accessible for patent holders, implementers and third parties; reviewing the quality of declarations concerning patent applications for the final standard and fostering a higher degree of scrutiny on essentiality claims. To facilitate the introduction of an appropriate scrutiny mechanism, a pilot project will be launched in selected technologies;

In the Communication, the Commission specifies further action points. In particular, it:

- calls on Standard Developing Organisations (“SDOs”) to urgently ensure that their databases comply with the main quality features described in the Communication, and will co-operate with SDOs to facilitate this process;
- calls on SDOs to transform the current declaration system into a tool providing more up-to-date and precise information on SEPs, and will co-operate with SDOs in order to facilitate that process; and
- considers that declared SEPs should be subject to reliable scrutiny of their essentiality for a standard, and will launch a pilot project for SEPs in selected technologies with a view to facilitating the introduction of an appropriate scrutiny mechanism.

- **Basic valuation principles for SEPs:** helping the parties arrive at a common understanding of what are fair licensing conditions, through good faith negotiations, on a case by case basis, by providing principles for the interpretation of FRAND licensing, including the non-discrimination principle. The Commission calls on stakeholders to pursue sectoral discussions with a view to establishing efficient licencing practices;

The Commission adds, in its Communication, that SEP licencing should be based on the following principles:

- There is no one-size-fit-all solution on what FRAND is: what can be considered fair and reasonable can differ from sector to sector and over time. Efficiency considerations, reasonable licence fee expectations on both sides, the facilitation of the uptake by implementers to promote wide diffusion of the standard should be taken into account.

- Determining a FRAND value should require taking into account the present value added of the patented technology. That value should be irrespective of the market success of the product which is unrelated to the value of the patented technology.
- In defining a FRAND value, parties need to take account of a reasonable aggregate rate for the standard.
- The non-discrimination element of FRAND indicates that rightholders cannot discriminate between implementers that are 'similarly situated'.
- For products with a global circulation, SEP licences granted on a worldwide basis may contribute to a more efficient approach and therefore can be compatible with FRAND.

In addition, the Commission calls on SDOs and SEP holders to develop effective solutions to facilitate the licensing of a large number of implementers in the Internet of Things environment (especially SMEs), via patent pools or other licensing platforms, while offering sufficient transparency and predictability.

Finally, the Commission announces that it will monitor licencing practices, in particular in the Internet of Things sector, and that it will set up an expert group with the view to deepening expertise on industry licensing practices, sound IP valuation and FRAND determination.

- **A balanced and predictable enforcement regime:** providing guidance for right holders and implementers in relation to enforcement of SEPs, facilitating the roll-out of mediation and alternative dispute resolution tools while putting safeguards against abusive litigation practices.

The Commission further explains in its Communication that it “considers that the FRAND process requires both parties to negotiate in good faith, including responding in a timely manner.” It adds that “[i]njunctive relief can, however, be sought against parties acting in bad faith (i.e. parties unwilling to take up a licence on FRAND terms), but it must be used proportionally.”

Finally, the Commission lists the additional actions it intends to take in this regard, in particular to:

- work with stakeholders to develop and use methodologies, such as sampling, which allow for efficient and effective SEP litigation, in compliance with the industry practice of portfolio licensing;
- further facilitate the roll-out of mediation and alternative dispute resolution tools; and
- monitor the impact of PAEs in Europe.

From the details and recommendations set out above, the Commission appears keen to take a proactive and creative approach to refining the SEP regime, and sets out a useful basis for future discussion and legislative development in this area. Nevertheless, it also carefully avoids providing definitive guidance on issues such as FRAND and licensing practices, and so it remains to be seen how much impact these high-level initiatives will have on relevant stakeholders in practice.



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