

## **Why the ETSI IPR Policy Requires Licensing to All**

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As the former Director-General of the European Telecommunications Standards Institute (“ETSI”), I have followed with interest the various discussions and disputes regarding the application of the ETSI IPR Policy. The ETSI IPR Policy was drafted, debated and finalized during my tenure, and I was closely involved in its creation and approval and have followed further discussions within ETSI. I was therefore asked by the Fair Standards Alliance to allow publication of my views on the ETSI IPR Policy, its background and its application.

### **I. Background on My Work at ETSI**

My involvement in the telecommunications industry and in standardization began in 1969 when I started to work in the Telecommunications Centre of the German Federal Post Office (Deutsche Bundespost). During the 1970s, I was an active delegate of the German Post Office in the standardization work of both ITU and CEPT. In the 1980s, while working on internal projects for the German Post Office, I continued to monitor closely the related ongoing standardization work in ITU and CEPT.

In 1990, I was elected Director of ETSI. The post of Director was renamed “Director-General” in 1995. My activity as Director-General in ETSI ended with my retirement on 30 June 2006.

Following my retirement, I worked as consulting engineer for Hillebrand Consulting Engineers GmbH, a position I have held since October 2006. In order to further follow the recent development of the ETSI Intellectual Property Rights (“IPR”) Policy, I have continued to participate in most of the ETSI General Assembly meetings and those of the ETSI IPR Special Committee, and have closely followed the general developments within ETSI, especially those related to the ETSI IPR Policy.

### **II. ETSI’s Role in Standardization**

ETSI was created in 1988 by the telecommunication administrations of the member states of what is now the European Union (“EU”). In contrast to its predecessor, the CEPT, ETSI’s membership is not only composed of Telecommunications Administrations – now including Administrative Bodies and National Standards organizations - but also Network Operators (public and recognized private ones), Manufacturers, Users, Service Providers, Research Bodies, Consultancy Companies / Partnerships, and others. The European Union and the European Free Trade Association recognized ETSI as the European standard setting body (European Standards Organization or “ESO”) for telecommunications. ETSI’s role – in accordance with Article 3 of its Statutes – is as follows:

*“ETSI, the European Telecommunications Standards Institute, produces **globally-applicable** standards for Information and Communications Technologies (ICT), including fixed, mobile, radio, converged, broadcast and Internet technologies....We are a not-for-profit organization with more than 800 member organizations worldwide, drawn from 67 countries and five continents. Members include the world’s leading companies and innovative R&D organizations.”<sup>1</sup>*

*“Founded initially to serve European needs, ETSI has become highly-respected as a producer of technical standards **for worldwide use**”<sup>2</sup>*

ETSI is governed by its Members, and has a defined set of rules, the ETSI Directives, which have been approved by the ETSI General Assembly. These Directives include the ETSI IPR Policy, which was added in 1994 as Annex 6 to the Rules of Procedure. The IPR Policy governs, amongst other things, the disclosure and licensing of essential patents. ETSI Members are fully aware of these rules, and are repeatedly reminded of their obligations under the IPR Policy.

### **III. Short History of the ETSI IPR Policy**

According to Article 3 of the ETSI IPR Policy, ETSI standards should be based on solutions that best meet technical objectives of the European telecommunications sector. ETSI’s Technical Committees (“TCs”) focus solely on technical assessment and the development of specifications, irrespective of intellectual property rights. Having to deal with IPRs in TC meetings would block or delay the process, taking into account the uncertainties inherent in determining whether a patent is valid, would be infringed and essential, which is even more difficult when specifications are still in development. One of the reasons to develop the ETSI IPR Policy was to enable the technical work of standard development in Technical Committees (“TCs”) to move forward without delay or blocking caused by IPR owners.

Since my start as ETSI Director (and later Director-General), I closely followed the development of this ETSI IPR Policy. The process took more than five years of intensive discussions. The process involved around 50 legal experts representing (amongst others) technology owners and manufacturers from Europe and overseas. Manufacturers (including from the USA) participated in these discussions within ETSI (and even in its predecessor CEPT since around 1986). The development of the ETSI IPR policy also profited from guidance from, and intensive negotiations with, the European Commission who attended most of the relevant meetings. This participation was to ensure, amongst other things, compliance with European Union law in general and EU competition law in particular.

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<sup>1</sup> See <http://www.etsi.org/about>.

<sup>2</sup> See ETSI, Welcome to the World of Standards (emphasis added), available at <http://www.etsi.org/images/files/ETSIGenericPresentation.pdf>.

In November 1994, the ETSI General Assembly approved an “Interim ETSI IPR Policy”. Three years later, in 1997, the “Interim ETSI IPR Policy” was made permanent. This was well before the adoption of the UMTS and LTE standards.

In November 2002, an ETSI ad hoc group on IPR was created and charged with analyzing how the ETSI IPR Policy was working in practice. The work was undertaken in 2003. This group submitted a series of recommendations to the ETSI General Assembly in November 2003 which were later used as a basis for the ETSI Guide on IPRs which was published in December 2004 (the “IPR Guide”). The ETSI IPR Policy and the related IPR Guide have remained stable, although there have been a few clarifications.

#### **IV. Principles of the ETSI IPR Policy**

Article 3 of the ETSI IPR Policy indicates, amongst other things, that

*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.*

The ETSI IPR Policy maintains this balance by requiring every ETSI member to use reasonable endeavours to inform ETSI of ESSENTIAL IPRs in a timely fashion. Once an Essential IPR is identified, the IPR owner is asked to make an irrevocable undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory (FRAND) terms and conditions under the IPR. In order to facilitate the process of notification of Standards Essential Patents (“SEPs”), members can use General Declarations by which they make an irrevocable undertaking that they are prepared to grant licenses under FRAND terms and conditions for all their SEPs within a given standardization area.

An Essential IPR owner may refuse to give such an undertaking. If it does so in a timely manner, the TC is required to select another viable solution “*which is not blocked by that IPR and satisfies ETSI’s requirements.*”<sup>3</sup> If no viable solution exists, the work on the standard shall cease.<sup>4</sup>

In practice, many Essential IPR owners issue General Declarations to license their Essential IPRs on FRAND terms.

According to the ETSI IPR Policy, if a FRAND undertaking or promise is issued, third parties are entitled to receive licenses under FRAND terms and conditions provided they agree to pay FRAND royalties. See Sections 3.1 and 3.3 of the ETSI IPR Policy, which make it clear that every “*potential user*” is entitled to obtain a license on FRAND terms and conditions. This includes both ETSI members and third parties who did not participate in the standard setting process.

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<sup>3</sup> See Section 8.1.1 ETSI IPR Policy.

<sup>4</sup> See Section 8.1.2 ETSI IPR Policy.

## V. Application of the FRAND Licensing Principles

The wording of the ETSI IPR Policy and the IPR Guide allows us to identify basic principles on the definition of “FRAND” and to draw conclusions about the permissibility of certain practices and license terms, apart from the application of competition law.

### **1. The ETSI IPR Policy allows every company that requests a license to obtain one, regardless of where the prospective licensee is in the chain of production and regardless of whether the prospective licensee is active upstream or downstream.**

Manufacturers of components such as chipsets are therefore entitled to a license, if they seek one. There are various bases for this conclusion in the ETSI IPR Policy and the IPR Guide.

First, Article 6 of the IPR Policy contains a general reference to an undertaking to grant a license: the reference in no way limits the beneficiaries of that license and does not allow the IPR owner to refuse a license to particular interested parties such as component manufacturers, so long as they are willing to agree to FRAND terms and conditions.

Second, in accordance with Article 3 of the IPR Policy,

*“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.”*

If a license was unavailable to all interested parties who want to apply the ETSI standard, this goal could not be met. This is a fundamental objective of the ETSI IPR Policy.

Third, the IPR Licensing Declaration Form makes no exception for certain categories of licensees. It explicitly allows the IPR owner to impose conditions, specifically, reciprocity, but does not allow the IPR owner to exclude specific categories of standards implementers. The absence of an explicit option to exclude certain categories of licensees confirms that a license must be available to all interested parties, and is consistent with the fundamental objective described above.

Fourth, a declaration under Article 6 of the IPR Policy requires the IPR Owner to *“grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions.”* Accordingly, the IPR owner must not discriminate in the imposition of terms between different categories of licensees. If the IPR owner cannot discriminate in that way, it certainly cannot go even further and entirely exclude specific categories of licensees from the right to seek a license.

Fifth, paragraph 1.4 of the IPR Guide refers to *“users of standards”*, without limitation, and specifies that both members of ETSI and third parties who are *“users of ETSI standards or documentation”* have a *“right”* to a license *“at least to manufacture, sell, lease, repair, use and operate.”* Paragraph 1.4 does not limit this right to certain categories of members or users.

Sixth, while I am not a specialist in competition law, I am aware that various policy papers and competition law principles helped to shape the ETSI IPR Rules, including the following:

- The European Commission’s Horizontal Guidelines contain a detailed discussion of the application of Article 101 TFEU to standard-setting.<sup>5</sup> They emphasize the need to ensure that all parties interested in obtaining a license to SEPs can get one, especially competitors of the SEP owners. The Guidelines:
  - confirm that *“In order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to **license** their essential IPR **to all third parties** on fair, reasonable and non-discriminatory terms (‘FRAND commitment’);*<sup>6</sup>
  - reiterate that *“FRAND commitments are designed to ensure that essential IPR protected technology incorporated in a standard is accessible to the users of that standard on fair, reasonable and non-discriminatory terms and conditions.”;*<sup>7</sup>
  - explain that *“If a company is either completely prevented from obtaining access to the result of the standard, or is only granted access on prohibitive or discriminatory terms, there is a risk of an anti-competitive effect.”;*<sup>8</sup>
  - prohibit *“refusing to license the necessary IPR or by extracting excess rents by way of excessive royalty fees thereby preventing effective access to the standard”.*<sup>9</sup>
- The text quoted above from para. 285 clearly indicate that by “access”, the European Commission means “access through license” to “all third parties.” This principle goes back decades. The European Commission’s 1992 Green Paper on IPR and Standardization<sup>10</sup> already required that standards must be available to “the widest

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<sup>5</sup> Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ 2011/C 11/01, 14.1.2011 (Guidelines on Horizontal Agreements).

<sup>6</sup> Guidelines on Horizontal Agreements, paragraph 285, emphasis added.

<sup>7</sup> Guidelines on Horizontal Agreements , paragraph 287; *see also* paragraph 294.

<sup>8</sup> Guidelines on Horizontal Agreements , paragraph 268; *see also* paragraph 264.

<sup>9</sup> Guidelines on Horizontal Agreements , paragraph 269.

<sup>10</sup> Communication from the Commission on Intellectual Property Rights and Standardization, COM(92) 445 final, Brussels, 27 October 1992 (1992 Communication), available at <http://aei.pitt.edu/1222/1/1222.pdf>.

*possible number of interested parties on fair and reasonable terms*<sup>11</sup> and to “*all interested parties*”;<sup>12</sup>

- The European Commission provided a comfort letter<sup>13</sup> with respect to the ETSI IPR Policy under Article 19(3) of Regulation 17/62 on the understanding that essential patents reading on ETSI standards would be licensed on FRAND terms to “third parties wishing to manufacture products complying with the standard” and to “potential users”.

It is my opinion that for these reasons, all third parties who want to implement the standard, including manufacturers of components such as chipsets, are therefore entitled to a license, if they seek one.

## **2. The obligation to license under the ETSI IPR Policy, once a FRAND undertaking is given, is not limited to end-products like handsets, but includes also components like chipsets.**

As noted above, it is a basic principle that a FRAND undertaking means that all interested parties and potential licensees must be licensed on FRAND terms and conditions. This follows clearly from the wording of Article 6 of the IPR Policy and the relevant definitions.

Article 6 of the IPR Policy is broadly crafted. It requires that a license must be available “*to at least the following extent:*”

- *MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee’s own design for use in MANUFACTURE;*
- *sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;*
- *repair, use, or operate EQUIPMENT; and*
- *use METHODS.*

The words “*to at least the following extent*” mean that the license may not encompass less than what is stated in Article 6.

Moreover, the reference to “*MANUFACTURE, including the right to make or have made customized components and sub-systems to the licensee’s own design for use in MANUFACTURE*” cannot be read to exclude non-customized components. The word “including” in that sentence means that the license must include a license to make or have made “customized components,” but the requirement is not limited to that. Simply put,

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<sup>11</sup> 1992 Communication, paragraph 2.1.12.

<sup>12</sup> 1992 Communication, paragraph 2.3.3 and 6.3.2.

<sup>13</sup> Notice pursuant to Article 19 (3) of Council Regulation No 17 concerning case No IV/35.006 — ETSI interim IPR policy OJ 95 /C 76/05, 28.3.1995.

consistent with the FRAND policy described above, the word “including” signifies an example, but not an exhaustive list.

Indeed, the words of Article 6 indicate that the license must cover “MANUFACTURE” as defined in the ETSI IPR Policy. That term is defined as the “*production of EQUIPMENT*” (Article 15.8), with “EQUIPMENT” being defined as “*any system, or device fully conforming to a STANDARD*” (Art 15.4). The words “*system*” and “*device*” are not defined in the ETSI IPR Policy. They should therefore be defined by normal parlance and plain meaning.

- The word “*device*” is commonly defined as:

*“a thing made or adapted for a particular purpose, especially a piece of mechanical or electronic equipment”;*<sup>14</sup>

*“An object or machine that has been invented to fulfill a particular purpose”;*<sup>15</sup>

*“a piece of equipment or a mechanism designed to serve a special purpose or perform a special function <an electronic device>”;*<sup>16</sup>

*“a piece of computer hardware that is designed for a specific function”.*<sup>17</sup>

- In common technical parlance, the word “*device*” is used as including reference to “*semiconductor*”, “*integrated circuit*” and a “*component*”.<sup>18</sup> The Glossary of Terms of the Semiconductor Industry Association defines ‘discrete device’ as:

*‘A device that contains one active element, such as a transistor or diode, although a hybrid might contain more than one active element. In comparison, an integrated circuit could contain billions of active elements on a single chip.’*<sup>19</sup>

It defines ‘semiconductor’ as:

*“[...] the generic name for discrete devices and integrated circuits ...”.*

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<sup>14</sup> Oxford: [http://www.oxforddictionaries.com/us/definition/american\\_english/device](http://www.oxforddictionaries.com/us/definition/american_english/device).

<sup>15</sup> Cambridge: <http://dictionary.cambridge.org/us/dictionary/english/device>.

<sup>16</sup> Webster: <http://www.merriam-webster.com/dictionary/device>.

<sup>17</sup> Collins: <http://www.collinsdictionary.com/dictionary/english/device>.

<sup>18</sup> <http://whatis.techtarget.com/definition/solid-state>.

<sup>19</sup> <https://www.semiconductors.org/faq/glossary>.

- The American National Standards Institute, IEC 60747 Series - Semiconductor Devices states that:

*‘The IEC 60747 series of semiconductor standards covers discrete devices, integrated circuits, ... These devices are used as the building blocks for a wide range of more complicated devices, so standardization at this level directly contributes to the standardization of levels further down the design and fabrication process.’*

- JEDEC, a standards organization specializing in micro-electrics normally uses the word “device” to refer to a semiconductor chip.<sup>20</sup>
- The word “device” also appears in ETSI documents in reference to semiconductor chips.<sup>21</sup>
- Similarly, the term “system” means “A set of connected things or parts forming a complex whole ... A group of related hardware units or programs or both, especially

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<sup>20</sup> Amongst the many technical examples, see for instance, the definition of “discrete device”: “A semiconductor device that is specified to perform an elementary electronic function and is not divisible into separate components functional in themselves... Diodes, transistors, rectifiers, thyristors, and multiple versions of these devices are examples” see JEDEC, “discrete (semiconductor) device”; “..requirements for the next generation of semiconductor device package components..” See JEDEC, JEDEC Publishes Revision of International Standard for Semiconductor Device Package Components (JESD30G), February 11, 2016; “...discrete semiconductor devices and integrated circuits (hereinafter generically called semiconductor devices) used in electronic equipment...” See JEITA, Environmental and endurance test methods for semiconductor devices, 2001; JEITA, Jeita Standards: Discrete Semiconductor Devices; JEITA, Jeita Standards: Semiconductor Device Packages; JSIA, “Semiconductor Product Technology Committee of Japan”, “Activities”.

<sup>21</sup> I give two examples: a 2016 document, mm-Wave Semiconductor Industry Technology – Status and Evolution, available at [http://www.etsi.org/images/files/ETSIWhitePapers/etsi\\_wp15\\_mwt\\_semiconductor\\_technology.pdf](http://www.etsi.org/images/files/ETSIWhitePapers/etsi_wp15_mwt_semiconductor_technology.pdf), has an in-depth discussion of semiconductor devices and technologies. A 2000 document, ETSI TR 101 21 728 V1.1.1 (2000-12), available at [http://www.etsi.org/deliver/etsi\\_tr/101700\\_101799/101728/01.01.01\\_60/tr\\_101728v010101p.pdf](http://www.etsi.org/deliver/etsi_tr/101700_101799/101728/01.01.01_60/tr_101728v010101p.pdf) references “semiconductor device” on page 20.



*when dedicated to a single application*”,<sup>22</sup> but this term can be and is often used for a component, like a “system on a chip”.<sup>23</sup>

Accordingly, the words “system” and “device” in the ETSI IPR Policy cannot be interpreted in a limiting fashion but rather should be accorded their plain meaning. This means that a license under Article 6 of the IPR Policy includes a license to make, sell and use chipsets, and not only handsets or end-user equipment. Nothing in Article 6 can therefore be interpreted as allowing an SEP owner who has given a FRAND undertaking/promise to withhold a license to competing semiconductor manufacturers.

Finally, the already mentioned definition of “EQUIPMENT” (*“any system, or device fully conforming to a STANDARD”*) includes chipsets that normally fully conform to the 2G, 3G and 4G standards adopted by ETSI. The definition does not say that the device or system in itself must “implement” or “encompass” all the specifications and elements of a standard, so long as the device is designed to be used with other devices or elements in such a way that the combination fully conforms to the standard. The words “fully conform” mean that the device must be entirely consistent with and compatible with the standard so that the use of the device or system in equipment does not break compatibility. The ETSI IPR Policy is applicable regardless of the licensee’s business model, whether as a vertically integrated supplier or a component supplier.<sup>24</sup> If ETSI had wanted to carve out certain types of licensees in the chain of distribution who were not eligible for a FRAND license, it could have done so in its texts and rules, but it did not.

Never during the more than five years of work on the ETSI IPR Policy – and even later – do I recall a distinction being made with regard to the category of potential licensees (of the SEPs). As already noted, ETSI adopted the clear and unambiguous policy of requiring that FRAND licenses be offered to all interested comers/potential licensees who provide products or services designed to be compatible with the chosen standard, irrespective of their position in the industry or a chain of distribution.

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<sup>22</sup> Oxford: [http://www.oxforddictionaries.com/us/definition/american\\_english/system](http://www.oxforddictionaries.com/us/definition/american_english/system); See also “A set of connected things or devices that operate together” (Cambridge: <http://dictionary.cambridge.org/dictionary/english/system>); “a group or combination of interrelated, interdependent, or interacting elements forming a collective entity; a methodical or coordinated assemblage of parts, facts, concepts... any assembly of electronic, electrical, or mechanical components with interdependent functions, usually forming a self-contained unit” (Collins: <http://www.collinsdictionary.com/dictionary/english/system>).

<sup>23</sup> [https://en.wikipedia.org/wiki/System\\_on\\_a\\_chip](https://en.wikipedia.org/wiki/System_on_a_chip).

<sup>24</sup> One of ETSI’s missions, like in all standard setting organizations, is to allow industries to reap network effects that come from the interoperability of technology. One of the primary ways this is done, is by establishing frameworks (such as the FRAND commitment for SEPs) that prevent IP issues from slowing down technological progress in standardization work. To interpret “EQUIPMENT” to refer to end-user equipment only, excluding components, is contrary to this goal. It would restrict FRAND protections to only the completed handset level, allowing the very issues ETSI seeks to prevent to deter competition and innovation at the component level.

For these reasons, I am of the opinion that the obligation to license under the ETSI IPR Policy, once a FRAND undertaking is given, is not limited to end products like handsets but includes also components like chipsets and others when a component manufacturer seeks a license.

**3. The wording of Article 6 must be interpreted to entitle a manufacturer who so requests a license to “make, sell and use” the licensed product.**

It follows clearly from the wording of Article 6 of the ETSI IPR Policy that a manufacturer who requests an exhaustive license to “make, sell and use” the licensed product is entitled to such an exhaustive license.

Article 6 of the IPR Policy requires that a license must be available “*to at least the following extent*”:

- *MANUFACTURE...;*
- *sell, lease, or otherwise dispose of EQUIPMENT so MANUFACTURED;*
- *repair, use, or operate EQUIPMENT; and*
- *use METHODS.*

The conjunctive word “*and*” before “*use METHODS*”, rather than a disjunctive “*or*”, means that the IPR Owner may not without the agreement of the licensee limit the license to only one or a subset of the permitted uses. If a manufacturer wishes to have a “*sell*” license (which under patent law leads to exhaustion of the patent rights), or a “*use*” license to an essential patent subject to a FRAND declaration, so as to be able to pass that right on to its customers, Article 6 entitles it to such a license.

**4. A “forbearance policy” is not consistent with, and does not satisfy, obligations to license on FRAND terms and conditions, once a FRAND undertaking is given.**

Article 6 of the IPR Policy entitles all interested parties explicitly to a “license,” that is, an explicit authorization or permission to do certain acts (Article 6 of the IPR Policy) that the IPR owner could otherwise prohibit by invoking its IPRs.

Approaches that fall short of licensing, such as (a) a unilateral, unwritten policy of not enforcing patents in court (“forbearance”); (b) a promise to delay litigation (“standstill”); and (c) a promise not to sue unless the equipment manufacturer does not pay and the SEP owner has exhausted its legal remedies against that equipment manufacturer (“covenant to exhaust remedies”), or an agreement not to sue a specific party (while reserving the right to sue others based on products made by that party), are not adequate under Article 6 of the IPR Policy, since they are not an explicit authorization on which the beneficiary can rely and because, most fundamentally, they are not a license.

This conclusion also follows from the requirement that the license must be “*irrevocable*” and “*on fair, reasonable and non-discriminatory terms and conditions.*” Approaches that fall short of licensing impose commercial uncertainty on the entity that seeks or would have wanted a

license but cannot get one. In addition, it also creates uncertainty for businesses who do not ask for a license because they know that the answer will be negative. Simply put, a mere policy, which can be revoked, and certainly a mere policy of which the “terms and conditions” are not spelled out in a way that is stable and certain enough to determine whether its terms and conditions are “fair, reasonable, and non-discriminatory” does not comply with the requirement of Article 6 of the IPR Policy. The very point of FRAND is to add clarity and predictability to the commercial realities of a marketplace.

This understanding is confirmed by Article 6.1, which refers to an “irrevocable undertaking in writing” to issue licenses. An “undertaking” is a binding act, which the beneficiary can enforce. This principle is also reflected in the ETSI IPR Licensing Declaration Form, which requires those who execute an undertaking on behalf an IPR Declarant to certify that they have:

*“the authority **to bind the Declarant** and/or its **AFFILIATES** to the representations and commitments provided in this form.”<sup>25</sup>*

In addition, Section 6.1bis of the ETSI IPR Policy expressly stipulates that:

*“FRAND licensing undertakings made pursuant to Clause 6 **shall be interpreted as encumbrances that bind**” not only the Declarant but also “all successors-in-interest.”*

FRAND Declarations are subject to French law.<sup>26</sup> While I am neither a lawyer nor an expert in French law, I am aware from discussions within ETSI that experts in French law have confirmed that a FRAND undertaking is binding. I refer to an opinion of Professor Laurent Aynès, who concludes that the contractual commitment to ETSI resembles what is called in French law a “*stipulation pour autrui*” or a stipulation for the benefit of a third party (also called a “third-party beneficiary clause”), that is specifically authorized under Article 1121 of the French Civil Code.<sup>27</sup> Such a stipulation is formed via an exchange of consent between a promisor (the SEP owner) and a Stipulator (ETSI) where the promisor irrevocably grants a right to one or more beneficiaries.<sup>28</sup> Under French law, Professor Aynès states, those who wish to implement the standard are entitled to enforce the SEP owner’s promise made in its declarations submitted to

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<sup>25</sup> ETSI IPR Licensing Decl. Form, available at pages 42-43 of the ETSI Directives, [https://portal.etsi.org/directives/36\\_directives\\_jun\\_2016.pdf](https://portal.etsi.org/directives/36_directives_jun_2016.pdf) (emphasis added)

<sup>26</sup> ETSI IPR Policy, section 12; ETSI Directives, v.36, June 2016, ETSI IPR Licensing Declarations forms, at 42-43, available at [https://portal.etsi.org/directives/36\\_directives\\_jun\\_2016.pdf](https://portal.etsi.org/directives/36_directives_jun_2016.pdf) (“The construction, validity and performance of this ... licensing declaration shall be governed by the laws of France”).

<sup>27</sup> Declaration of Prof. Laurent Aynès, in *InterDigital v Huawei and ZTE* C.A. Delaware No. 1:13-cv-00008-RGA document 41, ¶¶ 19-22.

<sup>28</sup> *Id.* ¶ 21.

ETSI pursuant to Article 6.1.<sup>29</sup> I also refer to the judgment of the High Court of Justice of England and Wales in *Unwired Planet v Huawei*.<sup>30</sup>

Article 6 of the IPR Policy moreover requires that the undertaking must itself be “irrevocable” and “in writing.” An unwritten “policy” that is not binding and is revocable is inadequate and does not comply with Article 6 of the IPR Policy. Similarly, neither a standstill arrangement nor a covenant to exhaust remedies are irrevocable licenses.

#### **5. The cross-grant provisions in a license should be on FRAND terms and conditions for both licensor and licensee.**

Article 6 of the IPR Policy provides that “*the above undertaking may be made subject to the condition that those who seek licences agree to reciprocate.*” ETSI’s Special Committee on IPRs continues discussions on the precise limits and scope of the “reciprocity” condition, but based on this discussion and the general principles and existing rules, including in particular the requirement of FRAND terms and conditions, we can say at least the following:

The use of the word “reciprocate” denotes a balance, in the sense that the IP owner (licensor) may, as a condition for a license, require the licensee to give the same rights to the licensor, with the same scope, and on the same terms, as the rights the licensee receives from the IP owner. The parties may, of course, deviate from that symmetry by consensus, but the IP owner inherently cannot against the licensee’s will require more burdensome terms than it is willing to assume itself, or extract more extensive rights than it is willing itself to grant.

This conclusion not only follows from the very concept of “reciprocity”, but is also inherent in the FRAND requirement. A license under Article 6 of the IPR Policy should be FRAND for both licensee and licensor. For example, demanding a royalty-free cross-grant of rights, without paying a royalty and without proportionally adjusting the royalty received to reflect the value derived from the cross-grant, would be both “unfair” and “discriminatory” and thus in breach of the FRAND provision of Article 6 of the IPR Policy.

Such demands are unfair in breach of the “FR” component of FRAND, if the licensee against its will has to *pay* for a license, but does not *get paid* for giving a cross-license regardless of the value conveyed, or gets paid a below-FRAND compensation. FRAND terms and conditions should be fair and reasonable for both licensor and licensee. Of course, it is possible that the licensor’s patents are more valuable than those cross-licensed by the licensee, but the reverse is possible too. Either way, the difference in value can and should be reflected in the compensation that flows back and forth between the parties. That is the very point of good faith negotiations in accordance with FRAND principles.

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<sup>29</sup> *Id.* ¶¶ 21-22.

<sup>30</sup> [2017] EWHC 711 (Pat), ¶¶ 98-146; <https://www.judiciary.gov.uk/wp-content/uploads/2017/04/unwired-planet-v-huawei-20170405.pdf>.

Article 3.2 of the IPR Policy confirms this by stating that IPR holders – and that includes the licensee who cross-licenses SEPs – should be adequately and fairly rewarded for the use of their IPRs in the implementation of standards. To my recollection, this objective was essential in the development of the ETSI IPR Policy and was always regarded by ETSI as a very important policy objective. This was a constant factor throughout the discussions in which I participated and of which I was aware in my role as ETSI Director-General. It should also apply to IPR owners who are licensees and are requested to cross-license their SEPs.

An imposition of a royalty-free cross-grant of rights without compensation or adjustment, or with a below-FRAND compensation, is discriminatory in two ways. First, a licensee with more valuable IP gives up more than a licensee who has no or very little IP to cross-license. Second, it would be discriminatory in comparison with the licensor, who does receive FRAND royalties for its IPR.

For these reasons, I am of the opinion that a licensor of SEPs cannot against the will of the licensee refuse to compensate the licensee for the cross-license on FRAND terms and conditions, with difference in compensation proportionate to the difference in value derived from the licensed and cross-licensed patents.

## **6. Unless both parties agree otherwise, the license must not bundle SEPs and non-SEPs**

The terms and conditions of a SEP license must be fair, reasonable and non-discriminatory (FRAND). A declaration of a single SEP to ETSI is an irrevocable commitment for the IP holder to be ready to grant a license for this Essential patent (to a given standard) under FRAND terms and conditions.

The ETSI IPR Policy does not address licensing conditions for non-SEPs. Owing to this silence in the policy, there are no rules available in the IPR Policy allowing a SEP owner to impose an extra cost on a licensee by bundling licenses for SEPs and non-SEPs, unless both parties voluntarily agree otherwise. This means that the SEP owner cannot force a licensee to pay for non-SEPs, or for SEPs reading on other standards, that the licensee does not need or does not want, or for which there are better or less expensive alternatives.

Holders of greater IP-portfolios tend to provide general declarations for their SEPs to ETSI in which they commit themselves to grant FRAND licenses for all SEPs for a specific standardization area or standard generation (like UMTS, or LTE). For each such standardization area or generation, SEPs can be bundled. An SEP owner cannot, however, force the licensee to take and pay for standards or generations that the licensee does not need or does not want.