

EU STANDARDIZATION

IPR Policies and RAND licensing

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DoJ/FTC hearings on Competition and IP
Comparative law topics -- Other jurisdictions

European SSO -- IPR Policies and RAND licensing

- How can SSOs deal with submarine patents?
 - Licensing as membership condition: ETSI IPR Policy case
 - Is W3C IPR Policy going the way of ETSI?
- Non-disclosure/late and incomplete disclosure of IPRs
 - recent examples involving difficulties
- RAND disputes
 - how to avoid them and how to solve them

1. How to deal with submarine patents? The 1993 ETSI IPR Policy case

- ETSI is formal EU telecom standards institute
- Imposed requirement to license all essential IPRs
 - unless withheld within 180 days from start of standards work (“license by default”)
- This became requirement for membership
- Requirement applied even if IPRs unknown or unpublished and even if standard not yet known

1.2 How to deal with submarine patents? The 1993 ETSI IPR Policy case

- complaint from IT companies (81 and 82 EC)
 - Exclusion from ETSI membership impacts competitive position
 - lost the right to influence standards (right to propose/block technologies)
 - no chance to gain experience and timely market entry
 - Commission: mandatory license by default reduces incentive to compete through innovation
 - Defection of potentially key IT firms could affect quality of standards and therefore of standard-compliant products

1.3 How to deal with submarine patents? The 1993 ETSI IPR Policy case

- Settlement reached in 1995:
 - Call for essential IPRs before standard is agreed, and
 - Each member must inform ETSI timely of any essential IPR (its own or third party's) of which it is aware
 - ETSI Director then requests FRAND license
 - if license refused
 - request for explanation
 - possible reference to EC Commission for compulsory license
 - standard to be withdrawn if IPR unavailable

1.4 How to deal with submarine patents? Is W3C going the way of ETSI?

- April 2002 IPR Policy draft: goal of royalty-free standard
 - requirement to license all essential IPRs for free, unless withheld within 60 days from requirements document
 - condition for participation in Working Group
- Same competitive concerns as 1993 ETSI IPR Policy?
 - Exclusion from membership impacts competitive position?
 - mandatory license by default reduces incentive to innovate?
 - defection of IT firms could affect quality of standards?
 - Open source should compete, not expropriate

1.5 How to deal with submarine patents? W3C alternative?

- Could W3C agree on boycott of IPR-based technology?
 - technology selection should be done on the basis of objective, relevant, verifiable criteria
 - cost/quality evaluation: cost of IPRs includes not only RAND royalties, but also impact on availability of open source development
- Possible solution
 - limit license by default to firms who *actively* contribute their technology
 - arrange patent searches, and design around unavailable IPRs
 - do not exclude members who do not wish to contribute IPRs for free
 - referral for compulsory license in exceptional circumstances

2.1 *Non-disclosure/late disclosure (Dell, Rambus)* *Problems under EU law*

- Non-disclosure/late disclosure could be in good faith
- pending EU case: at the time of concealment, firm was not (yet) dominant: no antitrust remedy?
 - No collusion to conceal, so no liability under 81 EC
 - If standard *de jure/de facto* binding or successful: IPR owner will become dominant in upstream technology market
 - IP enforcement after concealment could be abuse, especially if proof that standard would have been changed/withdrawn
 - remedy: standard become prohibited under 81? Or compulsory free license/reduced FRAND royalty level?

2.2 Incomplete disclosure (“ghost patents”) Problems under EU law

- If patents not identified:
 - Incomplete disclosure can be legitimate (applications)
 - hinders check of validity, essentiality, and design-around
 - could influence quality or direction of standard or sink standard
- EU law: remedy available only if competitive impact and
 - collusion or
 - firm is dominant at time of concealment/enforcement
- no problem if promise to license at FRAND terms?
 - Implementers can sit tight and force IP owner to sue for damages

3. *RAND disputes* *Eliminating injunctive relief?*

- competition “for” market now “in” market, with innovation barriers: requires a degree of price regulation/control?
- Best way to resolve disputes/set prices: allow SSOs to foster inter-technology price/quality competition *ex ante*
- *Ex post*, IP owner/pool should not be able to sue for injunction against user who is prepared to license-in at FRAND
 - injunction distorts competition downstream; inconsistent with declaration (estoppel) or conditions under 81(3)
 - IP owner to limit itself to damage claim at FRAND terms
 - encourages negotiated settlement
- If not settled: court to fix fee (cost based, ECPR, WACC?)

4. *Compulsory license for standards?*

- Only in exceptional circumstances where exercise is instrument for abuse
 - IP concealed to torpedo patent or to obtain dominance
 - refusal to license or excessive price/terms
 - New functionality for which clear demand, not met by other suppliers (*Magill*) and if standard objective outweighs disincentive for innovation
- Not: in *IMS* circumstances (pure clone, no added value, not real standard)

Conclusion

- IPR Policies: avoid compulsory license
 - limit license by default to firms who *actively* contribute technology
 - arrange patent searches, and design around unavailable IPRs
 - do not exclude members who do not contribute IPRs for free
- Non-disclosure/Late disclosure
 - IP enforcement after concealment could be abuse, especially if proof that standard would have been changed/withdrawn, or if royalties excessive
- FRAND disputes/validity/essentiality challenges:
 - eliminate injunctive relief?