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## Competition & Intellectual Property Policy Implications of Late or No IPR Disclosure in Collective Standard-Setting

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### **1. INTRODUCTION**

Thank you for inviting me to speak on the important topic of late or no IPR disclosure in collective standard setting, or “patent ambushes”.

Due to the complexity of the subject, I would first like to warn you that these are preliminary views, intended to provoke thoughtful discussion. And as always, my remarks today are my own and do not necessarily reflect the view of the Commission.

I have been asked to address how the EC ‘antitrust enforcers’, i.e., the Commission, approaches these issues when problems arise. However, since there are no EC precedents within this area, it is difficult to define an “approach”.

Instead I would like to stress (again) the importance for Standard Setting Organisations (“SSOs”) to primarily take EC antitrust issues into consideration in their internal rules and only when they fail, turn to the Commission. There are in particular two reasons for this: one is of practical and policy nature; the other one is legal.

### **2. PRACTICAL/POLICY REASONS FOR PREFERRING ANTITRUST SAFEGUARDS IN SSOs' INTERNAL RULES OVER COMMISSION INTERVENTION**

The practical reasons for preferring antitrust safeguards in SSOs' internal rules over Commission intervention are not specific to patent ambushes but apply to all possible antitrust concerns involved in standard setting. It is a consequence of lack of

technical expertise, lack of resources and the long lead-time of the Commission's procedures.

Indeed, the Commission does not have the technical expertise to determine whether any chosen technology is the best one. It is therefore likely to focus on procedure instead of substance. The presumption being that procedural requirements guarantee the best result on substance.

In addition, the Commission's limited resources should be concentrated on those practices that have most significant impact on the market and on consumers. It is therefore not desirable that the Commission is drawn into a large number of standardisation disputes on a case by case basis. It is further undesirable that the Commission is used as a negotiating lever in disputes before SSOs.

Finally, due to the lead time of the Commission's procedures, there is a risk that a standard resulting from a patent ambush may be irreversibly established before the Commission may take a position.

### **3. LEGAL REASONS FOR PREFERRING ANTITRUST SAFEGUARDS IN SSOs' INTERNAL RULES OVER COMMISSION INTERVENTION**

The preference for antitrust safeguards in SSOs' internal rules over Commission intervention is more importantly a question of the nature of the legal instruments available to the Commission.

To avoid any misunderstandings, my message is *not* that the Commission *cannot* intervene to put an end to antitrust infringements but that it might not be in a position to grant the remedies sought by a complaint. A complainant might be better off turning to national court on the basis of breach of contractual law, i.e., a breach of a SSO's internal rules or breach of unfair trading acts.

I will first give a short presentation of the legal instruments available to the Commission and then apply them on a theoretical patent ambush situation.

### **3.1. EC antitrust legal instruments**

#### *3.1.1. Article 81*

Article 81(1) of the EC Treaty prohibits agreements or arrangements between undertakings that may affect trade between EC Member States and that have as their object or effect the prevention, restriction, or distortion of competition within the common market. Article 81(2) provides that prohibited agreements are automatically void. Finally 81(3) permits the Commission to exempt restrictive agreements that might otherwise be prohibited under certain conditions<sup>1</sup>. Guidelines on the applicability of Article 81 to standard setting agreements may be found in the Commission's guidelines on horizontal agreements<sup>2</sup>.

#### *3.1.2. Article 82*

Article 82 EC prohibits abuses of a dominant position in a substantial part of the common market. Its application is triggered by dominance.

### **3.2. Application of EC antitrust legal instruments to patent ambushes**

#### *3.2.1. Application of Article 81 on patent ambushes*

Article 81 applies to collusive behaviour, i.e., at least two firms must be involved. In a patent ambush situation, the problem arises of imputing one member's action on the whole organisation. However, instead of looking at the *de jure* SSO's rules, one would have to look at how the standard was actually *de facto* determined. The standard setting agreement resulting from a patent ambush would probably be considered restrictive of competition because its effect of excluding actual or potential competitors from the market as a result of non-transparent procedures.

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<sup>1</sup> If a) they foster technical or economic progress, (b) are indispensable to achieve such progress, (c) benefit consumers, and (d) do not completely exclude competition.

<sup>2</sup> Guidelines on the applicability of Article 81 of the EC Treaty to horizontal co-operation agreements, OJ 2001 C3, p. 2, para. 159.

Now this would mean under Article 81(2) that the standard setting agreement would be null and void. Apart from the fact that such a decision may be used in national courts to obtain damages, the effect on the standard agreement is very much the same as if the SSO had decided to withdraw and redesign the standard. In this sense, from a member or the SSO's point of view, the intervention of the Commission would not have added value.

However, a complainant may wish to get a licence on the technology included in the standard from the patent ambush holder but *without paying any royalty*. It is possible that the obligation to license could be imposed on a member under 81(3) as a condition to clear a standard agreement that contains restrictions within the meaning of 81(1). However, such licence would most likely have to be on granted on reasonable and non-discriminatory (RAND) terms and not for free.

### *3.2.2. Application of Article 82 on patent ambushes*

Contrary to the US antitrust law, it is not the creation of dominance that is unlawful under EC competition law rules, but the abuse of a dominant position. Therefore before behaviour can be considered to amount to an abuse, the firm in question must be dominant. If a standard becomes successful, the holder of a patent which is essential to meet the standard, might either be considered jointly dominant with the other essential patent holders or dominant by itself as a result of its essential patent.

In a patent ambush situation what behaviour may amount to an abuse of a dominant position?

a) The intentional concealment of an essential patent for a standard? On Community level we don't have unfair trading rules, which was the legal basis in the Dell case<sup>3</sup>. As I pointed out earlier, it is not illegal to acquire dominance: big is beautiful, but once you are big you cannot do as you wish. If a firm is not dominant when it chooses to conceal an essential patent for a

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<sup>3</sup> Section 5 of the FTC Act prohibits unfair or deceptive acts or practices in or affecting commerce.

standard but subsequently becomes dominant due to the success of the standard, it appears difficult to attack it under Article 82.

b) The subsequent assertion of an intentionally concealed patent?

It is difficult to see how the subsequent assertion of an intentionally concealed patent could amount to an abuse. The IPR has been legally granted. The patent holder has the right to a sufficient reward for its innovation. In this context, it is important to make a difference, as Professor Patterson does in his paper "Invention, Industry Standards, and Intellectual Property" of May 2002, between the revenues attributable to the demand for the invention and the demand created by the adoption of the standard. A patentee is generally entitled to the first one but not the latter. But this problem will be treated later on today when we will speak about standard setting and RAND.

c) Excessive pricing, unfair licensing terms and/or refusal to license: If the dominant patent ambush holder applies discriminatory licensing terms and/or exerts excessive prices, that behaviour is more likely to amount to an abuse. A refusal to license an intentionally concealed patent for a standard in order to monopolise a downstream market may similarly amount to an abuse. The Commission can in exceptional circumstances impose compulsory licensing but once again, in light of the pending IMS case, I stay here in my comments.

#### 4. CONCLUSION

So what could SSOs do to build-in safeguards against patent ambushes in their internal rules? These are just some ideas. I am sure there are others that I have not thought of.

- **Arbitration mechanism:** The SSO could build in an arbitration mechanism for breaches of internal rules. This would solve the problem with the long lead-time of the Commission's procedure. Before the acceptance of the standard is irreversible, an SSO alternatively a member would know whether a licence could be obtained or the standard would have to be withdrawn and redesigned. Such an arbitrator could also be competent to

calculate the damages of the time lost for the standard setting organisation and/or determine what a reasonable royalty a patent holder would be entitled to.

- **Functionality v. design standard:** In the context of a patent ambush, I would like to stress the importance for the SSO to adopt a functionality standard instead of one based on design. When only certain functionality is determined, it is more difficult to carry through a patent ambush as several patents could meet the same functions.
- **Recurrent review of the standard:** Another suggestion is to review on a recurrent basis the essential patents for a certain standard. "Essentiality" is often defined in relation to a specific standard, i.e., the standard has "locked in" certain patents. In the absence of a review, substitutable patents may artificially be kept away. It could be that there are substitutes for these patents but as long as the standard is not changed, it might not be possible to use the other patents and still meet the standard. To not meet the standard could imply losing interoperability. Of course there might be a problem of switching cost once a certain standard, based on certain patents, has been adopted to revise it, but it is worth looking into.
- **Burden of research must stay with the SSO:** The main principle, as stated in the Commission's Communication on Intellectual Property and Standardisation of 1992,<sup>4</sup> is that responsibility for research into whether there are any IPRs before they are included in a standard lies with the SSO. If not, normal patent infringement rules apply.

I have a practical question, which will clearly show my ignorance, when it comes to the practical aspects of standard setting, but I wonder how is it possible that a SSO includes a patent without knowing it. In order to determine a function, it must know that there is such a function. The SSO knows it

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<sup>4</sup> Commission communication on Intellectual Property Rights and Standardisation, COM(92) 445 final, 27 October 1992.

either because it knows about the patent *or* it is so obvious. If it is so obvious, it is questionable whether it is patentable in the first place. Also if the SSO decides upon a certain standard/function and a member subsequently alter their patent applications to fit the decided standard, the patent should not be granted in the first place because the knowledge would already be in the public domain. If it is not possible for SSOs to check this, how do they know that the non-protected technology, included in the standard, will not subsequently be patented and their members will have to pay royalties?

As you see, there are several question marks within this area. Next time we speak over this matter I hope that we will have some EC precedents that hopefully will have given us some answers to all these questions. Thank you very much for your attention.