



International Centre for Trade
and Sustainable Development

Addressing the Interface between Patents and Technical Standards in International Trade Discussions

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Tensions between Patents and Standards

Potential conflicts between patents and standards occur when the implementation of a technical standard calls for the use of technology covered by one or more patents. The main problem arises when compliance with a particular standard requires access to technologies that may be IP protected. In such situations, the potential of anticompetitive practices, exclusion of competitors and high licensing costs increases.

While there is a great deal of analysis over the links between patents, copyright protection and standards in software, the Policy Brief aims to provide a clearer perspective of the problem from the point of view of **standards setting**, **manufacturing** and **international trade**.

International standard-setting

WTO Members are encouraged to use voluntary international standards as the basis for their mandatory technical regulations, and to participate in international SSOs. ***However, many developing countries lack the resources and technical capacity to closely follow developments in these SSOs.***

Many of the areas where standards are set, are subject to intense patent activity, particularly in high-tech fields such as ICT and electronics.

Due to the complexity of the patent landscape and the wide scope of many claims, it is not easy to determine exactly how many patents are involved. Patent searches are time- and resource-consuming, and sometimes not fully accurate. ***The difficulty of assessing the level of patented technologies applicable to a standard under development leads to uncertainty over who can actually use it.***

In the past, companies have deliberately omitted to inform SSOs about potential patents applicable to the new standard. Depending on the number and the importance of the patent(s), such behavior can generate economic advantages in terms of royalties, a potential capture of the standard, and barriers to competitors and new entrants wishing to use the standard. ***This type of behavior has been considered as unfair or anticompetitive in some instances.***

Manufacturing

The interplay between patents and standards in the manufacturing process is also beset by problems, including burdensome licensing procedures, legal uncertainty, high or abusive fees.

Manufacturers who believed in good faith that they had obtained a license to use a certain standard may face legal uncertainties (for example, through injunctive relief sought by patent holders), thus jeopardizing their chance to recoup investments already made.

When a standard has become captured by a limited number of producers with a high level of market control, there is the potential for title holders of relevant technologies to discriminate among licensees, and charge abusive or differential prices. This type of likely anti-competitive behavior could be brought to the attention of national competition authorities.

Most of today's technological industries are patent-intensive, and many manufacturers have faced intolerably high licensing fees as a consequence of patents. Additionally, there might be situations where price discrimination among licensees, while optimal for patent holders, can be considered tantamount to price abuses/refusal to deal, especially if the price difference is such that it makes it impossible to engage in normal business operations and obtain some reasonable profit from the license. ***Abusive and discriminatory licensing fees could become a disruptive factor in business planning and manufacturing, due to their potential power to affect cost allocation and prices, and ultimately commercial success.***

Competition Policy

Competition policy and law could be used in markets such as the EU and, to a limited extent, the United States to allow third parties to access technologies protected by IPRs.

The “essential facilities” doctrine can provide a way to ensure or facilitate access to technologies needed to implement standards. Under this concept, denying “reasonable terms” for licensing a technology needed to use a standard or charging abusive/discriminatory licensing fees could be considered as “refusal to deal”. When coupled with a dominant position in the market, such actions may raise competition issues that could be brought before the relevant authorities.

Almost no developing country company has initiated legal action based on refusal to deal of access to “essential facilities” in the ITC field. The inaction is most likely due to lack of experience of both firms and national competition authorities in this area.

International Trade

While meeting international standards is per se difficult for many developing country entrepreneurs, the fact that they have to engage in complex and burdensome processes to obtain licenses for the relevant technology to meet the applicable standards makes it even more challenging for them to integrate in international trade.

When coupled with patent issues in standardization processes, *the links between standards and patents essentially serve to secure the advantages of existing global trade players.*

In this context, standard-setting processes can be characterized as a political and economic race in which all firms are jockeying for the leading position in the use of future standards. Patents are just one tool that could be misused for attaining unfair advantages.

Key Conclusions and Recommendations (I)

The content and extent of patent and standard policies of SSOs could be clarified through, for instance, the establishment of binding obligations to effectively disclose among participants all relevant patents and related IPRs. This would imply a precise definition of what the FRAND principle means and to what extent it must be included in contractual relations among participants.

In cooperation with competition authorities, ***national standards authorities could facilitate or broker collective licensing agreements in standards in areas of relevance to the public interest or where the interest of important national and transnational business may be in conflict.*** For instance, patent pools, innovative cross-licensing schemes, open standards, manufacturing and marketing cooperation agreements among the owners, manufacturers and traders of a technology could be of assistance. If handled in an open and pro-competitive manner, this type of arrangement could reduce transaction costs, allow for reasonable and non-discriminatory fees, reduce opportunities for abuse and provide legal security.

National regulation could be developed through guidelines on minimum standards for SSOs with regard to patents and standards from a pro-competitive perspective. Regulators in, for example, the EU, Japan and the United States have already elaborated specific guidelines for dealing with licensing agreements involving know-how, intellectual property and standardization.

The participation of developing countries' Governments and firms in SSOs should be promoted and facilitated.

Key Conclusions and Recommendations (II)

The WTO TBT committee could identify a set of best practices for addressing the overlap between patents and standards, and incorporate it into the TBT Code of Good Practice for the Preparation, Adoption and Application of Standards, which is open to acceptance by private sector bodies such as SSOs, as well as governmental authorities.

Adoption of open standards and interoperability among products and services could be promoted in areas where relevant technologies have a networking effect or are essential to the delivery of public knowledge goods such as education or scientific research. One instrument that still is in the hands of Governments is to provide preferences to products and services that follow those open and interoperable standards in government procurement processes.

Finally, in international deliberations, for example in WIPO's Standing Committee on Patents, it might be opportune to consider, among other things, the value of wide research exceptions and other limitations in patent law. It might also be relevant to consider the importance of having a better understanding on how to address abusive pricing, unreasonable terms and conditions, and other anticompetitive practices. The involvement of competition authorities could contribute to this debate, particularly on how these issues could be resolved through the effective use of competition policy and law, including remedies such as the use of a license of right or the non-enforceability of relevant IPRs.



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