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in the name of the Hungarian Group
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The Relationship between Technical Standards and Patent Rights

1. Basis for technical standards

1.1 What types of national and international standards exist in your country? By whom are these standards set up? Are there de jure and/or de facto standards?

Hungarian national de jure standards are set up and published by the Hungarian Standards Institution, a public body established by the Act XXVIII of 1995 on National Standardisation with exclusive competence concerning public tasks related to national standardisation. Any legal entity and any economic organisation without legal personality wishing to support the objectives and measures of national standardisation may become a member of the Hungarian Standards Institution.

International and European standards are valid in Hungary only if they are published as Hungarian national standards by the Hungarian Standards Institution. Hungary is a full member in ETSI (European Telecommunication Standards Institute), and an associate member in CEN (European Committee for Standardisation) and CENELEC (European Committee for Electrotechnical Standardisation). All standards set up by these European standardisation organisations are published as Hungarian national standards automatically. Hungary is also a founder full member in ISO (International Organisation for Standardisation) and IEC (International Electrotechnical Commission).

The application of Hungarian national de jure standards is voluntary, unless a legal rule declares it to be used on a compulsory basis. Standards can be rendered compulsory by decrees of ministers. At present, there are compulsory standards in the following fields of technology: health, building, agriculture, military engineering, traffic, telecommunication, water-supply and some other various dangerous fields of technology. Dispensation can be requested from the standards rendered compulsory. Decision in dispensation is made by the minister in charge. However, in line with the principles of the European Union concerning standards, there is a trend in Hungary to reduce the number of compulsory de jure standards.

De facto standards are established by the exercise of market power. De facto standards in Hungary are usually international or European de facto standards extended to Hungary mainly by import of goods and services, or by foreign investments.

1.2 Who is the addressee of the standards and in which technical field do standards apply? Are the Groups aware of any standards which explicitly refer to patents?

The addressee of the standards are participants of trade and industry, i.e. manufacturers, service providers, etc. Standards cover almost all fields of technology. The Hungarian Group is not aware of any national de jure standard explicitly referring to patents.

1.3 What is the legal effect of standards? Are they enforceable? If so, how are they enforced? The Groups are invited to distinguish between the types of standards involved according to question 1.1 above.

Compulsory and voluntary national de jure standards can be enforced in Hungary indirectly by authorities giving permissions for particular manufacturing and trade activities or defining the compliance as a precondition for procurement procedures.

In Hungary, de jure national standards rendered compulsory can be enforced directly on the basis of Government Decree No. 218/1999 (XII. 28.) on Certain Contraventions and of some other regulations concerning specific issues, e.g. fire-protection, district-heating and nuclear energy industry. According to the above Government Decree and other regulations, contravening of a particular standard rendered compulsory shall be punishable with a fine.

Of course, market power can be a very efficient means for enforcing all kind of standards.

2. Possible conflicts between technical standards and patents

2.1 What possible conflicts do the Groups see with regard to the relationship between patents and standards?

Standards are generally regarded as public property which is available to everyone. Patent rights, understood here in the broadest sense, including utility models, certificates for protection and other technical IPRs, however, are in the private sphere and are meant to give one party exclusive rights for a pre-defined period. Therefore, patent rights can make a wide use of a standard difficult or impossible, for example, when an owner of a patent right essential to the standard refuses to grant licences or requires an unreasonable high licensing fee. Therefore, special care should be taken of patent rights when setting up standards to ensure an adequate balance between public interest and the interest of right owners.

2.2 Which issues do the Groups find relevant with regard to confidentiality, concerning namely the relations between the parties involved in setting up a specific standard or the preservation of confidentiality? Should there be rules for the handling of information obtained during the period of setting up a standard? Likewise, should there be rules for the filing of patent applications during said period? If so, what should the rules be?

Standards are often set up at the leading edge of technology, which will involve the use of R&D of members involved in establishing standards. Such an R&D can be the subject of patent rights, i.e. inventions can be created during that process. Therefore, between the parties involved in setting up a specific standard confidentiality should be required with

regard to information obtained during the process. Rules should be determined concerning confidentiality of handling of information obtained during this period.

Concerning filing of patent applications during the period of setting up a standard no rules are necessary to be determined. Of course, disclosure should be required of patent applications filed by parties involved in setting up a specific standard for inventions which can be essential to that standard.

2.3 Are there any issues with regard to the territorial aspect (scope of protection and application of the standard)? What differences do the Groups see with regard to patents of members of the standardisation organisation and of non-members?

For technical standards that take effect in a certain region, related patent holders within the region can be required to submit patent statements. However, some regional technical standards are applied outside the regions (e.g. telecommunication standards). Therefore, some of the manufacturers can move outside the region to produce goods based on regional standards. In such cases, patent rights outside the region have to be considered as well, which can make the standardisation procedure even more difficult.

Members of standardisation organisation can be required to submit statements relating to patents outside the region of the standard. However, identification of non-members' IP rights outside the region can be very difficult.

2.4 Are there rules for patent pools or discrimination against non-members which might constitute a conflict?

Patent pools or discrimination against non-members are, by their very nature, rife with opportunities for anticompetitive activity. Companies investing previously heavily in R&D to obtain patents can participate in patent pools allowing a cheaper access to essential IPRs. When volumes are high, which is often the case at standards, the advantages of cross-licensing outweigh the costs made on R&D. Companies that did not get involved in a cross-license pay the full license price and are placed in a strongly unfavourable position for market competition. This situation and a discrimination against non-members can be subject of competition rules apart from being totally contradictory with the fundamental requirement that standards should be available to all-comers on a non-discriminatory basis.

3. IPR policies, conflict resolution means

3.1 How and by whom should the relevant or "essential" IP rights be determined? Should the members of the respective organisation be required to reveal their relevant IP rights? What should be the consequences if a member does not reveal an IP right? How does this affect the disclosure of new inventions or technologies?

It is the standardisation organisation that is best placed to determine which IP rights should be regarded as essential. The members of these organisations should be required to reveal their relevant IP rights on a bona fide basis.

The rules for revealing members' IP rights have to be laid down in an IPR policy of the organisation. Any violation of these rules should be deemed to be a breach by that

member. The organisation shall decide the action to be taken against that member in breach.

New inventions or technologies are to be disclosed by the members necessarily if they wish to incorporate them into the standards making procedure. A bona fide disclosure of pending patent applications of members relating to these inventions or technologies is necessary.

3.2 Can the owner of an IP right which has been detected as relevant be forced to let it be used for standardisation? If so, should this be done by way of licensing? Can the owner deny the use of the IP right?

Generally, the owner of an IP right considers the use of its IP right for standardisation as a good means for exploiting the IP right. Therefore, in most of these cases forcing of the owner of an IP right is not necessary. However, if a non member owner of an IP right is not willing to give licences, for example the owner wishes to keep the market for itself, forcing is possible only on a very limited basis. Hungarian Act No. XXXIII of 1995 on the Protection of Inventions by Patents defines the conditions when compulsory licences can be granted by the court for lack of exploitation. The conditions are, however, rather limited in line with Art. 31 TRIPS. On the other hand, a refusal to conclude a license agreement may be regarded as an abuse of a dominant economic position according to Hungarian competition rules. However, a mere refusal does not in itself constitute an abuse. If abuse is concluded, one result might be compulsory licensing, on conditions determined by the court. At this time, there has been no case law in this field in Hungary.

3.3 What should be the consequences of such a denial for the standardisation process? Can the membership or the participation in the standardisation process be made subject to an undertaking to grant licenses or to make the technology protected by IP rights otherwise available?

An alternative technology shall be selected for the standard which is not blocked by the denial of the IP right holder. The membership or the participation in the standardisation process itself should not be made subject to a previous undertaking to grant licenses or to make the technology protected by IP rights otherwise available.

3.4 In which way and by whom should conflicts between a member and the organisation or between members be resolved? The Groups are invited to give their comments on the pros and cons of internal arbitration proceedings on the one hand and of national court proceedings on the other hand, as far as particular conflicts with regard to standards and patents are concerned.

Internal arbitration proceedings can be relatively short and cost-efficient, however, enforcement can be a problem. Internal arbitration may also facilitate the reaching of agreements and avoid unnecessary conflicts in the courts. National court proceedings last longer and are relatively expensive, but enforcement is usually less difficult.

4. Licence policies, royalties

4.1 Who determines the conditions of a license agreement? What are reasonable royalties? How and by whom can the non-discriminatory character of conditions be

defined? Is there any impact, and if yes, which impact does Art. 31 TRIPS have on this type of licenses?

Conditions of a license agreement are generally determined by the parties of the agreement on the basis of the undertaking of the owner of the IP right to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions.

Generally, reasonable royalties are which the IP right owner and the licensee would have agreed upon if both had been reasonably and voluntarily trying to reach agreement. However, the IP right owner should not be over-rewarded for her/his good fortune to have an IP right which is essential to a standard. Therefore, reasonable royalties in case of IP rights essential to a standard might be even to an extent less than normal royalties.

Non-discriminatory character of conditions can be defined by standardisation organisations by setting up guidelines for license agreements. Ultimately, the non-discriminatory character will be defined by national courts in the case law.

This type of licences based on a prior undertaking are voluntary licences, therefore, Art. 31 TRIPS dealing with compulsory licences has a very limited impact on them.

4.2 Do the Groups see general principles for license conditions? The Groups are invited to submit factual comments on the licensing policy involved in standards, i.e. in comparison to the policies for amicable license agreements.

Licences should be irrevocable unless exceptional circumstances are encountered. The licence should give rights to manufacture, sell, lease, repair, use and operate without undue limitations. These general principles ensure a broader scope of use of the IP right for the licensee than in the case of normal amicable license agreements.

4.3 What are the consequences if an agreement cannot be reached between the patent holder and the licensee? How should royalties finally be determined?

If the parties cannot reach an agreement on conditions of the license, the terms and conditions including the royalties shall be determined by the national courts. Royalties should then be determined as reasonable royalties as defined in 4.1.

4.4 What is the legal quality of the undertaking to grant licenses (e.g. third party beneficiary)? Are the rights of a member or of a third party to challenge the validity of the patent affected in any way by this undertaking? Does the patent holder retain the right to enforce the patent against third parties or the member and, if so, under which conditions?

The undertaking to grant licenses is a unilateral, irrevocable declaration that licences are available as of right for everybody.

The validity of the patent is a different question and the rights of a member or of a third party to challenge the validity of the patent is not affected at all by the undertaking.

The patent holder does not retain the right to enforce the full patent against third parties or a member. He has the right to claim adequate royalties, if there is no licence agreement with the user.

5. Conclusion

Patents and standards are in inherent conflict. An IP policy should settle this conflict as much as possible and ensure an optimal balance between public and proprietary interests in both short and long terms. With too hard obligations to IPR owners, fair and reasonable access to a standard is ensured for all candidates, but there is a risk of the fallback of R&D and possibly the withdrawing of important participants from drawing up a standard. With no binding measures, innovative behaviour is stimulated, but there is a risk of unequal access of the parties to the standards.

Furthermore, the IP policy should ensure that the standardisation process is not inhibited by IPRs. The choice of technology for standards should be based on objective criteria, independent from whether the technology is covered by IPRs, provided the owner declares its willingness to license with reasonable royalties. A standard should be adopted only if all essential IPRs known to the standardisation organisation are available for reasonable royalties.

Therefore, essential elements of an IP policy should contain the following points.

- Declaration of responsibility of members to timely inform the standardisation organisation of essential IPRs they become aware of;

- Provisions for ensuring availability of licenses as much as possible (e.g. by means of undertaking), as well as provisions for procedures when licenses are not available;

- Rules of internal arbitration proceedings;
- Rules concerning violation of the policy;
- Confidentiality rules.

Our proposals for future IP policies and the resolution of conflicts between IP rights and technical standards are as follows.

1. Upgrading activities of standardisation organisations concerning identification of essential IPRs seems to be necessary. As there are definite needs to identify all IPRs relevant to the standardisation, and third parties can not be asked to submit patent statements, it is sensible for standardisation organisations to conduct patent searches on their own. The standardisation organisations should also conduct infringement clearance searches in order to find the truly essential patents.

2. Facilitating early disclosure of IPRs and early identification of essential IPRs is desirable. Early disclosure of patents is likely to enhance the efficiency of the process used to finalise and approve standards. Early disclosure permits notice of the patent to the standards developer in a timely manner, provides participants the greatest opportunity to evaluate the propriety of standardising the patented technology, and allows patent holders and prospective licensees ample time to negotiate the terms and conditions of licenses outside the standards development process itself.

The early identification of relevant IPRs should also increase the likelihood of an early indication from the patent holder that it is willing to license its invention, that it is prepared to do so on reasonable terms and conditions demonstrably free of unfair discrimination, or that the patent in question is not required for compliance with the proposed standard. A patent holder may have a strong incentive to provide an early assurance that the terms and conditions of the license will be reasonable and demonstrably free of unfair discrimination because of its inherent interest in avoiding any objection to the standardisation of its proprietary technology. As a consequence, patent holders and prospective licensees would be provided greater opportunities to negotiate acceptable license terms.

Summary

Hungarian national de jure standards are set up and published by the Hungarian Standards Institution which is a public body. Hungarian national de jure standards are voluntary, unless a legal rule declares them to be used on a compulsory basis. Compulsory national de jure standards can be enforced directly on basis of different regulations, voluntary national de jure standards can be enforced indirectly by authorities. Market power is also very efficient means for enforcing de jure and de facto standards. International and European standards are valid in Hungary only if they are published as Hungarian national standards by the Hungarian Standards Institution.

The Hungarian Group finds that special care should be taken of IP rights when setting up standards to ensure an adequate balance between public interest and the interest of IP right owners. Essential IP rights should be determined by the standardisation organisations. The members of these organisations should be required to reveal their relevant IP rights. The rules for revealing members' IP rights should be laid down in an IPR policy of the organisation.

The Hungarian Group considers the possibilities of forcing of an owner of an IP right to give licences to be very limited. Compulsory licences can be granted by the court for lack of exploitation if conditions in line with Art. 31 TRIPS are met. On the other hand, a refusal to conclude a license agreement may be regarded as an abuse of a dominant economic position according to Hungarian competition law. The Hungarian Group believes that in such cases an alternative technology shall be chosen for the standard which is not blocked by the IP right.

The Hungarian Group considers that licences of IP rights essential to standards should be irrevocable unless exceptional circumstances are encountered. The licences should give rights to manufacture, sell, lease, repair, use and operate without undue limitations. The undertaking to grant licenses is a unilateral, irrevocable declaration that licences are available as of right for everybody.

The Hungarian Group suggests the following essential elements of an IP policy:

- Declaration of responsibility of members to timely inform the standardisation organisation of essential IPRs they become aware of;

- Provisions for ensuring availability of licenses as much as possible (e.g. by means of undertaking), as well as provisions for procedures when licenses are not available;
- Rules of internal arbitration proceedings;
- Rules concerning violation of the policy;
- Confidentiality rules.

The Hungarian Group also suggests upgrading activities of standardisation organisations concerning identification of essential IPRs, namely to conduct patent and infringement clearance searches on their own. Facilitating early disclosure of IPRs and early identification of essential IPRs are also desirable.

Résumé

En Hongrie, c'est l'Institut Hongrois des Normes, une institution publique, qui met au point et publie les de jure normes nationales. L'application des de jure normes nationales est volontaire, excepté le cas où elle soit déclarée obligatoire par une règle juridique. Les de jure normes nationales obligatoires peuvent être mises en vigueur directement sur la base de régulations différentes, les de jure normes nationales volontaires indirectement par des autorités. La puissance du marché sert aussi comme instrument très efficace de mise en vigueur des de jure et de facto normes. Les normes internationales et européennes entrent en vigueur en Hongrie par leur publication comme normes nationales par l'Institut Hongrois des Normes.

Selon l'opinion du Groupe hongrois, les droits de propriété industrielle devraient être très soigneusement pris en considération au cours de la mise au point des normes pour pouvoir assurer un équilibre satisfaisant entre l'intérêt public et celui des titulaires des droits. Ce sont les organisations de standardisation qui doivent déterminer les droits essentiels de propriété industrielle. Il faudrait exiger aux membres de ces organisations de révéler les droits de propriété industrielle relevants. Les règles y relatives devraient être fixées dans la politique sur les droits de propriété industrielle de l'organisation.

Le Groupe hongrois trouve que la possibilité d'obliger un titulaire de droits de propriété industrielle à donner de licences est très limitée. Les tribunaux peuvent donner des licences obligatoires en faute d'exploitation en tenant compte des conditions à l'article 31 de TRIPS. D'autre part, du point de vue des règles de compétition hongroises, le refus de conclure un contrat de licence peut être considéré comme abus de la position économique dominante. Le Groupe hongrois propose dans ces cas de choisir pour la norme une technologie alternative, sans protection de droits de propriété industrielle.

Le Groupe hongrois est de l'avis que les licences nécessaires aux normes devraient être irrévocables sauf en cas de quelques circonstances exceptionnelles.

Selon la proposition du Groupe hongrois, une politique sur les droits de propriété intellectuelle devrait contenir les éléments fondamentaux suivants :

- une déclaration sur la responsabilité des membres d'informer en temps dû l'organisation de standardisation sur les droits de propriété industrielle dont ils prennent conscience;
- des dispositions pour assurer la disponibilité la plus grande possible de licences (par exemple par voie d'un "undertaking") ainsi que des dispositions sur le procédé á suivre en cas de manque de licence;
- des règles du procès d'arbitrage interne;
- des règles concernant la contravention de la politique à suivre;
- des règles sur la confidentialité.

Le Groupe hongrois est de l'avis qu'il faudrait élargir l'activité des organisations de standardisation portant sur l'identification des droits essentiels de propriété industrielle, notamment par de propres recherches de brevets et de recherches portant sur l'exclusion de contrefaçon de brevet. Il serait aussi souhaitable de faciliter la révélation et l'identification prématurés des droits de propriété industrielle.

Zusammenfassung

Die ungarischen nationalen de jure Normen werden durch eine öffentliche Körperschaft, das Ungarische Norminstitut ausgearbeitet und veröffentlicht. Falls durch Rechtsvorschriften nicht anders geregelt, ist ihre Anwendung freiwillig. Die Anwendung von obligatorischen nationalen de jure Normen kann durch bestimmte Rechtsregel unmittelbar vorgeschrieben werden, während der Anwendungszwang für freiwillige nationale de jure Normen durch verschiedene Behörde indirekt erwirkt werden kann. Marktkraft ist ebenfalls ein sehr wirksames Mittel zur Erzwingung der Anwendung von de jure und de facto Normen. Internationale und europäische Normen werden in Ungarn nur dann gültig, wenn sie das Ungarische Norminstitut als ungarische nationale de jure Normen veröffentlicht.

Die Ungarische Landesgruppe ist der Ansicht, dass bei der Ausarbeitung von Normen die geistlichen Eigentumsrechte mit Nachdruck berücksichtigt werden sollen, damit ein Gleichgewicht zwischen dem Allgemeininteresse und den Interessen der Inhaber von geistlichen Eigentumsrechten sichergestellt ist. Es sind die Normorganisationen, die die relevanten geistlichen Eigentumsrechte erschliessen und identifizieren sollen. Die Organisationsmitglieder sollen angefordert werden, ihre relevanten geistlichen Eigentumsrechte darzulegen. Die Regeln für die Darlegung relevanter geistlichen Eigentumsrechte der Mitglieder sollen in Richtlinien der Organisation für Behandlung von geistlichen Eigentumsrechten vorgeschrieben werden.

Die Möglichkeiten, den Inhaber eines geistlichen Eigentumsrechts zur Lizenzgabe zu zwingen, werden von der Ungarischen Landesgruppe als äusserst beschränkt erachtet. Die gerichtliche Verordnung von Zwangslizenzgabe wegen Nichtbenutzung kann nur dann erfolgen, falls dafür die Voraussetzungen gemäss TRIPS, Art. 31 vorliegen. Andererseits kann die Verweigerung der Lizenzgabe nach Vorschriften des ungarischen Wettbewerbsrechts als ein Missbrauch der dominierenden ökonomischen Stärke angesehen. Die Ungarische Landesgruppe ist der Meinung, dass für die Norm in derartigen Fällen eine alternative technologische Lösung, die das geistliche Eigentumsrecht verletzt, gewählt und zugrunde gelegt werden sollte.

Die Ungarische Landesgruppe vertritt den Standpunkt, dass Lizenzen von normrelevanten geistlichen Eigentumsrechten von Ausnahmefällen abgesehen unwiderruflich sein sollen. Die Lizenzen sollen die Herstellung, den Verkauf, das Leasing, die Reparation, die Verwendung und den Betrieb ohne unberechtigte Beschränkungen erlauben. Eine Bereitschaftserklärung zur Lizenzgabe ist eine einseitige, unwiderrufliche Erklärung, dass ein Lizenz für jedermann erhältlich ist.

Für die Richtlinien zur Behandlung von geistlichen Eigentumsrechten werden von der Ungarische Landesgruppe die folgenden wesentlichen Elemente vorgeschlagen:

- Festlegung der Verantwortung der Mitglieder, die Normorganisation über relevante geistliche Eigentumsrechte, von denen sie Kenntnis haben, rechtzeitig zu informieren,
- Bestimmungen für ein bestmögliches Sicherstellen der Verfügbarkeit von Lizenzen (z.B. mit Hilfe von Bereitschaftserklärungen), sowie Bestimmungen für die Verfahrensweise in Fällen, falls Lizenzen nicht erlangbar sind,
- Regeln für interne Streitfallprozessführung,
- Regeln bezüglich der Verletzung der Richtlinien, sowie
- Konfidenzregeln.

Der Meinung der Ungarischen Landesgruppe nach wäre eine Erweiterung der Tätigkeit der Normorganisationen bezüglich der Erschliessung und der Identifikation von relevanten geistlichen Eigentumsrechten, insbesondere durch eigenes Durchführen von Patentrecherchen und Recherchen bezüglich Patentfreiheit, erforderlich. Die frühzeitige Darlegung von geistlichen Eigentumsrechten und die möglichst frühzeitige Identifikation von relevanten geistlichen Eigentumsrechten wären ebenfalls erwünscht.