

June 24, 2010

European Commission
DG Competition
Rue Joseph 11
1000 Brussels
Belgium

Re: Draft Guidelines on the Applicability of Article 101 of the
Treaty on the Functioning of the European Union to
Horizontal Co-operation Agreements, SEC (2010) 528/2

Dear Sirs/Madams:

The American Intellectual Property Law Association (“AIPLA”) appreciates the opportunity to submit this contribution in connection with the above-referenced draft guidelines regarding competition issues for horizontal co-operation agreements. In particular, AIPLA wishes to address Chapter 7 of the draft guidelines relating to standardization.

AIPLA is a United States-based national, voluntary bar association whose central mission includes encouraging the healthy development of intellectual property law. AIPLA has more than 16,000 members engaged in private and corporate practice, in government service, and in the academic community, and includes members from around the world. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property.

AIPLA’s members are intimately involved with the legal and business issues underlying the development, commercialization, and exploitation of intellectual property. These include enforceability, antitrust, and licensing issues, as well as those related to the development of technical standards. Consequently, AIPLA’s interest in submitting this contribution is not related to the interests of any particular party, entity, group, or industry. Rather, it is related to the Association’s interest in legal rules and standards that promote innovation, including use of intellectual property in connection with the development of technical standards. AIPLA’s interest also arises from its concern about regulations that apply to companies and other entities doing business worldwide.

As an initial matter, AIPLA observes that the draft guidelines recognize important principles related to standardization and the competitive effects that may result from such activities. These include, in particular, the generally positive economic effects that arise from standardization (*see* ¶ 258) and the appropriateness and need for unbiased, unrestricted, and transparent procedures and voluntary compliance obligations. *See, e.g.,* ¶¶ 261, 277, 279.

We believe the observations that intellectual property rights (“IPR”) policies of standards organizations should not discriminate among specific groups of IPR holders and that there should be no bias in favor or against royalty-free standards are particularly important. *See* ¶ 278.

Consistent with the draft’s observation that unbiased and balanced IPR policies are essential, AIPLA also concurs with the draft’s recognition that tension among stakeholders’ interests in the standard-setting process is inevitable because companies may desire to promote their own solutions, and because there exist differences in business models and strategies among different firms. *See* ¶¶ 270-274. As the draft correctly observes, these tensions may particularly arise because of different business models and economic incentives—*e.g.*, of upstream-only companies, downstream-only companies, and vertically integrated firms—and how firms occupying each of these different positions, or a number of these position simultaneously, may view the use of IPRs in standardization differently.

AIPLA is concerned, however, that the guidelines’ important statement on the need for balanced and unbiased standards development may be compromised by certain provisions that may be understood as suggesting that inclusion of patented technology in standards is more likely to raise anticompetitive concerns, thereby suggesting that non-proprietary standards are favored. We submit that this would be an unfortunate interpretation, because it would diminish the positive competitive contribution patented technology can bring to standardization. As observed by then Competition Commissioner Neelie Kroes, for example, “[t]here will always be an important place for proprietary technology and formal standards,” including because, for example, “[p]roprietary technology is at the heart of Europe’s success in second and third generation mobile technologies.” Moreover, as Commissioner Kroes explained, “[i]ntellectual property protection for technology will always be necessary to give just rewards for investment in R&D.”¹ The European Commission has similarly recognized that “IPR has an important role in standardization.”²

In short, patented technology may afford the technologically optimal standardized solution, and owners of IPRs should, therefore, be encouraged to make their inventions available, even if there is a license fee that will have to be paid. As the European Commission has also explained, the opportunity of firms to gain access to patented technology, which can lower their costs of entry and participation in markets, creates a virtuous cycle of dynamic competition that more than offsets any short-term effect of high prices during the time of an IPR’s life.³ Moreover, a licensing fee may represent only a small or even *de minimis* percentage of the costs that would be incurred if a lesser non-proprietary technology were included in a standard. Such other costs could involve more difficult implementation, lesser performance and higher replacement expenditures. And this says nothing of the losses consumers may suffer because they are denied superior technology and products based thereon.

With this background we make the following observations.

¹ Neelie Kroes, “Being Open About Standards,” remarks to the OpenForum Europe - Breakfast Seminar, 10th June 2008.

² EC White Paper, “Modernising ICT Standardisation in the EU- The Way Forward,” COM (2009) 324 final, 7 March 2009, at 8.

³ EC Communication, “An Industrial Property Rights Strategy for Europe,” COM (2008) 465/3, at 3.

1. The Draft's Discussion of "Excessive" or "Abusive" Royalty Rates May Inhibit the Lawful Exercise of Patent Rights

The draft's discussion of what it calls "abusive" or "excessive" royalties raises fundamental concerns. An IPR grant affords an IPR holder the right to establish the terms under which it will make its technology available, including with respect to any royalty to be charged. This is not compromised in the standards context where a FRAND assurance does not establish specific terms or rates that may be charged. This right flows from the fundamental principle that a patent holder may use its lawfully obtained patent to exclude others from practicing its invention. The draft's discussion of "abusive" or "excessive" royalties, however, could be understood to suggest that EC competition laws should predominate over IPR laws in a way that would undermine these basic rights accorded patent holders. This would not only upset the complementary nature of competition law and IPR law, but would also upset the benefits of standardization because an IPR holder's incentives to make its patented technologies available for incorporation in standards will be diminished.

Accordingly, we encourage the Commission to revise the guidelines to explain the fundamental rights of IPR holders, and the extremely limited circumstances in which an excessive pricing claim under EC competition law might apply, especially to license fees or royalties. We think this would be especially appropriate in the context of FRAND, which is and should be sufficiently flexible to permit patentees and implementers to negotiate specific license terms tailored to their unique interests, relationships and business models, and certainly does not establish any cap on the royalties or license fees that may be charged in connection with standards-essential IPR claims.

We note that the draft suggests certain methods that may exist for determining whether a license fee is excessive or abusive, but we further note that the draft concedes the potential inadequacies of such methods. *See* ¶¶ 284-285. It has also been observed that methods that have been proposed for determining what may be considered a "fair" or "reasonable" royalty all have their drawbacks or may result in a biased result in favor of licensees as compared to patent holding licensors.⁴

There is equally disagreement whether such disputes even raise competition law concerns, rather than involve simply commercial disputes between licensors and licensees. For example, if the price for the license is not what an IPR user decides it wants to pay, the IPR user will simply use the technology without paying, and when finally caught, allege a violation of FRAND. For example, we are aware of litigation where arguments have been advanced that rather than raising legitimate defenses, parties seeking to use standards-essential IPRs have been accused of raising defenses under FRAND strictly to avoid the obligation of negotiating and obtaining a license to practice the patented technology. The decisions in the German Bundesgerichtshof *Orange Book* case⁵ and the recent Dutch Court's decision in the *Koninklijke Philips* case⁶ are instructive.

⁴ *See* OECD Directorate for Financial and Enterprise Affairs, Competition Committee, "Roundtable on Competition, Patents and Innovation," Background Note by the Secretariat (25 May 2009) at ¶¶ 53-55.

⁵ BGH 6 May 2009, KZR 39/06, b9 7936.

⁶ District Court The Hague, The Netherlands, 17 March 2010, Joint Cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524.

In sum, because of the potentially enormous contribution that patented technology can bring to the standards process, the guidelines' focus on "abusive" or "excessive" license fees and royalties appears misdirected. Instead, it may be far more instructive if the guidelines were to acknowledge that the determination of royalties and licensing fees should be determined through the negotiations of the relevant parties, and not some formulaic approach determined by competition authorities. Indeed, competition authorities should most appropriately avoid acting as price regulators, because that will impose more uncertainty, delay and cost to the effective dissemination of IPRs. Moreover, the involvement of competition authorities in such a regulatory role would threaten the over-enforcement of competition laws at the expense of the IPR laws' positive impact on dynamic competition. Competition authorities, however, would, of course, still have the important role of assessing the competitive impact of specific conduct, and the guidelines might properly make clear the nature of such a role.

2. The Draft's Discussion of "Hold Up" May Be Misinterpreted

"Hold up" in the standards context is a term used to mean many different things, but primarily to negatively characterize a patent holder's attempt to obtain royalties or license fees once a patented technology is included in a standard. Such uses, however, may not relate in any way to competition law issues, and may simply reflect the rights of a patent holder to obtain license terms that are consistent with its right, even in connection with standardization, to realize the reward for its efforts in investing in innovative technologies.

The draft's discussion of "hold up," therefore, may be misinterpreted as a bias against IPR holders and may cause the imbalance of interests that the guidelines seek to achieve. We encourage the Commission to revisit this aspect of the guidelines.

3. Potential Anticompetitive Conduct by Licensees Should Be Addressed

The Guidelines raise the potential for anticompetitive risks resulting from *ex ante* conduct by patent holders. *See* ¶ 267. To achieve a balanced approach, the guidelines might also address the competition risks involving *ex ante* conduct by potential licensees, which may result in monopsonistic or oligopsonistic effects. Such conduct may arise, for example, where potential licensees collectively agree to allow the inclusion of IPR in standards only on the condition that it is made available royalty free or for a license fee that fails to allow the IPR holder to realize a return on its investment in developing the technology. This would not only impose a biased approach to IPR for standards purposes, but could undermine incentives for firms to contribute their IPRs. Simply, if IPR holders were at risk of being deprived of their ability to realize a return on their innovation investments, then their willingness to allow their IPRs to be standardized would be reduced. This in turn would leave consumers with perhaps a short-term lower cost alternative, but one that is technically inferior and ultimately more costly because of its poorer performance and quicker obsolescence. Such an approach would also deprive industry and consumers of the benefits of the virtuous cycle of dynamic competition the European Commission has recognized as arising from IPRs.

4. The Draft Could Be Interpreted as Promoting Compulsory Licensing

Paragraph 282 of the draft would “require” all holders of essential IPR in technology that “may” be adopted as part of a standard to commit to license their patents. *See* ¶ 282. This provision as written could be interpreted as requiring compulsory licensing, which would be antithetical to the basic rights of IPR owners and unjustified. More specifically:

- This provision is inconsistent with the approach taken by many of the major standards organizations throughout the world. For example, the IPR policy of ETSI and the common policy of the ITU, ISO and IEC do not require licensing of even essential patents. The ANSI IPR Policy also has no such requirement. Rather, these standards organizations provide, generally, that an essential IPR owner may give a FRAND assurance, declare that the standards-essential IPR will not be enforced, or, instead, declare that it will not license its standards-essential IPR. If the last declaration is given, or no declaration by an essential IPR owner is obtained, then the organizations’ policies provide for steps to be taken regarding how the situation will be handled. Indeed, following complaints in the 1990s that its IPR policy required compulsory licensing, and after complaints to the European Commission, ETSI modified its policy to accommodate such an approach.
- This provision would also require a holder of IPR for a non-standards essential technology to license its IPR. This is because, as written, the provision would require licensing technology that “may” be adopted as part of a standard. In this regard, the draft seems inappropriately to mix typical policies that address the disclosure of patents that “are likely to” or “may” contain essential IPRs, and licensing statements in connection with patent claims that are standards-essential.
- Further, this provision would impose the obligation on standards organizations to “require” licensing by IPR holders, even if they are not members or participants in the organization, or have the standards organization and the non-member/participant IPR holder risk an EC competition law violation. Standards organizations could not meet such an obligation. This may not be the intention of the draft, and if so, then clarification should be made.
- Finally, the draft offers no legal rationale or basis, and we are aware of none, that would require the type of compulsory licensing that would be imposed. As such, we respectfully suggest that it is not the appropriate role of competition agencies, whether through guidelines or otherwise, to impose requirements in such circumstances, especially when the unintended consequences may, as here, negatively impact the intended beneficiary of the effort - *i.e.*, standardization and competitiveness.

5. The Draft Should Not Suggest a Regulatory Regime as a Substitute for a Consensus Driven Approach to Standardization

The draft as a whole could be interpreted as reflecting the Commission's preference for certain policies relating to the use of IPRs in standardization, in place of the consensus-driven policies that have been adopted by standards organizations based on the decisions of their members and participants. The guidelines should not do so, especially given the complexity of standardization, the difficult issues that exist in reconciling the complementary nature of IP laws and competition laws, and the risks that will arise from a governmental regulatory approach in diminishing the dynamic competition that exists in connection with standardization, particularly in technologically sophisticated industries.

By way of example, as mentioned, the draft could be interpreted as imposing licensing requirements that major standards organizations have not adopted. The draft could also be interpreted as requiring standards organizations to impose on members the obligation to meet certain disclosure standards. Specifically, firms would be required to undertake "reasonable efforts" to identify existing and pending IPR reading on a potential standard. *See* ¶ 281. But while some standards organizations include in their policies similar provisions—*e.g.*, ETSI's policy providing for "reasonable endeavours" to make disclosures—other organizations maintain a less definitive approach. *See* ISO/IEC/ITU's Policy and ANSI's Policy.

These differences in approach reflect the now common wisdom that when it comes to IPR policies for standards organizations, one size does *not* fit all. Unfortunately, the draft guidelines could be interpreted as requiring such a regime. For a number of reasons, the Commission should do everything possible to avoid even such a suggestion.

- The dynamic nature of standardization, and the diverse characteristics of standards bodies and standards participants, suggests that different variations of IPR policies may be most beneficial depending on specific circumstances. In this regard, we are concerned that Example 2 in ¶ 316 could lead to the incorrect conclusion that except for an IPR policy that reflects the provisions of the guidelines precisely, risks of violating EC competition law would exist. Equally important, an example that simply provides some attributes of an IPR policy, without far more facts from which actual competitive effects can be determined, including an assessment of the relevant market and the impact on that market, does not provide any guidance concerning what will be permissible competitive conduct versus impermissible anticompetitive conduct. We, therefore, encourage the deletion of this example.
- As suggested by Example 2 of ¶ 316, if the Commission uses the guidelines to direct behavior based on preferred policies, rather than to provide guidance of enforcement intentions addressed to anticompetitive conduct, risks will exist that competition laws will be over-enforced and challenges will be made of conduct that is entirely lawful under applicable patent and other IPR laws. Such an approach also risks establishing preferences and biases in favor of certain firms and against others. Even the potential for challenge under applicable competition laws may cause IPR holders to lessen their willingness to make their IPRs available whether through standardization or otherwise.

6. The Draft Could Cause Inefficiencies and Higher Costs for Standardization

Certain provisions of the draft are ambiguous and may cause unintended consequences, such as reducing the efficiency of the standards process and licensing of IPRs, as well as increasing costs of standardized products and services. The following are examples:

- Paragraph 281's disclosure requirement relates to existing or pending IPRs "reading on the potential standard." This requirement could cause IPR owners to undertake costly and time-consuming evaluations based on incomplete information, especially if this provision is interpreted as requiring mandatory *ex ante* disclosures. Standards evolve dynamically, and whether a patent claim is essential to, or may be essential to, a standard may change over time as the standard is being developed. It may be difficult, therefore, for a patent holder to be able to determine whether a patent "reads on" a standard, but rather than risk a potential competition law claim the patent owner will over-disclose patents that may be essential. In some circumstances this may be appropriate, but that is why it is best to allow individual standards organizations to determine the most appropriate disclosure requirements rather than for the Commission to impose its policy preferences, especially where, as in this context, the effects on competition arising from the particular policy preference are, at best, ambiguous.
- The draft could also be interpreted as requiring that licensors perform patent and other IPR searches—for both issued and merely applied for IPR—to avoid potential competition law exposure. For good reasons the policies of the major standards organizations, including ETSI and the ISO/IEC/ITU, expressly state that no searches will be necessary. This is in recognition that holders of large portfolios may be unable to know, much less undertake a rigorous analysis of specific claim language, whether any of their patents will "read on" a draft standard as it changes. This is to say nothing of the cost that would be imposed by such a requirement. An organization with a large patent portfolio would have to employ a team of patent lawyers to make a comprehensive review of the portfolio in connection with each modification to a standard.
- To the extent the draft is interpreted as providing a safe harbor for IPR policies that mandate the *ex ante* disclosure of licensing terms, including maximum rates, instead of allowing the type of bilateral disclosure of licensing terms as currently takes place, additional concerns exist that suggest the need for clarification. As has been explained, "*ex ante* disclosure of license terms may be useful in a standard-setting context where the technology is limited in scope, and static, and the patent ownership provided is known or predictable and relatively stable." But, where the technology "is characterized by complex, dynamic standards having broad technical scope and long evolution cycles over many years . . . no-one can be sure what the eventual products will look like," and "it is too early for prospective patent owners to put a meaningful price tag on the technology."⁷

⁷ "FRAND Best Practice," Tim Frain, Director IPR Regulatory Affairs, Nokia Corporation, presentation to the European Commission Workshop on IPR in ICT Standardization, Brussels, 19 November 2008, at 1-2.

Thus, such *ex ante* disclosure “can actually back-fire . . . as it may risk undermining commercial confidence in the emerging technologies concerned” and create the risk of buyer cartels.⁸ Moreover, the statement of maximum terms for standards-essential claims will rarely be meaningful, since license terms often vary for different licensees because negotiations lead to agreements addressing far broader cross licenses, portfolio licenses and other business relations between specific parties. Here, too, guidelines promoting voluntary IPR policies would avoid such unintended consequences.

7. The Guidelines Could Create Worldwide Disharmony

A major reason for AIPLA’s interest in this matter is the possibility that any guidelines adopted by the Commission will have a worldwide impact. Technology licensing and standardization occur on a global scale. Firms must compete worldwide. Accordingly, any guidelines adopted by the Commission will set a baseline for conduct by firms that wish to avoid even the potential risk of violating EC competition law.

Accordingly, if the guidelines enunciate principles that can be interpreted as establishing an unbalanced treatment for IPR in standardization, IPR holders globally will be negatively impacted, as will competition resulting from the availability of IPRs. Such an approach would also call into question IPR policies of non-EC standards organizations, even though such policies create no competition issues under the laws of the jurisdictions where those organizations reside.

AIPLA, therefore, encourages the Commission to reconsider the guidelines in light of prevailing policies that exist, consistent with applicable competition and antitrust laws, throughout the world.

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AIPLA reiterates its appreciation for the opportunity to comment upon the standardization chapter of the draft guidelines. This chapter addresses highly complex and difficult issues, and the ability of interested parties to share their views, we are confident, will lead to a better result.

Very truly yours,



Alan J. Kasper
President

⁸ *Id.*