

Q&A on the ETSI IPR Policy by Karl Heinz Rosenbrock

Q: What is the purpose of the ETSI IPR Policy (the “IPR Policy”)?

A: Recently, many authors and cases have raised the question, what is the purpose of the ETSI IPR Policy and how is it to be applied. The purpose of the IPR Policy is set out in Article 3 of the IPR Policy (Annex 6 to the ETSI Rules of Procedure) and Section 1.1 of the ETSI Guide on IPRs (the “ETSI Guide”). Article 3 of the IPR Policy provides:

“3 Policy Objectives

3.1 It is ETSI’s objective to create STANDARDS and TECHNICAL SPECIFICATIONS that are based on solutions which best meet the technical objectives of the European telecommunications sector, as defined by the General Assembly. In order to further this objective the ETSI IPR POLICY seeks to reduce the risk to ETSI, MEMBERS, and others applying ETSI STANDARDS and TECHNICAL SPECIFICATIONS, that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD or TECHNICAL SPECIFICATION being unavailable. In achieving this objective, the ETSI IPR POLICY seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of the owners of IPRs.

3.2 IPR holders whether members of ETSI and their AFFILIATES of third parties should be adequately and fairly rewarded for the use of their IPRs in the implementation of STANDARDS and TECHNICAL SPECIFICATIONS.

3.3 ETSI shall take reasonable measures to ensure, as far as possible, that its activities which relate to the preparation, adoption and application of STANDARDS and TECHNICAL SPECIFICATIONS, enable STANDARDS and TECHNICAL SPECIFICATIONS to be available to potential users in accordance with the general principles of standardization.”

Further, Section 1.1 of the ETSI Guide provides:

“The purpose of the ETSI IPR Policy is to facilitate the standards making process within ETSI. In complying with the Policy the Technical Bodies should not become involved in legal discussions on IPR matters. The main characteristic of the Policy can be simplified as follows:

- Members are fully entitled to hold and benefit from any IPRs which they may own, including the right to refuse the granting of licenses.*
- It is ETSI’s objective to create Standards and Technical Specifications that are based on solutions which best meet the technical objectives of ETSI.*
- In achieving this objective, the ETSI IPR Policy seeks a balance between the needs of standardization for public use in the field of telecommunications and the rights of owners of IPRs.*
- The IPR Policy seeks to reduce the risk that investment in the preparation, adoption and application of standards could be wasted as a result of an Essential IPR for a standard of technical specification being unavailable.*
- Therefore, the knowledge of the existence of Essential IPRs is required as early as possible within the standards making process, especially in the case where licenses are not available under fair, reasonable and non-discriminatory (FRAND) terms and conditions.*

The ETSI IPR Policy defines the rights and obligations for ETSI as an Institute, for its Members and for the Secretariat.

The policy is intended to ensure that IPRs are identified in sufficient time to avoid wasting effort on the elaboration of a Deliverable which could subsequently be blocked by an Essential IPR.”

1. There are several common themes that appear in both provisions of the IPR Policy and the ETSI Guide as shown above. One key element of both provisions is that both state that a

fundamental aim of the ETSI Rules is to ensure that there is a “BALANCE BETWEEN THE NEEDS OF STANDARDIZATION FOR PUBLIC USE ... AND THE RIGHTS OF OWNERS OF IPRs”

2. This concept of “balance” has been a consistent theme - during the more than five years - in the development of the IPR Policy:
 - IPR holders – on the one side - should be adequately and fairly rewarded for the use of their IPRs in the implementation of standards and
 - on the other side – standards should be available to potential users in accordance with the general principles of standardization.It is in my view that the nature of the entire ETSI IPR Policy must be understood within this context.
3. Another key objective of the ETSI IPR Policy was to have a system in which the Technical Committees – that means those units of ETSI who were developing standards – did not have to care about license fees and license negotiation in looking for their best technical solutions in the standardization work. Induced by the European Commission, it was also agreed that licenses had to be available to every user of the standard (whether or not being an ETSI member). It was furthermore important to ensure that IPR owners did not demand excessive fees because their IPR was included in the standard.
4. From an early point in time it was determined – again influenced by the European Commission – that licenses should be available on FRAND terms and conditions; i. e. on Fair, Reasonable And Non-Discriminatory terms and conditions. This requirement was considered flexible enough, since it was nearly impossible to define in advance what might be commercially acceptable.
5. It might be interesting to note that – despite of several attempts made (in vain) in the past – ETSI has never been able to define FRAND terms and conditions. It was agreed to leave this to the parties or in case of dispute to the courts.
6. It took quite a while until the following principles of the IPR Policy had been agreed upon:
 - Each patent owner is entitled to decide how to exploit his own patents
 - Licenses shall be granted under FRAND terms and conditions
 - If a patent holder is not prepared to grant licenses under FRAND terms and conditions – which is the patent holder’s right – then the patent holder shall inform ETSI as quickly as possible, so that the standardization work does not result in a dead end.
7. Thus, the consequence of a patent holder not being willing to grant licenses on FRAND terms and conditions should result in his patented technology not being part of the standard.
8. It was realized early on that the ETSI IPR Policy would rely on patent holders themselves identifying essential IPR and notifying it. There was no way that ETSI could check whether or not such notifications were correct – this would have been too difficult and costly.
9. It also became clear that patent holders would not give – in advance – an absolute undertaking in the sense that they would license all of their relevant IPRs. This was not acceptable for some ETSI members. Therefore, a system was developed where members (and third parties) filed declarations for essential IPR and indicated whether or not they would undertake to grant licenses under FRAND terms and conditions on such notified essential IPR. If they would not grant licenses, then a different technical solution in the standardization work had to be looked for.
10. ETSI did not want to become involved in commercial negotiations; so once a member or a third party had given an irrevocable undertaking to grant licenses on FRAND terms and conditions,

then agreement of the detailed terms was for the IPR holder to negotiate – in good faith – with whoever wanted the benefit of the license.

11. The development of the ETSI IPR Policy took more than five years. Eventually, an Interim IPR Policy was agreed in November 1994 which was then – three years later - replaced by a final – but (from the content point of view) nearly identical - version adopted by the ETSI General Assembly.
12. I always understood that the effect of a member or third party notifying ETSI; i.e. making a declaration of Essential IPR and an irrevocable undertaking to grant licenses on FRAND terms and conditions was a kind of “green light”. It meant that everyone involved in the standardization process would immediately get on with whatever they wanted to do without having to worry about the patent. Of course, users of those patents would have to contact and agree with the patent owner what to pay; but this was a matter of negotiation – in good faith – between the two parties. Payment, in principle, did have to be financial – for reasons of non-discrimination – but could also be by the way of cross-licensing.
13. If both parties were unable to agree on the licensing terms and conditions, it was thought that the matter should – as a matter of last resort - be brought to a court of law for decision.

Section 4.3 of the ETSI Guide on IPRs provides some more details about the way of dispute resolution between the two parties:

“ETSI Members should attempt to resolve any dispute related to the application of the IPR Policy bilaterally in a friendly manner.

Should this fail, the Members concerned are invited to inform the ETSI General Assembly in case a friendly mediation can be offered by other ETSI Members and/or the ETSI Secretariat. However, it should be noted that once an IPR (patent) has been granted, in the absence of an agreement between the parties involved, the national courts of law have the sole authority to resolve IPR disputes.”

14. As a matter of fact, I cannot remember any case within ETSI where an IPR dispute has been brought to the attention of the ETSI General Assembly with the objective of looking for a friendly mediation. I thus conclude that – in practice – we are normally confronted with the following two alternatives:
 - to resolve the dispute bilaterally in a friendly manner or – in the absence of an agreement -
 - to go to the relevant national court of law in order to have the dispute solved there.

Q: Are the ETSI Rules (here: the ETSI IPR Policy) applicable only in the negotiations leading to signing a license agreement?

A:

15. The ETSI IPR Policy addresses a lot of different aspects/elements. A key element is the basic characteristic that the license agreements should be concluded in accordance with FRAND terms and conditions. As mentioned in paragraph 5, FRAND terms and conditions have never been defined by ETSI. It is thus left to the two parties negotiating in good faith to find out and determine together what they will – eventually - consider as Fair, Reasonable And Non-Discriminatory (= FRAND). Of course, we can only talk about FRAND in cases where no pressure has been used in those negotiations, e.g. by means of misusing non-disclosure agreements (in order to hide what the deal is – and thus not allowing to challenge the non-discriminatory element) or by threatening the licensee with injunctive relief (with the objective of obtaining/gaining more favorable conditions).

Q: Is the ETSI IPR Policy also applicable for existing license agreements?

A:

16. In the ETSI IPR Policy, FRAND terms and conditions are one basic element, i.e. a main characteristic of the Policy. Considering the "Spirit of the ETSI IPR Policy" and the "balance" to be achieved between the licensor and licensee of essential patents, the element of FRAND is thus prevailing in all circumstances related to the establishment of license agreements.
17. Having concluded this, it is only consistent with the "Spirit of the ETSI IPR Policy" that also established license agreements have to be in conformity with (the ETSI) FRAND terms and conditions. As the ETSI IPR Policy requires an essential patent holder to offer all licenses on FRAND terms and conditions, it would be absurd to assume that his breach of this requirement would be honored under the ETSI IPR Policy by then accepting his breach of the Policy and letting the non-conforming license agreement stand as it was made. That would open the door for circumvention of the Policy and definitely would not respect the "balance" the ETSI IPR Policy is trying to ensure. Considering the "Spirit of the ETSI IPR Policy", I believe that existing license agreements for essential patents must be in accordance with FRAND terms and conditions at all times, and therefore even should be subject to review during their term, as what may be considered FRAND today may change over time depending on the patent pool of the related standard and depending on changing market conditions. Otherwise, the balance that the ETSI IPR Policy tries to ensure between the benefit a patent holder achieves (by his patent being included in the standard) and the needs of standardization for public use (here: the interest of the licensee who cannot technically circumvent that essential IPR) cannot be guaranteed.
18. In order to safeguard the element of FRAND terms and conditions, the bilateral licensing negotiations have to be performed in good faith by both partners. This good faith principle already requests a licensor to offer FRAND terms and conditions. If he did not do that and concluded licenses that are not in conformity with FRAND terms and conditions, then these licenses should be subject to juridical review.
19. Under the ETSI IPR Policy, usually the two parties – should – determine what is to be understood by FRAND terms and conditions. If they cannot find an agreement, they may resort to the courts or arbitration.
An agreement is normally acceptable – as well in standardization as in commercial negotiations – if all parties involved are equally unhappy or even happy.
An agreement signed by both parties is – normally – considered to be a binding one.
This leads to the question, what happens when both parties signed a license agreement? Isn't the signature of both parties a kind of proof that deal is acceptable – although one partner may have only accepted the terms and conditions owing to the fact that he either was not aware of the market conditions or what would have been FRAND or even has been forced to do so owing to the fact that some pressure has been imposed on him? As already said in paragraphs 17 and 18 above, I believe that it follows from the "Spirit of the ETSI IPR Policy" that also concluded (existing) license agreements must provide FRAND terms and conditions because otherwise the Policy would easily be circumvented. Aside from this, there are several legal exceptions to the doctrine of "contracts are binding" under German and EU law, most importantly they are considered partly or fully invalid if they for example are violating competition laws. Therefore, the doctrine of "contracts are binding" is not applied without exceptions and should not hinder/prevent a review of an existing license agreement for compliance with FRAND terms, especially since the ETSI IPR Policy intends to foster fair competition between the parties implementing the standard in question.

20. One can imagine other different scenarios in which an existing license agreement does not comply with the FRAND criteria; e. g.:
- owing to the fact that for example the licensee is very un-experienced and in his ignorance signs a license agreement he would later consider as not being in line with FRAND terms and conditions.
 - the licensor has imposed pressure (there are different ways to do so ...) on the licensee and thus forced him to sign the license agreement.
21. In situations such as described in paragraph 20 – in which the fundamental principle of “FRAND terms and conditions” has obviously been violated – there must (in my opinion) exist a way out of the dilemma which is legally correct.

Q: Is it appropriate, useful or opportune to check the license agreement from time to time against its compliance with the ETSI IPR Policy, especially when new license fees will be added?

A:

22. In my understanding a licensee who has – for whatever reasons – reached (serious) doubts whether or not the existing license agreement is in alignment with the ETSI IPR Policy should contact the licensor in order to re-negotiate the agreement in good faith.
23. If such an attempt fails, then the way should be open either to some kind of mediation or to a court of law in order to review and – possibly - correct the situation.

Background and qualifications

Mr. Rosenbrock is a consulting partner of Hillebrand Consulting Engineers GmbH in Bonn, Germany. Prior to this role he was Director and later Director-General of the European Telecommunications Standards Institute (ETSI) for nearly sixteen years. He is still closely involved in ETSI's work and activities. He has worked in the telecommunications industry since 1969.

1. He frequently advises on ETSI related matters.
2. His involvement in the Telecommunications Industry began in 1969 when he became the Deputy Head of Section in the Telecommunications Centre (Fernmeldetechnisches Zentralamt [FTZ]) of the German Federal Post Office (DBP) where he was responsible for international telephone switching. It was in this position that he first became involved in standardization.
3. He became Head of the same section in the FTZ in 1972. From this time onwards he was very active in the standardization work of the International Telecommunications Union (ITU) and the Conférence des administrations Européennes des Postes et des Télécommunications (CEPT).
4. Beginning in 1980, for eight years he was the leading Project Manager of the Federal Ministry of Post and Telecommunications (Bundesministerium für Post und Fernmeldewesen - BPM) in Bonn where he was responsible for the digitalization of the telephone network of the Federal Republic and the introduction of an Integrated Services Digital Network (ISDN) across Germany, one of the biggest projects in the history of the DBP.
5. His involvement in standardization in the areas of telecommunications was furthered in early 1990 when he became Head of the Standardization Department in the newly created Federal Ministry of Post and Telecommunications (BMPT) in Bonn.
6. In July 1990 he was elected Director of ETSI and started in this role on 01. November 1990 (The position of Director was renamed Director-General in 1995 with identical functions and responsibilities. All references that follow in this report to Director-General should be deemed to include Director). The Director-General of ETSI heads the ETSI Secretariat which supports all of ETSI's entities and activities. Furthermore, the Director-General of ETSI is also its legal representative. The ETSI Secretariat's main objective is to maintain ETSI's role as a world-class telecommunications standards-making organization, in addition, serving ETSI members for the best of their interests and the interests of ETSI.
7. Throughout his role as Director-General he had extensive involvement in standardization in general and the development of the ETSI IPR Policy and the ETSI Guide on IPRs.
8. His involvement in standardization within ETSI included being the Chair of the ETSI UMTS Globalization Group which held 13 meetings in 1998 in order to prepare for the creation of the Third Generation Partnership Project (3GPP). Furthermore, he led the ETSI delegation during the negotiations with the overseas 3GPP partners. Since the 3GPP creation in December 1989, he acted as Chair and alternating Vice-Chair of the Project Coordination Group of 3GPP until his retirement in 2006.
9. During his time at ETSI he oversaw the genesis, implementation and further development of the ETSI IPR Policy and the ETSI IPR Guide. He participated in the majority of the meetings of the ETSI Special Committee on IPRs (the IPR SC) and also in the consultation meetings between the European Commission and ETSI prior to the establishment of the ETSI IPR Policy. He chaired the ETSI General Assembly Ad Hoc Group on IPR implementation in order to review the operation of

the IPR Policy. This ad hoc group held six meetings in 2003 the report of which eventually resulted in the creation of the ETSI Guide for IPRs.

10. Upon his retirement from ETSI on 30 June 2006, he was made a life-long honorary Director-General. He still participates in ETSI's General Assemblies and the meetings of the IPR Special Committee as a delegate of Hillebrand Consulting Engineers and out of personal interest in the further development of ETSI, particularly in respect of IPR related matters.