



# IPR and Standards: Legal Considerations

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## Antitrust Issues that Arise When Patented Material Is Incorporated into a Standard

- n Patented technology may be incorporated into standards
- n Need to balance the rights of the patent holder with the ability of others to implement the standard

Patent holder has a government-granted monopoly to exploit its patented technology

Patent holders cannot be forced to share those rights



# Patents and Standards

If patented technology is incorporated into a standard without the patent holder's agreement to share its patent rights, then the patent holder may be the only entity able to comply with the standard

- 1 This may cause unfair competition concerns because the patent holder's market power would be enhanced beyond what would result solely from owning the patent



# Patent Policies

- n Standards developers adopt patent policies address this situation
- n Current patent policies at ANSI, ISO/IEC and ITU request that patent holders of technology essential for implementation of the standard provide a patent statement

The statement provides an assurance that either

- 1 1. A license to use the technology will be made available to applicants without compensation to the patent holder, or
- 1 2. A license will be made available on reasonable and non-discriminatory terms and conditions



# Patent Policies

- n In essence, implementers of the standard obtain access to use the technology and the patent holder receives a reasonable royalty for such use (on a non-discriminatory basis)
- n If the patent holder refuses to submit a patent statement and comply with the Patent Policy, then the standards body is encouraged to seek an alternative approach in the standard



## Recent Court Decisions Involving the Alleged Abuse of Patent Rights

- n Patent Policies are essentially self policing
- n There are incentives built into the system to prevent a company from keeping silent until the standard is finalized and then, after the standard becomes a *de facto* marketplace standard, announce its patent rights

- n The risks are that

The approval of the standard is subject to withdrawal, often rendering the company's innovation relatively useless

Competitors can avail themselves of their legal rights in court

- 1 The Patent Statement confers a type of third-party beneficiary rights on implementers of the standard
- 1 Patent holder can be forced to forgo licensing royalties under a patent misuse scenario

In the case of deliberate misconduct, the FTC can intervene



# *FTC v. Dell Computer Corp.*

- n *In re Dell*, slip op., No. 931-0097 (LEXIS, Trade Library, FTC file)

- n Background Facts

- VESA (Video Electronics Standards Association)

- 1 Dell engineer certified that he had no knowledge of any related Dell patents

- 1 VESA Patent Policy

- VESA's stated intent was to develop patent-free standards and there allegedly were technically-equal free alternatives

After the standard was finalized and in use, Dell began to assert patent rights

The Federal Trade Commission (FTC) brought an action against Dell



# Dell

## n Proposed consent decree (4-1 vote)

Dell prohibited from enforcing its patent rights vis- - vis implementations of the standard

For a period of 10 years, Dell prohibited from enforcing any patent rights in connection with a standard if, in response to a written inquiry from the standard-setting organization to [Dell s] designated representative, [Dell] intentionally failed to disclose such patent rights while such industry standard was under consideration

Also for 10 years, Dell must maintain a procedure for complying with the above





## *De11*

- n Snake in the grass scenario
- n If other ways to comply with the standard, any market power would be due to the patent

Here, intentional misconduct resulted in additional market power due to the standard



## De11

- n FTC called for public comments
- n ANSI agreed that an intentional manipulation of the process to gain a competitive advantage is not acceptable

ANSI noted concerns, however, if this consent agreement were interpreted to

- 1 Address also an unintentional failure to disclose a patent interest or
- 1 Impose an affirmative obligation on companies to research exhaustively their patent portfolios or risk losing their right to seek royalties



## De11

### n Affirmative duty to search

As a practical matter it often is not possible or practical

- 1 Companies with large portfolios would choose not to participate in standards activities rather than risk losing any of their intellectual property rights

May be used against the United States in international standards fora

- 1 Prior ETSI scenario — disclose it or lose it policy that the U.S. successfully challenged

### n Participants should only be required to disclose patent rights of which they have personal knowledge



## *Dell*

- n The FTC subsequently issued a Statement clarifying that the consent order was limited to its specific circumstances presented in the case

It emphasized that it was not intending to signal that there is or should be a general duty to search for patents when a company engages in a standards-setting process

- n One Commissioner submitted a Dissenting Statement asserting that the factual record was incomplete and that there was no allegation that Dell acquired the power to control prices and output in a relevant antitrust market



# *Townshend v. Rockwell International Corporation*

- n 2000 U.S. Dist. LEXIS 5070 (N.D. Cal.)
- n Plaintiff Townshend obtained a patent relating to 56K modems
- n Townshend licensed U.S. Robotics (now part of 3Com)
- n Townshend sued Conexant (formerly Rockwell Semiconductor Systems) for patent infringement
- n Conexant asserted, among other things, that Townshend and 3Com violated the antitrust laws

Claimed that Townshend and 3Com lobbied the International Telecommunications Union (ITU) to adopt an industry standard that embodied Townshend's patented technology

Argued that the proposed licensing terms were essentially not on reasonable and non-discriminatory terms and conditions

Compared situation to *FTC v. Dell*



# Townshend

- n Court noted that ITU does not consider the substance of the licensing provisions in deciding whether to adopt a standard — only whether the patent holder is willing to negotiate such terms on a reasonable and non-discriminatory basis
- n Court further noted that 3Com did indicate such willingness to the ITU and even provided the key terms and conditions to the ITU prior to the standard's approval

Rockwell (Conexant's predecessor) was an ITU member at the time and had access to this information

The adoption of the V.90 standard by the ITU suggests that the ITU was satisfied that the proposed terms submitted by 3Com evidenced a willingness by 3Com to negotiate non-discriminatory, fair, and reasonable terms.



## Townshend

- n Court reviewed the licensing terms and conditions and found that they did not state an injury to competition
  - n Distinguished this case from the facts in *FTC v. Dell*  
*Dell* involved the allegedly deliberate non-disclosure of the patent rights
    - 1 Here, 3Com provided full disclosure and appeared to have complied with the ITU Patent Policy
- In the *Dell* situation the standards-setting body was choosing among options and, had they known of the Dell patent, they likely would have chosen differently



## *Rambus v. Infineon*

- n Rambus commenced several lawsuits against several chipmakers asserting that in implementing a JEDEC standard they were infringing on Rambus patents

In some of these cases, the defendant counterclaimed that Rambus had engaged in fraudulent/anticompetitive activity vis- - vis the standards-setting activity

- n The lawsuit against Infineon just concluded in the U.S. District Court for the Eastern District of Virginia

The Court there dismissed all of Rambus infringement claims

On May 9, 2001, a jury found for Infineon on its counterclaim and awarded Infineon \$3.5 million in damages





# *Rambus*

- n The JEDEC standard was intended to be open (i.e., not subject to any company's proprietary intellectual property)
  - The JEDEC patent policy applies to pending and approved patents
- n Evidence was presented at the trial that convinced the jury that Rambus tried to steer the committee toward a standard that secretly favored its proprietary technology without disclosing that it had filed patent applications on such technology
- n In addition, Rambus allegedly proceeded to modify its patent applications so that they would continue to map to the evolving standard



# ANSI Patent Group

- n Formalized into a Committee of the Institute several years ago
  - Open to all ANSI members
  - Currently chaired by Dan Bart (TIA)

- n Among other things, the Patent Group provides guidance and leadership in formulating ANSI positions as to any proposed changes to the ANSI and ISO/IEC Patent Policies

The Patent Group also monitors Patent Policy developments in fora such as the ITU because changes there tend to be a precursor to proposed changes at ISO/IEC

Vigilance is also desirable because there have been occasions when other areas of the world sought to institute a policy change that would disadvantage U.S.-based companies with valuable patent rights



# Recent “Hot Issues” Regarding Patents and Standards

- n Proposed expansion of the Patent Policy to cover proprietary, copyrighted material such as source code/software that is normative
- n Proposed express permission to require reciprocity as a condition of licensing
- n Proposed duty to search patent portfolio
- n Review of proposed licensing terms and conditions
- n Pending patents issue



# Copyrighted Material

- n Current proposal that proprietary, copyrighted material such as source code/software be treated the same as patented technology under the ITU Patent Policy
- n The Patent Group has raised certain concerns about this proposal:
  - Legal issues relating to copyrighted material (as opposed to patent material) are different
  - Standards often can be written around copyrighted material using performance-based requirements
  - Many copyright holders appear to be able to obtain a related patent when the material represents something more than one method of implementation of a standard
  - Issue has been addressed effectively in the past on a case-by-case basis
  - First step down a possibly slippery slope



# Copyrighted Material

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- n ISO and IEC have not yet developed or approved any policy relating to copyrighted technology such as source code/software



# Reciprocity

- n Interpretation of the requirement that patent holders agree to license on reasonable and non-discriminatory terms and conditions does not mean that all licensees must have exactly similar license agreements

Situations such as when there are cross-licensing terms  
Issue is overall fairness and reasonableness



# Reciprocity Issue

- n ITU proposal would formalize what has been a commonly accepted practice in the past
- n A patent holder can agree to license on reasonable and non-discriminatory terms and conditions, but it can also condition the granting of any such license to a would-be licensee

Licensee must agree to license the patent holder to use any essential patented technology held by the licensee on reasonable terms and conditions or otherwise in conformance with the Patent Policy



# Reciprocity Issue

- n ANSI Patent Group agrees with the general concept  
Any delineation of such a reciprocal pre condition to licensing must expressly be limited to patents essential to the implementation of the same standard





# Duty to Search Issue

- n Individuals participating on a technical standards committee are not required to certify on behalf of their employer that their employer either has or does not have essential patents

Participants must disclose truthfully any information regarding essential patents of which they are personally aware

Snake in the grass scenario is what is prohibited



# Review of Licensing Terms and Conditions

- n Absent an appeal, the technical committee and the standards developing organization should not review any proposed licensing terms and conditions to determine if they are reasonable and non-discriminatory.
- n Patent statement representations sets up adequate third-party beneficiary relationship to enable would-be implementers of the standard (licensees of the patented technology) to enforce their rights in this regard.



# Pending Patents

- n ANSI's Patent Policy does not apply to pending patents applications

Disclosure not required due to

- 1 Confidentiality issues
  - 1 Possible modifications to the patent prior to approval
- n This is currently being reassessed by the Patent Group
- n ISO/IEC's Patent Policy applies to publicly published patent applications only

