

# EU proposals with a potential effect on the enforcement of IPR

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# Agenda

- EU patent proposals – status update
- Proposed EU regime for standard setting

- Patent protection for Europe extremely expensive for lack of unified patent system
- Fragmented enforcement with conflicting Court decisions
- Pan-European enforcement impossible in case of partial protection
- Many attempts in the past to reach agreement
- Principal obstacle: language

- Belgian presidency priority:
  - Overcome the language issue
  - Commission proposal: 3 EPO languages (EN,FR,GE)
  - Alternative proposal: EN + 1
  - Presidency proposal: National + translation in EN, FR, GE, but EN only until machine translation becomes available for FR / GE
  
- Next key dates: Councils on 26 November and 10 December.



## Background: EU Competition law:

- Agreements between competitors that restrict competition
- Prohibition: in Article 101(1) TFEU
- Exemption: Article 101(3) TFEU if on balance pro-competitive
- Guidelines and BERs to facilitate assessment of competitive effects
- New Guidelines on standard setting
- Consultation closed in June 2010, awaiting final

# The positive role of standard-setting

- Secures interoperability in IT, telecom, networks etc.
- Enhances competition, allowing for comparison
- Greater spread of R&D cost over larger number of consumers
- Lower per-unit prices
- Reduced cost of switching

# The possible competitive downside

- Standards may be used to exclude competitors, particularly at the time of setting the standard
- Standards could limit innovation when process controlled by few large participants
- Standard-setting could be used to fix prices
- Standard-setting could be used to fix licensing terms
- Standards may be used to charge excessive royalties (hold-up)

# Key theme in draft Guidelines

- The competition law concerns regarding standard setting primarily relate to so-called “hold-up” problems by owners of industry-standard patents
  - That is, an IPR holder either does not disclose patents that are relevant to the standard or charges excessive royalties
- Recently, the Commission had to deal with a number of cases in this area, notably the Rambus and Qualcomm cases.





- Key revisions to guidelines on standardisation:
  - How to ensure that the selection process is competitive (i.e., which IPRs are included in a given standard); and
  - Once a standard is adopted, access is given on “fair, reasonable and non-discriminatory” (FRAND) terms
    - **Guidelines specify methods to assess the level of FRAND in the context of standard setting!**
- The revisions, and examples, are “ripped from the headlines” of recent Commission cases involving standards and IPRs

- Conditions for falling outside Article 101(1)TFEU.
  - Participation in standard-setting process unrestricted
    - No discrimination, no bias for/against royalty bearing / royalty free
  - Procedure for adoption of standard transparent
    - Transparent voting rights, information provisions, status updates
    - Good faith ex-ante disclosure of essential IPR before adoption
  - No obligation for members to comply with standard
  - Access to standard guaranteed on FRAND conditions
    - Irrevocable commitment by members to FRAND licensing of IPR
    - Guarantee of transfer of FRAND obligation in case of transfer of right

## ■ Commission's view on FRAND:

- „bears a reasonable relationship to the economic value of the IPR“
- Methods:
  - Compare licensing fees of „pre-standard“ fees
  - Independent expert assessment
  - Ex-ante disclosed „most restrictive licensing terms“
  - etc.



# Elements that increase risk in setting standards related to IPRs

- Apart from presumptively illegal conduct, other issues could increase competition risk in standard setting
  - Inclusion of substitute technologies
    - This excludes development of potentially competing standard
  - Standards that are not accessible to third parties
  - Proportion of the industry involved in setting the standard
  - Not offering the technology on FRAND terms



# Presumptively illegal standard-setting conduct involving IPRs

- **Agreements that use a standard to fix prices or exclude actual or potential competitors presumptively infringe Article 101(1) TFEU**
  - E.g., an agreement where a national association of manufacturers sets a standard and pressures third parties not to market products that do not comply with the standard
  - Trade association does not allow a new entrant access to its standard, the use of which is vital to ensure market entry
  - Using the disclosure of essential IPR or most restrictive licensing terms prior to the adoption of a standard as a cover to jointly fix prices
  - Agreeing prior to adoption of a standard, agreements by IPR holders on the licensing terms they will disclose
- **A company holding essential IPR could abuse its dominant position by extracting excess rent by “holding up” users after the adoption of the standard (infringing Article 102 TFEU)**



- Proposal is overly prescriptive
  - Not backed up by case law (no footnotes...)
  - Safe harbour too narrowly defined
  - Ignores EU Technology Transfer Guidelines on benefits of licensing
  - Draft suggests reduced presumption of legality outside safe haven
  - Ignores reality of standard setting
  - Excludes too easily legitimate SSOs that function differently than safe harbour rules, e.g. on prior disclosure of IPR
  - On FRAND, other systems could have same effect (non-assertion, or explicit rejection of prior FRAND commitment > ETSI)

- Ex-ante disclosure of relevant IPR
  - Guidelines should be more specific on type of IPRs to be disclosed (what if not published, protected know-how, trade secrets)
  - Solution: If SSO member fails to disclose an essential IPR it should be sufficient that this IPR will be subject of unconditional FRAND commitments

## ■ Frand

- Clarity on “irrevocable” commitment to FRAND
  - Does it follow a sale of IPRs
  - Will it remain valid after leaving SSO?
- Does FRAND include royalty-free licensing
  - Particularly relevant in the event of a sale of portfolio
- Additional methods for assessing FRAND
  - e.g. allow pool license schemes that operate a balance of interest between members that would almost by itself lead to FRAND
  - Refer to cumulative royalties required for total implementation of standard
  - Refer to conditions of similar pools



## ■ Pool licensing

- Theoretically potential for anti-competitive effects
- Compliant pools (TT Guidelines) can serve to avoid individual abuses
- Acknowledge the pro-competitive effect of early pool licensing commitments
  - Avoids royalty stacking
  - Avoids abusive royalty pricing
  - Balancing member interests with total royalty price will lead to FRAND

- Ex-ante disclosure of license terms

- Early disclosure may be inappropriate from business perspective; valuation difficult
- Preference for early commitments to pool licensing arrangements
- Guidelines should reflect this (like in US and Japan):

“Generally, it does not pose legal problems...if the parties developing specifications decide, in advance, to pool their patents for the specification that they will obtain, when the patents that will be pooled are limited to essential patents and there are no other restrictions on their use“

- Exploitative non-monetary license terms
  - Certain (exploitative) terms not addressed in Guidelines
    - Royalty-free grant-back obligations
    - Non-assertion provisions (NAPs)
  - Problematic if imposed by dominant licensor.
    - Diminishes value of IPR held by licensee, and is disincentive to innovate
  - Condemned by JFTC

- Guidelines are a small step forward, but not well considered
- Disqualifies certain practices too easily
- Severe industry criticism
- Hope for better next draft
- Industry will have to make self assessment why, in each case, they believe their arrangement is not anti-competitive

Thank you!

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