

Joaquín Rovira and Isabel Iglesias

## The ordinary legislative process to amend Standard Essential Patents (“SEPs”) continues

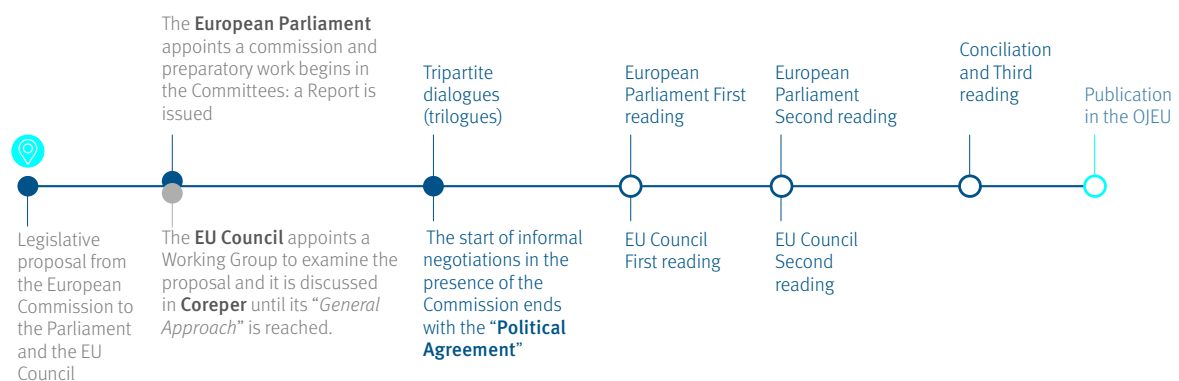
In an environment where innovation and technology are advancing rapidly, the regulation and protection of inventions are becoming critical to the sustainable and competitive development of nations. In January, the European Union (“EU”) Committee on Legal Affairs adopted its position on new rules for standard essential patents (“SEPs”) with a significant majority, and on 28 February, the European Parliament approved its mandate to start inter-institutional discussions with EU governments on SEPs.

This Legal Briefing will delve into the meaning and implications of SEPs, exploring how the new regulation will impact not only the legal and business landscape but also how technological innovations are implemented and licensed. We will also analyse the objectives and main highlights of the regulation, as well as its implications for the legal and business landscape.

### Background to the legislative process

On 27 April 2023, the European Commission (“EC”) published its [Proposal for a Regulation on standard essential patents and amending Regulation \(EU\) 2017/1001](#) with the aim of increasing transparency in the granting of SEPs<sup>1</sup>, as the current SEP landscape is highly fragmented due to the absence of a centralised entity providing detailed and accessible information to businesses on the ownership of SEPs and the costs associated with their use.

Thus, following the EU’s ordinary legislative procedure, on 24 January, the [Committee on Legal Affairs](#) adopted (with 13 votes in favour, no votes against and 10 abstentions), its position on new rules to support SEPs. Recently, with 454 votes in favour, 83 against and 78 abstentions, the European Parliament adopted its mandate for inter-institutional talks with EU governments on SEPs. Discussions with EU countries on the final wording of the legislation will now begin.



As illustrated by the timeline of the ordinary legislative process, we are currently at an early stage of this process.

<sup>1</sup> According to [Marion Walsmann](#), “The new instruments will bring much-needed transparency to an opaque system, make negotiations fairer and more efficient, and strengthen European technological sovereignty. For example, in 5G, almost 85% of standard essential patents are in fact non-essential”. The press release is available at the following link: <https://www.europarl.europa.eu/news/en/press-room/20240122IPR17029/new-rules-to-promote-standard-setting-innovation-in-new-technologies>

## SEPs and their relevance to the market

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A SEP is a type of patent that protects technology that has been considered essential for the implementation of a certain technology standard adopted by a standards development organisation (SDO). These patents cover a wide range of technologies and include, for example, technology standards such as 5G and WiFi, audio and video compression and decompression technologies (e.g. MPEG, HEVC), technologies for data storage and exchange (e.g. CD and DVD), photo formats (JPEG) and home audio and video interoperability (HAVi).

Traditionally, the users of SEPs have been the manufacturers of a wide range of technological equipment, including telecommunication devices, smartphones, computers, tablets and televisions. However, with the rise and expansion of the Internet of Things (IoT), the scope of application of these standards has expanded significantly, attracting a diverse set of actors, including many small and medium-sized enterprises (“SMEs”).

## Difference between SEPs and other patents

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As a general rule, a patent confers on its holder the right to prohibit any third party from directly or indirectly exploiting the patented invention without the holder’s consent, and the holder is free to grant or not to grant exploitation licences to other economic agents as long as one of the cases of compulsory licensing provided for in the regulations does not apply.

However, when a patented technology is declared essential for the implementation of a certain technology standard, the holder of the SEP acquires a position of significant influence in the market regarding those who implement that standard. Therefore, in order to protect the exclusive rights of SEP holders, while ensuring access to the technology for implementers, SEP holders must undertake to license their patents on fair, reasonable, and non-discriminatory (“FRAND”) terms. This commitment makes access to essential technologies equitable and does not hinder competition and innovation in the market.

## Inefficiency of the current SEP licensing system

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The current system governing the framework for SEP licensing negotiations has proven to be inefficient, primarily due to the absence of a common body of law establishing a harmonised approach to issues such as what constitutes a fair and reasonable condition for the purpose of judging a FRAND negotiation.

The absence of a common standard has meant that economic operators are often faced with lengthy and burdensome negotiations, which, together with the absence of effective dispute settlement mechanisms for the resolution of disputes arising in the framework of FRAND negotiations, has resulted in a clear obstacle to investment in innovation.

In addition, the current system does not provide any transparency regarding the relevant rules, the SEPs in force in the territory of interest or the FRAND conditions that apply to the technology standard for the granting of a licence. This opacity leads to the absence of a reliable source of information to which economic operators can turn and adds further complications to the current landscape.

## Objective of the EC Proposal for a Regulation

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The EC Proposal for a Regulation seeks to establish a common and balanced regulatory framework, which addresses the inefficiencies of the current system with two main objectives:

- **To promote innovation and competitiveness** of SEP holders and implementers in the EU, ensuring that they can manufacture and market their products competitively in both internal and non-EU markets;
- **Ensuring that end-users, including SMEs and consumers, benefit** from products incorporating the latest, standardised technologies at fair and reasonable prices. This should be achieved in a way that also recognises and appropriately rewards the innovation that underlies such products.

## Main aspects of the Proposal for a Regulation

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- A **compulsory register** will be created under the management of the European Union Intellectual Property Office (“**EUIPO**”), in which SEP holders will register their patents, providing detailed information on the patents they register. The Proposal also provides for the development of an **electronic database** that will include information on aggregate royalties, FRAND conditions or any licensing schemes, as well as collective licensing schemes.
- SEP holders will have the option to declare in the register the estimated maximum aggregate royalty for their patents. Alternatively, both SEP holders and implementers will be able to use the services of a mediator. This conciliator will have the role of suggesting an aggregate royalty figure, although this recommendation will be non-binding.
- An expert-led, time-limited **out-of-court dispute resolution mechanism** will be established, from which SEP holders and implementers can benefit when negotiating a FRAND licence.
- A number of support measures will be implemented for SMEs, including: free advice; reduced fees for the SEP registration process; verification of their essential nature and access to registration information, and more beneficial FRAND licensing conditions.
- The establishment of a “Centre of Competence” within the EUIPO is proposed in order to administer and coordinate the above elements (compulsory registration, database, essentiality checks, aggregate royalties, FRAND determination and SME support services).

## EUIPO as a Centre of Competence for SEPs

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MEPs agreed to give EUIPO new powers to help reduce litigation and increase transparency, and if the text of the Proposal is adopted, it will play a crucial role in the SEP environment. Its choice is based on EUIPO’s extensive proven experience in managing Intellectual Property registration systems and its ability to offer alternative dispute resolution processes.

## Impact of the regulation on the legal and business landscape

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The new regulation is expected to have a positive impact on the current landscape, providing all economic actors affected by this regulation, both SEP holders and implementers, with a secure and transparent framework for negotiation, which will surely contribute to achieving one of the primary objectives of this new regulation, namely, fostering innovation and competitiveness in the EU.

## Next steps

As already mentioned, the European Parliament is now ready to start discussions with EU Member States on the final wording of the regulation. The matter will be dealt with the new Parliament after the European elections on 6-9 June.

## CONTACTS



**Eduardo Castillo**  
Partner, Intellectual Property  
and Technology  
ecastillo@perezllorca.com  
T. +34 91 423 66 57



**Rais Amils**  
Partner, Intellectual Property  
and Technology  
ramils@perezllorca.com  
T. +34 932 69 79 07



**Álvaro de Castro**  
Counsel, Intellectual Property  
and Technology  
adecastro@perezllorca.com  
T. +34 91 423 47 09

[www.perezllorca.com](http://www.perezllorca.com) | Barcelona | Brussels | Lisbon | London | Madrid | New York | Singapore

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