

Monopoly, Standards In Conflict

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New legislation spelling out pragmatic solutions to pricing problems may be best solution

In certain fields, such as the transmission of audiovisual information, commercial development is possible only after international standards have been defined. As a result, the bodies responsible for standardization are powerful players, and participation in a standards body has become a strategic consideration for industry. Different companies often lobby actively in favor of technological options over which they have control, and against technological solutions developed by their competitors.

In technological fields that have short development cycles, such as telecommunications, technological choices are converted into standards over a period of a few years, which period is short compared with the lifetime of exclusive rights such as patents or copyright for protecting software.

When only a few industrial operators are involved, when a particular technical solution is adopted as a standard, it is tacitly understood that the rights will be made available to any user of the standard under acceptable conditions so as to avoid impeding generalization of the standard.

However, it can be seen that the development of applications gives rise to an increasing number of operators who may own industrial property rights, and in particular small operators who do not participate in standards bodies, and whose exclusive rights can remain unknown to such bodies.

This gives rise to an increasing amount of litigation between the owners of industrial property rights and the suppliers of equipment that

complies with a standard.

The enlargement of the field to which standardization applies and also the stiffening of sanctions with respect to infringing industrial property rights makes the situation worrisome, and makes it necessary to pause for thought concerning the legislative and regulatory tools that need to be put into place so as to reconcile the development of standards with fair protection for industrial property rights.

THE BASIS OF STANDARDS AND OF PATENTS

In France, standards are governed by the decree of January 26, 1984, whereby the function of the standards body is to "provide reference documents containing solutions to technical and commercial problems that relate to products, goods, and services, and that occur repeatedly in relationships between economic, scientific, technical, and company partners.

Although generally not compulsory, a standard becomes the norm because of commercial necessity. A standard has its effects upstream from R&D which it points in particular directions, and downstream from R&D where it makes it possible to achieve an efficient return from the results thereof. Essentially, a standard lies outside any idea of technical and commercial individualism. Standardization seeks above all to be an instrument in the process of industrial development, and not an obstacle thereto.

The purpose of a patent is to provide a basis for fair compensation due to an inventor who has enriched the technical heritage of mankind. In its beginnings, the patent system was perceived as a kind of moral contract between inventors agreeing to make the fruits of their

technical labor available to all and in consideration thereof, thereby guaranteeing the possibility of a return on investment by granting a monopoly to the working of inventions for a limited period of time, with the monopoly being guaranteed by intervention of public authorities in the event of the monopoly being violated.

Standardization and patents relate to the same subject matter, namely the products that stem from innovative effort, even if they seem purposeful that are different, or even in opposition.

PATENTS AND STANDARDS, TWO WORLDS THAT COMB-MUSKATE LITTLE

The people concerned with patents generally have highly specialized technical or legal backgrounds, given the complexity of this branch of law and the need to have high-level training in both of these fields, technology and law, and also because of the financial stakes associated with good management of industrial property policy for a company or a research center. Nonetheless, company industrial property departments are frequently not sufficiently associated with strategic decision-making and they content themselves with providing high-level technical support to the decision-makers of a company.

Their work takes place a long way upstream from the commercialization of products. As a result their view of product development is somewhat blinkered.

As for the members of standards committees, they act to defend technical and economic interests at

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a level that is sufficiently general to make real generalization of their recommendations possible. As a result they do not come down to the level of detail as protected by exclusive rights. Also, the results of such commissions are reports that patent specialists find as inconsistent as standards specialists can find patents.

That is not to say that the danger is unknown. Mr. Roberto Yamaj, Vice-President of Fujitsu, recently made known his worries on this topic. He recalled that about 200 patents are liable to interfere with the IEEE standards on data compression.

The above information is probably incomplete, since it is based on declarations made voluntarily by patented companies who have made the existence of their rights known to the ISO.

AN INCREASING DANGER

The danger of interference between industrial property rights and standards is increasing.

First, the number of "official" standards is increasing exponentially. To take one example, although GROUP 3 facsimile is the subject of about 100 international standards, GROUP 4 facsimile is the subject of 300 standards.

In addition, the number of patents, and above all the number of owners of rights, is also following an exponential curve. Owners are no longer restricted to a few well-known names in the electronics and computer industries; companies that are in the habit of drawing up cross-licensing agreements between one another, or private or public organizations concerned with research in telecommunications or in broadcasting and having a policy of granting nonexclusive licenses, to businesses that seek to make use of their work. There are now also small, high-technology companies that respond to the marketing of products implementing a standard by taking action to defend their own exclusive rights.

The tacit agreements that have been the practice between major players do not work without companies, and as a result they can

seriously impede commercial working of products.

There are two special features in the situation of small and medium companies with respect to this question. The first applies to companies that have originated patented technical innovations, and that have, for various reasons, not felt obliged to comply with the practices established between large groups.

The second special feature of small and medium companies applies when implementing a standard that constitutes the subject matter of industrial property rights held by a third party.

Whereas large groups have the financial and legal clout to negotiate the grant of a license without the very survival of the company being at stake, the same does not apply to small businesses. For that kind of business, the success of a single product can make the difference between surviving or going under. The dilemma between failure to meet a standard and failure to comply with the industrial property rights of a third party can cause the company to fold in the short term.

Further, they are generally absent from standards commissions. As a result they suffer the consequences of a new standard being introduced without preparation.

This danger is made worse by the trend both in industrialized countries and in the rest of the world, to strengthen the protection provided by industrial and intellectual property rights. Damages are becoming larger and can seriously endanger survival of a firm.

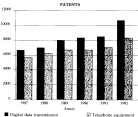
The problem concerns not only "official" standards, but also de facto standards. In certain fields, technological development is so fast that standards such as the ISO, the IEC, or the ETSI do not have enough time to formulate standards.

As a result, these organizations accept that certain protocols shall become standards, providing:

- Documentation exists that is sufficiently complete and technical to be obtained to guarantee stability of the standard.
- The technology is available under reasonable conditions.
- The standard is easy to develop and maintain.

MANAGING THIS RISK

At present, the tacit convention whereby users of a standard make any exclusive right that they may possess available to other users under reasonable conditions has made it possible to avoid major



conflicts.

The increasing risk requires greater vigilance, and that can lead to several actions being taken:

- Making the players in standardization more sensitive to the problems of industrial property.
- Making speculation in industrial property more sensitive to the way in which standards bodies operate.
- Establishing a patents watch within standards' bodies.

Establishing a patents watch makes the following possible:

- Obtaining exhaustive information about patents that might interfere with the choices made in standards specifications.
- Analyzing the validity of such rights.
- Engaging in negotiations with the owners of the rights.
- In the event of major difficulties, pointing the work of standardization committees to other alternatives.

Naturally, that requires continuous and interactive dialog between patent specialists and standards operators.

In some cases, other solutions have been envisaged. For example, Fujitsu has initiated a consortium project to identify rights bearing on the MPEG standard and to combine the competences and the authority of the members of the consortium in order to negotiate the grant of licenses under the best possible conditions.

NEW LEGISLATIVE TOOLS

License of Right

A first tool that can be considered and requires only minor modification to existing legislation is extending the ambit of licenses of right.

Legislators have already specified certain situations in which the property rights of a patentee can be subject to restrictions, e.g. in the interests of public health or national defense, or indeed in the absence of manufacture in the applicable

territory.

These restrictions give rise to a license being granted to the patentee, even if the patentee does not agree to a license, with the terms being decided by the competent authority authorizing a third party to work the patented invention. Such a license does not deprive the patentee of just remuneration, since the competent authority ensures that the licensee has financial conditions that are equitable.

The French Industrial Property Code also provides for a license being granted in its right in the event of "no or insufficient working severely prejudicing economic development and the public interest." The same step that needs to be taken to extend the ambit of licenses of right in the situations mentioned above is usual.

Several points can be debated. What constitutes a "competent authority"? Is it the civil court as is presently the case for existing licenses of right, or some national or supranational body depriving from the standards organization?

Can a standards body undertake such an action to the advantage of users of a standard?

What concerns will be open to patentees, particularly when solutions other than the patented solution could have been envisaged when defining a standard?

At what moment should the procedure be engaged — when the standard is laid down, or only subsequently?

Will the patent be subjected to the license-of-right regime in full, or only for some of its claims? Such a "splitting up" of a patent is already in existence when it comes to applying the dispositions of a complementary certificate of protection.

A collective patent

Another solution, possibly in parallel with the above, may be envisaged in the form of a "collective patent" by analogy with the rights

available in trademark law and known as a "collective trademark." Collective trademarks are often certification marks, and they may be used by any party who undertakes to satisfy the regulations of use that accompany the filing of such a trademark.

A collective patent would be accompanied by regulations of use defining the conditions under which the patented invention may be used, and possibly also the remuneration due to the patentee. Thus, without depriving the inventor of just remuneration, it would provide access to the patented invention with a minimum amount of formality, and in particular avoiding any need to negotiate and grant a license.

In parallel, it would then be appropriate for each standard to be accompanied by a list of the collective patents that apply thereto so as to enable all users of the standard to regularize their situation with respect to the owners of said collective patents.

CONCLUSION

Interference between patents and standards is becoming a major legal hazard, against which two series of actions must be undertaken.

In the short term, and at the initiative of industrial companies, it is important to perform a threat through patents watch so as to be able to take account of any relevant rights prior to launching products.

At the initiative of standards bodies, action should be put into place for systematically identifying relevant patents, without restricting such action to the patents of major players, and with the resulting information being distributed to the users of standards.

In the longer term, new legislation is essential, a pragmatic solution that is easy to implement would appear to be extending the ambit of licenses of right.