

FRAND Determinations Under the EU SEP Proposal: Discarding the Huawei Framework

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ICLE Issue Brief 2023-11-15

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Abstract

The European Commission's recently unveiled proposal to overhaul the EU's licensing system for standard-essential patents (SEPs) would see conciliators issue mandatory, albeit nonbinding, pre-trial determinations of fair, reasonable, and non-discriminatory (FRAND) terms. This issue brief investigates the relationship between the proposal's FRAND-determination process and the test developed by the Court of Justice of the European Union (CJEU) in *Huawei v. ZTE*, which currently represents the guiding framework for SEP-licensing negotiations in the EU. It aims to demonstrate that, even if the SEP proposal were not intended to displace *Huawei*, the anti-injunction approach it endorses is inherently inconsistent with the CJEU's stance, and is essentially a direct response to German case law. Therefore, to the extent that the proposal's FRAND determinations will coexist with the *Huawei* bargaining framework, the proposed regulation appears likely to add significant confusion and uncertainty, and to induce licensing disputes, rather than supporting balanced and successful SEP-licensing negotiations.

I. Introduction

In April 2023, the European Commission unveiled a proposed regulation to overhaul the EU's licensing system for standard essential patents (SEPs).¹ The initiative aims to address the causes of allegedly inefficient licensing, such as a lack of transparency with regard to SEPs; fair, reasonable, and non-discriminatory (FRAND) terms and conditions; licensing in the value chain; and limited use of dispute-resolution procedures.²

A perceived need to enhance transparency, predictability, and efficiency of SEP licensing is not new to the EU policy agenda.³ The *status quo* is perceived as particularly

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¹ European Commission, *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.

² *Id.*, Recital 2.

³ See Group of Experts on Licensing and Valuation of Standard Essential Patents, *Contribution to the Debate on SEPs*, (2021) <https://ec.europa.eu/docsroom/documents/45217> (all websites last visited 28 Sep. 2023); European Commission, *Making the Most of the EU's Innovative Potential. An Intellectual Property Action Plan to Support the EU's Recovery and Resilience*, COM(2020) 760 final; European Commission, *Setting Out the EU approach to Standard*

unsatisfactory in the context of the Internet of Things (IoT), where newer players with few resources and little licensing experience (*i.e.*, startups and small and medium-sized enterprises) have entered the market for connectivity.⁴ As the number of declared SEPs continues to proliferate and a growing number of industrial, business, and consumer applications make use of standards that include SEPs, the European Commission has increasingly seen the need for a smoother and more balanced SEP-licensing system.⁵

Against this background, the Commission's SEP proposal would alter the current framework by introducing mandatory registration for enforcement purposes; a system for essentiality checks; and a process to determine both aggregate royalties and FRAND terms and conditions. Unsurprisingly, the proposal has drawn criticism for nearly all its provisions, with some questioning its very rationale. Critics charge that such an intrusive and extensive intervention is unnecessary and dangerous, and that there is no economic justification for the initiative.⁶ Indeed, proponents of the proposed regulation justify it by citing limited circumstances and situate their case within a market-failure framework. There is, however, no discernible evidence of a market failure to address. Notably, the concerns reported in the Impact Assessment⁷ do not match the results of the primary study that informed it.⁸

The Commission's Impact Assessment raised concerns that SEP-related disputes will increase because of the growing demand for connectivity (particularly for the IoT) and that, because of high transaction costs and licensing uncertainties, both SEP owners and implementers may be discouraged from participating in standards development and the creation of products that use technology standards potentially subject to SEPs,

Essential Patents, COM(2017) 712 final; European Commission, *ICT Standardisation Priorities for the Digital Single Market*, COM(2016) 176 final.

⁴ European Commission, *Intellectual Property – New Framework For Standard-Essential Patents*, CALL FOR EVIDENCE FOR AN IMPACT ASSESSMENT (2022). https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en.

⁵ *Id.*

⁶ See, *e.g.*, Centre for a Digital Society of the European University Institute, *Feedback to EU Commission's Public Consultation* (2023), https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3432699_en; Christine A. Varney, Makan Delrahim, David J. Kappos, Andrei Iancu, Walter G. Copan, & Noah Joshua Phillips, *Comments on European Commission's Draft "Proposal for Regulation of the European Parliament and of the Council Establishing a Framework for Transparent Licensing of Standard Essential Patents,"* (2023), available at <https://ipwatchdog.com/wp-content/uploads/2023/04/Comments-on-European-Commission-Draft-SEP-Regulation-by-Former-US-Officials-1.pdf>; Robin Jacob & Igor Nikolic, *ICLE Feedback to EU Commission's Public Consultation*, INTERNATIONAL CENTER FOR LAW & ECONOMICS (2023). https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3433917_en.

⁷ European Commission, *Impact Assessment Report 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*, SWD(2023) 124 final.

⁸ Justus Baron, Pere Arque-Castells, Amandine Leonard, Tim Pohlmann, & Eric Sergheraert, *Empirical Assessment of Potential Challenges in SEP Licensing*, STUDY FOR THE EUROPEAN COMMISSION (2023), available at <https://www.iplytics.com/wp-content/uploads/2023/04/Empirical-Assessment-of-Potential-Challenges-in-SEP-Licensing.pdf>.

respectively.⁹ The empirical evidence that the Impact Assessment used as its primary input, however, does not support these findings and illustrates a significantly different landscape.

In short, the prevalence of SEP litigation is low relative to non-SEP disputes, and it has not increased over time;¹⁰ the caseload of SEP litigation is relatively stable in Europe (while falling in the United States and increasing in China) and, in more recent years, the share of declared SEPs subject to litigation has fallen;¹¹ and empirically observable data do not indicate that SEP-licensing conditions have led to pervasive opt-outs from standards-related innovation.¹² Therefore, there is no evidence that FRAND-licensing frictions have caused either SEP owners to contribute less to standards development or SEP implementers to opt for alternative (*i.e.*, without FRAND licensing) standards. There is also nothing to indicate that current SEP-licensing conditions systematically suppress or delay standards implementation.¹³

A further criticism directed at the Commission's SEP proposal regards its decision to delegate the primary duties related to the licensing and litigation of SEPs to the European Union Intellectual Property Office (EUIPO).¹⁴ The EUIPO has no meaningful experience with patents, but would be placed in charge of one of the most complex areas of patent policy.¹⁵ Moreover, the tasks undertaken by EUIPO (more precisely, by the competence center established under the purview of EUIPO) would undermine the authority in SEP enforcement of national courts and the newly established Unified Patent Court (UPC).

This issue brief will focus on provisions of the Commission's proposal that would introduce mandatory (albeit nonbinding) pre-trial FRAND determinations by conciliators.¹⁶ Under the SEP proposal, such dispute resolution must be initiated by the SEP holder or implementer prior to the initiation either of a patent-infringement claim or a request to determine or assess FRAND terms and conditions before a competent court of an EU member state.

The brief investigates the relationship between the proposed FRAND-determination process and the test developed by the Court of Justice of the European Union (CJEU) in the landmark ruling *Huawei v. ZTE*, which represents the current guiding framework for good-faith SEP-licensing negotiations.¹⁷ Indeed, mandatory conciliation is expected to

⁹ Impact Assessment, *supra* note 7, 11-17 and 25.

¹⁰ Baron, Arque-Castells, Leonard, Pohlmann, & Sergheraert, *supra* note 8, 108.

¹¹ *Id.*, 109-110.

¹² *Id.*, 185.

¹³ *Id.*, 164.

¹⁴ SEP Proposal, *supra* note 1, Article 3.

¹⁵ Varney, Delrahim, Kappos, Iancu, Copan, & Phillips, *supra* note 6.

¹⁶ SEP Proposal, *supra* note 1, Title VI.

¹⁷ CJEU, 16 July 2015, Case C-170/13, *Huawei Technologies Co Ltd v. ZTE Corp*, ECLI:EU:C:2015:477.

benefit SEP holders and implementers in reaching license agreements more quickly and without costly court proceedings, and it is proposed as a complement to—rather than replacement for—the *Huawei* process,¹⁸ it is equally evident that the proposed regulation underscores the Commission’s dissatisfaction with the *Huawei* framework and its implementation by national courts.

Furthermore, the proposed approach marks a consequential departure from the one adopted by the CJEU. While the latter elaborated the so-called “willing licensee” test in order to strike a fair balance among the relevant interests, compulsory pre-trial conciliation would reduce the scope of injunctions for SEP holders beyond *Huawei*, tilting the balance in favor of implementers. Indeed, implementers would be free to challenge SEPs, but patent owners could not initiate infringement proceedings without first going through the mandatory FRAND-determination process. This issue brief aims to demonstrate that, even if the SEP proposal does not displace *Huawei*, the proposed conciliation process represents an attempt to discard the CJEU’s framework, rather than complement it.

Furthermore, the proposed restraints on the availability of injunctive relief would appear to reinstate the conflict between the Commission and the German courts that apparent prior to the *Huawei* decision, when opposing approaches emerged in the *Motorola* and *Samsung* cases¹⁹ and the *Orange Book Standard* ruling, respectively.²⁰ It was the national courts’ differing interpretations of FRAND determination that provided the original impetus for harmonization at the EU level under Article 114 TFEU.²¹ The largest number of SEP disputes are, however, litigated in Germany,²² and the Commission has appeared sensitive to stakeholder complaints that German court practice is overly friendly to patent owners, and that it contradicts *Huawei* by expanding the availability of injunctions and amounts to a *de facto* reinstatement of *Orange Book Standard*.²³ As a result, the SEP proposal’s no-injunction approach, as well as the length of its proposed FRAND-

¹⁸ Impact Assessment, *supra* note 7, 43 and 58.

¹⁹ European Commission, 29 April 2014, Cases AT.39985 and AT.39939.

²⁰ Bundesgerichtshof (BGH), 6 May 2009, Case KZR 39/06.

²¹ SEP Proposal, Explanatory Memorandum, *supra* note 1, 4; European Commission, *supra* note 4, 3.

²² Baron, Arque-Castells, Leonard, Pohlmann, & Sergheraert, *supra* note 8, 71-73.

²³ Impact Assessment, *supra* note 7, 154 and 158. See also BMW Group, *Feedback to EU Commission’s Public Consultation* (2023), https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434362_en; Mercedes-Benz Group, *Feedback to EU Commission’s Public Consultation* (2023), https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3430251_en; and Volkswagen, *Feedback to EU Commission’s Public Consultation* (2023), https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3430555_en (welcoming the SEP Proposal for ensuring that, parallel to FRAND determination, any filed proceedings are suspended and that no injunction request may be brought before national courts, “particularly in Germany”); Baron, Arque-Castells, Leonard, Pohlmann, & Sergheraert, *supra* note 8, 96 (arguing that German courts are relatively strict on the interpretation of the *Huawei* step regarding the assessment of whether the response has been expressed diligently and without engaging in delaying tactics).

determination procedure, may alter the bargaining process by imposing costs on patent owners and unduly favoring opportunistic behavior and delay tactics by implementers. The effect would be to make hold-out more attractive.

Finally, this brief questions the expected added value of the SEP proposal's conciliation process. While distrust of the role of courts in FRAND disputes finds no support in the empirical evidence—which instead demonstrates the absence of an SEP-litigation problem in the EU—the new provisions risk generating confusion and uncertainty, which could fuel further litigation. Such risk is further exacerbated by the proposal's extraterritorial effects. Indeed, while the regulation would apply only to patents in-force in the EU, the FRAND determination may refer to global rates.²⁴

The remainder of this issue brief is structured as follows. Sections II and III compare FRAND determinations under the SEP proposal and the *Huawei* bargaining framework, respectively. Section IV addresses the relationship between the *Huawei* code of conduct and the solution advanced by the European Commission. Section V investigates the implications and potential side effects of the SEP proposal. Section VI concludes.

II. FRAND Determinations Under the SEP Proposal

Disagreements regarding the meaning and implementation of FRAND (*i.e.*, about what constitute FRAND terms and conditions, as well as the nature, scope, and implications of FRAND obligations) are among the primary drivers of complexity in SEP licensing.²⁵ To reduce costs and simplify and speed negotiation of FRAND terms,²⁶ Title VI of the Commission's SEP proposal introduces mandatory dispute resolution, which would serve as a precondition to access to the competent court of an EU member state. Indeed, a FRAND determination by a conciliator, selected among candidates proposed by the competence center,²⁷ would be a mandatory step before an SEP holder could initiate patent-infringement proceedings, or an implementer could request a determination or assessment of FRAND terms and conditions before a competent court.²⁸ National court enforcement would also be precluded when a determination of FRAND terms and conditions is raised in abuse-of-dominance cases, namely in the national application of the *Huawei* framework.²⁹

The obligation to initiate FRAND determination before the relevant court proceedings is, however, not required for SEPs covering use cases of standards for which the

²⁴ SEP Proposal, *supra* note 1, Recital 8 and Article 38(6).

²⁵ Impact Assessment, *supra* note 7, 15 and 51-52.

²⁶ SEP Proposal, *supra* note 1, Recital 32; See Impact Assessment, *supra* note 7, 43-44 (estimating that the total cost of a conciliation will be eight times lower than the average SEP court cost and that up to 24 court cases could be avoided).

²⁷ SEP Proposal, *supra* note 1, Article 39.

²⁸ *Id.*, Article 34.

²⁹ *Id.*, Article 56(4).

Commission establishes (by means of a delegated act) that there is sufficient evidence that SEP-licensing negotiations on FRAND terms do not give rise to significant difficulties or inefficiencies.³⁰ Furthermore, the obligation to initiate FRAND determination does not preclude either party's right to request (pending the FRAND determination) that the competent court of a member state issue a provisional injunction of a financial nature against the alleged infringer.³¹ In any case, the provisional injunction would exclude seizure of the alleged infringer's property, as well as the seizure or delivery of the products suspected of infringing an SEP.

While it would be obligatory to commence the conciliation before initiating a court action, the parties would be free to decide on their level of engagement and would not be prevented from leaving the process at any time.³² It is even possible to proceed with the FRAND determination with the participation of just one party. Where a party does not reply to the FRAND determination request, or does not commit to comply with the outcome of the FRAND determination, the other party should be able to request either the termination or unilateral continuation of the FRAND determination.³³ The same applies if a party fails to engage in the FRAND determination after the conciliator has been appointed.³⁴ Where a parallel proceeding is initiated in a third country (*i.e.*, a jurisdiction outside the EU) that results in a legally binding and enforceable decision, the conciliator (or the competence center) shall terminate the FRAND determination upon the request of any other party.³⁵

The FRAND determination should be concluded within nine months.³⁶ At the conclusion of the procedure, the conciliator would make a proposal recommending a FRAND rate.³⁷ Either party would have the option to accept or reject the proposal. If the parties do not settle and/or do not accept the conciliator's proposal, the conciliator would be asked to draft a report of the FRAND determination, including both a confidential and a non-confidential version. The latter should contain the proposal for FRAND terms and conditions and the methodology used, and should be provided to the competence center for publication in order to inform any subsequent FRAND determination between the parties and other stakeholders involved in similar negotiations. The Commission's SEP proposal, however, offers no guidance on how conciliators should set a FRAND royalty or what factors they should consider.

³⁰ *Id.*, Article 1(34).

³¹ *Id.*, Article 34(4).

³² *Id.*, Recital 34.

³³ *Id.*, Article 38.

³⁴ *Id.*, Article 46.

³⁵ *Id.*, Article 47.

³⁶ *Id.*, Article 37.

³⁷ *Id.*, Articles 50-58.

III. FRAND Determinations Under *Huawei*

Under existing European law, the evaluation of FRAND commitments in the standard development context is guided by the CJEU's ruling in *Huawei v. ZTE*,³⁸ whose pivotal role was recently confirmed by the Commission's guidelines on the application of antitrust law to horizontal cooperation agreements.³⁹

Huawei represents the most significant attempt to provide a framework for good-faith SEP-licensing negotiations to guide licensors and licensees toward a mutually agreeable FRAND royalty. Toward this aim and in order to strike a fair balance among the relevant interests,⁴⁰ the CJEU identified the steps that patent holders and implementers must follow in negotiating a FRAND royalty. Indeed, a balance should be pursued between maintaining free competition and the requirement to safeguard a proprietor's intellectual-property rights and its right to effective judicial protection.⁴¹

The exercise of an exclusive right linked to an intellectual-property right may in "exceptional circumstances" involve abusive conduct for the purposes of competition law.⁴² In this regard, the CJEU has shown a preference for FRAND determination in the context of negotiations between the parties, using the threat of antitrust liability and patent enforcement as levers to steer both parties toward a mutually agreeable FRAND royalty level. Compliance with the *Huawei* code of conduct would shield SEP holders from the gaze of competition law and, at the same time, protect implementers from the threat of an injunction and the resulting disruptive effects on sales and production.

More specifically, transposing the essential-facility doctrine's "exceptional circumstances" test to the standard development scenario,⁴³ the CJEU finds that the exceptional circumstances in this context are that the patent be essential to standards established by a development organization, and that those patents obtain essentiality status only in return for the holder's irrevocable commitment to license on FRAND terms.⁴⁴

These premises yield a willing-licensee test. While the alleged infringer must demonstrate more than just a mere willingness to negotiate, the SEP holder is burdened with making

³⁸ *Huawei*, *supra* note 17.

³⁹ European Commission, *Guidelines on the Applicability of Article 101 of the Treaty on the Functioning of the European Union to Horizontal Cooperation Agreements*, C/2023/4752, (2023) OJ C 259/1, Chapter 7.

⁴⁰ *Huawei*, *supra* note 17, para. 55

⁴¹ *Id.*, para. 42.

⁴² *Id.*, para. 47.

⁴³ CJEU, 6 April 1995, Joined Cases C-241/91 P and 242/91 P, *RTE and ITP v. Commission*, ECLI:EU:C:1995:98; CJEU, 26 November 1998, Case C-7/97, *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, Mediaprint Zeitungsvertriebsgesellschaft mbH & Co. KG and Mediaprint Anzeigengesellschaft mbH & Co. KG*, ECLI:EU:C:1998:569; CJEU, 29 April 2004, Case C-418/01, *IMS Health v. NDC Health*, ECLI:EU:C:2004:257; General Court, 17 September 2007, Case T-201/04, *Microsoft v. Commission* ECLI:EU:T:2007:289.

⁴⁴ *Huawei*, *supra* note 17, paras. 49 and 51.

the first move and respecting the corresponding behavioral requirements. It is up to the SEP holder to alert the infringer of an alleged violation by naming the patent and specifying how it has been infringed. It is also up to the SEP holder to present a specific and written license offer on FRAND terms, specifying the amount of the royalty and how it is to be calculated.

By contrast, it is up to the alleged infringer to respond diligently to that offer, in accordance with well-established commercial practices, and in good faith, implying that the alleged infringer must not employ delay tactics. If the alleged infringer does not accept the offer, it must make a concrete counteroffer under FRAND conditions within a short period of time. From the point that this counteroffer is rejected by the patent holder, the license seeker already using the patent must provide adequate security, namely by providing a bank guarantee or by depositing the required amounts. In addition, the license seeker must present a precise accounting of past acts of use. If the patent infringer's conduct does not meet these requirements, or if it employs delay tactics, an allegation of abuse of dominant position against the patent holder would not apply.

As a result, there is no FRAND determination under *Huawei*. The CJEU did not attempt to specify the content of FRAND, but instead crafted a negotiation framework with mutual obligations for the SEP holder and potential licensees. The goal was to bring parties back to the negotiation table, using the threats of antitrust liability and intellectual-property enforcement as levers to reach a mutually agreeable FRAND royalty level and, ultimately, to avoid a third-party determination. Further, recognizing the existence of different FRAND conditions is implicit in the back-and-forth dialectic of *Huawei etiquette*. By allowing parties to make diverging FRAND offers and counteroffers, the CJEU acknowledged that there is no unambiguous FRAND point and that several distributional FRAND prices may exist. Therefore, FRAND comprises a range of terms. After all, it is unclear how a rule establishing there could be just one "true" FRAND rate would help parties to negotiate successfully, while identifying a range of legitimate FRAND terms confers on the parties significant and desirable flexibility.⁴⁵

In summary, instead of the methodological approach deployed in the United States, which is concerned with developing tools that allow courts to define royalty rates, the European approach relies on a set of conditions that assess the licensing parties' FRAND compliance during the negotiations, in order ultimately to leave the actual determination of FRAND rates to the parties themselves.⁴⁶ The goal of such an approach is to yield

⁴⁵ See, e.g., UK Court of Appeal, *Unwired Planet* [2018] EWCA Civ 2344 (overturning the single FRAND rate definition endorsed by Justice Colin Birss in *Unwired Planet* [2017] EWHC 1304 (Pat) and stating that the economic evidence does not support such an inflexible approach and that it is unrealistic to suggest that two parties, acting fairly and reasonably, will necessarily arrive at precisely the same set of license terms as two other parties, also acting fairly and reasonably and faced with the same set of circumstances).

⁴⁶ See Chryssoula Pentheroudakis & Justus A. Baron, *Licensing Terms of Standard Essential Patents: A Comprehensive Analysis of Cases*, JRC SCIENCE FOR POLICY REPORT (2017), 123-124, <https://publications.jrc.ec.europa.eu/repository/handle/JRC104068> (arguing that, in order to determine a single royalty rate within a hypothetical negotiation framework, U.S. courts are methodologically sophisticated when

economically efficient royalty rates,⁴⁷ and that goal is shared by the European Commission. Indeed, in the 2017 communication on “Setting out the EU approach to Standard Essential Patents,” the Commission stated that the parties are “best placed to arrive at a common understanding of what are fair licensing conditions and fair rates, through good faith negotiations,” and that “there is no one-size-fits-all solution to what FRAND is,” since what can be considered fair and reasonable differs from sector to sector and over time.⁴⁸

A. The Commission’s Assessment of Huawei

In its SEP proposal, the European Commission appears to agree with the *Huawei* decision’s premise that the relevant parties are best-positioned to determine the terms most appropriate for their specific situation.⁴⁹ According to the Commission, however, *Huawei* has proven inadequate to handle the complexities of SEP-licensing negotiations, as both licensing and enforcement remain inefficient.⁵⁰

Notably, the Commission observes that national courts have adopted differing approaches to FRAND determinations and the process for negotiating FRAND terms and conditions—in particular, with regard to certain specific aspects of the *Huawei* test.⁵¹ As affirmed in the study that informed the Commission’s Impact Assessment, despite the *Huawei* procedural framework’s added value of legal certainty, the Commission believes many uncertainties remain and that the framework fails to resolve several contentious debates regarding the scope and content of FRAND obligations, which has, in turn, led national courts to divergent interpretations of the various steps.⁵² The Commission therefore justifies its intervention at the EU level by arguing that approaches taken by member states could diverge “partly depending on whether businesses in those Member States are predominantly SEP holders or implementers.”⁵³

Few would dispute that the CJEU left a number of issues unresolved in *Huawei* (e.g., the existence of dominant position with respect to SEPs, the possibility of applying the framework to non-practicing entities, the definition of FRAND terms) and national

they approach FRAND, while European courts are more reluctant to define a single royalty rate and instead focus on the conduct of the parties during the bilateral negotiations to assess whether they complied with the specific FRAND commitments made prior to awarding injunctions).

⁴⁷ *Id.*, 13 and 165 (arguing that the theoretical concepts behind FRAND and the empirical data available to determine FRAND rates for specific patents and products merely allow for the determination of a potentially broad FRAND range, rather than a unique FRAND rate, thus suggesting that implementation of the FRAND range should not seek to calculate a single royalty).

⁴⁸ European Commission, *supra* note 3, 6.

⁴⁹ See SEP Proposal, *supra* note 1, Recital 31 (stating that the regulation’s primary objective is to facilitate negotiations and out-of-court dispute resolution).

⁵⁰ European Commission, *supra* note 4, 3.

⁵¹ SEP Proposal, Explanatory Memorandum, *supra* note 1, 4-5; European Commission, *supra* note 4, 3.

⁵² Baron, Arqué-Castells, Leonard, Pohlmann, & Sergheraert, *supra* note 8, 58-59 and 96.

⁵³ European Commission, *supra* note 4, 3.

courts, especially in Germany, have been busy filling those gaps.⁵⁴ Diverging approaches have sometimes been adopted, in particular with regard to implementation of the parties' duties. Among these are determining the proper order to follow in scrutinizing the FRAND nature of offers and counteroffers; the timing and basis for counteroffers; and the ways in which implementers are expected to behave to demonstrate their willingness to strike a deal. But over the years that *Huawei* has been implemented, national courts have performed their roles effectively, tackling the risks of both hold-up and hold-out, and untangling various contentious questions about SEPs.⁵⁵

Moreover, empirical evidence does not support the Commission's findings. Indeed, as already noted, inputs provided to the Impact Assessment found that the volume of SEP-litigation cases has been stable in Europe and represent only a very small proportion of patent disputes overall. There is also no evidence that SEP-licensing conditions systematically suppress or delay standards implementation, thus inducing parties to opt out from standards-related innovation.⁵⁶

Other data further contradict the Commission's narrative. Discrepancies among national interpretations do not appear particularly significant, as the bulk of SEP disputes are litigated in just one member state (*i.e.*, Germany).⁵⁷ The same applies to the suspicion that diverging interpretations may reflect the geographical concentration of SEP holders, since around 80% of all SEPs held by EU companies are owned by just two companies (*i.e.*, Nokia and Ericsson), which are established in Finland and Sweden respectively.⁵⁸

IV. Co-Living Dangerously

The SEP proposal's FRAND determinations are supposed to coexist with the *Huawei* bargaining framework. The Commission has been keen to point out that the initiative will "neither interpret the CJEU case law nor adopt methodologies for FRAND determination *per se*,"⁵⁹ and that the conciliation procedure "will complement and not replace the *Huawei v ZTE* process."⁶⁰ Moreover, according to the Commission, as the

⁵⁴ For analysis of the German case law, see Andrea Aguggia & Giuseppe Colangelo, *SEPs Infringement and Competition Law Defence in German Case Law*, QUEEN MARY JOURNAL OF INTELLECTUAL PROPERTY (forthcoming); Giuseppe Colangelo & Valerio Torti, *Filling Huawei's Gaps: The Recent German Case Law on Standard Essential Patents*, 38 EUROPEAN COMPETITION LAW REVIEW 538 (2017).

⁵⁵ See Jacob & Nikolic, *supra* note 6 (referring, *e.g.*, to the guidance provided regarding what the FRAND rate between the parties ought to be, the scope of a FRAND license, the meaning of a FRAND commitment's non-discrimination requirements, and whether FRAND commitments require SEP owners to offer licenses at different levels of the production chain); see also Adam Mossoff, *Feedback to EU Commission's Public Consultation (2023)*, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents/F3434471_en.

⁵⁶ Baron, Arqué-Castells, Leonard, Pohlmann, & Sergheraert, *supra* note 8, 108 and 164.

⁵⁷ *Id.*, 71-73.

⁵⁸ Impact Assessment, *supra* note 7, 8.

⁵⁹ SEP Proposal, Explanatory Memorandum, *supra* note 1, 5.

⁶⁰ Impact Assessment, *supra* note 7, 58.

proposal “will establish mechanisms that promote the necessary transparency, increase certainty and reduce the potential for inconsistent rulings,” this will be “a significant improvement in the courts’ abilities to handle SEP disputes.”⁶¹ These statements are hard to believe, however, as the rationale for the conciliation process is to replace national courts in implementing *Huawei*, and the approach the proposal takes is at odds with *Huawei*.

The Commission seeks to justify the new procedure on grounds that it is needed to address purported uncertainties stemming from diverging national applications of the *Huawei* procedural framework that, the Commission contends, make it unfit to ensure an efficient SEP-licensing and enforcement ecosystem. Therefore, to prevent or at least limit divergent interpretations, the conciliator would act as a more informed and presumably wiser judge. Indeed, the SEP proposal’s implicit assumption is that conciliators would have greater expertise than courts and would succeed where they have failed. As a consequence, the conciliator will examine the parties’ offers and counteroffers, and consider the *Huawei* negotiation steps.⁶² Further, its final report will contain a summary of the process and include that information needed to assess whether the SEP holder engaged in the *Huawei* process with an implementer.⁶³ Moreover, the conciliator’s suggested FRAND royalty could also be used by both SEP holders and implementers to determine the appropriate amount of security the implementer needs to provide under *Huawei*.⁶⁴

But ultimately, the SEP proposal endorses an anti-injunction approach inconsistent with the CJEU’s stance. In *Huawei*, the CJEU attempted to strike a fair balance among the relevant interests. Toward this aim, as the SEP proposal notes, the CJEU recognized SEP holders’ right to seek to enforce its patents in national courts.⁶⁵ The CJEU acknowledged that the exercise of remedies to protect intellectual-property rights may be considered unlawful for the purposes of competition law only in exceptional circumstances, and subordinated any limitation of injunctions to the demonstration of the licensee’s willingness to sign a FRAND deal.

In contrast, under the SEP proposal, injunctive relief would become unavailable by default and patent holders would be restricted from filing an infringement suit prior to initiating a FRAND determination, regardless of implementers’ willingness. Implementers, meanwhile, would remain free to request determinations of invalidity, as well as declarations of noninfringement and non-essentiality. Indeed, the FRAND determination would also be carried out even if the implementer failed to provide appropriate security, as required under *Huawei*.

⁶¹ SEP Proposal, Explanatory Memorandum, *supra* note 1, 5.

⁶² Impact Assessment, *supra* note 7, 32.

⁶³ *Id.*, 42.

⁶⁴ *Id.*

⁶⁵ SEP Proposal, Explanatory Memorandum, *supra* note 1, 3.

As a result, in contrast to the CJEU's approach, the SEP proposal would create an imbalance and an uneven bargaining position between licensors and license seekers. Rather than tackling both hold-up and hold-out opportunistic behavior, the Commission appears concerned only about the former—holding that the ability to negotiate a FRAND rate “without the threat of an injunction is important for any implementer.”⁶⁶ The only measure proposed to balance the obligations on both sides would be the issuance of provisional injunctions of a financial nature against the alleged infringer, which would ostensibly provide SEP holders who have agreed to license their SEPs on FRAND terms with the necessary judicial protection.⁶⁷ This right to an “injunction” would, however, preclude seizing the alleged infringer's property, including the seizure or delivery of products suspected of infringing a SEP. Moreover, in determining whether a provisional injunction of a financial nature is adequate, the proposal suggests considering, among other things, the applicant's economic capacity—in particular for small and medium-sized enterprises (SMEs)—in order to prevent abusive use of such a measure.⁶⁸

While it is highly doubtful that the proposed provisional injunctions would discourage hold-out, the conciliation mechanism does not provide any measure that would offer implementers incentives to reach an agreement and accept the results. In addition to being nonbinding, the SEP proposal establishes that the FRAND determination procedure may take as long as nine months, thus potentially granting implementers the ability to benefit from a delay of patent holders' requests for injunctive relief against infringement.

As reported by the Impact Assessment, SEP holders who responded during the public consultation identified their main problem as being the various reasons used by implementers to delay taking up a license.⁶⁹ In this regard, the conciliation process' nine-month timeframe should be added to the long negotiations that SEP holders already face, as well as the time spent on potential litigation.⁷⁰ While the mandatory conciliation procedure would greater expose SEP holders to opportunistic conduct by implementers, the latter would be able to take advantage of further delays without losing any leverage. Indeed, given that the FRAND determination is nonbinding, implementers that pursue

⁶⁶ Impact Assessment, *supra* note 7, 42; see also Apple, *Feedback to EU Commission's Public Consultation*, (2023) 3, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Proprieta-intellettuale-nuovo-quadro-per-i-brevetti-essenziali/F3434446_it (arguing that, if properly developed and implemented, the conciliation would limit SEP holders' ability to use injunction threats to hold up licensees and coerce above-FRAND royalties).

⁶⁷ SEP Proposal, *supra* note 1, Recital 35 and Article 34(4).

⁶⁸ *Id.*, Recital 35.

⁶⁹ Impact Assessment, *supra* note 7, 12.

⁷⁰ *Id.* (reporting the findings of the study conducted by Baron, Arque-Castells, Leonard, Pohlmann, & Sergheraert, *supra* note 8, 145, according to which negotiations amount, on average, to three years and that litigation may add another 2.5 years).

hold-out tactics might simply wait until SEP owners complete the process and, if dissatisfied with the outcome, challenge the results.⁷¹

A. New Between the Commission and German Courts

Reconciling the different approaches taken by the SEP proposal and the *Huawei* framework will prove particularly interesting in Germany. Since the majority of SEP disputes in the EU are litigated there, the *Huawei* framework has primarily implemented by German courts.⁷² Hence, it is evident that any reference to divergent interpretations at the national level mainly points in the direction of Germany. Indeed, the Commission mentions German case law several times with regard to disagreements and controversies over FRAND terms and conditions.⁷³

Further, and more importantly, the Commission's concern regarding the impact of injunctions on implementers (*i.e.*, the risk that the mere threat of an injunction may place undue pressure on negotiations and force the potential licensee to accept non-FRAND rates) is in striking contrast with the German courts' traditional stance. Indeed, as a result of the public consultation, the Impact Assessment reported the claims of some respondents according to which: "the national court practice increasingly favours SEP holders" and this "particularly applies in Germany after the *Sisvel v. Haier* decisions of Germany's Federal Court of Justice"; "some courts have (mis)interpreted *Huawei v. ZTE* to impose unrealistic requirements on implementers to prove their willingness"; "injunctions for SEPs under FRAND commitment have become more readily available ... in particular [because of] the decision of the Germany's Federal Court of Justice *Sisvel v. Haier*."⁷⁴ More explicitly, it is argued that the German Federal Court "effectively contradicted the CJEU's judgement *Huawei v. ZTE* and brought back the *Orange Book Standard* ... re-shift[ing] the main burden of negotiations on licensees and increase[ing] the availability of injunctions."⁷⁵

This background conflict between the European Commission and German courts, which predates *Huawei*, resurfaces in the Commission's SEP proposal. After all, the *Huawei* test

⁷¹ Igor Nikolic, *Some Practical and Competition Concerns with the Proposed Regulation on Standard Essential Patents*, 41P COUNCIL EU AISBL (2023) 5, <https://www.4ipcouncil.com/research/some-practical-and-competition-concerns-proposed-regulation-standard-essential-patents>.

⁷² Impact Assessment, *supra* note 7, 58.

⁷³ See, e.g., European Commission, *supra* note 4, 3; Impact Assessment, *supra* note 7, 154 and 158; SEP Proposal, Explanatory Memorandum, *supra* note 1, 4. See also Baron, Arque-Castells, Leonard, Pohlmann, & Sergheraert, *supra* note 8, 59 (arguing that, in many member states, there currently are only a limited number of decisions under *Huawei* and that, in light of the controversies and diverging court approaches observed in Germany, it may be difficult for parties to SEP-licensing negotiations to predict how the courts of these EU member states would decide).

⁷⁴ Impact Assessment, *supra* note 7, 154, 155, and 158. The reference is to BGH, 5 May 2020, Case KZR 36/17, *Sisvel v. Haier* (Einwand I) and BGH, 24 November 2020, Case KZR 35/17, *Sisvel v. Haier* (Einwand II).

⁷⁵ Impact Assessment, *supra* note 7, 158.

itself was developed in response to a request for a preliminary ruling advanced by a German court, the District Court (Landgericht) of Dusseldorf.

The CJEU ruling is usually interpreted as being opposed to the framework previously crafted by the German Federal Court of Justice (BGH) in *Orange Book Standard*.⁷⁶ According to the *Orange Book* framework, a defendant seeking to rely on a competition-law defense against an SEP holder's claim for injunction would have to advance an unconditional license offer (i.e., the signing of a FRAND license cannot be made conditional on a court's findings regarding infringement or the validity of the patent in question) and would be required to behave from the point of offer as if the plaintiff had accepted it. Hence, the defendant must have already paid the offered royalties, albeit in escrow.

In contrast to this approach, which allowed the competition-law defense in a very few cases, the Commission took a different stance in *Motorola* and *Samsung*. Those rulings established that infringers could avoid an injunction by stating a (rather unspecific) willingness to license and by accepting the binding determination of a third party.⁷⁷ Faced with these differing evaluation criteria endorsed by the BGH and the European Commission—which appeared one-sided in favor of patent holders and infringers, respectively—the CJEU set its own framework to pursue a novel and more balanced approach.

In the aftermath of *Huawei*, the *Sisvel v. Haier* decisions aligned German case law with the new European framework, setting the general principles according to which implementers are required to show an unequivocal and unconditional willingness to sign a FRAND license and to engage in constructive negotiations to pursue this aim. This does not, however, preclude the infringer from reserving the right to challenge the use of the license.

Because of the difficulties inherent in applying the willingness criteria in concrete example, *Huawei*'s case-by-case detection remains challenging, as proven by the German lower courts' jurisprudence.⁷⁸ But despite the perception that German case law is overly friendly to patent owners, however, the attention devoted to the conduct of implementers is consistent with the principles set out by the CJEU, as *Huawei* revolves around the willingness of license seekers.⁷⁹

⁷⁶ *Supra* note 20.

⁷⁷ *Supra* note 19.

⁷⁸ See Aguggia & Colangelo, *supra* note 54.

⁷⁹ *Id.*

V. The SEP Proposal's Uncertain Added Value

The apparent incongruity between the Commission's SEP proposal and the existing *Huawei* framework raises a more general question about whether the initiative could possibly be effective, which is further underscored by the inference that the proposed FRAND-determination process is essentially a response to the German courts' approach.

Given the differing perspectives embraced by the European Commission and German courts, it is not unreasonable to wonder to what extent the conciliator's advisory opinion will exert any influence on courts, as the conciliation procedure is mandatory but nonbinding. Indeed, courts may simply disregard the FRAND rate proposed by the conciliator. Further, it is unclear whether courts would consider the degree of the licensee's engagement in the conciliation procedure as a factor for the willingness assessment under *Huawei*.

Furthermore, the core of the SEP proposal (including the FRAND determination) would not apply to identified use cases of certain standards, or parts thereof, for which there is "sufficient evidence" that SEP-licensing negotiations on FRAND terms do not give rise to "significant difficulties or inefficiencies."⁸⁰ Therefore, certain standards or implementations can be deemed exempt by means of a delegated act, in particular those for which there are "well established commercial relationships and licensing practices," "such as the standards for wireless communications."⁸¹ The Commission offers no guidance or specifications, however, on the meaning of the terms that would justify such an important exemption.

Moreover, the newly envisaged FRAND-determination procedure closely resembles the already established alternative-dispute-resolution methods, such as the mediation of FRAND disputes offered by such organizations as the World Intellectual Property Organization (WIPO). As there is no indication that a mediation process overseen by the EUIPO would hold greater appeal to the relevant parties, a further question is raised regarding how the new process would provide additional benefits compared to the solutions already in place.

Finally, although the new regulation would apply to SEPs in-force in one or more member states, FRAND determinations will nevertheless also concern global SEP licenses, unless otherwise specified by the parties in case both parties agree to the FRAND determination or by the party that requested the continuation of the FRAND determination.⁸² The EU has been concerned recently by the forum-shopping strategies some companies have undertaken, which have led to increasing requests of antisuit injunctions (ASIs)—that is, orders restraining a party from pursuing foreign proceedings

⁸⁰ SEP Proposal, *supra* note 1, Article 1(4).

⁸¹ *Id.*, Recital 4.

⁸² *Id.*, Article 38(6).

or enforcing a judgment obtained in foreign proceedings.⁸³ This surge of ASIs and the risks related to their opportunistic use in the SEP landscape is linked to the role that certain national courts (particularly in the United States, United Kingdom, and China) have come to play in establishing themselves as *de facto* global licensing tribunals. In such a scenario, ASIs may represent a new and dangerous unfair practice adopted, in particular, by Chinese companies, with the support of Chinese courts and authorities. The presumed goal is to promote domestic economic interests and undervalue foreign patents by setting significantly lower FRAND rates. For these reasons, the EU has filed a case against China at the World Trade Organization (WTO) for preventing EU companies from going to foreign courts to protect their SEPs.⁸⁴

If it is true, however, that national courts' willingness to establish themselves as global licensing tribunals has spurred a race to the courthouse, thereby offering incentives for forum shopping and the adoption of countermeasures such as ASIs, the extraterritorial effects of the SEP proposal may contribute to such a race to the bottom among jurisdictions. Indeed, from a geopolitical perspective, the provision simply appears to be a retaliation against "certain emerging economies" that are taking a "much more aggressive approach in promoting home-grown standards and providing their industries with a competitive edge in terms of market access and technology roll-out."⁸⁵

All these elements call into question the added value provided by the European initiative and its effective capacity to pursue the identified objectives—namely, to achieve more transparency, predictability, and efficiency in SEPs licensing. Because of these illustrated uncertainties, the SEP proposal appears likely to add confusion and to induce licensing disputes, rather than supporting balanced and successful SEP-licensing negotiations.

VI. Conclusion

The *Huawei* bargaining framework represents the EU's distinctive approach in SEP-licensing negotiations. It revolves around the principles that the relevant parties are best-positioned to determine the terms most appropriate to their specific situation, and that the exercise of remedies to protect intellectual-property rights may be considered abusive only in exceptional circumstances. Against this background, the willing-licensee test aims to ensure a balance among the differing interests of licensors and license seekers.

Despite some points of criticism and unresolved issues, the economic literature supports the European way. By promoting cooperative solutions and thus moving the parties away from the courtroom and toward the negotiating table, the *Huawei* framework is more likely to result in economically efficient royalty rates than alternative approaches.

⁸³ For a comparative analysis, see Giuseppe Colangelo & Valerio Torti, *Anti-suit Injunctions and Geopolitics in Transnational SEPs Litigation*, 14 EUROPEAN JOURNAL OF LEGAL STUDIES 45 (2022).

⁸⁴ European Commission, *EU Challenges China at the WTO to Defend its High-Tech Sector*, (2022) https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1103.

⁸⁵ SEP Proposal, Explanatory Memorandum, *supra* note 1, 2.

The European Commission apparently does not share this view. By imposing a mandatory conciliation procedure that would impede SEP holders from seeking injunctive reliefs and would allow implementers to further delay the attainment of a license, the SEP proposal seeks to discard *Huawei*. The intervention seems essentially motivated by dissatisfaction with the German courts' interpretation and implementation of *Huawei*, namely with their supposed patent-owner-friendly and pro-injunction approach.

The proposed FRAND-determination procedure, however, represents a solution to a problem that does not exist. The empirical evidence informing the Commission's initiative shows that there isn't an SEP-litigation problem in Europe. Moreover, the proposal would just add confusion and uncertainties to the current landscape, both because of its troublesome relationship with *Huawei* and because some provisions—such as those granting extraterritorial effects to FRAND determinations—would favor litigation and a race to the courthouse.

If the expected added value of the SEP proposal is questionable, at best, it appears far from the Commission's purported goal of providing “a uniform, open and predictable information and outcome on SEPs for the benefit of SEP holders, implementers and end users, at Union level.”⁸⁶

⁸⁶ *Id.*, 10.