

Are successors and patent assignees bound by FRAND terms and other obligations in IPR policies? Should they be? - Draft, do not cite!

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By Anselm Kamperman Sanders⁺

Setting the scene

During the past couple of years the interface between intellectual property law and competition (anti-trust for the US-trained) law has increasingly become the source for questions on the purpose of intellectual property rights and the exercise thereof on one side, and the role of competition law and competition authorities on the other for the purpose of providing incentives to innovation and access to industry standards.

Intellectual Property and Trade

The issue of standard setting is gaining in importance. Technical standards are introduced into the market through private standard setting (by agreement or by network effects), or through certification by a public body. When it concerns new technology the protection by means patents, copyright (on software), or database rights play an important role in the licensing and technology transfer, but also in questions over access to these standards by competitors and consumers alike. Furthermore, policy on standard setting is fast becoming an issue of international trade. At the core of the two pending WTO cases (DS 362 and DS 363) against China over media products is the question who will control the market access to the online distribution environment for China.

Essential Facilities or Innovation in the EU and the US?

After the inception of the essential facilities doctrine in the United States, however, it has been the European Commission that has been most pro-active in asserting its regulatory power when it comes to ensuring access to standards and essential technologies. From the lineage of cases comprising *inter alia* the decisions in *Magill*, *IMS Health*, and *Microsoft* a picture is now emerging whereby the European Court of Justice has sanctioned and

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developed a doctrine that deals with the abuse of a dominant position consisting of a refusal to license intellectual property, where innovation is stifled through such a refusal. Still in its infancy, the doctrine may facilitate the balancing of interests of innovators, right holders, competitors and society as a whole in assessing the justification for the intellectual property system itself in light of wider competition concerns.

Meanwhile the U.S. practice shows signs of internalizing concerns over patent misuse in the IP system itself. The question is, therefore how the European and U.S. positions can be reconciled, as they both have an impact on international trade and standard-setting practice.

Competition Law not part of WTO Law

The application of such a doctrine outside of the context of the European Union, let alone in the context of the WTO is, however, not yet universally greeted with enthusiasm. State and industry stakeholders in intellectual property in particular feel uneasy about the prospect of absolute rights of property being subject to restrictions through the application of competition law, especially where intellectual property industry standards offer great network advantages to control both domestic and foreign markets. It comes as no surprise then that Competition, or Anti-trust Law is not part of WTO law.

Preliminary conclusions

The preliminary conclusions of the contribution are that:

- The strengthening of intellectual property laws must go hand-in-hand with tailoring competition law and technology transfer agreements to counter abuse in the exercise of intellectual property rights;
- This is even more pertinent where standards are involved;
- Regulators need to be more actively involved in the certification of standards, especially for the creation of appropriate licensing (FRAND) terms;
- Competition rules must take into account the international trade dimension of standards and the role of intellectual property therein;
- Competition authorities will have to develop a coherent policy on matching the basic tenets justifying intellectual property rights with competition law, where the long-term interest of innovation is common to both branches of law;

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Standards and Intellectual Property

According to European Competition Commissioner Kroes standardization “encourages competition on the merits between technologies from different companies, and helps prevent lock-in”.¹ Through standard-setting organisations (SSOs), participating firms can indeed choose the most effective technology and switch to superior alternatives as technology develops. This allows firms to cooperate in the setting of standards for the purpose of reducing risks in investment, while allowing for multiple innovators who adopt the standard to compete in the implementation of the standard. The benefits of standardization are reflected in the Commission’s Horizontal Guidelines on Competition,² providing an exemption from the application of Article 81 EC Treaty, which prohibits agreements and concerted practices that prevent, restrict or distort competition, insofar as they may affect trade between Member States. Intellectual property rights play an important role in innovation, because such rights will cover many new technologies that may be part of a standard. The benefits of standardization lie primarily in interoperability, and the ability of the patent holders to receive royalties for their contribution to the standard. Innovators holding intellectual property wish to secure royalty flows, while reaping the benefits of an increase in demand for the use of their technology arising from participation in a standard.³ It is for this reason that holders of IP rights are moving away from formal standardization bodies, as they are often subject to public procurement regulations that often know restrictive mandatory caps on royalty payments.⁴ They therefore feel more comfortable using more flexible SSOs, where terms of use, the essential character of patents, and the royalty rates can be freely negotiated.

At the interface between standardization and intellectual property rights there is, however, a tension between intellectual property rights and competition law. Holders of intellectual property rights over a standard may engage in excessive rent seeking, or even refuse to license or supply essential components necessary for the creation and marketing of new and innovative products. As such there are various problems:

First, participants in standard setting may try to include their intellectual property and then charge royalties in excess of their true value. When multiple players are rent-seeking, this amounts to rent-stacking.

¹ Neelie Kroes, ‘Being open about standards’, SPEECH/08/317 (10 June 2008).

² Guidelines on the applicability of Article 81 to horizontal cooperation agreements [2001] OJ C3/2, paras 159-178.

³ M. Patterson, ‘Inventions, Industry Standards, and Intellectual Property’, 17 *Berkeley Technology Law J.* (1992) 1043.

⁴ See K. Blind, ‘The Influence of Companies’ Patenting Motives on their Standardisation Strategies’, in Jakobs/Söderström (eds), *Aachener Beiträge zur Informatik*, Band 40, (Wissenschaftsverlag Mainz, 2008).

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Second, participants may not disclose fully their intellectual property during the setting of a standard,⁵ springing a surprise on unsuspecting users of the standard in a so-called patent-ambush.

Third, participants may try to include too much intellectual property in a standard, amounting to a tsunami of disclosures, otherwise known as patent thickets,⁶ that obscure the true extent of essential intellectual property comprised in the standard.

Fourth, several participants holding key intellectual property in a standard may engage in cross-licensing to the detriment of others, thus effectively imposing high(er) royalties on others, or even excluding them from the standard.⁷

In all the practices described above can be said to be detrimental to innovation, and they may also be subject to sanctions by SSOs, the application of competition law,⁸ or to court interference.⁹ Much has been made in this regard about the granting of licenses on 'reasonable and non-discriminatory' (RAND)¹⁰ or 'fair, reasonable and non-discriminatory' (FRAND)¹¹ terms, that try to bring about an ex-ante disclosure of licence terms and royalties,¹² but the exact scope and

⁵ *In re Dell Computer Corp.* (FTC Docket No. C-3658); *Stambler v. Diebold*, 11 U.S.P.Q. 2d (BNA) 1709 (E.D.N.Y. 1988); *Potter Instrument Co. v. Storage Tech. Corp.*, 207 U.S.P.Q. (BNA) 763 (E.D. Va 1980); and *Wang Laboratories v. Mitsubishi Elec. Am. Inc.*, 860 F. Supp. 1448, 30 U.S.P.Q. 2d (BNA) 1241 (C.D. Cal. 1993). Conversely see *Wang Laboratories v. Mitsubishi*, 103 F.3d 1571 (Fed. Cir. 1997).

⁶ C. Shapiro, 'Navigating the Patent Thicket: Cross Licensing, Patent Pools, and Standard Setting', in Jaffe/Lerner/Stern (eds), *Innovation Policy and the Economy* (National Bureau of Economics, 2001).

⁷ T. Simcoe, 'Open Standards and Intellectual Property Rights', in Chesbrough/Vanhaverbeke/West (eds), *Open Innovation: Researching a New Paradigm* (OUP, 2006) 161-183 argues that SSOs should play a more active role in resolving conflicts over IPR.

⁸ See Federal Trade Commission, *In the Matter of Rambus, Inc.*, Docket No. 9302, Opinion of the Commission (2006).

⁹ For an ongoing saga on a video compression standard 'H.264', see *Qualcomm Inc. v. Broadcom Corp.*, 2008 U.S. Dist. Lexis 911 (S.D. Calif. 2008). In the latest development of *Qualcomm Inc. v. Broadcom Corp.*, (CAFC, December 1, 2008), the court held that patents relevant to the use of a standard may be unenforceable if the patent holder withheld information during the standards development process.

¹⁰ For an economic analysis on the effect of the use of RAND terms see B. Chiao, J. Lerner, and J. Tirole, 'The Rules of Standard Setting Organizations: An Empirical Analysis', 38 *The RAND Journal of Economics* (2007) 905-930.

¹¹ For an analysis see M. Dewatripont and P. Legros, 'Essential Patents, FRAND Royalties and Technological Standards' (Ecore Discussion Paper, 2008), available at http://www.ecore.be/DPs/dp_1207816380.pdf

¹² For the US, the generally accepted framework for calculating royalties can be found in the case of *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116

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meaning of FRAND terms is still unclear.¹³ In addition, ex-ante disclosure places a burden on innovators that have to bear the cost of negotiation at a point when revenues are not yet known and the detail required for a licence are not yet clear. The policies of SSOs are therefore usually limited to a requirement of 'reasonable disclosure'.¹⁴ Royalty schemes modeled on the principle of numeric proportionality, meaning that each participant bringing his IP to the standard receives an equal share of the royalties, furthermore leads to strategic behaviour, prompting participants to bring non-essential patents to the standard,¹⁵ so as to ensure a stake of the royalty flow.¹⁶ The limitations of contractual licensing rules, such as RAND or FRAND, and the need for interpretation of these rules *ex post*,¹⁷ means that there remains a role for competition authorities to monitor SSOs and contract terms, and for competition and intellectual property law to provide a coherent framework for standard setting.¹⁸

Patent Misuse or Competition Law, an Atlantic Divide?

Apart from a common understanding on the desirability of the improvement of the quality of patents granted in order to ensure that patent thickets or 'patent flooding'¹⁹ is reigned in, there is an apparent Atlantic divide on the question to what extent competition authorities should intervene in cases of excessive pricing or other abuses of a dominant position involving intellectual property.²⁰

(D.N.Y. 1970). For the EC, all patents which are "essential" to a standard should be regarded as equally valuable and should be treated numerically proportional, since they all afford patent holders the same market power.

¹³ See the US case *Nokia Corp. v. Qualcomm Inc.*, No. 06-509 (D. Del Aug. 16, 2006).

¹⁴ M. Lemley, 'Intellectual Property Rights and Standard Setting Organizations', 90 *California L.R.* (2002) 1889, also available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=310122

¹⁵ See A. Jaffe and J. Lerner, *Innovation and Its Discontents* (Princeton University Press, 2004), arguing that the quality of patents needs to be increased in order to remedy this problem.

¹⁶ For an effort to make sense of ex-ante pricing and a critique of numeric proportionality, see A. Layne-Farrar, A. Jorge Padilla, and R. Schmalensee, 'Pricing Patents for Licensing in Standard Setting Organizations: Making Sense of FRAND Commitments', (CEMFI Working Paper, 2007), available at <ftp://ftp.cemfi.es/wp/07/0702.pdf>; see also Dewatripont/Legros, note 11 above.

¹⁷ Layne-Farrar/Padilla/Schmalensee, *ibid*, point to a wide variety of interpretations of FRAND that are all reasonable.

¹⁸ See in this respect the European Commission's press release from December 2005 on their review of IPR rules at the European Telecommunications Standards Institute (ETSI), available at <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1565&type=HTML&aged=0&language=EN&guiLanguage=en>.

¹⁹ D. Rubinfeld and R. Maness, 'The Strategic Use of Patents: Implications for Antitrust' in Leveque/Shelanski (eds), *Antitrust, Patents and Copyright: EU and US Perspectives* (Edward Elgar Publishing, 2005) 85-102, at 88.

²⁰ M. Gal, 'Monopoly Pricing as an Antitrust Offense in the U.S. and the EC: Two Systems of Belief about Monopoly?' 49 *Antitrust Bulletin* (2004) 343-384.

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Whereas U.S. law leaves monopoly pricing unregulated, the European regulators do intervene, because there is less faith in the ability of the market to self-regulate and limit monopoly power where 'essential facilities' are concerned. This remarkable given the fact that the doctrine of 'essential facilities' was developed in the U.S.,²¹ but not readily applied in IP cases.²² This brings about two interesting areas of tension. First, that between intellectual property rights and competition law in Europe. Second, that between solutions sought in Europe and the U.S. to overcome problems associated with standards and abuses of monopoly power. As standards have a global effect, the difference in outlook has an impact on global trade.

West Atlantic - Internalization

In the U.S. the solution to patent abuse is sought within the patent system itself. An important guideline in this respect is the case of *eBay v. MercExchange*.²³ The case involved online auction technology, for which MercExchange holds the patent. For some time eBay tried to buy this technology that it uses in its "Buy it Now" technology, and was sued by MercExchange when it abandoned these efforts. Although MercExchange was successful in arguing its case for infringement, it was unsuccessful in securing a permanent injunction against eBay for the use of its technology, because MercExchange itself did not work the invention, but was merely licensing it. The Court of Appeals for the Federal Circuit reversed this decision on the basis that there was a 'general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.' The Supreme Court held that an injunction for patent infringement should not automatically be granted, as it is an equitable remedy. Simultaneously an injunction should also not be denied, simply because a plaintiff does not work the patent. The plaintiff should rather show the following:

(1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. The decision to grant or deny such relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. (...)

It is interesting to note that Justice Kennedy in his opinion²⁴ expressed further skepticism in relation to granting injunctions where patents are not essential for the product produced:

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic

²¹ *United States v. Terminal Railroad*, 224 U.S. 383 (1912).

²² T. Donahey, 'Terminal Railroad Revisited: Using the Essential Facilities Doctrine to Ensure Accessibility to Internet Software Standards', 25 *AIPLA Quarterly Journal* (1997) 277.

²³ 547 U.S. 388 (2006).

²⁴ With Justices Stevens, Souter, and Breyer concurring.

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function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. ... For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. ... When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

The eBay case therefore not only stresses that injunctive relief is an equitable remedy, but also introduces a use requirement for patents via the back door, and addresses the issue of patent misuse in case 'small components', non-essential patents are used to obtain undue leverage in negotiations.²⁵ In a standards context, the inclusion of non-essential and low-quality patents, or the failure to disclose patents relevant to the standard can be seen as abusive in this context. The case of the U.S. CAFC in *Qualcomm Inc. v. Broadcom Corp.*,²⁶ addresses the issue of a breach of duty to disclose relevant patents to the H.264 standard to the 'Joint Video Team' SSO. The case displays the internalization in patent law of a restoration of the patent balance similar to the eBay case. In view of the offending conduct of the patent holder, the patent is declared unenforceable against all H.264-compliant products on the basis of patent misuse. Although the scope of the decision is limited geographically, not being able to enforce non-disclosed patents in the United States has serious implications for SSOs and their participants worldwide.

East Atlantic – Externalization

At the other side of the Atlantic, European practice does not yet show a similar development of internalization. This is because, unlike U.S. antitrust law, European Competition law focuses ultimately on distributional justice and the

²⁵ See also *B. Braun Medical v. Abbott Labs.*, 124 F3d 1419, 1427 (Fed. Cir. 1997): [T]he patent misuse doctrine is an extension of the equitable doctrine of unclean hands, whereby a court of equity will not lend its support to enforcement of a patent that has been misused. Patent misuse arose, as an equitable defense available to the accused infringer, from the desire to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy. When used successfully, this defense results in rendering the patent unenforceable until the misuse is purged.

²⁶ See note 9 above.

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interests of the consumer.²⁷ Patent abuses are actionable if they can be construed as abuses of a dominant position through bilateral or unilateral conduct, where the holder of the intellectual property right enjoys a position of dominance. Article 82 of the EC Treaty has the effect that in those circumstances in which an undertaking abuses its dominant position in the market, that undertaking may be forced not to exercise its monopoly power.²⁸ In *United Brands Co. and United Brands Continental BV v. EC Commission*²⁹ a dominant position was described as:

A position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers.

Intellectual property rights may contribute to a large extent to the dominant market position an undertaking can achieve, but it is not necessary for the undertaking to have total dominance. As long as it is strong enough in general terms to devise its own strategy as it wishes, even if there are differences in the extent to which it dominates individual sub-markets, it can be said to be dominant. According to Korah, the attitude toward IPRs in Europe after the second world war can even be described as hostile, as especially patent monopolies were not only seen as an economic power that ought not be exercised, they were also evaluated ex post in terms of their efficacy to ensure incentives to invest, leading to a situation where: 'By the time an intellectual right holder exercises its rights, the investment that led to the right is water under the bridge'.³⁰ Ex post limitations to intellectual property rights were thus not perceived as reductions to the incentive to make the investment leading up to the existence of these rights.

Although this hostility is no longer present, and IPRs are seen as prerequisites to innovation, a willingness to intervene in cases of perceived monopoly abuses is still present. Over a number of years the European Court of Justice (ECJ) developed the doctrine of the 'immune exercise', meaning that an exercise of a right corresponding with the core of an intellectual property right cannot in itself constitute an abuse.³¹ 'Specific circumstances' are needed in order to make the

²⁷ On the differences in approach to monopoly pricing, see Gal, note 20 above.

²⁸ For a description see V. Korah, *An Introductory Guide to EC Competition Law and Practice*, 5th ed. (Sweet & Maxwell, 1994).

²⁹ (Case 27/76) [1973] ECR 215.

³⁰ V. Korah, 'The Interface between Intellectual Property and Antitrust: The European Experience', [2001] *Antitrust Law Journal* 801-39 at 803.

³¹ *Parke Davis & Co. v. Probel* (Case 24/67) [1968] ECR 55, [1968] CMLR 54.; *Hoffman-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse GmbH* (Case 102/77) [1978] ECR 1139, [1978] CMLR 217; *Consorzio Italiano della Componentistica di Ricambio per Autoveicoli (CIRCA) and Maxicar v. Régie Nationale des Usines Renault* (Case 53/87) [1988] ECR 6039, [1990] 4

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exercise abusive. These additional 'specific circumstances' may be abuses of market power that are clearly separate from the existence/exercise of an intellectual property right,³² or certain exercises of rights related to intellectual property rights, such as licensing and demanding royalties, which fall within the subject matter of the right.³³

In the case *Commercial Solvents*,³⁴ the EJC held that a refusal to supply raw materials for the production of derivatives by a dominant company may constitute an abuse.³⁵ In doing so, the ECJ expressed a desire to protect a small firm rather than free competition, all for the ultimate benefit of consumers. In intellectual property cases, a refusal to license or supply has since also played a role in cases involving abuses of a position of dominance over design rights over spare parts,³⁶ copyright in TV listings,³⁷ copyright in the 'brick' structure of a

CMLR 265; *Volvo AB v. Erik Veng (UK) Ltd* (Case 237/87) [1988] ECR 6211, [1989] 4 CMLR 122.

³² One can think of practices such as tying, discriminatory policies, refusal to supply customers who might resell, refusals to honour guarantees, and operating secretly and unilaterally a policy of differential discounts. This was the case in *Hilti AG v. EC Commission* (Case C-53/92P) [1992] 4 CMLR 16, an appeal from Commission Decision 22 December 1987, *Eurofix-Bauco v. Hilti AG* (Cases 30/787 and 31/488) [1989] 4 CMLR 677, where 8 distinct abuses were put forward, all of which were exercises of market power, not of patent rights, although one of the abuses consisted of the frustration or delay of legitimately available licenses under Hilti's patent, by demanding exorbitantly high royalties.

³³ That the line between existence and exercise is not always clear was pointed out by C. Miller, 'Magill: Time of Abandon the "Specific Subject-matter" Concept' [1994] *EIPR* 415.

³⁴ *Istituto Chemioterapico Italiano SpA v. Commission*, Cases 6 & 7/73, [1974] ECR 223, [1974] 1 CMLR 309, CMR 8209.

³⁵ The case revolved around a refusal by Commercial Solvents to supply Zoja with the raw materials to make ethambutol, a drug used for the treatment of tuberculosis. Commercial Solvents was the only commercial player in this market possessing the knowledge to make the raw material and had been supplying Zoja in the past. When Commercial Solvents obtained half an interest in Istituto Chemioterapico, the only other producer of ethambutol, it changed its policy on supplying Zoja.

³⁶ *Volvo AB v. Erik Veng (UK) Ltd* (Case 237/87) [1988] ECR 6211, [1989] 4 CMLR 122. In this case the defendant/claimant imported spare parts (front wings) for the Volvo 200 series from Italy and Taiwan via Denmark into the United Kingdom, because he was refused a licence. In the UK he was under the Registered Designs Act 1949. In considering the exercise by Volvo of its intellectual property right, the ECJ stated that to oblige 'the holder of a protected design to grant third parties a licence to supply products incorporating the design, even in return for reasonable fees, would result in depriving the holder of the substance of its exclusive right', but that nevertheless Volvo's refusal amounted to an abuse of its dominant position. This was because Volvo itself was no longer producing the parts in question and thus created market conditions

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database,³⁸ and patent and copyright over software interfaces.³⁹ What has ultimately emerged is a clear willingness on the part of the ECJ to curb the exercise of an intellectual property right held by a dominant undertaking, where such behaviour would prevent the emergence of a new product in a derivative market. These are then 'exceptional circumstances' that warrant the curtailment of the exercise of and IPR. It has been argued convincingly⁴⁰ that the definition for this abstract market is the market for innovation. This market for innovation is defined broadly, leading not only to an ex-post analysis of the incentive to innovate of the IPR holder, but also of future developments in the field of industry. In the *Microsoft* case this leads the European Commission in its application of the normative framework developed by the ECJ to conclude that an order forcing Microsoft to supply interoperability information to its competitors that:

[T]he possible negative impact of an order to supply on Microsoft's incentives to innovate is outweighed by its positive impact on the level of the whole industry (including Microsoft). As such, the need to protect Microsoft's incentives to innovate cannot constitute an objective justification that would offset the exceptional circumstances identified.⁴¹

Here speaks a competition authority that, on the basis of an ex-post analysis tries to reconcile a curb on the exercise of IPR with long-term innovation policy. The application of the new product criterion lies in the stimulation of research and development. Microsoft is stimulated, because it can no longer afford to rest on the laurels of its secret information, and other market players are stimulated, because they can develop new products based on a *de facto* standard. It is questionable whether the new product criterion, when viewed in a more narrow sense, is able to properly address the issue of standards.⁴²

The culmination of factors and proof necessary to arrive at the conclusion that there is an abuse of a dominant position, is rather burdensome. Furthermore proceedings under Article 82 EC Treaty are time-consuming and costly. It is for

that obliged the consumer to buy a new car, where the old model was still in circulation.

³⁷ *Radio Telefis Eireann and Independent Television Publications v. EC Commission* (Cases C241 and 242/91) [1995] ECR I-743.

³⁸ *NDC Health v. IMS Health*: Interim Order of the Commission, (Case COMP D/338.044) [2002] 4 CMLR 111, *IMS Health v. Commission*, Pres. CFI (Cases T-180/01 R, 10) [2002] 4 CMLR 46 and (Case T-184/01 RII), [2002] 4 CMLR 58; *IMS Health v. NDC Health*, ECJ (Case 418/01, 2004), [2004] 4 CMLR 1543. On the case see P. Treacy and T. Heide, 'Compulsory Licenses of IP Rights: Easier to Get after the IMS Health Decision?', *Computer Law & Security Report* (2004) 482-85.

³⁹ *EC Commission v. Microsoft*, CFI (Case T-201/04).

⁴⁰ S. van Loon, *Licentieweigering als misbruik van machtspositie* (deLex, 2008)

⁴¹ *Microsoft* § 783

⁴² German Supreme Court 13-07-2004, *Standard-Spundfass, IIC* (2005) 741, which focuses not on the new product criterion, but rather on discriminating practices in licensing conditions.

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this reason that also in Europe there are calls for the internalization of intellectual property misuse rules in intellectual property law itself.⁴³ In itself this seems to make sense, but the proposals⁴⁴ lead back to the *ex-ante* intervention and FRAND conditions for compulsory licensing of standards, albeit that they be supervised by a sector-specific regulatory authority.⁴⁵

A Global Standard or a Competing (for) Standards?

What is clear from the description above is that regional European and national U.S. views cannot be seen in isolation, as they both have an effect on global trade. Furthermore there is a high level of fragmentations. There are differences in interpretation of *ex-ante* FRAND terms and the monitoring of SSOs through sector-specific, national, or European regulatory authorities. The *ex-post* assessment of the enforceability of IPRs in agreed or *de facto* standards is either internalized in the IP system, or externalized by means of regulatory control by the EC Commission and national competition authorities in the Member States. Yet standards are fast becoming an international trade issue, as proprietary, but even semi-open national standards can be used as barriers to entry, market access to ICT sectors, or control over distribution of contents. In this respect China's efforts to become as strong a player in standards as it is in budding ICT technology are remarkable.⁴⁶ China is setting and using its own standards (in telecoms, DVD, and other ICT industries) to control access to the Chinese market, or to offer an alternative to standards dominated by multinational non-Chinese players. As with the discussion surrounding Microsoft's standard Office Open XML (OOXML) and the competing OpenDocument (ODF) standard before it, the future development of the Chinese Uniform Office Format (UOF) will be monitored much more closely from the perspective of international trade, than from a more domestic need for the inclusion of Chinese language and character functionality. Domestic Chinese law⁴⁷ recognises the possibility to act in case of abuse of rights in Art. 55 of the Chinese Anti-Monopoly Law,⁴⁸ but the concept is not yet developed. Furthermore Article 15 allows for an exemption to Art. 55 for dealings (agreements) that have the objective of improving technology, research

⁴³ See K. Koelman, 'An Exceptio Standardis: Do We Need and IP Exemption for Standards?', 7 *IIC* (2006) 823-43.

⁴⁴ J. Spoor, 'Standardization and Exclusivity in Intellectual Property', in: Korthals Altes et al. (eds), *Information Law Towards the 21st Century*, (Kluwer, 1992) 374-75.

⁴⁵ Koelman, note 43 above.

⁴⁶ See in this respect J. Popkin and P. Iyengar, *IT and the East: How China and India Are Altering the Future of Technology and Innovation*, (Harvard Business School Press, 2007).

⁴⁷ The Chinese Anti-Monopoly Law is in force since 1 August, 2008.

⁴⁸ "This law shall not apply to the conduct of operators to exercise their intellectual property rights in accordance with the laws and relevant administrative regulations on intellectual property rights; however, this law shall apply to the conduct of operators to eliminate or restrict market competition by abusing their intellectual property rights."

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and new products, but the appropriate interface is not yet clear.⁴⁹ It is also difficult to foresee what direction may be taken, as there are three competent competition authorities⁵⁰ associated with different ministries that may have different objectives. The standard-setting landscape in China is fragmented too. The Ministry of Information Industry (MII) deals directly with telecom and broadcasting issues, the Standardization Administration of China (SAC) deals with all matters involving standardization and represents China within the International Organization for Standardization (ISO), the International Electro technical Commission (IEC) and other international and regional standardization organizations. There is also the Audio and Video Coding Standard Workgroup of China (AVS), which provides a national proprietary alternative to MPEG-4 standards. There is an increasing recognition that without cooperation we are headed for a war on standards. In an effort to diffuse this situation, there is a recent initiative to find ways of cooperation in standard setting between Europe and China.⁵¹

A role for the WTO?

The WTO Technical Barriers to Trade Agreement (TBT) deals with the possibility that standards may have protectionist effects, even if they may not be intended as such. The Agreement addresses a limited class of measures,⁵² namely technical regulations (product characteristics or their related processes and production methods), standards (a document approved by a recognised body, that provides for common and repeated use, rules, guidelines, or characteristics for products or related processes and production methods, with which compliance is not mandatory), and conformity assessment procedures (any procedure used, directly or indirectly, to determine that relevant requirements in technical regulations or standards are fulfilled).⁵³ Technical regulations were involved in three disputes.⁵⁴ There is not yet case law on standards and

⁴⁹ October 11, 2007, the European Communities raised the following question with China during a WTO Council for TRIPS meeting: "...[t]he EC welcomes the recently adopted Chinese Anti-Monopoly Law. This new legislation refers to the concept of 'abuse of intellectual property rights' in particular in Article 55. Can China clarify what this concept means in practice? Can China confirm that this concept does not go beyond what the TRIPS Agreement considers as abusive practices under Article 31(k) (compulsory licensing) and Article 40 (competition)?"

⁵⁰ The enforcement of the Chinese Anti-Monopoly law is split between three existing departments: the Ministry of Commerce will be responsible for control of concentrations; the State Administration for Industry & Commerce will enforce the prohibitions against monopoly agreements and abuse of dominant market position; and the National Development & Reform Commission will continue its prices oversight role.

⁵¹ See <http://www.china-eu-standards.org>.

⁵² See in this respect the Appellate Body Report, EC-Asbestos, § 80.

⁵³ See Annexes 1.1, 1.2, and 1.3 to the TBT Agreement for their definitions.

⁵⁴ EC-Asbestos, EC-Sardines, and EC- Trademarks and Geographical Indications (Australia). For an analysis of these cases see P. van den Bossche, *The Law and Policy of the World Trade Organization*, 2nd ed. (Cambridge, 2008)

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conformity assessment procedures under the TBT Agreement. The TBT Agreement may in itself focus on ensuring that standards do not become barriers to trade,⁵⁵ but as the two linked WTO Disputes brought by the U.S. against China, namely DS362 (China - Intellectual Property Rights) and DS363 (China - Audiovisual Services), show, non-standards cases may also have an effect on the discussion if foreign companies feel deprived of enforcement opportunities or excluded from shaping market access frameworks. DS 362, concerns four main issues that the U.S. considered to be in breach of the TRIPS agreement; thresholds for criminal prosecution; scope and coverage of criminal prosecution; legislation non compliant to TRIPS and Berne minimum standards, and the disposal of confiscated goods by Chinese customs authorities. The panel report has been circulated recently. In relation to the claim regarding criminal thresholds, the Panel had to define the term 'commercial scale' of Article 61 of the TRIPS Agreement. It did so by defining this to be '[...] counterfeiting or piracy carried on at the magnitude or extent of typical or usual commercial activity with respect to a given product in a given market'.⁵⁶ The Panel, however, held that the US did not convincingly prove that the contested thresholds impacted the commercial marketplace.⁵⁷ The claim concerning minimum standards focussed on Article 4 of the Chinese Copyright Law, which denies copyright protection to works not approved for circulation on the Chinese market. The Panel upheld this complaint, as it could be construed as denying copyright to a large class of products. Hence, it was found to violate Article 5(2) of the Berne Convention, and therefore also the TRIPS Agreement.⁵⁸ The second dispute, DS 363, is mainly concerned with market access for media products. The U.S.'s first main issue here concerns trading rights that confer upon only certain Chinese companies the right to import foreign films. The second contentious issue is that according to the U.S. certain measures affecting distribution services for media publications present an unfair trade barrier for American service providers wishing to enter the Chinese market. It is especially this last aspect that is of interest for the issue at hand in this paper. According to Article 4 of the current Chinese Copyright Act, foreign media not approved for circulation in China is not protected by copyright. The approval process, conducted by the State Administration for Radio, Film and Television (SARFT) not only results in frequent censorship, but is furthermore subject to a quota of 20 foreign films allowed on the market per annum. If anything is clear from these cases, it is that the underlying issue is the question who will control the access to justice where IP enforcement and to the Chinese market, where e-commerce, online distribution, and ultimately also standards are concerned. The newly announced and AVS codecs based China Blue High Definition (CBHD) standard⁵⁹ can easily be seen as a powerful

⁵⁵ See in this respect World Trade Report 2005: *Exploring the links between Trade Standards and the WTO* (WTO, 2007)

⁵⁶ Panel Report, *China - Intellectual Property Rights*, p. 115.

⁵⁷ Ibid. p. 131.

⁵⁸ Ibid. p. 134

⁵⁹ CBHD is based on the AVS audio and video standard. CBHD's developers, the Optical Memory National Engineering Research Center (OMNERC) of Tsinghua

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alternative for the state authorities' direct control over media and will thus be subject to intense scrutiny by China's trading partners.

Conclusion

The interface between intellectual property rights and competition law is a sensitive one, also where standards are concerned. The approach to resolving disputes involving standards and intellectual property differs fundamentally when comparing the U.S. and Europe. Contractual arrangements on licensing (FRAND) may be interpreted differently, and where the U.S. seeks to internalize rules on abusive behaviour in the IP system, the European Commission and Court of Justice seek solace in corrective measures based in competition law. In an international arena, SSOs will need to adapt to both approaches, as the loss of enforcement opportunities, or imposed compulsory licenses, reasonable royalties and more stringent SSO supervision can be the result of IP abuse or misuse in major jurisdictions. Standards are ultimately subject to both IP and competition law.

Global trends and the emergence of other players, such as China, furthermore herald not only the increased relevance of WTO law, but also require a careful analysis of the way in which major WTO members interpret and view national implementation and practice of WTO obligations in emerging ICT and standard-setting markets. Joint efforts in finding appropriate global frameworks for standard-setting is therefore a sensible way forward.

University, stated that the new format should cut piracy rates as well royalty payments for foreign patents.