

Regulators' Approach To Standard Essential Patent: A Policy Conundrum

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Abstract

Standards have played a significant role in the growth of information and communication technology through the interoperability of devices and the promotion of efficiency in the market. With the development of the Internet of Things (IoT), there is a high demand for interoperability and, therefore, standards in the market. Regarding regulating the SEPs, multiple stakeholders have various interests, which are often conflicting. Governments and regulators across jurisdictions have faced the challenge of ensuring predictability, transparency, and balancing interests between SEP holders and implementors in negotiations and licensing SEPs. The central concern is to what extent the state/regulator should intervene to achieve these objectives. Regulators across the globe have adopted their approach to regulation of SEP licensing depending upon their experience and prevailing market conditions there.

This research paper engages in comparative analytical enquiry to better understand the global response to this challenge. This paper focuses on the guidelines and policies of different regulators and government departments as a resource for primary data for this research. The researcher has also referred to research articles, books, and academic blogs to understand and analyse the problem.

Keywords: Regulators, SEP, FRAND, Guidelines, Policy, Standards.

Introduction

Standards have played a crucial role in the growth and development of the Information and Communication

Technology (ITC) sector in the last few decades¹. Devices like laptops, smartphones, tablets, and smartwatches have complex mechanical and technological features. These devices perform multifunction functions through smooth interoperability because of the standards. Standards create value for the customers and promote innovation in the market. Certain patents are essential to implementing a standard known as standard essential patents (SEP). There has been a long debate over the process of selecting a SEP, the conditions for SEP licensing and the determination of the royalty of a SEP. The rapid growth in the field of the Internet of Things (IoT) has posed a challenge before the regulators to ensure fairness, transparency, and predictability in licensing and enforcing SEPs. Traditionally, SEPs have been limited to ITC, but with the growth of IoT, it has not been limited to its traditional market that is ICT, but now it has expanded to another field as well². There are a lot of SMEs coming in the field of IoT³. This has posed a new challenge before the regulators. Regulation of SEPs poses a lot of challenges for regulators. Regulators across the globe are trying to come up with policies/guidelines for the regulation of SEPs. However, still, there are a lot of uncertainties in regulators' approach and their policies. In this research paper, I will look over the guidelines of regulators/ government departments in the USA, EU, Japan, South Korea, China and India to understand the approaches in these jurisdictions.

EU Guidelines regarding SEPs

In April 2023, the European Commission made a proposal to the European Parliament to regulate the Standard Essential

¹ Brad Biddle and others, 'The Expanding Role and Importance of Standards in the Information and Communications Technology Industry' (2011) 52 *Jurimetrics* 177 <https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/juraba52§ion=16&casa_token=XEyz8r5QMfEAAAAA:xdyc-Gyz9ZQjTJsDLXdRTVLmGZk5uAkrEVMsJ_rXuDY-W6_RzczeOTjQKEAR7s82-jFBPnwcycz>.

² Luke McDonagh, 'Standard Essential Patents and the Internet of Things'.

³ Christopher S Storm, 'Standard Essential Patents Versus the World: How the Internet of Things Will Change Patent Licensing Forever' (2021) 30 *Tex. Intell. Prop. LJ* 259 <https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/tipj30§ion=11&casa_token=hGJ-ero39JwAAAAA:V-BP_XGGelN5v8Wllv4l3noBc2yz0Ch8saOjGl4dJiX4HnJWL-Z-14egQqjWN8BfC4ie8h_CULc>.

Patents⁴. The proposed regulation aims to address the shortcomings of the earlier regulation, namely inefficiency in the licensing like transparency, determination of Fair, Reasonable and Non-discriminatory (FRAND) terms and conditions, licensing in the value chain, and addressing the dispute resolution procedure.

For a long time, the European Commission has made many efforts to enhance efficiency in the licensing of Standard Essential Patents through transparency, consistency, and predictability. With the growth in the field of the Internet of Things (IoT), a lot of new players who have fewer resources are entering the market. There has been a perception that existing regulation is insufficient in addressing the needs of new IoT players, as there is a need for a more balanced system for SEP Licensing.

The proposal makes mandatory registration of Standard Essential Patents to enforce these patents. It also intends to regulate the essentiality checks, method/process for determination of aggregate royalty for SEPs and determination of FRAND conditions. The proposed guideline makes substantial changes in the existing framework and has drawn criticism from various stakeholders⁵.

FRAND Determination under proposed guidelines

The proposed guidelines aimed at ensuring transparency, efficiency, balance of interest, determination of FRAND terms and conditions, licensing of SEP, determination of FRAND royalty, and determination of essentiality in SEP licensing. The draft guidelines aim to reduce the transaction cost of SEP licensing and SEP negotiation between SEP holders and SEP implementors. The draft proposal to regulate the Essential Standard Patent and its licensing. The general objective of the regulation is to enhance the efficiency of the whole SEP licensing system by ensuring transparency, predictability and addressing the asymmetry between SEP holder and the implementor.

⁴ European Commission, 'Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Standard Essential Patents and Amending Regulation (EU)2017/1001' <https://single-market-economy.ec.europa.eu/system/files/2023-04/COM_2023_232_1_EN_ACT_part1_v13.pdf>.

⁵ 'European Commission - Have Your Say' (*European Commission - Have your say*, 9 May 2022) <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en>.

The following are the main provision of the proposed regulation in April 2023.

1. Establishment of the Competence Centre-

Title II of the proposed regulation envisages the competence centre to discharge the task under this regulation. The competence centre is to be established under the European Union Intellectual Property Office (EUIPO). The competence centre will be responsible for supporting transparency and determination of FRAND with respect to standard essential patents. The other responsibilities of the competence centre include maintaining an electronic database for SEP, managing evaluators and conciliators, processing essentiality and aggregate royalty and advising SMEs on SEP-related matters. It may engage in other activities under the regulation. Essentially the competence centre will collect all the required data and facilitate the SEP licensing and determination of the FRAND terms for royalty.

2. Registration of Standard Essential Patents-

The proposed regulation establishes the SEP register in electronic format by the competence centre. It will contain relevant information regarding the standard which is needed by the implementors. It will contain the standard version, the technical specification and the specific sections of the technical specification for which the patent is considered essential⁶. In the register, the SEP holder will specify the essentiality of the patent and the terms of the FRAND licensing. The proposed regulation mandates SEP holders to register their SEP and provide the relevant information in the register for the enforcement of the SEP.

3. Evaluators and conciliators-

The proposed regulation establishes a position of evaluators and conciliators under the competence centre. The responsibility of the evaluator is to evaluate the essentiality of SEP. The job of the conciliator is to facilitate the determination of the FRAND term and SEP licensing between SEP holders and implementors. The decision of evaluators and conciliator will not be binding.

⁶ Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on standard essential patents and amending Regulation (EU)2017/1001 2023 art 4.

4. Essentiality check of Standard Essential Patent-

The draft regulation provides for essentiality checks for the registered standards⁷. The competence centre will conduct the essentiality check through its evaluators independently and objectively. The evaluators will summarise the essentiality check and give reasons for their opinion. The final opinion of the evaluators may be used by the stakeholders, tribunal, or other authorities.

5. Mandatory conciliation for FRAND determination-

The proposed regulation makes it mandatory to seek the determination of FRAND terms through the competence centre before initiating the court proceedings. This makes a precondition for SEP holders to initiate court proceedings to enforce their rights. The competence centre facilitates FRAND negotiation through conciliators.

At present, the SEP is being regulated through the Commission's decisions, such as Huawei Technologies Co. Ltd v ZTE Corp. The proposed guidelines is bold step though a long process before coming into the effect.

USA Policy for SEP licencing and FRAND determination

First, on 8 June 2022, the 'US Department of Justice', 'US Patent and Trademark Office' (USPTO) and the 'National Institute of Standards and Technology' (NIST) formally withdrew "Policy Statement on Remedies for SEPs Subject to Voluntary FRAND Commitments 2019"⁸. On 6 December 2021, the DOJ announced a request for public comments on a new "Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments" (the 2021 Draft Statement)⁹. The 2019 policy statement reflected some tilt towards SEP holders by stating that SEP holders can seek injunctive against patent hold-outs¹⁰.

⁷ *ibid* 26,27.

⁸ 'Withdrawal of 2019 Policy Statement on Remedies for Standards-Essential Patents'.
<https://www.uspto.gov/sites/default/files/documents/SEP2019-Withdrawal.pdf>

⁹ 'Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments'.
<https://www.justice.gov/atr/page/file/1453471/download>

¹⁰ 'POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS, Dec 2019'
<<https://www.justice.gov/atr/page/file/1228016/download>>.

The 2019 policy reflected some inclination towards SEP holders by expressing support for the possibility of injunctive relief against patent 'hold-out'¹¹. The 2019 policy replaced the 2013 policy statement which did not talk about such relief to SEP holder against the implementors.

At present, the USA does not have any policy towards SEP and the disputes with regard to SEP licensing will be governed with traditional anti-trust laws.

SEP Policy in China

In China, the State Administration for Market Regulation ('SAMR') issued draft Anti-monopolistic guidelines in June 2023. The guidelines issued by SAMR aim to regulate the Standard Essential Patent comprehensively. The SAMR had also released its "Provisions on Prohibiting the Abuse of Intellectual Property Rights to Eliminate or Restrict Competition" which aims to regulate the Standard Essential Patent too (Article 19)¹². SAMR provisions has try to address the potential abuse of dominance by SEP holders and same has been try to addressed¹³. The draft guideline also laid down measures to address the anti-competitive effect of the standard essential patents in the market. Article 19 of the guideline requires the SEP holder to disclose the information in a timely and sufficient manner. Article 7 of the guideline mandates the owner of the standard essential patent to follow the good faith negotiation that is offer the SEP on fair, reasonable and non-discriminatory terms. The SEP owner must make a clear offer for a licence, including the method of calculating the royalty¹⁴. Articles 11-17 of the guideline also focus on understanding market power and abuse of dominance.

Regulation of SEP in Japan

¹¹ <https://www.justice.gov/atr/page/file/1228016/download>

¹² 'Prohibition of Abuse of Intellectual Property Rights to Exclude or Restrict Competition' <https://www.samr.gov.cn/zw/zfxgk/fdzdgknr/fgs/art/2023/art_e155397f5c4c05ad3c1838c1322ad2.html>.

¹³ Article 1 of Provisions on Prohibiting the Abuse of Intellectual Property Rights to Eliminate or Restrict Competition 'In order to prevent and stop the abuse of intellectual property rights to eliminate or restrict competition, these regulations are formulated in accordance with the Anti-Monopoly Law of the People's Republic of China' *ibid*.

¹⁴ 'The Recent Chinese "Anti-Monopoly Guidelines" on Standard Essential Patents' (*Kluwer Patent Blog*, 21 November 2023) <<https://patentblog.kluweriplaw.com/2023/11/21/the-recent-chinese-anti-monopoly-guidelines-on-standard-essential-patents/>>.

Japan's Ministry of Economy, Trade and Industry(METI) issued "Good Faith Negotiation Guidelines for Standard Essential Patent Licenses" guidelines¹⁵. The guidelines aim to ensure predictability and transparency in SEP licensing. These guidelines are the norms to be followed by the SEP holder and implementors for negotiating SEP licensing. These guidelines are not legally binding¹⁶. The guidelines provide the four-step process to be followed by the parties involved in the negotiation.

Japan Patent Office(JPO) also updated its guide, "Guide to Licensing Negotiations Involving Standard Essential Patents", on June 30, 2022¹⁷. The guide has been updated for the first time since its first publication in 2018. The JPO guide does not set any objective to be achieved. Rather, it is a summary of the issues and information regarding SEP negotiation and licensing from Japan and other jurisdictions.¹⁸

South Korea's regulation of SEP

In Korea the Korea Fair Trade Commission(KFTC) is government regulatory body to govern economic competition in the country. The KFTC has enforced "Review Guidelines on Unfair Exercise of Intellectual Property Rights" (herein after referred as 'IPR guidelines') in 2019¹⁹.

The IPR guidelines prohibit the abuse of patent right by the SEPs holders²⁰. It cites various illustrations of when certain practices can be treated as an abuse of patent rights, like not disclosing relevant information at the time of standardisation, unfair pricing, imposing discriminatory conditions for the licensing of SEPs, etc.

It can be said that the KFTC guidelines are in consonance with the global trend. It is trying to provide minimum guidance and

¹⁵“Good-Faith-Negotiation-Guidelines-for-SEPLicenses-En.Pdf”
<https://www.meti.go.jp/policy/economy/chizai/sep_license/good-faith-negotiation-guidelines-for-SEPLicenses-en.pdf>.

¹⁶ *ibid*.

¹⁷““Guide to Licensing Negotiations Involving Standard Essential Patents”,
Pdf”<<https://www.jpo.go.jp/e/system/laws/rule/guideline/patent/document/rev-seps-tebiki/guide-seps-en.pdf>>.

¹⁸ ““Guide to Licensing Negotiations Involving Standard Essential Patents”,Pdf’
<<https://www.jpo.go.jp/e/system/laws/rule/guideline/patent/document/rev-seps-tebiki/guide-seps-en.pdf>>.

¹⁹“Unilateral Conduct - Fair Trade Commission”
<https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=2855&bbsId=BBSMSTR_000000003632&bbsTyCode=BBST11>.

²⁰ [https://one.oecd.org/document/DAF/COMP/WD\(2019\)23/en/pdf](https://one.oecd.org/document/DAF/COMP/WD(2019)23/en/pdf)

clarification over SEPs. The competition law in the South Korea, the Monopoly Regulation and Fair Trade Act exempts the legitimate exercise of IP rights²¹.

Regulation of Standard Essential Patents in Singapore

Parliament of Singapore passed the Competition Act, 2004 under which the Competition and Consumer Commission for Singapore(herein after referred as CCCS) has been authorised to frame guidelines under the Act. The CCCS has framed guidelines under the Competition Act, 2004, which came into effect on 1 February 2022²². The guidelines are not legally binding but are used in the interpretation of the Competition Act. The guidelines generally deal with the competition issue and try to clarify the same. The guidelines deal with the licensing of the Standard Essential Patent as well. It says that refusal to grant SEP license to implementor on FRAND terms by SEP holder may violate anti-trust law. The SEP holder must disclose the relevant information during the standardisation process. It can be said that the CCCS guidelines are not comprehensive for regulating Standard Essential Patents. Still, it has tried to address the competition concern that may arise from SEPs.

Indian Policy towards SEP licencing and FRAND determination

India does not have a specific policy relating to Standard Essential Patent or for determining FRAND terms. The Department of Industrial Policy and Promotion Ministry of Commerce & Industry issued a Discussion Paper on 'Standard Essential Patents and Their Availability on FRAND Terms' on March 1, 2016.

The discussion paper identified certain issues regarding Standard Essential Patents that must be resolved. The paper clearly identified a lack of clear law, policy or jurisprudence in the area of SEP licensing and determination of FRAND terms²³. The Patent Act of 1970 and laws related to anti-trust are the primary laws that govern the licensing of standard essential patents and the determination of FRAND terms. The paper touches upon the role of the Indian standard-setting

²¹ Article 59 of Monopoly Regulation and Fair Trade Act.

²² 'CCCS Guidelines under Competition Act' (CCCS)

<<http://www.cccs.gov.sg/legislation/competition-act>>.

²³ Discussion Paper on 'Standard Essential Patents and Their Availability on FRAND Terms' on March 1, 2016.

https://www.ipindia.gov.in/writereaddata/Portal/News/196_1_standardEssentialPaper_01March2016_1_.pdf

organisations for SEP and FRAND determination. The paper covers all the issues that may arise in SEP licensing, like royalty determination, methodology for calculation for royalty, competition impact, and dispute resolution mechanism. Unfortunately, to date, the government has not come up with a policy despite the growing demand for access to standards for interoperability in the Internet of Things (IoT) sector. There have been a few decisions of the Delhi High Court related to SEP, but the court has not clearly mentioned the methodology for calculating the royalty. A few complaints have been made to the Competition Commission of India (CCI), but the commission has not made any final decision on these matters nor issued any guidelines.

Conclusion

Across the globe, regulating bodies of anti-trust and patent are trying to make SEP licensing transparent, predictable, efficient and balanced. Traditionally, SEP licensing has been limited to the ICT sector. With the emergence of the Internet of Things (IoT), interoperability has expanded beyond the ICT, as have the disputes. The market regulators across the jurisdiction are struggling to understand the best mechanism to regulate it. New entrants are entering the market with much fewer resources and expertise. There is a need for the protection of smaller players who are implementors. How is it to be done? This question remains unanswered. The market regulators are still at the crossroads for regulation of this emerging market. There is a dilemma as to what extent the regulators should intervene in the market.

I do believe the EU draft guidelines are the best attempt to address these challenges. It has to be seen to what extent these draft guidelines are being enforced and how they are being seen in other jurisdictions.