

## Report Q 157

in the name of the Australien Group  
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### The Relationship between Technical Standards and Patent Rights

#### 1. Basis for technical standards

1.1 *What types of national and international standards exist in your country? By whom are these standards set up? Are there de jure and/or de facto standards?*

Technical standards exist in Australia via a mixture of systems. Apart from direct adoption of international standards set by bodies such as ITU, ETSI and ISO, many other standards are generally established by a non-government organisation called Standards Australia. Many standards are in fact established as standards jointly in Australia and New Zealand for various purposes, pursuant to the principles of the CER (Closer Economic Relations) arrangements with New Zealand. Some standards are set by industry associations (e.g. by ÄEMA, the Australian Electrical and Electronic Manufacturers' Association), and some by State and Federal government departments (for example by the NSW Workcover Authority in relation to occupational health and safety). De Facto standards also exist, for example some standards established by telecommunications carriers and electricity supply companies.

1.2 *Who is the addressee of the standards and in which technical field do standards apply? Are the Groups aware of any standards which explicitly refer to patents?*

The standards apply to a wide range of technical fields, including telecommunications, paper products, building components, energy consumption of appliances and vehicle emissions, to mention only a few. The standards are addressed principally to engineers and technicians, but in some cases also to tradesmen and non-technical persons. One specific standard, relating to the security rating of locks, specifically requires that patent or design protection exist for the lock or key for certain levels of security to be asserted. This does not present a conflict, but rather encourages the use of patents to enhance security. Other standards in the writers experience de facto require the use of patented subject matter, and we would expect that this is not an uncommon situation, although we have no numerical evidence of this assertion.

1.3 *What is the legal effect of standards? Are they enforceable? If so, how are they enforced? The Groups are invited to distinguish between the types of standards involved according to question 1.1 above.*

The federal system in Australia means that standards in some cases may be regulated federally (for example in relation to telecommunications), in other cases purely as a matter for the relevant state (for example Building construction), and in further cases as a mixed responsibility (e.g. federal standards regulate the importation of motor vehicles, while state agencies regulate the relevant emission standards). This means that the relevant enforcement mechanism varies considerably. Standards in some cases, for example in relation to safety, product labeling, and pharmaceuticals may be enforced through criminal or civil courts. However, in most cases the failure to meet product standards will only be enforceable by civil action inter-partes, for example to remedy breach of contract for goods failing to meet a specified standard. Some de jure standards are enforced by retraction of membership of a relevant association, or by a policy of non-dealing, for example by government departments.

## **2. Possible conflicts between technical standards and IPR**

### *2.1 What possible conflicts do the Groups see with regard to the relationship between patents and standards?*

By way of a non-exhaustive list:

- (1) Where a standard mandates a technical requirement which specifically requires the infringement of a patent or registered design. This may be a matter of product design, or a requirement to use a particular patented product or process. This situation has various sub-categories, for example where the patentee is involved in determining the standard; where the patentee has no involvement in the standard; where the patent is long-standing and pre-existing; and where the patent is filed during the standard setting process and numerous other variations.
- (2) Where a standard does not specifically require a particular implementation, but the only known practical solution is the subject of a patent.
- (3) Where a standard mandates a specific solution, and without the knowledge of those setting the standard, meeting the standard requires the infringement of a patent held by an unrelated party. If the patentee is unwilling to license, should the existence of the standard be relevant to the quantum of damages for the patentee? Should the patentee be placed in a special position simply because a standard exists?
- (4) A patent may cover both basic and more elaborate implementations - should the patentee be required to license all or only some of these implementations?
- (5) Should compulsory licensing be possible in any of these circumstances? At a technical level there is merit in this - however, this raises issues under the Paris convention, possibly TRIPS, and at a fundamental level as to the nature of the monopoly granted by a patent.

### *2.2 Which issues do the Groups find relevant with regard to confidentiality, concerning namely the relations between the parties involved in setting up a specific standard or the preservation of confidentiality? Should there be rules for the handling of information obtained during the period of setting up a standard? Likewise, should*

*there be rules for the filing of patent applications during said period? If so, what should the rules be?*

It is problematic to provide comprehensive confidentiality provisions for meetings in which standards are being set. At a practical level, many delegates will be involved with the product development processes of their employers. The delegates to standards meetings are often key technical personnel, and it is difficult to ask them to quarantine what is discussed at a standards meeting from their normal activities. Further, they may need to consult with their co-workers, for example to discuss the viability of some issue proposed at the meeting, in order to provide an opinion for future meetings. At another level, many such meetings are open to public comment and participation, which from a public policy perspective may be important.

It may be practical for confidentiality to be implied for technical information supplied during the standard setting process, at least in some cases. Such rules could be applied for very specific information, for example testing of some proposed element of the standard. An alternative would be to either apply a general grace period, as has been discussed in some harmonization proposals. A further alternative would be to apply a specific grace period, for example similar to the exemptions for disclosures to learned societies and at exhibitions which apply in certain countries, to disclosures for the purpose of establishing standards.

We consider that there should be rules governing the patents of participants in standardisation committees. This includes patents filed before or during the period in which the standard is being set. We would not at this stage be willing to define such rules in detail, and would be interested in the views of other participants. The common position, as we understand it, in relation to international standards is that the participants are required to disclose such patents and applications are they consider relevant, and submit to licensing on reasonable terms if these form part of the standard. There is an obvious problem with reasonable terms being set, and with establishing a mechanism to resolve the inevitable differences between the parties. Apart from the issue of determining reasonable terms, issues arise in the practical application of such rules. For example, the participants may be unaware of all pending patent applications by their company; other companies or their IP rights may be acquired during the standard setting process; and patents which at the outset did not appear relevant may become relevant as the standard setting process continues. By definition, the participants do not know what the standard will eventually say, and so cannot be certain which patents will or may be relevant.

Another issue is whether a patent which is not owned, but for example is the subject of an option to purchase or an exclusive license should be treated as if it were owned by the standardisation participant for the purpose of such rules.

*2.3 Are there any issues with regard to the territorial aspect (scope of protection and application of the standard)? What differences do the Groups see with regard to patents of members of the standardization organisation and of non-members?*

It is relevant that it is common for patents to be obtained only in selected jurisdictions, and an issue arises as to licensing terms when the patented territories may be limited. This is of particular relevance to countries such as Australia, where in many cases patents are not obtained. Any form of licensing mandated by the standard setting body will need to comply

with licensing and anti-trust laws in each territory, which may in turn raise issues of differential licensing terms between the adopters of the standard.

Another set of geographical issues arise where the relevant patent exists only in some countries and not others. On the one hand, the standard should not be used as a mechanism to force those who wish to adopt the standard to pay royalties in countries where the patent does not exist. On the other hand, exporters from such countries who adopt the standard should pay royalties on exports to countries where the patent is in force.

It appears to us that there is a fundamental difference between an independent party who has a patent on a particular invention, which invention is included by others in a standard, and a member of a standard setting committee who agrees to certain provisions of a standard, in the knowledge that these provisions mandate infringement of his company's patent. It is essential that these situations be dealt with separately. We see no special case to institute special rules in the former situation. It is surely the responsibility of the standards organisation to make proper enquiries to locate relevant patent rights. Further, it is likely the patentee may well be willing to license. It would seem an unreasonable restriction to the patent monopoly if a standard could be established which then required an uninvolved patentee to compulsorily license. It is important that any licensing provisions deal fairly with anyone who wishes to adopt the standard, including parties who are not members of the standard setting organisation.

#### *2.4 Are there rules for patent pools or discrimination against non-members which might constitute a conflict?*

There are no specific patent pool rules in Australia, and there is no Australian precedent on the issue. It has been considered, however, that a patent pool in Australia risks breaching the restrictive trade practices or "anti-trust" provisions of the Trade Practices Act 1974. In the context of standards, so long as the pool is open to new entrants, and licensing fees and conditions do not unfairly discriminate against new entrants, it is not likely that such a scheme would be objectionable per se.

### **3. IPR policies, conflict resolution means**

#### *3.1 How and by whom should the relevant or "essential" IP rights be determined? Should the members of the respective organisation be required to reveal their relevant IP rights? What should be the consequences if a member does not reveal an IP right? How does this affect the disclosure of new inventions or technologies?*

We submit that it is crucial that exactly which patents (or indeed specific claims of patents) are essential to implement the standard are clearly delineated. These should be distinguished from patents or claims which relate to merely to one implementation or desirable feature. A standard is not a justification for licensing out the whole of a company's rights relevant to a technology, when in fact a much more limited license would suffice. In some cases, the license should be limited to what is required to meet the standard, and nothing more. For example, a company may have a broad patent for a method of preventing interference between channels. A specific standard for digital radio mandates this method. It would be unreasonable to require the patentee to broadly license

anyone who adopts the standard, so that the licensee can apply the patented technology elsewhere.

For the system to be workable, it would seem inevitable that the members of the organisation setting the standard would need to reveal their IP rights, probably both before the standard setting process commences, and again once the standard is completed. If a participant does not reveal a relevant right, then one option would be to deem this to have been revealed with the other rights and similarly open for licensing. Any other solution would seem to have the potential to reward dishonesty. It is also relevant that for a large corporation, it is quite possible that the representative at the standards meeting is unaware of some of the patents held by his corporation, for example those which are not necessarily in the specific subject area of the standard but become relevant because of the way the standard develops. Deeming would seem to meet this case as well. Some degree of early disclosure, perhaps in this case covered by a confidentiality agreement, may be required, but as we are dealing with matters for which an application has been filed, there is no issue of a patent's validity being threatened.

Essentiality can be determined in various ways - for example, by the relevant committee as a general statement accompanying the standard, by an independent party appointed for that purpose, or by the standard setting organisation. It would seem indispensable that the committee make at least a recommendation, as it most thoroughly understands the technical implications of the standard.

If the standard is essentially voluntary, in the full sense, then disclosure need not be compulsory. In some cases the issues of disclosure of IP rights could be handled within, say, a group of competitors co-operating to set a standard with less formal measures. It is where a standard must be adhered to in a legal or practical sense (e.g. telephone connectors) that strict standards of disclosure are required. In the latter case, we believe that there is a reasonable case for legislative intervention to ensure proper conduct throughout the process.

*3.2 Can the owner of an IP right which has been detected as relevant be forced to let it be used for standardisation? If so, should this be done by way of licensing? Can the owner deny the use of the IP right?*

If the owner is involved in the process, we believe that this is reasonable providing reasonable (i.e. industry standard) royalties are paid to the owner for any commercial benefit members derive by virtue of the use of the standard. This issue is perhaps best dealt with in a contract as part of entry into the standard setting process. In some cases a standard license agreement could be used, the terms of which are clear to all parties upon joining the standards committee. If the owner is not involved in establishing a standard, we see it as unfair to compel licensing. Such an approach could lead to standards being used as a mechanism for competitors to compel licensing by, for example, a technology pioneer. However, to the extent that the owner remains a member and has accepted the terms at joining, then the member should be obliged to license.

*3.3 What should be the consequences of such a denial for the standardization process? Can the membership or the participation in the standardization process be made*

*subject to an undertaking to grant licences or to make the technology protected by IP rights otherwise available?*

Making membership or participation conditional on such licensing would seem sensible - what is the point of the standard if it cannot be used widely?. In cases where the standard requires membership of an organisation, expulsion is an additional remedy, and well as preventing the owner to participate in future standard setting committees. A further alternative when faced with a hostile licensor may be to change the standard to avoid the relevant rights.

*3.4 In which way and by whom should conflicts between a member and the organisation or between members be resolved? The Groups are invited to give their comments on the pros and cons of internal arbitration proceedings on the one hand and of national court proceedings on the other hand, as far as particular conflicts with regard to standards and patents are concerned?*

Any of these possibilities may be viable, depending upon the industry - for example, in some industries broad, non-exclusive licensing is common, and arbitration may be most appropriate. Litigation has the added burden in this circumstance of delaying implementation of the standard until issues are resolved, which may take years. Some form of dispute resolution would ideally be provided for in the agreement made when parties become part of the specific standard committee, or in general terms with the standard setting organisation. It is specifically noted that it is not compulsory for a party to participate in the standards process, that they are involved generally in order to obtain benefits from the standard developing in a way which suits their commercial interests, and that it is accordingly not unfair to impose a short, certain dispute resolution process.

#### **4. Licence policies, royalties**

*4.1 Who determines the conditions of a license agreement? What are reasonable royalties? How and by whom can the non-discriminatory character of conditions be defined? Is there any impact, and if yes, which impact does Art. 13 TRIPS have on this type of licenses?*

This is a very complex question, which we do not propose to address in detail. We would suggest that the principles for determining these factors should be part of the agreement between the members and the organisation. Legislative intervention is likely to be difficult, and to provide a less flexible result.

The conditions should be determined in advance of the standard being set, using either standard conditions set by the relevant organisation, or agreed before commencing work on the relevant standard. Reasonable royalties should be based upon the typical royalties paid by willing licensors for the type of technology in the industry in question. The rates may need to be adjusted to reflect the likely widespread adoption of the standard, and the number of licenses required - for example, the standard could not in practical terms mandate a high royalty be paid to multiple licensors. Non-discriminatory terms will vary depending upon the nature of the standard. If possible, these could be established by the standards organisation.

4.2 *Do the Groups see general principles for license condition? The Groups are invited to submit factual comments on the licensing policy involved in standards, i.e. in comparison to the policies for amicable license agreements.*

The general principles should include terms consistent for all parties, including royalties. The license should cover only the minimum scope of rights necessary to adhere to the standard. Licensors should be unrestricted in their ability to license outside the scope of the standard.

4.3 *What are the consequences if an agreement cannot be reached between the patent holder and the licensee? How should royalties finally be determined?*

We suggest that the principles be set out in the standard agreement for participants, by which all participants are then bound. The consequences should be contained in the initial agreement of the participants. Royalties should ultimately be determined by arbitration with reference to industry standards. If the patentee can obstruct the implementation of the standard, after agreeing to participate, then the standard process is itself undermined.

4.4 *What is the legal quality of the undertaking to grant licenses (e.g. third party beneficiary?) Are the rights of a member or of a third party to challenge the validity of the patent affected in any way by this undertaking? Does the patent holder retain the right to enforce the patent against third parties or the member and, if so, under which conditions?*

We believe that the matter is best dealt with contractually. It should not affect the rights of the licensee to challenge the validity of the licensed patent. It is generally the role of the patent holder to enforce the patents against third parties in a non-exclusive licensing situation, such as we are concerned with in this case.

## **Conclusion**

We note that this is an area in which there has been little international discussion, and in many important situations standards are international. Accordingly, we view this as an exercise in which the experiences of different national groups are particularly important, as there is no clear consensus on the issues. Our research shed very little light on the current situation of standards vs IP in Australia, as we understand that as yet, Australian industry and government has not had much cause to give attention to this issue (although we think this will change).

We note that in many important, mandatory standards - for example connectors and interfaces of various types - registered designs may also be relevant forms of protection, at least in Australia.

We further note that standards are becoming increasingly important in many industries, and so conflicts are likely to increase in prevalence over time. As a corollary, it is likely that many situations cannot yet be foreseen, and any position adopted by AIPPI needs to be sufficiently flexible to cope with unforeseen circumstances. We believe that this is a timely issue to be addressed by AIPPI, and that suitable recommendations to standard setting bodies, including governments, are likely to be seriously considered.

## **Summary**

Standards in Australia are imposed by a wide variety of bodies, at different levels of government and industry. Both de jure and de facto standards exist.

We suggest that issues such as disclosure of patent rights, terms of licensing and dispute resolution should be principally governed by an agreement entered into before the standard is agreed. Arbitration of disputes under such agreements is preferable to litigation before national courts.

However, the position of those not involved in setting the standard should not be altered, for example to compel licensing, simply because others have agreed to a standard.

## **Résumé**

En Australie, les normes sont imposées par une grande variété d'organismes, et ce à des niveaux différents de gouvernements et d'industries. Des normes de droit et de fait sont en application actuellement.

Nous suggérons que des questions telles que la divulgation de brevets d'invention, de droits de licence et la résolution de litiges devraient être principalement gouvernés par un contrat conclu avant de se mettre d'accord sur la norme. L'arbitrage de ces disputes dans le cadre de ces contrats est préférable à des procédures devant les tribunaux nationaux.

Cependant la position de ceux qui n'étaient pas impliqués dans les négociations pour établir les normes ne devrait pas en être modifiée, par exemple d'être obligé à avoir une licence simplement parce que d'autres sont d'accord pour adhérer à une norme.

## **Zusammenfassung**

In Australien werden Normen von sehr verschiedenartigen Organisationen festgesetzt, die zum Teil verschiedenen Regierungsbehörden und zum Teil der Industrie angehören. Es gibt sowohl de jure als auch de facto Normen.

Wir schlagen vor, daß Fragen, wie Umfang der Offenlegung von Patentrechten, Bedingungen der Lizenzvergabe und Konfliktlösungen, im Prinzip durch Abmachungen festgelegt werden sollten, die vor Annahme einer Norm geschlossen werden. Die Schlichtung von strittigen Punkten ist im Rahmen solcher Abmachungen gerichtlichen Auseinandersetzungen vor nationalen Gerichten vorzuziehen.

Die rechtliche Stellung Dritter, die nicht an der Aufstellung der jeweiligen Norm beteiligt sind, darf aber nicht angetastet werden, wenn andere sich auf eine Norm geeinigt haben; siehe z.B. Zwangslizenzierung.