

THE ETSI INTERIM IPR POLICY

ANNEX IV

THE ETSI INTERIM IPR POLICY

Annex 4.1

THE ETSI INTERIM IPR POLICY

Annex 4.2

THE ETSI INTERIM IPR POLICY

1. INTRODUCTION

The General Assembly of ETSI has established the following interim Intellectual Property Rights POLICY.

2. DEFINITIONS

Terms in the POLICY which are written in capital letters shall have the meaning set forth in the ANNEX entitled DEFINITIONS.

3. POLICY OBJECTIVES

3.1 STANDARDS shall be based on solutions which best meet the technical objectives of the European telecommunications sector, as defined by the Technical Assembly. In order to further this objective the ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and others applying ETSI STANDARDS, that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD being unavailable. In achieving this objective the ETSI IPR POLICY seeks a balance between the needs of standardisation for public use in the field of telecommunications and the rights of the owners of IPRs.

3.2 IPR holders whether MEMBERS of ETSI, or third parties, should be adequately and fairly rewarded for the use of their IPRs in the implementation of STANDARDS.

3.3 ETSI shall take reasonable measures to ensure, as far as possible, that its activities which relate to the preparation, adoption and application of STANDARDS, enable STANDARDS to be available to potential users in accordance with the general principles of standardisation.

4. DISCLOSURE OF IPRs

4.1 Each MEMBER shall use its reasonable endeavours to timely inform ETSI of ESSENTIAL IPRs it becomes aware of. In particular, a MEMBER submitting a technical proposal for a STANDARD shall, on a bona fide basis, draw the attention of ETSI to any of that MEMBER's IPR which might be ESSENTIAL if that proposal is adopted.

4.2 The obligations pursuant to Clause 4.1 above do however not imply any obligation on MEMBERS to conduct IPR searches.

5. PROCEDURES FOR COMMITTEES

ETSI shall establish guidelines for the chairmen of COMMITTEES with respect to

THE ETSI INTERIM IPR POLICY

ESSENTIAL IPRs.

6. AVAILABILITY OF LICENCES

6.1 When an ESSENTIAL IPR relating to a particular STANDARD is brought to the attention of ETSI, the Director of ETSI shall immediately request the IPR owner to give within three months an undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR to at least the following extent:

- MANUFACTURE, including the right to make or have made anywhere customized components and sub-systems to the licensee's own design for use in MANUFACTURE;
- sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
- repair, use, or operate EQUIPMENT; and
- use METHODS.

The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate.

6.2 At the request of the European Commission and/or the EFTA Secretariat, initially for a specific STANDARD or a class of STANDARDS, ETSI shall arrange to have carried out in a competent and timely manner an investigation including an IPR search, with the objective of ascertaining whether IPRs exist or are likely to exist which may be or may become ESSENTIAL to a proposed STANDARD and the possible terms and conditions of licences for such IPRs. This shall be subject to the European Commission and/or the EFTA Secretariat meeting all reasonable expenses of such an investigation, in accordance with detailed arrangements to be worked out with the European Commission and/or the EFTA Secretariat prior to the investigation being undertaken.

7. INFORMATION ON IPR BY ETSI

- 7.1 Any published STANDARD shall include information pertaining to ESSENTIAL IPRs which are brought to the attention of ETSI prior to such publication.
- 7.2 ETSI shall establish appropriate procedures to allow access to information at any time with respect to ESSENTIAL IPRs which have been brought to the attention of ETSI.

THE ETSI INTERIM IPR POLICY

8. NON-AVAILABILITY OF LICENCES

8.1 MEMBER's refusal to license

8.1.1 Where a MEMBER notifies ETSI that it is not prepared to license an IPR in respect of a STANDARD, the Technical Assembly shall review the requirement for that STANDARD and satisfy itself that a viable alternative technology is available for the STANDARD which:

- is not blocked by that IPR; and
- satisfies ETSI's requirements.

8.1.2 Where, in the opinion of the Technical Assembly, no such viable alternative technology exists, work on the STANDARD shall cease, and the Director of ETSI shall request that MEMBER to reconsider its position. If the MEMBER decides not to withdraw its refusal to license the IPR, it shall inform the Director of ETSI of its decision and provide a written explanation of its reasons for refusing to license that IPR, within three months of its receipt of the Director's request.

The Director shall then send the MEMBER's explanation together with relevant extracts from the minutes of the Technical Assembly to the ETSI Counsellors for their consideration.

8.2 Non-availability of licences from third parties

Where, in respect of a STANDARD, ETSI becomes aware that licences are not available from a third party in accordance with Clause 6.1 above, that STANDARD shall be referred to the Director of ETSI for further consideration in accordance with the following procedure:

- i) The Director shall request full supporting details from any MEMBER who has complained that licences are not available in accordance with Clause 6.1 above.
- ii) The Director shall write to the IPR owner concerned for an explanation and request that licences be granted according to Clause 6.1 above.
- iii) Where the IPR owner refuses the Director's request or does not answer the letter within three months, the Director shall inform the Technical Assembly. A vote shall be taken in the Technical Assembly on an individual weighted basis to immediately refer the STANDARD to the relevant COMMITTEE to modify it so that the IPR is no longer ESSENTIAL.
- iv) Where the vote in the Technical Assembly does not succeed, then the

THE ETSI INTERIM IPR POLICY

matter shall be referred to the General Assembly. The General Assembly shall, where appropriate, consult the ETSI Counsellors with a view to finding a solution to the problem. In parallel, the General Assembly may request appropriate MEMBERS to use their good offices to find a solution to the problem.

- v) Where (iv) does not lead to a solution, the General Assembly shall request that the European Commission to see what further action may be appropriate, including non-recognition of the STANDARD in question.

In carrying out the foregoing procedure due account shall be taken of the interest of the enterprises that have invested in the implementation of the STANDARD in question.

9. ETSI OWNERSHIP OF IPRs

- 9.1 The ownership of the copyright in STANDARDS documentation and reports created by ETSI or any of its COMMITTEES shall vest in ETSI but due acknowledgement shall be given to copyrights owned by third parties that are identifiable in ETSI copyrighted works.
- 9.2 In respect of IPRs other than copyright in STANDARDS documentation and reports, ETSI shall only seek ownership of IPRs generated either by its employees or by secondees to ETSI from organizations who are not MEMBERS.
- 9.3 ETSI shall, on request by a non-member, grant licences to that non-member on fair and reasonable terms and conditions in respect of any IPRs, other than those referred to in Clause 9.1 above, owned by ETSI. MEMBERS shall be allowed to use IPRs owned by ETSI free of charge.

10. CONFIDENTIALITY

The proceedings of a COMMITTEE shall be regarded as non-confidential except as expressly provided below and all information submitted to a COMMITTEE shall be treated as if non-confidential and shall be available for public inspection unless:

- the information is in written or other tangible form; and
- the information is identified in writing, when submitted, as confidential; and
- the information is first submitted to, and accepted by, the Chairman of the TC or STC as confidential.

THE ETSI INTERIM IPR POLICY

CONFIDENTIAL INFORMATION incorporated in a STANDARD shall be regarded as non-confidential by ETSI and its MEMBERS, from the date on which the STANDARD is published.

11. REPRODUCTION OF STANDARDS DOCUMENTATION

MEMBERS may make copies of STANDARDS documentation produced by ETSI for their own use free of charge but may not distribute such copies to others.

12. LAW AND REGULATION

The POLICY shall be governed by the laws of France. However, no MEMBER shall be obliged by the POLICY to commit a breach of the laws or regulations of its country or to act against supranational laws or regulations applicable to its country insofar as derogation by agreement between parties is not permitted by such laws.

Any right granted to, and any obligation imposed on, a MEMBER which derives from French law and which are not already contained in the national or supranational law applicable to that MEMBER is to be understood as being of solely a contractual nature.

13. POLICY DECISIONS

Without prejudice to ETSI's Statutes and Rules of Procedure, no decisions shall be taken by ETSI in relation to implementation of the POLICY unless supported by a 71% majority of the weighted individual votes cast by MEMBERS.

14. VIOLATION OF POLICY

Any violation of the POLICY by a MEMBER shall be deemed to be a breach, by that MEMBER, of its obligations to ETSI. The ETSI General Assembly shall have the authority to decide the action to be taken, if any, against the MEMBER in breach, in accordance with the ETSI Statutes.

15. DURATION AND DEVELOPMENT OF POLICY

ETSI and its MEMBERS shall use their best efforts to agree a definitive intellectual property rights policy. The efforts to formulate the definitive intellectual property rights policy shall include an evaluation of the application of the interim POLICY by the General Assembly to be completed not later than four years from the date of adoption of the interim POLICY and, if necessary, a modification of the present POLICY.

THE ETSI INTERIM IPR POLICY

The present POLICY shall:

- come into effect on 23rd November 1994 for a minimum duration of two years;
- remain in effect after said minimum duration unless terminated by the General Assembly by a 71% majority of a weighted individual member vote confirmed by a 71% majority of the weighted national vote;
- not be amended unless the amendment is supported by a 71% majority of the weighted individual member vote.

THE ETSI INTERIM IPR POLICY

ANNEX

DEFINITIONS

1. **"AFFILIATE"** of a first legal entity means any other legal entity:
 - directly or indirectly owning or controlling the first legal entity, or
 - under the same direct or indirect ownership or control as the first legal entity, or
 - directly or indirectly owned or controlled by the first legal entity, for so long as such ownership or control lasts.

Ownership or control shall exist through the direct or indirect:

- ownership of more than 50% of the nominal value of the issued equity share capital or of more than 50% of the shares entitling the holders to vote for the election of directors or persons performing similar functions, or
- right by any other means to elect or appoint directors, or persons who collectively can exercise such control.

A state, a division of a state or other public entity operating under public law, or any legal entity, linked to the first legal entity solely through a state or any division of a state or other public entity operating under public law, shall be deemed to fall outside the definition of an AFFILIATE.

2. **"COMMITTEE"** shall mean any working party or committee of ETSI and shall include Technical Committees, Sub-Technical Committees, Project Teams and rapporteur groups.
3. **"CONFIDENTIAL INFORMATION"** shall mean all information deemed to be confidential pursuant to Clause 10 of the POLICY disclosed directly or indirectly to MEMBER.
4. **"EQUIPMENT"** shall mean any system, or device fully conforming to a STANDARD.
5. **"METHODS"** shall mean any method or operation fully conforming to a STANDARD.
6. **"ESSENTIAL"** as applied to IPR means that it is not possible on technical but not commercial grounds, taking into account normal technical practice

THE ETSI INTERIM IPR POLICY

and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL.

7. **"IPR"** shall mean any intellectual property right conferred by statute law including applications therefor other than trademarks. For the avoidance of doubt rights relating to get-up, confidential information, trade secrets or the like are excluded from the definition of IPR.
8. **"MANUFACTURE"**, shall mean production of EQUIPMENT.
9. **"MEMBER"** shall mean a member or associate member of ETSI. Reference to a MEMBER shall wherever the context permits be interpreted as references to that MEMBER and its AFFILIATES.
10. **"POLICY"** shall mean ETSI's Intellectual Property Policy.
11. **"STANDARD"** shall mean any standard adopted by ETSI including options therein or amended versions and shall include European Telecommunications Standards (ETs), interim ETs (I-ETs) and parts of Normes Européennes des Télécommunications (NETs), Common Technical Regulation (CTRs) which are taken from ETS, I-ETS or Technical Basis for Regulation (TBR), and including drafts of any of the foregoing, the technical specifications of which are available to all MEMBERS, but not including any standards, or parts thereof, not made by ETSI.

The date on which a STANDARD is considered to be adopted by ETSI for the purposes of this POLICY shall be the date on which the technical specification of that STANDARD was available to all MEMBERS.

CHAIRMEN'S IPR SURVIVAL GUIDE

ANNEX V

CHAIRMEN'S IPR SURVIVAL GUIDE

(October 1995)

Annex 5.1

CHAIRMEN'S IPR SURVIVAL GUIDE

Annex 5.2

CHAIRMEN'S IPR SURVIVAL GUIDE

0. Introduction

0.1 Background to the ETSI Interim IPR Policy

The ETSI Interim IPR Policy (known as ETSIPOL6) was adopted at its 21st General Assembly on 23 November 1994. It was decided that this Interim Policy should be included in the ETSI Rules of Procedure. This means that the rights and obligations specified by the Interim IPR Policy have the same weight as all the others in the Rules of Procedure and are binding on all ETSI members.

The current version of the ETSI Interim IPR Policy (referred to in this survival guide as "the Policy") is far less stringent and detailed than the version and its associated Undertaking which was adopted in 1993 but never implemented. The current version of the Policy has no associated undertaking and its obligations can be considered as not at all onerous. It also reflects those issues upon which the ETSI membership could agree. Just as other national and international standardization organisations have their own approach to IPR, so the ETSI Policy is designed to suit the ETSI situation. You can find a copy of the Policy at Appendix E.

In the preparation of standards, IPR issues may arise. It is important for all involved in the ETSI standards-making process to be aware of their responsibilities, and that there is good co-operation between all parties. *As a Chairman, it is particularly important that you avoid any detailed discussion in your committee concerning IPRs. Your principle task in this respect is to take note of any IPRs that come to light and to ensure that the ETSI Secretariat is made aware.*

0.2 What is the Purpose of an IPR Policy?

The Policy is intended to ensure that IPRs are identified in sufficient time to avoid wasting effort on the elaboration of a Standard which will be blocked by an IPR.

If an IPR is discovered which will necessarily be infringed by use of a particular Standard, (i.e. the IPR is Essential), and the owner of that IPR refuses to grant licences, which is his right, then the following possibilities exist, either:

- ETSI must negotiate with the IPR owner in order to persuade him to grant licences; or
- if the IPR owner continues to refuse the grant of licences, modify the Standard, or even, as a last resort, withdraw the Standard.

0.3 Monitoring the Functioning of the IPR Policy

The National Administrations and the European Commission have a legitimate need to monitor the situation regarding the practical operation of the Policy. To this end, a number of National Administrations presented a document at GA 21 (**Temp. Doc. 23**) in which those Administrations stated that *"they recognize the particular*

CHAIRMEN'S IPR SURVIVAL GUIDE

responsibilities they have (together with others, in particular ETSI itself and the European Commission) to ensure that an appropriate level of monitoring activity is established to achieve a full appreciation of the effects of the interim IPR Policy".

They also stated that "the success of the interim policy depends upon the willingness of all members to act in a reasonable way in finding solutions to problems relating to essential IPR both inside ETSI and outside in the various groupings that support the application of ETSI standards".

At the same meeting (GA21) the European Commission tabled a document (**Temp. Doc. 5**) in which they stated that *"the Commission, in cooperation with the Member States, will take careful note of whether or not the Policy is being implemented by the ETSI membership in a way which is consistent with the principles set out in the Communication (EC's Communication on IPR and Standardization, COM(92)45 final of 27 October 1992). This implies, in particular, that ETSI standards are publicly available documents. Where such standards contain IPRs, access must be available to all interested parties, and conditions for such access must be fair, reasonable and non-discriminatory".*

The European Commission continued in the same document: *"the Commission would be obliged to raise the issue of IPRs at any stage in the future if it found that the Policy was not being implemented in a way consistent with the principles of the Communication".*

As a consequence of these statements, the Chairman of the ETSI General Assembly, Dr Antonio Castillo, tabled document ETSI/GA22(95)5 in which he *"undertook to arrange for the preparation of a proposal for a flexible and responsive mechanism to be available to ensure that ETSI working bodies receive appropriate advice, if the need arises, regarding the potential impact of IPRs on the successful implementation of a particular standard".*

He proposed the statement shown in the box below which is usually referred to as "the mechanism":

IPR GUIDANCE FOR STANDARDS IMPLEMENTATION

In meeting his obligations under the ETSI IPR Policy (notably Article 6.1), the Director shall evaluate any undertaking offered by an IPR owner in respect of a Standard. The evaluation shall be conducted with a view to ascertaining that conditions for the successful implementation of the Standard are met. The evaluation shall also be conducted in the light of the EC Communication on Intellectual Property Rights and Standardization (COM(92)445 of 27 October 1992). To assist in this evaluation, the Director may, at his discretion, seek advice. The Director shall inform the technical working body responsible for the Standard of the results of the evaluation.

CHAIRMEN'S IPR SURVIVAL GUIDE

This document with its mechanism was adopted by the ETSI 22nd General Assembly on 31 March 1995. Take particular note of the words "if the need arises" in the explanatory part of the Chairman's document. This means that it is not the intention that all IPR conditions offered by IPR owners should be checked by the ETSI Secretariat. The ETSI Secretariat will only advise, on request, whether a particular form of licence appears to be compliant with the Policy. Apart from this, individual licensing negotiations are a matter between the licensor and licensee.

Chairmen's IPR survival guide

1 What is the purpose of this survival guide ?

The survival guide is intended to help Chairmen and others involved in ETSI's technical bodies understand the Institute's IPR Policy and how it operates. It does not specify rights and obligations; these are to be found in the Policy itself which is Annex 6 of the ETSI Rules of Procedure. This guide merely gives you advice on how best to fulfil the obligations and respect the rights specified in the Policy. A number of obligations imposed on the ETSI Secretariat are personalized as obligations on the Director. Thus, an important goal of this guide is to explain how the Director intends to fulfil his obligations relating to IPR. The most important of these is to ensure that the ETSI Secretariat provides you with the advice and service you need.

At the same time, the Institute relies on you playing your part in ensuring the successful operation of the Policy. In particular, the importance of the Policy to the conduct of all Committees cannot be over-emphasized and you should read and familiarize yourself with that document. However, please do not hesitate to contact the ETSI Secretariat if you have questions regarding any practical aspect of the Policy which are not answered by this guide.

1.1 A note about terminology

The Policy gives special definitions to a number of terms and the terminology used in this guide corresponds to that used in the Policy. The formal definition of those terms can be found annexed to the Policy which appears at **Appendix E**.

2. Identification of Essential IPRs

2.1 The importance of scope statements

It is vital that the scope statements for all work items in the ETSI work programme be properly defined. This will ensure that if a search for a patent is required, the task can be carried out in the most effective manner.

CHAIRMEN'S IPR SURVIVAL GUIDE

2.1.1 What should a scope statement contain ?

In order that the scope statement of an ETSI work item can be used for IPR purposes, it should contain the following:

- a broad statement concerning the technical field of the work;
- a description of broad system concepts;
- the identity of any Standard on which the work item is likely to be based;
- a list of features which the Standard will define, or on which the Standard will place limitations;
- a technical description of each feature listed, in broad terms; and
- a list of any criteria which the Standard must satisfy.

2.2 Call for IPRs

2.2.1 How do I ensure that members notify ETSI of their IPRs ?

Members are required to make reasonable endeavours to inform ETSI, in a timely manner, of Essential IPRs of which they become aware. You, as a TC Chairman, are urged to remind your committee members of this obligation. You should stress that they have an obligation to inform ETSI not only about their own IPRs, but also about other IPRs which they think could be Essential to the Standard under preparation. Members are naturally expected to know more about their own IPRs than those belonging to others. However, members' knowledge of IPRs owned by third parties can be of extreme value.

You should issue a reminder at every major meeting of your committee and in particular at the following points in the standardization process:

- on completion of the first stable draft of the Standard;
- on STC approval of a draft Standard; and
- on TC approval of a draft Standard.

You should be particularly careful to record in the report of your meeting that a reminder was issued and include details of any responses that were made. If there were no responses then this fact should also be recorded.

If a member of your committee informs you, as Chairman, that his company or someone else has a potentially Essential IPR, you should give him a copy of the IPR Information Statement (see **Appendix A**) to take away and return to the ETSI

Annex 5.6

CHAIRMEN'S IPR SURVIVAL GUIDE

Secretariat when completed. The Secretariat will then arrange for a Licensing Declaration to be obtained. If a member of your committee offers to obtain a Licensing Declaration from his organization you should remind him that it may take the form of a letter or, if the IPR owner prefers, the format given in **Appendix B**.

Please note that:

- the owner of an Essential IPR does not have to disclose anything other than its existence and identity, e.g. in the case of a patent, its number or that of the application;
- the holder of an Essential patent should never be asked to disclose the commercial terms under which licences for the Essential patent may be made available (see below for guidance on licensing); and
- Members have no obligation to conduct IPR searches. This applies whether or not they are participating in the work of the committee and whether or not they are the contributor of a technical proposal (see Clause 4.2 of the Policy).

The ETSI Secretariat will ensure that an appropriate reminder of the duty to disclose the identity of Essential IPRs is included in all published ETSI Standards in the form of a standard text. Specifically, this will be done for Standards being issued for public enquiry. Subsequently, the ETSI Secretariat will provide an IPR report listing all patents and other IPRs brought to their attention concerning that Standard.

2.2.2 What situations can I expect to arise ?

In many cases you will encounter no IPR issues at all. So don't let this delicate subject worry you! However, where they do arise, they will most likely relate to ownership of patents, and one of the following situations may apply:

- (a) the patent owner proposes a technology solution on which a Standard is to be based;
- (b) the patent owner participated in the work of the Committee concerned, and thereby contributed to the selection of the technical solution on which the Standard is based; or
- (c) the patent owner took no direct part in the decisions affecting selection of the technical solution covered by his patent, although he is a member of ETSI.

In the case of (a) above, there is a high probability that the proposed technical solution will be subject to Essential patents, or other IPRs. However, please take care, as it cannot be assumed that Essential IPRs do not exist in cases (b) and (c).

CHAIRMEN'S IPR SURVIVAL GUIDE

2.2.3 What action should I taken when a technical solution is submitted?

There is no clear borderline between mere technical discussion and a situation where a concrete technical solution is being considered. However, provided you have issued reminders as described in 2.2.1 the distinction should become clear. If you believe that your committee is presented with a technical solution then you should:

- remind the proponent of the solution about the provisions of Clause 4.1 of the Policy. In particular, remind them of the obligation to draw ETSI's attention to any of their IPRs which might be Essential to a Standard, if their proposed technology is adopted; and.
- seek a statement from the proponent concerning the existence of IPRs (especially patents), which are, or are likely to become, Essential to any Standard based on the proposed technical solution.

This IPR Information Statement must be formally made by, or on behalf of, an organisation or company and should be submitted as soon as possible following the submission of the technical solution. The statement will usually be made by letter: it may take the form of **Appendix A**. Once the IPR Information Statement has been received, the ETSI Secretariat will request a licensing declaration which can be in the form of a letter or, if the proponent prefers, the format set out in **Appendix B**. All that is actually required is an agreement that a licence will be granted on fair, reasonable and non-discriminatory terms and conditions. However, irrespective of the format, the licensing declaration must be in full accordance with Clause 6.1 of the Policy. All licensing declarations should be sent to the ETSI Secretariat. (For further details see Clause 6.1 of the ETSI Interim IPR Policy).

If there are several competing proposals, this procedure should be applied for each of them.

In many cases the IPR holder will give his IPR Declaration at an early stage and you, as Chairman, should encourage him to do so, in order to avoid undue delay to the work of your committee. However, his organization may need time to study the IPR situation - this may especially be the case for large organizations.

2.2.4 What do I do if no IPR statement can be obtained ?

If it becomes apparent to you that an IPR statement is unlikely to be provided, you should inform the ETSI Secretariat. They will then pursue the matter. Ultimately, it may be necessary for the Secretariat to invoke Clause 8.1 of the Policy, which could require all work on the Standard to stop. In any case, the Member owning the IPR is allowed three months consideration time after the Technical Assembly has examined the matter and the Director has invited the Member to reconsider his refusal to grant a licence. You should use your judgement (in consultation with the Secretariat) as to whether or not your committee should suspend work on the Standard until the matter has been resolved.

Annex 5.8

CHAIRMEN'S IPR SURVIVAL GUIDE

2.3 Origin of technical proposals

2.3.1 Is the origin of a technical proposal important?

Yes! Knowing who has contributed to the development of a Standard may help identify IPRs Essential to that Standard. You should note, however, that technical proposals do not necessarily belong to the organization(s) supporting those proposals.

As a general guide, look out for technical proposals which represent a new and non-obvious solution to a technical problem; they are probably subject to IPR protection.

2.3.2 How should I check the origin of a technical proposal ?

If anyone advances a technical proposal, the contents of which are owned by organizations other than their own, you should ask whether they have the authority to disclose the technical material relating to the proposal. Where that authority is in doubt, the ETSI Secretariat should be consulted.

2.3.3 Under what circumstances should a technical proposal not be included in a Standard?

Technical proposals should not be used in ETSI Standards where this will result in a Standard being blocked by an IPR.

Members are expected to declare Essential, or potentially Essential, IPRs when contributing technical proposals (see Clause 4.1 of the Policy for precise details). If, in spite of making the proposal, the proposer is not prepared to grant licences as described in Policy Clause 6.1 then the ETSI Secretariat has to invoke the procedure indicated in Policy Clause 8.1. To avoid these complications and the possible cancellation of work on a standard for which - presumably - our Members have expressed a need and already expended effort, it is essential that you remain alert!

It is reasonable for you to assume that Members will respect their responsibilities under the Policy and will declare their IPRs. However, whether or not they are declared, you should contact the Secretariat if you have the slightest suspicion that Essential IPRs may apply to any technical proposal. Remember that IPRs may exist which belong to an organization or individual *other than the proposer!* The Secretariat will check these things but needs you to inform them. They will probably also need the assistance of your technical expertise.

2.4 Notification of Essential IPRs

2.4.1 What action must I taken when an IPR is notified as Essential?

Whenever you become aware of the existence of an Essential, or potentially Essential, IPR you must immediately inform the ETSI Secretariat.

CHAIRMEN'S IPR SURVIVAL GUIDE

2.4.2 What information must I send to the Secretariat?

It is the Secretariat's responsibility to ensure that they have the relevant information concerning all Essential, or potentially Essential, IPRs. However, the Secretariat needs your assistance so please provide the following basic information:

- identity of the IPR (in the case of a patent, or patent application, the patent number or application number);
- the Standard/work item to which the IPR is alleged to be Essential, or potentially Essential; and
- the name of the person informing you of the IPR, and the organization they represent.

2.4.3 What do I do if the IPR owner refuses to grant licences ?

Where an IPR is identified as Essential or potentially Essential and the IPR owner refuses to give a licensing declaration (see above under 2.2.3), the ETSI Secretariat will endeavour to resolve the matter. As a last resort, it may have to initiate the procedures set out in Clause 8 of the Policy. You, as Chairman, may be asked to assist in the operation of this procedure. Be aware that this situation may lead to a delay in your committee's work and possibly to work on the draft Standard having to be stopped.

2.5 Searching for Essential Patents

Patent searches are difficult and costly, and they do not fully guarantee the removal of all uncertainty. However, they are a useful procedure in certain situations. Moreover, the Policy (Clause 6.2) requires ETSI (in practice, the Secretariat) to carry out searches if requested by the European Commission or EFTA Secretariat.

The requesting organisation will meet all reasonable expenses of the search.

2.5.1 When should searches be performed?

Since in most cases no IPR issues will be encountered, the need for searches should be a rarity. However, if judged necessary, the Secretariat will arrange for patent searches in respect of particular Standards, in order to check the existence of Essential, or potentially Essential patents. In these circumstances, the Secretariat will always seek the advice of the TC Chairman.

In the case of mandatory Standards (e.g. TBRs) and Harmonized Standards which are especially vulnerable to the effects of Essential IPRs, the ETSI Secretariat will pay special attention to the possible need for searches

In any event, you should contact the ETSI Secretariat if you believe that

CHAIRMEN'S IPR SURVIVAL GUIDE

searches might be appropriate.

2.5.2 What information must I supply for a search?

If it is decided that a patent search should be carried out in respect of a particular work item, you, as the Chairman of the Committee concerned, can assist the ETSI Secretariat by supplying the following information:

- the identity of the work item in question;
- the scope statement for that item;
- a description of any technical proposal which is suspected of being subject to patent protection;
- any other technical descriptions which may be relevant; and
- most important of all, the name, address, facsimile number and telephone number of at least one expert in the field of the work item who is prepared to assist in the formulation of a search strategy and the analysis of search results.

3. Availability of Essential IPRs

3.1 What is an IPR licence declaration?

Where an Essential, or potentially Essential, IPR has been identified, the ETSI Secretariat has a duty to ask the proprietor of that IPR to provide a signed declaration to the effect that licences will be made available under the IPR, in accordance with the provisions of Clause 6.1 of the Policy.

However, the proprietor of the Essential, or potentially Essential, IPR might be represented on the committee where the work is to be done. In such a case, the Chairman of the relevant TC/STC should contact the ETSI Secretariat which will carry out its duty of obtaining the IPR licence declaration.

3.1.1 What form should an IPR declaration take?

The licence declaration can be in the form of a letter or, if the IPR proprietor prefers, the format set out in **Appendix B**.

However, irrespective of the format, the declaration must reflect the provisions of Clause 6.1 of the Policy.

CHAIRMEN'S IPR SURVIVAL GUIDE

3.1.2 Are there specific matters which I should refer to the Secretariat?

You should always notify the Secretariat if you become aware of any Essential, or potentially Essential, IPRs owned by a company not represented on your committee, or owned by a non-ETSI member. The Secretariat will then arrange for the necessary licence declaration to be obtained.

3.2 What if an ETSI Standard makes reference to a non-ETSI Standard?

If an ETSI Standard makes reference to a non-ETSI Standard, or if it is proposed that a non-ETSI Standard be adopted by ETSI, and that non-ETSI Standard is believed to be subject to Essential, or potentially Essential, IPRs, you should immediately inform the ETSI Secretariat.

3.2.1 What information must I provide to the Secretariat?

You should provide the same information to the ETSI Secretariat as given in Section 2.4.2. to the extent that it is known.

3.3 What Options are open to ETSI?

Where an IPR Licence Declaration cannot be obtained, the ETSI Secretariat is obliged to initiate the procedures set out in Clause 8 of the Policy. The Secretariat may ask you to assist. If the matter cannot be resolved you may be asked to suspend work on that work item.

4. Can software be subject to Essential Patents?

Software is normally protected by copyright which is an IPR and as such could be Essential. However, you should never assume that software cannot be subject to Essential patents. Many inventions in the field of telecommunications are software based and have been successfully patented. If you have the slightest doubt, contact the ETSI Secretariat.

5. Confidential Information

It may happen that you or your committee are offered Confidential Information. There are certain precautions which must be observed and you are strongly urged to contact the ETSI Secretariat before proceeding.

5.1 What is Confidential Information?

Clause 10 of the Policy states that information disclosed to ETSI's committees is to be regarded as non-confidential, unless the following criteria are satisfied:

CHAIRMEN'S IPR SURVIVAL GUIDE

- the information is in written or other tangible form; and
- the information is identified in writing as confidential at the time it is submitted; and
- the information is first submitted to the committee Chairman and accepted by him as confidential.

5.2 What if Confidential Information is Inadvertently Disclosed?

Where you becomes aware that Confidential Information has been disclosed in breach of a confidential disclosure agreement to which ETSI is a party, you must immediately inform the ETSI Secretariat.

6. Copyright in ETSI documentation

6.1 Who owns the copyright in ETSI documentation?

The copyright in ETSI documentation, including that produced by committees, is owned by ETSI but due acknowledgement must be given to copyrights owned by third parties that are identifiable in the ETSI documentation.

6.1.1 Do I need to keep records?

You must ensure that all technical proposals adopted by your committee are recorded in the minutes of the meeting concerned, together with any restrictions on the use.

6.1.2 What else do I need to do?

The ETSI Secretariat will then inform you if copyright licences/assignments are required. If so, they must be obtained before publication of the document. The Secretariat will assist you in this matter.

6.1.3 Who is responsible for the acknowledgment of copyright?

The ETSI Secretariat editorial staff will determine, with your assistance, which third party copyrights, if any, have to be acknowledged.

6.2 Is ETSI able to publish freely?

ETSI is required to make available details of ETSI Standards and any related documentation, to all interested parties. In order to avoid copyright infringement problems, ETSI must be in a position to license any copyright which applies to ETSI Standards and related documentation.

CHAIRMEN'S IPR SURVIVAL GUIDE

6.3 What markings should appear on ETSI documents?

Published material should bear a copyright marking and, where appropriate, acknowledgement of third party copyrights - see **Appendix C**.

CHAIRMEN'S IPR SURVIVAL GUIDE

Appendix A - IPR Information Statement

IPR INFORMATION STATEMENT

This statement is made this..... day of.....19... by as a representative of, a member of ETSI.

(a) In accordance with the ETSI Interim IPR Policy, **Article 4.1, first sentence**, I hereby inform ETSI that, in relation to ETSI draft Standard No and with reference to Work Item No it is the belief of the undersigned that the following IPRs are, or are likely to become, Essential IPRs in relation to that Standard.

Identity of IPR

Owner of IPR

(e.g. Patent number,
patent application number)

(b) In accordance with the ETSI Interim IPR Policy, **Article 4.1, second sentence**, and in relation to the technical proposal identified as

.....
submitted by
to TC/STC for draft Standard No..... Work Item No.....
it is the belief of the undersigned that the following IPRs might be Essential IPRs if that proposal is adopted.

Identity of IPR

Owner of IPR

Signed by

Notes:

1. Complete (a) or (b) or both if appropriate.
2. Completion of (b) is required on a bona fide basis when a member submits a technical proposal for a Standard (refer to ETSI Interim IPR Policy, Clause 4.1)
3. Following completion, this form should be forwarded to the ETSI Secretariat.

Annex 5.15

CHAIRMEN'S IPR SURVIVAL GUIDE

Appendix B - IPR Licensing Declaration¹

IPR LICENSING DECLARATION

This declaration (the DECLARATION) is made this day of..... by (the SIGNATORY), of

..... to the EUROPEAN TELECOMMUNICATIONS STANDARDS INSTITUTE of Sophia-Antipolis France (ETSI).

The SIGNATORY has notified ETSI that it is the proprietor of the IPRs listed in Annex I (the IPRs) and has informed ETSI that it believes that the IPRs may be considered ESSENTIAL to the Standards listed in Annex II (the STANDARD).

The SIGNATORY and/or its AFFILIATES hereby declare that they are prepared to grant irrevocable licences under the IPRs on terms and conditions which are in accordance with Clause 6.1 of the ETSI Interim IPR Policy, set out in Annex III and which, in respect of the STANDARD, to the extent that the IPRs remain ESSENTIAL.

The construction, validity and performance of the DECLARATION shall be governed by the laws of France.

Signed for and behalf of the SIGNATORY

By

Position

Signature

¹ A French version of this Declaration is provided in the guide published by ETSI

CHAIRMEN'S IPR SURVIVAL GUIDE

ANNEX I to the DECLARATION

The IPRs

[IPRs, particularly patents and patent applications, should wherever possible be identified by number]

ANNEX II to the DECLARATION

The Standard(s)

[Please list the Standards to which this IPR Statement relates, including ETSI, or work item reference numbers, as appropriate.]

ANNEX III to the DECLARATION

Extracts from the ETSI Interim IPR Policy

and

IPR Guidance for Standards Implementation

Section 6 - ETSI Interim IPR Policy

6.1 When an ESSENTIAL IPR relating to a particular STANDARD is brought to the attention of ETSI, the Director of ETSI shall immediately request the IPR owner to give within three months an undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR to at least the following extent:

- MANUFACTURE, including the right to make or have made anywhere customized components and sub-systems to the licensee's own design for use in MANUFACTURE;
- sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;
- repair, use, or operate EQUIPMENT; and
- use METHODS.

The above undertaking may be made subject to the condition that those who seek licences agree to reciprocate.

CHAIRMEN'S IPR SURVIVAL GUIDE

Section 8.1.2 - ETSI Interim IPR Policy

8.1 MEMBER's refusal to license

8.1.2 Where, in the opinion of the Technical Assembly, no such viable alternative technology exists, work on the STANDARD shall cease, and the Director of ETSI shall request that MEMBER to reconsider its position. If the MEMBER decides not to withdraw its refusal to license the IPR, it shall inform the Director of ETSI of its decision and provide a written explanation of its reasons for refusing to license that IPR, within three months of its receipt of the Director's request.

The Director shall then send the MEMBER's explanation together with relevant extracts from the minutes of the Technical Assembly to the ETSI Counsellors for their consideration.

Definitions - ETSI Interim IPR Policy

"AFFILIATE" of a first legal entity means any other legal entity:

- directly or indirectly owning or controlling the first legal entity, or
 - under the same direct or indirect ownership or control as the first legal entity, or
 - directly or indirectly owned or controlled by the first legal entity, for so long as such ownership or control lasts.
- Ownership or control shall exist through the direct or indirect:
- ownership of more than 50% of the nominal value of the issued equity share capital or of more than 50% of the shares entitling the holders to vote for the election of directors or persons performing similar functions, or
 - right by any other means to elect or appoint directors, or persons who collectively can exercise such control.

A state, a division of a state or other public entity operating under public law, or any legal entity, linked to the first legal entity solely through a state or any division of a state or other public entity operating under public law, shall be deemed to fall outside the definition of an AFFILIATE.

"ESSENTIAL" as applied to IPR means that it is not possible on technical but not commercial grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL.

CHAIRMEN'S IPR SURVIVAL GUIDE

Appendix C - Copyright Markings

The ETSI Secretariat uses the following Copyright Marking on Published ETSI Documents, Public Enquiry Drafts and Vote drafts.

The following marking is used irrespective of the storage medium, i.e. paper versions, label attached to the diskettes, label used to seal the transparent plastic pocket, CD ROM, etc:

© *European telecommunications Standards Institute 1995. All rights reserved.*

No part may be reproduced except as authorised by written permission.

Copyright Marking on Technical Committee Working Drafts

The following marking shall be used for Technical Committee working drafts for use in connection with standardization activity, prior to adoption:

© *European Telecommunications Standards Institute 1995. All rights reserved.*

Reproduction is only permitted for the purpose of standardization work. The copyright and the foregoing restriction on reproduction extend to all

Acknowledgement of Third Party Copyrights

The acknowledgement of copyrights owned by third parties which are identifiable in ETSI documentation should be in the following form:

Some material contained herein is the copyright of, or has been supplied

by...(Insert name of party in question).

This legend should appear on the ETSI documentation and/or media concerned and should immediately follow the copyright legend(s) referred to above.

CHAIRMEN'S IPR SURVIVAL GUIDE

The following marking, together with the copyright marking referred to above, should appear on all Etsi deliverables made available to committees for their use:

!

For internal use within ETSI TCs & STCs

Virus Check Notification

The following marking which deals with civil liability, not copyright, should be used:

THIS DISKETTE HAS BEEN VIRUS CHECKED AT ETSI

(using the MCAFFEE VIRUS SCAN 2.10 software)

You are advised to check the diskette before use

CHAIRMEN'S IPR SURVIVAL GUIDE

Appendix D Essential IPR Notice for Standards

D.1 Notice to be used where an IPR holder has agreed to make the IPR available

When ETSI has reason to believe that implementation of a Standard may be subject to Essential, or potentially Essential, IPRs, which are owned by an ETSI Member who has given a satisfactory declaration of availability, or a non-ETSI member who has given an acceptable undertaking to grant licences, the following IPR notice will be attached to the Standard.

The attention of ETSI has been drawn to the IPRs listed below which are, or may be, or may become, Essential to this Standard. The IPR owner has undertaken to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under these IPRs pursuant to the ETSI Interim IPR Policy. Further details pertaining to these IPRs can be obtained directly from the IPR owner.

The present information is submitted to the best of ETSI's knowledge. Pursuant to the ETSI Interim IPR Policy, no investigation, including IPR searches, has been carried out by ETSI. No guarantee can thus be given as to the existence of other IPRs, which are, or may be, or may become, Essential to this Standard.

IPRs:

.....

IPR owner:

.....

D.2 Notice to be used where there is no knowledge of an Essential, or potentially Essential IPR

When ETSI has no knowledge of any IPRs which may be Essential, or potentially Essential, to the Standard, the following IPR notice will be attached to the Standard.

ETSI is not aware of any IPRs which are Essential to the Standard. No guarantee can however be given as to the existence of any IPRs which are, or may be, or may become, Essential to this Standard.

CHAIRMEN'S IPR SURVIVAL GUIDE

Appendix E The ETSI Interim IPR Policy

(See Annex IV of this Manual for details of the ETSI Interim IPR Policy)

THE MAGILL CASE

ANNEX VI

THE MAGILL CASE
AND
STANDARDIZATION

THE MAGILL CASE

Annex 6.2

THE MAGILL CASE

1. INTRODUCTION

The decision of the European Court of Justice in the Magill Case raises a number of issues which may be of considerable importance in relation to the exercise of IPRs essential to standards. Although the Magill case relates to copyright in TV programme listings and many of the arguments raised by the case are specific to copyright, e.g. those based on primacy of the Berne Convention, it raises the spectre of compulsory licensing stemming from a Commission Decision. Furthermore, a key issue, barely touched on by the decision, is that of disclosure of confidential information. This is also of considerable importance to standardization and the basic conflict between private property rights and the public interest that may arise in the standards arena.

This Annex does not set out to provide a detailed legal analysis of the Magill decision, but rather to examine some of the issues raised by the Magill decision in the context of European telecommunications standardization. In this context it should be noted that the Commission have set out their views on the Standards-IPR debate in "EC Communication on Intellectual Property Rights and Standardization" (COM(92)445 of 27th October 1992) - see Annex VII. The relevance of the Magill case primarily relates to the mechanisms, open to the Commission, to enforce the policy implicit in the EC Communication on Intellectual Property Rights and Standardization.

2. BACKGROUND TO THE MAGILL CASE

Radio Telefis Eireann (RTE), Independent Television Publications Ltd (ITP) and the BBC operated a policy, with regard to dissemination of their programme listings, of making these listings available, under licence, to daily and periodical newspapers. The listings could be published for one, or at most two days. This enabled RTE, ITP and the BBC to reserve the right to produce weekly programme listing magazines to themselves. One consequence of this policy was that no single weekly programme listings magazine contained programmes listings for all TV channels. Consumers were thus forced to buy 2, or 3, separate magazines in order to plan their viewing for a full week. The licences, under which daily reproduction of programme listings were permitted, contained a number of conditions relating to format and presentation, but more importantly, restrictions on the number of days listings which could be reproduced in a single edition of a periodical. The licence conditions were strictly enforced through the medium of the copyright in the listings.

Magill TV Guide Ltd attempted to publish a comprehensive weekly television guide, however, ITP, RTE and the BBC obtained injunctions for infringement of copyright, thereby preventing publication of Magill's TV Guide.

Magill then complained to the Commission (4th April 1986) seeking a declaration that ITP, RTE and the BBC were abusing their dominant position in programme listings by refusing to license reproduction of those listings. On 21st December 1988 the Commission adopted Decision 89/205/EEC in which they found

THE MAGILL CASE

that the conduct of ITP, RTE and the BBC amounted to a breach of Article 86 of the Treaty of Rome. The Commission ordered ITP, RTE and the BBC to end their breach of Article 86 by "supplying .. third parties on request and on a non-discriminatory basis with their advance weekly programme listings and by permitting reproduction of those listings by such parties" any royalties requested were to be reasonable. It should be noted that there are two elements to the relief ordered by the Decision, namely:

- an order to disclose information which was presumably confidential; and
- a compulsory licence under any copyright that might exist in the programme listings.

The arguments advanced in the Magill case revolve almost entirely around the second issue, namely the grant of a compulsory licence under copyright.

ITP and RTE appealed against the Commission's Decision. The Court of First Instance supported the Commission's Decision. The matter was then referred to the European Court of Justice. The Advocate General gave an opinion which suggested that the Commission's Decision should be revoked. However, the European Court of Justice held that the ruling of the Court of First Instance was correct in law.

The following points are of importance when considering the Magill case, in a general context:

- a). ITP, RTE and the BBC were using copyright, which was generated as a result of activities in their primary market, namely broadcasting, to limit competition in a secondary, or derivative market, namely that of TV guide publications. This behaviour had the effect of preventing the emergence of a new product, namely a periodical which contained listings for all programmes.
- b). Availability of the new product was clearly advantageous to consumers who, prior to the advent of the Magill publication, were compelled to purchase three separate publications. The behaviour of ITP, RTE and the BBC clearly operated against the public interest, and was an abuse of monopoly power.
- c). The requirement that programme listings be disclosed could be regarded as merely forcing the advance disclosure of confidential information that would shortly be in the public domain, rather than the disclosure of a trade secret.

3. COPYRIGHT AND CONFIDENTIAL INFORMATION

As was pointed out in the judgement of the European Court of Justice (ECJ), copyright law has not been standardized throughout the EU. There is a distinct difference of approach between common law countries, such as the UK, and civil code countries such as France and Italy.

THE MAGILL CASE

In common law countries, copyright is intended to protect the skill and labour devoted to the creation of a work, regardless of artistic, or literary, merit. Compilations, including programme listings, clearly qualify for copyright protection.

In civil law countries, copyright is intended to protect the author's moral rights in the product of his intellect, and provide a reward for his creative effort. Subsistence of copyright in a work may be determined on the basis of the expression of the author's "personality" in the work. In other words, artistic merit is germane to the existence of copyright in a work.

This position has been further complicated by the Directive on "The Legal Protection of Computer Programs" (91/250/EEC) and the development of the Data Base Directive. The provisions of Common Law Copyright are readily adapted to the protection of functional works whereas that of civil law countries is not so easily adapted.

In the UK, copyright confers, among other things, the exclusive right to copy a work and issue copies of the work to the public, i.e. to reproduce and publish the work. To infringe a copyright work, an act of copying must have occurred. Copyright thus confers a relatively weak monopoly right that, in normal circumstances, cannot give rise to a true monopoly. The circumstances in the Magill case were, however, far from normal.

It is of considerable importance to note the difference between pure information and the presentation of information. Copyright protects the presentation of information, not the information itself. This creates a problem when the presentation is inherent in the information itself, i.e. when an idea is inherently capable of being expressed in one, and only one, way. If copyright is held to subsist in the presentation, it inevitably protects the underlying idea. However, it seems unlikely that a programme listing can be presented in only one way.

Under UK law, compilations may be subject to copyright protection and programme listings can clearly be regarded as compilations.

Thus, in the Magill case, ITP, RTE and the BBC clearly owned enforceable copyrights in their presentation of their programme listings. In addition, by controlling the release of the programme listings information, they were in a position to exercise a true monopoly control over publication of TV guides. This monopoly was created by the combination of copyright with confidential information and reinforced by their commercial use of copyright through licensing.

Finally, it should be noted that, in general, national copyright law does not provide for the grant of compulsory licences as a remedy for abuse of monopoly, in contrast to the position under patent law. Presumably, because it was felt, by legislators, that the relatively weak monopoly granted by copyright could not give rise to abusive behaviour.

THE MAGILL CASE

4. FINDINGS OF THE COURT

The ECJ found that:

"The refusal of (ITP, RTE and the BBC) to provide basic information by relying on national copyright provisions thus prevented the appearance of a new product, a comprehensive weekly guide to television programmes, which (ITP, RTE and the BBC) did not offer and for which there was a potential consumer demand. Such refusal constitutes an abuse under heading (b) of the second paragraph of Article 86 of the Treaty".

The ECJ also found that trade between member states was affected and rejected the appeals by ITP and RTE against the Commissions Decision, (the BBC had not appealed against the original Decision and had complied with it).

The ECJ has, therefore, endorsed the power of the Commission to grant compulsory licences under copyright and, by implication, other IPRs, such as patents and registered designs. Furthermore, the ECJ has, by implication, empowered the Commission to require the publication of confidential information, at least in certain circumstances. The power of the Commission, in this respect, stems from Article 3(1) of Regulation 17/62, which reads:

"Where the Commission, upon application or upon its own initiative, finds that there is infringement of Article 85 or Article 86 of the Treaty, it may by decision require the undertakings or associations of undertakings concerned to bring such infringement to an end".

The ECJ held that:

"It is appropriate to observe that Article 3 of Regulation No 17 is to be applied according to the nature of the infringement found and may include an order to do certain acts or things which, unlawfully, have not been done, as well as an order to bring an end to certain acts, practices or situations which are contrary to the Treaty (reference made to the judgement in Joined Cases 6/73 and 7/73 *Commercial Solvents*)".

5. PRINCIPLES TO BE DERIVED FROM THE MAGILL CASE

5.1 IPR, Dominant Position and Abuse thereof

The Magill case reiterates the fundamental principle that mere possession of an intellectual property right cannot confer a dominant position. However, it is well established that the exercise of an IPR, e.g. through licensing, can result in a breach of Articles 85 and 86 of the Treaty.

However, the circumstances surrounding the ownership of IPRs, and the

THE MAGILL CASE

manner in which those IPRs are exercised, can result in a dominant position. The test, it is submitted, is: has the possession and exercise of one, or more, IPRs, in the prevailing economic and commercial environment resulted in the creation of a true monopoly for a class of products for which no substitute exists. Alternatively, a true monopoly might be held to exist if an IPR is used in such a way as to prevent the entry onto the market of a product for which there exists a demonstrable consumer demand, which remains unsatisfied. As will be discussed later, provisions exist under national patent laws to prevent certain abuses of this type.

In the Magill case, the ECJ found that copyright in programme listings had been used in such a way as to create a true monopoly. Possession of the copyright, as such, did not create the monopoly. Possession of a dominant position is not of itself an infringement of Article 86. It is necessary to demonstrate that the dominant position has been abused and that the abuse has affected trade between member states.

The Magill judgement makes it clear that the exercise of an IPR, including copyright, can be reviewed in relation to Article 86, i.e. it may result in an infringement of Article 86. However, the ECJ also held that a mere refusal to licence, by an undertaking holding a dominant position, cannot give rise to an abuse of a dominant position. The exercise of an IPR can, however, give rise to an abuse of dominant position. In the Magill case, the factors leading to a finding that there had been an abuse of a dominant position included:

- there was no substitute product available;
- the copyright owners were the sole source of basic information on programme listings;
- refusal to supply basic information resulted in suppression of new products, which were not made available by the copyright owners themselves;
- such refusal to provide the basic information could not be justified;
- ITP, RTE and the BBC had reserved a derivative market to themselves, that is to say, derivative in the sense that the copyright was created in relation to a primary market in which these undertakings principally operated.

Thus, possession of an IPR and refusal to licence cannot be regarded as creating a dominant position, let alone abusing a dominant position, but once that IPR is licensed it can be held that a dominant position has been created and abused. This is especially true when one, or more, IPRs interact, as in the Magill case. It should be noted that the copyrights at issue were owned by different undertakings and interacted with confidential information.

THE MAGILL CASE

5.2 Primary and Derivative Markets

A key factor in the ECJ judgement appears to be that ITP, RTE and the BBC, used their copyright and control of information to prevent others entering a market which was derivative to their principle sphere of business activity, namely the provision of television services. The copyrights arose incidently out of activities in a primary market. The ECJ appears to have developed the concept of a primary market and a derivative market. One undertaking's primary market may be another's derivative market. This is not a very satisfactory, or precise, concept. It may, however, have application to the field of telecommunications. Presumably a telecommunications operator's primary market is the provision of telecommunications services while manufacture of telecommunications equipment is, for a telecommunications operator, a derivative market. The consequences of this will be discussed later.

Clearly, creating a monopoly in activities which are not essential to an undertaking's commercial health, can in the eyes of the ECJ, more readily be regarded as leading to an infringement of Articles 85 and 86, than activities which are essential to an undertaking's commercial health.

5.3 Article 36

Article 36 of the Treaty of Rome reads as follows:

"The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on the grounds of the protection of industrial or commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States."

The Court of First Instance took the view, endorsed by the ECJ, that Article 36 emphasised "that the reconciliation between the requirements of the free movement of goods and the respect to which intellectual property rights were entitled had to be achieved in such a way as to protect the legitimate exercise of such rights, which alone was justified within the meaning of that article, and to preclude any improper exercise thereof likely to create artificial partitions within the market or pervert the rules governing competition within the Community. the exercise of intellectual property rights conferred by national legislation had consequently to be restricted as far as was necessary for that reconciliation".

The judgement of the ECJ in *Deutsche Grammophon v Metro* was endorsed, in particular the finding that "....although prohibitions or restrictions on the free movement of products were justified for the purpose of protecting industrial and commercial property, Article 36 only admitted derogations from that freedom to the extent to which they were justified for the purpose of safeguarding rights which constituted the **specific subject-matter** of such property".

THE MAGILL CASE

Finally, the Court of First Instance found that, in the Magill case, although programme listings were protected by copyright and that the protection conferred by copyright was determined by national law, the way in which the copyright had been used did not fall within the scope of the derogation provided by Article 36.

The particular way in which copyright had been used was incompatible with Article 86, and Article 36 could not be pleaded as a justification.

5.4 Specific Subject-Matter

As observed above, Article 36 only applies to rights which constitute the specific subject-matter of an IPR. In the case of copyright, this includes the exclusive right to reproduce the copyright work. This is true for both common law and civil code jurisdictions.

It was argued that the specific subject matter of all IPRs includes the right of first marketing products subject to those IPRs and, in the case of copyright, the specific subject matter includes the right to refuse licences.

5.5 Essential Function

In determining whether a particular use of copyright, or any other IPR, falls within the protective provisions of Article 36, consideration should be given as to whether that use corresponds to the essential function of copyright.

The Court of First Instance took the view that the essential function of copyright was to protect the moral rights in the copyright work and to ensure a reward for the creative effort embodied in the copyright work **while at the same time respecting the aims of Article 86, (and 85).**

In other words, Community law prevails over national law, notwithstanding Article 36, where fundamental principles of the freedom of movement of goods and competition are concerned.

In considering this aspect of the ECJ decision, it is submitted that copyright was never intended to confer an absolute monopoly on its owner. Where copyrights are used in combination with each other and/or other rights to create an absolute monopoly, then that exercise of copyright falls outside the essential function of the copyright. Any aspect of the monopoly conferred by copyright, in a particular case, which contributes directly to the creation of a true monopoly cannot be part of the specific subject-matter of copyright. Anything which is not part of the specific subject-matter of copyright cannot claim the protection granted by Article 36.

Although the concepts of essential function and specific subject-matter of an IPR are somewhat diffuse, they are important in assessing the application of the Magill decision to IPRs, other than copyright, and to the exercise of IPRs in different commercial situations.

THE MAGILL CASE

5.6 Compulsory Licences

The major significance of the Magill judgement lies in the ECJ's endorsement of the power of the Commission to require that licences be granted under an IPR, as a remedy for abuse of the EU competition rules. Strictly speaking, this is not compulsory licensing, since the Commission only requires that licences be granted, and does not actually grant the licences itself. However, this distinction is of no practical importance.

In making a decision requiring the grant of licences, the Commission must take into account the principle of proportionality, i.e. the burden imposed on an undertaking to bring an infringement of the competition laws to an end must not exceed what is appropriate and necessary to ensure compliance with the competition rules.

In the Magill case, the grant of what amounts to a compulsory licence under copyright is of particular significance because of the absence of compulsory licensing provisions for copyright under national law.

In assessing the value of the Magill decision to those seeking compulsory licences under IPR as a remedy for abuse of competition rules, the time scale from complaint to final judgement must be of considerable significance - 9 years. It is also questionable whether the Commission will make use of the power to order the grant of licences, except in rare cases. Again, if a breach of the competition rules can be remedied by a lesser penalty than forced licensing, the principle of proportionality dictates that the lesser penalty be used.

5.7 Trade between Member States

The ECJ has never encountered difficulty in finding that anti-competitive behaviour has an affect on inter-state trade, and the Magill case is no exception. The ECJ made it absolutely clear that it is not necessary to show that anti-competitive behaviour actually affects trade for the purposes of Articles 85 and 86, only that it is capable of affecting trade.

5.8 Conclusions

The Magill case leads to the following conclusions:

- mere possession of an IPR cannot confer a dominant position;
- use of an IPR may confer a dominant position and result in a breach of the EU competition rules;
- an abuse of a dominant position may be regarded as more serious when it occurs in a derivative market, (principle of proportionality);
- Article 36 cannot always be relied on as a defence, especially when it

THE MAGILL CASE

can be argued that the use of an IPR goes beyond its essential function and the specific subject-matter of an IPR will not be affected by a particular remedy;

- the Commission can order the grant of licences as a remedy for infringement of the EU competition rules; and
- it is the capability of a particular arrangement to affect trade, rather than the actual affect, which is important in terms of the competition rules.

6. EXTENSION OF THE MAGILL CASE TO OTHER IPRs

The first point to note is that the facts surrounding the Magill case were unusual, and that attempts to extend the thinking behind the Magill situation must be regarded with some caution. However, there is nothing in the judgement of the ECJ to lead to the conclusion that the principles set out in Section 5 are unique to copyright. In determining the applicability of the Magill decision to other IPRs, e.g. patents, account must be taken of:

- the specific subject-matter of the IPR in question;
- the essential function of the IPR in question;
- whether, or not, compulsory licensing is provided under national law for the IPR in question;
- other remedies available; and
- the commercial and economic circumstances surrounding the anti-competitive behaviour at issue.

It is clear that a straight refusal to licence an IPR, e.g. a patent, cannot give rise to an infringement of the competition rules, however inconvenient that refusal might be. However, once licences are granted, or if the anti-competitive behaviour depends on the interactions of more than one IPR, the Magill arguments may come into play.

If an IPR, or tranche of IPRs, owned by one, or more, persons clearly operates against the public interest, then there must be a risk that the Commission will seek to order the grant of licences as a remedy.

This Annex VI of the Handbook is primarily concerned with the extension of the Magill decision to IPRs and Standards, and in this context certain conclusions can be drawn - see below. For standardization, patents are of particular importance.

Two questions that need to be considered are:

THE MAGILL CASE

- what is the essential function of a patent?
- what is the specific subject-matter of a patent?

The answer to these questions depends, in the Magill context, on the compulsory licensing provisions contained in national patent law.

7. COMPULSORY LICENSING AND PATENTS

Despite the provisions of the EPC regarding harmonisation of patent law, certain aspects of patents law are still subject to national variation. This includes provisions relating to compulsory licensing. In this section compulsory licensing under UK patents legislation is discussed, other European jurisdictions can, in general, be expected to have similar provisions.

In the UK, a compulsory licence may be granted under a patent, on application to the Patent Office, or Court, three years after grant in any of the following circumstances:

- non-working of the patented invention in the EU, i.e. the invention is not being fully exploited within the EU (originally the UK, but this conflicts with the Treaty of Rome);
- where a demand for the product is not being met on reasonable terms, or is met to a substantial extent by importation;
- where working of the invention within the EU is being hindered by importation;
- the patentee refuses to grant licences on reasonable terms where an export market is not being supplied, or efficient working of another invention is prevented, or hindered, or the establishment, or development, of commercial activities in the (EU) are hindered; or
- where licensing conditions, or conditions imposed on disposal, or use, of a patented invention adversely effect the commercialisation of another product, or development of commercial activities in the (EU).

The circumstances giving rise to a case for the grant of a compulsory licence can all be viewed as abuses of the patent monopoly and, therefore, anti-competitive behaviour. In granting compulsory licences, the Patent Office should seek to achieve the following objectives:

- inventions that can be worked in the UK should be so worked, without undue delay and to the fullest extent possible;

THE MAGILL CASE

- the patentee should receive a reasonable reward; and
- the interest of those developing, or exploiting, an invention in the UK should not be unfairly prejudiced.

It can be argued that the essential function of a patent is to encourage the advance of technology by rewarding those who make new inventions with a limited monopoly in exchange for teaching their invention. An alternative view would be that a patent encourages investment in R&D by providing protection for that investment.

It could be argued that the ability to stop any act defined as an infringement of a patent forms part of the specific subject-matter of a patent. However, the ability of a patentee to reserve certain acts exclusively to himself is subject to the compulsory licensing provisions of UK patent law. It cannot, therefore, be argued that the grant of a compulsory licence infringes on the specific subject-matter of a patent. This is further supported by a consideration of the essential function of a patent.

It could, therefore, be argued that the grant of a compulsory licence is a proportionate remedy for abuse of the EU competition rules, even if the abuse results from the exercise of a single patent. However, it has been repeatedly stated by the ECJ that mere possession of a patent and refusal to licence cannot be regarded as an abuse of the EU competition rules.

In applying the Magill decision to patents it should be remembered that:

- on the one hand, copyright grants a much weaker monopoly than a patent; and
- on the other hand, national patent law makes provision for compulsory licensing, as a remedy for anti-competitive behaviour, whereas copyright law does not.

It can, therefore, be concluded that:

- as with copyright, mere possession and refusal to licence does not warrant the grant of compulsory licences under a patent;
- where a monopoly position is created, through the interaction of several patents, or through the interaction of a patent with other economic, or commercial, rights, compulsory licensing may be imposed as a means of bringing an abuse of that monopoly position to an end; and
- once a patent has been exercised, in the sense that at least one licence has been granted, the totality of the patentees behaviour, including the refusal to grant other licences, may be subject to review under Articles 85 and 86 of the Treaty, and may lead to a requirement that further licences be granted.

THE MAGILL CASE

8. STANDARDS AND IPRs

The essential conflict between IPRs and standards occurs when the technical solution, specified by a standard, is subject to one, or more, IPRs. Where a standard is mandatory because of direct, or indirect, regulation and an IPR exists which is essential to the standard, there is a legally enforced requirement to operate within the scope of a privately owned property right - the IPR. This situation creates, for the IPR owner, a true monopoly. Entry into the market, defined by the standard, necessarily results in IPR infringement which cannot be avoided.

The Commission's Policy, with regard to the interaction between standards and IPR, is set out in "EC Communication on Intellectual Property Rights and Standardization" (COM(92)445 of 27th October 1992) - see Annex VII to this Handbook for further details on this subject. It will be seen from Annex VII that this document clearly emphasises the absolute right of an IPR owner to refuse licences under his IPR. It also sets out the duties of IPR owners with regard to standardization and describes certain behaviour, on the part of IPR owners, which might be regarded as abusive.

The Magill judgement is only relevant to the standardization process in those case where an IPR owner has engaged in abusive behaviour. Some situations which might be regarded as abusive are briefly outlined below.

- a. An IPR which is essential to a standard is discovered some time after adoption of the standard, the IPR owner was unaware of the standardization process and refuses to grant licences under the standard. The Magill case reinforces the right of the IPR owner to refuse the grant of licences.
- b. The owner of an IPR essential to a standard grants some licences, but refuses others. Because the IPR owner has elected to exercise his IPR through licensing, it can be argued that it is the licensing, not the IPR itself, which has resulted in the infringement of the competition rules. The Commission could take action in this case.
- c. An IPR owner knows that a particular standard is being developed which will be covered by an IPR, owned by him, and deliberately conceals the existence of that IPR from those engaged in formulating the standard. This could be regarded as a form of entrapment. Disclosure of the existence of such an IPR, after adoption of the standard, denies those engaged in the creation of the standard the opportunity to consider alternative solutions which avoid the economic penalties associated with the need to obtain licences. Late disclosure of the existence of the IPR could be regarded as abusive behaviour and, therefore, an infringement of Article 86. However, the administrative inefficiencies in large companies may result in inadvertent concealment of the existence of an essential IPR. Proving bad faith, in these circumstances, may not be easy. However, the concept of constructive knowledge may mean that it is unnecessary to prove actual bad faith.

THE MAGILL CASE

Even if the IPR owner is prepared to grant licences, there remains the suspicion that he has deliberately set out to enhance the value of his IPR by entrapping others into adopting a standard which will necessarily infringe his IPR.

It should be noted that the Commission take the view that IPR owners are under a duty to disclose the existence of any of their IPRs which are essential to standards, of which they have actual, or constructive knowledge.

- d. An IPR owner seeks to actively encourage the adoption of his patented technology as a standard. In this case, the IPR owner clearly has a duty of good faith to inform those involved in the standardization process that the technology he is proposing is covered by patents and to identify the patents in question. To conceal the existence of essential patents in these circumstances could clearly be regarded as abusive behaviour and would, in the case of ETSI Standards, be a violation of the ETSI Interim IPR Policy - see Annex IV to this Handbook for details of this Policy.

In the unlikely event that a patentee actually behaved in this way, it would not be unreasonable for the Commission to take action to ensure that compulsory licences were available and that royalty rates and other licensing terms and conditions were controlled.

- e. Because an IPR, which is essential to a mandatory standard, grants a true monopoly to its owner, the owner may be tempted to impose excessive royalties on prospective licensees. The imposition of royalties which are clearly oppressive, in the sense that they exclude others from the market unreasonably, could be regarded as abusive behaviour. However, it is suggested that the correct remedy in this situation is to disestablish the standard, rather than to grant compulsory licences. The imposition of excessive royalties is really akin to an outright refusal to grant licences. However, where excessive royalties are demanded on an unjustified discriminatory basis, the best solution may be the grant of compulsory licences under controlled terms and conditions.

The motivation for granting discriminatory terms could be the subversion of the standardization process itself. If everyone is faced with excessive royalties, the will to change a standard may be considerable. However, where SMEs, only, are charged excessive royalties, larger companies will lack the motivation to change the affected standard.

- f. A standard may be subject to several IPRs, each owned by a different entity. While each owner may individually behave in a perfectly reasonable manner, in granting licences on fair and reasonable terms, the cumulative effects of royalty payments, on a licensee, may exclude him from the market.
- g. Where potential users of a standard include those who have significant IPR

THE MAGILL CASE

holdings and those who do not, the use of cross-licensing between principle players can have an anti-competitive effect. If a standard is subject to many essential IPRs and the owners of essential IPRs set up an IPR pool in which they license each other at substantially reduced royalty rates, the effect is to create a club for whom the costs of market entry are significantly reduced as compared with non-members. On the other hand, such a club, if it provides "one stop shopping" for the licences needed to exploit a standard, can have significant advantages for all potential licensees. The facts in the Magill case suggest that an IPR pool existed in which cross-licensing did not occur, with the result that a new product was entirely suppressed.

- h. It is conceivable that a standard can be implemented in several ways, each of which is covered by an IPR. No one IPR is essential to the standard and, therefore, no single IPR creates a true monopoly. Collectively, however, the IPRs create a true monopoly in the standard. Such a situation is capable of abuse.
- i. The Commission have made it clear that licences granted under IPRs, essential to a standard must include the right of import into the EU. Owners of essential IPRs may feel that this opens their markets to predatory attack. However, where a standard is mandatory as a result of direct, or indirect, action by the Commission, the EU has a responsibility, pursuant to the Agreement on Technical Barriers to Trade concluded under GATT in 1979, to ensure that IPRs are not used to create obstacles to trade in standardized goods and services. Because the EU's international obligations are affected, any complaint that importation of standard-compliant equipment is being suppressed by use of IPRs, can be expected to attract prompt action by the Commission.
- j. It is quite possible for the owner of an IPR essential to a standard to grant licences, under that IPR, on fair reasonable and non-discriminatory terms and conditions, while creating a climate of delay and uncertainty, which seriously inhibits competitors from entering a particular market. Such behaviour is particularly damaging in fields, such as telecommunications, where technical advance is rapid. It is also virtually impossible to prove that the existence of such behaviour is due to deliberate action by an IPR owner.

To sum up, a potential standards user might regard any behaviour, by the owner of an essential IPR, which unreasonably impedes, or delays, his access to a market for standardized products as abusive, such behaviour might include:

- concealing the existence of essential IPRs, or late disclosure thereof;
- delay in announcing financial terms for licences;
- delay in negotiating and settling licensing terms and conditions;
- creation of IPR pools with significantly discriminatory royalties between

THE MAGILL CASE

members and non-members;

- imposition of oppressive cumulative royalties; and
- any behaviour designed to impede, or delay, market entry by new players, especially SMEs.

To secure the adoption and continued existence of a standard, commercial imperatives require several entities to cooperate and agree to the standard. Behaviour which results in the creation of a monopoly reserved to a single entity is, therefore, unlikely. However, the creation of an oligopoly may cause as much damage to competition as a monopoly, but is harder to detect and difficult to remedy.

The Magill case does not establish a new form of anti-competitive practice which is particularly applicable to the standards field. However, it does provide for a remedy, compulsory licensing, which is particularly apposite to the resolution of anti-competitive behaviour in the field of standards and IPRs.

The problems which arise from applying the Magill case to real problems in the field of IPRs and standards are:

- standard-IPR conflicts require rapid resolution, Magill took 9 years from start to finish;
- Magill establishes the power of the Commission to order the grant of licences, it does not deal with the settlement of licensing terms, many of the arguments surrounding IPR-standards problems revolve around the settlement of licensing terms and condition; and
- Magill does little to resolve the risks associated with late disclosure of essential IPRs.

Where a potential licensee believes that the owner of an essential IPR is behaving in a manner which amounts to an infringement of Article 85, or 86, he has the option of deliberately infringing the essential IPR and, if sued for infringement, pleading a Euro-defence based on the Magill case. It could reasonably be expected that this course of action would be effective as a means of avoiding the grant of an interlocutory injunction, but its effectiveness, as a defence, at full trial is questionable. To follow through on such a strategy would require considerable nerve and would be extremely expensive.

9. COMPULSORY DISCLOSURE OF CONFIDENTIAL INFORMATION

The Commission's decision in the Magill case, included a requirement that confidential information be disclosed, namely the programme listings. However, the situation in the Magill case can, in this respect, be regarded as unique, because, the

THE MAGILL CASE

programme listings would inevitably come into the public domain within a very short period. The programme listings were intended for publication. There is a clear distinction between information which is temporally confidential and inevitably destined for publication and technical information, or trade secrets, which are not intended for publication. It is, therefore, submitted that the Magill case cannot be used as a precedent for requiring disclosure of confidential information in the field of standardization.

It might, however, be possible to argue that information disclosed to a significant number of players, in a particular market, had lost the quality of confidentiality. If such an argument was successfully advanced the Commission might choose to order universal disclosure as a means of avoiding anti-competitive effects in respect of standardized products, or services.

It is of course important when considering the effect of an essential patent, in relation to a standard, to distinguish between the patent and that which is covered by a patent. The patent is simply a property right which enables its owner to take legal action to prevent trespass on the right. To obtain a patent, the owner has to disclose in his patent application, subsequently published, one method of implementing his invention. He is not required to disclose all methods known to him of implementing his invention, nor is he required by European patent systems to disclose the best method of implementing his invention. (Under US law there is a requirement that the applicant, for a patent, disclose the best method of implementing the invention.) It is perfectly possible, therefore, for a patent to cover implementations of a standard which are secret. There is nothing in the Magill decision which suggests that a patent owner could, or should, be compelled to disclose secret information which gives him a competitive edge in the market place.

One issue which can arise, is the incorporation, by reference, of confidential information in a standard. This can be expected to occur where a standard specifies the use of a particular algorithm, or computer code. It may be that the owner of such confidential information undertakes to make it available, to users, on application under a licence agreement. If the terms and conditions under which such confidential information is made available, is in practice, anti-competitive in its effect, or otherwise causes competition, or trade, problems, the Commission could well order a disclosure of that information and require the owner to grant licences under any IPRs relating to the confidential information. It would not be difficult to find a basis for such action in the Magill case.

10. CONCLUSIONS

It is possible to use IPRs, in relation to standards, in ways which are anti-competitive.

The Magill decision does not establish a new brand of anti-competitive behaviour, nor even a new remedy for anti-competitive practices. However, it does

THE MAGILL CASE

reinforce the Commission's power to remedy anti-competitive behaviour by ordering the grant of licences. It so happens that an order to grant licences may be a particularly suitable remedy for anti-competitive behaviour in the field of standardization.

In summary, the Magill decision reiterates:

- the absolute right of an IPR owner to refuse the grant of licences;
- that exercise of an IPR, e.g. by licensing, is subject to review under Articles 85 and 86 of the Rome Treaty;
- that it is capability, rather than actual effect, which is important in relation to effecting trade between members states;
- the power of the Commission to order the grant of licences under IPRs;
- that remedies for anti-competitive behaviour must be proportionate; and
- in areas outside the specific subject matter of an IPR the primacy of Community law over national law.

The Magill decision does not:

- establish a general power enabling the Commission to order the disclosure of trade secrets;
- establish an entitlement to licences under IPRs which are simply inconvenient to standards makers; or
- provide an effective remedy for delays in settling commercial terms.

Whether, or not the Commission chooses to take action in cases where abusive behaviour, unique to the standardization process, e.g. failure to disclose essential IPRs, is yet to be seen.

Finally, it is open to an individual company, who feels aggrieved by the difficulties encountered in obtaining licences with reasonable expedition, to ignore an IPR and, if sued for infringement, mount a Euro-defence.

ANNEX VII

EC's COMMUNICATION
ON
INTELLECTUAL PROPERTY RIGHTS
AND
STANDARDIZATION

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

Annex 7.2

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

1. INTRODUCTION

1.1 The ETSI Interim IPR Policy

The ETSI Interim IPR Policy which is set out in Annex IV to this Handbook, was adopted at the 21st General Assembly of ETSI (GA21) and is intended to have effect for a minimum period of 2 years. The Interim IPR Policy defines ETSI's broad approach to dealing with conflicts between IPRs and ETSI Standards, and sets out certain obligations which must be met by Members of ETSI.

At GA21, the European Commission submitted Temp Doc 5, setting out the Commissions views on the ETSI Interim IPR Policy. This document contains the following statements:

- (a). "The Policy to be established **must** be compatible with the principles set out in the Commission Communication of October 1992 on Standardization and IPRs, principles which reflect Community law **and policies**."
- (b). "... the way in which the Policy will be implemented is extremely important. We expect ETSI itself to monitor implementation of this Policy. The Commission, in cooperation with the Member States, will take careful note of whether or not the Policy is being implemented **by the ETSI membership** in a way which is consistent with the principles set out in the Communication."

Since the ETSI Interim IPR Policy provides a broad brush approach, it will need to be operated in a manner that will enable the ETSI Secretariat to discharge their duties in relation to the Interim IPR Policy. The Commission's position on the ETSI Interim IPR Policy means that:

- the manner in which the ETSI Interim IPR Policy is operated must be consistent with the Commission's Communication on Standardization and IPRs;
- it is ultimately the ETSI membership's responsibility to ensure that the ETSI Interim IPR Policy is properly implemented; and
- ETSI and, more particularly, the ETSI Secretariat, must monitor operation of the ETSI Interim IPR Policy.

1.2 The CEC Position

Because of the broad nature of the ETSI Interim IPR Policy, the Commission's Communication on Standardization and IPRs has considerable importance in interpreting the Interim IPR Policy. The Commission believe that the Interim IPR Policy is consistent with its Communication on Standardization and IPRs. It would, therefore, be unwise to interpret the ETSI Interim IPR Policy in a way which is inconsistent with this document. The Commissions Communication on IPRs and

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

Standardization is divided into six main headings, namely:

- Introduction - the Commission's view on the nature of the Standards-IPR issue;
- Principles of Standardization - the Commission's view on the Community's needs from, and the effect on the Community of, the standardization process;
- Principles of Intellectual Property Protection - the Commission's view on the nature of IPR protection - one of the best expositions yet, by the Commission, on this subject, but still deficient in some respects;
- The Standards Making Process - the Commission's views on the creation of Standards;
- Other Policy Considerations - competition aspects and trade policy aspects of the IPR-Standards issue; and
- Conclusions - guidelines, general principles and codes of practice.

The final section of the Communication is undoubtedly the most important. However, details of some of the principles to be followed by Standards makers, such as ETSI, are contained in the body of the text. A detailed consideration of the Commission Communication is, therefore, of considerable importance to all those involved in the Standardization process, including:

- ETSI, in order to ensure that, as a collective body, it complies with the Communication;
- IPR owners, in order to ensure that their rights are not prejudiced;
- Standards users, in order to ensure that Standards are made available to them in accordance with the Commission's public policy on standardization; and
- Public Authorities, in order to ensure that the use they make of Standards is consistent with Community Policy.

1.3 The scope of this Annex VII

This Annex VII sets out to analyse the Commission's Communication on Standardization and IPRs from the perspective of ETSI and, in particular, in terms of its impact on the ETS Interim IPR Policy and the manner in which this Policy is operated by the ETSI Secretariat, and/or ETSI members and/or others having an interest in ETSI Standards. In Sections 2 to 13 of this Annex VII, the Commission's Communication is analysed under the following headings:

Annex 7.4

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- The CEC View on IPR Policies for Standards Makers;
- Types of Standard;
- The Duties of Public Authorities;
- Principles to be Followed in the Standards Making Process;
- Disclosure of IPRs by Right Owners;
- Patent Searching;
- Availability of IPRs and Licensing Terms;
- the Rights of IPR Owners;
- Mandatory Standards and the Public Procurement Directive;
- Competition Law and Standardization;
- The TBTA; and
- CEC Guidelines

The last three sections of this Annex VII deal with the impact of the Commission's Communication on Standardization and IPRs on ETSI, particularly with regard to the manner in which operation of the ETSI Interim IPR Policy is to be effected by the ETSI Secretariat. It should be noted that this Annex VII does not attempt to provide a detailed interpretation of the ETSI Interim IPR Policy in the light of the Commission's views.

1.4 Operation of the ETSI Interim IPR Policy

ETSI is a collective entity, under French Law an association, that is to say, it is made up from a number of entities who are Members of ETSI. The day-to-day operation of ETSI is controlled by the ETSI Secretariat. The Standards making work is, however, for the most part conducted by the Membership. The General Assembly (GA) of ETSI represents the most senior governing body of ETSI. The ETSI Secretariat are only empowered to take decisions, on behalf of ETSI, to the extent that the General Assembly has specifically and explicitly authorised them to take such decisions.

The ETSI Interim IPR Policy, since its adoption by GA 21, represents the formal will and intent of ETSI in relation to the treatment of IPRs, as they affect Standards.

It is the responsibility of the ETSI Secretariat to implement the instructions of the GA, as set out in the ETSI Interim IPR Policy. It is not the task of the Secretariat

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

to make decisions on behalf of ETSI, unless so authorised by the Interim IPR Policy. Equally, it is the responsibility of the Secretariat to administer the ETSI Interim IPR Policy on a day-to-day basis. It is not the task of the GA, or individual members of ETSI, to interfere in the day-to-day administration of the ETSI Interim IPR Policy, unless the Secretariat are clearly acting outside their delegated authority under the Interim IPR Policy. This situation is analogous to the relationship between the shareholders of a company and its board of directors. The shareholders have a right to set general policy and hire, or fire, the board, but do not have the right to interfere in the day-to-day operation of the company.

The practical result of this, is that the GA and ETSI's membership have the right to set and debate the ETSI Interim IPR Policy, but not to interfere in the operation of the ETSI Interim IPR Policy, by the ETSI Secretariat, so long as such operation is in compliance with the provisions of Interim IPR Policy. For this reason, the manner in which the ETSI Secretariat choose to operate the ETSI Interim IPR Policy does not require the authorisation of the GA. However, the ETSI membership can, and no doubt will, comment on the actions and inactions of the ETSI Secretariat.

The actions that can be taken by ETSI, and its Secretariat, in a situation in which a Standard is blocked by an IPR is limited to:

- stopping work on further development of the Standard;
- withdrawing the Standard;
- amending the Standard; and/or
- publishing information on the availability of the Standard.

The ETSI Secretariat cannot, except to the extent authorised by the ETSI Interim IPR Policy, initiate the actions listed above. However, it can and should advise those who are authorised to make decisions on the standardization process of the actions they can take and the effects of those decisions in terms of compliance with the Commission view on Standardization and IPRs. Such advice may be ignored. Ultimately, it is the responsibility of the GA, not the Secretariat, to ensure that operation of the ETSI Interim IPR Policy by the ETSI Membership complies with the Commission view on Standardization and IPRs. The Secretariat can monitor and report on the operation of the IPR Policy, make recommendations, and facilitate action by ETSI's Members, but that is all.

It is in the best interests of the ETSI Membership, as a whole, that Members should provide the ETSI Secretariat with any necessary assistance, in policing the operation of the ETSI Interim IPR Policy, and to bring to the attention of the Secretariat any matter considered to be contrary to the provisions of the Interim IPR Policy.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

1.5 Summary and Principles

- *the ETSI Interim IPR Policy must be interpreted in the light of, and operated in accordance with, the Commission's Communication on IPRs and Standardization;*
- *ETSI should monitor operation of the IPR Policy;*
- *the ETSI Secretariat has the power to determine the manner in which the ETSI Interim IPR Policy should be operated, without reference to the GA, provided such operation does not go beyond the powers devolved on the Secretariat by Interim IPR Policy;*
- *decisions relating to the adoption of a Standard rest with the ETSI TA and GA, the ETSI Secretariat can only act in an advisory capacity;*
- *it is the responsibility of the GA to ensure that the ETSI Interim IPR Policy is implemented by the Members of ETSI in a manner which is compliant with Commission's Communication on IPRs and Standardization;*

2. THE CEC VIEW ON IPR POLICIES FOR STANDARDS MAKERS

2.1 The Broad Issue

The Commission have recognised the potential for conflict between the intellectual property right system and standardization, and the need for clear solutions to the resolution of this conflict. The standardization process must be carried out with due regard for the need to provide incentives for the development of new products.

It is believed that new standardization bodies, such as ETSI, should base their IPR Policies on internationally accepted practice. The International Standards Bodies referred to in the Communication are ISO, IEC, and CCITT. The International Standards body paired with ETSI is CCITT. However, the CCITT policy is considered by the Commission to be vague and the Commission have, therefore, chosen to compare the old ETSI IPR Policy and Undertaking with the IPR Policies of ISO/CEN/IEC/CENELEC. Common features of these Policies are that:

- *the owner of an Essential IPR is to be asked to give an undertaking that licences will be available to users of the relevant Standard and, if such an undertaking is not forthcoming, the Standard will either be withdrawn, or its development put on standstill;*
- *copies of undertakings will be retained on file by the Secretariats of the Standards bodies; and*

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- such undertakings will be referred to in the Standards to which they relate.

2.2 The Approach to ETSI Interim IPR Policy and its implementation

The Communication, i.e. the Commission's Communication on Intellectual Property Rights and Standardization, makes it clear that the Commission does not intend to regulate the Standards making process directly through legislation. The Commission will exercise control by refusing to use, or make mandatory, Standards which do not comply with certain principles. The possibility of certain behaviour, both on the part of IPR owners and Standards makers, conflicting with Community and/or National law is mentioned. The Commission takes the view that the Statutes, Rules of Procedure and Policies, including those that relate to IPRs, must:

- correspond to the standardization needs of the Community;
- conform with the laws of the community; and
- conform with the Community's International obligations.

Two further general points of some importance are:

- rules applied to the standardization process, including those relating to IPRs, should adopt a uniform approach across areas in which Standards are likely to be mandatory either, as a result of incorporation in legislation, or otherwise, especially in the case where Standards makers are private, or quasi-private bodies, such as ETSI; and
- a Standards maker that seeks to administer IPRs Essential to its Standards would be in a dominant position in the terms of Article 86 (Treaty of Rome) with regard to users who did not belong to the Standards maker, and would need to take special care to avoid abusing that dominant position.

2.3 Summary and Principles

- *the Commission do not intend to directly regulate standardization;*
- *control may be exercised by a refusal to recognise Standards;*
- *rules applied to standardization must conform to community law, the standardization needs of the Community and the international obligations of the Community;*
- *Standards bodies should apply uniform rules to mandatory Standards; and*

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- *Standard's bodies should not administer members IPRs.*

3. TYPES OF STANDARD

3.1 Types and Form of Standards

Standards are viewed as either, arising from a formal consensus building process, or spontaneously as a result of market operation (de facto Standards). ETSI Standards are primarily of the former class. However, when ETSI incorporates standards originating from bodies, other than ETSI, either, by direct incorporation, or by reference, it may be incorporating, or giving official recognition to, a de facto Standard. An entity who controls a de facto Standard may seek official recognition for that Standard by proposing that the technical solution be embodied in an ETSI Standard. The views of the Commission on the special case of de facto Standards are, therefore, relevant to ETSI's Interim IPR Policy and the manner in which it is operated by the ETSI Secretariat and others.

The Commission recognise the diversity of application and form of Standards. In particular, two extremes of form are identified in the Communication:

- compatibility at the point of connection; and
- detailed technical specification in terms of design, dimensions and materials.

The Commission note that the Community, together with other signatories of the TBTA, are committed to specifying technical regulations and Standards in terms of performance rather than design, or descriptive characteristics.

3.2 Economic costs and values

The Commission believe that, in many areas of high technology, the greater part of the costs incurred in creating and producing a new product fall in the development phase, rather than the manufacturing phase, which may be a relative low cost operation. The Commission are undoubtedly correct so far as the telecommunications sector is concerned. This is seen as enhancing the importance of IPRs with regard to standardization relating to high technology.

3.3 De Facto Standards

The Communication describes the process by which de facto Standards are created. The following points are worthy of note:

- a de facto Standard can be created by the achievement of a certain level of market penetration, this occurs when others are forced, by market pressure, to work to the Standards of another;

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- telecommunications are singled out as one of the areas where de facto Standards can be expected to arise;
- an entity controlling a de facto Standard may seek its conversion to a formal Standard to preserve the dominance of his technology;
- in converting from a de facto Standard to a formal Standard, the entity controlling the Standard can be expected to seek the most advantageous terms obtainable;
- such terms may include territorially limited licensing, and power to control manufacture, distribution and importation;
- it will be to the long term advantage of an entity, controlling a de facto Standard, to licence on terms which surrender his sole right to manufacture for a royalty less than that which would be determined by open market forces; and
- such an entity will also benefit from the publicity.

3.4 Summary and Principles

- *the Commission favour Standards that are specified in terms of performance over Standards that are descriptive;*
- *the importance of IPRs to the development of high technology is recognised;*
- *the value, to owners of IPRs Essential to de facto Standards, of their adoption as formal Standards is recognised;*
- *de facto Standards may be incorporated in, or nominated as, ETSI Standards.*

4. THE DUTIES OF PUBLIC AUTHORITIES

4.1 Use of Standards by Public Authorities

Public authorities frequently base legislation on Standards. Within the CEE, this may occur where Directives make a direct reference to a Standard, or as a result of a presumption of conformity. The effect of such references is to make a Standard mandatory.

4.2 Duties of Public Authorities

Where a Standard is incorporated directly, or indirectly, into legislation, it is

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

given a more binding character than would otherwise be derived from their normal voluntary character. This may represent a substantial increase in the economic benefits conferred on an entity who can control that Standard by means of IPRs, or otherwise. For this reason, Public Authorities must satisfy themselves, before giving a Standard a mandatory character, that:

- the Standard was developed in accordance with normal procedures and there is a consensus, among all interested parties, in support of the Standard;
- the Standard is available for use by all interested parties to whom the legislation may apply, (in the case of ETSI Standards this could include manufacturers outside of Europe wishing to import and sell their products within Europe);
- it will be possible to comply with international agreements such as the TBTA and the Agreement on Government Procurement; in particular, that use of the Standard can be extended on a non-discriminatory basis to certain other GATT contracting parties.

4.3 Summary and Principles

Public Authorities should only permit a Standard to assume a mandatory character if:

- *the Standard is supported by a consensus of users;*
- *the Standard is available to all users subject to the mandatory effect of the Standard; and*
- *adoption of the Standard will not prevent compliance with International Treaties.*

5. PRINCIPLES TO BE FOLLOWED IN THE STANDARDS MAKING PROCESS

5.1 Basic Principles

The Commission take the view that, wherever possible, Standards should be devised which do not incorporate proprietary technology and are, therefore, not subject to IPRs. This is undoubtedly an accurate statement. However, they are also of the view that where Essential IPRs do exist, availability issues are usually resolved "ab initio". This is a questionable view, at least in the field of telecommunications.

By way of contrast, in the case of de facto Standards, the very nature of the Standard means that it is based on proprietary technology and is, therefore, likely to be subject to IPRs.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

In spite of the IPR problems associated with the adoption of de facto Standards, the Commission is of the view that, in many circumstances, such Standards represent the best choice. Such Standards are seen as well-tried solutions which are stable and technically proven.

There appears to be a degree of schizophrenia, on the part of the Commission, as to whether Standards should be based on technology which is free from IPR protection, or is a de facto Standard subject to Essential IPRs.

5.2 Knowledge of IPRs

So far as de facto Standards are concerned, the Commission are of the opinion that the time period, in which market forces can create such a Standard, exceeds the 18 month period in which patent applications remain unpublished within Europe. Knowledge of the existence of patents Essential to a de facto Standard can, therefore, be assumed to be available to users of the Standard.

If the owner of an Essential IPR is put on notice that a Standards body wishes to base a Standard on his proprietary technology, he should be aware that any IPRs he holds, relating to that technology, may be Essential to the resulting Standard and therefore infringed by users of that Standard.

5.3 Notice of Standards

As explained above, two issues of considerable importance are the issues of whether, or not:

- a user of a Standard can be presumed to have notice of an IPR Essential to a Standard; and
- the owner of an Essential IPR can be presumed to be aware that the IPR is in fact Essential.

The Commission believe that where the owner of an Essential IPR participated in the standardization process he can be regarded as having had constructive notice of the existence of the Standard to which his IPR is Essential. However, where an IPR owner does not belong to a Standards body, it is unreasonable to assume that he has notice of the existence of a Standard.

The Commission, in the ETSI context, appear to be proffering two distinct tests, namely:

- does an IPR owner actual participate in the creation of a Standard, i.e. is he represented on the Technical Committee (TC), or Sub-Technical Committee (STC) that generated the Standard's specification; and
- is he a Member of ETSI.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

It is suggested that the following situations should be considered in relation to the foregoing matters:

- the owner of proprietary technology actively proposes the adoption of that technology as an ETSI Standard, in which case that owner should clearly be regarded as having constructive notice of the existence of that Standard;
- the owner of an Essential IPR is represented on a TC, or STC, responsible for the elaboration of the Standard to which the IPR is Essential, in which case he should be presumed to have constructive notice of the existence of the Standard, unless he can show that he had no reason to assume he owned IPRs relating to the Standard in question;
- the owner of an Essential IPR, although a Member of ETSI, was not represented on the TC, or STC, that elaborated the Standard to which the IPR is Essential, in which case it should be presumed, in the absence of evidence to the contrary, or other special circumstances, that the IPR owner does not have notice of the Standard; and
- the IPR owner is not a Member of ETSI, in which case the concept of constructive notice should not apply.

5.4 Knowledge of Availability

Where a Standards body has knowledge of the existence of an IPR Essential to a Standard, or has **constructive notice of the existence of such an IPR**, then the agreement of the right holder must be sought before work on the Standard continues. If the owner of the IPR refuses to guarantee the availability of licences, then an alternative solutions to the Standards problem must be examined.

Although the Communication does not draw a distinction between actual and constructive knowledge, it must be assumed that, where ETSI bases a Standard on an existing proprietary Standard, or even knowingly builds proprietary technology into a Standard, ETSI will be deemed to have constructive notice of the existence of any Essential IPRs. This means that in these circumstances ETSI must make some meaningful investigation as to the existence of such IPRs either by requesting the proprietor of the de facto Standard/technology to make a declaration as to the existence of IPRs, or by conducting a patent search.

It is not simply a matter of confirming the existence of Essential IPRs, it is also necessary to determine whether, or not, suitable licences will be available under those IPRs.

This issue is discussed more fully in Section 8 below. However, the Commission are of the view that:

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- it is reasonable to impose a time limit on an IPR owners response to a request for an undertaking to licence Essential IPRs; and
- in the event of a refusal to licence, alternative solutions must be explored.

5.5 Type of Technology

In view of the arguments that have been advanced in the past about "best technology", it worth noting the Commission's view on this subject.

The Commission takes the view that the technology on which Standards are based should be:

- good;
- up-to-date; and
- **available.**

In some cases, the Commission believe that use of the most innovative technology in standardization is inappropriate because it is not stable and has not been tested in the market place. This opinion is consistent with their view on the advantages of adopting de facto Standards.

5.6 Summary and Principles

- *the Commission sees advantages both in basing Standards on tried and tested technology subject to IPR protection, and in choosing Standards which are free from Essential IPRs; in the light of the contradictory nature of these statements, the choice must lie with ETSI;*
- *Standards users can be deemed to have constructive knowledge of the existence of published patents;*
- *ETSI can be deemed to have notice of potential IPR problems whenever it adopts third party Standards, especially de facto Standards;*
- *the owner of an Essential IPR can be deemed to have constructive knowledge that his IPR is Essential to a Standard, of which he has notice, whether actual notice, or constructive notice;*
- *the submitter of a technical proposal can be presumed to have constructive notice of an ETSI Standard incorporating the technical proposal;*
- *an entity represented on an ETSI TC, or STC, will probably be deemed*

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

to have constructive notice of Standards produced by that TC, or STC;

- *a Member of ETSI may not be deemed to have constructive notice of the existence of a Standard solely by virtue of his membership of ETSI;*
- *an entity who is not a Member of ETSI will only be deemed to have notice of an ETSI Standard if specifically informed of its existence;*
- *where ETSI bases a Standard on proprietary technology it can be deemed to have constructive notice of the existence of IPRs owned by the proprietor of the technology;*
- *if ETSI has actual, or constructive, knowledge of an Essential IPR, it must stop work on the Standard, to which the IPR is Essential, until it has determined that licences will be available under that Standard;*
- *where ETSI has constructive knowledge of Essential IPRs it is under a duty to investigate whether such IPRs actually exist; and*
- *ETSI Standards need not be based on the "best available technology".*

6. DISCLOSURE BY RIGHT OWNERS

6.1 Awareness of own IPRs

The Commission takes the view that, in those industries where there is a high degree of standardization, manufacturers must be aware that some of their proprietary technology will form the basis for standardization. This clearly applies to the telecommunications industry.

The implication of this is that players in the telecommunications industry are very well aware that they may own IPRs Essential to ETSI Standards.

6.2 Late Disclosure

Where the owner of proprietary technology has actual, or constructive, notice that his technology is being incorporated in a Standard he will be acting in bad faith if he does not disclose the existence of any IPRs he owns which are Essential to that Standard, until after the Standard had been adopted. This would be compounded if he used his position to force users of a Standard to pay excessive royalties. This means that IPR owners who have notice of the development of a Standard are under a duty of good faith to disclose any IPRs they own which are Essential to that Standard.

Standards' makers should be in a position to determine whether, or not, late disclosure of an Essential IPR was made in bad faith, and are under a duty to devise

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

procedures for penalizing such late disclosures. According to the Commission, ETSI should announce a time limit within which disclosures of Essential IPRs should be made.

It is, however, difficult to see how ETSI could impose any sanction for late disclosure other than, perhaps, a regular publication of a "sin" list.

6.3 Summary and Principles

- *players in the field of telecommunications are aware that their proprietary technology may be incorporated into Standards;*
- *late disclosure of an IPR Essential to a Standard, of which the IPR proprietor has actual, or constructive, notice, is an act of bad faith;*
- *ETSI should impose time limits for the disclosure of Essential IPRs;*
- *ETSI should penalize late disclosure of IPRs.*

7. PATENT SEARCHING

7.1 Searching by manufacturers

Manufacturers are responsible for searching their own IPRs to determine whether they own IPRs Essential to a Standard, provided there is efficient publication of ETSI's Work Program. The Commission recognises the searching problems of major players with very large IPR portfolios, but is of the opinion that this does not exempt them from searching their own IPR portfolios, although it may justify a longer period in which they should be permitted to make declarations of the Essential IPRs which they own.

7.2 Searching by Standards Bodies

Where ETSI accepts responsibility for conducting patent searches, in relation to a particular Standard, the responsibility for disclosing Essential IPRs is, at least partially, lifted from IPR owners and passes to ETSI. In particular, a failure to disclose an Essential IPR can no longer be judged to be in bad faith.

Despite this view, there must be circumstances in which a non-disclosure would not be an act of bad faith, even if ETSI had not undertaken searches for Essential IPRs. Equally, a failure by an entity actively pushing for the standardization of his own technology, would almost certainly be regarded as an act of bad faith, even if ETSI conducted patent searches. The conduct of patent searches by ETSI is, it is submitted, germane to the establishment of bad faith, but not decisive.

Where ETSI incorporates a third parties proprietary technology into its

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

Standards it is under an obligation to carry out patent searches and to determine whether, or not, licences are available under Essential IPRs revealed by those searches ***before the technology is incorporated into the Standard***. It is suggested that the term "third party" should, in this context, be construed as applying to any person, or entity, who is not a Member of ETSI and those Members of ETSI who are deemed not to have constructive notice of the standardization process, for example, because they are not represented on the TC, or STC, responsible for the development of the Standard in question.

ETSI is under an obligation to take all reasonable precautions to ensure that its Standards are not covered by Essential IPRs for which licences are not available.

7.3 Summary and Principles

- *manufacturers have a duty to search their IPR portfolios for IPRs Essential to Standards of which they have actual, or constructive notice;*
- *the duty of manufacturers to search their own IPR portfolios may be mitigated in situations where ETSI accepts the responsibility for the conduct of patent searches;*
- *ETSI has an obligation to conduct patent searches where it incorporates proprietary technology, belonging to an entity that does not have constructive notice of the existence of a Standard, into that Standard;*
- *ETSI has an obligation to ensure that its Standards are not subject to Essential IPRs for which licences are not available.*

8. AVAILABILITY OF IPRS AND LICENSING TERMS

8.1 Unavailability of Licences

Where an Essential IPR has been identified, the owner should be requested to give an undertaking that he will grant licences under that IPR. A time period should be set within which the owner of the IPR is to respond to the request - see Paragraph 4.3.1 of the Communication.

If a satisfactory response is not received, within the specified time period, work on the Standard, to which the IPR is Essential, must be halted. ***"It would be inadvisable for a standard-making body to continue work on a standard if permission has not been sought or has not been granted in respect of intellectual property rights"***.

In the case of mandatory Standards, licences must be negotiated and agreed, for any proprietary technology incorporated in the Standard, before the Standard is established. It is submitted that a reasonably comprehensive undertaking, which

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

clearly specifies the scope, and terms and conditions, including royalty rates, for the grant of licences, will be sufficient.

The Commission are clearly of the view that there can be no question of expropriation of IPRs. This means that the right to use mandatory Standards which are subject to Essential IPRs, can only be acquired by negotiation.

The consequences, for ETSI, of the Commission position on this issue is hard to assess. Although the requirement for detailed licensing terms is primarily directed at Public Authorities, who may wish to incorporate Standards into legislation, the effects of the Public Procurement Directive on ETSI Standards cannot be ignored. It could be argued that the Public Procurement Directive should not apply to any ETSI Standard if a comprehensive undertaking on licensing any IPRs Essential to that Standard is not available. The implication is that ETSI must publish details of the undertakings given in respect of IPRs Essential to its Standards.

8.2 Licensing Terms and Conditions

Where a Standard is a de facto Standard and has not been formally adopted by a Standards' maker, such as ETSI, i.e. not mandatory, the Commission recognise that licensing terms and conditions, applicable to IPRs Essential to that Standard, may include territorial limitations and limitations on manufacture, distribution and importation.

The Commission are of the view that owners of Essential IPRs should offer licensing terms and conditions which are sufficiently flexible as to admit the possibility of cross-licensing, provided both parties to the licence agree. Clearly, the agreement of the licensee is necessary for a cross-licence. Nobody should be refused a licence under an Essential IPR because they do not wish to accept a cross-licence. This requirement places an obligation on licensors, not licensees. It is also suggested that disputes on licensing terms and conditions might be resolved by arbitration, provided an appeal from the decision of the arbitrators is available.

The terms and conditions for the grant of licences should not significantly discriminate against those not involved in the standardization process. Licences granted under IPRs, Essential to ETSI Standards, should not impose financial and other burdens on licensees, who are not Members of ETSI, which act as a significant incentive to join ETSI.

From the point of view of CEC trade policy, the Commission believe that licences, under IPRs Essential to Standards, should permit export, to the CEC, of Standard-compliant products, from countries who are signatory to the TBTA. In particular, the Commission believe that it would be objectionable for a person, who had agreed to the incorporation of his technology in a Standard, to subsequently seek to use his IPRs to prevent importation into the CEC. In other words, licences under Essential IPRs should include a right of importation. Whether, or not, right holders are to be required to grant licences under IPRs outside the jurisdiction of the CEC, is still

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

an open question.

8.3 Royalty Rates

The terms and conditions of licences, under Essential IPRs, must be fair, reasonable and non-discriminatory. The Commission recognise the difficulty of judging what amounts to a fair and reasonable royalty rate - see Paragraphs 4.3.3 and 4.3.7 of the Communication. The test to be applied to royalty rates is that they should represent a balance between the need for the owner of an Essential IPR to obtain a fair return on his investment and the enhanced market opportunities created by standardization. In other words, royalty rates, although they may have some connection to normal commercial rates, should be reduced because of the enhanced economic power conferred by the Standard. Possession of an Essential IPR is not to be a passport to windfall profits.

The fixing of royalty rates by a Standards making body may be an infringement of Article 85 of the Rome Treaty. There may be circumstances in which individual undertakings relating to an Essential IPR need to be notified to the Commission, either to obtain clearance under Article 85(1), or exemption under Article 85(3), of the Rome Treaty.

Where ownership of an Essential IPR places a company in a dominant position, demands for excess royalties may amount to abuse of a dominant position. Refusal to licence will, however, never amount to abuse of a dominant position. Infringement of Article 86 is only likely to arise where a company has agreed to the incorporation of its technology in a Standard and then proceeds to impose unreasonable royalty rates on users.

8.4 Summary and Principles

- *owners of Essential IPRs should be requested to give licensing undertakings;*
- *time limits for replying to requests for undertakings should be imposed;*
- *if a request for a licensing undertaking does not receive a satisfactory reply within the time limit, work on the relevant Standard should be stopped;*
- *for mandatory Standards, licensing undertakings should be comprehensive and negotiated before technology is incorporated into the Standard;*
- *licensing undertakings should permit cross-licensing provided both parties agree;*
- *licensing terms and conditions should not discriminate against non-*

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

Members of ETSI;

- *licensing undertakings should permit importation into the CEC;*
- *royalty rates should take into account both the normal commercial rates and the enhanced market created by standardization;*
- *licensing undertakings negotiated by ETSI may in some circumstances need to be notified to the Commission pursuant to Article 85 of the Rome Treaty;*
- *excessive royalties may infringe Article 86 of the Rome Treaty, but a refusal to licence will not;*

9. THE RIGHTS OF IPR OWNERS

9.1 Right to Refuse Licences

The right of an owner of an Essential IPR to refuse the grant of licences is absolute. Neither expropriation, nor compulsory licensing, is to be used as a means of gaining access to Standards subject to Essential IPRs.

The appropriate action, where licences are unavailable under an Essential IPR, is withdrawal of a Standard.

Article 86 of the Rome Treaty cannot, in the opinion of the Commission, be used to force the owner of an Essential IPR to grant licences.

9.2 Right to a Fair Return

As discussed above in Section 8.3, the owner of an Essential IPR is entitled to a fair return for licences granted to Standards users.

However, the owner of an Essential IPR is not entirely free to do as he wishes once he has agreed to the grant of licences. He is expected to recognise that, once he has agreed to the grant of licences, he is no longer acting in a totally free and geographically limitable market. The real issue here is that, once the owner of an Essential IPR has agreed to grant licences to users of the corresponding Standard, the CEC expects that any action it may then take, with regard to that Standard, will not result in a breach of its duties under the TBTA. The CEC would never permit a Standard to assume a mandatory nature if this would cause it to breach its international obligations.

9.3 Summary and Principles

- *the right of an owner of an Essential IPR to refuse the grant of licences*

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

is absolute;

- *once the owner of an Essential IPR has agreed to grant licences his freedom to choose terms and conditions is constrained;*
- *the owner of an Essential IPR is entitled to a fair return for granting licences.*

10. MANDATORY STANDARDS AND THE PUBLIC PROCUREMENT DIRECTIVE

10.1 Mandatory Standards

The Commission recognise that Standards can take on a mandatory character, both as a result of their incorporation in legislation and as a result of the effect of the Public Procurement Directive. Public Authorities, who make Standards mandatory by incorporating them in laws, or regulations, have certain responsibilities - see Section 4 above.

10.2 Public Procurement

The Public Procurement Directive requires Public Authorities and certain large utility companies, such as telecommunications operators, to purchase equipment by reference to European Standards. Since certain classes of telecommunication equipment are purchased almost exclusively by major telecommunications operators, for example infrastructure equipment, the Public Procurement Directive has the effect of making many, but not all, ETSI Standards mandatory. As previously discussed, special criteria are applied, by the Commission, to the licensing of IPRs Essential to mandatory Standards - see Section 8.1 above.

10.3 Summary and Principles

- *mandatory Standards can be created as a result of incorporation in legislation, or operation of the Public Procurement Directive;*
- *the licensing requirements for mandatory Standards are more onerous than for voluntary Standards.*

11. COMPETITION LAW AND STANDARDISATION

11.1 General Principles

The Commission see two primary areas of concern:

- the constitution and operation of Standards making bodies: Articles 85 and 86; and

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- refusal to licence Essential IPRs: Article 86

In general, the Commission's reasoning on these topics is conventional, although it is surprising that they have not given greater consideration to the application of Article 85 to situations in which an owner has agreed to grant licences under an Essential IPR and then proceeds to exercise, through licensing, that IPR in an uncompetitive manner.

11.2 Royalty Rates

This topic has already been discussed in earlier Sections of this Annex VII. However, to recapitulate, the imposition of fixed royalty rates by a Standard's maker may result in IPR licensing undertakings infringing Article 85(1), although an exemption may be available pursuant to Article 85(3).

The Commission's view on demands for excessive royalties under licences for Essential IPRs are slightly ambiguous. On the one hand, the Commission recognise that the owner of an Essential IPR may be in a dominant position and demands for excessive royalties may be abusive behaviour but, on the other hand, the Commission believe that a demand for an excessive royalty may amount to a refusal to grant licences. The Commission are, however, absolutely clear that the right of an IPR owner to refuse to grant licences is sacrosanct. The position under Article 86, with regard to excessive royalties, will probably depend on the prior behaviour of the right owner. In particular, if an owner knowingly encourages the adoption of his technology as a Standard and then demands excessive royalties this, it is submitted, will clearly be an abuse of a dominant position. On the other hand, where a right owners technology has been incorporated into a Standard without his agreement, demands for excessive royalties may fairly be regarded as a refusal to licence. It would certainly permit a more flexible approach if such matters could be dealt with under Article 85.

11.3 Article 86

A Standards making body could infringe Article 86 by insisting on the grant of licences at royalty rates which are insufficient to enable a right owner to obtain a fair return on his investment. However, nothing is said about the right of a Standards body to refuse to standardize a proposal put forward by an IPR owner which would, in the opinion of the Standards body, result in excessive royalties being charged by the IPR owner for use of the Standard.

The Commission point out that there is no precedent for the application of Article 86 in the Standards field. They conclude that it might be possible to demonstrate the existence of a narrow market, in standardized products, in which market dominance might be established. However, the mere refusal to licence an Essential IPR cannot be regarded as an abuse of a dominant position.

It is pointed out that the objective of Article 86 is to ensure that dominant

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

companies do not create conditions of trading in which they are able to stifle, or eliminate, competition. In the case of an Essential IPR, it is the Standards body, not the IPR owner, who has created the dominant position.

The conclusion is that Article 86 cannot be used to force the compulsory licensing of Essential IPRs. It is, therefore, the duty of the Standards body to ensure that its Standards are not subject to IPRs which are unavailable for licence.

11.4 Summary and Principles

- *an IPR owner has an absolute right to refuse to grant licences under his IPR and this overrides Articles 85 and 86 of the Rome Treaty;*
- *imposition of excessive royalties can be regarded as equivalent to a refusal to licence;*
- *undertakings, given to ETSI, relating to the licensing of Essential IPRs may need to be notified to the Commission;*
- *royalty fixing by ETSI may amount to an infringement of Article 85 and 86;*

12. THE TBTA

12.1 Trade Agreements

The Communication addresses the effect of International Trade Agreements, in particular, the Agreement on Technical Barriers to Trade (TBTA), on the standardization and IPR issue. It should be noted that the degree of compulsion to comply with the TBTA depends on whether a Standard is generated by a central government body, or a non-government body. In the context of ETSI and telecommunications standardization, ETSI may be a non-government body, but it receives official government (CEC) recognition and finance. Even more significantly, many ETSI Standards are made mandatory as a result of government action. It can, therefore, be concluded that for ETSI Standards there exists some compulsion towards compliance with the TBTA and, in the case of mandatory Standards, the highest level of compulsion applies.

For Standards which are directly incorporated into Community legislation, or are given mandatory status by operation of the Public Procurement Directives, Standard-compliant products, originating outside the EU, must be given the same treatment as those originating within the EU. This means that the CEC is obliged to ensure an importer can obtain licences from the owner of an Essential IPR for importation, marketing, sale and use in the CEC on fair, reasonable and non-discriminatory terms and conditions.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

12.2 Effect on licensing scope

The effect of the equal treatment requirements of the TBTA is that, at least so far as mandatory Standards are concerned, licences must be available for importation into the EU under Essential IPRs. Where such licences are not available, there absence will create a barrier to trade. Where the Standards concerned have been made mandatory by the CEC, unavailability of licences will mean that the CEC is in breach of its international obligations.

12.3 Action in Event of Non-compliance

Where licences are not available for importation under IPRs Essential to mandatory Standards, a number of options exist:

- withdraw the Standard;
- modify the Standard; or
- amend Community legislation so that the Standard is not mandatory.

The Commission take the view that Standards making bodies must recognise the need to identify any Essential IPRs before adopting a technical solution and for right holders to understand and accept the terms and conditions under which his rights will subsequently be licensed, both in respect of manufacture and importation licences.

12.4 Summary and Principles

- *CEC obligations under the TBTA effect ETSI Standards by virtue of the mandatory nature of many such Standards which flows from CEC legislation;*
- *licences under Essential IPRs must include a right of importation;*
- *an agreement by an owner of an Essential IPR to grant licences implies that the licences will extend to importation.*

13. CEC GUIDELINES

13.1 Codes of Practice and Guidelines

The Communication sets out the Commission's views on codes of practice and guidelines for the treatment of IPRs Essential to Standards.

Guidelines for Standards making bodies and Essential IPR owners are discussed briefly below, together with proposed Community action.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

13.2 For Standards Bodies

The Commissions Guidelines for Standards making bodies are as follows:

- a. *All persons wishing to have access to European Standards must be given access to those Standards.*

Licences under Essential IPRs must be available, to all who wish to be licensed, under Essential IPRs.

- b. *Standards are available for use on fair, reasonable and non-discriminatory terms regardless of whether the users participate in the work of the Standard making body or not, but taking into account the circumstances of use;*

Licences under Essential IPRs must be granted on fair and reasonable terms. Although licences to different users need not be on identical terms, there must be no material discrimination between licensees. Non-participation in the standardization process is not a ground for discrimination.

- c. *Users are able to use the above Standards to manufacture in conformity with the Standards in the Community, and to import into the Community goods legitimately manufactured in third countries in conformity with the Standards;*

Licences must permit manufacture in the EU and importation into the EU of goods legitimately manufactured outside the EU.

- d. *Best efforts are made to identify holders of any intellectual property rights*
 - *by conducting searches*
 - *by publications of adequate information and where appropriate by holding public enquiries, before adopting a Standard, work on a particular solution only continuing if all known intellectual property rights can be licensed for use in the Standard;*

Patent searches must be conducted on Standards to identify Essential IPR. Who should perform these searches is not specified. Standards should be adequately defined and published before adoption. Where Essential IPRs are identified which are not available for licence, work on the Standard to which they relate should cease.

- e. *Fair conditions are provided to the holders of intellectual property rights, especially with regard to the time limits for identifying IPRs and agreeing to their use, and in respect of arbitration mechanisms as to royalty rates.*

IPR owners should be treated fairly. In particular:

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- time limits for the identification of IPRs should be reasonable;
- time limits for agreeing licensing undertakings should be reasonable; and
- mechanisms for setting royalty rates should be reasonable.

13.3 For IPR Holders

The Commissions Guidelines for Essential IPR owners are as follows:

- a. The owners of an Essential IPR should *use best efforts to identify in a timely manner any IPR which they hold which is relevant to a Standard which is being developed and to confirm or refuse permission for its incorporation in that Standard promptly;*

The owner of an Essential IPR should:

- identify it promptly; and
 - make its position clear on whether, or not, it will grant licences, promptly.
- b. The owners of an Essential IPR should *offer fair, reasonable and non-discriminatory monetary or non-monetary terms for the licence to use an IPR;*

Licensing terms for Essential IPRs should be fair, reasonable and non-discriminatory. Licences may be for monetary, or non-monetary consideration.

- c. The owners of an Essential IPR should *regard agreement to the incorporation of an IPR in a Standard as irrevocable unless the exceptional circumstance justify withdrawal of licences once the Standard is adopted.*

Licences, and licensing undertakings, should, unless exceptional circumstances apply, be irrevocable.

13.4 For Public Authorities

The Commission may apply Community law, in particularly Articles 30 - 36, 59, 66, 85 and 86 of the Treaty of Rome, in certain situations arising in connection with Standard-IPR issues. This is not a case of applying Community law to ensure the availability of licences under Essential IPRs. In general, this will not be done.

The Commission must ensure that licences under IPRs Essential to a mandatory Standard are available to all interested parties on fair, reasonable and non-discriminatory terms and conditions.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

Where IPRs, Essential to a mandatory Standard, are not licensed on fair, reasonable and non-discriminatory conditions, the Commission will withdraw recognition of the Standard under Community Law.

Where a European standardization body consistently fails to ensure non-discriminatory access to its Standards, its status under community law may be reviewed.

13.5 Summary and Principles

- *Community law applies to the standardization process;*
- *Licences must be available to all under fair reasonable and non-discriminatory terms and conditions;*
- *Where licences are not available under IPRs, Essential to a mandatory Standard, the Commission will withdraw recognition of that Standard;*
- *Licences under Essential IPRs must permit import into the EU;*
- *Standards must be adequately defined and specified before adoption;*
- *Essential IPRs must be identified and the availability of licences determined before adoption of the relevant Standard;*
- *IPR owners must be treated fairly;*
- *IPR owners must identify their Essential IPRs promptly;*
- *IPR owners must indicate whether, or not, they will make their Essential IPRs available for licence promptly;*
- *licences and licensing undertakings relating to Essential IPRs should be irrevocable.*

14. CONSIDERATIONS CONCERNING OPERATION OF INTERIM IPR POLICY

14.1 Summary of Principles Relevant to ETSI

The analysis, presented in the foregoing sections of this Annex VII, of the Commission's Communication, has identified a number of principles which need to be applied to the resolution of the conflict between IPRs and Standards.

It should be noted that not all of these principles are applicable to the operation of the ETSI Interim IPR Policy, although many of the principles are already incorporated in the ETSI Interim IPR Policy.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

A summary of these principles is set out below under the following sub-headings:

- 14.1.1 General principles (A): not all of which have been derived from the Communication;
- 14.1.2 Principles, (B), relating primarily to the standardization process itself;
- 14.1.3 Principles, (C), relating to the licensing and availability of licences under Essential IPRs;
- 14.1.4 Principles, (D), relating to searching for Essential IPRs; and
- 14.1.5 Principles, (E), relating to avoidance of IPR blocked Standards.

14.1.1 General Principles

- A1. The ETSI Interim IPR Policy must be interpreted, and operated, in a manner compatible with the Commission's Communication on IPRs and Standardization.
- A2. ETSI should monitor operation of its IPR Policy.
- A3. The ETSI Secretariat has the power to determine the manner in which the ETSI Interim IPR Policy should be operated, without reference to the GA, provided such operation does not go beyond the powers devolved on the Secretariat by the ETSI Interim IPR Policy.
- A4. Decisions relating to the adoption of a Standard rest with the ETSI TA and GA, the Secretariat can only act in an advisory capacity.
- A5. It is the responsibility of the GA to ensure that the ETSI Interim IPR Policy is implemented by the Members of ETSI in a manner which is compliant with Commission's Communication on IPRs and Standardization;
- A6. Control may be exercised by a refusal to recognise Standards.

14.1.2 Principles Relating to the Standardization Process

- B1. De facto Standards may be incorporated in, or nominated as, ETSI Standards.
- B2. ETSI Standards need not be based on the "best available technology".
- B3. Standards must be adequately defined and specified before adoption.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

14.1.3 Principles relating to Licensing Essential IPRs

- C1. The right of an owner of an Essential IPR to refuse the grant of licences is absolute.
- C2. The owner of an Essential IPR is entitled to a fair return for granting licences.
- C3. ETSI has an obligation to ensure that its Standards are not subject to Essential IPRs for which licences are not available.
- C4. Owners of Essential IPRs should be requested to give licensing undertakings.
- C5. The licensing requirements for mandatory Standards are more onerous than for voluntary Standards.
- C6. Standards bodies should apply uniform rules to mandatory Standards.
- C7. For mandatory Standards, licensing undertakings should be comprehensive and negotiated before technology is incorporated into a Standard.
- C8. Licences must be available to all under fair reasonable and non-discriminatory terms and conditions.
- C9. Licensing undertakings should permit cross-licensing provided both parties agree.
- C10. Licensing terms and conditions should not discriminate against non-Members of ETSI.
- C11. Licensing terms and conditions should permit importation of Standard-compliant products into the CEC.
- C12. Licences and licensing undertakings relating to Essential IPRs should be irrevocable.
- C13. Time limits for replying to requests for undertakings should be imposed.
- C14. Royalty rates should take into account both the normal commercial rates and the enhanced market created by standardization.
- C15. Imposition of excessive royalties can be regarded as equivalent to a refusal to licence.
- C16. Royalty fixing by ETSI may amount to an infringement of Articles 85 and 86 of the Rome Treaty.
- C17. Licensing undertakings negotiated by ETSI may in some circumstances need

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

to be notified to the Commission pursuant to Article 85 of the Rome Treaty.

14.1.4 Principles Relating to Searching for, and Disclosure of, Essential IPRs

- D1. Standards users can be deemed to have constructive knowledge of the existence of published patents.
- D2. The submitter of a technical proposal can be presumed to have constructive notice of an ETSI Standard incorporating the technical proposal.
- D3. An entity represented on an ETSI TC, or STC, will probably be deemed to have constructive notice of Standards produced by that TC, or STC.
- D4. A Member of ETSI may not be deemed to have constructive notice of the existence of a Standard solely by virtue of his membership of ETSI.
- D5. An entity who is not a Member of ETSI will only be deemed to have notice of an ETSI Standard if specifically informed of its existence.
- D6. Where ETSI bases a Standard on proprietary technology it can be deemed to have constructive notice of the existence of IPRs owned by the proprietor of the technology.
- D7. Late disclosure of an IPR Essential to a Standard, of which the IPR proprietor has actual, or constructive, notice, is an act of bad faith.
- D8. ETSI should impose time limits for the disclosure of Essential IPRs.
- D9. ETSI should penalize late disclosure of IPRs.
- D10. ETSI can be deemed to have notice of potential IPR problems whenever it adopts third party Standards, especially de facto Standards.
- D11. If ETSI has actual, or constructive, knowledge of an Essential IPR, it must stop work on the Standard, to which the IPR is Essential, until it has determined that licences will be available under that Standard.
- D12. Where ETSI has constructive knowledge of Essential IPRs it is under a duty to investigate whether such IPRs actually exist.
- D13. The duty of manufacturers to search their own IPR portfolios may be mitigated in situations where ETSI accepts the responsibility for the conduct of patent searches.
- D14. ETSI has an obligation to conduct patent searches where it incorporates proprietary technology, belonging to an entity that does not have constructive

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

notice of the existence of a Standard, into that Standard.

14.1.5 Principles Relating to Preventing Standards being Blocked by IPRs

- E1. If a request for a licensing undertaking does not receive a satisfactory reply within a time limit set by ETSI, work on the relevant Standard should be stopped.
- E2. Rules applied to standardization must conform to community law, the standardization needs of the Community and the international obligations of the Community.
- E3. Public Authorities should only permit a Standard to assume a mandatory character if:
- the Standard is supported by a consensus of users;
 - the Standard is available to all users subject to the mandatory effect of the Standard; and
 - adoption of the Standard will not prevent compliance with International Treaties.
- E4. Where licences are not available under IPRs Essential to a mandatory Standard the Commission will withdraw recognition of that Standard.

14.2 Searching

It is quite clear that the Commission believe that patent searches should be conducted to determine whether, or not, Standards are subject to Essential patents, especially where a Standard is mandatory. What is not so clear is who should be responsible for the conduct of such searches.

In the case where proprietary technology has been incorporated into a Standard, it would appear that the Commission view is that unless ETSI accepts responsibility for the conduct of patent searches, the responsibility lies with an owner of the proprietary technology who has consented to its inclusion in a Standard. However, Clause 4.2 of the ETSI Interim IPR Policy makes it clear that there is no obligation on Members of ETSI to conduct patents searches. This can only be interpreted as meaning that ETSI has accepted the responsibility for searching its Standards even when these are based on submissions made by ETSI Members - see principles D13 and D14.

In any case, where ETSI has actual, or constructive, notice that a Standard may be subject to an Essential IPR - see principles D6 and D10, it is obliged to conduct appropriate searches - see principles D12 and D14. Furthermore, the Commission take the view that everybody has constructive notice of the existence of a patent once

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

that patent has been published, presumably as a patent application, see principle D1.

This does not mean that ETSI has to conduct patent searches on every Standard. It is only necessary to conduct patent searches where ETSI can be regarded as having good reason to believe that a patent search might reveal Essential patents. In particular, there is no need for patent searches to be conducted where the form of a Standard makes it unlikely that Essential IPRs exist.

It should be noted that Clause 6.2 of the ETSI Interim IPR Policy requires ETSI to arrange for searches to be undertaken for a specific Standard, or class of Standards, at the request, and expense, of the European Commission and/or the EFTA Secretariat.

14.3 Disclosure of IPRs

Members of ETSI who have actual, or constructive, knowledge of a Standard, or the development of a Standard, are obliged to disclose any Essential IPRs of which they are aware. Clause 4.1 of the ETSI Interim IPR Policy sets out this principle.

The Commission take a slightly more positive view of the obligation of an ETSI Member to disclose Essential IPRs, which the Member owns, by stating that a failure to disclose an Essential IPR, in good time, is an act of bad faith - see principle D7. However, for a late disclosure, or non-disclosure, of an Essential IPR to amount to an act of bad faith on the part of the IPR owner, the owner must have actual, or constructive, knowledge of the Standard to which the IPR relates and the ETSI Standard concerned must be adequately defined, see principle B3. This in turn means that the definition of work items contained in the ETSI Work Programme must be such that it is possible to make a determination of whether, or not, an IPR is Essential to a given work item in order to facilitate early disclosure of Essential IPRs.

Because of the difficulties that might arise in determining whether, or not, an ETSI Member has actual knowledge of a particular Standard, the Commission have developed the concept of constructive knowledge of a Standard. This means that, if certain circumstances can be demonstrated to exist, it can be said that a Member can be presumed to have had knowledge of a Standard; it is not necessary to demonstrate actual knowledge. In the context of ETSI, it is possible to derive a set of rules defining the circumstances in which an Essential IPR owner can be said to have constructive knowledge of the existence of a Standard to which his IPR is Essential - see principles D2, D3, D4 and D5.

The Commission take the view that ETSI can, and should, impose time limits for the disclosure of Essential IPRs - see principle D8. Where a technical submission is put forward for standardization, ETSI ought to seek a declaration on the existence of Essential IPRs from the submitter. Principle D8 means that ETSI is entitled to impose a reasonable time limit for a response to a request for an Essential IPR Declaration. Failure to respond, within the time limit, can then be interpreted as an act of 'bad faith'. At least by following this procedure, ETSI can demonstrate that it

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

has acted responsibly in seeking to determine whether, or not, any Essential IPRs exist, even if this does not completely discharge ETSI's duty to carry out patent searches.

Finally, it should be noted that the Commission takes the view that ETSI should penalize late disclosure of Essential IPRs - see principle D9. Precisely how this can be done is not clear. Certainly, the ETSI Interim IPR Policy does not give the ETSI Secretariat a mandate to impose penalties.

14.4 Criteria for availability

Having discovered that a Standard is subject to an Essential IPR, ETSI is obliged to take appropriate steps to ensure that the Standard is available, i.e. licences under that Essential IPR are available.

The terms and conditions that must be offered, for licences under Essential IPRs, are dealt with in Clause 6 of the ETSI Interim IPR Policy. Principles C8, C9, C10, C11 and C12 define the licensing terms that should apply to Essential IPRs. These principles can be summarised by the following statements:

- licences should be non-exclusive, irrevocable and on fair, reasonable and non-discriminatory terms and conditions;
- licences must permit import of Standard-compliant goods into the EU;
- licences may be for non-monetary consideration, provided both parties agree;
- licences must be available to all parties interested in a Standard; and
- licensing terms should not discriminate against non-Members of ETSI.

The only contentious statement is the one relating to importation. However, special requirements apply to the licensing of IPRs Essential to mandatory Standards - see Section 14.7 below.

While ETSI is obliged to determine whether, or not, licences are available under Essential IPRs, owners of Essential IPRs are not obliged to agree to the grant of licences. The right of an IPR owner to refuse to grant licences is absolute - see principle C1.

However, ETSI is clearly entitled to request the owner of an Essential IPR to give an undertaking to license - see principle C4. Furthermore, ETSI can set a time period in which a response to a request for an IPR undertaking must be made - see principle C13. The response to such a request can, of course, be a refusal to give an IPR undertaking, in which case, ETSI must consider further appropriate action - see Section 14.5 below. It should be noted that ETSI is obliged to ensure that its

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

Standards are not blocked by IPRs - see principle C3.

In determining whether, or not, the terms and conditions offered by the owner of an Essential IPR are acceptable, it should always be remembered that the owner of an Essential IPR is entitled to a fair return for granting licences under his Essential IPR - see principle C2.

14.5 Cessation of Standardization Work and Withdrawal

Where licences are not available under an Essential IPR, the only recourse open to ETSI is to cease work on the relevant Standard, if not yet adopted, or withdraw the Standard, if already adopted - see principles C3 and D11. Where an Essential IPR blocks a Standard, i.e. a satisfactory licensing undertaking has been refused, or an ETSI time limit has been exceeded, work on the Standard should cease, except to the extent that it is directed to modifying the Standard, so as to avoid the Essential IPR - see principle E1. If a TC, or STC, continues to develop a Standard blocked by an Essential IPR, the members of that TC, or STC, are responsible for any wasted effort they put into the development.

In considering how a Standard can be modified to avoid an Essential IPR for which licences are not available, it should be noted that the Commission do not require Standards to be based on the best technology available - see principle B2. Nor is there any reason why, provided the necessary licences are available, a de facto Standard should not be substituted for a blocked ETSI Standard - see principle B1,

To sum up, work on an ETSI Standard should be stopped, or the Standard should be withdrawn, if:

- a request for an IPR declaration is not met within the specified time limit;
- a request for an IPR undertaking is not met within the specified time limit;
- an IPR undertaking, in respect of an IPR Essential to the Standard, is refused; and
- the terms of an IPR undertaking are unacceptable;

14.6 No expropriation

The right of an IPR owner to refuse licences is absolute - see principle C1. Furthermore, the offer of licences under an Essential IPR at excessive royalty rates, or on other unacceptable terms and conditions, may be regarded as equivalent to a refusal to licence - see principle C15. However, where the owner of an Essential IPR offers an IPR undertaking, which at face value is acceptable, and then proceeds to adopt a licensing policy in clear violation of the principles that the Commission believe should apply to the licensing of Essential IPRs, it may be possible to take action by

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

reporting the IPR owners unacceptable behaviour to the Commission.

While the right to refuse licences under an Essential IPR is absolute, the right to exercise that IPR in an anti-competitive, or abusive, manner is not permissible under European law.

14.7 Mandatory Standards

The ETSI Interim IPR Policy does not accord a special status to mandatory Standards, perhaps because the majority of ETSI Standards can be argued to have a mandatory nature. Unfortunately, the Commission's Communication on IPRs and Standardization does accord a special significance to mandatory Standards. This is not surprising since a Standard can only take on a mandatory character as a result of the operation of national, or Community, law, or regulation.

In particular, principles E2, E3 and E4 express the Commissions views on their responsibilities with regard to mandatory Standards. Unless the process by which mandatory Standards are produced and their general availability accords with the highest criteria, the Commission will not recognise such Standards, nor will the Commission permit themselves to be put in a position where they are in breach of their international obligations by virtue of recognising a Standard as mandatory.

It therefore follows that where an ETSI Standard is, or may become, mandatory, operation of the ETSI Interim IPR Policy must be effected, with considerable rigour, in order to ensure that a Standard is not blocked by an Essential IPR..

In particular, the licensing provisions applicable to mandatory Standards are stricter than those which are applicable to the generality of Standards - see principle C5. Furthermore, there is a requirement of uniformity of approach both within, and between, European Standards bodies, to the licensing of IPRs Essential to mandatory Standards - see principle C6.

The Commission appear to take the view that IPR licensing undertakings, applicable to IPRs Essential to mandatory Standards, should be reasonably precise instruments which are negotiated before the technology, to which an Essential IPR relates, is incorporated into a Standard - see principle C7.

It is even contemplated that such IPR undertakings may specify, or limit, royalty rates to be applied under licences granted for Essential IPRs relating to mandatory Standards - see principles C14 and C15.

However, where ETSI fixes royalty rates, it may need to notify IPR licensing undertakings to the Commission - see principles C16 and C17. It may be wise, at least initially, to informally advise the Commission of any IPR licensing undertakings negotiated by ETSI that relate to potentially mandatory Standards, whatever form these take.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

It seems unrealistic for ETSI to insist on any limitation in royalty rates in a licensing undertaking because of the substantial variation in products that may be subject to a given Standard. In any case, a royalty rate is meaningless unless the royalty base is also defined. Perhaps the most that could be done is to include a general statement to the effect that a licensor would not charge excessive licence fees which have the effect of preventing licensees accepting licences, or exploiting the Standard.

15. ETSI'S POWER/DUTY TO ENFORCE

ETSI has very few powers it can use to deal with those who seek to abuse the standardization process, whether they are ETSI Members, or non-ETSI Members.

The only real action that can be taken by ETSI, if either the ETSI Interim IPR Policy, or Commission principles for standardization, as set out in the Communication, are breached, is to halt development of a Standard, or withdraw a Standard.

In this Section 15 of Annex VII, the actions open to ETSI, as a means of encouraging compliance with both the ETSI Interim IPR Policy and the Commission's Communication on IPRs and Standardization, are briefly discussed.

15.1 Cessation of Standardization Work

Once an IPR problem has been identified and initial attempts to resolve it have failed, work on a Standard under development can be stopped until the IPR issues have been resolved. It will almost certainly require a resolution of the TA to implement this course of action.

Those companies actively engaged on the development of a Standard may be reluctant to see their work stopped. However, the ETSI Secretariat will need to advise the TA of situations in which cessation of work on a Standard has been effected.

Some of the situations that might justify cessation of work on a Standard are listed below:

- refusal to give, or delay in obtaining, an IPR declaration;
- refusal to give, or delay in obtaining, a licensing undertaking in respect of an Essential IPR;
- the offer of a licensing undertaking which does not conform to either the ETSI Interim IPR Policy, or Commission requirements;
- a complaint that the terms and conditions offered for licences, under Essential IPRs, are preventing, or will prevent, implementation of a Standard;

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- conduct of a full patent search where there is reason to believe that a large number of Essential patents may exist;
- identification of problems with cumulative royalties.

Halting the development of a Standard may, in many cases, be sufficient to persuade the owners of a de facto Standard, or proprietary technology, incorporated in the Standard to comply with ETSI's Interim IPR Policy.

The economic advantages to be gained through ownership of an Essential IPR are considerable, and these advantages can only be fully realised if a Standard is formally adopted.

15.2 Withdrawal

Withdrawal of a Standard that has already been adopted is a process that should not be lightly undertaken, or recommended. It is an extreme remedy which may cause ETSI Members to suffer considerable losses. It should only be necessary to use this procedure where Essential IPRs which are not available for licence, are discovered after adoption of a Standard.

In general, adoption of a Standard must be delayed until all known IPR issues are resolved. The greatest difficulty with this remedy is likely to arise where geographic limits are imposed on licences, for example, a refusal to permit importation, which are not seen by ETSI's Members as prejudicing their interests, but which would cause the EU to be in breach of its international obligations. Where such situations do occur, it may be necessary for the ETSI Secretariat to advise the TA/GA, in the strongest possible terms, of the action which should be taken.

15.3 Publication of Information

Formal Standards must, if they are to be recognised by the Commission, be prepared by a democratic process of consensus building.

If the standardization process is to be truly democratic, those who make decisions on adoption of Standards must have at their disposal all relevant information on the commercial consequences of adopting a Standard. This necessarily includes information on the existence of Essential IPRs and their availability for licence.

Clause 7 of the ETSI Interim IPR Policy requires that "information **pertaining to ESSENTIAL IPRs** which are brought to the attention of ETSI" shall be published. This means that, not only the existence of an IPR must be published, but also details of licensing undertakings. If this is done, it should enable informed decision on the adoption of a Standard to be reached. This would clearly meet the Commission's requirements on the democratic nature of the standardization process.

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

15.4 Duties of the ETSI Secretariat

The ETSI Secretariat has a responsibility to:

- gather information on IPRs Essential to ETSI Standards;
- determine whether licences are available under such IPRs and, if so, the terms and conditions which will apply to such licences;
- publish the information gathered; and
- advise the TA/GA on compliance with the ETSI Interim IPR Policy and Commission's principles on standardization.

To perform these duties in a reasonably uniform and consistent manner, the ETSI Secretariat will need to work to a set of internal procedures. The precise form of these procedures are a matter for the ETSI Secretariat alone.

The ETSI Secretariat are not empowered to make decisions, on behalf of ETSI, except where clearly mandated so to do by the ETSI Interim IPR Policy, or any procedures relating thereto.

15.5 Duties of Membership

The only way in which ETSI can infringe the principles set out in the Commission's Communication on Intellectual Property Rights and Standardization is by adopting Standards which:

- are blocked by Essential IPRs, that is to say, blocked in the sense that there is no guarantee that licences under Essential IPRs will be available on terms and conditions which comply with the principles set by the Commission; or
- have not been adequately investigated by the performance of patent searches; or
- have not been prepared by a process compliant with the Commission's principles;

or by failing to disestablish a Standard blocked by an IPR.

The decisions relating to the adoption and disestablishment of Standards are made by ETSI's Members at TAs and GAs. It is, therefore, clear that ultimate responsibility for compliance with the Commission's principles on IPRs and standardization rests with the ETSI membership, although the ETSI Secretariat has a duty to advise and inform. In addition, by their individual actions with regard to Essential IPRs, the membership are in a position to facilitate the success, or failure,

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

of ETSI in producing Standards which comply with the criteria set by the Commission.

16. CONCLUSIONS AND RECOMMENDATIONS

16.1 Advice to membership

As explained in Section 15.5 above, compliance with both the Commission's principles on IPRs and Standardization and ETSI's Interim IPR Policy, rests largely with ETSI Members.

16.2 Internal Procedures

To ensure uniform treatment of IPR issues that arise in standardization, the ETSI Secretariat need to work to a set of internal procedures. These procedures are a matter for determination by the Secretariat, without interference from the Membership, but they must comply with the mandate established through the ETSI Interim IPR Policy.

16.3 Power of Decision

The ETSI Secretariat does not, in general, have the authority to make decisions on issues relating to Standards and IPRs. Such decisions can only be made by the ETSI membership through the medium of the TA and GA.

16.4 Devolution to TC Chairman

TC and STC Chairmen are at the cutting edge of the standardization process within ETSI. They will necessarily be involved with the operational aspects of the ETSI Interim IPR Policy. It should be noted that the ETSI Secretariat have prepared, for this purpose, a 'Chairmen's Intellectual Property Rights Survival Guide' which is set out in Annex V to this Handbook.

16.5 Sensitive Issues

Some of the issues relating to the licensing of Essential IPRs raised in this Annex VII are particularly sensitive, since they can be seen as having a direct counterpart in the now defunct IPR Undertaking.

Areas which require particularly sensitive treatment are:

- rights of importation;
- geographic scope of licences;
- royalty rates;

EC'S COMMUNICATION ON IPR AND STANDARDIZATION

- obligations on searching and disclosure;
- timing of disclosures of IPRs;
- penalties for late disclosure of IPRs;
- the "best technology" issue; and
- definition of the ETSI work program.

It is believed that most of these issues can be resolved without too much difficulty, however, the importation issue can be expected to cause considerable difficulties.

16.6 Monitoring

The Commission have frequently expressed the view that there is a need to monitor the ETSI Interim IPR Policy, in operation. ETSI cannot take the view that, having agreed an Interim IPR Policy, the issue of IPRs and Standards has been successfully concluded. There is a continuing need for the TA and GA to consider IPR issues on a Standard-by-Standard basis and to monitor operation of the Interim IPR Policy.

There is little doubt that the Commission, and others, will monitor operation of the ETSI Interim IPR Policy.

16.7 Interim Nature of the ETSI IPR Policy

The ETSI Interim IPR Policy will remain in effect for at least 2 years. The best way to avoid a repetition of the prolonged arguments that arose over the development of the present IPR Policy, in two years time, is to demonstrate through careful monitoring, that the Interim IPR Policy is operating successfully.

16.8 Commission's Communication on Intellectual Property Rights

The analysis of the Commission's Communication on Intellectual Property Rights, has identified a number of principles which need to be applied to the resolution of the conflict between IPRs and Standards. It should be noted that not all of these principles are applicable to the operation of the ETSI Interim IPR Policy, although many of the principles are already incorporated in the ETSI Interim IPR Policy.