

International

Patent pools and standards

Cooperation between patent holders with regard to the joint exploitation of their rights creates several problems and gives rise to a number of issues which are of great practical importance – not only for the patentees, but even more so for third parties that wish to benefit from such cooperation, and for the public in general.

When patentees cooperate to exploit the rights under their patents, this is typically done by licensing the rights both between themselves and to third parties. Technical standards are based on the concept that a certain technology is generally accepted in a technical field by manufacturers and users. Standardised technologies are usually accompanied and protected by patents in order to safeguard the development of those technologies. In most cases a shield of patents surrounds the technology in order to cover numerous technical aspects.

At the same time, standardisation requires that any company that wishes or is forced by business and the market to implement a specific technology in its products have free access to that technology. In this context, ‘free’ means unhindered, but not necessarily free of charge. Potential limits to access might result from patent protection, which grants an exclusive right to the owner. Consequently, there must be a regime in place which guarantees unlimited access to the technology despite existing IP rights.

This chapter highlights some of the issues and gives practical advice for situations where either patentees or interested third parties face specific problems in connection with patent pools and standards. In this context, the term ‘standard’ refers to *de jure* standards approved by recognised standardisation bodies. *De facto* standards, which have become preponderant solely due to market conditions are not discussed here.

Types of patent pool

Patent pools exist in various forms and allow for much creativity. The main types can be distinguished according to how the patents are exploited and by whom. The easiest way for two partners to form a

patent pool is to enter into a cross-licence agreement which includes provisions for the common licensing of the patents to third parties. In this arrangement the patents remain the property of the original patent holder and are not assigned to the partner or another entity.

Another solution is to establish a separate legal entity which becomes the owner of the patents to be licensed. The patentees assign the patents to this entity in order for the entity to enter into licence agreements with potential licensees and enforce the patents against third parties.

An intermediate solution is also common. While the patentees retain full ownership of their patents, the licensing activities are conducted by a separate legal entity which acts as a licence administrator. This entity administers the licensing agreement, but is not a party to the agreement. One example of such a set-up is the 3G licensing programme in the telecommunications sector (W-CDMA technology), where the licensee has the option to enter into either a joint licensing agreement, which covers all relevant essential patents from several licensors in the programme, or bilateral standard licensing agreements, which cover only the patents of one single licensor.

Which set-up a patent owner chooses depends on:

- the market situation of the technology involved;
- the market in general;
- the number of licensors; and
- other relevant factors.

The decision regarding set-up should be made at an early stage, before the standardisation process is initiated. These discussions must deal with not only administrative matters, but also substantive matters such as issues of enforcement, including the following:

- Who is entitled to enforce a patent, against whom and under which conditions?
- How do the patentees have to work together?
- How are revenues allocated and distributed among the licensees?

Dealing with essential patents

One of the major issues is how standard-setting organisations deal with essential patents. Every technical standard will inevitably run into patents which cover a certain part of the technology envisaged to become a standard. As mentioned above, patents play a crucial role in this context. In order to develop a technology, it is necessary to protect the developments as a solid basis for standardisation. This raises the question of how the relationship between patents and the technical standard should be organised. This is particularly relevant with regard to essential patents (ie, patents which have to be used in order to work the standard). Consequently, the standardisation organisations and bodies have developed IP policies which consider the issues and which are binding for their members and the companies participating in the standardisation process.

First, the standardisation body must be aware of and identify the relevant patents in the specific field. A thorough search is needed, but will not guarantee that all patents have been detected – for example, pending applications which have not yet been published cannot be searched. Therefore, any company that wishes to become part of the standardisation process as a member of the standardisation organisation or body or as an external company must make a declaration to the organisation or body listing all essential patents and applications. This must be done before or during the process so that the organisation or body can decide from a technical standpoint whether the standard should implement the patent, or whether another solution which circumvents the patented teaching should be sought.

Another key issue is the remedies that are available if a patent is not revealed as standard essential. Since it is almost impossible to make technical changes to the standard at a later stage, it must be determined that the patent forms part of the standardised technology, and therefore must be accessible for those who implement the standard, irrespective of whether the patent was previously declared essential. This means that the patent holder may be limited in exercising its rights under the respective patent.

Problems occur when a third party which does not participate in the process owns essential patents. Obviously, this party cannot be bound by a declaration or otherwise without its consent. If it is not possible to include that party's IP rights in the standard, the organisation must decide whether the standard should be altered with regard to those IP rights. Otherwise, there is a significant risk that companies using the standard later on

may face infringement charges, which may put the entire standard at risk. Patent trolls are increasingly visible, again emphasising the importance of monitoring the IP rights around the standardised technology.

IP rights policy

A major part of the IP rights policy of standardisation bodies deals with access by third parties to the standardised technology and to the IP rights protecting that technology. Because of the dominant position which the standard offers to patentees, any third party wishing to implement the technology in its products must have access to the technology by way of licensing.

IP rights policies regularly contain provisions requiring patentees that are part of the standardisation process to offer their IP rights for licensing. In this context, it becomes decisive how the patents are allocated to the licensors. Generally, the standardisation organisation itself is not in a position to license patents; this is left to the patentees. However, the declaration made by the patentees to the organisation serves as a declaration for the potential licensees as third-party beneficiaries. They can claim that they are entitled to a licence under the programme or individually from each patentee.

Licence regulation has been the subject of numerous discussions, which have also looked at antitrust issues. The fact that the patentees have exclusive rights in their intellectual property and that the standard makes the use of IP rights necessary for third parties has given rise to several questions regarding the relationship between the patentees and their exclusive rights on the one hand, and the need for a licence on the other. In principle, this is regardless of whether the patentees act individually or whether they have pooled their IP rights. However, a patent pool usually represents an even greater market force and has greater economic strength than individual patentees. Therefore, patent pools are particularly at risk of being considered to exercise excessive power, although the pooling in itself may not be considered to violate antitrust rules. This is widely accepted and expressly stated in the European Technology Transfer Regulation. Nevertheless, licensing programmes regularly seek clearance from antitrust authorities to avoid those issues – the 3G programme mentioned above is a good example of this.

Discussions mainly concern the conditions under which licences are granted in the various programmes. The key is FRAND – that is, licences must be granted on 'fair, reasonable and non-discriminatory' terms to all companies seeking a licence. However, what constitutes FRAND in any given case is debatable. While extreme

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cases of unfair or unreasonable conditions or clearly discriminatory behaviour of the patentee are easy to determine, they are uncommon in practice.

Defendants can easily play this card in litigation and claim to have been treated in an unfair or discriminatory manner. However, in practice, these claims are often unfounded and rejected by the courts. The first point to make is that FRAND certainly does not require that every potential licensee be treated the same way. Patentees are not bound to offer everyone the same conditions. On the contrary, that would lead to discrimination in cases where the situation differed significantly from licensee to licensee. Requiring patentees always to offer identical conditions would ignore the differences and would inevitably discriminate against a licensee whose situation would justify more favourable conditions. Generally speaking, offering special favourable conditions may violate antitrust rules. Therefore, the particular circumstances must be taken into account thoroughly and seriously.

Patent pools that license their rights collectively (either as a legal entity or through a central licence administrator) often create and provide a set of terms and conditions which are made available to the public. Such terms and conditions enhance legal certainty for both users (the licensees) and the members of the patent pool (the licensors). Again, this does not mean that the conditions must be identical in all possible situations. Licensees and licensors have (and must have) the possibility to negotiate terms individually within a certain range. Such negotiations may not lead to discrimination against other (potential) licensees, but should give both parties the chance of some flexibility. Licensees can request a licence from the patent pool under the preset conditions and, in general, licensors cannot reject that request.

The offer of a licence for a package of numerous patents from several patentees may be critical when the package also includes invalid or at least unenforceable patents and patents which are non-essential in regard to the standardised technology. In general, such package deals make life easier for both parties to the agreement and do not constitute an excessive exercise of patent rights. Antitrust issues may play a role when the patentees' behaviour must be assessed as a systematic attempt to charge licence fees which would otherwise be too high and thus unjustified. As the US Court of Appeals for the Federal Circuit recently stated in its *Princo* decision (August 30 2010), patent misuse must be distinguished from general antitrust violations and requires “patent leverage” (ie, the use of the patent power to impose over-broad conditions on the use of the patent which are not within the scope of the monopoly granted by the government).

Dealing with infringement

Irrespective of the obligation to grant a licence to every interested party, patentees remain full owners of their IP rights. This allows them to enforce their rights against third-party infringers. Although patentees are required to grant licences under the standard IP rights policies, this does not mean that they lose all rights against infringers which have not yet taken a licence. The mere fact that patentees may have to grant a licence to a third party does not give that party the right to use the patent as it likes.

The basic situation is the same as in ordinary infringement cases. If a third party uses a patent without direct or indirect authorisation from the patentee, the patentee may exercise its rights under the patent and assert the patent against the third party. The third party

may then raise the objection that a licence should be granted under the standard regime. However, this in itself is not enough to make the patentee's claims unfounded. Otherwise, the third-party infringer would run no risk in infringing the patent. It could simply use the patent and, in the worst case, seek a licence if it was confronted with claims of infringement and if this behaviour remained unpenalised.

It is therefore the practice of the courts to allow court actions against third-party infringers if they have not taken a licence. The remedies include injunctions against further use of the patent. The infringer, as the defendant, must substantially state that it has actively made an unconditional offer to the licensor to take a licence for the respective patent and that this offer meets the FRAND criteria, so that it must be considered an offer that may not be rejected by the patentee. In other words, the patentee must accept the offer as made and cannot initiate court proceedings for alleged infringement of its IP rights.

A special situation occurs if the defendant is willing to take a licence from only one member of a patent pool, but not from the others. It may believe that the patents are invalid or that it is not infringing the patents, even

though they have been proven to be essential. If the IP rights are part of a patent pool, such a request may be rejected by the pool in cases where the IP rights are enforced by the pool as an entity. The licence is offered as a package and cannot be divided into single patent licences. The situation is different if the package licence is only one possible option and the licensor may also seek individual licences from one or more pool members.

Conclusion

Patent pools and standards act as two overlapping systems. Patent pools are helpful not only for patentees, but also for licensees which are interested in a simple and efficient solution. The package deal offers a solution for licensees that gives sufficient freedom to operate under the licence without having to fear that future additional licences may be necessary.

At the same time, certain limits of antitrust law must be observed. In particular, it must be remembered that the joint market power of a patent pool is significantly greater than that of individual enterprises. Overall, patent pools are allowed and encouraged. Potential problems must be dealt with in each individual case.



Jochen Bühling

Partner

jochen.buehling@krieger-mes.de

Krieger Mes & Graf v der Groeben

Germany

Jochen Bühling focuses on patent and trademark law. Mr Bühling's practice involves national and cross-border litigation and counselling. His clients range from multinational companies to small and medium-sized enterprises, and he has been involved in a number of cases around patent rights and standards, including one of the first cases to be heard before German courts invoking standard-essential patents. Until October 2010 Mr Bühling was reporter general of the International Association for the Protection of Intellectual Property.