

Report Q222

Standards and Patents

by Michael Fröhlich, Chairman

Names and Functions of Committee Members

Chairman	Michael Fröhlich	(Germany)
Co-Chairman	tbd	
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Members	Olexandr Slobodyanyuk	(Ukraine)
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	Gertjan Kuipers	(Netherlands)
	Stephane Tronchon	(France)
	Martin Fährdrich	(Germany)
Responsible Reporter	Nicola Dagg	(United Kingdom)

1. Summary

1.1. Current and future issues

Special Committee Q222 has the task of following developments concerning the issue of standards and patents. The Committee will identify problems and shortcomings, including the analysis of the role antitrust law plays in this context, and will where appropriate formulate standpoints and opinions.

There have been several developments over the past few months that have been relevant to the Committee's question (see below Section 4). The Committee is, however, still in the ramp-up phase, so that no activities have yet been carried out.

In order to introduce the Special Committee to a broader audience, it is suggested to have a short presentation of the Committee's question and scope during one of the ExCo sessions at the AIPPI Forum & ExCo in Hyderabad.

Issues in the near future are (1) to finalise the ramp-up phase and to set up regular calls and/or meetings with the members of the Committee to have exchange of views and updates on new developments in the area, such as new case law, regulator activities, etc., and (2) to ensure a representation of AIPPI Q222 at pertinent upcoming conferences and workshops, such as the European Commission's fact-finding workshop on patent pools in ICT

standardisation that will take place in fall 2011, or the joint conference by the European Commission and the European Patent Office that is expected to take place at the end of the year.

1.2. Deadline for any action

At present no deadlines in the work of Q222 are open.

1.3. Action recommended

The Committee presently has no recommendation.

2. Introduction: Description of the Committee's question and scope

Generally speaking, standardisation can be described as defining technical or quality requirements with which current or future products, production processes, services or methods may comply. As such, standardisation can take different forms, ranging from the adoption of consensus based standards by recognised formal standards development organisations (SDO), such as the European Telecommunications Standards Institute (ETSI), where e.g. the GSM, UMTS, TETRA, and DECT standards have been developed. But standards can also be set through informal special interests groups, fora, and consortia, that like-minded industry participants form to create a technical specification in a focused area, sometimes with the goal of subsequent standardisation by a formal SDO. Examples are the USB Implementers Forum that is responsible for USB, the W3C where for example XML and Cascading Style Sheet standards that are implemented in numerous websites have been developed, or the Bluetooth SIG that is responsible for the Bluetooth personal area networking standard. Finally, a special case are standards that are established not through collaborative standardization but through market forces. Such de facto standards arise due to the degree of market penetration of a particular technical solution.

Generally, standardisation is the key factor for enhancing large consumer choice as it gives companies the possibility to develop their technology around transparent and accepted principles. Also, in today's knowledge-based economies the importance of standardisation is growing because it provides greater interoperability. Interoperability is needed as it ensures that networks, systems, devices, applications or components of different manufacturers can exchange information between them and use the information so exchanged. This and other pro-competitive effects of standardisation are usually recognized.

Standardisation, however, also comes with costs: Having competing companies coming together in one room and jointly selecting one technology for standardization while excluding other technologies provides for a rather specific context from a competition law perspective. There are also situations where standardisation may limit technical development and innovation. This can happen when the standard sets overly detailed technical specifications. Such over-standardisation may cause potential limitations in product variety and result in a loss of opportunity to differentiate.

Restrictive effects on competition can also arise in the context of standards that involve intellectual property rights (IPR), particularly patents. Whereas patents, as all IPRs, are destined for private, exclusive use, standards are intended for free, collective use. This tension leads to conflicts, whenever a patent is needed for the implementation of a standard. Once a standard has been adopted by the industry participants, and once the industry has started developing and producing downstream products that comply with the standard, companies may effectively become locked-in to that standard, since these investments may be lost if they were to switch to a different technology. In such a constellation, inefficiencies and restrictive effects on competition can arise where the patentee misuses its patent rights

to either completely prevent certain implementers of the standard from obtaining access to the standard by refusing to licence, or to grant access to the standard only on unreasonable or discriminatory terms.

As a consequence of this, the competitive effects of patents in standards are dichotomous. On the one hand, innovative technologies are needed for good state of the art standards. It is indeed the nature of patents to enable the open and early disclosure and sharing of innovative knowledge. Without patents there would be secrecy and technologies would likely not be available for standardisation. But on the other hand, when a patent is needed for the implementation of a standard, a patentee can, by virtue of its essential patent, acquire control over the use of a standard. Dependent both on the importance of the standard in the market and on industry lock-in, a standard has then the potential to confer to a patent holder a degree of market power on a particular protected technology that it would otherwise not have had.

To mitigate this risk and to increase the likelihood that effective access to the standard is granted, most SDOs, formal as well as informal bodies, have established so called Patent Policies, sometimes also referred to as IPR Policies. There is a wide range of Patent Policies, but broadly speaking many Patent Policies require participants to do at least two things: First, to disclose patents and published patent applications that are essential to a standard before the standard is set, and second for those wishing to have their patented technology included in the standard to provide a commitment to license their essential patents on at least fair, reasonable and non-discriminatory terms to potential users of the standard. This is the so-called FRAND commitment. In doing so SDOs seek (1) to ensure that IPRs are identified at an early stage in the standardisation work with a view to enable participants to make informed decisions when choosing technologies for standardization, and (2) to reduce the risk to members of the SDO, and others applying the standards elaborated by the SDO, that investment in the preparation, adoption and application of such standards could be wasted as a result of an essential IPR being unavailable or available only on unreasonable or discriminatory terms and conditions.

Albeit patent policies in SDOs are broadly functioning well, these self-regulation mechanisms of patent disclosure requirements and commitments to license on FRAND terms have not consistently proven to be an effective and meaningful constrain on the hold-up value that essential patents can attain. Indeed, there has been much disagreement in the recent past on the conditions for licensing patents that are needed for the implementation of a standard. This issue is particularly contentious as indicated by a series of recent debates and cases.

The Special Committee will aim to identify problems and shortcomings, including the analysis of the role antitrust law plays in this context, and will where appropriate formulate standpoints and opinions. To this end, the Committee will monitor the development of the issue in different jurisdictions and will, if needed, quickly inform the Bureau about current events in the field.

3. Report of Committee's activities

The Special Committee is still in the ramp-up phase and no activities have yet been carried out.

4. Recent developments relevant to the Committee's question

4.1 Developments in Europe

4.1.1 *European Union: Guidelines on Horizontal Co-operation Agreements*

The European Commission, DG Competition has recently reviewed the rules on co-operation between competitors. After several Commission cases and Community court judgments in this area, and faced with the expiry of the two pertinent block exemption regulations (on research and development agreements and on specialisation agreements respectively), the Commission adopted in December 2010 final versions of the block exemption regulations as well as revised rules for the assessment of horizontal cooperation agreements under EU competition law (Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements). The latter provides a framework for the analysis of the most common forms of horizontal co-operation. One of the key features of the reform of the 'Horizontal Guidelines' is a substantial revision of the chapter on standardisation agreements, particularly when involving intellectual property rights. The purpose of that chapter on standardisation agreements is to give guidance on how to ensure that the process of selecting industry standards is competitive and that, once the standard is adopted, access is given on "fair, reasonable and non-discriminatory" (FRAND) terms to all interested users. In this context, the finalised Horizontal Guidelines emphasise the often pro-competitive nature of many standard-setting agreements, but also highlight the risk that they can reduce price competition, or foreclose innovative technologies, as well as the risk of companies 'holding-up' users after the adoption of the standard either by refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard. In the drafting of the Guidelines, the Commission had to bridge significant divergences of opinion amongst stakeholders on key aspects of the rules governing standard-setting agreements. In the end, the Commission succeeded in producing detailed rules that provide good guidelines for designing and implementing standard-setting agreements that comply with competition law. The new legislation in force is available at <http://ec.europa.eu/competition/antitrust/legislation/horizontal.html>. The stakeholder contributions to the public consultation on the revised rules for the assessment of horizontal cooperation agreements under EU competition law can be viewed at http://ec.europa.eu/competition/consultations/2010_horizontals/index.html

4.1.2 *European Union: Study on the interplay between standards and IPR*

The European Commission, DG Enterprise has commissioned a study on the interplay between standards and IPR. The study is aimed at providing a factual basis for possible policy development in the area of European standardisation and innovation policy. The preliminary results of the study have been presented in November 2010 and can be accessed at the following URL: http://ec.europa.eu/enterprise/policies/european-standards/files/standards_policy/ipr-workshop/ipr_presentation_interim_results_23-11-2010_en.pdf. The final report is expected to be available soon.

4.1.3 *European Union: EC/EPO Conference on "Tensions between intellectual property rights and standardisation: reasons and remedies"*

In November 2010 the European Commission, DG Enterprise, jointly with the European Patent Office (EPO) organised a conference on "Tensions between intellectual property rights and standardisation: reasons and remedies". This event included discussion of the interfaces between standards developing organisations and patent offices as well as cooperation between them, *ex-ante* declaration of licensing terms, certainty of availability and continuity of essential IP rights for

licensing, as well as Open Source Software and standardisation. A summary of the conference as well as the presentations can be accessed at the following URL: http://ec.europa.eu/enterprise/sectors/ict/standards/extended/ict-ipr-conference_en.htm

4.1.4 *European Union: Workshop on “Ex-ante disclosure of licensing terms”*

The Digital Agenda for Europe, a flagship initiative of the European Commission, includes several actions to increase interoperability between ICT services and applications. It identifies improved standard-setting procedures, notably appropriate rules for essential intellectual property rights and licensing conditions in standard-setting, including for ex-ante disclosure as keys to success. Through this action the European Commission aims to reduce the uncertainty of IPR treatment for all participants in the standardisation process. In this context, the European Commission, DG Enterprise held on 15 July 2011 a “on-invitation-only” workshop on “Ex-ante disclosure of licensing terms”. The focus of the workshop was on sharing best practices about ex-ante regimes in various SDOs, involving policy-makers, industry and societal stakeholders. A summary of the workshop as well as the presentations can be accessed at the following URL: http://ec.europa.eu/enterprise/sectors/ict/standards/extended/event_en.htm

4.1.5 *United Kingdom: Independent Review of Intellectual Property and Growth, Call for Evidence*

The British Government has asked Prof. Hargreaves to lead a short review of the Intellectual Property framework to consider how it might be changed in the interest of promoting innovation and economic growth. A call for evidence has been launched in December 2010 and interested parties had the possibility to submit comments until March 2011. Received submissions can be consulted at <http://www.ipo.gov.uk/ipreview/ipreview-c4e.htm>. The final report was published on 3 August 2010 and can be accessed at <http://www.ipo.gov.uk/ipreview-finalreport.pdf>. With regard to standards the report identifies patent thickets as an issue and notes that “royalty stacking”, i.e. the accumulation of royalty payments on different patents embodied in one or a multitude of standards, is an issue particularly for SMEs without patents of their own to cross license. The report further notes that the ability of the patent holder to generally obtain an injunction against infringing firms, while traditionally fundamental to the property right associated with patents, places the patent holder in a stronger position in the context of standards related negotiations or disputes.

4.1.6 *Selected recent patent case law affecting standards*

– *Germany: LG Mannheim, Docket n°: 7 O 100/10 (IPCom v Nokia)*

The proceedings are part of a larger battle between the parties. This particular case relates to a patent that is allegedly essential to the UMTS standard. The patent in suit is a divisional of a patent that IPCom, a non-practicing entity, acquired from Robert Bosch GmbH. The latter participated in the development of the UMTS standard by the French based European Telecommunications Standards Institute (ETSI) and committed to license its essential patents under fair, reasonable and non-discriminatory (FRAND) terms according to the ETSI IPR Policy. On 18 February 2011 the German Regional Court Mannheim found infringement on the basis of the UMTS standard documents. In its decision, the Court reconfirmed its formerly expressed according to which Bosch's initial FRAND commitment is not to be assessed under French law, but that German law is the applicable position (*cf.* LG Mannheim, 23.10.2009, InstGE 11, 215 ff.; LG Mannheim, 18.12.2009, Docket n°: 7 O 182/08). The Court further held that under German law the FRAND commitment as such did not confer a right of use to the defendant. The Court also held that that the

criteria for an antitrust objection established by the German Federal Supreme Court in the so called „Orange Book Standard“ case that related to a de-facto standard (BGH, 06.05.2009, GRUR 2009, 694) – amongst others comprising a deposit under specific conditions including waiving the right of withdrawal – are also applicable in a case where the standard was established collaboratively by several participants. Because defendants deposit included a provision on withdrawal, the Court concluded that the applicable criteria were not met and dismissed defendants antitrust objection.

- *The Netherlands: District Court of The Hague, Docket n°: 389067 / KG ZA 11-269 (LG v Sony)*

This dispute relates to patents that are allegedly essential for the Blu-ray Disc standard. This Standard has been defined by parties that are a member of the Blu-Ray Disc Association (BDA), including LG Electronics Inc. (LGE) and Sony. Based on the Bylaws of the BDA, LGE committed to license its essential patents under fair, reasonable and non-discriminatory (FRAND) terms. A main element of the dispute relates to the question whether a holder of essential patents can use all available legal instruments albeit the prospective licensee is willing to take a FRAND license but only under the condition that it is not restricted to the standardised technology alone, but that other technology areas that are unrelated to the standard are included in the agreement. In February of this year, LGE had a Dutch District Court in Breda grant LGE in interlocutory proceedings a leave to attach Sony's Playstation 3 devices for the purpose of surrender. That order was granted ex-parte and was directed against Sony's Dutch affiliate Sony Supply Chain Solutions B.V.. Such interlocutory ex-parte proceeding for a leave to attach for the purpose of surrender is a particularity of the Dutch Patents Act (Article 70, Paragraph 7 of the Dutch Patents Act of 1995). Based on that Court Order, a substantial number of Sony's PlayStation 3 were seized. In addition, shipments of Sony's Playstation 3 were seized by Dutch customs officers based on the European Regulation 1383/2003. The requirement of prevailing likelihood of infringement is considered easy and straight in cases of purported standards essential patents and where the alleged infringer claims its products being standard compliant. Following Sony's appeal to the District Court Den Hague, the Court took into account the effects of the BDA Bylaws regarding Blu-ray licensing. The Court found that the interim injunction be lifted and the goods seized based on Regulation 1383/2003 be released. The Court also ordered that LGE, should it wish to obtain a new leave to attach for the purpose of surrender that is based on the allegedly essential Blu-Ray patents, must serve this request on Sony before filing it at the court and state in the request that it wishes that parties be heard and that Sony be called to that hearing. The Court distinguished this case from *Koninklijke Philips Electronics v SK Kassetten GmbH & Co. KG* (Joint Cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524) in that it considered a contractual mechanism for getting to an agreed licence as sufficient to lift the interim injunction. The proceedings on the merits are pending before the District Court of The Hague under docket number 391365/HA ZA 11-1116.

- *United Kingdom: Court of Appeal, Docket n°: [2011] EWHC 730 (Pat) (Servier v Apotex)*

Albeit not directly related to the question on how a FRAND defence is to be assessed under English law, the Court reviewed in this case the law on the *ex turpi causa* defence. The *ex turpi causa* defence follows the principle that a claimant cannot found his claim on a wrong that he himself committed. Similarly to the German *dolo agit* defence, the refusal to grant a licence on FRAND terms could possibly give rise to an *ex turpi causa* defence in patent infringement proceedings in front of English Courts. However, there is so far no English case law where such *ex turpi causa* defence has been assessed in a case affecting standards.

4.2 Developments in North America

4.2.1 *United States: Federal Trade Commission Workshop on „Intellectual Property Rights In Standard Setting: Tools to Prevent Patent Hold-Up“, and Request for Comments*

On 21 June 2011, the U.S. Federal Trade Commission hosted a workshop on „Intellectual Property Rights In Standard Setting: Tools to Prevent Patent Hold-Up“ to explore issues in standard setting with scholars, economists, practitioners, representatives from standards bodies, and industry participants. The agenda included three separate panel discussions: disclosure obligations in standards setting; *ex ante* disclosure or negotiation of licensing terms; and the relevance and significance of commitments to license patents on RAND terms. A transcript as well as a webcast of the event is available: <http://www.ftc.gov/opp/workshops/standards/>. In the context of the workshop, the FTC also issued a Request for Comments. Received public comments can also be accessed at the aforementioned URL.

4.2.2 *United States: Federal Trade Commission Report "The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition"*

On 7 March 2011, the U.S. Federal Trade Commission released a report entitled “The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition“. That report recommends improvements to policies affecting patent notice and remedies for patent infringement. Regarding the latter the report recommends amongst other things that “[c]ourts should cap the royalty available to a patentee that is subject to a RAND licensing commitment at the incremental value of the patented technology over alternatives available at the time the standard was chosen. The FTC further recommends that courts should incorporate concerns into the injunction analysis about the leverage that an injunction may give a patentee to obtain royalties exceeding the economic value of an invention. The Report can be accessed at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>. The report is based on eight days of hearings, public comments, and independent research. Much of this information is available at <http://www.ftc.gov/bc/workshops/ipmarketplace/>.

4.2.3 *United States: National Science and Technology Council's Sub-Committee on Standards' Request for Information*

On 2 December 2010, the National Institute of Standards and Technology, on behalf of the National Science and Technology Council's Sub-Committee on Standards issued a Request for Information (RFI) regarding “Effectiveness of Federal Agency Participation in Standardization in Select Technology Sectors“. The Sub-Committee includes leaders of executive branch agencies and commissions that have an interest in, or are involved with, technical standards. The objective of the RFI was to inform the development of case studies that will examine the effectiveness of Federal agencies' participation in standards development efforts led by the private sector. With respect to intellectual property, the Sub-Committee asked for information regarding best practices, amongst other things what strategies have been effective in mitigating risks, if any, associated with hold-up or buyers' cartels. The public comments received by the Sub-Committee are available at http://standards.gov/standards_gov/mastercomments030711.cfm.

4.2.4 *Selected recent patent case law affecting standards*

– *United States: Fujitsu et. al. v Netgear, 620 F.3d 1321 (Fed. Cir. 2010)*

This is a Federal Circuit case establishing the requirements of proof in patent infringement cases for mandatory versus optional standard features. The District

Court granted summary judgment of non-infringement in favor of Netgear, determining that plaintiff had failed to establish either contributory infringement or inducement. On appeal, the Federal Circuit determined that the District Court had erred on some points, but nevertheless affirmed summary judgment of non-infringement with respect to most products. The Court held that a district court may rely on an industry standard in analyzing infringement. The Court clarified in this context that if a district court construes the claims and finds that the reach of the claims includes any device that practices a standard, then this can be sufficient for a finding of infringement. The court concluded accordingly that if an accused product operates in accordance with a standard, then comparing the claims to that standard is the same as comparing the claims to the accused product. However, the Court acknowledged that in many instances, an industry standard does not provide the level of specificity required to establish that practicing that standard would always result in infringement, or that the relevant section of the standard is optional, and standards compliance alone would not establish that the accused infringer chooses to implement the optional section. The Court held that in these instances, it is not sufficient for the patent owner to establish infringement by arguing that the product admittedly practices the standard, therefore it infringes. In these cases, the patent owner must compare the claims to the accused products or, if appropriate, prove that the accused products implement any relevant optional sections of the standard.

4.3 Developments in Asia

4.3.1 *China: Draft provisions for civil litigation under the Anti-Monopoly Law*

On 25 April 2011, the Supreme People's Court of China (SPC) released for public consultation a draft of the Provisions on the Issues Regarding the Application of Law in Handling Anti-monopoly Civil Litigation Cases. The 'Draft Provisions' deal with private enforcement under the Chinese Anti-monopoly Law (AML) and provide detail on subjects such as jurisdiction, evidence and burden of proof, remedies, and statute of limitations. If adopted as such, the Provisions are particularly likely to ease plaintiffs' burden of proof in civil AML actions. This may pave the way for a further increase in AML litigation. The Draft Provisions were published against the background of an increase in private litigation under the AML. According to the SPC, there were 43 first instance civil AML cases accepted between 1 August 2008, and the end of 2010, 29 of which already have been concluded. While having no direct impact on the Committee's questino, the Draft Provisions, however, affects the issue of standards and patents. Indeed, the AML deals with standardisation, be it on a horizontal level or relating to an abuse of dominance that may arise from participation in the development of standards and assertions of intellectual property rights essential to implement standards (see for example Art. 15, 17 and 55 AML). The Chinese language text of the Draft Provisions can be accessed at: http://www.court.gov.cn/qzhd/zqyj/201104/t20110425_19850.htm.

4.3.2 *Japan: Planned workshop from AIPPI Japan on "Access to Technology – Patents in Standards"*

AIPPI Japan has planned to hold a workshop in Tokyo on 16 May 2011 on „Access to Technology – Patents in Standards“. Because of the events in Japan earlier this year, the workshop could unfortunately not be realised. A new date is not yet known.

4.4 Developments in other regions of the world

Nothing to report

5. Recommendations

The Committee presently has no recommendation.