THE COMPATIBILITY OF THE PROPOSED EU SEP REGULATION WITH THE TRIPS AGREEMENT

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FEBRUARY 2025

[1] This report was commissioned by the Innovators Network Foundation

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EXECUTIVE SUMMARY

1. This report analyses the compatibility of the proposed EU Standard Essential Patent ("**SEP**") Regulation with the Trade-Related Aspects of Intellectual Property Rights ("**TRIPS**") Agreement. It examines several arguments suggesting potential incompatibilities and assesses their likelihood of success in a World Trade Organization ("**WTO**") dispute. The report also provides background information on intellectual property policy, SEPs and fair, reasonable, and non-discriminatory ("**FRAND**") licensing. Lastly, the report outlines key aspects of the Proposed SEP Regulation, including the mandatory registration of SEPs, restrictions on enforcement during FRAND determinations, and changes to the remedies available to SEP holders.

2. It has been argued that no regulation can specifically target SEPs because this would violate the non-discrimination rule contained in TRIPS, Article 27, which prohibits discrimination based on 'field of technology'. The report concludes that this argument is unlikely to succeed because SEPs do not constitute a distinct 'field of technology' within the meaning of Article 27.1.

3. Arguments have been raised about the registration requirements applicable to SEPs. The registration requirements are likely to be compatible with TRIPS as they appear justifiable, not unreasonable, and can generally be compared to other, existing formalities.

4. A number of commentators have raised the potential incompatibility of the limitations on remedies in the proposed SEP Regulation with the enforcement part of the TRIPS Agreement and Article 28. The report examines potential inconsistencies with Articles 28, 41, 44, 45 and 50 of the TRIPS Agreement. Key findings include:

    (1) The rights of patent holders under Article 28 would continue to exist under the proposed SEP Regulation, but their exercise would be modulated. Importantly, restrictions arise from the SEP holders' voluntary FRAND commitments;

    (2) If inconsistencies with Articles 27 or 28 are found, the EU could potentially justify them under the Article 30's 'three-step test' for exceptions to patent rights. The report analyses how this test might be applied, noting differences from previous WTO interpretations; and

    (3) Enforcement procedures under TRIPS Articles 41-50 must be interpreted in light of TRIPS Articles 7 and 8 on objects and principles.

5. The report concludes that, given the voluntary nature of FRAND commitments and the policy objectives of the Regulation, a WTO complainant would face significant hurdles in establishing a TRIPS violation. The proposed SEP Regulation is likely to be found to be generally compatible with the TRIPS Agreement as the policy justifications are consistent with Articles 7 and 8. There remains some ambiguity on the scope of the 'financial injunctions' as a TRIPS-compatible remedy, though this could likely be addressed through clarifying language in a relevant recital.

6. The report also notes that any inconsistency between the EU's position in WTO dispute DS611 (*China - Enforcement of Intellectual Property Rights*) and the proposed SEP Regulation does not alter TRIPS obligations.

I. ABOUT THE AUTHOR

1. I have worked in the field of international and comparative intellectual property law for 33 years. I hold the Milton R. Underwood Chair in Law at Vanderbilt University Law School where I have been the Director of the Vanderbilt Intellectual Property Program since 2008, and where I teach U.S., international and comparative intellectual property law. Prior to joining Vanderbilt University, I was a full Professor and acting Dean, as well as University Research Chair in Intellectual Property and Osler Professor of Technology Law, at the Faculty of Law of the University of Ottawa (Common Law Section), where I taught Canadian, comparative and international intellectual property law between 2001 and 2008.
2. I am a member of the American Law Institute, and Associate Reporter of the Restatement of Law, Copyright. In 2012, I was elected to the Academy of Europe.
3. I have served as an expert in dispute-settlement panel proceedings at the WTO, and as a delegation member before the Appellate Body.
4. I have taught intellectual property law at several other universities in Asia, Canada, Europe, and the United States. Since 2003, I have been an annual visiting lecturer for the postgraduate program at the University of Amsterdam. In February 2014, I was the Yong Shook Lin Professor in Intellectual Property at the National University of Singapore. In 2022, I was the Distinguished Fulbright Chair at Carleton University (Ottawa). From 2006 to 2016, I was the Editor-in-Chief of the Journal of World Intellectual Property, published by Wiley-Blackwell.
5. Prior to my academic career, I was *inter alia* Head of the Copyright Projects Section at the World Intellectual Property Organization ("**WIPO**).
6. During the negotiation of the TRIPS Agreement, I worked as Legal Officer at the General Agreement on Tariffs and Trade ("**GATT/ICITO**") in the Division responsible for negotiating the TRIPS Agreement.
7. I have written a book on the history and interpretation of the TRIPS Agreement, now in its fifth edition. It has been cited, inter alia, in two opinions of the Supreme Court of the United States (*Golan v. Holder*, 565 U.S. 302 (2012) and *Wiley v. Kirtsaeng*, 568 U.S. 519 (2013)), by the Supreme Court of Canada and in opinions of the Advocate General of the Court of Justice of the European Union ("**CJEU**"). It has also been cited in over 420 law review articles and book chapters in Australia, New Zealand, Canada, South Africa, the United Kingdom and the United States. A French edition was published in 2010. I have authored, coauthored, or am in the process of writing a total of 15 books on various aspects of intellectual property, published by Cambridge University Press, Oxford University Press, Sweet & Maxwell (Thomson Reuters), Edward Elgar, and Kluwer Law International. I have also edited or contributed chapters (or am in the process of doing so) to a total of 69 books related to intellectual property and have written 93 articles on intellectual property and technology law for journals around the world, including *Science*, the *Columbia Journal of Law & the Arts, Fordham Law Review, Cardozo Arts & Entertainment Law Journal, European Intellectual Property Review, American Journal of International Law, Berkeley Technology Law Journal, Chicago-Kent Law Review, Vanderbilt Journal of Technology and Entertainment Law, the Journal of the Copyright Society of the USA* (article won the Charles B Seton Award for best article in 2002-03) and the *Journal of Intellectual Property Law*.
8. I studied law at McGill University and the University of Montreal, where I obtained LL.B. and LL.M. degrees and received several awards. I am a member of the Bar of Quebec and the Law Society of Ontario. I also received a Diploma *summa cum laude* from the Institute of Advanced International Studies in Geneva and a doctorate *magna cum laude* from the University of Nantes (France).

II. INTRODUCTION

1. Intellectual property policy is about balancing between innovation and access (or between innovators and users), recognising that users are often innovators themselves. For example, while someone streaming music on Spotify is a user, that user may be inspired by the song and produce a new version or even a parody. In the patent arena, companies innovate, but they also use each other's patents. For example, companies that design and sell smartphones use telecommunications patents. There is innovation on both sides, and a balance must be struck for this complex innovation ecosystem, which involves dozens of small, medium and large companies around the world, to function optimally. This has been and continues to be a major challenge for policymakers.

2. This need for balance in intellectual property policy is reflected in several important international documents. For example, Article 15(1) and (2) of the *International Covenant on Social, Economic and Cultural Rights* provides that:

> (1) The States Parties to the present Covenant recognize the right of everyone:
>
> (a) […]
>
> (b) To enjoy the benefits of scientific progress and its applications; [and]
>
> (c) To benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.
>
> (2) The steps to be taken by the States Parties to the present Covenant to achieve the full realization of this right shall include those necessary for the conservation, **the development and the diffusion of science** and culture.[2] (emphasis added)

3. The TRIPS Agreement also embodies this need for balance.[3] For example, the Preamble to the TRIPS Agreement provides "*measures and procedures to enforce intellectual property rights*" should "*not themselves become barriers to legitimate trade.*"[4] The Agreement also recognizes both the need for new rules and disciplines concerning "*the provision of effective and appropriate means for the enforcement of trade-related intellectual property rights, taking into account differences in national legal systems*" and "*the underlying public policy objectives of national systems for the protection of intellectual property, including developmental and technological objectives.*"[5]

4. The quest for balance is perhaps even more obvious in Art. 7[6], the title of which is "*Objectives*", which provides as follows:

> The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

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[2] *International Covenant on Economic, Social and Cultural Rights* (1966), United Nations General Assembly resolution 2200A (XXI), 16 December 1966; entry into force 3 January 1976.

[3] Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C of the Agreement Establishing the World Trade Organization, 15 April 1994 (hereinafter "**TRIPS Agreement**").

[4] *Ibid.*

[5] *Ibid.*

[6] In this report, when referring to provisions contained in the TRIPS Agreement in the text, the word 'Art.' (or 'Arts.' when plural) will be used. When the word 'Article' (or 'Articles') is used, it refers to the provision of a different international instrument.

5. As a WTO dispute-settlement panel noted, Art. 7 embodies a "*balancing rights* [of] *and obligations*".[7]

6. Policymakers must therefore recognize the need to protect creators, innovators, and those to whom their rights are transferred (generally referred to collectively as 'rights holders'), while also recognizing the need for appropriate limits on those rights. As Harvard Law Professor Ruth Okediji has noted, when the policy equation to be solved involves SEPs, the level of complexity increases, and the guidance provided by the TRIPS Agreement is not always precise.[8]

7. This report examines the interface between the regulation of SEPs and the TRIPS Agreement, with specific emphasis on the proposed EU SEP Regulation. The report proceeds as follows. First, it examines the specific nature of SEPs in the context of intellectual property, as a necessary background to the analysis that follows. Then, for the same reason, the report examines the main intellectual property aspects of the proposed EU Regulation on SEPs[9] in the light of the Impact Assessment Report ("**IAR**").[10] The report then turns to the TRIPS Agreement. It first explains the interpretive methodology used in this report. The report then assesses the arguments that the Proposed SEP Regulation is inconsistent with the TRIPS Agreement.

III. THE 'SPECIAL PLACE' OF SEPS IN INTELLECTUAL PROPERTY LAW & POLICY

8. Courts and legal experts routinely refer to patents and other forms of intellectual property as 'monopolies.'[11] As a matter of economic analysis, whether an intellectual property right confers a monopoly on the right holder is a case-by-case determination, depending primarily on the availability of substitutes for the invention, process, work, etc.[12] From a competition law perspective, the relevant market is often defined in terms of substitutability. For example, a patent on a new drug that is the only one available for the treatment of a particular disease might be fairly described as a monopoly, but a patent on a device that can be substituted by other devices of comparable price and efficiency would not be, despite the 'monopoly' conferred by the patent. The price of the patented product (or process) in the marketplace often reflects the true exclusionary value of the patent. The buyer decides whether the price demanded by the rights holder is acceptable in light of the perceived utility of the invention to

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[7] *Australia — Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging*, WT/DS435/R; DS441/R; /DS458/R/DS467/R, 28 June 2018, para. 7.2302 (hereinafter "**Australia – Tobacco Plain Packaging**").

[8] See, Okediji, R. L. (2014), *Legal Innovation in International Intellectual Property Relations: Revisiting Twenty-One Years of the TRIPS Agreement*, Univ Pennsylvania J. Intl L, 36, pp. 211–214.

[9] COM(2023)232 - Proposal for a regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, 27 April 2023 (hereinafter "**Proposed SEP Regulation**").

[10] SWD(2023)124 - Impact assessment accompanying the proposal for a Regulation of the European Parliament and of the Council on standard essential patents and amending Regulation (EU) 2017/1001, 27 April 2023 (hereinafter "**IAR**").

[11] See, for example, the recent decision by the United States Supreme Court in *Amgen Inc. v. Sanofi*, 598 U.S. 594, 599 (2023).

[12] Substitutes can include those protected by other intellectual property rights, as well as those in the public domain. See, Brinsmead, S. (2021), *Essential Interoperability Standards: Interfacing Intellectual Property and Competition in International Economic Law*, Cambridge Univ. Press, p. 83. And see, *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

the buyer, and the market can be said to set the price. Given that few intellectual property rights actually create a dominant position, the interface between intellectual property and competition law is limited in some areas of technology, although certainly not non-existent, particularly in the area of pharmaceuticals. We find illustrations of the interface in cases such as the CJEU judgments in *Magill* and *IMS Health*.[13]

9. The TRIPS Agreement reflects this interface, notably in Art. 8, which allows WTO Members to take "*appropriate measures, provided that they are consistent with the provisions of this Agreement*", to "*prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology*" and Art. 40, which deals with the control of anti-competitive licensing practices, and will be discussed in detail later in this report.

10. When a patent is incorporated into a standard in the sense that the practice of that patent is necessary to use the standard, an important shift occurs because the potential buyer no longer has the same menu of options once the standard is adopted. This increases the potential role of competition law.[14] In other words, while *ex ante* there may be technological alternatives that significantly limit the amount that potential licensees would be willing to pay, *ex post* (after adoption of the standard) this is no longer the case. As the U.S. Court of Appeals for the Federal Circuit noted, there are "*unique aspects*" of FRAND-committed patents, particularly with respect to remedies and enforcement.[15]

11. Implementation of a standard may become a take-it-or-leave-it proposition because there may be only one or very few competing standards, and any patent that would necessarily be infringed by implementation of the standard becomes essential - hence the term standard-essential patent. In other cases, it may not be necessary to use a particular patent, but it would simply be too costly and commercially unfeasible to redesign a product to avoid infringing the patent(s) in question.[16] To avoid using the patent(s) in question, a manufacturer may not only have to find an alternative to the patent but may also have to develop a new standard. This situation, often referred to as 'lock-in', is closer to the notion of a monopoly.[17]

12. This lock-in effect is not necessarily due to the intrinsic value of the patented invention. As the US Court of Appeals for the Federal Circuit noted in this regard:

> Once incorporated and widely adopted, that technology is not always used because it is the best or the only option; it is used because its use is necessary to comply with the standard. In other words, widespread adoption of standard essential technology is not entirely indicative of the added usefulness of an innovation over the prior art.[18]

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[13] Judgement of 6 April 1995, Case C-241/91 and C-242/91 P *Radio Telefis Eirann (RTE) and Independent Television Publications (ITP) v. Commission of the European Communities* () [1995] ECR -00743; Judgement of 29 April 2004, Case C-418–01 *IMS Health GMBH & Co v NDC Health GMBH & Co* [2004] ECR-05039.

[14] This is the case in the EU (as is discussed below), the US, and China. See e.g. Guan, W. (2018), *Diversified FRAND Enforcement and TRIPS Integrity*, World Trade Review, 17: 1, pp. 91-120.

[15] *Apple Inc. v. Motorola, Inc.,* 757 F.3d 1286, 1332 (Fed. Cir. 2014) (hereinafter "**Apple Inc. v. Motorola**").

[16] See Lim D. (2011), *Misconduct in Standard Setting: The Case for Patent Misuse*, IDEA: The Journal of Law and Technology, 51:4, p. 559; and Lemley, M.A. & Shapiro, C. (2007), *Patent Holdup and Royalty Stacking*, Texas Law Review, 85, pp. 2010–2012.

[17] *See* Melamed, A.D. & Shapiro, C. (2018), *How Antitrust Law Can Make Frand Commitments More Effective*, Yale LJ, 127, p. 2110; Carrier, M.A. (2023), *Why Is Frand Hard?*, Utah Law Review, 4, p. 931.

[18] *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1233 (Fed. Cir. 2014). See also *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

13. Thus, a common view in the literature, which is reflected in the case law, is that the patentee's royalty must be based on the value of the patented feature, not on the value added by the standard's adoption of the patented technology.[19]

14. Given the need for interoperability in certain sectors, particularly in the Information and Communications Technology (ICT) sector, formal standards are generally adopted and updated under the auspices of standard-setting organizations ("**SSOs**"), such as the European Telecommunications Standards Institute ("**ETSI**").

15. The 'necessary' nature of a formal standard may become apparent, as just noted, when it is in widespread use and has broad market acceptance.[20] This is, in fact, the goal of the whole process. As the text of the Proposed EU SEP Regulation notes:

> The success of a standard depends on its wide implementation and as such every stakeholder should be allowed to use a standard. To ensure wide implementation and accessibility of standards, standard development organisations demand the SEP holders that participate in standard development to commit to license those patents on FRAND terms and conditions to implementers that chose to use the standard.[21]

16. If, as a consequence, it becomes practically necessary to implement a formal standard in order to enter a relevant market, a 'dual essentiality' - and what may effectively amount to a monopoly - is created.[22] In such a situation, the buyer has to acquire the right to use the relevant SEPs in order to enter the market and the question of price takes on a very different hue as the bargaining positions of the parties change significantly *ex post*.

17. A standard can become 'necessary' in three ways, each of which has a direct impact on the legal analysis and, in particular, on the interaction between competition law and intellectual property. When a technology becomes 'de facto' necessary, the right holder can claim that its product or process has organically gained the support of a large majority of users and that it should be able to set whatever price it deems appropriate. Only in rare cases will competition law intervene to prevent this.[23] Conversely, when a government imposes a standard, a user may claim that the fact that use of the standard is required by law means that the government should set the price for use (i.e., issue a compulsory licence).[24]

18. However, by far the most common situation, especially in the ICT field, is the adoption of a formal standard by an SSO. The specificity of this process is of paramount importance for

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[19] *Ibid*., at 1232.

[20] See Ménière, Y. (2015), *Fair, Reasonable and Non-Discriminatory (FRAND) Licensing Terms*, European Commission: JRC Science and Policy Report, p. 9.

[21] Proposed SEP Regulation, Recital 3.

[22] Brinsmead, S. (2021), p. 94.

[23] In addition to the *Magill* and *IMS Health* cases already mentioned, at [8], see the Judgment of 17 September 2007, Case T-201/04, *Microsoft v. Commission*, [2007] ECR II-3601.

[24] An example mentioned in this context is section 308 the US Clean Air Act (42 U.S.C. § 7608), which provides that when a US patent is "*being used or intended for public or commercial use and not otherwise reasonably available,* [and] *is necessary to enable any person required to comply*" and "*there are no reasonable alternative methods*", then the "*Attorney General may so certify to a district court of the United States, which may issue an order requiring the person who owns such patent to license it on such reasonable terms and conditions as the court, after hearing, may determine*."

the legal analysis contained in this report. It is discussed in the extensive literature on the interface between competition law and FRAND licensing.[25]

19. An important basis for the analysis contained in this report is that the SSO process is *voluntary*. A patent holder can decide whether to participate in the standard-setting process, and then also decide which of its patents it wishes to contribute and declare 'essential to the standard'.[26] This has a significant impact on the analysis of the compatibility of the Proposed SEP Regulation with the TRIPS Agreement.

20. *Disclosure* of patents required to implement a standard is a central part of the essentiality equation but is often incomplete on its own. The level and scope of disclosure obligations contained in an SSO's policy is a trade-off between transparency, reduced uncertainty and legal exposure, on the one hand, and increased compliance costs, on the other hand.[27]

21. A list of 'actually essential' patents can typically only be produced by combining formal patent searches with efforts to assess essentiality after the standard has been defined. In trying to solve this policy equation, comparisons of the IPR policies of SSOs show "*wide variations*"[28] and "*substantial heterogeneity*".[29] Moreover, SSOs do not, to my knowledge, actively seek disclosure of 'actually essential' patents.

22. From my reading of their policies, some SSOs allow patent holders to submit disclosures that do not require them to identify individual patents that the patent owners believe are potentially essential to the standard, provided that they are willing to commit to license them under FRAND terms. The standards that seem to operate under such declaration policies include Wi-Fi, which is specified by the Institute of Electrical and Electronics Engineers ("**IEEE**"), and the High Efficiency Video Coding ("**HEVC**") codec, which is specified by the International Telecommunications Union ("**ITU**"). I have seen estimates in the literature that

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[25] Notable examples (with different viewpoints) include: Hovenkamp, H. (2020) *FRAND and Antitrust*, Cornell Law Review, p. 1683; Allensworth, R. H. (2014*), Casting a FRAND Shadow: The Importance of Legally Defining 'Fair and Reasonable' and How Microsoft v. Motorola Missed the Mark*, 22, Texas Intellectual Property Law Journal, p. 235; Brinsmead, S. (2021), ch 5; Lemley, M.A. (2002), *Intellectual Property Rights an Standard-Setting Organizations*, 90, California Law Review, p. 1889; Makous, D. N. & Hamilton, M.I. (2014) *Compulsory IP Licensing and Standards-Setting, Standard-Essential Patents and F/RAND, in Intellectual Property Licensing Strategies*, Thomson Reuters & Aspatore, 95; Bonadio, E. (2013) *Standardization agreements, intellectual property rights and anti-competitive concerns*, Queen Mary Journal of Intellectual Property, 3:1, p. 22; Farrell, J., Hayes, J., Shapiro, C. & Sullivan, T. (2007) *Standard Setting, Patents, and Hold-Up*, Antitrust Law Journal, 74, p. 603; Melamed, A.D. & Shapiro, C. (2018), *How Antitrust Law Can Make FRAND Commitments More Effective,* Yale Law J., 127:7, p. 2110.

[26] Concerning the SSO process, when the Report refers to 'essentiality', that term means that "*infringing essential patent claims is unavoidable when implementing the standard*" (defining essentiality is important both for disclosure and licensing obligations within SSOs). See Maskus, K. & Merrill, S. A. (2013), *Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communications Technology*, National Research Council, p. 38.

[27] Ibid., pp. 7-8.

[28] Bekkers, R. & Updegrove, A. (2012), *A study of IPR policies and practices of a representative group of Standards Setting Organizations worldwide*, US National Academies of Science, Board of Science, Technology, and Economic Policy (STEP), Project on Intellectual Property Management in standard-setting processes, p. 113, Available at: https://perma.cc/FDR3-78SK.

[29] Maskus, K. & Merrill, S.A. (2013), p. 37.

approximately 10-20% of all Wi-Fi SEPs and 20-30% of all HEVC SEPs are specifically declared.[30]

23. Other SSOs require contributors to specifically declare which of their intellectual property rights are potentially essential. For example, Article 4.1 of the ETSI Intellectual Property Rights Policy (2022), which sets out a disclosure requirement.[31] It provides as follows:

> [E]ach MEMBER shall use its reasonable endeavours, in particular during the development of a STANDARD or TECHNICAL SPECIFICATION where it participates, to inform ETSI of ESSENTIAL IPRs in a timely fashion. In particular, a MEMBER submitting a technical proposal for a STANDARD or TECHNICAL SPECIFICATION shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER's IPR which *might be ESSENTIAL* if that proposal is adopted.[32]

24. ETSI also provides a database providing information on specific patents that have been declared potentially essential to its standards. According to a report prepared for the European Commission's Joint Research Centre ("**JRC**"), "*although the ETSI database is public, the data collection and processing require considerable attention and careful decision making.*"[33]Irrespective of whether the SSO permits blanket disclosures or requires specific disclosures, the right holder participating in a standard-setting process will generally be asked to commit to license its SEPs "*on fair, reasonable and non-discriminatory ('FRAND') terms and conditions*".[34] Lemley and Shapiro have observed, in that respect, that for "that commitment to be effective, it must be a legally binding commitment" because if it were "nothing more than a promise to later license to a party only if the patentee feels like it—the position some patentees have taken[15]—is not a commitment at all."[35]

25. Importantly, given the comments above on the innovation ecosystem where parties are often both innovators - and thus often license their technology - and users of patents belonging to others, the ETSI policy states that the FRAND undertaking "*may be made subject to the condition that those who seek licences agree to reciprocate.*"[36] Finally, according to the same ETSI Policy, a right holder may exclude patents from the FRAND commitment.[37]

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[30] See Baron, J. et al. (2023), *Empirical Assessment of Potential Challenges in SEP Licensing,* European Commission, pp. 31-32, Available at: https://doi.org/10.2873/19262.

[31] Lemley, M.A. (2002), p. 1905 only identified four SSOs that require "*a member to search either its own files or the broader literature to identify relevant IP rights*", namely NIST, the European Telecommunications Standards Institute ("**ETSI**"), the Open Group, and the Frame Relay Forum.

[32] ETSI Directives of 12 December 2022, *Annex 6: ETSI Intellectual Property Rights Policy* ("**ETSI Directives**") (emphasis added).The same Policy makes clear (at Article 4.2) that it is a good faith effort but not an obligation to conduct a patent search.

[33] Bekkers, R. et al (2020), *Landscape Study of Potentially Essential Patents Disclosed to ETSI,* European Commission JCR, p. 3

[34] See e.g. ETSI Directives, Article 6, which refers to an "irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory ("FRAND") terms and conditions."

[35] Lemley M. & Shapiro C., *A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents* (2013), 28 Berkeley Tech LJ 1135, 1140-41, available at https://faculty.haas.berkeley.edu/shapiro/frand.pdf.

[36] ETSI Directives, Article 6.

[37] *Ibid.*, Article 8.

26. A difficulty in analysing and regulating this area is that the practices of SSOs vary widely, as do their IPR policies. As Bekkers & Updegrove (2012), noted,

> Despite the fact that the concept of RAND terms is central to many IPR polices, it is remarkable that none of the policies in the study set provides a definition, or any guidance on how abstract concepts as 'reasonable' or 'non-discriminatory' are to be understood. The same holds true with respect to the word 'fair' in policies that speak of FRAND […].[38]

27. This has led courts that have attempted to define FRAND from a legal perspective to look at different sets of practices and norms. [39] Nevertheless, a number of principles seem to emerge among standards that operate under a FRAND commitment.

28. First, the very existence of FRAND commitments as a condition for the inclusion of a patent in a standard is evidence of a change in the situation of the IPR holder before and after the adoption of the standard. In return for the right holder's voluntary participation in the process and the adoption of its intellectual property as part of the standard, the right holder must agree to license the SEP on a FRAND basis. As the IAR notes in that regard:

> When the SEP holder commits to license its patents under FRAND terms and conditions in order to promote adoption of the standard, its objective is not to stop the sale of infringing products but to collect royalties from such sales (although some SEP holders may choose not to actively monetize or assert their SEPs).[40]

29. The normal exploitation of the patent in the context of standard-compliant products is to be able to collect FRAND royalties. Due to the unique nature of SEPs (i.e. patents cannot be circumvented or 'designed around' because the technology is essential to implement the standard in products), exploitation rights are more strictly defined or limited because of concerns about potential restrictions on fair competition and discrimination, i.e. anti-competitive behaviour.[41]

OVERVIEW OF REGULATORY & ENFORCEMENT ISSUES

30. This section of the report provides a summary of important legal and regulatory issues arising from the analysis in the previous section.

i. Hold-up and hold-out

31. A FRAND commitment should lead to good faith negotiations between the holder of the right to the relevant SEP(s) and the implementer of the standard to which those SEP(s) are declared to be applicable. Of course, it is always possible that one or both parties will not negotiate in good faith. If the right holder does so, this is often referred to as a 'hold-up', which is defined in the Horizontal Guidelines as '*refusing to license the necessary IPR or by extracting excess rents by way of discriminatory or excessive royalty fees, thereby preventing effective access to the standard.*'[42] The

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[38] Bekkers, R. & Updegrove, A. (2012), p. 88.

[39] Examples include: Judgment of the Court of Justice of 16 July 2015, Case C-170/13 *Huawei Technologies Co. Ltd v. ZTE Corp. and ZTE Deutschland GmbH* [2015], ECLI:EU:C:2015:477 (hereinafter "**Huawei Technologies v. ZTE"**), and, in the United States, *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217 (W.D. Wash. April 25, 2013); *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903 (N.D. Ill. 2013); and *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998 (N.D. Cal. 2013).

[40] IAR, p. 121

[41] *Ibid.*, pp. 121-122.

[42] 2023/C 259/01 - Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, SEC (2023) 212 final, 1 June 2023, para. 444 (hereinafter "**Horizontal Guidelines**"- notes omitted).

US Court of Appeals for the Federal Circuit (the appellate court that hears all patent law appeals in the United States) described hold-up in a similar way as the "*tactic of withholding a license unless and until a manufacturer agrees to pay an unduly high royalty rate for an SEP*".[43]

32. 'Patent ambush,' can be seen as a specific type of hold-up. It can also be linked to disclosure obligations. Though there is no accepted legal definition of the term, scholars have described patent ambush as "*situations in which SSO participants are not forthcoming about their patents or patent applications. They lie in wait until after the SSO has adopted a standard, and then announce their patent ownership. They will include a demand for very high royalties, limited by the sunk costs of the infringers.*"[44] Ambush therefore occurs when a participant in the standard-setting process withholds information about its SEP during the development of the standard and later demands high royalties or imposes other licensing terms once the standard is adopted and others are locked into using it. This behaviour may exploit the dependency created by the adoption of the standard. The term has also been used by courts in the EU.[45]

33. Hold-out (sometimes referred to as 'reverse hold-up') happens when a company implementing the standard containing SEPs (often referred to as an 'implementer') uses a SEP while refusing *"to pay a royalty fee on* [FRAND] *terms, or using dilatory strategies*"'.[46] Hold-out must be distinguished from cases of genuine disagreement on price/value, essentiality and validity (which the next section discusses), which can be resolved in a variety of ways.

34. While hold-up and hold-out can both occur in negotiations involving non-SEPs, standardisation has an asymmetric effect on these problems. As the FTC Commissioner explained, hold-out "does not pose the same concerns from a competition standpoint as holdup, which has the potential to exclude firms from implementing a standard."[47] As discussed above, the process of standardisation may eliminate alternatives technologies that licensees can use.[48]

35. The course of action for dealing with an intransigent infringer is the same with SEPs as it is for non-SEPs—a private enforcement action.

36. As Professor G. E. Evans explains, "*Given the bargaining failure occasioned by such tactics, negotiations for FRAND encumbered licenses often end in litigation.*"[49] In such cases, the state may

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[43] *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1031 (9th Cir. 2015), citing *Ericsson, Inc. v. D–Link Sys., Inc.*, 773 F.3d 1201, para. 1209 (Fed.Cir.2014) (hereinafter "**Ericsson v. D-Link**").

[44] Hovenkamp, H. (2020) p. 1732. See also Ohana, G., Hansen, M. & Shah, O. (2003) *Disclosure and Negotiation of Licensing Terms prior to Adoption of Industry Standards: Preventing Another Patent Ambush?*, European Competition Law Review, 24(12), pp. 644–656.

[45] See e.g. Federal Court of Justice of Germany, 24 November 2020, Case KZR 35/17 *FRAND-Einwand II*, ECLI:DE:BGH:2020:241120U.

[46] Horizontal Guidelines (2023) para. 444. See also Ménière, Y. (2015), p. 15.

[47] Rebecca Kelly Slaughter, SEPs, Antitrust, and the FTC (29 October 2021), p. 5, online: https://www.ftc.gov/system/files/documents/public_statements/1598103/commissioner_slaughter_ansi_102921_final_to_pdf.pdf.

[48] Decision of 29 April 2021, Case AT.39985 *Motorola—Enforcement of GPRS Standard Essential Patents*, European Commission, para. 243.

[49] Evans, G.E. (2021) *Negotiating FRAND-encumbered patent licences*, Journal of Intellectual Property Law & Practice, 16:10, pp. 1091–1108.

legitimately wish to intervene to increase efficiency in order to ensure effective participation without making the rules unattractive to right holders.[50] As Professor Evans also noted:

> Without the ways and means to negotiate FRAND licences more effectively, recourse to litigation would have a number of undesirable consequences. Not only would patentees be more likely to relinquish standardization if not reasonably rewarded, but implementers would be less likely to make use of standardized technologies if faced by unforeseeable costs. Such an impasse would serve neither the interest of patentees, nor that of implementers or of the public at large […].[51]

ii. Royalty stacking

37. Another issue that often arises in the field of FRAND licensing is the multiplicity of patents that may be involved in a single standard. This is not the fault of the multiple holders of SEPs, but implementers understandably want to: (a) be able to implement the standard without infringing valid SEPs; and (b) pay no more than the SEPs are worth in the aggregate.[52] Conversely, and understandably, each right holder of these SEPs wishes to extract the maximum value from its intellectual property. As a result, the total amount to be paid by the licensee/ implementer may become excessive, a phenomenon known as 'royalty stacking'.[53]

iii. *Essentiality and validity*

38. According to the literature, some standards, especially in the ICT sector, can involve thousands of patents.[54] Between 2010 and 2021, the number of patent families declared essential to a standard increased fivefold, and by 2022, more than 141,000 patents and patent applications had reportedly been declared essential to the 5G cellular standard.[55] In addition, it should be recalled that a rightsholder participating in an SSO process often only has a good faith obligation to identify relevant patents without the need to conduct a patent search.

39. This means that there will often be cases where a patent is declared but is not in fact essential.[56] Given the size of some ICT patent portfolios, this is not entirely surprising. However, it poses a problem for the determination of the FRAND royalty rate, as implementers may end up paying for patents they do not need. A possible argument to justify this lack of 'consideration' or 'cause' for payment is the transaction cost of examining all the identified patents to determine essentiality

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[50] See e.g. Layne-Farrar, A. (2013) *Moving Past the SEP Rand Obsession: Some Thoughts on the Economic Implications of Unilateral Commitments and the Complexities of Patent Licensing,* George Mason Law Review, 21, p. 1097.

[51] Evans G.E. (2021), p. 1092.

[52] See Shapiro, C. (2001) *Setting Compatibility Standards: Cooperation or Collusion? in R C Dreyfuss et al. (eds), Expanding the Boundaries of Intellectual Property,* Oxford University Press, 81, pp. 97-101; and Krechmer, K. (2005) *Communications Standards and Patent Rights: Conflict or Coordination?,* 3, Available at https://www.csrstds.com/star.html.

[53] *Ericsson, Inc. v. D–Link*, para. 1209.

[54] Baron, J. et al. (2023), p. 16.

[55] *Ibid.*, Critharis, M. et al, (2022) *Patenting Activity Among 5G Technology Developing Companies*, U.S. Patent and Trademark Office, Office of Policy and International Affairs, p. 3, Available at https://www.uspto.gov/sites/default/files/documents/USPTO-5G-PatentActivityReport-Feb2022.pdf.

[56] See Baron, J. et al (2023), pp. 33-34; Lemley, M.A. & Simcoe, T. (2019), *How Essential Are Standard-Essential Patents?*, Cornell Law Review, 104, pp. 607-642; Goodman, J. & R. A. Myers, R.A. (2005), *3G Cellular Standards and Patents*, International Conference on Wireless Networks, Communications and Mobile Computing, 5.

40. The same goes for validity. Many granted patents are invalidated once challenged. Again, this should not be surprising. A patent application is essentially a conversation between a patent applicant and an examiner at a patent office. The examiner has limited time and resources to find and analyse prior art. In a court of law, on the other hand, a party challenging the validity of the patent can bring significant resources to bear and bring to the court's attention prior art that was not considered by the patent office. For example, a 2014 US study found that from 2003 to 2009, about 60% of patents challenged in court were invalidated in whole or in part, excluding cases where validity decisions were vacated and remanded.[57] A different study found an overall invalidity rate of 42% for all US patent cases filed between 2008 and 2009.[58] Another study, this time in Germany, found that between 2010 and 2012, 45% of patents were invalidated in full and 33% were invalidated in part.[59] The combination of defences (notably, of course, non-infringement) means that winning a patent infringement case is no easy task. In one study, Allison et al. found a 'win rate' of just over 25%.[60] However, a full assessment of the validity of every patent in a standard is burdensome.

iv. Injunctive relief

41. In many cases, the main disagreement between SEP holders and implementers will be over price. This has led a number of scholars, particularly in the United States, to suggest that implementers should be allowed to use SEPs that are voluntarily subject to a FRAND commitment by the right holder while the price is negotiated or set by a neutral third party. An example of this position can be found in Mark Lemley's well-known article on the subject:

> [I]f a court determines that an IP owner granted a license by virtue of agreeing to be bound by an SSO IP rule, the only remaining questions concern the scope of the license and the royalty rate. The IP owner in that case has only a contractual claim for a royalty, not a cause of action for patent infringement that might result in an injunction, treble damages, and attorneys' fees.[61]

42. This position partly reflects the contractual nature of the FRAND commitment made by the SEP holder under US law.[62] Under the law of certain EU member States, the nature of the relationship between the SEP holder making a FRAND commitment and the SSO is also seen as contractual in nature, for example in jurisdictions where it can be considered a *stipulation pour*

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[57] Mann, R. J. & Underweiser, M. (2012) *A New Look at Patent Quality: Relating Patent Prosecution to Validity*, Journal of Empirical Legal Studies, 9: 1, p. 7.

[58] Allison, J. R., Lemley, M. A. & Schwartz, D. L. (2014), *Understanding the Realities of Modern Patent Litigation*, Texas Law Review, 92:7, p. 1787.

[59] Henkel, J. & Hans Zischka, H. (2019), *How many patents are truly valid? Extent, causes, and remedies for latent patent invalidity*, European Journal of Law and Economics, 48:2, p. 195.

[60] Allison J. R. et al. (2017), *How Often Do Non-Practicing Entities Win Patent Suits?* ,Berkeley Tech. Law Journal, 32, p. 269.

[61] Lemley M.A. (2002), p. 1925.

[62] See e.g. *Microsoft Corp. v. Motorola, Inc.*; *In re Innovatio IP Ventures, LLC Patent Litig.*, and *Realtek Semiconductor Corp. v. LSI Corp.*. Under US law, other legal doctrines, such as promissory estoppel, may also be relevant. See Lemley M.A. (2002), p. 1915.

autrui.[63] In the UK, courts have also found the FRAND commitment to be binding.[64] In the context of the ETSI IPR Policy, the CJEU has referred to it as 'irrevocable'.[65] Nevertheless, the underlying principle seems valid: if the only issue is price and the licensee is willing and able to pay that price, then the principle that no injunction should be issued is eminently defensible.[66]

43. From a competition law standpoint, "*market power considerations*" counsel against a broad or systematic use of injunctive relief, "especially when the implementer in question is willing to enter into a FRAND license".[67] As Hovenkamp explains, in certain cases, the refusal of an injunction "is essential to making the FRAND system work", for example when a firm "is reneging on its FRAND obligation by refusing to license, insisting on a product tie, a loyalty provision, or some other condition that is in violation of its FRAND obligation".[68]

44. The UK Supreme Court noted the need to consider the FRAND process before issuing an injunction:

> The [ETSI] IPR Policy imposes a limitation on a SEP owner's ability to seek an injunction, but that limitation is the irrevocable undertaking to offer a licence of the relevant technology on FRAND terms, which if accepted and honoured by the implementer would exclude an injunction.[69]

45. While the principle is that patent holders have a right to obtain injunctions against infringers,[70] the SEP holder's commitment to offer a FRAND license is transformative. Nonetheless, as Hovenkamp also explains, that there are cases where an injunction may be justified in the context of a SEP. In particular, he mentions the case where a "*a FRAND royalty has been independently determined and a recalcitrant infringer refuses to pay*".[71]

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[63] Proposed SEP Regulation, Recital 3, states: "*The FRAND commitment is a voluntary contractual commitment given by the SEP holder for the benefit of third parties*". In other EU Member States, observers have argued that it may be an "*incomplete*" contract. See Brinsmead, S. (2021), p. 89. That said, in some cases, the stipulation made by the SEP holder in favour of future licensees may be enforceable under various doctrines concerning third party beneficiaries.

[64] *Unwired Planet International Ltd & Anor v. Huawei Technologies Co Ltd & Anor (Rev 1)* [2018] EWCA Civ 2344 (hereinafter "**Unwired Planet**").

[65] *Huawei Technologies v. ZTE*, paras. 15, 51, 59 and 71.

[66] As the US Court of Appeals for the Federal Circuit noted: "*money damages are adequate to fully compensate Motorola for any infringement. Similarly, Motorola has not demonstrated that Apple's infringement has caused it irreparable harm.*" *Apple Inc. v. Motorola*, para. 1332.

[67] Maskus, K. & Merrill, S. A. (2013), p. 96.

[68] Hovenkamp, H. (2020), pp. 1738-39.

[69] *Unwired Planet International Ltd and another (Respondents) v. Huawei Technologies (UK) Co Ltd and another*, [2020] UKSC 37 (hereinafter "**Unwired Planet (UKSC)**"), para. 61.

[70] See Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights 2004, OJ L 195/16 2.6.2004, Article 9(1) (requiring Member States to ensure that their judicial authorities have the authority to issue interlocutory injunctions) and Article 11 (providing for awards of permanent injunctions).

[71] Hovenkamp, H. (2020), p. 1737. See also Keeler, R. D. (2013), *Why Can't We Be (F)RANDs?: The Effect of Reasonable And Non-Discriminatory Commitments on Standard-Essential Patent Licensing,* Cardozo Arts & Entertainment Law Journal, 32, pp. 341-342.

46. If both parties are negotiating in good faith, it seems fully warranted to delay or refuse the issuance of injunctive relief, bearing in mind that in many cases the damage caused by infringement is not irreparable.[72]

47. It must also be borne in mind that not all SEP holders and implementers are large multinational corporations with large litigation budgets. In many areas, a number of Small and Medium-sized Enterprises ("**SMEs**") are active.[73]

48. Given the complex nature of SEP pricing and the large sums that can be involved, but also the fact that price is often the key sticking point, the role of arbitration in this context has been promoted as a way to improve the efficiency dynamics of FRAND licensing.[74] Arbitrators generally do not have the ability to issue injunctions.

49. One of the key problems - perhaps the most important - is that FRAND is a process that cannot be easily defined in terms of outcomes. Even where the SEP holder and the prospective standard implementer act in good faith, the parties may genuinely disagree on the value (including essentiality) or validity of the patent, especially if it is one of many needed to implement the standard. When buying a car or a house, the seller and the prospective buyer face the same dilemma, and the third party can intervene in the process in various ways, often only as a guide for the parties. For example, there are several apps and websites that help determine the fair market value of new and used cars. Then, government authorities usually assess the value of houses for tax purposes, which, depending on how accurate and up to date the assessment is, can be useful in helping the parties to find a price they can agree on.

50. In the SEP context, the problem is more complex as there may be thousands of 'properties' involved in a single standard. Then, as just noted, there can be genuine disagreements on value, essentiality and validity. From a regulatory perspective, therefore, two related questions arise: (a) is a regulatory or judicial intervention in price negotiations useful or necessary?; and (b) given that determining essentiality and validity can be extremely burdensome for all parties, can a mechanism or process be put in place to mitigate essentiality issues?

IV. BACKGROUND TO THE PROPOSED SEP REGULATION

i. Overall objectives

51. As I understand it, the stated purpose of the Proposed SEP Regulation is to improve the licensing environment for SEPs by reducing information gaps and preventing market failures that may discourage the adoption of standards. To do so, the Proposed SEP Regulation contains groups of measures that aim:

(a) To increase transparency on ownership, essentiality and FRAND terms and conditions (Articles 1 and 3);

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[72] See e.g. *Apple Inc. v. Motorola.*

[73] IAR, pp. 4 and 11.

[74] See Chaisse, J. & Marisport, A. (2021), *Arbitration Clauses in Intellectual Property Contracts: Past, Precedence, and Future*, International Lawyer, 54:3, pp. 411-413; Picht, P. G. & Loderer, G. T. (2019), *Arbitration in SEP/FRAND Disputes: Overview and Core Issues*, Journal of International Arbitration, 36:5, 575-594; and De Werra, J. (2014), *The Expanding Significance of Arbitration for Patent Licensing Disputes: from Post-Termination Disputes to Pre-Licensing FRAND Disputes*, ASA Bull, 32, 692. Some commentators have argued that only disputes concerning royalty rates should be submitted to arbitration, not other issues. See Kevin Hardy, K. (2017) *Resolving Patent Disputes: Are Regulators Right to Recommend Arbitration?, Design World*, Available at: https://perma.cc/VZM7-KQNT.

(b) To provide an efficient dispute resolution mechanism to determine FRAND terms and conditions (Articles 1, 34-58);

(c) To encourage the participation of SMEs, for whom legal and other costs can be a major obstacle to the implementation of standards;[75]

(d) To establish a competence centre to manage a register of SEPs, evaluate essentiality, provide training, and encourage consistency in practices related to SEP licensing (Recital 13); and

(e) To ensure timely registration of SEPs (Recital 19).

ii. Bases for the Proposed SEP Regulation

52. The Proposed SEP Regulation builds upon the CJEU's guidance in *Huawei Technologies v. ZTE* by adding new transparency and procedural requirements aimed at facilitating efficient SEP licensing. According to its text, it does so while aiming to respect SEP holder rights and provide a balanced approach through a centralised EU system overseen by a competence centre administered by the European Union Intellectual Property Office("**EUIPO**").

53. The *Huawei Technologies v. ZTE* ruling outlined steps that SEP holders and implementers must follow to prevent abuse of dominant position when seeking injunctions. The proposed regulation builds on this by providing a FRAND determination procedure that must be completed before a SEP holder can enforce their patent and seek injunctions (unless the implementer fails to engage). This procedural step was justified as aiming to streamline negotiations and reduce litigation costs compared to traditional court proceedings.

54. The Proposed SEP Regulation appears to be in line with a number of previous EU policy and judicial documents.

55. For example, the Horizontal Guidelines made the EU's position on the interface between intellectual property and competition quite clear:

> A participant holding IPR essential for implementing a standard could, in the specific context of standard development, also acquire control over the use of the standard. When the standard constitutes a barrier to entry, the undertaking could thereby control the product or service market to which the standard relates. This in turn could allow undertakings to behave in anti-competitive ways.[76]

56. The Guidelines proposed a "*system where potentially relevant IPR is disclosed up-front may increase the likelihood of effective access being granted to the standard* [accompanied by a FRAND commitment], *since it allows the participants to identify which technologies are covered by IPR and which are not.*"[77]

57. This follows the Commission's analysis of the limits on the availability of injunctions under competition law. As the Commission noted, "*While recourse to injunctions is a possible remedy for*

[75] The IAR notes (p. 19) that "*80% of SMEs responding to the SME survey said they did not know who owns SEPs relevant to the standard they use and 90% did not know if patents presented to them during negotiations were essential to the standard.*"

[76] Horizontal Guidelines (2023), para. 444.

[77] *Ibid.* (text of footnote summarised).

patent infringements, such conduct may be abusive where SEPs are concerned and the potential licensee is willing to negotiate a licence on Fair, Reasonable and Non-Discriminatory (so-called 'FRAND') terms."[78]

58. The Proposed SEP Regulation states that a "*pre-trial obligatory conciliation is likely to reduce SEP dispute settlement costs to about 1/8*".[79]

59. The text of the Proposed SEP Regulation also mentions the "*Standardisation strategy, published in February 2022, aims to strengthen the EU's role as global standard-setter, driving international competitiveness and enabling a resilient, green and digital economy*.""[80]

60. The European Commission's findings in the 2014 *Samsung* and *Motorola* cases[81] regarding their enforcement of standard essential patents (SEPs) are also relevant to the proposed regulation on SEPs because they highlighted concerns about the potential abuse of dominance by SEP holders when seeking injunctions against implementers despite their FRAND commitments. Specifically:

61. In *Samsung*, the Commission raised concerns that seeking injunctions against implementers willing to negotiate FRAND licenses could constitute an abuse of dominance.

62. In *Motorola*, the Commission found Motorola's efforts to obtain and enforce an injunction against Apple amounted to an abuse of a dominant position, as Apple had agreed to take a FRAND license.

63. These cases demonstrated the need for greater clarity and guidance on the appropriate enforcement of SEPs and the circumstances in which injunctions may be justified or considered potentially abusive. The proposed regulation addresses this by introducing a mandatory FRAND determination procedure that must be completed before a SEP holder can seek injunctive relief against an implementer (unless the implementer fails to engage). The regulation also aims to streamline licensing negotiations and reduce litigation costs compared to lengthy court proceedings like those seen in *Samsung* and *Motorola*.

iii. *Impacts of the Proposed SEP Regulation on enforcement on SEPs*

64. The Proposed SEP Regulation impacts the enforcement of FRAND-encumbered patents in the following ways:

(a) A SEP cannot be enforced in relation to a standard implementation if it is not registered within the time limit. SEPs that are registered late can be enforced but may only recover royalties accrued from after the registration date (Article 24.1).

(b) An injunction would not be available until after a prelitigation FRAND determination procedure is completed, unless the other party fails to engage (Article 34.4, 56.4).

(c) However, provisional injunctions of a financial nature ('financial injunctions') may still be available pending the FRAND determination (Article 34.4).

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[78] European Commission Press Release, *Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard essential patents*, 21 December 2012, Document IP/12/1448; Also see European Commission Press Release, *Antitrust: Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents*, 6 May 2013, Document IP/13/406.

[79] Proposed SEP Regulation, p. 9.

[80] *Ibid.*, p. 2.

[81] Decision of 29 April 2021, Case AT.39985 *Motorola—Enforcement of GPRS Standard Essential Patents*, European Commission; Decision of 29 April 2021, Case AT.39939 *Samsung — Enforcement of UMTS standard essential patents*, European Commission, (2014/C 350/08).

(d) According to its text, the Proposed SEP Regulation's Limits on enforcement of FRAND-encumbered SEPs may be justified as follows:

(1) Requiring registration within the time limit and suspending enforcement until registration encourages timely disclosure and legal certainty (Articles 24.1-24.2);

(2) The stated aims of the mandatory FRAND determination are to streamline negotiations and reduce litigation costs through an efficient out-of-court procedure (Recital 31);

(3) These limitations are characterized as temporary, limited, and aimed at improving the SEP licensing system while respecting patent owner rights under the EU Charter (Recitals 42-43); and

(4) The FRAND determination follows conditions outlined by the CJEU for mandatory alternative dispute resolution prior to court access (Recital 43).

65. The IAR further explains that:

(a) SEP holders complain about long and expensive negotiations, especially with large implementers, implying that enforcement procedures can be lengthy;[82]

(b) if negotiations cannot be concluded in a timely manner and no powerful objections are raised by the potential licensee, SEP holders would resort to litigation. This suggests that litigation is pursued when negotiations take an excessive amount of time;[83] and

(c) the initiative aims to reduce the duration of license negotiations and the costs of negotiation for both parties, indicating that the current enforcement procedures are seen as taking a long time.[84]

66. Courts provide legal protection against hold-out, but the current system could be improved if litigation were less expensive and quicker,[85] again implying that the current enforcement process is time-consuming.

67. While limiting some enforcement options temporarily, the stated aim is to facilitate efficient SEP access and licensing through transparency and streamlined dispute resolution procedures, while still allowing some interim remedies during this process.

68. The text of the Proposed SEP Regulation compares the conciliation process to arbitration, both of which result from a voluntary commitment (i.e. from the FRAND commitment and arbitration clauses in a contract).

69. The document compares the proposed conciliation process with arbitration procedures in the following ways:

(a) Nature of the process:

Conciliation is described as "*a structured process in which the parties submit their dispute for negotiation and resolution with the assistance of a neutral person, who may issue a non-binding opinion if*

[82] IAR, p. 20.

[83] *Ibid.*, p. 173.

[84] *Ibid.*, p. 58.

[85] *Ibid.*, p. 154.

the parties are unable to resolve their dispute."[86] Arbitration, on the other hand, typically results in a binding decision. The IAR adds that "*the conciliation would be more acceptable than arbitration to the parties (where a decision is final) as a conciliator only issues a non-binding suggestion and report on FRAND terms and conditions.*"[87]

(b) Relationship to court proceedings:

The proposed conciliation procedure is described as "*follow*[ing] *the conditions for mandatory recourse to alternative dispute settlement procedures as a condition for the admissibility of an action before the courts*"[88]. This implies that conciliation is intended as a mandatory pre-trial step before court proceedings can commence.

70. While respecting SEP holder rights, the Proposed Regulation imposes certain procedural requirements before injunctions can be sought, reflecting the Commission's stance that easily available injunctions can potentially enable abuse of market power.

71. According to the European Commission, the *Samsung* and *Motorola* cases illustrate problematic enforcement practices that the Proposed Regulation aims to address through harmonized transparency, licensing negotiation procedures, and limiting the ease of injunctive relief, building upon the European Commission's findings regarding potential competition law concerns.

iv. *Mandatory registration of SEPs*

72. The Proposed SEP Regulation contains provisions concerning the registration of SEPs. The European Commission justifies the need for SEP holders to register their patents before they can be enforced for the following four groups of reasons:

(1) Transparency and Legal Certainty:

1. Requiring SEP holders to register their patents within 6 months of the opening of registration or grant of the patent (whichever is later) aims to increase transparency about SEP ownership and essentiality information (Recital 19).
2. This transparency is intended to provide legal certainty for implementers about which patents they need to license for a given standard.[89]

(2) Encouraging Timely Registration:

1. By preventing enforcement of unregistered SEPs until they are registered, the regulation incentivises SEP holders to register within the 6-month time limit.[90]
2. This is intended to ensure that comprehensive SEP information is available in the register from the outset, maximising its transparency benefits.

(3) Consequences for Delayed Registration:

1. SEP holders who register after the 6-month deadline cannot collect royalties or claim damages for the period of delay before registration.[91]
2. This further discourages delayed registration and aims to foster a robust, up-to-date register of SEPs.

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[86] *Ibid.*, p. 2.

[87] *Ibid.*, p. 42.

[88] Proposed SEP Regulation, p. 23

[89] *Ibid.*, p. 12

[90] *Ibid.*

[91] *Ibid.*

(4) Balancing Rights and Obligations:

1. While the registration requirement temporarily limits SEP holders' enforcement rights, it is characterized as a proportionate and limited restriction aimed at improving the overall SEP licensing system (Recital 42).
2. The Proposed SEP Regulation seeks to balance patent owner rights with the need for transparency and legal certainty for implementers, facilitating efficient licensing.

73. The Commission therefore regards the registration requirement as a necessary step to increase transparency, legal certainty and the timely availability of comprehensive information on SEPs, objectives which underpin the overall stated objectives of the Regulation to facilitate efficient access to and licensing of SEPs in the EU.

V. TRIPS ANALYSIS: METHODOLOGY

74. From the perspective of analysing its TRIPS compatibility, the aspects of the Proposed SEP Regulation mentioned by SEP holders, trade associations and others tend to focus on the mandatory registration requirement (Articles 20-23) and the consequences of failure to register (Article 24), in the latter case in particular with regard to remedies. Another criticism is that the Proposed SEP Regulation targets a particular 'field of technology' in violation of the TRIPS Agreement. I have also read comments suggesting an incompatibility between the Proposed SEP Regulation and the EU's position in its pending dispute with China at the WTO (DS611).

75. I will now address those arguments. I first identify the sources used for the analysis. I then explain the methodology of the analysis and turn to the specific arguments concerning possible inconsistencies between the Proposed SEP Regulation and the TRIPS Agreement.

i. Background

76. In addition to EU documents (including the Proposed SEP Regulation and Impact Assessment Report), I also reviewed the following documents critical of the Regulation to prepare this report:

(a) Abott, A. (2023), 'Proposed European SEP Regulation Would Undermine Efficiency, Innovation and Economic Growth' *IPWatchdog*, (29 May).[92].

(b) Cohen, D. (2023), 'Commentary and Concerns About the European Commission's Proposed Regulation of SEP Licensing' (15 October).[93]

(c) Document entitled 'InterDigital's feedback on the European Commission Initiative on a New Framework for Standard-Essential Patents: Proposal for a Regulation COM(2023) 232 final of 27.4.2023' (undated).[94]

(d) Document entitled 'IP Europe Feedback on the European Commission Initiative on a New Framework for Standard-Essential Patents: Proposal for a Regulation' (undated).[95]

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[92] Available at: https://ipwatchdog.com/2023/05/29/proposed-european-sep-regulation-undermine-efficiency-innovation-economic-growth/id=161385/#. (Accessed: DD Month 2024).

[93] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434412_en. (Accessed: DD Month 2024).

[94] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434454_en. (Accessed: DD Month 2024).

[95] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434452_en. (Accessed: DD Month 2024).

(e) Document entitled Nokia Response to 'Have Your Say' Intellectual property – new framework for standard-essential patents' (2023).[96]

(f) Document entitled 'Panasonic Holdings Corporation's Comments to the Draft SEPs Regulation' (undated).[97]

(g) Document entitled 'LES Italy position paper on 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" (undated).[98]

(h) Letter to the Commission from Ericsson (10 August 2023).[99]

(i) Letter to the Commission from K.J. Eleveld, Head of IP Licensing, Vice-President, Philips (2 August 2023).[100]

(j) Letter to the Commission from Sture Rygaard, President, European Patent Lawyers Association (10 August 2023).[101]

(k) Letter to the Commission from the American Intellectual Property Law Association ('AIPLA') (10 August 2023).[102]

(l) Public comment from the Centre for Transnational Law and Business (USC Gould, California) on the EC's Proposed New Framework for Standard-Essential Patents (7 August 2023).[103]

(m) Publicly available WTO documents concerning China – Enforcement of Intellectual Property Rights (DS611).[104]

(n) Chinembiri, W., 'EC Draft SEP Regulation and the TRIPS Agreement compatibility assessment', 4IP Council (July 2023).[105]

(o) Guan, W., (2018) *Diversified FRAND Enforcement and TRIPS Integrity*, World Trade Review, 17:1, pp 91-120.

77. The report will tackle the issues discussed in the above documents in the following order:

(a) SEPs as a 'field of technology'

(b) Registration requirements

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[96] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434468_en. (Accessed: DD Month 2024).
[97] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434425_en. (Accessed: DD Month 2024).
[98] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434355_en. (Accessed: DD Month 2024).
[99] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434449_en. (Accessed: DD Month 2024).
[100] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434328_en. (Accessed: DD Month 2024).
[101] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434427_en. (Accessed: DD Month 2024).
[102] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434456_en. (Accessed: DD Month 2024).
[103] Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434339_en. (Accessed: DD Month 2024).
[104] Available at: https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=(@Symbol=%20wt/ds611/*)&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#. (Accessed: DD Month 2024).
[105] Available at: https://www.4ipcouncil.com/research/ec-draft-sep-regulation-and-trips-agreement-compatibility-assessment. (Accessed: DD Month 2024).

(c) Remedies

(d) Incompatibility of the Proposed SEP Regulation with the EU position in DS611 (EU v. China case on antisuit injunctions).

78. For each issue, the report explores the likelihood of success of a complaint in the event of a challenge by another WTO Member under the WTO dispute settlement system.[106] The TRIPS Agreement, like all other WTO agreements, is subject to this system. The analysis below thus follows the approach to trade disputes in the WTO, where a WTO member (complainant) must establish a '*prima facie*' inconsistency with one or more obligations contained in a WTO instrument (including the TRIPS Agreement). The complainant has the burden of proving all the elements necessary to establish this *prima facie* inconsistency. '*Prima facie*' is a commonly used phrase in this context. It simply means 'at first glance'. If such an inconsistency is established, the defendant may raise various 'defences' for which it then bears the burden of proof.

ii. Interpretative methodology

79. Before beginning the analysis, it is necessary to determine the applicable method of interpretation.

80. The correct method of interpretation of the TRIPS Agreement is to follow Articles 31 and 32 of the *Vienna Convention on the Law of Treaties*. The WTO Appellate Body has made this clear in several disputes and panels have followed this approach.[107] This is solidly anchored in article 3.2 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes* ("**DSU**"), which provides in relevant part that WTO 'members recognize that it serves to preserve the rights and obligations of Members under the covered agreements, and to clarify the existing provisions of those agreements in accordance with customary rules of interpretation of public international law.' Any argument about the incompatibility of the Proposed SEP Regulation with the TRIPS Agreement that does not follow this approach should, in my view, be heavily discounted.

81. According to Article 31(1) of the Vienna Convention, 'A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.' Under Article 32, if, after using the tools provided in Article 31 (which also include agreements between the parties to the treaty) the meaning is obscure or ambiguous, recourse may be had to the treaty's negotiating history.

82. The *context* in which words of a treaty must be interpreted according to the Vienna Convention include the entire text of that treaty. As Dörr & Schmalenbach explain, the entire text of the treaty is to be taken into account as "context", including title, preamble and annexes (see the chapeau of para. 2) and any protocol to it, and the systematic position of the phrase in question within that ensemble.[108]

83. Turning now to trade law specifically, although there is no formal 'precedential' value to the reports of WTO dispute settlement panels or the Appellate Body as there would be in a

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[106] The procedure is described in the next section of this report.

[107] See e.g., *United States — Standards for Reformulated and Conventional Gasoline,* WT/DS2/AB/R, adopted 20 May 1996; *Japan —Taxes on Alcoholic Beverages*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, pp. 10-17**;** *India — Patent Protection for Pharmaceutical and Agricultural Chemical Products (EC)*, WT/DS50/AB/R, paras. 45-46 (hereinafter "**India – Patents**"); *Argentina — Measures Affecting Imports of Footwear, Textiles, Apparel and other Items*, WT/DS56/AB/R, para. 47; and European Communities — Customs Classification of Certain Computer Equipment, WT/DS62/AB/R, WT/DS68/AB/R, para. 85.

[108] Dörr, O. and Schmalenbach, K. (2018) *Vienna Convention on the Law of Treaties: A Commentary,* 2d edn. (Heidelberg: Springer) p. 582.

common law system ('stare decisis'), WTO panels tend to follow the interpretations of WTO instruments in previous disputes. Indeed, the Appellate Body has stated that panels should follow Appellate Body 'precedents' unless they have a very good reason not to do so.[109] I therefore consider the existing dispute settlement reports to be a particularly important guide to the interpretation of the Convention.

84. For the purposes of the analysis below, I have assumed that the facts and evidence provided by the Commission in the text of the Proposed SEP Regulation and IAR to explain and justify the proposal are correct.

VI. TRIPS & FRAND IN CONTEXT

i. *The interpretive role of arts 7 and 8 and the Preamble*

85. Arts. 7 and 8 of the TRIPS Agreement read as follows:

(a) Art. 7: Objectives

> The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

(b) Art. 8: Principles

1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.

2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

86. The titles of arts 7 and 8 are 'Objectives' and 'Principles', respectively. Titles are relevant interpretative elements.[110] This view of Arts. 7 and 8 was adopted by the panels in *Australia - Tobacco Plain Packaging*. It stated that this was consistent "*with the applicable rules of interpretation, which require a treaty interpreter to take account of the context and object and purpose of the treaty being interpreted*", thus confirming the Panel's view that Arts. 7 and 8 of the TRIPS Agreement provide important context for the interpretation.[111] The Appellate Body found no error in the panels' finding.[112]

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[109] I have explained this in greater detail in Gervais, D. (2018). 'Does the WTO Appellate Body 'Make' IP Law?' in Geiger, C., Nard, C. A. and Seuba, X. (2018) *Intellectual Property and the Judiciary*, Cheltenham: Edward Elgar, pp. 494-516.

[110] See the text accompanying Fn. 108 above.

[111] As quoted in *Australia – Certain measures concerning trademarks, geographical indications and other plain packaging requirements applicable to Tobacco products and packaging*, WT/DS435/AB/R & WT/DS441/AB/R, WT/DS458/R, WT/DS467/R World Trade Organization – Reports of the Panel, 28 June 2018, (hereinafter "**Australia –Tobacco Plain Packaging**"), para 7.2411.

[112] *Ibid.*, paras. 6.657-6.658.

86. Having noted the role of Arts. 7 and 8, one should also note that there are considerable divergences of views in the literature about the interpretation of these articles. Fortunately, WTO dispute-settlement panels and the Appellate Body have been much clearer.

87. Two 'extreme' views, particularly on Art. 8, must be rejected at the outset. The first is that Arts. 7 and 8 are minor language added as a concession to developing countries during the negotiations and cannot be used to 'water down' the binding content of the Agreement. The factual argument (namely that these provisions were added to address the concerns of certain developing countries) is correct, but it does *not* follow that these provisions are unimportant or less important than the rest of the text. In fact, in some respects the opposite is true. It is therefore simply bad rhetoric to argue that these provisions cannot be used to 'water down' commitments. The Preamble and Arts. 7 and 8 are very much part of the Vienna interpretive context.

88. A related argument is that Arts. 8.1 and 8.2 can basically be ignored because the phrase 'provided that such measures are consistent with the provisions of this Agreement' was added to both paragraphs during negotiations. Again, although the factual point (the addition of the phrase during the negotiations) is correct, the argument is not consistent with the Vienna Convention. Articles 7 and 8 matter, and the purpose of the sentence quoted above cannot be to make the provisions essentially irrelevant.

89. The other 'extreme'–and similarly incorrect–view is that WTO Members are basically free to enact any exceptions or limitations to intellectual property rights. This argument is typically based on Arts. 8.1 and 8.2, but with the reverse interpretive error of ignoring the phrase mentioned in the previous paragraph added during the negotiations. This 'open-ended exception' argument ignores both basic interpretive principles and the behaviour of WTO Members since the entry into force of the Agreement.

90. On the first point, why would the Agreement contain specific rules on exceptions and limitations to intellectual property rights if Members are basically free to do whatever they like? Moreover, to say that there is an open door to any limitation of obligations contained in a treaty violates the *pacta sunt servanda* principle. After all, both during the AIDS/HIV crisis (which led to the adoption of the Doha Declaration on TRIPS and Public Health and ultimately to the adoption of Art 31*bis*) and during the COVID-19 pandemic (which led to the adoption of a waiver), Members negotiated specific rules on limitations to IPRs. Why would they need to do so if Article 8 gave them a pass?

91. As noted above, panels and the Appellate Body have taken a more persuasive approach to the interpretation of Arts. 7 and 8 and enshrined it in the Vienna Convention. In *Australia-Tobacco Plain Packaging (Appeal)*, the Appellate Body summarized the panel's findings on this point as follows:

> The Panel examined, in particular, the contextual significance of the first recital of the preamble to the TRIPS Agreement, as well as Articles 7 ("Objectives") and 8 ("Principles") of the TRIPS Agreement. In particular, the Panel considered that Article 8 offers "useful contextual guidance for the interpretation of the term 'unjustifiably' in Article 20". The Panel noted that "the principles reflected in Article 8.1 express the intention of the drafters of the TRIPS Agreement to preserve the ability for WTO Members to pursue certain legitimate societal interests, at the same time as it confirms their recognition that certain measures adopted by WTO Members for such purposes may have an impact on IP rights, and requires that such measures be 'consistent with the provisions of the [TRIPS] Agreement'." The Panel was of the view that, while the objectives expressly identified in Article 8 do not necessarily exhaust the scope of what may constitute a basis for

> 'justifiability' of encumbrances under Article 20, public health is 'unquestionably' among such interests.[113]

87. Having thus summarised the Panel's findings, the Appellate Body essentially agreed with the Panel on this point.[114]

88. Arts. 7 and 8 are, in my view, best seen as key policy statements explaining the rationale for measures taken under other provisions, including Arts. 30, 31 and 40. They serve an important interpretative function as both context and statements of object and purpose.

89. The Vienna Convention adds to the 'context' to take into account in interpreting a treaty "*any agreement relating to the treaty which was made between all the parties in connection with the conclusion of the treaty*" and "*together with the context*", "*any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions*" and "*any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation;*".[115] In that respect, the role of Arts. 7 and 8 must be interpreted in light of the Doha Declaration on the TRIPS Agreement and Public Health of November 2001.[116] It states, inter alia, that "*applying the customary rules of interpretation of public international law, each provision of the TRIPS Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles*".[117]

90. The reference in Art. 7 to "*the promotion of technological innovation and the to transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge*" encapsulates the important principle of balance discussed above.[118] Intellectual property policy can be defined as striking a balance between two objectives: (a) rewarding creators and inventors for innovation; and (b) promoting the interests of the economy and the general public in securing access to science, technology and culture. This balance must be maintained in order to stimulate innovation. At the policy level, this means that creators and innovators must be given the right to exploit their intellectual property without unduly burdening other creators and innovators or competition. This also means that any additional burden imposed on right holders must be weighed against the same principle, and that information on innovation must be made available to the public in order to meet the second objective.[119]

91. The public interest may lead to the imposition of limitations on the protection of intellectual property when such protection becomes excessive and no longer meets the above balanced objectives. Thus, the preamble, read in conjunction with Arts. 7 and 8, means that the interests of creators, inventors, producers and users of intellectual property

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[113] *Australia – Certain measures concerning trademarks, geographical indications and other plain packaging requirements applicable to Tobacco products and packaging*, WT/DS435/AB/R & WT/DS441/AB/R, WT/DS458/R, WT/DS467/R, World Trade Organization – Reports of the Appellate Body, 9 June 2020, (hereinafter "**Australia –Tobacco Plain Packaging (Appeal)**"), para. 6.625.

[114] *Ibid.*, para. 6.658.

[115] Vienna Convention, Articles 31(2) and (3).

[116] Declaration on the TRIPS Agreement and public health, WT/MIN(01)/DEC/2, World Trade Organization – Ministerial Conference, Fourth Session, 20 November 2001 (adopted 14 November 2001) (hereinafter "**Doha Declaration**").

[117] *Ibid.*, para. 5(a).

[118] See section IV(i) above.

[119] The fourth paragraph of the Preamble of the TRIPS Agreement sheds additional light on this principle. It reads as follows: "*Recognizing that intellectual property rights are private rights*".

are to be taken into account, leading to the need to limit intellectual property protection in specific cases where such protection is no longer in the public interest or is being abused.

92. An important textual difference between Arts. 8.1 and 8.2 is that the former contains a 'necessity test' ('measures *necessary*'), a term with a complex history of interpretation in WTO jurisprudence. The latter paragraph, however, does not. It is only subject to the condition that measures be adopted "*prevent the abuse of intellectual property rights by rightsholders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.*" Measures must be 'appropriate', which refers to the need for a match between the measure (nature and proportionality) and the abuse or unreasonable restraint it is intended to address.

93. Although the consistency requirement is best met by applying the provisions of the TRIPS Agreement that expressly permit such measures, in particular Arts. 31 and 40, all provisions of the Agreement must be interpreted in the light of the principles and objectives set out in Arts. 7 and 8.

94. In the IAR, the Commission made the following points about Arts. 7 and 8:

> Certain proposed limitations on the rights of a SEP owner, including requirements to (i) register its patents in a designated register prior to enforcement, and (ii) engage in a specified FRAND determination process before enforcing its rights, would be consistent with the objectives of the TRIPs agreement to promote technological innovation and the dissemination of technology to the mutual advantage of the SEP holder and the user of the technology (Article 7). It would also be consistent with its principles of preventing the abuse of intellectual property rights and adopting measures for public interest reasons (Article 8):
>
> Standardisation can be helpful to achieve interoperability and to promote the uptake of modern technologies. Standards promote technological development which is in the public interest (as acknowledged by Article 8 TRIPs).
>
> - Standards, including those that include patented technology, promote the dissemination of that technology (as formulated in Article 7 TRIPS).
>
> Therefore, it seems to be justified to interpret the findings of the Panel in *Canada - Patents* bearing in mind the goals and limitations of Articles 7 and 8 and in light of the specific context of SEPs.[120]

95. This analysis is, in my view, essentially correct in arguing that public policy choices in relation to formal voluntary standardization processes could lead a WTO Member to adopt certain measures aimed at making the FRAND process work to the mutual benefit of SEP holders and implementers and the public at large (which could be seen as the ultimate 'users') and at preventing abuses.

ii. FRAND Elements in TRIPS

96. In addition to the regulatory latitude that Members retained to address anticompetitive effects generally, TRIPS contains specific elements that complete the interpretive picture.

Art 40

97. Arts. 40.1 and 40.2 of the Agreement are directly relevant to the analysis. They read as follows:

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[120] IAR, p. 121.

(a) Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

(b) Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grant back conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.

98. Art. 40 is relevant as it is mentioned by the Commission to justify the Proposed SEP Regulation, which sits at the intersection of intellectual property and competition law. The Commission stated in particular that the "*proposed FRAND determination process (conciliation and aggregate royalty setting) is intended to address, among other issues, concerns about whether the demanded royalty is truly FRAND, which may have potential anti-competitive effects. Such anti-competitive effects may impede the adoption of the standardised technology mainly by new entrants and SMEs that lack the resources to deal with such demands or pay potentially non-FRAND royalties.*"[121] The conciliation and aggregate royalty approach of the Proposed SEP Regulation is presented, as I see it, as the Commission's expression of the interface it seeks between intellectual property protection and competition law. This is then supported by Arts. 7 and 8 and the Preamble.

99. There is little guidance on the interpretation of Art. 40.1. However, read in conjunction with the Preamble and Arts. 7 and 8, it is quite clear that Members may take measures to regulate licensing practices that restrict competition and have adverse effects on trade and may impede the transfer and dissemination of technology.

100. Art. 40.2 requires a determination that an abuse of intellectual property rights has such effects "*in particular cases*". This need for a 'particular case' approach was added during the negotiations to the original text proposed by a group of developing countries, which did not contain this element. The question is whether the approach in the Proposed SEP Regulation is a 'particular case' determination.

101. The clearest expression of a 'particular case' is a case-by-case approach in which a competent authority determine that a patent or other intellectual property right was abused in the case at hand.

102. Art. 40.2 probably excludes any categorical determination that a certain practice is, in general, unacceptable. In the context of the Proposed SEP Regulation, the determination should reflect the situation of the parties in relation to a standard and the SEPs necessary to implement it.

103. Art. 40.2 also contains a list of examples. It is interesting to note that validity challenges made the final list in Art. 40.2, suggesting that allowing such challenges is an inherent part of the balance that IP policy should seek to strike.[122]

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[121] *Ibid.*, p. 57.

[122] During the discussions in the GATT negotiating group responsible for the drafting of the Agreement, of which the author was a member of the secretariat, the following examples were mentioned: grant back, challenges to validity, restrictions on research, restrictions on the use of personnel, price fixing, restrictions on adaptation, exclusive distribution and agency agreements, tying, export restrictions, patent pooling and cross-licensing, restrictions on advertising, and payments or restrictions after the expiry of the patent term.

104. In summary, Art. 40.1 supports the Proposed SEP Regulation in its effort to combine and balance IPR protection and competition law. The text of Art. 40.2, which requires a 'particular case' approach, would not support categorical exclusion of certain remedies, for example. Whether that is the situation under the Proposed SEP Regulation is discussed further in relation to Arts. 44 and 50(1), below.

Art 31

105. Art. 31 of the TRIPS Agreement is quite detailed. It reads as follows:

> *Other Use Without Authorization of the Right Holder*
>
> Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:
>
> (a) authorization of such use shall be considered on its individual merits;
>
> (b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;
>
> (c) the scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive;
>
> (d) such use shall be non-exclusive;
>
> (e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;
>
> (f) any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;
>
> (g) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;
>
> (h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;
>
> (i) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
>
> (j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
>
> (k) Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial

> or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur; and
>
> (l) where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:
>
> (i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;
>
> (ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and
>
> (iii) the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent.

106. Though its title is "*Other Use Without Authorization of the Right Holder*", Art. 31 is generally seen as applying to 'compulsory licensing'. As a footnote to the article makes clear, its title reflects the fact that it applies in cases other than those covered by Art. 30, which contains the patent 'version' of the three-step test in the Agreement.[123]

107. Rather than limiting the conditions under which a compulsory licence may be granted, Art. 31 is a compromise text that provides a list of conditions that must be met by WTO Members before a compulsory licence is granted.

108. Although negotiated licences for voluntarily FRAND committed SEPs are not generally considered compulsory licences, Art. 31 provides useful context for interpreting the interface between patent protection and competition law, for at least two reasons.

109. First, Art 31(k) provides both that condition (b), namely the need to make efforts to obtain authorization from the right holder, and condition (f), which limits a compulsory license use, "*predominantly for the supply of the domestic market of the Member authorizing such use*" need not be applied where the compulsory license is issued "*to remedy a practice determined after judicial or administrative process to be anti-competitive*". The same Art. 31(k) also provides that the "*need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases*".

110. Second, Art. 31(l) applies to licences that allow the exploitation of dependent patents where one patent (the 'second patent') cannot be exploited without infringing another patent (the 'first patent'). Art. 31(l)(ii) provides that in such a case the holder of the first patent is entitled to a cross-licence "*on reasonable terms*". The Agreement does not state that the cross-licence would be imposed as part of the CL.

111. The Agreement thus clearly contemplates limitations on patent rights to remedy anti-competitive behaviour and reflects the notion of a right to licence in certain circumstances "*on reasonable terms*".

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[123] That test is discussed in Section VII(iv) below of this report.

VII. REVIEW OF SPECIFIC TRIPS ARGUMENTS CONCERNING THE PROPOSED SEP REGULATION

112. In this part of the report, I review several arguments put forward to raise doubts about the consistency of the Proposed Regulation with the TRIPS Agreement. The arguments are identified as follows and will be discussed in that order:

a. Whether SEPs constitute a 'field of technology' subject to the anti-discrimination rule (Art. 27.1).

b. Whether the proposed registration requirements are excessive, unwarranted or both.

c. Whether the limits on remedies available to SEP owners are compatible with the Agreement, specifically:

(1) Consistency with the rights of patent owners (art 28.1) ()

(2) Consistency with the right to conclude license agreements (art 28.2)

(3) Consistency with requirements for adequate enforcement procedures generally (art 41.1)

(4) Consistency with requirements for fair, equitable, and not unnecessarily complicated enforcement procedures (art 41.2)

(5) Consistency with requirements on availability of injunctive relief (arts 44.1 and 50.1(a),

(6) Consistency with requirements on availability of damages (art 45), and

d. Whether there are inconsistencies between the Proposed SEP Regulation and the position taken by the EU in its ongoing dispute with China at the WTO (DS611) on injunctions and, if so, what the implications are for the analysis.

i. Art 27: 'Field of Technology'

113. An argument put forward to suggest that the Proposed SEP Regulation is inconsistent with the TRIPS Agreement is, as I understand it, that SEPs subject to a FRAND obligation constitute a 'field of technology' and that any regulation targeting them specifically violates Art. 27.1 of the TRIPS Agreement.

114. Art. 27.1 of the TRIPS Agreement provides as follows:

> Subject to the provisions of paragraphs 2 and 3, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Subject to paragraph 4 of Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article, patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.

115. The plain meaning of the term 'field of technology' and negotiation history surrounding it make clear that the term is meant to refer to categorical exclusions that some Members had in their law at the time of the negotiations, which made patents unavailable in a field of invention, for example pharmaceuticals.

116. The context (as the term is defined under the Vienna Convention) confirms this conclusion. The obligation to make patents available "*without discrimination…as to the field of technology*" is '*subject to paragraph 4 of Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article*'. The first exclusion (Art. 65.4) applies to "*areas of technology not so protectable*" in the territory of a member '*on the date of application of this Agreement for* [that] *Member*'. That provision thus creates a parallel between 'field of technology', on the one hand, and 'area of technology', on the other hand.

117. In my view, the plain meaning of 'area of technology' is quite clear. This was confirmed by the WTO Appellate Body in *India-Patents (US),* which identified 'pharmaceutical and agricultural chemical products' as 'sensitive' fields of technology.[124] This is reinforced by Art. 70.8, which refers specifically to 'pharmaceutical and agricultural chemical products'. Finally, part of the context here is Art. 27.3, which excludes patentability based on an area of technology.

118. The European Community (as it then was) attempted to argue in a WTO dispute that Canada's 'Bolar' exception (which allows patents to be used without a licence for the purpose of submitting a 'generic' version for regulatory approval) was discriminatory under Art. 27.1 because it targeted a field of invention (pharmaceuticals), a matter that was rejected by the Panel because the exception (as drafted in the legislation) could be applied to other fields of technology.[125] The 'field of technology' in that context clearly meant a technological field or area.

119. An argument based on Art. 27.1 could perhaps be made if a complainant in a WTO dispute could demonstrate that the Proposed SEP Regulation is de facto (because it is not de jure) limited to a field of technology, but I have not seen evidence of this limitation. The Proposed SEP Regulation mentions several fields of technology and its terms are not limited to one or more fields of technology.

120. Even if this hurdle were overcome, not every differentiation between fields of technology is a prohibited form of discrimination under Art. 27.1. As the *Canada - Pharmaceuticals Patents* report notes, "*Article 27 does not prohibit bona fide exceptions to deal with problems that may exist only in certain product areas.*"[126]

121. It is also worth noting that Art 27.1 would, like the rest of the Agreement, need to be interpreted in light of Arts. 7 and 8, which form part of the Vienna Convention 'context' and provide guidance as to the Agreement's object and purpose.[127]

122. Based on the above analysis, the argument that a patent is transformed into a different 'field of technology' by being declared essential to a standard or that FRAND-committed patents constitute a 'field of technology' on their own seems to me to be unfounded.

ii. *Registration Requirement*

123. An argument has been raised that the registration requirements applicable to SEPs violates TRIPS and specifically Art. 62.1. There is a separate argument that the impact on remedies of a failure to register constitutes a violation of the Agreement, a matter to which the report returns in the next section. This section focuses on the obligation to register in and by itself.

124. There is no question that any registration process can be cumbersome and costly for intellectual property holders and this may be particularly true for holders of large IP portfolios. The question for the purposes of this report is whether the requirements in the EU SEP Regulation constitute a violation of the TRIPS Agreement. An important element of context is Art. 62.1 of the Agreement, which provides that:

> Members may require, as a condition of the acquisition or maintenance of the intellectual property rights provided for under Sections 2 through 6 of Part II, compliance with

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[124] *India – Patents*, para. 78.

[125] *Canada — Patent Protection of Pharmaceutical Products,* WT/DS114/R, paras. 7.94-7.99 (hereinafter "**Canada– Pharmaceutical Patents**").

[126] *Ibid.*, para. 7.92.

[127] They are discussed in section VI(i) above.

> **reasonable procedures and formalities**. Such procedures and formalities shall be consistent with the provisions of this Agreement. (emphasis added).

125. The focus of the Agreement as it applies to formalities such as registration is on *reasonableness*. Thus, a WTO Member challenging the Proposed SEP Regulation would likely have the burden of proving that the registration requirement is unreasonable.

126. From that perspective, an obligation to register in order to participate in a form of 'rights management' is unlikely to be a *per se* violation of the TRIPS Agreement for at least three reasons.

127. First, the obligation to disclose relevant patents is limited, in part, because disclosure alone does not solve the essentiality equation. As noted above, many SSOs do not actively seek disclosure of specific patents, and at the time of disclosure, there is usually no certainty that a disclosed patent is essential to the standard. Second, should a SEP holder wish to bring an infringement action against a user, it would of course have to comply with a number of formalities, including identifying the claims of specific patents allegedly infringed. So, to say that it is unduly burdensome to be "forced" to identify the patent assets that one owns is unreasonably burdensome does not seem entirely convincing. Thirdly, and this seems to me to be directly relevant, there is another area of intellectual property where formalities are actually *prohibited* when they are necessary for the existence of the exercise of the right. This area is copyright.

128. The Paris Convention (incorporated into TRIPS) *expressly allows formalities* for patents (and trademarks). By contrast, Article 5(2) of the Berne Convention, the most important treaty in the field of copyright (181 member states as of February 2025) provides in part that "*the enjoyment and the exercise of* [rights protected under the Convention] ***shall not be subject to any formality***".[128] This obligation is directly relevant in this context as the substantive provisions of the Berne Convention, like those of the Paris Convention, have been incorporated by reference into the TRIPS Agreement and thus forms part of the relevant context under the Vienna Convention.[129]

129. To dispel any doubt about the cross-fertilisation between the TRIPS Agreement and the treaties incorporated into it, including of course the Paris (incorporated under Art. 2(1) of the Agreement), two WTO dispute settlement panels have proceeded in this way, namely *Canada-Pharmaceutical Patents* and *US— Section 110(5) Copyright Act.*[130]

130. In a number of WTO Members, formalities such as registration of works on authors and other copyright holders are required in order to be paid, for example, either under compulsory licensing regimes or under certain collective management systems, including opt-outs for systems known as extended collective licensing ("**ECL**"), which have existed in the Nordic countries for decades and are now part of EU law.[131] WTO Members imposed such formalities

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[128] *Berne Convention for the protection of Literary and Artistic Works*, 9 September 1886, as revised in Paris (1971) (emphasis added).

[129] Art. 9.1 of the TRIPS Agreement reads in part as follows: "*Members shall comply with Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto.*"

[130] *United States — Section 110(5) of US Copyright Act,* WT/DS160/R, 15 June 2000.

[131] See Recitals 23 and 33 of the Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC, Official Journal of the European Union, Legislation L130, 62, pp. 92–125.

at the time the TRIPS Agreement was negotiated and signed, and continue to do so, which is relevant to an analysis under Article 31 of the Vienna Convention.

131. The Berne/TRIPS obligation is (a) a prohibition on 'formalities' and (b) unlike SEPs, it often applies to individual authors, who may not be expected to take as many active steps to exercise their rights as professional SEP holders. Nevertheless, this 'formality' (registration requirement) is by all accounts consistent with the Berne Convention and thus with the TRIPS Agreement.

132. As the leading published commentary on the Berne Convention explains, there are copyright-related formalities that are justified because they are "*public protective*" and are generally "*beneficial*".[132] Thus, despite the prohibition, certain formalities may be imposed (a) on authors and (b) in a situation where a rule actually seeks to prohibit formalities. This includes obligations to declare or reserve rights to be able to retain or regain the ability to license certain rights, as in the case of ECLs.[133]

133. Patents are, of course, different from copyright rights, but in a way that greatly weakens the chances of success of the inconsistency argument regarding registration requirements, because as noted above there is no rule against formalities in patent law. On the contrary, patents are necessarily the product of significant 'formalities', from the drafting of the application, through its prosecution, to the payment of filing and maintenance fees.

134. A patent holder who voluntarily agrees to participate in a FRAND/SSO process agrees to certain formalities, just as an author agrees to join a copyright collective management organisation. If it is acceptable under TRIPS to require authors to disclose their works in the presence of a rule against formalities, it is difficult to see how the registration formality *per se* would be inconsistent with TRIPS in a patent context.

135. It is conceivable that disclosure requirements could be objectively unnecessary and arbitrary, or used in bad faith by regulators to frustrate IPR holders, a situation that would require a different set of analyses under TRIPS and trade law, but I am not aware of any evidence of such arguments in the context of the EU SEP Regulation. The disclosure requirements in the EU SEP Regulation appear justifiable and generally comparable to other, existing formalities.

136. As with copyright, there is the question of the effect of formalities on the availability of remedies, a more complex issue to which the report turns in the next section.

iii. Limits on Remedies

137. Several arguments about the incompatibility of the Proposed SEP Regulation's limits on the availability of remedies during the FRAND conciliation and determination process with TRIPS have been raised. There are indeed significant limits on remedies in the Proposed SEP Regulation. These limits require a detailed, step-by-step analysis to determine whether they are compatible with the TRIPS Agreement.

Art 28.1: Availability of Enforcement of Rights

138. A first line of argument is based on Art. 28.1. In essence, it states that the minimum rights that the TRIPS Agreement required WTO Members to grant it patent owners do not exist if they are not enforceable.

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[132] Ricketson, S. and Ginsburg, J. C. (2022) *International Copyright and Neighbouring Rights,* Oxford University Press, 3, para. 6.107.

[133] *Ibid*., paras. 6.108-6.109.

139. Art. 28.1 reads as follows:

> A patent shall confer on its owner the following exclusive rights:
>
> (a) where the subject matter of a patent is a product, to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product;
>
> (b) where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.

140. The basis for the incompatibility argument is *ubi jus ibi remedium* (where there is a right, there is a remedy), a maxim used in various legal systems. It has its roots in Roman law. The ECJ has applied it in the context of the principle of effective remedy.[134] The maxim is also used in US law.[135] It makes perfect sense: a right that is rendered unenforceable is essentially worthless and cannot be enjoyed. Why, for example, would anyone pay to license that right?

141. The panel in *Canada -Pharmaceutical Patents* concluded that remedies should be available until the end of the term of protection.[136] The panel in that case found that Art. 28.1 is meant to provide patent owners "the right to exclude others from making, using, selling, offering for sale or importing the patented product during the term of the patent."[137] It has been argued that owners of a SEP would not have these rights under the Proposed SEP Regulation. However, there are differences between the situation under the Proposed SEP Regulation and the blanket unavailability of remedies under Canadian law, which allowed 'stockpiling' of products protected by a patent during the last six months of the patent term.

142. First, the rights enumerated in Art. 28.1 (making, using, offering for sale, selling and importing[138]) undoubtedly *exist* in EU law and in the laws of EU Members for the term of the patent. Their exercise is restricted for SEPs subject to a FRAND commitment during the conciliation process. Any such limit is subject to scrutiny because, as a WTO panel made clear, rights are not rights if they cannot be enforced, calling them 'phantom rights'.[139] That panel also noted (correctly, in my view) that the object and purpose of the TRIPS Agreement is not only that intellectual property rights be granted, but that they be effectively enforced, which implies that remedies must be available.

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[134] See e.g. Judgment of 28 October 1982, Case C-135/81 *Agences de voyages v. Commission of the European Communities* [1982] ECLI:EU:C:1982:81.

[135] *Kendall v. U.S.*, 37 U.S. 524, 624 (1938); *Doe v. County of Ctr.*, 242 F.3d 437, 456 (3d Cir. 2001).

[136] It should be noted that the TRIPS Agreement does not specify the duration of patent rights. It states that protection "*shall not end before the expiration of a period of twenty years counted from the filing date*" (Art. 33). This means that it does not specify when protection begins, which, depending on the legal system, may be the date, the filing date, the publication date (usually 18 months after filing), a foreign filing date (as noted in footnote 8 of the Agreement) or the date of grant. Of course, rights commencing before the date of issuance would normally be subject to a positive decision by the Patent Office to grant the patent. Under the Vienna Convention, state practice varies before the date of grant, but I am not aware of much disagreement on full right availability after issuance of the patent. Rights covered by SSO IP policies may include pending patent applications (see e.g. ETSI policy definition of 'IPR').

[137] *Canada -Pharmaceutical Patents*, para. 7.1.

[138] Subject to Art. 6 (on parallel importation).

[139] *China — Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, WT/DS362/R, 26 January 2009 (hereinafter "**China —Intellectual Property Rights**"), para. 7.67.

143. But the rights would continue to exist under the Proposed Regulation. After all, the existence of patent rights is the very basis of the FRAND commitment. The limitations on injunctive remedies during the conciliation process follow from a *voluntary* FRAND commitment. In addition, as I understand in the Proposed SEP Regulation, a SEP holder would be able to recover damages for infringement that occurred during the conciliation period if it brought an action at a later stage. This shows that the rights exist (unlike in *Canada - Pharmaceutical Patents*) but that their exercise is subject to additional formalities and limitations. As a result, any possible inconsistency with the TRIPS Agreement in this context is more appropriately addressed under Part III of the Agreement (Enforcement) rather than by focusing on the absence of rights. TRIPS should be interpreted to allow members to apply conditions to the issuance of injunction relief, as the numerous examples in US equity jurisprudence (notably *eBay Inc. v. MercExchange, L.L.C.,* 547 U.S. 388 (2006) but also the many cases on the nature of equitable remedies that predate TRIPS) demonstrate.

144. An interpretation allowing Members to impose conditions on the exercise of rights is consistent with approach used by the EU Commission to explain the Proposed SEP Regulation. As discussed in section 4.2 above, the Proposed SEP Regulation expressly relies on the Court of Justice's Judgment in *Huawei Technologies v. ZTE* which '*recognised the right of a SEP holder to seek to enforce its patents in national courts subject to certain conditions that must be fulfilled to prevent an abuse of dominant position by the SEP holder when seeking an injunction*".[140] As also explained above, the Proposed Regulation bases its limit on remedies (including injunctions not of a 'financial nature') on the giving of a FRAND commitment by the relevant SEP holder, according to which "*the SEP holder who has agreed to license its SEP on FRAND terms, while the implementer should be able to contest the level of FRAND royalties or raise a defence of lack of essentiality or of invalidity of the SEP.*"[141] The restrictions are described as based on the EU's latitude to regulate competition law and what it considers to be abuses of rights.[142] The text of the Proposed Regulation and the IAR also compare the Proposed Regulation to legislation that limits recourse to judicial remedies when an arbitration clause is included in a contract freely negotiated between private parties.[143]

145. A look at existing WTO jurisprudence sheds some additional light on the most likely outcome of a dispute on those points.

146. First, in *China - Intellectual Property Rights*, no remedies were available for a censored work. The panel found that this was inconsistent both the obligation to provide rights under Article 5(1) of the Berne Convention, as incorporated by Art 9.1 of the TRIPS Agreement; and Art 41.1 of the TRIPS Agreement. There is a difference, however, unlike making a FRAND commitment, censorship is not a formality that a private party can simply comply with; it is

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[140] Proposed SEP Regulation, Recital 9.

[141] *Ibid*., Recital 35.

[142] The report does not discuss the 'procedural autonomy' of member States and assumes that the parameters of enforcement of FRAND-encumbered SEPs are appropriate for attaining the objectives of the Proposed SEP Regulation and are justified under the requirements of proportionality, adequacy and effectiveness, as discussed, for example, in Judgment of 8 July 1999, case C-186/98 *Nunes and de Matos*, [1999] ECR I-4883.

[143] The parallel is apt also because arbitration can play a role in FRAND determinations. See Fn. 74 above and Fn. 160 below.

beyond their control. Censorship under Chinese law resulted in a permanent loss of enforceability.[144]

147. The *Saudi Arabia- IPRs*[145] dispute focused mainly on the absence of judicial authorities to enforce copyright and related rights and a stark lack of criminal enforcement. The Proposed SEP Regulation is thus different because judicial authority to enforce IP rights unquestionably exist under EU law and the issue of criminal enforcement (which is rather exceptional in patent law) has not been raised.

148. The third relevant case is the above-mentioned *Canada -Pharmaceutical Patents.*

149. These cases and the plain language of the Agreement make it clear that a strong case could be made for inconsistency with Art. 28.1 if a WTO Member were to enact an exception whereby a valid non-FRAND encumbered patent could not be enforced for a period of nine months. Under the proposed SEP Regulation, a SEP holder has limited enforcement rights for a maximum period of nine months (during the conciliation procedure, which can be terminated by the SEP holder if the implementer does not participate). However, these restrictions are the result of a voluntary commitment by the patent holder and, according to the text of the Proposed SEP Regulation and its precursors, are based both on competition law and on a parallel with arbitration law.

150. In sum, patent rights in SEPs undoubtedly exist in the laws of EU member States but their enforcement would be modulated under the Proposed SEP Regulation. Because the rights do exist, a WTO panel could foreseeably exercise judicial economy on this point and consider the matter not as a lack of rights *per se*, but rather as an enforcement issue and therefore best analysed under Part III (Enforcement) of the Agreement.[146]

151. Finally, the Commission has taken the view that, if a WTO dispute settlement panel were to find that the Proposed SEP Regulation was found to be *prima facie* inconsistent with art 28.1 on this basis, the EU could invoke art 30, known as the 'three-step test', to justify the measure, a step suggested in the IAR. The three-step test is discussed below in section 7.4.

Art. 28.2: Assignment of Rights

152. Another argument to suggest an incompatibility between the TRIPS Agreement and the Proposed Regulation is that it interferes with the patent owners' right to assign and license their patents. This argument is based on Art. 28.2.

153. Art 28.2 reads as follows:

> Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.

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[144] *China —Intellectual Property Rights*. The panel found Article 4 of the Chinese Copyright Law inconsistent with the TRIPS Agreement. It was amended after the adoption of the panel report.

[145] *Saudi Arabia — Measures Concerning the Protection of Intellectual Property Rights*, WT/DS567/R, 16 June 2020 (hereinafter "**Saudi Arabia -IPRs**").

[146] The Paris Convention is also mentioned in this context. It is relevant because it was incorporated into TRIPS. However, the analysis is different in the context of this Convention, because it does not provide for a mandatory enforcement obligation in the sense that countries which do not provide for seizure measures have an 'out' in Article 9(6) of the Paris Convention. This is precisely one of the major differences between the Convention and the TRIPS Agreement; the addition of a whole part (Part III) of the Agreement dealing in a very detailed way with the enforcement of intellectual property rights before the courts and other governmental authorities of Members.

154. Like all rights protected under the Agreement, this one has limits. The argument that *any* restriction on the right to negotiate is *per se* a violation of the TRIPS Agreement must therefore fail. For example, a requirement that a transfer be in writing would be consistent with the TRIPS Agreement.[147]

155. One of the main issues in relation to this article during the negotiation of the TRIPS Agreement was whether a government could require the transfer of a business or goodwill (see Art. 31(e)) to which a patent relates, which might make the transaction impracticable.

156. Importantly, a SEP holder voluntarily joins the SSO process and can be said to agree to abide by the rules and policies of the SSO, including FRAND licensing. In addition, as noted above, at a number of SSOs including ETSI and IEEE, the SEP holder can identify patents it is unwilling to license before the standard is adopted. This means that restrictions resulting from the application of an SSO's IPR policy to the 'right to enter into licensing agreements' can be considered essentially self-imposed. Put differently, Art. 28.2 supports, rather than undermines, the right to agree to SSO procedures for SEPs. To take a different example, if patent holder A grants an exclusive licence to B to use the patent in a certain way, A can no longer grant an exclusive licence to C in the same way as B. This is fully consistent with the TRIPS Agreement and is self-imposed by A on itself.

157. A patent holder has the right to join an SSO and contribute patents to the future standard, and thus the right to agree to license its patent(s) on a FRAND basis if they are essential to the standard once adopted. The patent holder can also choose not to participate or contribute its patents. It is a lot to ask of Art. 28.2 to read into it by interpretation that, once a SEP holder has made a voluntary commitment to license on a FRAND basis, no government should intervene in the process in any way, no matter how uncooperative the parties may be. Courts in various jurisdictions (certainly the EU and the US) have 'intervened' in various ways, even setting FRAND rates in the absence of agreement.

158. My conclusion is that Art. 28.2 is unlikely to be interpreted to contain a broad prohibition on WTO Members' intervention in the FRAND process. This view is reinforced by the fact that Art. 28.2, like the rest of the Agreement, must be interpreted in the light of Arts. 7 and 8, which form part of the 'context' under the Vienna Convention and provide guidance as to the Agreement's object and purpose.[148] If a WTO dispute-settlement panel were to find that the Proposed SEP Regulation (once in force) is *prima facie* inconsistent with Art 28.2, the EU noted in the IAR that it could invoke Art. 30, known as the 'three-step test' to justify the measure. This is discussed in section 7.4, below.

Art. 41.1

159. The other arguments suggesting incompatibility of the Proposed SEP Regulation with the TRIPS Agreement are based on various provisions of Part III (Enforcement) of the Agreement, starting with the general principles contained in Art. 41. They echo arguments based on Art. 28.1 but differ in that they do not target the existence of rights but their enforcement.

160. Let us begin with art 41.1, which provides as follows:

> Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to

[147] This would also be relevant during the prosecution of an application, as provided for, for example, in Regulation 51*bis*(a) under the Patent Cooperation Treaty.

[148] See Section VI(i) above.

> prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

161. As its text makes clear, Art. 41.1 sets a general principle for Part III (Enforcement) of the Agreement.[149]

162. An argument has been made that Article 24.5 of the Proposed SEP Regulation —which states that a "*competent court of a Member State requested to decide on any issue related to a SEP in force in one or more Member States, shall verify whether the SEP is registered as part of the decision on admissibility of the action*"— would violate Art. 41.1. Article 24 in its entirety has also been mentioned as incompatible with Art. 41.1.

163. The argument is based on the first sentence of Art. 41.1. However, WTO Members have discretion in applying the principle set out in this provision, as the second sentence explains. As one of the stated purposes of the Proposed SEP Regulation is to follow the *Huawei Technologies v. ZTE* Judgment, the EU has, as is explained in sections 4.2 and 4.3 above, justified the Proposed SEP Regulation on this basis, namely as a way to prevent abuse.

164. WTO panels and the Appellate Body regularly use the *Oxford English Dictionary* to interpret the ordinary meaning of terms. That dictionary defines 'to abuse' as "*to use (something) improperly, to misuse, to make a bad use of; to pervert; to take advantage of wrongly*".

165. Unlike the first sentence, which refers to the availability of enforcement procedures, and the numerous provisions of Part III that refer to the obligation of WTO Members to empower their judicial and administrative enforcement authorities, the second sentence of Art. 41.1 establishes a more general principle couched in obligatory language (i.e. "*shall be applied*").

166. I also note that any SEP that a patent holder would want to enforce in court would need to be identified in court filings. Indeed, the Agreement provides in Art. 50.3 that the "*judicial authorities shall have the authority to require the applicant to provide any reasonably available evidence in order to satisfy themselves with a sufficient degree of certainty that the applicant is the right holder and that the applicant's right is being infringed*".

167. A proper test is 'whether the requirement of registration is reasonable', as much of the Agreement and specifically its Part III (Enforcement) revolves around this pivotal notion, which appears, inter alia, in Arts. 41.2, 43.1, 43.2, 44.1, 45.1. 50.3, 50.4, 50.6. 52. 53.1, 53.2 and 55.[150]

168. Also relevant in context is Art. 62.1, discussed above, which also contain a reasonableness test.[151]

169. It should be recalled in addition that all obligations contained in the Agreement are subject to the interpretative guidance provided by the Preamble and Arts. 7 and 8.

170. Art. 41.5 (an element of the 'context') is also relevant. It provides in part that the Enforcement Part does not "*affect the capacity of Members to enforce their law in general*", which includes applying laws other than strictly 'intellectual property' as appropriate.

171. A WTO Member challenging the Proposed SEP Regulation on the basis of Art. 41.1 would have to show that the measures it contains are unreasonable. In my view, there is a significant

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[149] See *US- Section 211 Appropriations Act*, doc WT/DS176/AB/R, para. 206.

[150] The meaning of 'reasonable' is discussed in the next section, as are other articles in the Agreement that use the term.

[151] See para. 124 above.

obstacle to a finding of inconsistency in light of the EU's stated basis for the measure (efficiency gains, competition law and prevention of abuse), considering Art. 41.1 last sentence and Arts. 7 and 8.

Art 41.2: Procedural Burdens of Registration and Conciliation

172. The second paragraph of Art. 41.2 is also mentioned as a possible basis for a finding of incompatibility of the Proposed SEP Regulation with the TRIPS Agreement. This article also establishes a principle applicable to the enforcement of intellectual property rights. This principle also applies to the acquisition and maintenance of IP rights under Art. 62.4.

173. Art 41.2 of the TRIPS Agreement provides as follows:

> Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

174. It has been argued that the registration and conciliation procedures under the Proposed SEP Regulation are inconsistent with the second sentence of Art. 41.2 prohibition against procedures that are "*unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays*".

175. The wording of Art. 41.2 is the result of a negotiated compromise. A number of GATT Members wanted a positive obligation for IPR holders to have access to 'simpler and more expeditious' procedures. Instead, the double negative ('not unnecessarily') formulation was retained to assess time limits and delays.

176. Like Art. 41.1, this article essentially establishes a principle that underpins the application and interpretation of Part III. It is difficult to see on what precise basis a WTO dispute settlement panel would find that the Proposed Regulation's procedures would violate the principle, just as it would be difficult to establish a violation of the Agreement in delays in prosecuting patent applications (under Art. 62.4). There is broad range of reasonable procedures and timeframes, and most are likely to be found to be consistent with the Agreement absent evidence of bad faith, or other similar factors. Put another way, the principle was intended to target time-limits that are either too short to be reasonably complied with, or too long so as to amount to a denial of effective enforcement.

177. It is relevant to note in that context that the panel decided in *Australia- Tobacco Plain Packaging* that when a commitment (in that case, under Art. 20) is qualified by a term such a 'unreasonable' or 'unnecessarily' (in that case, it was 'unjustifiably'), it is part of a complainant's *prima facie* burden to show that the measure is unreasonable or unnecessary.[152] In other words, such qualifiers are not defences; they form part of the obligational limits of the commitment.

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[152] *Australia –Tobacco Plain Packaging,* para. 7.2169 states:

"[I]*n line with the general principles on burden of proof in WTO dispute settlement as confirmed by the Appellate Body on a number of occasions, the initial burden of proof is not borne by the respondent to show that any encumbrances it has adopted are justifiable. We conclude, therefore, that it is for the complainants to present a prima facie case that the TPP measures amount to special requirements and that the use of a trademark in the course of trade is unjustifiably encumbered by these requirements.*"

The Appellate Body modified certain findings of the panels' reports, but not on this point.

178. Art. 8 provides 'useful contextual guidance' for the interpretation of such terms, and the Proposed SEP Regulation is explicitly anchored in the prevention of 'abuse of intellectual property rights by right holders' mentioned in Art. 8.2.[153]

179. The terms 'unreasonable' and 'unreasonably' are used several times in the TRIPS Agreement, for instance in the various versions of the three-step test it contains (Arts. 13, 26.2 and 30) and in Arts. 8.2 and 25.2, in addition of course to Art. 41.2. Indeed, as noted above, the Agreement and specifically Part III (Enforcement) rests largely on a standard of reasonableness.[154]

180. The term 'reasonable' was defined by the panel in *US — Section 110(5) Copyright Act* as meaning "'proportionate", "within the limits of reason, not greatly less or more than might be thought likely or appropriate", or "of a fair, average or considerable amount or size"'.[155] As a consequence, a complainant would have to provide evidence and arguments to show that the Proposed SEP Regulation's effect of causing delays is unreasonable based on a panel's findings concerning the meaning of 'reasonable.'

181. Based on the information contained in the text of the Proposed SEP Regulation and IAR about issues with SEP-related enforcement and FRAND negotiations, a complainant may find it difficult to show to a WTO panel that the Proposed SEP Regulation is inconsistent with Art. 41.2, and specifically in showing that the delays imposed in accessing courts to obtain certain remedies are unreasonable or unwarranted.

182. The other part of Art. 41.2 uses the term 'unnecessarily'. First, all enforcement procedures tend to be quite costly and complicated, so a complainant would have to provide evidence and arguments that the Regulation significantly increases one or both of these elements compared to the status quo ante. Secondly, it would have to show that this difference is unnecessary.

183. The notion of 'necessity' has a long and complex history in trade law. In the context of the so-called 'general exception' contained in the GATT and the General Agreement on Trade in Services ("**GATS**"), it is referred to as the 'necessity test', where its meaning varies from panel report to panel report, and even from Appellate Body report to Appellate Body report. Even the WTO secretariat refers to 'necessity test***s***' (plural) in its analysis of the concept[156].

184. It is, therefore, admittedly difficult to predict exactly how the term would be defined in the event of a WTO dispute. The jurisprudence suggests, however, as noted above, that the burden of proving that the measure is unnecessary if challenged under Art. 41 would rest on the complainant, since, unlike the general exception, it is not a defence but rather an integral part of the scope of the commitment.

185. The principle embodied in Art. 41.2, like the rest of the Agreement, must be interpreted in the light of Arts. 7 and 8, which form part of the 'context' as defined by the Vienna Convention and provide guidance as to the Agreement's object and purpose.[157] In this light the likelihood of a finding of *prima facie* inconsistency between Art. 41.2 and the Proposed SEP Regulation is low.

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[153] *Australia –Tobacco Plain Packaging*, para. 6.625.

[154] See para. 124.

[155] *United States — Section 110(5) of US Copyright Act* 130, para. 6.225.

[156] 'Necessity Tests' in the WTO, Note by the Secretariat, S/WPDR/W/27, 2 December 2003.

[157] They are discussed in Section VI(i) above.

Arts 44.1 and 50.1: Limitations on Injunctive and Exclusionary Relief

186. Several commentators critical of the Proposed SEP Regulation have raised a possible incompatibility between the limits on the availability of certain remedies—namely injunctive relief—and Arts 44.1 and 50.1 of the TRIPS Agreement. Arts. 44.1 and 50.1(a) of the TRIPS Agreement provide as follows:

> **44.1.** The judicial authorities shall have the authority to order a party to desist from an infringement, *inter alia* to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs clearance of such goods. Members are not obliged to accord such authority in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right.
>
> **50.1(a)** The judicial authorities shall have the authority to order prompt and effective provisional measures: to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance.

187. Critics point to two requirements of the Proposed SEP Regulation—registration and conciliation—as interfering with access to injunctive relief and inconsistent with these articles. They argue that these articles make enforceability of SEPs subject to both registration and a FRAND determination process, thus resulting in a formality and a delay. Articles 34(4), 37(1) and 56(4) of the Proposed SEP Regulation are often mentioned in this context.

No enforcement without registration

188. First, some criticisms have claimed that Article 24 of the Proposed SEP Regulation—which prevents SEP holders from enforcing unregistered SEPs—impermissible limits injunctive relief.[158] The argument that conditioning the enforcement of SEPs on registration is inconsistent with Arts. 44.1 and 50.1 is not particularly strong. There are *always* formalities involved in the enforcement of IP rights, in particular those arising from the rules of civil procedure. In the specific context of patents, IPR holders are required to identify their patents in any litigation, and the claims allegedly infringed by the defendant.

189. As explained previously, to establish an inconsistency with the TRIPS Agreement a complainant in a WTO dispute would need to show that the registration requirement is *unreasonable*, which in my view is likely to require (a) a comparative analysis of the administrative and procedural requirements related to patent and IP enforcement; and (b) an analysis of the purpose of the requirement.

190. As the TRIPS Agreement's rules concerning registration requirements are assessed on the basis of reasonableness, this would be the applicable test in the event of a dispute. The Commission has set out credible justifications for the measure that a complainant would have to overcome in a WTO dispute, bearing in mind that the burden of proving the unreasonableness of the measure would be part of the *prima facie* case (and thus on the complainant).

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[158] "*A SEP that is not registered within the time-limit set out in Article 20(3)* ***may not be enforced*** *in relation to the implementation of the standard for which a registration is required in a competent court of a Member State, from the time-limit set out in Article 20(3)* ***until its registration in the register.***" (emphasis added).

No injunctions during conciliation

191. Second, critics point to Article 34 of the Proposed SEP Regulation—which limits the availability of injunctive relief until the termination of a FRAND determination conciliation—as inconsistent with Arts. 44.1 and 50.1 of the TRIPS Agreement. Critics argue that the inability to obtain injunctive relief during the conciliation process, which cannot exceed nine months per Article 37(1), interferes with their rights to enforce their SEPs.

192. At the outset, it should be noted that, if a WTO Member were to impose a general non-enforcement period on all patents for a (maximum) duration of nine months, this would, as I explain below, constitute a *prima facie* inconsistency with the Agreement, since the Agreement makes clear that the judicial authorities must have the authority to order a party to desist from infringing an intellectual property right. During a period of non-enforceability, the judicial authorities do not have the authority to issue enforcement orders.

193. In the case of SEPs, however, there is at least one important difference: the SEP holder has voluntarily submitted to license the patent on FRAND terms. As discussed above, this commitment means, according to the IAR, that a SEP holder's '*objective is not to stop the sale of infringing products but to collect royalties from such sales'*.[159] By comparison, if two private parties had included an arbitration clause in a licensing agreement, the resulting limitation on the jurisdiction of the courts that a Member may have under its national law on arbitration would not be in breach of the TRIPS Agreement because it is the result of the willingness of the IPR holder to submit to an arbitration or conciliation process.[160]

194. The Proposed SEP Regulation does restrict the availability of injunctions during the pendency of the FRAND determination. However, the Proposed SEP Regulation also acknowledges the importance of injunctive relief in the panoply of remedies that must be available for IP holders in different situations, for example in Recital 35, which provides in part that '*either party should be able to request a provisional injunction of a financial nature before the competent court. In a situation where a FRAND commitment has been given by the relevant SEP holder, provisional injunctions of an adequate and proportionate financial nature should provide the necessary judicial protection to the SEP holder who has agreed to license its SEP on FRAND terms*'.

195. The availability of injunctions during the FRAND determination procedure is limited to orders of a 'financial nature' and not to 'the seizure of the property of the alleged infringer and the seizure or delivery of the products suspected of infringing an SEP' (Article 34(4)). I also noted the possibility that the Regulation mentions to terminate determination if the implementer is not participating in the FRAND conciliation process. Once the FRAND determination has been terminated, the full range of measures, including provisional, precautionary and corrective measures, shall be available to the parties (Article 34(5)).

196. If the implementer is solvent and has assets in the relevant jurisdiction, given that the SEP holder has agreed to license, a provisional or interim financial order seems adequate.

197. As many observers have noted, a FRAND commitment amounts to a commitment to negotiate *in good faith*. What happens if a party (either the SEP holder or the implementer) does not negotiate (or participate in the FRAND determination process) in good faith? Before answering this question, it is important to reiterate that, as noted above, genuine disagreement on price, essentiality or validity is not *per se* a lack of good faith. A claim of bad faith could arise, for example, if the SEP holder were to demand a royalty rate that it knows is completely outside the range of possible FRAND outcomes, or if a licensee were to use the SEP after refusing to

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[159] IAR, p. 122.

[160] As noted in Fn. 40 and Fn 41 of the Proposed SEP Regulation. Also, see IAR, pp. 4 and 11 and Fn. 74.

participate in the FRAND determination or pay a FRAND rate - explained by the CJEU in *Huawei Technologies v. ZTE*.

198. There is, as I see it, some measure of ambiguity in the meaning of the term 'financial injunction'. Would a court be authorised to order an intransigent or insolvent infringer to stop using the patents if the interim financial measure appeared ineffective? Perhaps under the law of the member State, the court would have the authority to issue such an order. This is a matter that would require further examination, especially because, as I understand EU law, procedural law is generally a matter for member States.

199. Two questions must be answered to determine the compatibility of the modalities imposed on SEP holders before an injunction (as the term is used in the TRIPS Agreement) can be issued by a court. First, how does the fact that the restrictions follow directly from the SEP holder's voluntary commitment to the FRAND process change the analysis? In the absence of evidence that participation in the standardisation process and the making of a FRAND commitment is not in fact voluntary (which I am not aware of), this is a rather strong argument in favour of the consistency of the limits with TRIPS when applied to implementers able to pay and participating in the process. Specifically, the point is that the State has not limited patent remedies generally, but rather has determined some of the consequences of a binding, voluntary participation in a standardisation process that includes an implicit commitment to participate in some form of FRAND determination, as laws often do for arbitration clauses because evidence shows that recourse to a neutral third party is often required in this context. It seems likely that a WTO dispute-settlement panel would give considerable weight to this argument.

200. The second part of the analysis focuses on the phrase 'the judicial authorities shall have the authority' used repeatedly in the TRIPS Agreement, including in art 44.1, which circumscribes many of the obligations contained on Part III of the TRIPS Agreement. The phrase obviously does not imply an obligation to *exercise* authority in the sense of issuing injunctions in every case.[161] It means that a WTO Member in which courts do not have this authority (as an inherent power or otherwise) when the Agreement comes into force for that Member must amend their legislation accordingly.

201. Courts that do 'have the authority' to issue injunctions have used several doctrines to limit the issuance of injunctions, as explained above. In common law, various equitable doctrines have been applied, such as in the US *eBay* case. In Europe, as the explanatory memorandum of the Proposed SEP Regulation explains, '*standard setting and the application of competition law rules related to FRAND obligation to standard essential patents are guided by the Horizontal Guidelines and the Court of Justice judgment of 16 July 2015 in case C-170/13, Huawei Technologies v. ZTE*.

202. The Court of Justice recognised the right of a SEP holder to seek to enforce its patents in national courts but noted that, to be consistent with competition law (article 102 TFEU), a court should determine that 'the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics'. [162] The Proposed SEP Regulation would seem to allow the SEP holder to terminate conciliation in such circumstances, if the implementer does not participate in the process (as explained by the CJEU).

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[161] In *India – Patents*, the panel noted that the function of the words 'shall have the authority' is 'to address the issue of judicial discretion, not that of general availability.' See, para. 7.66.

[162] *Huawei Technologies v. ZTE*, para. 71.

203. Limits on the issuance of injunctions are inherent in the exercise of a court's discretion, which the 'shall have authority' phrase read together with the last sentence of art 41.1 is meant to incorporate into the Agreement. This is also reflected, for example, in article 34(4) *in fine* of the Proposed SEP Regulation: 'In deciding whether to grant the provisional injunction, the competent court of a Member States shall consider that a procedure for FRAND determination is ongoing'.

204. Hence, a WTO panel would be more likely focus on situations where the putative licensee was either unwilling to take a license or unable to make payments and whether, under those circumstances, injunctive relief was available.

205. However, a note of caution is in order. The term 'financial injunction' is not commonly used in intellectual property enforcement.[163] In my view, it is unclear whether the term 'injunction' has the same meaning as in Articles 9 and 11 of the IP Enforcement Directive.[164] For example, does the combination of the term 'injunction' with 'financial' signal that the implementer must cease using the SEP if the financial terms of the court order are not met? As noted above, by virtue of the FRAND commitment made by the SEP holder, that SEP holder has agreed to license on FRAND terms but then rightly expects to be paid on the basis of those terms. A 'financial injunction' seems to refer to an order to secure that payment, whether interim or otherwise. This remedy should be sufficient in the vast majority of cases.[165] However, where the implementer is insolvent or refuses to comply with the terms of the financial injunction,[166] a court should have the authority to make an order to desist from using the SEP. I would suggest that a Recital be added to the Proposed SEP Regulation to make it clear that this is what is meant by the term 'financial injunction'. Such a definition would also limit discrepancies between member States' courts in the application of the Regulation.

206. In summary, while a blanket nine month ban on all patent injunctions would be *prima facie* inconsistent with Arts. 44 and 50.1(a), the restrictions at issue here are predicated on a voluntary act by the patent holder: the commitment to license its SEPs on FRAND terms. The likely critical issue would be the availability of remedies against a 'bad faith' or insolvent user.[167] In these circumstances, the availability of an interim financial remedy (and consequences for non-compliance) and the ability of the SEP holder to terminate a FRAND determination proceeding involving a party that refuses to engage may provide some safeguards. I would, however, recommend that the final text of the Regulation clarify the notion of 'financial injunction'.

Art 45: Limitation of Damages

207. A different argument based on Part III of the Agreement is the availability of damages, or lack thereof. This argument is based on Art. 45.

208. Art. 45 of the TRIPS Agreement reads as follows:

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[163] I have performed a search of national laws available in the WIPO Lex database and other available databases. The term is used in US family law but not, to my knowledge, in intellectual property.

[164] Directive on the enforcement of intellectual property rights, see Fn. 70.

[165] See para. 196 above.

[166] As noted already, a disagreement on the validity and infringement of one or more claims in one for more SEPs, or on the value of the license, is to be expected in several cases and is not, therefore, necessarily an indicator of bad faith by either party.

[167] This would include implementers who do not possess sufficient assets in relevant jurisdictions and are unable to post a legal binding bond.

1. The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.

2. The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

209. An analysis of the compatibility of the Proposed SEP Regulation with the availability of damages (Art. 45.1) and other financial remedies (Art. 45.2) follows essentially the same path as the analysis of art 44.1 in the previous section. However, the Proposed SEP Regulation does not deal with financial remedies in the same way as it deals with injunctive relief. Article 37(2) provides that a SEP holder's right to claim damages is only suspended "f*or the duration of the FRAND determination*." As I read it, this means that the SEP holder can seek remedies, including damages that may have occurred during that period once the time period has lapsed.

210. In view of these differences between injunctive relief and damages, I consider it likely that a panel would find the Proposed SEP Regulation consistent with Article 45. It should be recalled, in addition, that the Preamble and Arts. 7 and 8 remain relevant as interpretive context as explained previously.

Inconsistency with EU position in DS611

211. Another set of arguments to justify a possible inconsistency of the Proposed SEP Regulation with the TRIPS Agreement is based on alleged incompatibility between the Proposed SEP Regulation and the position taken by the EU in its dispute with China on anti-suit injunctions.[168]

212. This report will not discuss this dispute for two reasons. First, a possible inconsistency between a member's position in a WTO submission and its own behaviour does not change the substance of the TRIPS Agreement. The United States, to take just one example, has brought copyright and trademark disputes against other WTO Members to the WTO despite having twice been found to have enacted legislation in these areas of intellectual property that was inconsistent with its TRIPS obligations and failing to remedy the situation. Second, and relatedly, what matters is what the panel (and possibly the Multi-Party Interim Appeal Arbitration Arrangement (MPIA)[169], since both China and the European Union are parties) ultimately says. Any report by a WTO panel or the MPIA may, of course, have an impact on the analysis contained in this report to the extent that it addresses some of the provisions of the TRIPS Agreement mentioned above.

iv. The Three-step test

213. As mentioned above,[170] the EU Commission has noted that any incompatibility between the Proposed SEP Regulation and Art 28 of the TRIPS Agreement could be justified on the basis of the 'three-step test'.

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[168] *China — Enforcement of intellectual property rights*, DS611, panel composed 28 March 2023.

[169] This is the 'alternative system for resolving WTO disputes that are appealed by a Member in the absence of a functioning and staffed WTO Appellate Body' set up in 2020 by a number of WTO Members. See https://wtoplurilaterals.info/plural_initiative/the-mpia/.

[170] See para. 158.

214. The original 'three-step test' is contained in Article 9(2) of the Berne Convention. The test was added to the Convention not in Paris in 1971 but at the previous revision conference in Stockholm in 1967. Instead of a proposed list of specific permitted exceptions and limitations, the purpose of the test in its original version was to allow countries party to the Convention to make exceptions to the right of reproduction (1) 'in certain special cases', (2) 'provided that such reproduction does not conflict with a normal exploitation of the work', and (3) 'does not unreasonably prejudice the legitimate interests of the author'.[171] The test was extended to all copyright rights by the TRIPS Agreement, with the difference that the term 'author' (at the end of the third step) was replaced with the term 'right holder'[172]

215. In the TRIPS Agreement, the test also applies to patent rights, but with important textual differences. In Art. 30, it reads as follows:

> Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

216. Thus, in the first step of the patent instantiation of the test, 'certain special cases' was replaced by 'limited'. In the second step, 'unreasonable' was added before 'conflict'. In the third step, 'taking into account the legitimate interests of third parties' have been added. These differences are important for the interpretation of the test.

217. The test as contained in Berne Article 9(2) and TRIPS Arts. 13 and 30 has been interpreted in two panel reports adopted by the Dispute Settlement Body of the WTO. The Appellate Body has yet to issue a report interpreting the test in detail. Due to the important textual differences between the copyright version (Art 13) and the patent version (Art 30), the panel report dealing with Art. 13 (*United States - Section 110(5) of the Copyright Act)*[173] should be used with caution when discussing exceptions to patent rights.

218. Directly relevant is the panel report on the interpretation of Art. 30 (*Canada - Pharmaceutical Patents*). That report should be accorded due weight also because of the composition of the panel. One member of the panel was Dr Mihály Ficsor, former Assistant Director General of WIPO in charge of copyright and author of the WIPO Guide to the copyright treaties administered by WIPO.[174] He is thus intimately familiar with the origin and history of the test in the Berne Convention and ideally placed to interpret the differences and analogies between the Berne version and Art. 30.

219. In its discussion of the first step ('limited'), the *Canada – Pharmaceutical Patents* panel noted the following:

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[171] Berne Convention, Article 9(2).

[172] TRIPS Agreement, Art. 13. The test is used also in Articles 10(1) and (2) of the WIPO Copyright Treaty (20 December 1996); Article 16(2) of the WIPO Performances and Phonograms Treaty (also adopted on 20 December 1996); Article 13(2) of the Beijing Treaty on Audiovisual Performances (24 June 2012); and Article 11 of the Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired or Otherwise Print Disabled (27 June 2013).

[173] See Fn. 130.

[174] Guide to the Copyright and Related Rights Treaties Administered by WIPO and Glossary of Copyright and Related Rights Terms WIPO, 2004.

> The term 'limited exception' must therefore be read to connote a narrow exception - one which makes only a small diminution of the rights in question.[175]

220. The panel added that the "*question of whether* [an] *exception is a 'limited' exception turns on the extent to which the patent owner's rights to exclude 'making' and 'using' the patented product have been curtailed.*"[176]

221. The first step, according to the panel report, is *not* about the economic impact on the patent holder.[177] It is more quantitative in nature: which rights (which a patentee must enjoy under Art. 28.1) are affected and to what extent.

222. The panel concluded that preventing enforcement for the last six months of the patent term was not 'limited' under the first step of Art. 30:

> With no limitations at all upon the quantity of production, the stockpiling exception removes that protection entirely during the last six months of the patent term, without regard to what other, subsequent, consequences it might have. By this effect alone, the stockpiling exception can be said to abrogate such rights entirely during the time it is in effect. […] For both these reasons, the Panel concluded that the stockpiling exception [in Canadian law] constitutes a substantial curtailment of the exclusionary rights required to be granted to patent owners under Article 28.1 of the TRIPS Agreement.[178]

223. Critics of the Regulation could contend that under *Canada - Pharmaceutical Patents* the maximum limitation period of nine months for remedies during the conciliation process is not 'limited' because it is longer than the six-month exclusion in Canada that was successfully challenged in the WTO. The two exclusions are not identical, however.

224. As discussed above, on the basis of the information provided by the Commission, the registration requirements do seem justifiable under the TRIPS Agreement. The maximum nine-month absence of remedies during the conciliation process is a harder case.

225. One of the Commission's responses to criticisms of the Proposed SEP Regulation is that the restrictions are 'limited'. The limits do seem less drastic than the entirely *involuntary* abrogation of rights during the last six months of the patent term that was at issue in *Canada – Pharmaceutical Patents*. More importantly perhaps, they result from a voluntary commitment to participate in a FRAND determination which must be weighed against the limits on remedies against solvent implementers willing to pay a FRAND rate.

226. However, enforcement of a patent is part of its normal exploitation. The nine-month period does not apply to all implementers, as it can be shortened if the implementer does not participate in the FRAND determination process. Overall, however, most SEPs will have to wait up to nine months (or less if the conciliation process is completed before then) to fully exercise their rights. This is a constraint on the use of the patent. Two issues that a WTO panel would have to consider are whether the restrictions are unreasonable, as required by Art. 30, and whether the fact that they are 'self-imposed' in the sense that they result from a voluntary commitment to participate in a FRAND agreement is sufficient to pass the second step. The Commission has justified this regulatory intervention by providing information on current enforcement and negotiation practices.

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[175] *Canada – Pharmaceutical Patents,* para. 7.30.

[176] *Ibid.*, para. 7.34.

[177] *Ibid.*, para. 7.49.

[178] *Ibid.*, paras. 7.34 and 7.36.

227. The purpose of the Proposed SEP Regulation lies at the intersection of competition law and intellectual property. This intersection is not fully fleshed out in the TRIPS Agreement, but the TRIPS Agreement clearly recognises the authority of WTO Members to legislate in this area in ways that may affect intellectual property rights. In this sense, the proposed limitations on remedies are more solidly based on Art. 8 than the Canadian stockpiling measure at issue in *Canada - Pharmaceutical Patents*. A future panel could distinguish this panel report on this basis. Moreover, the nine-month (maximum) period is explicitly predicated on the existence of a conciliation process, which may be useful in determining the good faith (or lack thereof) of the parties to the FRAND negotiation and may be seen as a matter of civil procedure rather than substantive IP law.

228. As previously noted, the conciliation process has also been justified by the Commission as comparable to regulations applicable to arbitration.[179]

229. The second step (interference with normal exploitation) was defined by the *Canada - Pharmaceutical Patents* panel as follows:

> The normal practice of exploitation by patent owners, as with owners of any other intellectual property right, is to exclude all forms of competition that could detract significantly from the economic returns anticipated from a patent's grant of market exclusivity. The specific forms of patent exploitation are not static, of course, for to be effective exploitation must adapt to changing forms of competition due to technological development and the evolution of marketing practices. Protection of all normal exploitation practices is a key element of the policy reflected in all patent laws. Patent laws establish a carefully defined period of market exclusivity as an inducement to innovation, and the policy of those laws cannot be achieved unless patent owners are permitted to take effective advantage of that inducement once it has been defined.[180]

230. As regards this second step, the Commission noted that the "*normal exploitation of the patent in the context of standard-compliant products is to be able to collect FRAND royalties*".[181] This is in line with the normal situation where both sides are willing to negotiate in good faith. However, it is also true that the normal exploitation of a patent includes the right to enforce the patent against infringers.

231. Although *Canada - Pharmaceutical Patents* clearly held that a blanket prohibition on enforcement during the last six months of a patent was inconsistent with the TRIPS Agreement and could not be justified under the three-step test, the restrictions in the Proposed SEP Regulation follow a *voluntary commitment* by the SEP holder to license the SEPs on FRAND terms. Perhaps the EU could also argue that agreeing to participate in a FRAND determination is a form of normal exploitation that is restricted to some extent by the Proposed SEP Regulation but not 'unreasonably' so under the three-step test.[182]

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[179] See para. 144 above.

[180] *Canada – Pharmaceutical Patents*, para. 7.55.

[181] IAR, p. 122.

[182] Evidence that current practice in the enforcement of SEPs is that SEP holders typically do or do not seek injunctive relief during the period corresponding to the maximum nine-month mandatory conciliation period –with its attendant limitations on injunctive relief – would be relevant in determining whether the proposed regime would conflict with normal exploitation ('normal' being used here in an empirical sense). This leaves open the separate question of whether such a conflict is unreasonable.

232. *Canada – Pharmaceutical Patents* is clearly relevant, but there are notable differences between the fact pattern in that dispute and the Proposed SEP Regulation. Moreover, the Commission has offered substantial justifications for the limits on remedies both in terms of registration and mandatory conciliation. Those would be considered by a panel in deciding how the second step applies.

233. The third step (no unreasonable prejudice to legitimate interests) is difficult to interpret. What is an 'unreasonable prejudice', and what are 'legitimate interests'? Because Art. 30 (unlike Art. 13) also refers to legitimate interests *of third parties*, the term 'interests' must be understood beyond legal interests. As the panel noted:

> To make sense of the term 'legitimate interests' in this context, that term must be defined in the way that it is often used in legal discourse - as a normative claim calling for protection of interests that are 'justifiable' in the sense that they are supported by relevant public policies or other social norms.[183]

234. What is an 'unreasonable' prejudice? The presence of the word 'unreasonable' indicates that *some level or degree* of prejudice is justifiable. The WTO panel concluded that "*prejudice to the legitimate interests of right holders reaches an unreasonable level if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright holde*r".[184]

235. I believe that the EU is likely to be able to justify the Proposed SEP Regulation under the third step, interpreted in the light of the Preamble and Arts. 7 and 8. The public interest in standardisation processes is well explained in the Explanatory Memorandum of the Proposed SEP Regulation and the IAR. Moreover, the regulatory framework for the FRAND process is designed to ensure that SEP holders are paid for the use of their intellectual property.

236. In summary, it may be possible for the EU to justify any *prima facie* inconsistency with Arts. 27 and 28 under the three-step test contained in Art. 30.[185] The three-step test applies to the scope of rights and specifically exceptions and limitations thereto, thus does not apply directly to Part III.

237. However, as noted above, a finding of inconsistency on the basis of SEPs constituting a 'field of technology' (Art. 27) strikes me as highly improbable, and the likelihood of a finding of *prima facie* inconsistency with Art. 28 is rather limited.

VIII. CONCLUSIONS

238. Given its purported justifications, which are consistent with Arts. 7 and 8 and supported by Arts. 31 and 40, the Proposed SEP Regulation is unlikely to be found inconsistent with Arts. 27, 28 and 41 of the TRIPS Agreement, bearing in mind that a three-step test (Art. 30) would apply to any *prima facie* inconsistency with Arts. 27 and 28.

239. The voluntary commitment of a SEP holder to participate in a FRAND agreement is directly relevant to the analysis of the limitations on the enforceability of SEPs contained in the Proposed SEP Regulation. A complainant seeking to establish a *prima facie* violation of the

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[183] *Canada – Pharmaceutical Patents,* para. 7.69.

[184] *United States — Section 110(5) of US Copyright Act*, WT/DS160/R, 15 June 2000., Report of the Panel, para. 6.229.

[185] This Report would not be complete without acknowledging the recent tendency of a number of WTO Members to rely on the national security exception in Art. 73 to justify inconsistencies with the TRIPS Agreement. See *Saudi Arabia – IPRs*, paras. 7.241 et ssq. This option is possibly available but, as I believe the provision is both misused and overused, I will not delve deeper into the topic here.

TRIPS Agreement before the WTO would face a significant burden. The registration requirements (as a prerequisite for enforcement) could only be found to be inconsistent if the measure were found to be unreasonable, and the burden would be on the complainant to demonstrate the unreasonableness of the measure. On the basis of the information provided by the Commission on the scope and purpose of the requirement, this does not seem likely.

240. While the potential of inconsistency is higher in relation to the prohibition of enforcement during the mandatory conciliation procedure, this risk is mitigated by the SEP holder's ability to terminate the conciliation procedure if the implementer does not participate and to obtain an interim financial remedy. The term 'financial injunction' is, however, somewhat unclear, especially considering that it must be interpreted and applied by the courts of each EU Member State. This is consistent with the purpose of the process which is to allow solvent implementers to use the SEPs and for the SEP holders to be able to collect FRAND royalties. The situation that could be made clearer in the Regulation or accompanying documents in respect of any insolvent or unwilling implementer.

241. If a WTO panel (or possibly the MPIA[186]), were to reach a negative conclusion regarding the consistency of the Proposed SEP Regulation with the TRIPS Agreement, it would recommend, pursuant to Article 19.1 of the DSU, that the EU bring the Regulation into conformity with its obligations under the TRIPS Agreement. This would most likely mean amending only the relevant provisions, not a wholesale revocation of the Regulation. Typically, a WTO member has a few months to do this. If the complainant does not agree that changes to the Regulation are sufficient to bring it into conformity, it can request further proceedings (arbitration) at the WTO under the DSU.

[186] I have performed a search of national laws available in the WIPO Lex database and other available databases. The term is used in US family law but not, to my knowledge, in intellectual property.