EUROPEAN
COMMISSION

Brussels, 27.4.2023
SWD(2023) 123 final

COMMISSION STAFF WORKING DOCUMENT

Subsidiarity Grid

Accompanying the document

Proposal for a Regulation of the European Parliament and of the Council

on standard essential patents and amending Regulation (EU) 2017/1001

{COM(2023) 232 final} - {SEC(2023) 174 final} - {SWD(2023) 124 final} -
{SWD(2023) 125 final}

Subsidiarity Grid

1. Can the Union act? What is the legal basis and competence of the Unions' intended action?
1.1 Which article(s) of the Treaty are used to support the legislative proposal or policy initiative?
Article 114 TFEU constitutes the appropriate legal basis as the objective is to improve the conditions for the establishment and functioning of the internal market. The initiative seeks to ensure the efficiency of SEPs licensing, facilitating lawful access to the standards and promoting wider adoption of standards. There are no specific EU or national rules on SEPs and it has been left to competition law to regulate[1]. In addition, as acknowledged by the CJEU in *Huawei v ZTE*, apart from common rules relating to the grant of a European patent, a European patent remains governed by the national law of each of the Contracting States for which it has been granted as is also the case of national patents. The CJEU has confirmed[2] that recourse to Article 114 TFEU is possible if the aim is to prevent the emergence of obstacles to trade between Member States resulting from the divergent development of national laws. However, the emergence of such obstacles must be likely and the measure in question must be designed to prevent them. Dutch[3], French[4] and German[5] [6] courts have been considering FRAND-related issues in national litigation based the specificities of the disputes brought before them. Those cases show different approaches (not necessarily different results) with regard to FRAND determinations concerning SEPs covering regional or global standards. It is difficult for EU national courts to handle SEP-related cases and make detailed and consistent FRAND determinations. This is in large part due to the lack of transparency and complexity of the issues that are central to such determinations, such as essentiality of patents, comparable licences and compliance with FRAND requirements. While the initiative will neither interpret the CJEU case-law nor dictate methodologies for FRAND determinations per se, it will establish mechanisms that promote the necessary transparency, increase certainty and reduce the potential for inconsistent rulings. This will be a significant improvement in these courts' abilities to handle SEP disputes.
1.2 Is the Union competence represented by this Treaty article exclusive, shared or supporting in nature?
In the case of internal market legislation, the Union's competence is shared (Article 4 TFEU).

[1] Communication from the Commission – Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ C 11, 14.01.2011, pp. 1-72, CELEX: and competition case-law.

[2] [1] Judgment of the Court of Justice of 12 December 2006, Germany v Parliament and Council, Case C- 380/03, [2006] ECR I- 11573, para. 38 and the case-law cited, and Judgment of the Court of Justice of 10 February 2009 , Ireland v Parliament and Council, Case C- 301/06 [2009] ECR I-593, para. 64; see also, to that effect, Judgment of the Court of Justice of 2 May 2006, United Kingdom v Parliament and Council, Case C-217/04, [2006] ECR I- 3771, paras. 60 to 64.

[3] Court of Appeal of The Hague, judgment of 2 July 2019, Philips v Wiko, Case number : C/09/511922/HA ZA 16-623; Hoge Raad, Judgment of 25 February 2022, Wiko v Philips, Nummer 19/04503, ECLI:NL:HR:2022:294; District Court The Hague, Judgment of 15 December 2021, Vestel v Access Advance, ECLI:NL:RBDHA:2021:14372.

[4] Paris Court, order of the pre-trial judge of 6 February 2020, TCT v Philips, RG 19/02085 – Portalis 352J-W-B7D-CPCIX; TJ Paris, 3.3, judgment of 7 December 2021, Xiaomi v Philips and ETSI, RG 20/12558.

[5] German Federal Court of Justice ('Bundesgerichtshof – BGH'), judgement of 5 May 2020, Sisvel v. Haier, KZR 36/17, and German Federal Court of Justice, judgment of 24 November 2020, FRAND-Einwand II, KZR 35/17

[6] Order of the President of the Court of 24 June 2021, Nokia Technologies Oy v Daimler AG, Request for a preliminary ruling from the Landgericht Düsseldorf, Removal from the Register, Case C-182/21, ECLI:EU:C:2021:575

2. Subsidiarity Principle: Why should the EU act?

2.1 Does the proposal fulfil the procedural requirements of Protocol No. 2[7]:

- Has there been a wide consultation before proposing the act?
- Is there a detailed statement with qualitative and, where possible, quantitative indicators allowing an appraisal of whether the action can best be achieved at Union level?

This proposal and the accompanying impact assessment are supported by a wide consultation of stakeholders. The Commission collected the views of all relevant stakeholder groups, in particular SEP owners, SEP implementers, business, and industry associations, as well as licensing experts and academia. The different stakeholder groups have provided useful information and insights to help prepare the impact assessment.

The Commission conducted many studies and presented a series of webinars[8], and established a group of experts on the licensing and valuation of SEPs[9].

- The Commission published the Call for Evidence on 14 February 2022 which was open until 09 May 2022. During the Call, 97 replies and 49 position papers were submitted.
- A public consultation took place between 14 February 2022 and 09 May 2022, in response to which 74 replies were submitted[10].
- A targeted survey for start-ups and SMEs was published on 28 October 2022 and was closed on 20 November 2022. At the request of a few stakeholders the survey was re-opened on 25 November 2022 without a closing date to enable stakeholders continued participation as Internet of Things ('IoT') markets develop[11]. 39 replies were received by the end of 2022.
- Discussions with Member States representatives took place in the context of the Commission Expert Group on IP Policy and relevant Council working parties.

The explanatory memorandum and the impact assessment (chapter 3) contain a section on the principle of subsidiarity – see question 2.2 below for more detail.

2.2 Does the explanatory memorandum (and any impact assessment) accompanying the Commission's proposal contain an adequate justification regarding the conformity with the principle of subsidiarity?

Both the explanatory memorandum and the impact assessment have examined the subsidiarity principle.

2.3 Based on the answers to the questions below, can the objectives of the proposed action be achieved sufficiently by the Member States acting alone (necessity for EU action)?

Measures taken at national, regional or local level aiming at increasing transparency and facilitating licensing of SEPs may not be efficient for the following reasons. First, instead of one EU-wide solution for SEPs, there might be different national solutions for the SEPs on one specific standard. Second, under an EU-wide approach, it will not be necessary to conduct more than one essentiality check per patent family to find that patents are indeed truly essential to a standard. The check would be done based on a single EU-wide methodology. Third, non-centralized alternative dispute resolution

[7] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12016E/PRO/02&from=EN
[8] https://single-market-economy.ec.europa.eu/events/webinar-series-standard-essential-patents-2020-12-02_en
[9] https://ec.europa.eu/docsroom/documents/45217
[10] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en
[11] https://ec.europa.eu/eusurvey/runner/SEP_SME2022

processes may come to different results for the same SEP portfolio, opening the door to "forum shopping" within the EU. An EU-wide approach can help avoid these problems.

(a) Are there significant/appreciable transnational/cross-border aspects to the problems being tackled? Have these been quantified?

Licensing of SEPs is a transnational issue because standards are for the most part developed and used globally. For example, 4G, 5G, Wi-Fi, HEVC (codecs) and DVD (just to name a few standards) ensure interoperability of products not only in the EU but also worldwide. These products include smartphones, tablets, TVs, computers, smart meters, cars, etc. As a result, SEP portfolios also have a global reach and SEP licensing is typically based on global royalty rates and terms, but takes into account certain geographic factors that may be important for specific licensees or licensors (for example, if a licensee sells products in very limited jurisdictions). The impact assessment has quatified the number of litigations per country and analysed case-law determining global FRAND royalties.

(b) Would national action or the absence of the EU level action conflict with core objectives of the Treaty[12] or significantly damage the interests of other Member States?

The absence of EU level action is likely to lead to disruptions in the uptake of critical, digital and environmental technologies essential for the achievement of the aims of the EU.

SEP licensing based on increased transparency, predictability and efficiency would improve the competitiveness of EU businesses, including start-ups and SMEs. Efficient SEP licensing[13] may also: (i) facilitate the development of critical technologies[14] and the uptake of digital technologies; and (ii) foster the EU's transition to the green economy. For example, many standards are important for the success of projects in areas such as: smart manufacturing; smart grids and energy; smart mobility; smart cities; and smart agriculture – all of which are cutting-edge digital technologies that improve sustainability, for example by fighting climate change. Also, start-ups and SMEs contributing standard-based innovations to the EU economy benefit from a more predictable and efficient SEP licensing system, reducing the financial risks associated with using standards.

Accordingly, the initiative will promote growth and sustainable development within the internal EU market, enhance environmental protections through more standard-based innovative technologies, and generally uphold and promote the values and interests of the EU globally.

(c) To what extent do Member States have the ability or possibility to enact appropriate measures?

European standardisation is harmonised with Regulation (EU) No 1025/2012. Member States are not permitted to enact measures in this area. Despite patent law and enforcement being subject to Member States competence, SEPs are subject to competition law limitations (encumbered with the obligation to licence on FRAND terms and conditions), and the CJEU has established guidelines to balance the interests of SEP owners and those of implementers in that respect[15]. A common, harmonised approach needs to be employed to ensure that SEP licensing is handled efficiently to allow access to all implementers, including SMEs, under reasonable terms throughout the EU and that SEP owners can obtain a fair return on their R&D expenditure when standards are used in products in the EU. Even though Member States courts are competent to enforce SEPs, they are not in a position to promote these goals EU-wide.

[12] https://europa.eu/european-union/about-eu/eu-in-brief_en
[13] '*A modern framework for standardisation*', pp. 18-19, Section 1.3.
[14] Such as advanced manufacturing technology, mobility, connectivity and robotics.
[15] Judgment of 16 July 2015 in Case C-170/13 – *"Huawei – ZTE"*

(d) How does the problem and its causes (e.g. negative externalities, spill-over effects) vary across the national, regional and local levels of the EU?
Even though SEP disputes are cross-border issues (due to the global nature of SEP licensing), most EU-related SEP disputes are brought before the courts in Germany (80%), followed by the Netherlands, France and Italy. Germany is a preferred litigation venue because it is the largest market in Europe .
(e) Is the problem widespread across the EU or limited to a few Member States?
Products incorporating standards protected by SEPs are marketed in all Member States and the problems are not specific to one Member State or another.
(f) Are Member States overstretched in achieving the objectives of the planned measure?
No. The proposal is based on an in-depth assessment of different policy options and their respective impacts, and Member States are not well-positioned to address the relevant issues EU-wide.
(g) How do the views/preferred courses of action of national, regional and local authorities differ across the EU?
Since only 2 public authorities participated in the public consultation and 2 public authorities provide an informal response, it is not possible to report extensively on the different positions of national regional and local authorities.
2.4 Based on the answer to the questions below, can the objectives of the proposed action be better achieved at Union level by reason of scale or effects of that action (EU added value)?
Action at EU level is expected to save costs for stakeholders, both SEP owners and implementers, and for Member States. For instance, there would be one register, one essentiality check per patent family, one common methodology for the conduct of such checks, and a streamlined and transparent conciliation (FRAND determination) process. SEP owners and implementers would not have to incur the same costs in each Member State which would be the case with national solutions, especially in a situation where most standards are regional or global.
(a) Are there clear benefits from EU level action?
The benefits are a more consistent and predictable approach to SEP licensing across the EU, helping create more of a level playing field for businesses and enhanced use of standards for the benefit of EU consumers.
(b) Are there economies of scale? Can the objectives be met more efficiently at EU level (larger benefits per unit cost)? Will the functioning of the internal market be improved?
There are economies of scale for businesses, since they will face the same SEP rules all over the EU.
(c) What are the benefits in replacing different national policies and rules with a more homogenous policy approach?
The EU-wide SEP register creates transparency with regard to whether and which patents need to be licensed. Technical negotiations between SEP owners and implementers will be limited and licences may be negotiated more efficiently. Availability of an EU-wide FRAND determination (conciliation) procedure assists parties in resolving disputes across multiple Member States and provides much-needed clarity with regard to SEP aggregate royalty rates. In particular, the conciliation procedure

will enable the parties to arrive at a FRAND determination faster and cheaper compared to using national litigation. Further, there would be potential savings on patent maintenance fees on non-essential patents that the over-declaring companies will be forced to abandon.

(d) Do the benefits of EU-level action outweigh the loss of competence of the Member States and the local and regional authorities (beyond the costs and benefits of acting at national, regional and local levels)?

The initiative may in certain circumstances limit the ability of SEP owners to assert their patent rights before courts. For example, SEP owners will need to register their SEP and request a FRAND royalty determination before they go to court. Such limitations are proportionate to the objective sought and do not go beyond what is necessary to achieve the objective. The benefits of the inititive outweigh possible losses as it increases transparency and certainty with regard to FRAND royalty for all stakeholders.

(e) Will there be improved legal clarity for those having to implement the legislation?

One of the key objectives is to improve transparency, predictability and legal certainty. Under the current situation there is no information of which patents are SEPs, who owns the, what is the FRAND royalty and how to negotiate FRAND terms and conditions. The industry lacks predictability which has a negative impact on investment in innovation.

3. Proportionality: How the EU should act

3.1 Does the explanatory memorandum (and any impact assessment) accompanying the Commission's proposal contain an adequate justification regarding the proportionality of the proposal and a statement allowing appraisal of the compliance of the proposal with the principle of proportionality?

Both the explanatory momerandum and the impact assessment look at the proportionality.

The initiative is limited to what is necessary to achieve transparency with regard to SEPs and pricing and provide stakeholders with tools to negotiated SEP licensing agreements. Action at EU level will be efficient and save costs for stakeholders, in particular SEP owners, and for Member States. For example, there could be one register, instead of many registers, one essentiality check for the whole EU, one methodology for the conduct of such checks, and a streamlined and transparent FRAND determination process. SEP owners and implementers will not have to repeat the same costs in each EU Member state that has chosen to introduce SEP specific rules.

3.2 Based on the answers to the questions below and information available from any impact assessment, the explanatory memorandum or other sources, is the proposed action an appropriate way to achieve the intended objectives?

The proposed action is the appropriate way to achieve the intended objectives. Based on an expert group report and a series of webinars, the Commission has pre-selected and analysed those industry proposals that have the potential to achieve the objectives. The impact assessment has further streamlined and refined the best options.

(a) Is the initiative limited to those aspects that Member States cannot achieve satisfactorily on their own, and where the Union can do better?

The initiative is limited to what is necessary to achieve transparency and provide stakeholders with tools to negotiate SEP licensing agreements.

(b) Is the form of Union action (choice of instrument) justified, as simple as possible, and coherent with the satisfactory achievement of, and ensuring compliance with the objectives pursued (e.g. choice between regulation, (framework) directive, recommendation, or alternative regulatory methods such as co-legislation, etc.)?
EU-wide rules on transparency regarding SEPs and FRAND terms would have a harmonising effect within the EU which would facilitate the work of national courts and the future Unified Patent court. The instrument to implement this initiative should be a regulation. A regulation would be directly applicable, including by empowering an EU agency with the tasks of managing a register of SEPs, and establishing a common FRAND determination procedure that would ensure uniformity across the EU and provide greater legal certainty. These outcomes cannot be achieved by means of a Directive.
(c) Does the Union action leave as much scope for national decision as possible while achieving satisfactorily the objectives set? (e.g. is it possible to limit the European action to minimum standards or use a less stringent policy instrument of approach?)
The initiative is aimed at creating transparency to promote effective SEP licensing and provide a single place for the parties to resolve their disputes. But parties may still bring their disputes before national courts, as needed.
(d) Does the initiative create financial or administrative cost for the Union, national governments, regional or local authorities, economic operators or citizens? Are these costs commensurate with the objective to be achieved?
The initiative creates administrative cost for economic operators, SEP owners and implementers. Those costs do not exceed what is necessary to achieve a quality register and an alternative dispute resolution mechanism. In fact, action at EU level will be efficient and save costs for stakeholders, in particular SEP owners, and for Member States. For example, there could be one register, instead of many registers, one essentiality check for the whole EU, one methodology for the conduct of such checks, and a streamlines and transparent FRAND determination process.
(e) While respecting the Union law, have special circumstances applying in individual Member States been taken into account?
The Commission is not aware of any special circumstances.