ANNEX VIII

MISCELLANEOUS DOCUMENTS RELATING TO THE ETSI INTERIM IPR POLICY

GA 21 Temp Doc 5 (The Commission's position)

GA 21 Temp Doc 23 (the Administration's position)

Chairman's (of the GA) Statement at GA 21

GA22(95)5 ("The Mechanism")

MISCELLANEOUS DOCUMENTS

Annex 8.2

1. INTRODUCTION

In this Annex VIII of the Handbook, the full text of four documents which are of key importance to understanding the ETSI Interim IPR Policy, and its operation, is set out. All four documents are referred to in "Chairmen's Intellectual Property Rights Survival Guide October 1995".

2. GA 21 TEMP DOC 5 (THE COMMISSION'S POSITION)

The details of GA 21 Temp Doc 5 are as follows:

(a) Source: European Commission

(b) Title: Commission Statement on ETSI IPR Policy

(c) Agenda Item: 17

(d) Document for: information

'1. The Commission has carefully examined the draft ETSI Policy document on Intellectual Property Rights and Standardization, that has been tabled by the Chairman. Our appreciation of this document is based on the fact that ETSI is an independent standards organisation and that any solution to this issue should be widely supported. On the other hand, the Policy to be established must be compatible with the principles set out in the Commissions Communication of October 1992 (EC's Communication on IPR and Standardization, COM(92)45 final of 27 October 1992) on Standardization and IPRs, principles which reflect Community law and policies.

2. The Commission recognises that the present Policy document is in itself in line with these principles. If, therefore, a consensus of the interested parties exists for this Policy, the Commission will be happy to see the time-consuming debate on this matter concluded, and to support ETSI in this Policy.

3. The Policy contains a series of principles and commitments, and is intended to form a part of the ETSI Rules of Procedure. It is different from the Undertaking previously discussed in that it does not detail the licensing terms. Given the differences, 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 . 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.

4. The Commission notes that the proposed Policy is of a temporary character and that its function will be subject of re-examination. The Commission accepts this approach but would of course 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.

5. In conclusion, and against this background, the Commission expresses the hope that ETSI will be able to conclude its debate on IPRs and standardization, and will support a decision of the General Assembly to adopt the present proposal on IPRs.'

3. GA 21 TEMP DOC 23 (THE ADMINISTRATION'S POSITION)

The details of GA 21 Temp Doc 23 are as follows:

(a) Source: Administrations of Denmark, France, Germany, Ireland, Netherlands, Norway, Portugal, Spain, Switzerland, Turkey, United Kingdom

(b) Title: Proposal for an ETSI Interim IPR Policy

(c) Agenda item: 17

(d) Document for: Information

'Declaration of Administrations on the IPR Policy of ETSI

This joint declaration is made by the above mentioned Administrations being Members of ETSI, concerning the proposal for adoption by ETSI of an interim IPR Policy.

The Administrations have noted the earlier problems in adopting and implementing an IPR Policy framework. They have been aware of the different interests of standards users and IPR owners, and the need for a solution within ETSI to be based on a broad consensus. They have also acknowledged the difficulty of the task of resolving these different objectives.

They recognise the importance to ETSI and the European telecommunications sector fro the ETSI General Assembly to reach a conclusion on its IPR policy discussions, and to adopt and implement a Policy as soon as possible. To this end, the Administrations have considered the new interim IPR Policy proposed

by the ETSI General Assembly Chairman. They consider this proposal to be the only solution on which a majority can be reached at this stage and forms an acceptable basis on which future experience can be gained.

Furthermore, the Administrations also confirm their intention that the implementation of the Policy should meet the public policy objectives which underlie its establishment. They recognise the particular 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.

The Administrations are committed to the widest possible geographic availability and use of all standards in the interests of economic scale and enhanced international trade. To reflect the increasing trend of globalisation in the telecommunications sector, the Administrations would also recognise the need to promote and secure world-wide interoperability through the use of standards in the international context. Administrations expect that IPR licensing arrangements would evolve to take full and proper account of these aspects.

The Administrations further note 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.

The Administrations state their willingness to consider alternative measures necessary if the use of mandatory standards will be hindered by the non-availability of IPR on fair, reasonable and non-discriminatory conditions.'

4. CHAIRMAN'S (OF THE GA) STATEMENT AT GA 21

At GA 21 the Chairman of the ETSI General Assembly, Dr Antonio Castillo, tabled the following statement:

'Clause 5 in the ETSI Interim IPR Policy stipulates that "ETSI shall establish guidelines for the chairmen of COMMITTEES with respect to ESSENTIAL IPRs".

Therefore, I will, as GA Chairman, arrange for the preparation of a proposal for a document to be tabled at the next GA meeting. Amongst other things, this document will encompass a proposal for a flexible and responsive mechanism to be available, if the need arises, regarding the potential impact of IPRs on the successful implementation of a particular standard.

Regarding point 3 of Temp. Doc. 5 from the European Commission, such a mechanism would also be able to support the monitoring of the operational effectiveness of the IPR Policy in meeting the requirements of European

standardization, and give guidance to the GA/TA regarding the IPR Policy and its implementation.'

5. GA22(95)5 ("THE MECHANISM")

The details of this GA 22 document are as follows:

(a) Source : ETSI GA Chairman

(b) Title: IPR Guidance for standards implementation

(c) Agenda item: 16

(d) Document for: Decision

'Members will recall that, at the specially convened General Assembly meeting of 23 November 1994, I 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. As stated in ETSI/GA 21(94) Temp. Doc 5 from the European Commission, such a mechanism should be able to support the monitoring of the operational effectiveness of the IPR Policy in meeting the requirements of European standardization and give guidance to the Assemblies regarding the IPR Policy and its implementation.

I propose the following:

> 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.

This text allows for the development of sufficient guidelines for the TCs, with minimum bureaucracy. The director will shortly provide these guidelines for the information of TCs.

Annex 8.6

In the meantime, the Technical Committee Chairmen may wish to contact the ETSI Secretariat regarding IPRs. If raised in subordinate bodies (e.g. STCs or Working Groups), these issues should be referred to the relevant TC Chairman for onward transmission to the Secretariat.

ANNEX IX

QUESTIONNAIRE

FOR

TECHNICAL PROPOSALS

QUESTIONNAIRE FOR TECHNICAL PROPOSALS

Annex 9.2

QUESTIONNAIRE FOR TECHNICAL PROPOSALS

1. INTRODUCTION

It is important that the adoption of new technical proposals for ETSI Standards, made to ETSI Committees, do not result in ETSI Standards being blocked by IPRs. However, implementation of this objective must not result in:

- ETSI Committees being diverted from their primary task by debates on IPR issues;
- any ETSI Member being excluded from a Technical Committee;
- any ETSI Member being refused permission to submit a non-confidential technical proposal; or
- a failure to consider any new technical proposal on its technical merits.

To facilitate this objective, the Chairmen of ETSI's Technical Committees may choose to follow the procedures set out in this Annex IX.

2. PROCEDURES FOR TECHNICAL PROPOSALS

The Chairmen of ETSI's Technical Committees may apply the following procedure to all new technical proposals submitted to his/her Committee for an ETSI Standard:

- complete the questionnaire, set out in Appendix A to this Annex IX, to the extent possible, by seeking the information required from any person making a new technical proposal;
- send a copy of the completed questionnaire to the ETSI Secretariat and, in particular, the Deputy Director of ETSI, as soon as possible; and
- act promptly to any request from the ETSI Secretariat for further information.

This procedure should be treated as an information gathering process, not a decision making process.

ETSI Technical Committees should not make preemptive decisions on the basis of information revealed by completion of the questionnaire.

The Chairmen of ETSI's Technical Committees are reminded that the ETSI Interim IPR Policy is now operative and that the provisions in the Interim IPR Policy, relating to disclosure of confidential information, should be followed.

QUESTIONNAIRE FOR TECHNICAL PROPOSALS

APPENDIX A

QUESTIONNAIRE

1. Designation of ETSI Committee .....

2. Brief description of technical proposal .....

3. The Standard to which the technical proposal relates .....

4. Identity of the person making the technical proposal and his employer .....

5. Identity of the origin of the technical proposal, i.e. the person who owns the technology, concept, or idea set out in the technical proposal, if different from (4) above .....

6. Identity of any IPRs, especially patents, known to relate to the technical proposal and owned, or controlled, by the originator of the proposal, or others .....

7. Would the originator/proposer be prepared to sign a statement to the effect that his company does not own any IPRs relating to the proposal, or that, if any such IPRs are found to be Essential to an ETSI Standard incorporating the proposal, he would be prepared to grant licences under such IPRs ..... Yes/No

8. If the originator/proposer states that he does own IPRs relating to the proposal, would he be prepared to give an undertaking to grant licences under those IPRs on the terms and conditions specified in the ETSI IPR Policy ..... Yes/No

This questionnaire should, after completion, be sent to the ETSI Secretariat and marked for the attention of the Deputy Director of ETSI. The return of this questionnaire should not be delayed because of the unavailability of any of the requested information.

Signed .....

Chairman of .....

ANNEX X

IPR STATEMENTS AND DECLARATIONS

IPR STATEMENTS AND DECLARATIONS

Annex 10.2

1. INTRODUCTION

The ETSI Interim IPR Policy requires ETSI Members, particular those who have made a technical proposal for a Standard, to disclose IPRs which they are aware may be Essential. Although the ETSI Interim IPR Policy places no requirement on the timing of such declarations, compliance with EC policy on standardization requires that such disclosures should be made as early as possible in the standardization process. For this reason it is likely that requests/reminder will, from time-to-time, be issued reminding Members of their obligations under the ETSI Interim IPR Policy, in this respect. Members will need to respond to such "calls for IPRs".

The ETSI Interim IPR Policy also requires that ETSI seek undertakings, from the owners of Essential IPRs, that licences will be available on terms and conditions which accord with the ETSI Interim IPR Policy. Since the term "undertaking" appears to conjure up images of compulsory licensing, ETSI has decided to refer to such documents, at least so far as ETSI Members are party to them, as "Declarations". This is a convenient term to use as a means of distinguishing between undertakings given by Members and non-Members, which may need to differ in form, for reasons discussed later in this Annex.

This Annex includes three basic documents:

- an IPR Statement for use when disclosing Essential IPRs;
- an IPR Declaration, as set out in the Chairmen's Intellectual Property Rights Survival Guide, with some slight modifications, which may operate to the advantage of the declarant; and
- an IPR Undertaking, which could be used when the owner of an Essential IPR is not a member of ETSI.

It must be emphasised that none of these documents has received official approval from ETSI.

For the officially approved versions of the ETSI IPR Statements and ETSI IPR Declarations, reference should be made to Annex V where the Chairmen's Intellectual Property Rights Survival Guide is set out.

2. EFFECT OF THE ETSI INTERIM IPR POLICY

There is a strong argument that Members of ETSI are bound by the ETSI Interim IPR Policy, since this Policy is now incorporated into the Statutes and Rules of Procedure of ETSI. ETSI is an association under French law and, as such, its Members are obliged to further the objectives of ETSI, as established by the Statutes and Rules of Procedure which, it can be assumed, they have accepted by virtue of their continued membership of ETSI.

This means that, so far as Members of ETSI are concerned, there is no need to reiterate details of licensing terms and conditions, set out in the ETSI Interim IPR Policy, or implicit in that Policy, because of EC standardization policy. This means that very simple letter statements and agreements, signed by Members, are sufficient to demonstrate that licences are available, in accordance with the ETSI Interim IPR Policy. There is no requirement for lengthy, or bureaucratic agreements. However, Members resident in, or subject to, the jurisdiction of Common law countries, may deem it wise to insert certain limitations in any Declaration, or Undertaking, they give to ETSI. It may, for example, be prudent to emphasise, when making an IPR statement, that special searches have not been conducted and that no guarantee is to be implied as to the completeness of any lists of Essential, or potentially Essential, IPRs given with such a Statement.

However, non-Members of ETSI are not bound by the ETSI Interim IPR Policy. This means that licensing declarations, or undertakings, sought from such persons must incorporate the necessary terms and conditions needed to ensure compliance with the ETSI Interim IPR Policy. It can be argued that since nobody is obliged to grant licences under Essential IPRs, all licensing Declarations/undertakings should be made as anodyne as possible, thereby encouraging signature. However, decisions on whether, or not, to adopt a Standard may well be based on the assumption that the existence of a signed undertaking means that licences, which really do comply with the ETSI Interim IPR Policy, will be available under an Essential IPR . For this reason, where an Essential IPR is owned by a person who is not a Member of ETSI, it is important that the undertaking given by that person be rigorously drafted. This is especially true where the undertaking is not governed by French law.

3. IPR STATEMENTS

Appendix A of the "Chairmen's Intellectual Property Rights Survival Guide" dated October 1995 - see Annex V of this Handbook, contain an IPR Information Statement. However, a simple letter notifying ETSI of the existence of IPRs, which are believed by a Member to be Essential, will fully comply with the requirements of the ETSI Interim IPR Policy.

As an alternative, the form of IPR Statement, set out below, may be used with advantage by ETSI Members.

****

IPR STATEMENT

*This statement is made this ..... day of..... by ********** (the SIGNATORY), of **********.*

The SIGNATORY believes that the patents/patent applications listed in Annex 1 may

be relevant to the Standards listed in that Annex (the STANDARDS).

The SIGNATORY wishes to draw ETSI's attention to the fact that a positive determination of Essentiality cannot be made until a patent has been granted, pursuant to a patent application, and the STANDARD, to which the patent is believed to relate, has been adopted.

The SIGNATORY is under no obligation, by virtue of the making of this statement, to carry out any IPR investigation, in respect of either his own IPRs, or the IPRs of others.

The Signatory does not warrant the accuracy, or completeness, of the information contained in Annex 1, and accepts no liability for any damage, or loss, resulting from reliance on this information.

[The SIGNATORY hereby declares that it will grant non-exclusive, irrevocable licences under the patents and/or patent applications listed in Annex 1, to the extent that they are Essential to an adopted STANDARD, as listed in Annex 1, of sufficient scope to enable a licensee to implement the STANDARDS. Such licences will be on terms and conditions which are in accordance with Clause 6.1 of the ETSI Interim IPR Policy, in the light of the document entitled "IPR GUIDANCE FOR STANDARDS IMPLEMENTATION" adopted by ETSI's 22nd General Assembly on 31st March 1995, and will be such as to avoid operation of Clause 8.1.2 of the ETSI Interim IPR Policy, in respect of the STANDARDS.

As permitted by Clause 6.1 of the ETSI Interim IPR Policy, any licence granted, by the SIGNATORY, will be subject to the condition that those who seek licences shall reciprocate.]

[The SIGNATORY declares that it is not prepared to grant licences under the patents and/or patent applications listed in Annex 1]

Terms which are written in capital letters, and are not herein defined, shall have the meaning accorded to them by the ETSI Interim IPR Policy.

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

Signed for and behalf of .....

By .....

Position.....

Signature .....

Annex 10.5

ANNEX 1

List of Patents and Patent Applications owned by ************* and Relating to the ************ Standards***

Patent/application Number	*Standard*	*Comment*

****

The paragraphs in square brackets may be omitted, or included, as appropriate. It should be noted that an IPR statement does not need to be accompanied by a licensing declaration.

4. IPR DECLARATIONS BY ETSI MEMBERS

In order to meet the requirements of the ETSI Interim IPR Policy it is only necessary to provide a simple letter declaration indicating that licences will be available. Appendix B of the "Chairmen's Intellectual Property Rights Survival Guide" dated October 1995 - see Annex V of this Handbook - contains one form of IPR Licensing Declaration and indicates that a simple letter agreement incorporating the points made in the Declaration is acceptable to ETSI. A modified form of Declaration, which may be used as an alternative to the Official form is set out below. It should be noted that the ETSI Interim IPR Policy does not address the question of the countries in which licences must be granted. Omission of a definition of territory from the official ETSI form of Declaration may work to the advantage, or disadvantage, of the declarant. In particular, it is by no means clear whether such licences must be world wide, limited to CEPT countries, limited to countries which adopt the Standard to which the Declaration relates, etc.. In some cases, a declarant may feel more comfortable if he knows the extent of his obligation in this respect.

****

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).

IPR STATEMENTS AND DECLARATIONS

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, or potentially ESSENTIAL, to the Standards listed in Annex II (the STANDARD). However, the SIGNATORY wishes to draw ETSI's attention to the fact that a positive determination of Essentiality cannot be made until a patent has been granted, pursuant to a patent application, and the STANDARD, to which the patent is believed to relate, has been adopted. The SIGNATORY also wishes it to be noted that he is under no obligation to carry out any IPR investigation, in respect of his own IPRs.

The SIGNATORY does not warrant the accuracy, or completeness, of the information contained in Annex 1, and accepts no liability for any damage, or loss, resulting from reliance on this information.

The SIGNATORY hereby declares that it will grant non-exclusive, irrevocable licences under the patents and/or patent applications listed in Annex 1, to the extent that, and so long as, they are ESSENTIAL to the STANDARD, of sufficient scope to enable a licensee to implement the STANDARD. Such licences will be on terms and conditions which are in accordance with Clause 6.1 of the ETSI Interim IPR Policy.

As permitted by Clause 6.1 of the ETSI Interim IPR Policy, any licence granted, by the SIGNATORY, will be subject to the condition that those who seek licences shall reciprocate.

[For the avoidance of doubt, the SIGNATORY is only prepared to grant licences in the countries listed in Annex III.]

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 .....

****

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 ETS, or work item reference numbers, as appropriate.

****

ANNEX III to the DECLARATION

The Countries in which Licences will be Granted

****

5. IPR UNDERTAKINGS BY NON-MEMBERS OF ETSI

Where the owner of an Essential IPR is not a Member of ETSI, a fuller form of Undertaking is required to give ETSI some degree of certainty that licences will be available on terms and conditions which comply with ETSI's Interim IPR Policy. However, it is important that non-Members should not be asked to sign a form of undertaking that is more onerous than the Declaration required of Members who own Essential IPR. If ETSI were to do this, it could be interpreted as discrimination against non-Members, in the sense that it would be harder for non-Members, than for Members, to have their technology adopted for standardization by ETSI.

The form of undertaking, set out below, it is suggested, is in substance identical to that set forth in Section 4 above, except that it incorporates the relevant provisions contained in the ETSI Interim IPR Policy explicitly.

****

IPR LICENSING UNDERTAKING

This undertaking (the UNDERTAKING) is made this ..... day of..... by ..... (the SIGNATORY), of .....

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

The SIGNATORY is the proprietor of the IPRs listed in Annex I (the IPRs) which, it is believed, are ESSENTIAL, or potentially ESSENTIAL, to the Standards listed in Annex II (the STANDARD). However, the SIGNATORY wishes to draw ETSI's attention to the fact that a positive determination of Essentiality cannot be made until a patent has been granted, pursuant to a patent application, and the Standard, to which the patent is believed to relate, has been adopted.

The SIGNATORY hereby undertakes to grant, on request, non-exclusive, irrevocable licences under the patents and/or patent applications listed in Annex 1, to the extent that, and so long as, they are Essential to the STANDARD, of sufficient scope to enable a licensee to implement the STANDARD. Such licences will be on fair, reasonable and non-discriminatory terms and conditions and shall permit the following acts in relation to STANDARD compliant products, services, or methods:

- *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;*
- *sale, lease, or other disposal of STANDARD compliant products, or services;*
- *repair, use, or operation STANDARD compliant products, or services; and*
- *use of METHODS.*

The SIGNATORY hereby undertakes that it will grant licences under the patents and/or patent applications listed in Annex 1, which are granted by any state which is a member of the European Union necessary to enable importation of STANDARD compliant products, or services, into the European Union.

The SIGNATORY will endeavour to ensure that all licences granted by him pursuant to the UNDERTAKING shall, so far as they relate to any state which is a member of the European Union, comply with EC policy on standardization as set out in the EC's Communication on IPR and Standardization, COM(92)45 final of 27 October 1992.

Any licence granted, by the SIGNATORY, may be subject to the condition that those who seek licences shall reciprocate.

[For the avoidance of doubt, the SIGNATORY is only prepared to grant licences in the countries listed in Annex III.]

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

Signed for and behalf of the SIGNATORY

By .....

Position .....

Signature .....

ANNEX I to the UNDERTAKING

The IPRs

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

****

ANNEX II to the UNDERTAKING

The Standard(s)

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

****

ANNEX III to the UNDERTAKING

The Countries in which Licences will be Granted

****

6. CONCLUSIONS

Three documents have been set out in this Annex, a form of IPR Statement, a form of IPR Declaration for use by ETSI Members and a form of IPR Undertaking for use by non-Members of ETSI. None of these documents have received approval by ETSI and, only two, namely the IPR Statement and IPR Licensing Declaration have Official ETSI equivalents. None-the-less, it is believed that these documents would be acceptable if freely offered by the owner of an Essential IPR.

It should also be noted that special circumstances may dictate that the wording

of the proposed documents be modified. However, it should be readily apparent how these documents can be modified, without changing the overall intent behind them. For further information on the subject of licensing, Annex XII to this Handbook should be consulted.

ANNEX XI

CONTRACTS AND AGREEMENTS

Annex 11.2

1. INTRODUCTION

If proprietary technology is used as the basis for developing a Standard, there is a substantial risk that the owner of the technology will also own IPRs, especially patents, which will be Essential to the Standard. It would, of course, be unwise to base a Standard on proprietary technology without the permission of the proprietor, since the proprietor may be in a position to prevent use of that technology by refusing the grant of licences under relevant IPRs. However, if the proprietor has authorised the use of his technology, in the development of a Standard, it is not unreasonable to expect him to grant whatever licences are required, under his Essential IPRs, to ensure that the Standard is not blocked.

There is, however, a need to provide mechanisms which will enable ETSI to co-operate with third parties, in relationships which may result in the incorporation of technology originating from those third parties, without excessive risk of generating Standards that are blocked by IPRs.

This Annex XI examines the types of relationship that ETSI may need to enter with third party collaborators, and the ways of reducing the risk that any ETSI Standards, established on the results of such relationships, will be subject to blocking IPRs, i.e. Essential IPRs which are not available for licence in each of the countries in which the Standard concerned is to be implemented, on fair, reasonable and non-discriminatory terms and conditions.

ETSI has already formalised collaborative arrangements with a number of organizations, many of whom are Standards bodies, see "TA Working Procedures - Section H: Procedures for co-operation with outside bodies"

2. FORMS OF EXTERNAL RELATIONSHIP

Relationships, with the potential for creating ETSI Standards based on third party proprietary technology, can arise either through a direct linkage between ETSI and a third party, or through a linkage between an ETSI Member and a third party.

Where an ETSI Member acts as a "front" for a third party, by presenting technology, of which he is not the proprietor, to an ETSI Technical Committee, the Member concerned should ensure that licences will be available to ETSI Members, and others wishing to implement the resulting ETSI Standard, in each of the countries in which the Standard concerned is to be implemented, on fair, reasonable and non-discriminatory terms and conditions. The Member concerned, bears the sole responsibility if the Standard resulting from the use of the technology, which he has sponsored, is blocked by a third party IPR. This must be true whether, or not, the technology was used with the consent of the original proprietor.

Direct relationships between ETSI and third parties can be classified, according to the nature of the third party and the type of relationship. In particular, ETSI has,

or can be expected to establish, relationships with:

- other Standards bodies;
- trade associations, and other bodies having a collective membership; and
- individual entities such as companies, sub-contractors and consultants.

The form of such relationships, can be regarded as falling into three classes:

- collaborative relationships, in which all parties contribute to a particular project and can reasonably expect to enjoy the fruits of the project on an equitable basis;
- contractual relationships, in which ETSI pays a third party to perform work on a project; and
- arrangements in which ETSI builds on the work of a third party, for example, by basing an ETSI Standard on a CCITT Recommendation.

In establishing relationships with third parties, ETSI's objectives are to:

- demonstrate respect for the IPR policies of other Standards bodies;
- ensure that any IPRs that become Essential to ETSI Standards, as a result of the relationship, are available for licence to, at least, ETSI Members:
  - in each of the countries in which the Standard concerned is to be implemented, on fair, reasonable and non-discriminatory terms and conditions; or
  - at the very least, on terms and conditions which do not block the Standard in each of the countries in which the Standard concerned is to be implemented;
- ensure that any technology on which a Standard is based, originating from a third party, is not regarded as secret; and
- ensure that in those cases where ETSI Standards are used as a basis for international standardization, a clear statement is available listing any IPRs which are Essential to the Standard, together with the licensing terms and conditions which will attach to those IPRs.

In the following sections of this Annex XI, the different types of relationship, referred to above, will be considered in rather more detail, together with ways of

minimising the risk of third party Essential IPRs blocking ETSI Standards.

3. COLLABORATIVE RELATIONSHIPS WITH OTHER STANDARDS BODIES

In establishing relationships with other Standards bodies ETSI needs, for political reasons which should be obvious, to respect the approach other Standards bodies have to dealing with the IPR-Standard conflict. However, it is perfectly reasonable for ETSI to formally request information from a Standards body, with whom it is collaborating, or on whose standards it wishes to base ETSI Standards:

- on the nature of their IPR Policy; and
- the steps that have been taken to implement that policy in respect of a particular standard.

In particular, ETSI can request from a Standards body:

- copies of any undertakings/IPR Statements that may have been given to the Standards bodies by their members and/or others; and
- details of any procedural steps taken;

in respect of IPRs Essential to a standard on which ETSI intends to base its own standardization work. (For example the British Standards Institute requires Essential patents to be endorsed "licences of right" - a form of voluntary compulsory licensing.)

It would, of course, be entirely reasonable for ETSI to request an assurance that there are no known IPRs, Essential to a standard, or standard recommendation, promulgated by another Standards body.

It is important that ETSI explain its IPR objectives to other Standards bodies, so that they clearly understand ETSI's needs, with regard to the availability of licences for Essential IPRs.

Following this course of action does not guarantee that IPR problems will not arise, as a result of basing ETSI Standards on the work of other Standards bodies, but it does give ETSI a cause for legitimate complaint when such problems do arise. A record should be kept of the steps taken when basing ETSI work on standards, developed by other Standards bodies, and any problems that subsequently arise must be monitored. The EC can be expected to monitor the effectiveness of the ETSI Interim IPR Policy as an instrument for ensuring that EU policy on standardization is implemented in respect of ETSI Standards. It is, therefore, of considerable importance that ETSI be able to demonstrate that it has taken all reasonable steps to ensure that Standards are not blocked by IPRs.

Collaboration with other Standards bodies is a two way process. Such

collaborations will result, not only in ETSI Standards being based on standards elaborated by other bodies, but the standards promoted by other bodies, especially International Standards bodies, being based on Standards elaborated by ETSI. The ETSI Interim IPR Policy does not guarantee that licences will be available for IPRs Essential to ETSI Standards. In particular, the scope of such licences may be territorially restricted to the countries in which the Standard concerned is to be implemented. It is important for ETSI's reputation that it does not knowingly induce other Standards bodies to adopt ETSI Standards which may be blocked in territories for which such Standards bodies are responsible, i.e. in any country for which ETSI has not secured a right of licence for the Standard concerned.

It would, therefore, be prudent for ETSI to examine those of its Standards which it intends to promote, on an international basis, to determine whether, or not, there are any IPRs, Essential to those Standards. If such IPRs exist, it will then be necessary to determine if there are any restrictions, on the scope of licences available, or the nationality of the licensee. An IPR report setting out details of Essential IPRs relevant to any Standards promoted, on an international basis, by ETSI, should be prepared, together with an indication of the licensing terms and conditions which will apply to those Standards.

4. COLLABORATIVE RELATIONSHIPS WITH TRADE ASSOCIATIONS

There are a number of issues which arise in relation to Trade Associations, which bear on the issue of IPRs and Standards. In particular, Trade Associations which are Members of ETSI, may represent entities who are not ETSI Members.

Any contractual relationship between ETSI and a Trade Association will in normal circumstances not bind the individual members of the Trade Association. A Trade Association could, therefore, be used as a means of introducing patented proprietary technology into ETSI Standards.

Where a Trade Association is a Member of ETSI, they have a right to be represented on ETSI's Technical Committees. Such a Trade Association may be represented, on an ETSI Technical Committee, by an individual who is the employee of a non-Member (of ETSI) and is therefore not subject to the ETSI Interim IPR Policy. It is, therefore, of considerable importance that ETSI be fully aware of the true interests of those who represent Trade Associations on ETSI Technical Committees. Such representatives should be asked to make a simple declaration of interest, in the form of an IPR Statement, stating:

- the name of their employee;
- whether, or not, their contributions are based on proprietary technology; and
- if so, supply details of any IPRs covering such technology, together with

the licensing terms and conditions under which such IPRs would be made available for any ETSI Standard embodying the technology.

Where a Trade Association, or for that matter any other entity representing a collective membership, is not an ETSI Member, there is a high probability that a significant number of its members will also be non-Members (of ETSI). It is vital, in these circumstances, that such a Trade Association be asked to give a legally binding assurance that appropriate licences will be available in respect of IPRs Essential to ETSI Standards, derived from any technology which the Trade Association, or any of its members who do not belong to ETSI, contribute to the work of an ETSI Technical Committee, or standardization project group. Such an assurance must deal both with foreground IPRs, that is IPRs created during the course of collaboration, and background IPRs, that is IPRs that existed before the start of the collaboration. The licences which ETSI must seek to guarantee must be of comparable scope, and on comparable terms and conditions, to those which it would seek from its own members for the implementation of ETSI Standards.

It is not unreasonable, when entering a collaboration with any entity representing a collective membership, for ETSI to place itself in a position to seek legal redress if, as a result of that collaboration ETSI, or its Members, suffer loss through abortive work on ETSI Standards.

5. COLLABORATIVE RELATIONSHIPS WITH INDIVIDUAL ENTITIES

From time to time, it may be of advantage for ETSI to enter collaborative arrangements, with individual entities, for the performance of R&D, either at the pre-normative, or normative stage. Such collaborations, by their very nature, can be expected to generate IPRs which will, in due course, become Essential to ETSI Standards. Furthermore, the partners in such a collaboration can be expected to bring technology, which is subject to IPRs, to the collaboration. It is a clearly accepted custom and practice for the parties to a R&D collaboration to secure the rights they need, in order to exploit the results of such a collaboration. Any entity, entering a collaborative R&D project with ETSI, can be expected to be aware of the uses to which ETSI will need to apply the results of the collaboration.

Many examples of collaborative R&D agreements exist, which can be used as a basis for collaborations to which ETSI is a party, perhaps the most useful are those used with EC sponsored R&D programs. However, any such collaborative agreement will need to address the following issues:

- availability of licences to, at least, ETSI Members;
- terms and conditions for licences under:
  - foreground IPRs; and

- background IPRs;

- scope of licences; and

- availability of licences, under IPRs owned by ETSI Members, to the other party to the collaboration.

The last indent raises a significant problem, since the ETSI Interim IPR Policy does not oblige ETSI Members to grant licences to any party. It will, therefore, be necessary to obtain an undertaking, from ETSI Members, to grant licences to any party who collaborates with ETSI. Alternatively, any ETSI Member engaged in a collaboration, on behalf of ETSI, with a third party, should be required to sign, and be a party to, the collaboration agreement between ETSI and the third party. Much will depend on the assurances which the third party requires.

As a matter of commercial reality, nobody will wish to enter a collaborative arrangement with ETSI, if by so doing their commercial objectives will be frustrated by, for example, IPRs owned by one, or more, ETSI Members.

If a potential collaborator (with ETSI) is not prepared to accept terms and conditions, in a collaborative agreement, which guarantees that any Standard, established on the basis of the collaboration, will not be blocked by IPRs owned by the collaborator, ETSI should not collaborate.

6. CONTRACTED R&D

From time to time, ETSI may wish to employ the services of consultants, or other entities who are not ETSI Members, to perform normative, or pre-normative, R&D on its behalf. Such arrangements should be controlled by an R&D contract placed with the entity performing the work. In some cases ETSI may be in a position to secure ownership of IPRs arising from such work; Section 9 of the ETSI Interim IPR Policy allows ETSI to take ownership of IPRs where the work is performed by non-Members (of ETSI). However, the potential importance of background IPRs should not be forgotten.

It is not, in fact, necessary for ETSI to seek ownership of IPRs arising from contracted R&D, but it is vital that ETSI secures a guarantee of licences, under both foreground and background IPRs, for all persons having a declared interest in the related ETSI Standard(s). Since ETSI Members will have paid, albeit indirectly, for the R&D, they may be entitled to royalty free licences under foreground IPRs, especially where the contracted R&D is fully funded by ETSI.

The scope and terms of the licences, which an ETSI contractor should be required to grant, will obviously be the subject of negotiation between the ETSI Secretariat and the party concerned but, as a matter of administrative convenience, ETSI should ensure, whenever possible, that the territorial scope of such licences is

worldwide.

ETSI should not place R&D with any contractor who refuses to accept ETSI's standard contract terms and conditions. If variations of such terms are permitted, it will lead to prolonged negotiation and commercial uncertainty.

It therefore follows from the foregoing that, in drafting such standard terms and conditions, ETSI should seek the minimum it needs to fulfil its obligations to its membership and others having an interest in ETSI Standards.

It is of course possible, that ETSI Members may wish to have the results of R&D, which they have contracted out, incorporated into ETSI Standards. There is nothing which prohibits Members of ETSI sponsoring the use of technology, which is not their own, in ETSI Standards. All that can reasonably be asked of Members (of ETSI), is that they make a declaration that the technology they bring to ETSI's Technical Committees, for standardization purposes, is either their own, or that they have secured the guarantee of the grant of licences with a scope, and on terms and conditions, that satisfy ETSI's requirements.

7. CONCLUSIONS

This Annex XI has outlined ways in which ETSI can work with third parties, without substantially increasing the risk that its Standards will be blocked by third party IPRs. Implementation of the proposals will not eliminate the risks, but will minimise them. The main problem area lies in collaboration with individual third parties.

Because of the politically sensitive nature of collaboration with other Standards bodies, such collaborations should be carefully monitored and any IPR problems which do arise, should be recorded.

The primary action required is the identification of situations which may result in a relationship between ETSI and a third party increasing the risk of ETSI Standards being blocked by IPRs. Such situations will occur where ETSI establishes Standards on the basis of technology originating from an entity who has not given an appropriate undertaking to licence Essential IPRs. The solutions proposed in this Annex XI are directed towards ensuring that appropriate licensing guarantees are put in place.

8. SUMMARY

- ETSI should respect the IPR policies of other Standards bodies.
- ETSI should seek assurances, when basing its work on the standards of other Standards bodies, that:

  - no Essential IPRs exist, or
  - if such IPRs do exist, that they will not block the ETSI Standard.

- Preparation of an IPR Statement for all ETSI Standards which are to be promoted internationally, setting out IPRs Essential to that Standard, together with the terms and conditions on which licences are available under those IPRs.
- ETSI should maintain a record of steps taken in the establishment of relationships with other Standards bodies and any problems that result therefrom.
- Where a Trade Association is a Member of ETSI, representatives of that Trade Association, sitting on ETSI's standardization committees, should be asked to make a declaration of interest (IPR Statement).
- Where a Trade Association is not an ETSI Member, ETSI should seek a legally binding assurance that:
  - any IPRs covering technology contributed by the Trade Association, or its members; which
  - become Essential to an ETSI Standard based on that technology;

  will not block that Standard in any country in which the Standard is to be implemented.
- ETSI should only enter a collaboration with a third party if the third party agrees to enter a formal collaborative agreement with ETSI.
- Such collaborative agreements must guarantee the availability of appropriate licences.
- EC collaborative R&D programs provide a basic model for such collaborative agreements.
- ETSI should ensure that it places contracts for the performance of R&D, only on terms and conditions which guarantee licences of a scope, and on terms and conditions, which satisfy ETSI's requirements.
- Licences guaranteed to ETSI Members under foreground IPRs arising out of ETSI contracted R&D should, where appropriate, be royalty free.
- Licences guaranteed under ETSI R&D contracts should, if possible, be worldwide licences.

- ETSI should ask Members to make a declaration, when they introduce technology into ETSI Standards, that licences will be available of a scope, and on terms and conditions, which satisfy ETSI's requirements.

All of the foregoing points can be summarised in the following statement:-

"ETSI should ensure that, wherever it bases its standardization work on technology which was not contributed/generated by its own Members, guarantees are obtained that licences will be available of a scope, and on terms and conditions, which satisfy ETSI's requirements."

ANNEX XII

LICENSING AND AGREEMENTS

LICENSING AND AGREEMENTS

Annex 12.2

LICENSING AND AGREEMENTS

1. INTRODUCTION

This Annex XII of the N&M Handbook looks at some of the principles and practices of licensing, their relationship to commercial agreements, and their interaction with competition law. The topics are treated at an introductory level with the emphasis on commercial, rather than legal aspects. The aim is to make the subject comprehensible to those who are neither lawyers, nor licensing specialists.

Licensing is a commercial activity concerned with the question: what is "A" prepared to give in order to gain access to that which is owned by "B"? This question is analogous to the question: what will "A" pay to rent "B"'s building? However, the analogy should not be stretched too far.

The law applicable to IPR licensing is not precisely the same in all countries. However, in most countries, the broad principles of licensing and competition law have a common theme. For a detailed treatment of the legal aspects of licensing, the reader should consult a suitable reference work on licensing, such as, "Forms and Agreements on Intellectual Property and International Licensing" by Leslie William Melville.

In particular, this Annex XII, considers the following matters:

- the nature of a licence,
- exclusive and sole licences,
- types of agreements, and
- the definition of licence scope.

In addition, consideration is given to some of the terms and conditions which may be encountered in a simple patent licence agreement. The emphasis is on the effect, and reasons for inclusion, of particular terms and conditions.

Finally, this Annex XII considers the following matters:

- determination of royalties
- software licensing, and
- competition law.

When reading this Annex XII, it should be remembered that the law is a living system which changes continuously, and experts should always be consulted to determine the precise current position on any given issue.

2. LICENCES, LICENCE AGREEMENTS AND LICENCE OPTIONS

2.1 Nature of a Licence

A licence is a permission to do that, which without permission, can be forbidden. The need for a licence depends on the existence of instruments which prevent the performance of certain acts. In the case of intellectual property licensing these instruments are intellectual property rights. For example, a patent is infringed if a person other than the owner makes, uses, sells, imports or exports goods which fall within the scope of the claims of the patent, without the permission of the owner. The licensing of IPRs equates to granting permissions to perform one, or more, of the acts which are the exclusive preserve of the owner of the IPR. These acts vary with the IPR in question.

IPRs are not indivisible instruments, therefore a licence need not permit operation within the entire scope of an IPR, see section 4.5 below. Much of the skill in licensing lies in the determination of the precise scope of the licence to be granted. The scope of an IPR licence determines the boundary between that which the licensor can stop his licensee doing and that which the licensee is permitted to do by the licence.

He who grants a licence, in the case of IPRs the owner of the IPR, is normally referred to as the licensor. He who is granted, or receives, a licence is normally referred to as the licensee. (Note that in certain cases a licensee is empowered to grant licences under an IPR which he does not himself own. Such arrangements are usually referred to as sub-licences and are granted by a sub-licensor to a sub-licensee).

2.2 Consideration

Why should the owner of a monopoly right allow anyone else to operate within his monopoly? In many cases, the owner of an IPR will refuse to grant licences, something which he is quite entitled to do. Even if he agrees to grant a licence, he will expect there to be some advantage which accrues to him from the grant. *That which the licensor gains from the grant of a licence can, if it can be identified in reasonably concrete terms, be regarded as the consideration for the grant.* A licensor may also gain intangible advantages by granting a particular licence e.g. reputation in a new market, improved relations with a key supplier, or future profit from a joint enterprise. Such intangibles are usually a poor substitute for hard currency. In the vast majority of licences the consideration for the grant will be either:

- monetary,
- the grant of licences, back to the licensor, or
- payment in kind e.g. supply of goods manufactured by the licensee, or access to the licensee's technology.

2.3 Licence Agreements

An agreement to grant a licence is a contract subject to the normal laws of contract. A licence agreement may be in written form or it may be parole, i.e. a verbal agreement. If a licence agreement is to be enforceable its terms and conditions must be sufficiently clear to enable a court to understand the intentions of the licensor and licensee. It is always good practice to keep an agreed written record of any parole licence.

A licence can, in itself, be regarded as a property right. Provided the licensor has not forbidden it, the licensee can:

- sell his licence to another (assignment, or novation of the licence), or
- licence all, or some, of his rights under the licence to another (referred to as sub-licensing).

A sub-licensee can, in his turn, grant sub-licences. However, the majority of licence agreements forbid the licensee from either assigning the licence, or granting sub-licences, except in a few carefully defined special cases.

2.4 Licence Options

For a variety of reasons, it may not be possible, or commercially attractive, to grant a particular licence at a given point in time. *If the licensee and licensor are agreed that a licence will be necessary at some future date, then a licence option may be granted.* This is a binding undertaking given by the licensor to the licensee that a licence will be granted on the occurrence of some future event, e.g. a request by the licensee for the grant of the licences, or the grant of a patent currently still at the application stage.

An undertaking to grant licences is not always given to the potential licensee, it may be given to any interested party, e.g. a purchaser of equipment who wishes to secure a second source. In the field of standardization, it is not unusual for a standards making body to ask the owner of an IPR which has the potential to block a standard, to make a declaration that licences under an IPR, will be made available on request, to anybody with an interest in working to the standard. Such a declaration will normally be given to the standards making body.

A common characteristic of licence options is that they may amount to no more than a contract to "agree to agree" and may, therefore, prove to be unenforceable. If an undertaking, or declaration, is to be enforceable, it must define:

- the scope of the licences to be granted, and
- the terms and conditions that will attach to those licences,

with sufficient precision to enable a court, in the event of a dispute, to determine the intentions of the parties. In many cases, especially in the field of standardization, a licence option will refer to "fair and reasonable terms and conditions". This is a vague phrase without precise meaning. However, in most industries, custom and practice can, usually, be relied upon to flesh out the meaning of this phrase. In the event of dispute, evidence could always be produced as to what, by custom and practice, can be regarded as fair and reasonable. To take an optimistic view, it should be relatively easy for a court, or an arbitrator, to determine what is "fair and reasonable".

2.5 Non-litigation Agreement

Occasionally, the owner of an IPR will neither wish to stop a potential infringer, nor to accept the loss of flexibility incurred by the grant of a formal licence. *He may, therefore, undertake not to enforce his IPR, i.e. give an undertaking not to litigate.* Few, if any, conditions will attach to such an agreement, which may well be parole, and normally there is nothing to prevent an IPR owner withdrawing from such an agreement on very short notice. Agreements of this type may be used where the impact of an infringers operations are minimal and the IPR owner is reluctant to accept either the administrative burden of managing a licence, or the cost of litigation. Such agreements may also be used to give an infringer some security during a period in which licence negotiations are to be conducted.

2.6 Summary

- a licence is a permission to do something that is normally forbidden.
- a licence agreement defines the scope of a licence and the terms and conditions which attach to it.
- a licence option is a binding undertaking to grant licences in the future.
- consideration is that which a licensor receives for granting licences.

3. EXCLUSIVE AND SOLE LICENCES

3.1 Exclusive Licences

By granting an exclusive licence the licensor agrees:

- *to permit his licensee to operate within, at least, part of the scope of the licensed IPR,*
- *not to operate within the scope of the exclusive licence himself, and*
- *not to grant any other licences within the scope of the exclusive licence.*

In most respects, this puts the licensee in the position of the owner of an IPR, for at least a portion of the monopoly scope of the licensed IPR. One consequence of this is that in many jurisdictions, an exclusive licensee can take legal action against an infringer of the exclusively licensed IPR and, if necessary, join the owner of the IPR as a defendant (if he refuses to join the action as plaintiff).

Where a licence is exclusive, it is prudent to ensure that the licensee has the right to grant sub-licences, otherwise a situation is created in which no further licences can be granted. The effect of this is that the exclusive licensee does not have the authority, and the licensor has surrendered the ability, to licence others. It is, however, possible to grant more than one exclusive licence under a particular IPR provided the scopes of the two licences do not overlap.

3.1.1 Examples

(A): If "A" owns a patent which covers an innovative screw driver, "A" can exclusively license "B" to make that screwdriver with a green handle, and exclusively license "C" to make the same screwdriver with a red handle, while still retaining the right to manufacture the screwdriver with a yellow handle. The licence scopes do not overlap since in each case only one person can manufacture screwdrivers with red, green or yellow handles.

(B): A patent licence may grant the licensee an exclusive licence to:

- manufacture in, and
- export widgets from, but not
- to sell widgets in,

a given territory. The licensor can sell widgets which are manufactured by his licensee, or import and sell widgets which he, or his supplier, has manufactured outside the territory. The licensee can manufacture widgets in the territory and export them for sale in any country where the licensor does not own a patent. Neither of them is permitted to perform the same acts in the territory.

(C): Assume that a licensor owns patents covering widgets only in countries "A", "B" and "C". A first licensee may be exclusively licensed to make and sell widgets in country "A". And a second licensee may be exclusively licensed to make and sell widgets in country "B". In this case the licensor cannot make, or sell, widgets in either countries "A", or "B", the first licensee cannot make, or sell, widgets in either countries "B", or "C" and the second licensee cannot make, or sell, widgets in countries "A", or "C". All three can make and sell widgets in all countries other than "A", "B" and "C".

3.2 Expression of Exclusive Licences

An exclusive licence may be granted as such, or by the inclusion in a licence

agreement of an undertaking that the licensor will not engage in certain of the licensed operations. In many cases, such an undertaking may be in the form of a non-compete clause. Two examples of the form of grant of an exclusive licence are given below.

3.2.1 Examples

(A): The licensor hereby grants the licensee an exclusive licence to make and sell widgets in France pursuant to the licensor's French patent number xxxxx.

(B): The licensor hereby grants the licensee a licence to make and sell widgets, in France, pursuant to the licensor's French patent number xxxxx, and the licensor agrees that he will neither manufacture, nor sell, widgets in France himself. The licensor further agrees that he will not grant any other licences for the manufacture and sale of widgets, in France, pursuant to his French patent number xxxxx.

The latter expression of the licence grant simplifies the definition and interpretation of licence scope in complex licences.

3.3 Sole Licences

If, when granting a licence, the licensor undertakes that he will grant no other licences, within the scope of the licence grant, he is said to have granted a sole licence. The licensor is, however, free to operate within the scope of the licence himself. The licensee is not, therefore, in the same position as the owner of an IPR and does not automatically have a right to take legal action against infringers of the licensed IPR. In some legal systems, exclusive and sole licences are not clearly differentiated, so care must always be taken in interpreting and using the phrases "sole", or "exclusive", licence.

3.3.1 Examples

(A): Consider a copyright licence relating to a mask work. The licensor might grant a licence in the following terms - "The licensee is hereby granted a licence to manufacture and sell LSIs which are subject to the unregistered design rights, copyright and mask works listed in Annex 1 in Germany, France and the United Kingdom. The licensor undertakes to grant no other licences for the manufacture and sale of LSIs subject to the said unregistered designs, or copyright, in the United Kingdom." So far as the United Kingdom is concerned, the licence is a sole licence, and the licensor cannot grant further licences for the United Kingdom. However, the licensor may grant further licences in France and Germany, and is free to manufacture and sell the licensed LSIs in all three countries himself.

(B): An alternative expression of the grant, set out above, might read:- "The licensor hereby grants the licensee a sole licence to manufacture and sell LSIs subject to the unregistered design rights and copyright listed in Annex 1 in the United Kingdom.

The licensor hereby grants the licensee a non-exclusive licence to manufacture and sell LSIs, subject to the unregistered design rights, copyright and mask works listed in Annex 1, in France and Germany."

3.4 Quasi-Exclusive Licences

If the owner of an IPR has previously undertaken to grant licences under any of his IPRs to a standards making body, he is debarred from granting exclusive, or sole, licences for any of his IPR to which the undertaking might apply. *He can, however, grant an exclusive licence with a special exception permitting him to operate within the licence scope, and grant licences within that scope, for the purposes of furthering standardization or complying with a standard.* The resultant licence is not, strictly speaking, an exclusive licence and can be thought of as "quasi-exclusive" licence. In fact, a detailed analysis of the licence scope would show that the licence is in fact exclusive for most of its scope, but such scope has a non-exclusive "exception". Quasi-exclusive licences may also have application in other areas where a generalised commitment to grant licences has to be given, e.g. in the case of government funded collaborative R&D programmes, such as RACE, and ESPRIT. By the use of this device, it is possible for a licensor to grant licences which are of substantially equivalent commercial effect to exclusive, or sole licences, whilst at the same time retaining freedom to comply with an undertaking that the licensor has entered, or is contemplating entering.

It should be noted that most licence agreements contain a clause which absolves the licensor from complying with any licence commitment contained in the agreement that conflicts with a commitment contained in an earlier agreement. Reliance on such a clause could, however, prove unsafe, unless a licensee is made aware of any prior undertaking. The reason for this is that most licence agreements also contain a warranty that the licensor has the ability to grant the licences which the agreement purports to grant.

3.4.1 Example

An IPR owner is contemplating making a declaration, to ETSI, that one of his patents, which is "Essential" to an ETSI Standard, is available for licence to any person who requests such licence. The licence scope must be sufficient to enable a licensee to comply with an ETSI Standard, but need be no wider. It is possible that the declaration may apply to an IPR which the owner needs to licence exclusively, as part of a joint venture arrangement, for the manufacture of widgets.

In the foregoing circumstances, the licensor could grant a licence to the joint venture (JV) in the following terms:

> "The licensor hereby grants the JV an exclusive worldwide licence under the licensed patents to manufacture widgets. Notwithstanding the exclusive licence hereby granted, the licensor shall be free to manufacture widgets for the purpose of complying with any Standard promulgated by ETSI, and shall be

free to grant licences to third parties for the purpose of permitting them to comply with any Standard promulgated by ETSI".

The form of words, given above, represents a simplification of the licence grant which would be used in practice, but it does give a flavour of what can be done.

Another possible solution, not recommended, would be to place an obligation on the exclusive licensee to grant sub-licences for the purpose of compliance with an ETSI Standard when requested to do so.

3.5 Non-exclusive Licences

The normal form of licence grant is non-exclusive. That is to say, the licensor grants his licensee permission to operate within the scope of the licence, but accepts no limitation on his freedom of action to operate within the licence scope, or to grant further licences within the licence scope.

3.6 Mixed Licences

In most "exclusive" licence agreements, the licences granted will be a mixture of exclusive, sole and non-exclusive licences. A typical example is set out below.

3.6.1 Example

"The licensor hereby grants the licensee licences under the patents listed in Annex Z to manufacture widgets in, sell widgets in, import widgets into, export widgets from and use widgets in, the territory (the territory is defined as Europe, the USA. Canada and Mexico). The licences hereby granted shall be exclusive licences:

- for the manufacture of widgets in the USA, Canada, and Mexico, and

- for sale of widgets in the USA.

For the remainder of the territory, the licences herein granted shall be non-exclusive." The licensor and licensee are both free to manufacture widgets in Europe, and to sell widgets in Canada and Mexico. However, the licensee can neither manufacture, nor sell, widgets in Israel and India (where the licensor also has patents), and the licensor cannot manufacture, or grant licences for manufacture, in the USA, Canada and Mexico, nor can he sell, or licence sale, of widgets in the USA. The licensee can, however, import widgets manufactured in Taiwan (where there are no patents) into Canada, and the licensor can sell European manufactured widgets in competition with his licensee in Canada and Mexico.

Many of the other examples, given in this Annex XII, are examples of mixed licences.

The definition and interpretation of the operations which licensee and licensor

are permitted under a mixed licence, can be extremely complicated, and must be approached in a systematic manner.

4. TYPES OF AGREEMENT

Licence grants are encountered in a wide variety of commercial agreements. Such agreements do not always carry a clear label "Licence Agreement". To make life even more difficult, licences are not always granted in explicit form, they may be implicitly granted by terms of an agreement that appear unconnected with IPR licensing. If conflict between agreements is to be avoided, it is essential for a licensor to be aware of all licences that he has granted, irrespective of whether they be implicit, or explicit. It is of course, always preferable to make the grant of an IPR licence explicit, so that its scope can be properly defined, and both the licensor and licensee are clear as to their commitments and freedoms.

Typical examples are set out below:

(A): A manufacture "A" enters an exclusive sales agency agreement with company "B", whereby "B" is given the sole and exclusive rights to sell "A"'s widgets in South America. The agreement makes no mention of IPR licences despite the fact that "A" has a number of South American patents. A few years later, "A" is approached by company "C", who asks "A" for a licence under "A"'s patents, to manufacture "A"'s widgets in the USA and sell them throughout North and South America. If "A" is unaware of the implicit licence granted by the exclusive sales agreement, then he may well grant "C" the licences he has requested. These licences will clearly conflict with the earlier sales agreement.

(B): Companies "A" and "B" have formed a joint venture company "C". They have set up a series of agreements which contain non-competition clauses, i.e. both "A" and "B" agree not to compete with the joint venture (JV) in the manufacture of widgets. Each has transferred manufacturing and product design information to the joint venture, but neither felt the need to enter formal licence agreements, since the intentions of the parties was clear from the JV agreements. Clearly, the JV agreements contain an implicit exclusive licence to "C" for the manufacture of widgets. "A" has for many years bought his widgets from "C". Widgets have now become critical to "A"'s business. He decides that a second source for widgets is essential, and therefore licences his technology and patents to "D", for the manufacture of widgets. This licence will conflict with the implicit licence contained in the JV agreement.

These examples are not particularly subtle. In the real world, conflicts between licence agreements can be far more difficult to detect. It is, therefore, important to be aware of at least some of the commercial arrangements, and the agreements associated with them, that give rise to the grant of explicit, or implicit, IPR licences.

The establishment of a suitable register, for example, a manual, or

computerised, register, could be worthwhile and will considerably reduce the risk of conflict.

Some examples of different types of agreement, in which licence grants can be expected, are set out below.

4.1 R&D Collaboration Agreements

The parties wish to share the costs of developing a new product, or the costs of "precompetitive research". Obviously, both parties will want access to the results of the collaboration and the ability to use those results. Each party may well bring some initial know-how to the collaboration. Such agreements can be expected to include:

- undertakings, by the parties, to license each other under IPRs covering technology developed in the course of the collaboration (foreground IPR),

- licences under IPRs covering technology brought, by the parties, to the collaboration (background IPR), and

- confidentiality provisions relating to know-how not in the public domain.

Such licences would normally be non-exclusive and explicit.

4.2 Joint Venture Agreements

The parties wish to enter a new field of business, sharing the risks and concentrating their new business in an entity which they jointly own. The parties will normally undertake not to compete with the entity they have created for the joint venture, and will, therefore, grant this entity exclusive licences, in respect of any IPRs which it needs, to operate successfully. The licences may be either explicit, or implicit, in, for example, a non-competition clause.

4.3 Contracted R&D Agreements

A telecommunications network operator wants a manufacturer to develop a new product, or system, for his use, based on his technology. The network operator therefore contracts with the manufacturer for the development of the product, or system, he desires. Such an agreement may contain very complex licensing provisions, depending on the precise objectives of the two parties, the ownership of IPRs brought to the contract by the parties and ownership of IPRs generated in the course of the contract. The contract will of course contain provisions relating to the ownership and licensing of IPRs. As a minimum, it can be expected that the contract will provide for the following licences:

- a licence permitting the network operator to use the product developed

for him,

- a licence permitting the manufacturer to exploit the results of the R&D in products, other than those developed under the contract, possibly on payment of a royalty to the network operator.

The contract may also grant:

- exclusive sales licences to the network operator,
- "have made rights", or second sourcing rights to the network operator, or
- exclusive manufacturing rights to the manufacturer.

4.4 Supply Agreements

Where an element of development is funded in the price paid for a product, the purchaser may insist on licensing provisions which are similar to those encountered in a R&D contract.

In the case of a contract for the supply of bespoke semiconductor components, the purchaser may demand the right to "second source" the components. This may amount to the grant of licence options on IPRs covering the components and, in some cases, even the manufacturing process.

Many, but not all, supply agreements will contain a variety of implicit licences, which may attach to the product, and transfer to a new purchaser on resale. For example:

- a licence under the suppliers IPRs for onward sale of the purchased products,
- a licence to repair products, and
- a licence to use any IPRs which cover the normal method of operation of the product.

These implicit licences will normally be non-exclusive, unless the agreement is an exclusive supply agreement, in which case, at least some of the licences will be exclusive.

4.5 Technology Transfer Agreements

Simple licence agreements are rarely encountered. Far more common, are technology transfer agreements. Such agreements combine licence grants under relevant IPRs with undertakings to transfer technology, and will contain a range of

terms and conditions defining not only the scope of the licences to be granted, but also the technology to be transferred, and the technical assistance to be provided. The licences granted in technology transfer agreements are usually explicit, and may be either exclusive, sole, or non-exclusive.

4.6 Software Enduser Agreements

The end user of a computer program, despite what he may believe, does not usually acquire title to the computer program. The only ownership that transfers is that of the medium on which the program is recorded. The essence of the transaction is the grant of a licence to use the program. End user agreements do not grant sub-licensing rights and the purchaser of the software cannot usually resell that which he has purchased. The agreement may, however, grant a very limited right to copy the programs for back up purposes. Enduser software licences are invariable hedged with terms restricting the scope of licence granted to the enduser. It should be noted that the terms which can legitimately be included in enduser software licences are to some extent controlled by national copyright legislation as a result of the Commission directive on the Protection of Software.

The licensing of software is a very specialised subject which is briefly dealt with in a subsequent section of this Annex XII.

4.7 Global Cross-licence Agreements

Major industrial companies, who own very substantial patent portfolios, sometimes come to arrangements whereby they license each other in respect of their respective patents. Such arrangements are usually motivated by a desire, by the parties involved, to secure "design freedom", and the licences granted are invariably non-exclusive. The agreement may include, the grant of actual patent licences and/or the grant of licence options.

In a typical arrangement, all patents owned by each party, at the date of the agreement, including patent applications which will, in due course, be granted, are licensed and an undertaking given to licence any patents which come into the possession of the parties over a specified period, say five years, from the date of the agreement.

Licences may well be granted free of royalty and will usually be irrevocable. Global patent cross-licensing is incompatible with the grant of exclusive patent licences to other parties.

4.8 Exclusive Sales Agencies

An agreement of this type has already been mentioned - see example set out in Section 4 (A) above. A manufacturer who wishes to open a new market for his products, may appoint a sales agent in a particular country. Where the sales agent has the responsibility for promoting the manufacturer's goods in that country, he will

want to protect his investment in advertising etc. Consequently, he may demand the exclusive right to sell the manufacturer's goods. Such an arrangement therefore contains an implicit exclusive licence to sell the manufacturers goods, under any IPRs the manufacturer has in those goods, in the sales agents territory.

4.9 Summary

The agreements discussed in Sections 4.1 to 4.8 above should not be regarded as an exhaustive list of commercial arrangements in which licensing may occur. It should, however, be apparent, from the agreements that have been discussed, that virtually all commercial activity is permeated with IPR licensing.

5. SCOPE OF LICENCE GRANT

IPRs are not indivisible rights. A licence need not, therefore, extend over the entire monopoly scope of the licensed IPR. A licence should not purport to have a scope greater than the licensed IPR, since this amounts to claiming that the licensor has a right to control the activities of the licensee, when he has no such right. In many cases, a licence relates not to a single IPR, but to a tranche, or plurality of IPRs, e.g. several patents covering different aspects of a process in each of a number of countries, copyright in design drawings and computer code, and confidential information in manufacturing techniques. The scope of the licence must fall within the monopoly scope secured by the set of IPRs which are licensed. The scope of a licence, or for that matter the monopoly scope of an IPR, can be defined, or analysed, using a number of variables.

The variables most commonly used to define the scope of a licence are:

- the territory in which the licensed acts may be performed;
- the nature of the acts which are permitted e.g. sale, or manufacture;
- the identity of products or methods which the licensee is permitted to manufacture, sell, or use;
- the technical field in which the licensee may operate;
- the field of use: i.e. the purpose for which products or methods may be used in accordance with the licence (often related to technical field);
- the scope of sub-licence and have made rights; and
- the period for which the licence will last.

Each of the variables, referred to above, will now be considered, in more detail, in the following sections.

5.1 Territory

IPRs are national in scope, that is to say, they create a monopoly within the state which grants them. However, a licence does not have to extend to the entire territory of a state, e.g. a licence granted under a United Kingdom patent may be limited to Scotland, or even to a county, town, or group of counties and towns. Most licence agreements relate to a tranche of IPRs, and it is normal practice to list both the states to which the licence extends and the IPRs which are licensed. It should be noted that the territory in which licences, granted by a single agreement, may be exercised may differ for different products, licence types (exclusive, non-exclusive), and licensed acts.

5.1.1 Examples

(A): "The licensor hereby grants the licensee a non-exclusive licence, under the licensed patents, to manufacture widgets in France and sell widgets, so manufactured, in France, Germany and the United Kingdom." Assuming the licensor only has French, German and British patents, this licence grant permits the licensee to manufacture in one country, France, and to sell only widgets manufactured in France. The grant is silent on export rights, and could be interpreted as permitting the export of widgets, manufactured in France, to any country.

(B): "The licensor hereby grants the licensee a non-exclusive licence, under the licensed patents, to manufacture widgets in France and sell widgets in France, Germany and the United Kingdom." This time there is no requirement that the widgets which can be sold, must be manufactured in France. And the licensee could import widgets manufactured outside the licensed territory, and sell them in the licensed territory.

5.2 Permitted acts

The acts which the owner of an IPR can control, vary with the type of IPR.

For a patent, the principle exclusive rights conferred on the owner are the right to prevent others:

- Using,
- selling,
- manufacturing,
- importing,
- exporting, or
- possessing for commercial purposes,

anything which falls within the claims of the granted patent.

There are of course various other exclusive rights provided by a patent, e.g. those arising through contributory infringement. A licence may extend to some, or all, of these acts. It is possible for the licence to permit the licensee to manufacture in a single country, and sell in a number of countries. The licensee may be permitted to export from certain countries only, whilst having a right to manufacture worldwide, see previous examples. Restrictions of this type can distort trade and may breach competition law.

5.2.1 Examples

(A): "The licensor hereby grants and agrees to grant the licensee, a non-exclusive licence, pursuant to the licensed patents, to manufacture and sell licensed products in France, USA, Germany and Sweden, and to export licensed products so manufactured. The licensee shall sell only licensed products manufactured pursuant to the licence in the licensed territory." This grant contains an explicit permission to export, but prohibits imports. It is also worded to include a licence option, perhaps on patent applications yet to be granted to the licensor - "agrees to grant"

(B): The licensor owns a patent which covers a sproget, a key element of widget manufacturing machines, and a method of using the machine to manufacture widgets. "The licensor hereby grants the licensee non-exclusive licences, under the licensed patents, to manufacture sprogets and sell, but not to use, widget making machines to any person who is licensed by the licensor to operate such machines". The licensor clearly wishes to secure a royalty on the output from the licensed machines as well as a royalty from sale of the machines. It would not be legitimate for the licensor to require his widget licensees to buy widget making machines only from his widget making machine licensee, or himself.

5.3 Products and Methods

Licences frequently apply to one or more defined products and methods. The definition of scope, in this case, is achieved by listing and describing the products, or methods, that the licensee is permitted to manufacture, sell, etc. This approach to defining the scope of a licence has the virtue of easy commercial analysis. However, analysis in terms of the IPRs licensed may not be so simple, but must be undertaken to avoid the risk of agreement conflict.

5.3.1 Example

(A): "The licensor hereby grants the licensee a non-exclusive licence, pursuant to the licensed patents, to manufacture and sell the products listed in Annex 1". Annex 1 will contain a detailed description of the products, perhaps including engineering drawings and type numbers.

(B): "The licensor hereby grants the licensee a non-exclusive licence to use the

licensed process described in Annex 1, to manufacture screws, and to sell screws so manufactured." A patent to a process, or method, also covers the product produced by the method. Annex 1 will describe the licensed process in considerable detail.

5.4 Technical field

Where an agreement relates to the transfer of technology, the scope of licences granted is usually related to the technology transferred. In the majority of such cases, the licensee can be expected to continue the development of the technology. The licence scope should, therefore, be sufficient to enable the licensee to exploit his own improvements. Definition of licence scope in terms of technical field requires a technical definition which in many ways is similar to a patent claim.

5.4.1 Examples

(A): "The licensor hereby grants the licensee non-exclusive licences, pursuant to the licensed patents, to manufacture and sell monomode optical fibre having a transmission loss less than 0.5 dB per kilometre and a core diameter less than 3 microns in which the core glass has a composition in the range ....." Note that there is no restriction on the composition of the cladding glass and the scope of the licensed patents, in technical terms, is substantially wider than the scope of the licence grant.

(B): "The licensor hereby grants the licensee a licence under the licensed patents to use the licensors technology for the manufacture of distributed feedback semiconductor lasers by metal organic vapour phase epitaxy and to sell lasers so manufactured."

5.5 Field of use

A particular method, product, or technology may have application in more than one market, e.g. a mixing machine may be adapted for use in cooking and in the manufacture of glass.

It may be that a licensor wishes to preserve a particular market to himself, e.g. catering, but is quite content for his licensee to have a free hand to exploit other markets for industrial mixers. This situation is not uncommon in the telecommunications industry, where different sectors of the industry have commercial interests which are not in mutual conflict, e.g. a telecommunications operator (licensor) will have little concern if his radio transmission technology is used, by a manufacturer (licensee), to develop a market for domestic television sets, (provided he receives a fair share of the profit).

Licences may define the field of use in which the licensed products, or methods, can be exploited. Field of use definitions are particular common in technology transfer and R&D collaboration agreements. For example, in the case of an R&D collaboration agreement, the licences might be limited to applications of the technology for packet switched networks, or even for the purpose of complying with a defined standard.

5.5.1 Examples

(A): "The licensor hereby grants the licensee a non-exclusive licence, under the licensed patents, to use the method of data transmission set out in Annex 1 for transmission of digitally encoded voice signals in a mobile telecommunications system." This would not allow the licensee to use the transmission method in the public fixed telecommunications network, or to use it for conventional data transmission.

(B): "The licensor (superman) hereby grants the licensee a non-exclusive licence, pursuant to the licensed patents, to manufacture and install krypton receivers in satellite receiving stations, and to sell satellite receiving stations incorporating krypton receivers". The licensee is not permitted to incorporate krypton receivers in marine radio systems.

5.6 Sub-licensing

Sub-licensing should be regarded as part of the scope of a licence, since it is a right which derives from the head licence. However, the scope of sub-licensing is often defined separately from that of the head licence. Most licences will permit the licensee to at least grant sub-licences to its subsidiaries. However, in many agreements a relatively broad scope for sub-licensing is provided. A sub-licence should be of no greater scope than the head licence from which it derives since a licensee cannot grant a right to that which he does not possess himself. A very limited form of sub-licensing, encountered in the telecommunications industry, is the grant by a manufacturer, in an R&D contract, of the right "to have made". This permits the licensee to licence other manufacturers to supply him with goods developed by the manufacturer, under the R&D contract. This particular form of sub-licensing finds little favour with large manufacturers. Network operators, on the other hand, like it because it enables them to introduce a limited form of competition for the supply of equipment.

5.6.1 Examples

(A): "The licensor hereby grants, and agrees to grant, the licensee a non-exclusive licence, pursuant to the licensed patents, to manufacture and sell class "A" and class "B" widgets and the right to grant sub-licences for the manufacture of class "A" widgets." The head licence extends to manufacture and sale of both class "A" and "B" widgets, but the sub-licensing right is restricted to class "A" widgets.

(B): "The licensor hereby grants the licensee non-exclusive licences, pursuant to the licensed patents, to manufacture and sell class "A" and class "B" widgets in the USA, Canada, Japan, and Europe. The licensor also grants the licensee the right to sub-licence the manufacture and sale of class "A" and class "B" widgets in the USA and Canada." This time the sub-licensing right is territorially restricted.

(C): "The company shall be entitled to have made, systems according to the design, by any competent telecommunications manufacturer". Very simple clause

containing a "have made" right.

(D): "The licensor hereby grants the licensee the right to grant sub-licences to, any person to whom the licensee has transferred technology, developed by the licensee, which technology cannot be used without a licence under the licensed patents, for the purpose of enabling exploitation of said technology but for no other purpose." A narrow sub-licensing right which frees the licensee to exploit his own technology by licence in the face of the licensor's blocking patent.

5.7 Period of licence

All licence agreements should specify the date on which the licences granted by the agreement come into effect and the date on which the licence will end, or fall due for renegotiation. Because licensees need some security of tenure, it is quite common to specify that a licence will continue in effect until the last licensed IPR has expired, or until the licensee terminates the licence. Another approach is to use "sunset" clauses. "Sunset" clauses and termination clauses are discussed in a subsequent section of this Annex XII.

5.7.1 Example

(A): "The licences herein granted shall come into effect on the 10th day of November 1991 and shall remain in force and effect for a period of 10 years from that date."

(B): "The licences herein granted shall come into effect on the date first before mentioned." The date first before mentioned will be the date of signature of the licence agreement which is normally the first date that appears in the agreement.

5.8 Summary

It should be apparent, from Sections 5.1 to 5.7 above, that the problem of defining the scope of a licence is akin to that of defining an irregular solid object in a multi-dimensional space, in which the axes correspond to territory, time, field of use etc.. The parameters or "dimensions" listed above are by no means an exhaustive list, they merely give a flavour of what may be used in the definition of licence scope.

Any licence agreement will normally grant several licences, each of which will require a separately defined scope, typical licences may include:

- head licence, i.e. the principle licence granted by licensor to licensee,
- sub-licensing right, i.e the right of the licensee to grant subsidiary licences to others,
- grant back licences, i.e. licences to be granted by the licensee to the

licensor, probably relating to improvements developed by the licensee,

- improvement licences, e.g. licences to improvements yet to be made by the licensor.

In addition, the scope of exclusive, sole and non-exclusive licences will probably be defined separately. The scope of multiple licences granted by the same agreement may need to "nest" in a particular sequence, i.e. the scope of sub-licences must fall within the scope of the head licence etc..

The scope of a licence may be defined both in a positive and a negative sense, i.e. the agreement may set out both what the licensee may do and what he may not do. This use of negative definitions is quite important when the licensor grants two, or more, licences to different licensees, the scope of which must not overlap.

The primary aim in defining the scope of a licence is to delineate what the licensor can give without adversely impacting on his own commercial position, whilst at the same time permitting the licensee to attain his commercial objectives.

6. TERMS AND CONDITIONS

When a licensor grants a licence, he almost invariably makes the grant subject to certain conditions. The licensee may also feel the need to place conditions on the licensor, if he is to accept the licence.

In this section of Annex XII, some of the more common terms and conditions encountered in a simple licence agreement, in which licences are granted for a number of patents and some confidential information, are described.

6.1 Grant backs and reciprocity

Both licensee and licensor can be expected to make improvements, after the grant of a licence, in the products, or technology, to which the licence relates. Such improvements may result in the generation of new IPRs. A licensor will want to ensure that he has access to the latest developments of his product. So he will normally require an undertaking from his licensee, to grant back to him licences under any IPRs that may come into the possession of the licensee and which relate to improvements, or developments, of the originally licensed products or technology. Equally, the licensee will not wish to see his licence rendered valueless by developments made by the licensor. So, the licensee will expect the licensor to give an undertaking, to extend the licences granted to him so that they include IPRs relating to the subject matter of the licence which come into the licensor's possession, after the date of grant of the original licence.

It is normal practice for grant back licences, from licensee to licensor, to be royalty free, and improvement licences, from licensor to licensee, to be on the same

terms as the head licence, i.e. not to attract additional royalty payments over and above those which are due from the head licence.

One question that always arises in connection with grant backs is - what happens if the licensor terminates the licence for breach of agreement? Naturally, the licensor will wish to continue to enjoy the grant back licences. However, this may appear unfair to the licensee, who can no longer enjoy the benefits of the improvement licences, which will almost certainly be dependant on the (now terminated) head licence. For this reason, competition law will, in virtually all cases, require the grant back licences to terminate with the head licence, some exceptions to this may be possible depending on the precise circumstances.

6.2 Liabilities and indemnification

As with all commercial transactions, there are risks associated with licensing, and licence agreements should always address the question of who will carry the risks. Two principle risks that require consideration are:

- infringement by the licensee of third party IPRs in the course of exercising his rights under the licence, and

- product liability i.e. the risk that the exercise of the licence will result in the licensee producing substandard products, or operating an unsafe method, thereby incurring liability to a third party.

Who should carry these risks? In the final analysis this is a matter for agreement between licensor and licensee. However, a fair approach to the resolution of this question is to look at who is responsible for the risk. In other words, whose actions are likely to give rise to the hazard, and who will be in the best position to mitigate the risk.

The difficulties of carrying out an effective third party IPR infringement clearance usually mean that the licensor is unwilling to accept any liability for third party IPR infringement, except, possibly, in the case of a product which is well established in the market place. In any event, the licensor will normally expect an additional payment, if he is to accept this type of risk, on behalf of his licensee. The licensee will, usually, prefer to pay a lower price and accept the risk himself. A compromise solution, frequently adopted, is for the licensor to undertake to negotiate a fair reduction in royalty in the event that the licence he has granted cannot be exploited without infringing a third party IPR.

Where a licence agreement grants a patent licence under a tranche of patents, or relates to a major field of technology, the licensor will have little, or no, control over the design of products manufactured, or sold, by the licensee, or the methods, or industrial processes, which he operates, under the licence. In these circumstances, it is neither reasonable, nor possible, for the licensor to accept any responsibility for the infringement of third party rights by the licensee, in operating the licence.

Turning now to product liability. Clearly, there will be no direct relationship between the licensor and the licensee's customers, and the licensor will wish to insulate himself from any action which those customers may take against the licensee. Whether this is a reasonable course of action depends on the nature of the commercial arrangement between licensor and licensee.

If the licensor has supplied the licensee with, what is alleged to be, tried and tested technology and products, then the licensee might reasonably expect the licensor to carry at least some of the risk if the products, or technology, do not come up to the licensor's promise. However, in the case of a licence under a patent only, i.e. no related know-how, the licensor is unlikely to have made any promise about the quality of the products, or technology, which the licensee will have developed for himself. In such situations, the licensor may wish to insert a provision that the licensee will hold him harmless, against any action which the licensee's customers may attempt to bring against him.

How are these commercial issues given effect in a licence agreement? For a patent licence agreement, in which the licensor has no direct control over the final product sold by the licensee, or the industrial processes, or methods, operated by the licensee, one would expect to find clauses giving effect to the following points:

- licensor to have no liability for infringement by the licensee of IPRs owned by others,

- licensee to hold the licensor harmless against any action brought for product liability, or environmental damage, resulting from the exercise of the licence.

- licensor to agree an equitable reduction in royalties in the event of the licensee having to pay royalties to another person in order to exercise the licence

- licensor to assist, at the licensee's expense, in the defence of any infringement action arising from the licensee's exploitation of the licence.

It must be emphasised that the way in which risk is split between licensor and licensee depends on the precise details of the commercial arrangement they have entered. The above list of clauses is only an example of what might apply in a particularly simple situation.

6.3 Warranties

In order to induce the licensee to accept a licence, for what may be substantial payment, the licensor may make certain promises to the licensee. At the very least, the licensor will warrant that he is entitled to grant the licences to which the agreement relates. This simply means that the licensor alleges that he owns the IPRs which are licensed, and has not prevented himself from licensing them, by previously granting

sole, or exclusive, licences to another. The licensor may also make it clear that he does not make certain promises. Typically, in a pure patent licence, the licensor may wish to state that he does not guarantee that exercise of the licence will not result in the infringement of IPRs owned by others. He may also wish to make it clear that, he does not guarantee that the licensee will be able to develop any commercially viable product, or process, falling within the scope of the licence. And finally, he may wish to make it clear that, he does not guarantee that products, or processes, produced or used by the licensee, pursuant to the licence, will be safe and free from hazard. On the other hand, in certain circumstances, the licensor may have given such promises as a means of inducing the licensee to part with his money.

Typical warranty clauses found in patent licence agreement may include the following:

- a warranty that the licensor is entitled to grant the licences which the agreement purports to grant,

- a denial of a warranty that exercise of the licence will not result in the infringement of IPRs owned by others,

- a denial of a warranty that the products produced, or the processes used, by the licensee in his exercise of the licence will be capable of industrial exploitation, useful, or free from hazard to the user, or the environment.

6.4 Term and termination

Specification of the period in which a licence will run is really part of the definition of the scope of the licence. An agreement will normally specify the date on which the licences commence, which frequently differs from the date on which the agreement was signed. In addition, the period for which the agreement will run is normally given, together with a description of what will happen when the agreement reaches the end of its term. On expiration of the term of the agreement, there may be a requirement to renegotiate an extension of the agreement. Alternatively, the agreement may include what is often referred to as a "sunset" clause. A "Sunset" clause will state that the licensee can continue to do, that which he did under the licence, but without further payment, or obligation, to the licensor.

If the licensee fails to fulfil any of the contractual obligations set out in the agreement, for example, fails to pay royalties due, the licensor will wish to terminate the agreement. Equally, if the licensor has promised the licensee technical assistance which fails to materialise, the licensee will want to terminate the licence. Licence agreements, therefore, include termination clauses which allow both the licensee and licensor to terminate the agreement and licences in certain circumstances.

Typically, termination is allowed:

- when there is breach of agreement by either licensee, or licensor, this can include breach of any of the conditions of the licence, e.g. failure of the licensee to pay royalties owed under the licence, or failure of the licensor to provide technical assistance which has been promised,

- on bankruptcy of the licensee,

- on change in ownership of the licensee, and

- if the licensee takes legal action to invalidate the licensed IPRs, or otherwise attacks the basis of the licence.

It is normal for the terminating party to be required to give the offending party some period of notice, say a month, and an opportunity to rectify a breach of agreement, before the licence is actually terminated. In many cases, the licensee will have a unilateral right to terminate the licence, if he no longer needs it, provided he gives notice of his intention. Most licensors would like to include a provision in their licence agreements which prevents the licensee attacking the basis of the licence, e.g. by alleging that the licensed IPRs are not infringed by the licensed products, or that the licensed IPRs are invalid. However, such a clause would violate European competition law and the only thing the licensor can do in this situation is to terminate the licence.

Some provision needs to be made for events after termination, for example:

- what happens to unsold stock in the licensee's possession?

- will the licensee be allowed to fulfil outstanding contracts?

- what is to be done with sub-licences? and

- will the licensee still be obliged to pay monies owed to the licensor at the date of termination?

To take care of these issues, a licence agreement can be expected to include some of the following clauses:

- a termination clause,

- rights after termination clause,

- "sunset" clause,

- commencement date, and

- period of licence.

6.5 Confidentiality

In the majority of licence agreements there will have been some exchange of confidential information between licensee and licensor. It could be said that, a secret shared is no secret, however there is a solution to this dilemma. To preserve the confidentiality of information, and regulate its disclosure to others, licence agreements will normally contain a confidentiality clause. A clause of this type will normally specify:

- the period for which confidential information is to be kept secret,
- the purposes for which the confidential information may be used,
- types of information which are not to be regarded as confidential, e.g. information which is generally known to the public at large,
- precautions to be taken to preserve the secrecy of the confidential information,
- to whom, and under what conditions, the confidential information may be disclosed (in confidence of course), and
- what is to be done with documents, etc. containing confidential information, when the recipient is no longer entitled to use them, e.g. on termination of the agreement.

Whether, or not, confidential information, know-how and the like, can be regarded as an IPR is a moot point, most licence agreements try, by contractual means, to make it into an IPR, and treat it, in terms of licensing, as though it is an IPR.

6.6 Disputes

It is often said that licence agreements are really about what happens when licensor and licensee fall out. Any argument, between the parties to a licence dispute should, preferably, be settled by amicable discussion. In the real world this does not always happen. Disputes can be settled by recourse to the courts, or by some other process, e.g. arbitration, or alternative disputes procedures.

Licence agreements may, therefore, contain a clause specifying what will happen in the event that a dispute arises, which the parties cannot settle between themselves. If no such clause appears in a licence agreement, then disputes will have to be settled by recourse to the courts.

6.7 Conflict and force majeure

Conflict does not refer to the outbreak of hostilities between licensor and

licensee, but to the situation, which may inadvertently occur, in which the provisions of the licence agreement conflict with law, or regulation. Normally, the parties will wish the agreement to continue, with the minimum change necessary to bring it within the law. A clause is usually included in licence agreements to give effect to this.

Force majeure refers to the situation in which performance of the licence agreement is frustrated by some event beyond the control of the parties to the agreement. Such an event might, for example, be industrial action in the licensee's accounts department, resulting in non-payment of royalties.

6.8 Applicable law

The law of an individual country is, at least to some extent, unique to that country. It is, therefore, important, especially when licensee and licensor are resident in different countries, to know which legal system will be applied to a licence agreement and its interpretation. Licence agreements should, therefore, always include a clause which specifies the law that is to be applied.

6.9 Royalties and other payments

The vast majority of licence agreements require the licensee to make some payment to the licensor.

Section 7 of this Annex XII deals with the determination of royalties. At this stage, it should be noted that a licence agreement may include clauses which relate to the following matters:

- percentage royalty payable on sale, or manufacture,
- royalty base, i.e. to what price the percentage royalty is to be applied,
- taxation, e.g. are taxes to be deductible from sums paid to the licensor, entitlement to VAT invoices, etc.,
- general accounting procedures and record keeping,
- formulae to be used in converting between currencies,
- interest on late payments, and
- dates on which royalties fall due and time periods in which royalties must be paid.

It should be noted that royalties are not the only consideration that may be required by a licence agreement. There may also be fixed initial payments, periodic lump sum payments, and in the case of technology transfer agreements payments for technical assistance.

6.10 Best endeavours

Two phrases frequently encountered in licence and other agreements are:

- "..... shall use its best endeavours to ...."; and
- "..... shall use its reasonable endeavours to .....".

Clearly, to use one's reasonable endeavours means to do everything that it is reasonable to do, in a particular set of circumstances, to achieve a particular objective. Equally clearly, to use one's best endeavours implies something more than "reasonable endeavours". In other words, an obligation to use one's best endeavours implies that one should go to unreasonable lengths to achieve a desired objective. In an early case it was held that "best endeavours" meant that "no stone should be left unturned", however, in a later case it was held that "best endeavours" did not require the total ruin of a company, or a total disregard of share holders interests. "Best endeavours" imposes a very heavy burden of compliance.

The phrases that may be used in defining one party's obligation to another, are listed below, in order of severity:

- ".... shall do ...": no excuse, failure is not permitted, absolute compliance is required;
- "... shall use its best endeavours to do ....": very heavy duty of compliance, but not absolute;
- ".... shall use its reasonable endeavours to do.....": shall take reasonable actions necessary to achieve compliance; and
- ".... shall attempt in good faith ....": shall try something in order to comply, but if it fails, that's acceptable, provided the attempt was genuine.

7. ROYALTIES AND OTHER CONSIDERATION

The consideration that a licensor receives, for the grant of a licence, may not only be of a monetary nature. In determining payments, to be made by the licensee to the licensor, there are many factors which should be brought to account, including the value of grant back and other licences which a licensee grants his licensor.

This section of Annex XII, however, focuses on the monetary payments that are made for simple IPR licences.

The most frequently encountered types of payment are :

- royalties, expressed as a percentage of selling price,
- royalties, expressed as a fixed sum per unit of production,
- fixed sum payments, made on execution of a licence agreement,
- periodic fixed sum payments, made during the life of the licence, and
- minimum royalties.

A few brief comments on the different types of payment are set out below.

7.1 Percentage royalties

It is often convenient for accounting purposes, to base a percentage royalty on the price of a product which is actually sold in the market place. The value of sales is easily verified, thus percentage royalties are readily determined and verifiable. The value, of that part of a product, within the scope of the licensed IPRs, relative to the selling price cannot, however, be ignored when setting royalty percentages.

7.1.1 Example

Suppose a patent covers a particular LSI, which is included in a telephone, and costs £1.50 to produce. The licensor seeks a royalty of 5% of the selling price of the telephone, say £30. The licensee must pay £1.50 for each telephone sold, which is equivalent to a royalty of 50% on the selling price of the LSI, (selling price = cost + royalty). Analysed in this way a royalty of 5%, may appear just a little excessive.

However, if the licensed IPR covers an entirely new and novel telephone, with very substantial advantage over anything else on the market, a 5% royalty on the selling price of the telephone may be entirely reasonable.

7.2 Royalty per unit of production

If royalty is to be paid on production, rather than sale, it is advantageous that it be expressed as a fixed sum per unit of production. Sale will not have occurred, so there is no sales price to use as a basis for a percentage royalty. The advantage, from the licensor's point of view, is that he is paid earlier and payment is not dependant on sale. The disadvantage is that, a simple fixed sum royalty does not take account of inflation and consequent price increases. (Of course, competitive pressures may force prices down, in which case, this system works to the licensor's advantage.)

7.3 Initial payments

These are usually intended to compensate the licensor for his costs and out of pocket expenses in setting up a licence agreement. They may be staged, over the

first one, or two, years of a licence agreement. Technology transfer agreements may specify very substantial initial payments for the technology that has been transferred to enable the licensee to operate the licence.

7.4 Periodic payments and minimum royalties

If a licensor has granted sole, or exclusive, licences, he has committed himself to his licensee, and is reliant on the licence to recover that part of his development costs apportioned to the scope of the licence. He will want some tangible assurance that the licensee is will do everything he can to effectively exploit the licence. It is normal practice, in the case of exclusive licences, for the licensee to guarantee a minimum return to the licensor. This is given expression by a requirement that the licensee pay a minimum level of royalty, regardless of his actual sales. The minimum royalty is offset against any accrued royalties that are in excess of the minimum payment.

There is, of course, no reason why a royalty rate should remain the same throughout the life of a licence agreement. Royalties may be low initially, to allow the licensee to reinvest his profits in penetrating a new market. Once the market has matured the royalty may increase. As the market is eroded, by the introduction of new competing products, the royalty may be reduced to allow the licensee to compete effectively. Such a variation of royalty with product life cycle may be built into a licence agreement from the beginning, or it may be created by periodic renegotiation of royalty rates.

A few of the many factors that may be brought into the justification and determination of the pattern, size and form of payments, to be made by a licensee under a licence, are set out below:

- nature of the licensed products, or technology: are they mass production items?
- profit margin that the market will stand,
- will the licensor need to do business with the licensee in the future?
- price differential licensed product will stand compared to competing products,
- tax payable on royalties,
- cost of alternative solution, etc.

Where design costs are high compared to production costs, e.g. software and microchips, high royalties may be appropriate. This may also be true for an entirely new product which has no functional equivalent competing with it. On the other hand, high volume consumer products with many functionally equivalent competing products,

will normally only support very low royalties.

In determining royalty rates, or for that matter in making the decision whether to grant a licence at all, one factor which should never be forgotten, is the ease, or difficulty, with which royalty payments can be transferred out of a country. Many second and third world countries have draconian exchange regulations.

A licence will have a certain value for the licensee, perhaps in terms of new market opportunities, and a certain cost for the licensor, perhaps loss of commercial flexibility in terms of market protection. Unless the value to the licensee exceeds the cost to the licensor, agreement on royalties is unlikely to be reached. One approach to determination of royalty is to look at the licensees likely profits and estimate a royalty rate on the basis of say 25% of profits. However, it has to be admitted that the determination of royalty rate is a black art with little, or no, scientific basis.

8. SOFTWARE LICENSING

The licensing of software is a complex subject, not least because the law relating to the protection of software and its exploitation is in a state of rapid development. When hardware is bought and sold, title in the product passes from vendor to purchaser. Software is altogether more ephemeral. To understand the nature of commercial transactions relating to software, it is necessary to have some appreciation of exactly what software is.

8.1 Computer programs

A computer program is a list of instructions, which, when encoded in a suitable form, can be used to control the operation of a computer, or some other device. The instructions may be expressed in a variety of computer languages and may be recorded on a variety of media, e.g., paper, floppy disc, hard disc, magnetic tape. A computer program may be stored in the form of object code, or source code. Source code is a high level representation of the program, which is readily understood by software engineers and programmers. Programs are usually written and analysed in source code. Object code is a low level code, which can be rapidly read by a computer, and is difficult for an engineer to read and interpret. Software has many of the characteristics of a work of literature. Perhaps for this reason it is protected primarily by copyright. However, the underlying method, of operating a machine which is embodied in a piece of software, may be subject to patent protection. The best way to protect an unpatentable method is to keep it secret, and so confidentiality is of paramount importance in the protection of software.

8.2 Databases

A database is merely a collection of information organised in such a way that a particular item can readily be retrieved. Electronic databases are maintained on digital computers and information storage and retrieval are controlled by computer

programs. Again copyright and confidentiality are the principle means by which databases are protected.

Transactions involving software can in many respects be regarded as similar to those involved with literary works. When books are bought, or sold, title in the literary work contained in the book does not change hands. Similarly, when an enduser buys software, perhaps a spreadsheet program, he does not actually buy the software. The enduser receives a copy of the program on say, a floppy disc, together with a licence to use the program and perhaps to make copies of the program. However, just as it is possible to sell the copyrights subsisting in a book, the copyright subsisting in software may, in certain circumstances, be bought or sold, but such transactions are the exception rather than the rule.

The licensing of software is no different, in principle, than the licensing of hardware. However, the form of a software agreement is dictated by the characteristics of the product and the IPRs that protect it. In particular:

- software is protected primarily by copyright and confidentiality, (although patents may be relevant); and
- software is expensive to write and easy to copy, and is, therefore, vulnerable to piracy.

The scope of a software licence is determined by the acts which are restricted by copyright, namely:

- permanent, or transitory reproduction,
- translation, adaptation and alteration,
- distribution of copies
- importation, and
- possession.

The right to control a particular copy of a computer program is exhausted after first sale of the program. This does not mean that copyright protection ceases on sale of a copy, merely that the copyright owner cannot prevent resale of that which he has already sold. The right to control use of software is inherent in the right to control transitory reproduction since, in operation, a computer reads and copies sections of the program from one storage area to another. The same is true for a database. The scope of licence grant is also shaped by the reasonable needs of a licensee, e.g. to make backup copies.

The terms and conditions of a software agreement are strongly influenced by the need to preserve confidentiality in the software code, and the ideas underlying the

program. Copyright does not protect ideas, only the means of expressing them, so, unless the underlying concepts in a computer program have been patented, the only protection for the conceptual content, or the ideas embodied in, a copyright work lies in confidentiality.

The detailed construction of software agreements is beyond the scope of this book, however an example of a software licence grant clause is given below.

8.2.1 Example

The licensor has developed a computer program for controlling the ignition system of a motor car.

The licensee manufactures and sells car components and wishes to sell preprogrammed chips incorporated in his ignition control systems.

Thus, the licence granted by the licensor to the licensee could be as follows:

"The licensor hereby grants the licensee a non-exclusive licence to:

- use;
- reproduce;
- translate; and
- adapt, for application to automotive ignition systems,

the licensed source code on the licensor's premises located at Little Nether Wallop on the Crunge, and to distribute within the licensed territory, translations of the licensed source code in the form of object code stored on ROM chips."

9. LICENSING AND COMPETITION LAW

Any monopoly is capable of abuse, even the normally benign monopolies conferred by IPRs.

Licensing is a powerful tool for the exploitation of IPRs. It can readily be misused to partition markets, provide unfair leverage on licensees, and to provide the glue which holds cartels together. Such anti-competitive practices are illegal, and competition law is the branch of the law which regulates such matters.

The more common abuses of IPR monopolies can be classified under eight headings, these are briefly discussed below.

The treatment of these matters in this manual is of necessity cursory, but some

understanding of what can and cannot be achieved, by means of licensing, is crucial to an understanding of the subject.

9.1 Extension of IPR scope

A licensor may attempt, by contractual means, to make his licensee behave as though the licensed IPRs have a scope which is greater than their actual scope. For example, the licensor may place a condition in a licence agreement that requires a licensee to pay royalties after an IPR has expired, or for manufacture and sale in a country in which he does not own an IPR. Such practices are not permitted because they place a licensee at a competitive disadvantage compared to non-licensees who do not have to pay royalties. A licence must be confined to the scope of the licensed IPRs. Prohibitions on sale etc. which relate to IPRs owned by the licensor, but not licensed, can of course be enforced by the normal exercise of those IPRs.

9.1.1 Examples

(A): If a licensor owns patents, covering widgets, in France and Germany, but not in the UK, he cannot make the grant of licences in France and/or Germany conditional on his licensee either:

- paying royalties on widgets made and sold in the UK, or
- refraining from competing in the UK market for widgets.

(B): If a licensor owns a patent, covering widgets, due to expire on 1st of January 1995, he cannot make the grant of a licence for the period up to the 1st of January 1995 conditional on payment of royalties after that date, nor can he prohibit sales of widgets by the licensee after expiry of the patent. If, however, the licensee's financial position makes the spreading of royalties beyond termination necessary, and this can be demonstrated, some extension of royalty payment may be acceptable provided it is for the grant of the licence prior to termination.

Protection of confidential information after termination of all other IPRs is permissible.

9.2 Exhaustion of Rights

Within the EEC, once a product is sold with the permission of the owner of an IPR, he cannot interfere with its subsequent sale, or use. In the EEC, the doctrine of exhaustion of rights is designed to prevent the artificial partitioning of markets contrary to the single market doctrine.

It should be noted that sale of an item in the EEC, does not necessarily prevent an IPR owner, who has authorised that sale, stopping export from the EEC to say the USA. Nor does the exhaustion of rights prevent sale of an item subject to certain restrictions on use. The effect is merely to prevent a permission granted in relation

to a particular product, in one country within the EEC, being subsequently revoked for another EEC country.

9.2.1 Example

"A" owns patents in France and Germany covering widgets which he licences to "B" for manufacture and sale of widgets in Germany. "C" buys widgets from "B". "A" cannot use his French patent to prevent "C" selling widgets bought from "B" in France.

9.3 Improvements belong to the improver

It is acceptable for a licensor to require his licensee to grant back non-exclusive licences, to the licensor, for improvements made by the licensee. It is not acceptable for the licensor to require his licensee to assign such improvement to him, nor to achieve an equivalent effect by requiring the grant of exclusive grant back licences.

9.4 A licensor may not impose unwanted licences

It may at times be tempting to force a licensee to take a licence which he does not want, as a condition for granting a licence which he does. A licensor could give effect to such an arrangement, by placing a requirement on the licensee to exploit both licences to "the best of his endeavours", or by some other means. However, a licensor may not do this.

9.4.1 Example

"A" owns patents which cover widgets and machines for manufacturing widgets. Widgets can, however, be made using machines which are not subject to "A"'s patents. "A" cannot make the grant of a licence to "B" for manufacture and sale of widgets conditional on "B" accepting a licence to manufacture widgets using "A"'s patented machine.

9.5 Obligations alien to the licensed IPRs

Typically, it may seem desirable to a licensor that his licensee:

- purchase from him, or his, nominee raw materials, or staple products, not covered by the licensor's IPRs,
- purchase from him, or hi,s nominee spare parts, not covered by the licensor's IPRs, or
- have machinery, or the like, repaired only by him, or his nominee.

Unless such restrictions can be justified by a genuine need to control the quality of goods produced by the licensee, they are illegal.

9.6 No challenge

It is in the public interest that invalid IPRs should be revealed as such. It is not, therefore, permissible for a licensor to forbid his licensee from challenging the validity, before the courts, of a licensed IPR, or challenging whether an IPR in fact covers that which a licensor alleges it covers.

This may seem unfair on a licensor especially if the licensee has gained privileged knowledge as a result of the licence. However, there is nothing to prevent a licensor from terminating a licence in the event of a challenge to the validity of licensed IPR.

9.7 Patent Pools

The pooling of patents, by a group of patentees, and which has the object, or effect, of limiting market access by those outside the group, is not permissible. Such effects may be achieved through cross licensing or other licensing arrangements. The key to deciding whether a patent pool is anti-competitive lies in the effect the patent pool has on others wishing to enter the market in the field covered by the patent pool. A monopoly right, exercised on its own, may operate to the overall public good. However, a concentration of many such monopoly rights may be less than beneficial to the public at large. Patent pools are not irrelevant to the operation of IPR policies by standardization bodies.

9.8 Compulsory licensing

The justification for granting a monopoly right for an invention is that, by so doing, the exploitation of the invention is facilitated to the general benefit of the public at large. If, however, a patent is used to suppress an invention, or an improvement on an invention, it is an abuse of the monopoly granted by the patent. The normal remedy, for this particular abuse, is the grant of a compulsory licence, (see next subsection).

9.9 European competition law

In the EEC, competition law as it effects licensing, flows from Articles 85 and 86 of the Treaty of Rome, the full text, of which can be found in Annex..... . So far as licence agreements and IPR are concerned, Article 85(1) can be summarised as prohibiting agreements that:

- effect trade between member states, and
- have as their object or effect the prevention, restriction, or distortion, of competition within the EEC.

Such agreements are void. However, an agreement may be exempted from Article 85(1), if it can be shown to contribute certain benefits, and it does not contain

unnecessary restrictions or eliminate competition.

Article 86 prohibits:

- any abuse of a dominant position, in so far as it effects trade within the EEC.

Both Articles 85 and 86 include identical lists of prohibited abuses, namely:

- fixing prices, or trading conditions,
- limiting, or controlling, production, markets, or technical development,
- sharing markets, or sources of supply,
- applying dissimilar conditions to equivalent transactions, and
- making a contract subject to acceptance of conditions alien to the contract.

A quick glance is sufficient to verify that the more common abuses of IPR monopolies are caught by Articles 85 and 86.

9.9.1 Article 85

There are two possible ways of escaping the application of Article 85, namely:

- clearance: demonstrating that an agreement does not fall within the provisions of Article 85(1), or
- exemption: demonstrating that an agreement is exempted under the provisions of Article 85(3).

It should be noted that Article 86 contains no provision for exemptions of the type set out in Article 85.

9.9.2 Block exemptions

The Commission of the European Communities has promulgated a number of regulations which exempt whole classes of agreement under Article 85(3), such regulations are described as block exemptions. The block exemptions particularly relevant to licensing are:

- Regulation 2349/84 Block Exemption of Patent Licensing Agreements (to be reissued shortly),
- Regulation 418/85 Block Exemption of Research and Development

Agreements, and

- Regulation 556/89 Block Exemption of Know-how Licensing Agreements.

The exemptions contain a list of clauses, which if included in an agreement, will normally mean the agreement will fall within the provisions of Article 85(1) and will not be exempted under Article 85(3) - the black list, and a list of clauses which can be safely included in an agreement without bringing it within the provisions of Article 85(1) - the white list. Some examples from the white and black lists of the Block Exemption for Patent Licensing are set out below.

9.9.3 Black List

Inclusion in a patent licence agreement of any of the following clauses is sufficient to ensure that the agreement will not benefit from the exemption granted by the Block Exemption for Patent Licences, namely clauses which:

- prohibit a licensee challenging the validity of the licensed patents,
- prolong the agreement beyond the expiry of the licensed patents,
- impose royalties on products falling outside the scope of the licensed patents,
- limit the licensees production,
- restrict the licensee's price structure for licensed products,
- prohibit the licensee from supplying certain classes of customer,
- require the licensee to assign improvements to the licensor, and
- induce the licensee to accept licences he does not want.

9.9.4 White List

A patent licence agreement will not be brought within the ambit of Article 85(1) by the inclusion, in the agreement, of any of the following clauses, namely clauses which:

- require licensee to buy supplies from the licensor, provided the supplies are necessary for maintenance of quality of the licensed product,
- require the licensee to pay minimum royalties,
- restrict the licence to a particular technical field

- oblige the licensee not to exploit licensed patents after termination of the licences, provided the patents are still in force,

- prohibit assignment of the licence or grant of sub-licences,

- require the licensor to take legal action against an unlicensed infringer, and

- require the licensor, if he grants another a licence on more favourable terms than that granted to the licensee, to offer the licensee a licence on the same more favourable terms.

9.9.5 Article 86

There are two elements required for an agreement to breach Article 86, namely:

- the existence of a dominant position, and

- abuse of that dominant position.

The mere existence of a dominant position in a particular market does not breach Article 86. The breadth of market in which a dominant position must exist before abuse breaches Article 86 can be extremely narrow, for example, spare parts in a proprietary cash register.

The European Commission has draconian powers of investigation, e.g. "morning raids", and can impose very substantial financial penalties for breaches of Articles 85 and 86.

European competition law is concerned with the exercise of intellectual property rights, not their existence, which is guaranteed by Article 36 of the Treaty of Rome. There is no basis for assuming that Article 86 of the Treaty of Rome could be used to expropriate IPRs through for example, compulsory licensing, just because a standard creates a dominant position for a patentee.

10. COMPULSORY LICENCES AND LICENCES OF RIGHT

Compulsory licensing and licenses of right apply to IPRs that give their proprietor an absolute monopoly, such as patents and registered designs. A patent may be endorsed licence of rights, or a compulsory licence granted if, among other things, the patentee has:

- failed to work the invention,

- demand for the invention is not being satisfied,

- domestic demand is met by import, when it could be satisfied by local manufacture,

- the exploitation of another patented product is hindered by the failure of the patentee to grant necessary licences, and

- domestic, commercial or industrial activity is prejudiced by the patentees licensing policy.

In a compulsory licence application, the licensor is compelled to grant a licence on terms and conditions set by a court, in the absence of agreement between licensor and licensee. There is thus a substantial body of detailed case law on the criteria that a court will use to determine fair royalty rates. A court will normally seek to assess the royalty for a compulsory licence as that which would have been negotiated as between a "willing licensor and a willing licensee". If a meaning has to be given to a "fair and reasonable" royalty this is probably a good starting point. The mere existence of compulsory licensing provisions in patent legislation provides an incentive for potential licensors and licensees to reach agreement.

Compulsory licensing is one of the penalties that can be applied for abuse of a patent by the patentee. It is significant that very little use is made of these legal provisions perhaps because their mere existence is sufficient to largely eliminate this type of monopoly abuse.

ANNEX XIII

PATENT SEARCHING

Annex 13.1

PATENT SEARCHING

Annex 13.2

PATENT SEARCHING

1. INTRODUCTION

IPR searches and, in particular, patent searches, need to be undertaken, in many cases, in respect of items in the ETSI work programme to determine whether, or not, IPRs exist which are, or are likely to become, Essential, as defined in the ETSI Interim IPR Policy, or potentially Essential, to the Standard expected to arise from the work programme.

The searches should be undertaken in respect of those IPRs that are readily identifiable, i.e. the IPRs that have to be acquired by the filing of an application for protection and/or are published. Such searches will not, therefore, in the normal course of events, be concerned with the identification of confidential information, trade secrets, know how, confidential copyright documentation and the like. This means that the searches will be directed to patents and patent applications.

As stated above, to be Essential to a Standard, an IPR must be such that infringement of that IPR cannot be avoided when implementing the Standard. The existence of such IPRs could greatly influence the direction of the standardization process because the related Standard(s) cannot be exploited without the permission of the owner(s) of the IPRs and/or the Standard-compliant products/systems may not be commercially viable, if the royalties required for the use of the IPRs are excessive.

In order to ensure that the investments made by ETSI Members, and others, in the standardization process, are not wasted, the identification of Essential, or potentially Essential, IPRs should be effected at an early stage of the standardization process. The reason for this is that the work programme item concerned can be modified to avoid the use of any Standard-blocking IPRs for which licences are unlikely to be available, or are only available on unacceptable terms and conditions. However, ETSI Members, and others having an interest in the standardization process, would have to be notified of any such modifications and a further search would probably have to be undertaken in respect of the modified work item.

The searches that will be undertaken will be directed to patents and patent applications because such IPRs are likely to present the greatest stumbling block to ETSI's standardization programme.

It is the normal practice of most companies and, in particular, high technology and/or multinational companies, to carry out 'state of the art patent searches' before embarking on expensive basic research and/or development programmes for new products and/or systems. The reason for this is that such companies want to ascertain:

- whether, or not, there are any third party patents and/or patent applications covering the technology on which the new products and/or systems will be based; and

- if so, whether, or not:

- taking a licence from the IPR owner(s) would be cheaper than the estimated costs for the research and development programme, i.e. avoid reinvention of the wheel; or

- the direction of the research and development programme can be advantageously changed to avoid third party IPRs whilst at the same time pursuing a fruitful line of research and development.

Such state of the art patent searches would also be in ETSI's best interests because they will:

- identify the leading edge technologies in the technical fields of interest to ETSI;

- identify the owner(s) of any related patents and/or patent applications;

- enable ETSI to check the availability of licences in respect of the identified IPRs and, in particular, third party IPRs, in advance of a commitment to pursue a particular Standard; and

- ensure that Standards are based on the most advanced technologies for which licences are available.

In summary, the objective of an IPR search is to identify Essential, or potentially Essential, IPRs relevant to the Standard expected to arise from the ETSI work programme. IPRs which are of primary interest in this context are patents and patent applications. Searches and, in particular, state of the art searches, should be undertaken in advance of investments in the standardization process.

2. PATENTS

The basic theory behind the patents system is that, in exchange for teaching society at large how to implement his invention, an inventor is awarded a 20 year monopoly in his invention.

The national patent procedures for each of the Europe countries are illustrated in Figure 1 of the accompanying drawings and Figures 2 to 5 of the accompanying drawings respectively illustrate the patent procedures in Europe, i.e. at the European Patent Office, the United States of America, the Patent Co-operation Treaty (PCT) Chapter 1 and the PCT Chapter 2.

The specification that must be filed with a patent application must, therefore, do two things:

- describe how a skilled man can implement the invention (the introduction and specific description of the patent specification); and

- define the monopoly which the inventor seeks in exchange for the disclosure contained in the patent specification (the consistory clauses and claims of the patent specification).

If a claim, in a patent, covers anything that is already known, or that is obvious in the light of what is known, that claim, and possibly the patent as a whole, will be invalid. Of course, it is in the interests of the inventor to secure as broad a monopoly as he can for his invention, so it is normal practice to draft the claims of a patent as broad statements, which are at the same time sufficiently limited to avoid the inclusion of that which is already known. A patent will be infringed by the manufacture, sale, or use, of anything which falls within the broadest definition contained in the claims. It should be noted that the claims of a patent specification do not, as a rule, define a single narrow embodiment of an invention, but rather a broad field of technical innovation, which is both new and non-obvious.

It is the task of Patent Offices, among other things, to determine whether an invention is novel and non-obvious. What matters, is not the fact that the detailed description of the invention is new, but whether the claims define a monopoly area which is technically new and non-obvious. Patent Offices have developed searching techniques and classification systems which assist in this task. One such system is the International Patent Classification, or IPC. The classification is arranged in a tree structure of ever increasing detail, and all European patents and published patent applications carry at least one IPC mark. The IPC is not the only classification system in use, both the UK Patent Office and the US Patent Office have their own systems, which are used in addition to the IPC. Some commercial systems, e.g. the Derwent system have also been developed.

Within Europe a patent application is secret for a period of 18 months after it is filed, so any patent search will inevitably be 18 months out of date in terms of its results. Furthermore, since newly published patent applications will not have been subjected to the full examination process, the claims contained in them may be broader than the final claims which will eventually appear in the granted patent. However, claims cannot be broadened during prosecution of a patent application, and the application will be published together with a search report which gives at least a preliminary idea of a Patent Offices opinion of its validity.

It is not possible to arrive at a final and definitive determination of whether a particular patent is Essential to an ETSI Standard until its validity and scope have been tested through the entire judicial system of a country. However, the majority of patents have a scope and validity of considerable certainty at the date of grant, so for most practical purposes, a determination of Essentiality can be made at the date of grant of a patent. Until a patent is granted there must necessarily be a degree on uncertainty as to its Essentiality to a given Standard. When considering the relationship between patent applications and a particular Standard, it is possible to make a determination as to the potential for the application to be Essential to the Standard. If it is possible to implement the Standard without infringing the claims of the patent application (assuming those claims are the same as those contained in the

granted patent), then the patent application is not potentially Essential to the Standard. If, on the other hand, the Standard cannot be implemented without infringing one, or more, claims of the patent application, the patent application still retains the potential to be Essential to the Standard. This will remain the case until such time, if it ever arises, as the claims are amended into a form in which the Standard can be implemented without infringement of the amended claims.

In summary, patent searches, directed towards identifying Essential patents, are not based on the detailed content of a patent specification, but on the monopoly scope defined in the patent's claims. Patent classification systems exist which can be used to facilitate patent searches.

3. SEARCHING

There are basically three types of search, namely:

- state of the art search, i.e. the searches directed to the identification of patents and/or patent applications covering a particular field of technology and, in the case of ETSI, the technology on which its Standards are based;

- validity search, i.e. what falls within the scope of the claims of the identified patents;

- infringement search, i.e. which patents have claims covering different products

The most common type of search is the validity search. This is performed on a regular basis by many, but not all, Patent Offices, as part of the procedure used in the examination of patent applications. The various patent classification systems are adapted to facilitate this type of searching, for the good reason that such classifications are created by Patent Offices, see below. The primary object of these searches is to locate documents that may contain a technical disclosure which falls within the ambit of the claim of a patent application, or is sufficiently close to the material covered by the claim to render it obvious. The normal technique used is to prepare a search statement, which is usually a slightly broadened version of the patent claim being searched, together with a combination of classification codes. A short list of documents is then derived by use of the classification codes with either a manual, or computer aided search procedure. Documents are then eliminated from the short list by comparison of the technical content with the search statement. The residue of documents can then be examined in detail and compared with the claim of the patent in question.

State of the art searches are really a variation of validity searches in which a broad search statement is used and all the documents isolated are considered. Its primary purpose is to give an overview of the technology and patents available in a

particular area.

It should be noted that validity searches and state of the art searches are rarely confined to patents documents. The nature of the invention being searched may at times place limits on the age of documents to be examined, but there is no inherent limit placed on the age of documents by the patents system.

Infringement searches are, in one sense, the inverse of validity searches. The object is to determine if a new product will infringe an existing patent. Such searches are of course limited to the patent's literature and, in particular, patents filed in the last 20 years (at least for Europe), because 20 years is the maximum term for a patent in Europe. It should be noted that in some countries, notably the USA, the 20 year rule is not applicable. The first difficulty encountered in performing an infringement search is that the available patent classification systems are designed for validity searching and not infringement searching. The normal technique used in infringement searching is to transform the search into a series of validity searches, based on an analysis of the product into a number of separate features, which have the potential to be regarded as 'inventive' in the patents sense. In other words the searcher looks for patents which disclose inventions similar to the 'inventive' features of the product. This assumes that a patent which has a claim covering a particular product will have a disclosure which is not too dissimilar to that product. Some considerable skill is involved in devising appropriate search statements for effective infringement searching. The short list of patents derived from the validity searches are then compared with the product in question to determine whether, or not, the product falls within the ambit of their claims.

The first phase of a searching strategy for the determination of patents that are, or may become, Essential, or potentially Essential, to the technical specification of a Standard would, as outlined in the following section of this Annex XIII, involve the identification of those features of the technical specification that are likely to be new and inventive, i.e. non-obvious, and the elimination of those features that can be shown to be old, or non-patentable, or covered by a previously searched Standard. It is through this mechanism, coupled with the state of the art patent searches referred to above, that the clearance of Standard-compliant products can be effected, i.e. an analysis of products to identify:

- new, potentially patentable, features of the products for which searches would have to be undertaken;
- old features of the products for which searches would not be required
- previously searched features for which search results, and thereby any relevant IPRs, will be available

The state of the art searches, in respect of the new product features, can be effected, in the manner outlined in the following section of this Annex XIII, on a number of databases by using subject-matter classifications and/or keywords.

Alternatively, searches can be carried out in the names of those companies who are known to hold patent portfolios in the technical fields to which a particular proposed Standard relates but such searches are unlikely to identify all patents that are, or may become, Essential to a Standard.

Patents are classified using a variety of classification systems, perhaps the most universally used system is the International Patent Classification, or IPC. However, other classification systems, such as the UK Patent classification can be useful search tools. Patent classifications are, as stated above, based on a tree structure, with each element of the classification code representing a more detailed technical aspect of the invention to which the classification code is applied. Patent classifications are applied to patent specifications on the basis of the technical disclosure which they contain, rather than the scope of invention claimed. In many classification systems several classification codes will be applied to the same patent, to indicate that several different features are disclosed. It is, therefore, possible to define searches in terms of logical combinations of classification codes. However, not all classification systems work in this way and it is necessary to be aware of the underlying philosophy behind a classification system before working out a search strategy.

There are two universal problems with the use of patent classifications systems, namely:

- such systems are by their very nature out of date, they seek to provide a means of classifying that which is not yet known; and

- classification marks are applied by many different individuals, each of whom will have a slightly different view of the precise meaning of each classification code.

These problems are probably the principle source of error in patent searches, and explain why no patent search can be 100% accurate.

The main methods that are used for the identification of patents and/or patent applications are:

- computer databases - these databases and, in particular, the ones that offer on-line access to subscribers, are the main vehicle, used by patent practitioners and/or information technology searchers, for patent and/or technical literature searches;

- compact disc read only memories (CD-ROMs) which are readily available for in-house searching on a wide range of subjects including UK and European patents - all that is required to access the information stored in the CD-ROMs is the addition of a CD-ROM drive to an MS-DOS-compatible computer and a compatible laser printer;

- the UK and European Patent Offices - these offices will undertake cost effective subject-matter searches, on request, on the basis of a technical description of the subject matter concerned, for example, an item of the ETSI work programme; and

- manual searches which are the main method used for the identification of mask works, registered designs and unregistered designs, are not now used, to any great extent, for patent searching because of the more efficient/cost effective on-line database searching facilitates - however, a distinct advantage of manual searching is that details of the original text of the highlighted document, including any illustrations, or drawings, will be available for review by the searcher, rather than the abstracted documents that are available on computer databases.

Computer databases can, therefore, provide the means to carry out a wide range of searches, for example, technical subject-matter searches, covering both patents and technical publications, by the utilisation of an appropriate classification code(s) and/or key word(s). These searches can be used to provide:

- a general indication of the IPR monopolies that are being established by companies, or groups of companies, in particular fields of interest to ETSI;

- the state of the art, in particular areas of technology of interest to ETSI;

- background knowledge in particular areas of technology, which can be used to provide a focus for future research and development activities of a company and/or the direction of ETSI standardization;

- technical subject-matter searches, as above, but related to a particular company - this could be effected utilising the name of the company in combination with the classification code(s) and/or key words;

- infringement clearance searches, or right-to-use searches, utilising appropriate classification codes and/or key words - these searches could be used to determine whether, or not, there are any patents that are, or are likely to become, Essential to a Standard;

- name searches, to highlight patents, or applications therefor, in the name of a particular company or, in the case of patents, any particular inventor(s) - these searches would be effected using the name of the company, and/or the inventor(s), and, if this search is to be limited to a particular field, then an appropriate classification code would also have to be used;

- novelty searches, to highlight any technical publications, or patents that disclose subject-matter covering an invention for which patent protection

is required - these searches would be effected using an appropriate classification code and/or key words;

- validity searches, to highlight any technical publications, or patents, that disclose subject-matter which might be used to invalidate a patent, and/or a patent claim - these searches would be effected using an appropriate classification code and/or key words, and would have the object of finding subject-matter pre-dating the effective date of the patent claim which was destructive of the novelty of the claimed invention, or rendered such invention obvious.

At the present time, the computer databases store only textual information because the large amount of storage space required for other forms of data, for example logic diagrams, circuit diagrams, or engineering drawings, prevents its inclusion in databases. It is not, therefore, possible to undertake on-line database searches in respect of registered and unregistered designs and mask works, because the monopoly obtained for such rights is embodied in two-dimensional representations of, for example, the shape or configuration of the registered designs, as applied to products.

All of the searches referred to above should be undertaken by patent specialists, who have the necessary skills:

- to make, on the basis of a technical description of the features of a Standard-compliant product, or system, required to be searched (search statement), the required determinations concerning the classification code(s) and/or key word(s) to be used for the searches; and

- to be able to decide which of the identified patents are, or are likely to become, Essential, or potentially Essential, to a Standard.

The normal procedure requires a patent attorney to prepare a search statement, and the patent attorney, or a skilled searcher, to assign patent classification codes and/or keywords to facilitate the conduct of the search. The patent searcher then produces a short list of documents that he believes may be relevant, and the patent attorney examines each of these, in turn, to determine whether, or not, they are Essential.

A patent search specialist will, therefore, not only be able to undertake the subject-matter search, on the basis of a search statement, but will also be able to evaluate, possibly in association with ETSI's IPR Advisers and/or Technical Committee chairmen, the list of patents resulting from the subject-matter search and prepare, in the manner outlined in the next section of this Annex XIII, a short listing and thereafter a final listing of Essential, or potentially Essential, patents and/or patent applications.

As previously stated, it is not possibly to obtain details of unpublished patent applications and the scope of the claims of published patent applications may be

subject to change during the final examination process. These changes, in scope of a patent claim, could change the categorisation of the patent from Essential to merely relevant.

The effectiveness of a database search is largely dependent upon the completeness, and accuracy, of the stored abstracts of the reference documents which have been prepared by, or under the control of, the owner of the database. Furthermore, the accuracy of the classification codes is also of importance because, as will be seen from the next section of this Annex XIII, reliance is often placed on this method of data retrieval, when formulating a search strategy.

One major problem with the accuracy/effectiveness of any search is that the source material is never completely up-to-date because of the inevitable delays in entering newly published material on the database.

As, and when, a final listing, of Essential, or potentially Essential, patents and/or patent applications, has been established, the validity of each of the listed patents will have to be determined. This will be effected by undertaking a validity search, as outlined above, to highlight:

- any technical publications; or
- published patents; or
- published patent applications;

having a publication date earlier than the filing date, or priority date, which ever is the earlier, of the patent concerned, which disclose subject-matter that might be used to invalidate the patent and, more particularly, the patent claims. In other words, to identify any prior publication, the subject-matter of which, falls within the scope of the claims of the patent concerned.

In summary, there are three basic types of search which should preferably be undertaken by patent search specialists, utilising a searching strategy, as outlined in the next section of this Annex XIII:

- state of the art searches for the identification of IPRs covering the technical basis of a Standard, or an item of an ETSI work programme;
- patent validity searches for the identification of prior published documents that fall within the scope of the patent claims; and
- patent infringement searches for the identification of patents having claims that are infringed by specific Standard-compliant products, or systems.

Also, the main methods that are used for the identification of patents and/or

patent applications are:

- computer databases and, in particular, on-line databases;
- compact disc read only memories (CD-ROMs) which are readily available for in-house searching on a wide range of subjects;
- the UK and European Patent Offices; and
- manual searches.

Furthermore, the effectiveness of searches are dependent upon a number of factors, for example:

- the accuracy of the abstracts of the reference documents stored in the on-line databases;
- the accuracy of the subject matter classification codes; and
- whether, or not, the source material is up-to-date.

4. A STRATEGY FOR ESSENTIAL PATENTS SEARCHING

A Standard specification, like the specification for a new product, can generally be expected to include a number of distinct features, each of which could, either independently, or in combination with other features, give rise to patent infringement. At least some of these features can be eliminated from consideration, if they can be shown to be inherently old, non-patentable, or previously searched. This process can be used to reduce what, at first sight, may appear to be a difficult set of searches to manageable size. The process comprises the following steps:

- break the Standard specification down into separate technical features: attention should be given at this stage to determining whether, or not, any broad system concepts are present in the Standard, and whether, or not, any functional elements of the specification impose difficult technical requirements, for example, a requirement that an optical link operate at data rates greater than 15GHz, which would limit the available technology for meeting the specification;
- examine each feature to determine whether, or not, it is inherently unpatentable, alone and in combination with the other features; if it is, reject it from the list of features to be searched;
- examine each feature in turn, to determine whether that feature is more than 20 years old: if it is, remove it from list of features to be searched;

- examine each feature in turn to determine whether, or not, a previous search has been conducted: if a feature originates from another Standard it should be assumed that it has been searched - cf the relationship between GSM and DCS1800 Standards;

It should be remembered that a patent can be obtained for a combination of technical features, which individually may be known, but in combination are new.

The process of analysing a Standard specification to determine which features, if any, should be searched, must be conducted in a dialogue between at least one patent expert and one technologist, familiar with the technical field in question. The time involved in performing the individual steps in this process is not great, and is a function of the technical complexity of the Standard concerned. For a simple Standard, an hours discussion should be more than sufficient. Of course, for a set of complex Standards, such as GSM, the process may take several days to complete.

For many Standards, this process will eliminate the need for any form of searching. When the process has been completed there will remain, hopefully, a short list of technical features which require further investigation. Each feature, or combination of features, will then need to be searched, and a search statement will need to be prepared for each such feature.

Patent classification systems, as has been previously explained, are not designed for the purpose of infringement clearance searches. The classification allotted to a patent application relates to the technical description recorded in the document, rather than the scope of the monopoly claims. For this reason, the search strategy, for determining which IPRs are Essential to a Standard, must be based on the assumption that, by determining the patents which relate to the same technical field as the Standard, a short list of possibly relevant patents can be determined. Fortunately, the abstracts which accompany patent specifications are usually drafted on the same basis as the main claims of the patent, although there is no guarantee that this will necessarily be the case.

For each technical feature left on the list of features to be searched, (this may, of course, include combinations of known features), a search statement should be prepared. The search statement will include a brief technical description of the features to be searched, drafted in much the same style as a patent claim, together with a set of patent classification codes and/or key words, to be used in the search. The patent classification codes are used to limit the field of patent documents to be examined. A further limitation, on the documents to be examined, can be derived from the term of a patent. A patent which has expired cannot be Essential, therefore, the search for Essential patents can be limited to patents filed in the last 20 years, possibly a shorter period if it is known that the Standard will not be introduced for 1 or 2 years. The next stage of the search is to scan the abstracts of all patents carrying the appropriate classification marks, and filed within the last 20 years, to determine which do not meet the requirements set in the search statement. These documents are then eliminated. It should be noted that the best search procedures

always operate on the basis of elimination, rather than positive identification. Hopefully this procedure will produce a manageable list of patents, which can be scrutinized in greater detail.

The next stage of the search procedure involves a consideration of the claims of the patents and patent applications, in the residual list of documents, in relation to the Standard in question. The question to be asked of each patents specification is: "Can the Standard be implemented in a manner that does not fall within the ambit of the patents broadest claim?". If the answer is "yes" the document can be eliminated from the list. At this stage, considerable care must be exercised to ensure that any non-infringing implementation of the Standard is really technically feasible. In particular, the definition of 'Essential' used in the ETSI Interim IPR Policy must be borne in mind. This definition reads as follows:

> '"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.'

Having determined a list of IPRs which are prima facie Essential to a Standard, the next task is to determine the geographic coverage of corresponding patents, i.e. in which countries patents, belonging to the same 'family' of patents, exist. This is a relatively straightforward task. At this stage, each of the identified national patents should be checked through the appropriate register of patents to confirm whether, or not, the patent is still in force.

The final test to be applied before the preparation of a definitive list of Essential patents, is that of validity. The determination of the validity of a patent can be an expensive and time consuming business. It may be prudent to leave validity investigations to those who need licences under the patent.

Patent searchers are fallible, and many of the decisions that must be made, during the search process, are matters of judgement. Errors may also exist in the classification of patents, (a process carried out in the various Patent Offices). This means that the results of searches for Essential IPRs will never be 100% accurate. The possibility of an Essential patent coming to light late in the standardization process will always exist.

Where a search can be limited by criteria other than technical features, for example, the name of the patentee, the search can be made very much easier. This limitation can be applied in the case of a company searching its own patents, or in the case where a particular technology can only have arisen from one, or two, sources (this is usually a rather dangerous assumption to make in patent searching). The

search in these circumstances is limited by several orders of magnitude, in fact by the ratio of one companies patent holding in a particular field to the total number of patents filed in that field.

In summary, a search for patents Essential to a particular Standard is conducted by:

- isolating features of the Standard that need to be searched;
- preparing a search statement for each feature;
- eliminating patents that do not satisfy that search statement:
  - first by technical content;
  - then by claim scope; and
- determining corresponding patents of the same family.

Also, name searches may be used to reduce the search task by several orders of magnitude.

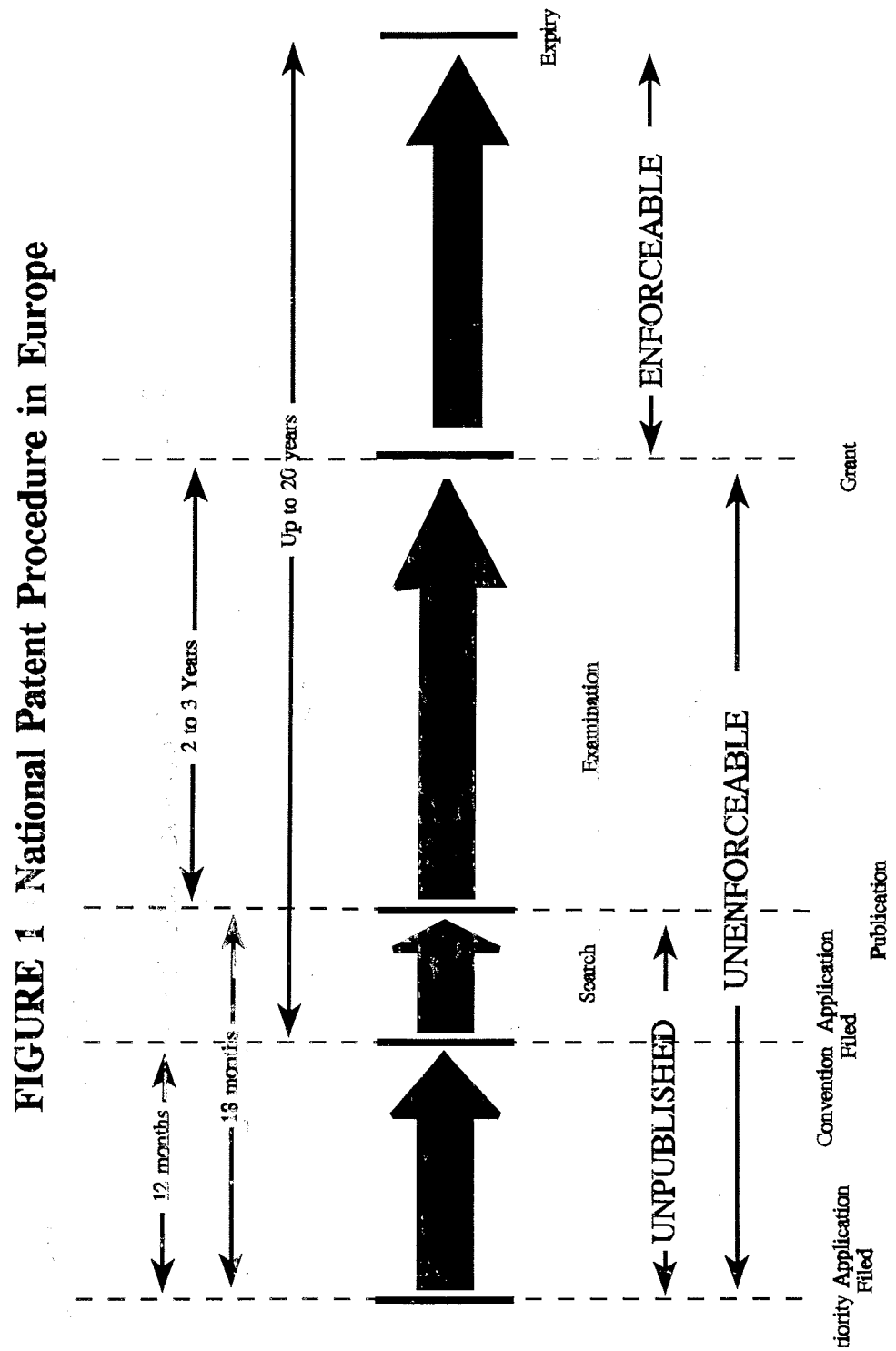
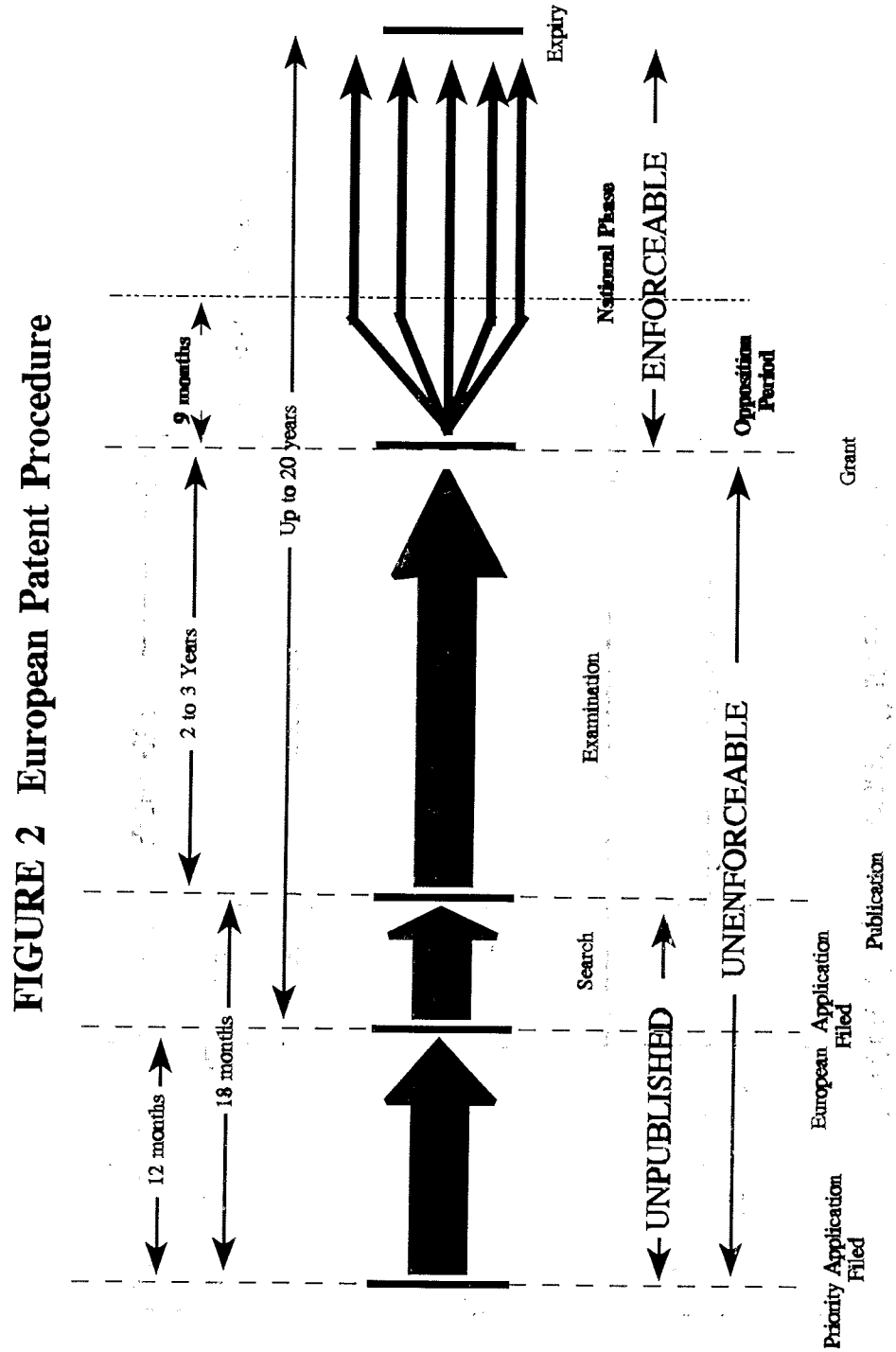


FIGURE 1 National Patent Procedure in Europe

x 13.16



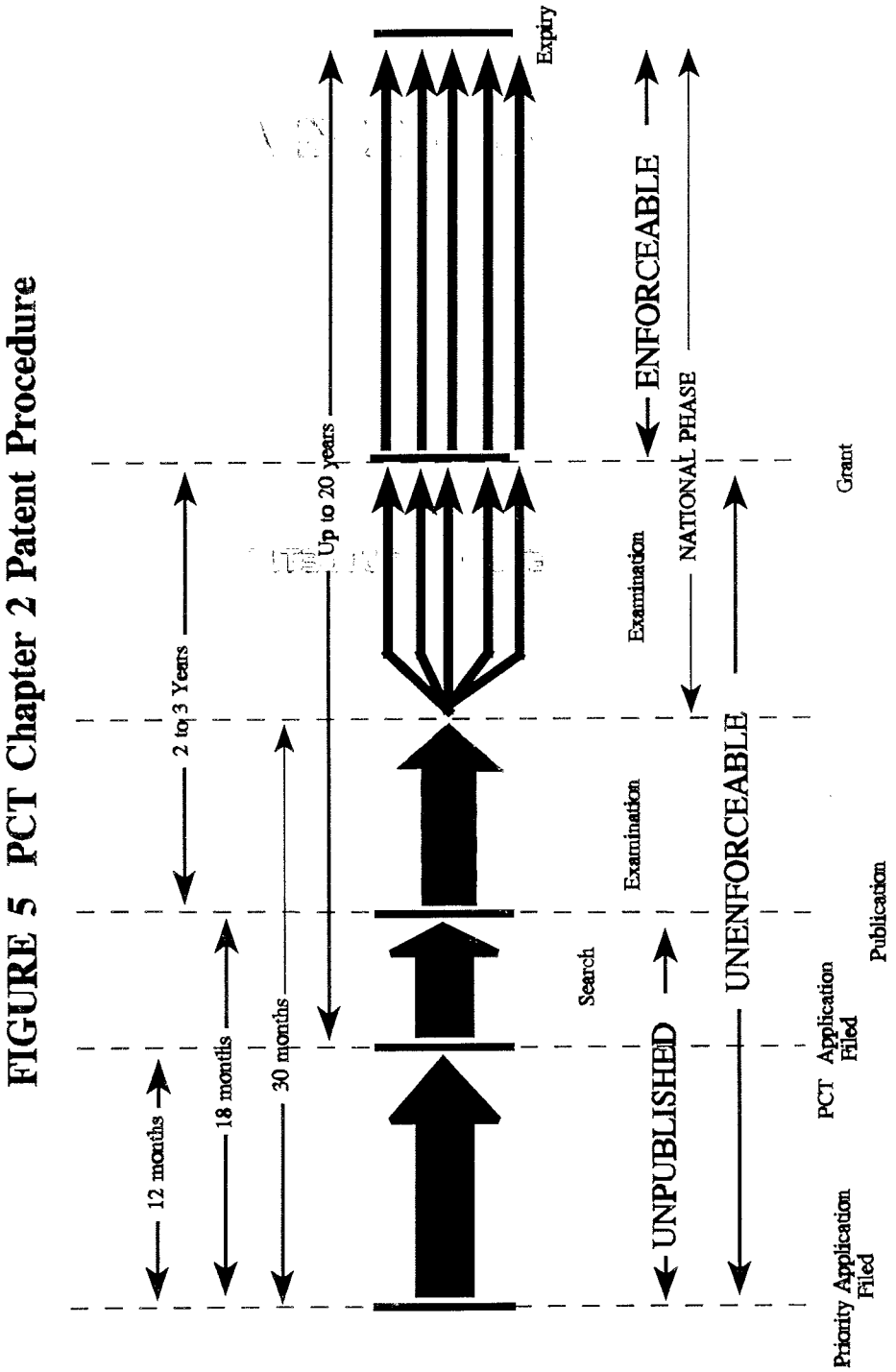


FIGURE 5 PCT Chapter 2 Patent Procedure

ANNEX XIV

1. ETSI IPR BULLETIN

Operation of the ETSI Interim IPR Policy, as set out in this Handbook, will require:

- the publication of information relating to Standards and IPRs; and/or

- action to be taken by ETSI Members, for which regular reminders might be beneficial.

A vehicle for the regular dissemination of reminders and information to ETSI Members, and possibly others having a declared interest in the formulation and/or implementation of ETSI Standards, could take the form of a gazette or news letter, i.e. an ETSI IPR Bulletin.

Since it may be possible for this function to be served by a dedicated section in an existing ETSI publication, it is not possible, at the time of publication of this Handbook, to provide any further information regarding the IPR Bulletin.

As, and when, a decision is made, by the ETSI Secretariat, concerning the manner in which Standards/IPR related information will be disseminated to ETSI Members, and possibly others, this Annex XIV will be revised and republished.