

Report Q 157

by the Finnish Group

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 setup?*

The Finnish Standards Board (referred to as SFS both nationally and internationally) is the sole national standards body in Finland. No other organization is authorized to formulate and publish national standards. International standards are also controlled by SFS, which essentially gives International standards Finnish SFS-standard number, as they become adopted nationally. SFS is also responsible for publishing both national and international standards.

SFS is a non-profit society governed by civil law. It is actually controlled by different government and state bodies consisting mostly representatives of different ministeries as well as industrial organizations. Some non-profit academic foundations and societies are also represented in SFS's work. The actual standards are always drafted by a group of experts invited on ad-hoc basis from different organizations.

On national level, SFS standards are actually written by different standard-writing bodies. These are:

TAC	telecommunications
SESKO	electrotechnics
SFS	all other fields

All the standards written by these bodies are published as SFS standards.

The international standards are normally harmonized into national standards. Practiacly this means that the international numbers are allocated SFS-standard number and published the same way as any other SFS standard. On international level, SFS (or its standard-writing body) is a member of the following organizations:

ETSI, ITU	telecommunications
CENELEC, IEC	electrotechnics
CEN, ISO	other

In addition to official standards set by SFS, there are also a number of international and national defacto standards. Such standards have been imposed by private parties or private consortiums.

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?

Both national and international standards are published in Finland by SFS. There are some references in the regulations or resolutions of the Government or different ministeries to the standards, but the standard itself is published by SFS. The publications are available at a nominal fee from the office of SFS as well as from some other agencies. SFS has also a library, where standards may be studied free of charge.

The national standards apply to practically every technical field, the legislation does not set any restrictions on their scope. The most recent statistics from late 1997 state that there were over 8.000 valid standards at that time.

SFS has the right to include description of a patented technology in a standard only with the permission of the patent holder. If patented technology is to be included in the national standard, the patentholder must give up all his rights on this particular patent.

SFS does not have any Intellectual Rights Policy. However, they have never knowingly included patented technology in a standard. This has happened twice by accident (without the appropriate permission from the rightholder), and the standard has been cancelled in both cases.

The international standards, ETSI being one of the most significant, do refer to standards.

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.

There is no directly legally binding effect with the approval or publication of any standard. Therefore, they are not strictly speaking enforceable. However, in practical means standards may be compulsory. In many cases it is impossible to manufacture and/or sell a compliant device if the standard is not followed.

Some regulations or resolutions of the Government or different ministeries may require a compliance with a certain standard. These involve e.g. a safety standard, like e.g. Resolution No.437/1988 of the Ministry of Social Affairs and Health concerning the safety regulations of single-rope cable-ways used for transportation of passengers. The standard itself is not enforceable per se, but as a consequence of non-compliance, the operator of the cable-way may be refused an operating license.

There are no major differences in the enforcability of national/international standards. The only noticable difference in enforcability lies with those standards that are included in Government of ministerial decisions, as stated above.

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?

The national standards do not include any patents, or if they do, the patentee must give up its patent rights. Therefore, rather than creating any conflicts between patentees and potential licensees, there is a likely conflict between patentees and national standards rules since the rules discourage any patenting related to standards.

Most international standards (ETSI being one of the most relevant, again) do refer to patents, but most of these types of standards include a special IPR policy. ETSI standard states, that every IPR and patent that has been included in the GSM standard, must be licensed on non-discriminatory, fair and reasonable terms to anyone.

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?

The most relevant issues in public standards-making are openness and non-discriminatory access. Confidentiality during public standardization process is not consistent with this target. However, in principle one may differentiate with two issues: First, there may be rules that working papers of individual working groups are accessible only for members and only the final specification is available for non-members. Second, since representatives of individual companies in the working groups are often specialist in the technical field, it is in practice not possible to limit their right to make use of the information they obtain during their activities in the standardization. If their right to use the information obtained during standardization would be limited, the companies would be forced to involve other than technically experienced experts in the standardization in order to keep the experts available for own R&D activities. The Finnish Group recognizes that in private standards-making consortiums different rules may sometimes apply.

Adequate intellectual property rules are the core of any standards-making activities. Therefore, the issue of confidentiality and patent applications should be discussed in such rules. It is increasingly a presumption that any new technical solutions are covered by one or more patents. The standard specifications especially in the new fields of technology are increasingly likely to be covered by patents. In general, the standards organizations should have the target to balance the private property rights in patents and the open and non-discriminatory access to standards. In general, the balancing of these two targets by requesting royalty-free compulsory licensing is not appropriate. Rather, the standardization organizations should focus on minimizing the market power and leverage potentially created by patents in the public standards. This may be implemented by (1) requesting identification of patented contributions, (2) requesting licensing commitments, and (3) encouraging competition between competing contributions. Any limitations for patenting activities during standardization process are generally not adequate since frequently the development of technical solutions happens parallel with the standardization.

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?

The Finnish Group has not identified any major issues in respect of territorial aspects. The patents of non-members are a difficult and much debated issue. The licensing obligations of standardization organizations do not bind non-members. In principle, one should recognize the right of a patentee to refuse to license its patents. The adoption of a patented technology into a standard should not be used to force the licensing of proprietary technologies. However, one should be critical against the use of patents to direct standardization by conditioning the licensing upon the outcome of the standardization. Further, if a non-member decides to license its patents, the patentee should not be allowed to benefit in full from the increased market power of its patents in terms of higher license fees. There are two main possibilities to solve the issue: (1) standardization rules that do not allow adoption of a standard unless non-members owning patents have given a licensing statement, and (2) development of antitrust and/or patent misuse doctrines that would limit patentee's leverage in situations in which its conduct is not solely aimed to protect its proprietary business.

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

In principle, any patent pools or standardization consortiums should be open for anyone to join. The license terms for members should be the same as for non-members. However, one should recognize that companies compete in the technology market and that may cause the cumulative royalty costs to be different for different companies.

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?

The Finnish Group recognizes that the determination of "essential" IP rights involves a debated issue. It is not unknown that the "essentiality" of IP rights is used to support licensing claims and IPR activities. In principle, it would be optimal if an impartial organization (e.g. standardization body) would determine essentiality of IP rights. However, in practice such determination would only have limited implications. This is because in order to determine essentiality, one must determine validity and scope of protection. These determinations are solely for competent courts of law to decide. Any private determination of essentiality would lack authority on these issues. However, even in lack of authority in individual cases, such determination may help potential licensees and licensors to evaluate the potential cumulative license costs and adjust their activities accordingly.

The obligation to reveal one's relevant intellectual property rights is one of the core elements of adequate intellectual property policies. This is dictated by the need to protect the openness of the standardization process. If intellectual property rights are identified, that encourages competitors to propose competing solutions. Since any "essential" IP

rights potentially provide a patentee considerable market power, the current case law of making a patent unenforceable in "bad faith" conduct is appropriate.

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?

In principle, one should recognize the right of a patentee to refuse to license its patents. The adoption of a patented technology into a standard should not be used to force the licensing of proprietary technologies. However, one should be critical against the use of patents to (1) direct standardization by conditioning the licensing upon the outcome of the standardization, or to (2) otherwise control the market of standardized products through a minor (but still essential) component technology. There is a need to establish a balance between these competing interests. Consequently, even though the market transactions can normally solve such blocking issues, the possibility to force the licensing of essential IP right should not be excluded.

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 licenses or to make the technology protected by IP rights otherwise available?

The Finnish Group recognizes that the emergence of any standard requires that the manufacturers of standardized products can obtain licenses for essential IP rights at a reasonable cost. Therefore, without the obligation to grant licenses, the standardization activities lose some of their potential procompetitive possibilities. Provided that members have adequate knowledge of the subject matter to be standardized prior to joining the standardization work, the obligation to license as a condition for membership is appropriate.

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.

The Finnish Group recognizes that there sometimes exists uncertainty as to the legal nature of the rules of the standardization organization. Especially, the broadly used licensing obligation on "fair, reasonable and non-discriminatory terms" is subject to constant uncertainty. A centralized arbitration body would probably have some possibilities to establish an interpretation for such obligations. This would probably be wellcomed as an international harmonization since currently the determination of "fair and reasonable" is different in various jurisdictions. However, since patent and licensing disputes are litigated in private arbitration or national courts of law, the creation of a centralized body would probably cause some fragmentation of enforcement activities.

4. License 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. 31 TRIPS have on this type of licenses?

The details of any single license agreement can only be determined in individual litigation. There is not generally accepted method or rule to identify the conditions for licenses and the "reasonable" royalties. In general, there is increasing support for interpretation according to which reasonable royalties are royalties that, if asked by anyone in the industry, would not cause the cumulative royalty costs for standardized products to exceed the average net operating profit in the industry.

Art. 31 TRIPS has only indirect effect since it limits compulsory licensing. However, it is presumed not to have any impact on voluntary commitments to non-discriminatory and reasonable terms. Art. 31 TRIPS does not limit the application of Art. 8(2) TRIPS against abuse of intellectual property rights in connection with standardization activities.

4.2 Do the Groups see general principles for license conditions? 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 Finnish Group recognizes that licensing policy involved in standards and license agreements otherwise used have a few fundamental differences. First, as a consequence of standardization "essential" IP rights have potentially market power that exceed the market power companies are through their own marketing activities normally able to gain. Such market power is seldom a consequence of superior technical content but rather a consequence of the selection among competing technologies during standardization process and dictated by the necessity to select one solution out of several possible solutions. Consequently, the increased market power is seldom attributable to the superiority of a patentee. Second, the licensed technology is seldom proprietary in the sense that any patentee could claim "ownership" to any standardized product or even components of such products. Rather, in order to manufacture standardized products, one is likely to need licenses from a number of patentees. Therefore, the license terms and especially the license rates traditionally used for proprietary products or proprietary components are not entirely applicable in respect of standardized products.

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?

The Finnish Group recognizes that disputes involving royalty rates have been rare. If the parties cannot reach agreement, the licensee may be charged of patent infringement. In the consequent litigation, the defendant is likely to raise the issue of reasonable royalties.

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?

The legal quality of the undertaking to grant licenses is not entirely clear. Probably the most appropriate characterization is to hold it as a promise to all members of standardization organization. The legal validity of such promise (e.g. to third party beneficiaries) is subject of national laws.

It is normal that because of the potential market power derived through standardization, the right to challenge the validity of potentially essential patents is not (and probably should not) be limited. The Finnish Group recognizes that the possibility to enforce IP rights relating to standards is not clear. The potentially preferred solution is that in respect of licensed products they may not be enforced against anyone (members or non-members) except if the defendant has rejected a reasonable licensing offer. However, the Finnish Group also recognizes that if the potential licensee raises its IP rights against licensor, the essential IP rights may, based on reciprocity, be enforceable against such assertion even if such party would be willing to accept reasonable terms of license.

5. Conclusion

The Finnish Group recognizes that IP rights related to standards have increasing importance in the network economy. Therefore, intellectual property rules are an essential part of any standardization organizations.

In general, private agreements should be favored as the preferred solutions to solve the relationship between IP rights and standards. The uncertainty in respect of the interpretation of such rules are not only harmful since they also encourage private negotiations. However, in order to avoid any abuse of the market power created by standardization for patentees, legal rules should allow intervention into selected practices. Also forced licensing as a remedy for such abuse should not be excluded.