The new European telecommunications standards institute policy

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Editorial

THE NEW EUROPEAN TELECOMMUNICATIONS STANDARDS INSTITUTE POLICY: CONFLICTS BETWEEN STANDARDISATION AND INTELLECTUAL PROPERTY RIGHTS

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***263** Introduction

On 18 March 1993 the General Assembly of the European Telecommunications Standards Institute (ETSI) adopted its long-awaited policy on the controversial issue of resolving potential conflicts between standardisation and the rights of intellectual property owners. In an earlier draft of its "Intellectual Property Rights Policy and Undertaking', ETSI had proposed to base its policy on the waiving of copyright in standards and the compulsory licensing of patents in return for an equitable remuneration. [FN1]

Although no-one would deny that the use of intellectual property rights (IPRs) in connection with telecommunication standards may erect barriers to the standardisation process, people may differ on the approach to the most appropriate form by which standardisation is to be achieved. At first instance, the focal point of the initial approach taken by ETSI was one of disregarding IPRs and subjecting its members to compulsory licensing. In the view of ETSI, the public interest, as well as the precise nature of the standards needed to make telecommunications networks inter-work, required such a strategy.

As expressed in its Communication of October 1992, the European Commission has taken a different approach:

> Although it could be argued that consumers would benefit in the short term if intellectual property rights were compulsively licensed to serve as the basis of standards, in the long-term, investment in research and development in the standardized industrial sectors would dry up within the Community. Non-Community entities with extensive research activities would be encouraged to keep their technology out of Community markets, while low-cost manufacturing centres outside the Community would benefit from cheap licences to use Community technology. [FN2]

At first sight, it appears that ETSI has taken this criticism seriously by deciding to retreat from its initial position and abandon the compulsory licensing approach in the final, March 1993, version of its Policy and Undertaking. However, several provisions testify to the fact that ETSI still continues to pursue its strategy of enhancing the effectiveness of standardisation at the cost of the relevant IPRs in a modified way. In addition, both the ETSI Policy and the ETSI Undertaking raise doubts as to their compatibility with European competition law. ETSI claims that its new Policy and Undertaking represent "the world's most ambitious attempt to reduce the risks of Intellectual Property Right complications causing immense damage after standards have been adopted for Europe's advanced telecommunications networks'. [FN3] As will become clear, ETSI's approach, while ambitious, is not the most appropriate form by which standardisation is to be achieved.

Although independent of the European Community, the standardisation activities of ETSI are closely linked to the Community's policy in this field. The implications of the new ETSI IPR Policy and Undertaking, however, seem to jeopardise not only the Community's policy with respect to standardisation, but also, generally, its policy regarding competition and intellectual property matters.

ETSI: Europe's Third Standardisation Body

ETSI was formed in 1988 pursuant to the European Commission's recommendation to establish a third European standards-setting body. [FN4] In contrast to the broad field of activities covered by CEN and CENELEC, the two ***264** standardisation bodies that were earlier recognised by the Community, the activities of ETSI are confined to the areas of telecommunications, information technology and broadcasting. The prime motivating reason for the Commission to establish a third standardisation body, specifically directed to the telecommunications and related industries, was their specific character. According to the Commission, the potential risk of IPRs of standards being used to create obstacles to open access is especially acute in the telecommunications field. The task of ensuring that such barriers to trade and to competition in the European market are removed is thus one of ETSI's principal tasks.

In addition to the fields discussed above, ETSI differs on another point from the CEN/CENELEC framework. Whereas the members of CEN and CENELEC are drawn from the 18 national standards bodies in the Community and their national electrotechnical committees, the membership of ETSI is open to participation, on equal terms, of national administrations, manufacturers, private service providers, network operators and all other public and private organisations operating in the telecommunications field.

Since patents and copyright often relate to standards, ETSI, shortly after its establishment, began elaborating on the procedures to be followed when a standardisation process affects IPRs held by ETSI members and non-members. Reportedly, while negotiating these procedures with the European Commission, close consideration was given to the Commission policies and measures in the fields of telecommunications and competition law. Also, there was a certain consideration of whether the procedures would comply with the EC obligations under the GATT system. The final outcome of the discussions was laid down in two documents, that is, the ETSI IPR Policy and the ETSI IPR Undertaking, both adopted on 18 March 1993.

However, while ETSI has finally come up with a set of rules, after almost three and a half years of work, the current text of the IPR Policy has merely the status of an interim policy. It comes into effect for a minimum period of two years as from 1 April 1993, and in principle remains in effect until a definitive policy has been adopted. [FN5]

Analysis of both the ETSI IPR Policy and the ETSI IPR Undertaking reveals several interesting elements. Two decisive points are the identification of IPR-holders as laid down in the Policy, and the right to withhold licences as determined in the Undertaking.

Identification of IPR-holders

ETSI states in its Policy [FN6] that it will, "at the request of the EC Commission, initially for a specific standard or a class of standards', arrange for an investigation to be conducted to determine whether IPRs exist, or are likely to exist, which may be essential to a proposed standard. Also, those initiatives are to be subject to the European Commission meeting all of the reasonable expenses of such an investigation. Hence, in the view of ETSI, the responsibility of investigating IPRs lies with the Commission and not with the standards institute. Opposing this view, the Commission clearly states that a standards institute is obliged to take all reasonable precautions to avoid an infringement of existing IPRs. The Commission, correctly, does not draw a distinction between a standards institute establishing a standard and an individual producer bringing a new product on the market. Thus, the standards institute risks infringing IPRs if it does not take appropriate action to investigate the owner of an existing relevant IPR before initiating work on a certain standard. [FN7]

The duty incumbent on a standards institute to identify IPR-holders finds its basis in considerations to protect IPRs. The basic nature of owning an IPR consists of claiming exclusivity to use it; an IPR-holder is generally free to license to whom and on what terms he likes. In principle, an individual producer, although acting in the interest of technological development in the Community, cannot restrict this right by claiming the effectiveness of standardisation as such. [FN8] One might argue that such an obligation places a heavy burden on the

standards institute, as the identification of IPRs can be costly and cumbersome, leading to unreasonable time-delays. However, an efficient protection of intellectual property and its useful effects on the ***265** innovative force of free markets require this monopoly power of the IPR-holder, which cannot and should not be resticted by the mere need to establish standards. Additionally, the interests of small and medium-sized enterprises (SMEs) which tend to be flexible and innovative, are at stake, as they are rarely represented in the standardisation committees. These enterprises and their IPRs could be particularly affected by decisions taken in the standardisation committees, considering that they usually do not have the means to participate in that process. [FN9]

Hence, owing to long-standing and well-established IPR principles, ETSI is under a duty to investigate IPRs before elaborating a standard, as they cannot derogate from the legal protection afforded to IPRs. Contrary to the wording of the Policy, such an investigation is not dependent on the Commission initiating it and meeting its expenses. ETSI, apparently, is conscious of that duty since it imposes an obligation on its members to disclose to ETSI, without undue delay, the identity of potentially essential IPRs of which they are aware, at any time. [FN10]

Right to Withhold Licences

In contrast to its earlier draft, ETSI respects the decision of IPR-holders who are signatories to the Undertaking to refuse the grant of licences for a standard in respect to IPRs which they own or control. [FN11] However, certain procedural requirements may restrict this freedom: the signatory has to notify ETSI of such a refusal within 180 days after the date on which the Technical Assembly of ETSI decides to put into its work programme a draft standard. It is further stipulated that a refusal to license under the Undertaking cannot be invoked in situations where an IPR-holder, prior to signature of the Undertaking, has granted a licence to ETSI in respect of that particular standard. [FN12]

Where the signatory is not prepared to grant licences for an IPR which it owns or controls and where ETSI has determined that there is no viable alternative technology available, the director of ETSI requests that signatory to reconsider its position. That party then has to inform, within three months, the director of ETSI in writing of its reasons for refusing to license the IPR in question. [FN13] Also, one has to conclude from the wording and the spirit of the Undertaking that an IPR of a member which has not been claimed within the prescribed time-period can no longer be enforced against the standards institute except for the purpose of obtaining an equitable remuneration. Does not paragraph 4.4 of the Undertaking speak of an obligation when stipulating that the "signatory shall be relieved of its obligation to grant any licence under IPRs to the extent that it can show that it is not contractually free to grant such licences (emphasis added)'?

Additionally, one could envisage a situation where a party refusing to license is in breach of its contractual duties if the Undertaking can be construed in such a way that its underlying rationale is the facilitation of the standardisation process, which implies that a party claiming exclusivity has to state reasons, whereas, under normal circumstances, it is free to say "yes' or "no'. [FN14] In such instances, for example, the Undertaking provides for a dispute settlement procedure before arbitrators instead of ordinary courts, and an amicable dispute settlement is aimed at in the first place. [FN15] On the whole, a tendency can be discerned which aims at gaining fast access to IPRs that are essential for the creation of a new standard.

In contrast, the Commission follows a different tack on the issue of the refusal to license where IPRs are involved. In general, the Commission's view at this point is very much in line with the European Court of Justice's case law under Article 86 EEC Treaty, [FN16] restricting a rightholder's freedom only in exceptional circumstances.

In order to establish an abuse of a dominant position in the Common Market, the relevant market has to be defined first, the main criteria being the interchangeability of the product or service in question. Especially with regard to IPRs it is not unlikely that an individual IPR confers a monopoly in a specific market on its holder. Hence, the determination of the concept of an abuse becomes decisive. IPRs are by nature exclusive rights; their existence remains unaffected by EC law. A refusal to license may constitute an abuse only in exceptional cases.

That general principle was clearly stated ***266** by the European Court of Justice in Volvo, involving a design right:

> It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of its exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position. [FN17]

An exceptional case was Magill, [FN18] where the Court of First Instance (CFI) ordered compulsory licensing on the parties. The CFI, following the Commission's reasoning, held (in short), that the exercise of an IPR constitutes an abuse if it is used in a manner falling outside the specific subject-matter of the IPR claimed. Two situations were mentioned, in which a claim of exclusivity may be considered an abuse. First, where a company is "preventing the production and marketing of a new product, for which there is potential consumer demand'. Second, if the IPR-holder is using its right "in order to secure a monopoly in the derivative market'. [FN19] The scope of these exceptions remains to be clarified, however, since it is contested whether Magill concerned "a special case: an unusual intellectual property right and an odd situation' [FN20] or whether the judgment of the CFI does in fact constitute a determination of the exercise of IPRs in the Community. [FN21] Assuming that the language of the CFI is sufficiently general, the first exception might be relevant for standards-setting cases. A conflict case occurs when a specific IPR is needed in order to determine new markets for services and products. Thus, the crucial element, as the Commission states, [FN22] is whether alternative technologies are available at all. If that is not the case, an abuse may be found, although there must be an assessment of the facts in each individual case. Such a case might exceptionally occur in a standards-setting process, where no alternative technological solution is technically feasible. The Commission rightly concludes that a short-sighted policy in favour of standardisation would, in the long run, reduce the incentives of enterprises to invest in R & D and lead to a retardation of technological innovations in the Community.

To summarise, the new ETSI policy, although stating a right to withhold licences, establishes a set of procedural requirements which are designed to delimit the right of IPR-holders to claim exclusivity in an unacceptable way. From a policy perspective, a delimitation of IPRs has potentially negative effects on the technological development in the Community. Also, the case law under Article 86 does not support such a far-reaching restriction of IPRs. Instead, compulsory licensing constitutes the exception.

Conclusion

The new ETSI strategy certainly is an important step towards enhancing the efficiency of setting telecommunications standards in Europe. Nevertheless, as has become clear, it does not delimit the scope of protection conferred on IPR-holders under national and European law. In particular, ETSI cannot lawfully neglect to undertake all reasonable efforts to investigate existing IPRs before starting the standards-setting process. Moreover, the new strategy cannot derogate from established principles of interpretation and application of EC competition law. Instead, ETSI is itself subject to the principles of EC competition law, and one can imagine situations where the implementation of the new ETSI Policy and Undertaking could lead to a violation of established principles under Article 86, namely, where ETSI puts undue pressure on the signing party to license its technology.

Therefore, ETSI must remain aware of potential infringements of IPRs by non-identification of IPR-holders, and of Article 86 by restricting the right of IPR-holders to withhold licences.

FN1. See Written Question no. 2525/92 to the European Commission, OJ 1993 C51/26. See also A. Cane, "Setting standards for telecoms'. Financial Times, 23 February 1993, at 8.

FN2. Communication from the Commission, "Intellectual Property Rights and Standardization', COM (92) 445 final, Brussels, 27 October 1992, at 5.1.15.

FN3. ETSI Press Release of 18 March 1993.

FN4. See the recommendation in the Green Paper on the Development of the Common Market for Telecommunications Services and Equipment, COM (87) 290 final, of 13 June 1987.

FN5. Policy, paragraph 14.

FN6. Paragraph 4.2.

FN7. Note 2 above, at 4.6.1 and 4.6.2.

FN8. An exception, however, is the reverse engineering principle as laid down in the Council Directive of 14 May 1991 on the protection of computer programs, OJ 1991 L122/42.

FN9. Still, as claimed by ETSI, the interests of SMEs are also specifically protected by the new strategy, considering that those companies would normally be in a fairly weak position if they contacted an IPR-holder with a view to obtaining a licence. Now, with the the ETSI Policy and Undertaking they will benefit from the results of the general negotiations carried out regarding licensing terms.

FN10. Paragraph 6 Undertaking.

FN11. Paragraph 4.1 Undertaking.

FN12. Paragraph 4.3 Undertaking.

FN13. Paragraph 4.5 Undertaking.

FN14. In addition to copyright-related limitations on the use of the rightholder's exclusive rights, limitations may arise from the principles of Article 86 EEC Treaty, see below.

FN15. Undertaking, paragraph 19, unless the applicable national law does not allow the parties to have recourse to arbitration, see Undertaking, paragraph 19.10. Note that the ETSI Undertaking, at 19.9, excludes from arbitration only issues of IPR infringement and validity.

FN16. See Note 2 above at 5.1; see also R. Whish, Competition Law 1989 (2nd edn), at 675 and onward.

FN17. Case 238/87, [1988] ECR 6211, at 6235.

FN18. Case T-70/89, [1991] CMLR 669, currently under appeal.

FN19. [1991] CMLR 669, at paragraph 60.

FN20. J. Flynn, "Intellectual Property and Anti-trust: EC Attitudes', [1992] 2 EIPR 49, at 54.

FN21. See the analysis of Th. Eilmansberger, "Der Umgang markbeherrschender Unternehmen mit Immaterialgüterrechten im Lichte des Art 86 EWGV', (1992) EuZW 625, at 633.

FN22. Note 2 above, at 5.1.15.

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