



EXERCISE OF WTO RIGHT FOR COUNTERACTION THE ABUSE OF RIGHTS TO PATENTS NEEDED FOR STANDARDS

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Summary

This article is focused on theoretical and practical analysis of provisions of the WTO law that could be used to counteract abuses of standard essential patents (SEPs). Particularly, relevant provisions of Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and Agreement on Technical Barriers to Trade (TBT) are analysed. The TBT agreement does not impose discipline on interplay between patents and standards, there are no mechanisms in this agreement to counteract SEPs abuse. To the contrary the TRIPS Agreement protects exclusive rights of patent owners, but at the same time recognizes the need to contribute to a balance of rights and obligations of right holders and contains some provision that could be used to counteract SEPs abuse.

Key words: standard essential patent, abuse of rights, patent hold-up, patent ambush, WTO law, TBT agreement, TRIPS agreement.

Аннотация

Статья посвящена теоретическому и практическому анализу нормативных положений права ВТО, которые могут использоваться для противодействия злоупотреблениям правами на патенты, необходимые для стандартов. В частности, анализируются соответствующие нормативные положения соглашения о Торговых аспектах права интеллектуальной собственности (ТРИПС) и соглашения о Технических барьерах в торговле (ТБТ). Соглашение ТБТ не регулирует взаимосвязь между патентами и стандартами, поэтому в этом соглашении нет механизмов противодействия злоупотреблениям правами на патенты, необходимые для стандартов. Соглашение ТРИПС наоборот защищает эксклюзивные права патентообладателя, но в то же время признает необходимость соблюдения баланса между правами и обязанностями правообладателя и содержит нормативные положения, позволяющие противодействовать злоупотреблениям правами на патенты, необходимые для стандартов.

Ключевые слова: патент, необходимый для стандарта, злоупотребление правами, удержание патента, патентная засада, право ВТО, соглашение ТРИПС, соглашение ТБТ.

Problem statement. Private standards are essential for a modern economy because they provide interchangeability and compatibility of products as well as ensure their safety [1, P. 20]. In areas such as information and communication technologies that involve standardization of innovative technologies, protected by patents, a phenomenon of an interplay between patents and standards emerges [2, P. 11]. Taking into account that there is a need for widespread standards, which can interfere with the exclusive rights of patentee [3, P. 2] once a part of a standard is protected by a patent a conflict between the two may arise.

Thematic justification. Intellectual property law was created to protect the rights of patentee, which are not limited in case of interaction of patents and standards. Given that the problem of abuse of standard essential patents (hereafter – SEPs) is fairly new, legal regulation of this phenomenon is absent in national laws of most states. Therefore, it is important to consider whether international legal mechanisms for counteracting SEPs abuses exist in international law, particularly, WTO law.

State of Research. Problem of counteracting SEPs abuses through

international legal mechanisms available under WTO law has not yet been discussed in Ukraine. While some international scholars, among them H.-W. Liu and Y. Pai, have analysed the possibility of application of international law to counteract SEPs abuses, such studies do not cover particular provisions that may be used to counteract patent ambush or patent hold-up.

The object and purpose of this article is to analyze whether certain provisions of TRIPS agreement and TBT agreement could be used to counteract SEPs abuses in forms of either refusal to license, royalty stacking or injunctive relief.

Statement of key facts. General principles underlying the TRIPS agreement are enshrined in Articles 7 and 8. While Article 7 stipulates that the protection and enforcement of intellectual property rights should contribute to promotion of technological innovation and to transfer and dissemination of technology, it also emphasized the need to contribute to a balance of rights and obligations of right holders [4]. Article 8 specifies that WTO members may implement «appropriate measures, provided that they are consistent with the provisions of this Agreement ... to

prevent the abuse of intellectual property rights by right holders» [4].

Practical mechanisms that could limit the exclusive rights of patentee taking into account the public interest and help counteracting SEPs abuses are enshrined in Articles 30, 31, 40 and 41 of TRIPS Agreement.

On one hand, the preamble to TRIPS Agreement recognizes that «intellectual property rights are private rights» [4]. Article 28 states that the patent owner has the right to enter into license agreements. This article specifies that the patent owner must have the following exclusive rights: to prevent third parties not having the owner's consent from making, using, offering for sale, selling, or importing for these purposes that product

On other hand, Article 30 of TRIPS Agreement establishes that «Members may provide limited exceptions to exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of patent and do not unreasonably prejudice the legitimate interests of patent owner, taking account of legitimate interests of third parties» [4]. Although the practice of interpretation of Article 30 of TRIPS Agreement is limited



to the case of Canada-Pharmaceuticals [5] it could be possible to use this article as a justification for violation of Article 28 of TRIPS Agreement when limiting the rights of SEPs owner. In order to qualify for an exemption under Article 30 of TRIPS agreement three conditions must be satisfied simultaneously: 1) exceptions to the exclusive rights of the patent should be limited; 2) exceptions must not substantially conflict with a normal exploitation of patent, and 3) exceptions should not cause significant harm to legitimate interests of patent owner, taking into account the interests of third parties.

To meet the first condition imposed by Article 30 exceptions to exclusive rights of patent should be limited. According to interpretation of the phrase «limited exceptions» it covers a narrow range where reduction of patent rights is limited: «the words «limited exception» express a requirement that exception make only a narrow curtailment of legal rights which Article 28.1 requires to be granted to patent owners» [5]. This interpretation makes it problematic to meet the first requirement of test in cases of SEPs abuses. At the same time, in case of refusal of application of an injunctive relief it is possible still that such an exception could be considered as «limited».

If it is necessary to counteract SEPs abuse in form of royalty stacking granting of patents for free use would not be considered as a «limited» exception. Even restrictions on right to determine the royalty rate that potential licensees have to pay for use of a patent also may be interpreted as a significant exception. However, if SEPs owner has undertaken an obligation to provide a license on free, reasonable and non-discriminatory terms (hereafter – (F)RAND) determination the maximum royalty rate may be qualified as a «limited» exception.

To meet the second requirement of test from Article 30, exceptions should not significantly conflict with a normal exploitation of patent. The term «exploitation» was interpreted as referring to commercial activity by which patent owners employ their exclusive patent rights to extract economic value from their patent [5]. «Normal» refers either to an empirical conclusion about what is common within a relevant community, or to a normative standard of entitlement, but in this context combines the two meanings

[5]. Presumably, normal use refers to paid use. In this case granting of a compulsory licensing will be contrary to second condition of Article 30 and consequently impossible under Article 30. However, a refusal of the application for an injunction with regard to SEPs or a limitation of a maximum amount of a royalty rate on (F)RAND terms could satisfy the second condition of this test.

To satisfy the third condition of test under Article 30 exceptions should not cause significant harm to the legitimate interests of patent owner taking into account the interests of third parties. Here it is important to interpret the concept of «legitimate interests». Legitimate interests were identified as interests that are «justifiable» in sense that they are supported by relevant public policies or other social norms [5]. Examples of such legitimate interests in national legislation include permission to use patented technology when conducting scientific experiments which is not considered a violation of patent rights. Limitations of the commercial rights of SEPs owner can hardly be considered as not harming a legitimate interest of a patent owner. However, if such a limitation is dictated by the importance of the standard that includes patents, i. e. it may be the case with the transfer and dissemination of technology to mutual advantage of producers and users of technological knowledge, third condition of test may be satisfied.

Article 30 of TRIPS agreement can not be used to counteract SEPs abuse in form of refusal to license, because Article 31 of this agreement deals with compulsory licensing. However, Article 30 could be resorted to in cases of abuses in the form of (1) an injunctive relief (2) royalty stacking. In first case it is enough to refuse the right of resort to injunctive relief, while in second case counteracting the abuse is possible through determination of maximum amount of royalties on (F) RAND terms. However, it remains unclear whether exceptions from exclusive rights of patent-owners in context of standardization fall within the scope of the «limited» exceptions. Also it is debatable whether exceptions from exclusive rights of patent-owners necessary to counteract abuse of SEPs can be considered as not unreasonably prejudicing the legitimate interests of patent owner. Therefore, in

this context it could be problematic to cumulatively satisfy three conditions imposed by article 30.

Article 31 of TRIPS Agreement is another tool that can be used to justify restrictions of SEPs owner's rights. This article regulates the granting of compulsory licenses in case of compliance with certain requirements. This international legal mechanism could be used to counteract existing SEPs abuses, but it does not prevent the emergence of new ones. Although concept of compulsory licenses is not used in this article, the phrase «use without authorization of patentee» in fact refers to use of compulsory licenses.

Article 31 of TRIPS Agreement clearly applies to SEPs since it does not establish grounds when it could be used but stipulates conditions when granting of a compulsory license is possible. One of conditions for granting of a compulsory license under Article 31 is that prior to such authorized use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement can be waived when such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive [4].

Since there is a requirement that compulsory licenses must be authorized predominantly for the supply of the domestic market of the Member authorizing such use it may be impractical for potential users participating in the global market to use article 31 of the TRIPS Agreement, because their interest is not limited by the market in one Member-state.

Another problem with the application of article 31 to counteract abuse of SEPs is requirement to grant a patentee an adequate compensation taking into account the economic value of the compulsory license [4]. In the context of the interplay between patents and standards most standard setting organizations require a patent owner who wants to include a patented technology into a standard to commit to provide a license on (F)RAND terms. In most cases this has become a condition for inclusion of a patented technology into a standard. Interplay between patents and standards provokes an interesting issue of correlation of the «adequate



compensation» within the meaning of TRIPS agreement and the requirement to grant a licence on (F)RAND terms [6, P. 29]. An obligation to take into consideration an economic value of a compulsory license cannot be considered as the only factor which influences «adequacy» of compensation. Along with the economic value to determine adequate compensation other criteria may be taken into account, i. e. moral damage [7, P. 197]. In the WTO there were disputes initiated with regard to Article 31 of TRIPS agreement: Argentina – Certain Measures on the Protection of Patents and Test Data [8], European Union and a Member State – Seizure of Generic Drugs in Transit [9; 10] – but they either were settled or didn't proceed to dispute settlement stage. In the absence of WTO jurisprudence concerning this issue that would clarify the interpretation of «adequate compensation» in TRIPS agreement, we conclude that amount of adequate compensation within the meaning of Article 31 of TRIPS agreement and of royalty rate under (F)RAND obligations are likely to be different.

In context of SEPs compulsory licenses under Article 31 (k) are most likely to be provided following decision of administrative or judicial authorities to remedy anti-competitive practice. Wide dissemination of standards is among objectives of standardization [3, P. 2]. This leads to a situation where SEPs owners frequently obtain market dominance on markets, where standard is successful. The positive feature of Article 31 (k) is that requirements of paras (b) and (f) of Article 31 shouldn't be followed. In case of abuse of SEPs this means that a compulsory license may be provided promptly to a willing licensee, because he doesn't have to demonstrate efforts to obtain a license from SEPs owner. This makes Article 31 of TRIPS agreement a viable instrument to counteract abuse of SEPs in form of a refusal to license.

According to Article 40.2 of the TRIPS agreement «Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market» [4]. Article 40 further provides that «a Member may adopt, consistently with

the other provisions of this Agreement, appropriate measures to prevent or control such practices» [4]. Thus, Article 40 allows states to stipulate in their national legislation what actions of SEPs owners constitute an abuse and how to prevent or control such practices. However, all such actions must be consistent with the patent rights enshrined in TRIPS agreement.

Having analyzed national legislation of China, EU, India and US we've come to conclusion that to date only China has adopted legislation which prohibits anti-competitive practices stemming from an abuse of intellectual property right, including SEPs [11, P. 177].

Efficacy of application of Article 40 of TRIPS agreement to cases of SEPs abuse is limited by several factors. Firstly, resort to Article 40 requires regulation of SEPs abuse in national legislations, which is usually absent. Secondly, Article 40 encourages cooperation between states with reference to national legislation. However, again, national legislation may or may not contain any special regulation of this problem, or contain a divergent regulation that makes cooperation under Article 40 inefficient mechanism for resolving SEPs abuse. Similarly, national legislation regulating intellectual property and antitrust laws may differ and the political will to conclude bilateral agreements will be absent. Thirdly, Article 40 does not oblige the state to prescribe mechanisms to counter SEPs abuse but only gives this right. All these factors lead to the conclusion that the role of Article 40 in counteracting SEPs abuse is limited since the TRIPS Agreement does not impose obligations on states to prevent or control anti-competitive practices that arise from intellectual property rights but merely allows states to do so.

Article 41 of TRIPS Agreement establishes the principles for enforcement procedures for intellectual property rights. It is state's responsibility to ensure that enforcement procedures are not «applied in such a manner as to avoid creation of barriers to legitimate trade and to provide for safeguards against their abuse». Therefore, Article 41 prohibit abuse of enforcement procedures. A question that arises is whether a refusal to license a SEP; royalty stacking or injunctive relief by a SEP owner bound by (F)RAND terms can be interpreted merely as an enforcement of intellectual property rights

or as an abuse of enforcement procedures. In context of an interplay between patents and standards SEPs abuse in the form of injunction regarding SEPs may amount to an abuse of enforcement procedures under Article 41 of TRIPS agreement. The situation with SEPs abuse in form of a royalty stacking is less clear.

An interesting issue emerges regarding the relationship of Articles 41 and 44 of TRIPS Agreement. On the one hand, Article 41 establishes a general obligation to protect patent rights, which includes the duty to avoid abuses of such rights. On the other hand, Article 44 regulates the use of injunctions and envisages a right to order a party to desist from an infringement through the use of an injunction. Given that the problem of SEPs abuse is quit a new one, it is unsurprising that Article 44 does not include exceptions regarding abuses by SEP owner bound by (F) RAND terms. Still, an application for an injunction of a SEP could be considered as creating barriers to legitimate trade or as an abuse, therefore, prohibited by Article 41.1 of the TRIPS agreement if (1) a willing licensee is present (2) SEP owner is bound by (F)RAND obligations, (3) standard is widespread.

Application of a non-violation complaint pursuant to article 64.2 of TRIPS Agreement and Article XXIII: 1 (b) of General Agreement on Tariffs and Trade 1994 (hereafter – GATT) [12], could be a mechanism to counteract SEPs abuse. Resort to this articles is possible only if moratorium for application of article 64.2 is lifted. Taking into account that several states, including the US, have expressed political will to lift this moratorium, this mechanism might become available in future.

We have previously determined that TRIPS agreement does not impose an obligation on states to counteract an abuse of SEPs, but allows actions against such abuses through resort to competition law etc. in exceptional circumstances. The principles of TRIPS agreement stipulated in articles 7 and 8, which emphasize that protection and enforcement of intellectual property rights has to contribute to a balance of rights and obligations. On the one hand, SEPs abuse does not violate the TRIPS agreement because it does not conflict with obligations under TRIPS Agreement. On the other hand, according to GATT Article XXIII: 1(b) a claim of



a non-violation complaint may be made if SEPs abuse impedes an attainment of any objective of Agreement [12], in our case, TRIPS agreement. One of goals of TRIPS agreement expressed in Article 7 is contribution to promotion of technological innovation and transfer and dissemination of technology, to mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare [4]. An abuse of SEPs may become a basis for a non-violation complaint under TRIPS agreement if standard has become successful and widespread globally. In this case abuse of SEPs may impede promotion of technological innovation and transfer and dissemination of technology in a meaning of Article 7 of TRIPS agreement and be challenged under Article 64.2 of TRIPS agreement.

The TBT agreement requires WTO members to use international standards as a basis for technical regulations: «Where technical regulations are required and relevant international standards exist or their completion is imminent, Members shall use them, or relevant parts of them, as a basis for their technical regulations» [13]. The decision of Appellate Body in EC-Sardines suggested that determination whether technical regulation is used as a basis for an international standard under Article 2.4 of TBT agreement should assess «whether standard is principal constituent or fundamental principle of technical regulation» [14, P. 67]. Thus, TBT agreement encourages use of international standards. However, this agreement remains silent on interplay between standards and patents. While TBT agreement does not impose discipline on interplay between patents and standards, there are no mechanisms in this agreement for counteracting SEPs abuse.

Chinese submission which suggests that «if Members are not clear of IPRs in relevant international standard, whether all IPRs have been disclosed, under what terms the IPRs are to be licensed by the IPR holders, all WTO Members will face difficulties when adopting international standards» [15, P. 4] is reasonable and should be supported. The discussion on IPR issues in standardization is of great significance to the integrity of international standardization community and multilateral trade system [15, P. 4] and it is appropriate to develop in the TBT

agreement general rules for the regulation of the use of intellectual property rights in standardization.

Conclusions. Despite the fact that TBT agreement imposes certain discipline on standards there are no legal mechanisms for counteracting SEPs abuse in this agreement. To contrary, the TRIPS Agreement protects exclusive rights of patent owners, but at same time recognizes the need to contribute to a balance of rights and obligations of right holders and contains some provision that could be used to counteract SEPs abuse, particularly, articles 30, 31, 40, 41 and 64.2. The significance of the TRIPS Agreement to counteract SEPs abuse is weekend by the fact that the use of Articles 31, 40, and 41 require implementation of the relevant provisions in national legislation, which is usually absent in SEPs context. Article 30 is an exception from this rule and could be used. If moratorium on a non-violation complaint pursuant to Article 64.2 of TRIPS Agreement is lifted this provision could also be used to counteract SEPs abuse.

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