

## **A RESPONSE: GOVERNMENT GUIDELINES SHOULD NOT BE ISSUED IN CONNECTION WITH STANDARDS SETTING**

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This is a response to the proposal by David Balto and Daniel Prywes in favor of FTC Guidelines (the “Proposed Guidelines”) being issued in connection with using patented technologies in the development of technical standards. Based on my 25 years experience in technical standards development, I believe that, not only are enforcement Guidelines not necessary, but if adopted, they are likely to have the opposite effect than what was intended. Rather than enhancing competition, imposition of government guidelines would more likely stifle competition, inhibit innovation and impede economic growth.

### **Preliminary Comments**

As an initial matter, it is important to point out that for decades standards development organizations (SDOs) have been developing standards that involve patented technologies for their implementation. Moreover, it is incorrect that industry participants – and their counsel – are deprived of guidance in accommodating patents in the development of standards. SDOs as early as the mid-1980s developed guidelines for such purposes. In 1992 the American National Standards Institute (ANSI) Patent Committee issued guidelines for the implementation of the ANSI Patent Policy. The ANSI Guidelines are available through the ANSI web site and provide extensive guidance for properly balancing the various interests of all participants in the standards development process – patent holders, industry participants, other stakeholders and the SDOs themselves.

It is also important to note that the number of disputes that exist in connection with the inclusion of patented material in standards, while the subject of much discussion and press, remains very small when viewed in the context of overall standards development. In addition, it is interesting to observe that the disputes that have arisen have not been in the context of ANSI accredited SDOs, but have come about under patent policies that differ from the ANSI policy in very important ways – such as incorporating provisions that mirror some of the proposals set out in the Proposed Guidelines. It is an interesting question, therefore, whether the result of adopting such guidelines will do nothing more than lead to further litigation, which itself will be a negative development for purposes of effective standards development.

Also, I believe that a single set of uniform guidelines will deprive the U.S. of its current flexibility in developing standards according to different processes and policies that in turn are driven by the objective of the particular standards project and the related market factors. For example, JEDEC, which develops standards for the semiconductor industry and which is concerned specifically with how patents are used in that industry, has a current policy focus, as explained in the January 2002 issue of its “Solid State Times,” to develop what it considers to be

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“open” standards – i.e., standards that it defines as “free of restrictive intellectual property.” This approach, however, is not a universally accepted position. To the contrary, many of the leading technology SDOs recognize that patented technology often reflects the best technical alternative for a standard, and therefore patent owners should be provided the incentive to have their technology included in the standard.

## **Specific Proposals**

The specific Proposed Guidelines raise very specific problems as well.

1. Mandatory Disclosure of Patents and Patent Applications that “Might” be Relevant. Imposing this duty would go a long way toward chilling effective standards development. Simply put, companies participating in standards development that have potentially relevant patents, or that have pending applications which might ultimately evolve into a patent that in turn might be relevant, will likely not wish to bear the cost necessary to comply with this obligation or face the potential liability for an inadvertent error of compliance. Based upon my own experiences, with a leading participant in standards development who owns a large number of patents, it absolutely is a consideration that is taken into account in determining whether to participate in a particular SDO’s activities.

The Proposed Guidelines also do not adequately acknowledge the complexities of the standards process. For example, to impose a duty to disclose any patents that “might” be relevant creates a continuing nightmare because a developing standard may go through many iterations before it ultimately results in an approved standard. Such a duty would require a patent owner to make a determination at each stage of the process as to what patents “might” be relevant. Not only would this inherently entail a subjective decision that might not be universally agreed upon, but would require tremendous resources. In addition, what might be even a greater negative would be that such a process would invariably lead to more disputes in the standards process, and thereby slow standardization.

Another problem is that such a vague, ambiguous standard could lead to overly broad and generally useless disclosures. Because patent owners would be uncertain whether disclosure would be required, they would err on the side of disclosing too many patents, thereby creating confusion and slowing the standards development process. This problem would be compounded if the standard were extended to patent applications that “might” be relevant.

Patent applicants who are required to disclose unpublished applications would also face disincentives from participating in the process, especially if such disclosure was mandated before it is even clear what the standard’s and the patent’s final scope will be. In addition, the dynamism of the patent approval process would place applicants at a competitive disadvantage if they were required to disclose applications. Claims set forth in an application may not be the same as those that are ultimately reflected in the issued patent, and premature disclosure may hinder the patent owner’s ability to enforce and defend its lawfully obtained patent in subsequent proceedings.

It is also important to understand that the individuals who attend standards meetings may not have any specific knowledge concerning their company's patent portfolios. A standard of what that person knows or reasonably should know is so uncertain there will be no ability for standards development participants to determine in any meaningful way whether or not they are in compliance.

Finally, the suggestion that copyrighted and trademarked technology should be subject to mandatory disclosure obligations is dangerous. This suggestion reflects a lack of appreciation of the very important difference between the protections afforded under the copyright and trademark laws, as compared to the patent laws. The issue of copyrights has been discussed for a number of years by industry, specifically in the ANSI Patent Committee, and except in connection with a very limited circumstance involving standardization of copyrighted computer software algorithms, no support for adopting any policy in connection with copyrighted technology has existed. Even in the limited circumstance mentioned, the ANSI community has taken the position that no policy should be adopted. This position was reflected in the U.S. comments that were submitted to the ITU in connection with this issue. The reason for this approach is that a copyright only protects the expression of a specific idea, whereas a patent protects the practice of an invention itself. Accordingly, the extension of a policy relating to patented material to also cover a specific copyrighted expression is not necessary because the same invention typically can be expressed in different ways. This same principle would apply with even greater force in connection with trademarks.

2. Early Disclosure. Voluntary early disclosure of patent rights can be beneficial to the standards process. It is addressed in the ANSI Guidelines and many SDOs, based on the ANSI Guidelines and good counseling, have adopted procedures that encourage early disclosure.

However, problems will arise if a mandatory obligation of early disclosure is imposed and these problems are magnified if early disclosure of patent applications is required. Applying mandatory obligations would expose standards participants to uncertainty and possible liability to the extent that they may opt to commercialize their technology through alternate means. It is also very difficult to establish a clear point during the standards process, other than prior to the adoption of the standard, when the disclosure obligation would be triggered.

3. Duty to Search. As reflected in the Proposed Guidelines, there currently is no inherent duty to search and most SDOs do not impose such a duty. The cost of doing so for companies with even modest patent portfolios could be prohibitive. Yet, the proposals relating to mandatory disclosure would compel such a duty to search. Specifically, to comply with a duty to disclose information that a company or its representatives know or reasonably should know will invariably lead to repeated searches of a company's patent portfolio. Otherwise, the potential for later legal claims and potential liability would be enormous. To support a claim someone would just have to allege that the patent owner should have known of the extent of its property and that it would have been reasonable for it to search. Like many other situations, the fact that this may not be an accurate position would not diminish the likelihood of related lawsuits being filed.

Imposing governmental guidelines to address “deliberate” conduct regarding the withholding or insulating of relevant information would also be a mistake and unnecessary. First, a patent owner has the right to disclose or not to disclose whatever information it wants concerning its patents. A mandatory obligation of disclosure may be viewed as taking away those rights. Second, based on the recent cases and proceedings involving standards conduct, a variety of legal remedies exist to address abusive conduct. A generalized government guideline will not add any clarity to the situation; to the contrary, it will just add to the issues for litigation.

4. Mandatory Disclosure of Patent Applications Relating to Refinements Made in Standards Under Development. Any government rule or guideline in this regard would be wholly meaningless. Standards participants, to protect their interests, would simply make generalized statements of future intent. This in turn will lead to nothing but discussions regarding disclosure rules and their application, rather than the substantive work of the SDO. Here again it seems that existing legal and equitable principles, such as patent law principles relating to novelty and inventorship, will better provide the protection necessary to guard against unlawful abusive conduct.

5. Permissive Discussion of License Terms. This proposal reflects a misperception of how potential license terms are discussed. First, more often than not, patent owners provide statements that if they have patents that are essential to the implementation of the standard being developed they will license such patents on reasonable nondiscriminatory terms. Then, outside of the activities of the SDO, individual standards participants are able to approach the patent holder to inquire of available licensing terms. The patent holder is also free to publicly state what its license terms will be. To the extent the patent holder does not make such a statement, or declines to engage in discussions with individual standards participants, it is always the discretion of the standards participant to not support the patent holder’s technology or to propose an alternative technology to the standards developing committee. Ultimately, a consensus will establish what technology to support. The discussion in the SDO, however, should be focussed on technical issues – not licensing terms and conditions. Otherwise, individuals who are not knowledgeable about or authorized to make decisions about licensing terms will be placed in a position of having to do so. SDOs could also face potential claims of facilitating anticompetitive conduct.

Issuing a government guideline stating that a technology should be rejected if a patent owner declines to disclose license terms before adoption of a standard would also set a bad precedent. It would impinge on the rights of patent owners and thereby create another disincentive for their participation in the standards process. In addition, it must be recognized that while many patent owners do state what their license terms will be even when a standard is in its formative stage, sometimes it is not possible to do so because the evolution of the standard may result in a very different end result than was originally contemplated. Such changes would legitimately alter the license terms the patent owner may wish to offer.

6. Permissive Joint Negotiations of License Terms. For the same reasons as just stated, discussion of license terms in an SDO is a bad idea. This proposal also raises further problems because it would essentially allow an industry to impose license terms on a patent

owner. One can only assume that the industry participants, many of whom will be competing with the patent owner to make the ultimate standardized product, will seek to impose license terms most favorable to them. But a patent owner has a right to license or not license, and to establish the terms of its licensing. As stated above, if the patent holder refuses to disclose terms or its terms are unacceptable, the participants in the process are free to propose and support alternative technology. Requiring specific terms, however, will be equivalent to a compulsory licensing approach, which most likely will undermine the use of any patented technology in standards.

7. Limiting Licensing Conditions. The suggestion that licensing terms in connection with standards should be limited solely to the practice of the standard is wholly impracticable. Standards are not developed in isolation. The participants in standards bodies are typically engaged in aggressive competition with each other in the marketplace, and licenses are based on many factors arising from innumerable varied relationships. Imposing an artificial constraint on competition by limiting what may or may not be licensed because a standard is involved should not be the role of the FTC.

8. Patent Cross-Licensing. This proposal is equally impracticable, and it too will impinge on the rights of patent holders in a way that will drive them from standardization activity. First, confidential information will be required to be disclosed. Second, this proposal suggests that there is some problem if a firm with a cross-license with the patent owner is able to practice the standard under different terms than a firm that is not in a position to enter a cross license. The value of what is cross-licensed to the patent owner, however, has a value that may far exceed a royalty payment by another firm that has nothing to cross license. It is for this reason that it has always been recognized under the ANSI Patent Policy that licensing under non-discriminatory terms and conditions does not mean that each license must be identical. This point should be self-evident once the complexities of standards development, combined with the complexities of patent licensing, are appreciated.

9. Patent Pooling. Here, again, it is unclear why any formal guidelines are necessary. In recent years, industries adopting patent pooling arrangements have done so with the assistance of sophisticated legal advice and under the watchful eye of government. The DVD and MPEG patent pools are examples.

10. Alternative Dispute Resolution (ADR). SDOs should not be involved in efforts to resolve disputes relating to patents or licensing terms. Playing such a role would turn the SDO into a licensing and negotiating body, rather than one that seeks the timely and efficient development of technical standards. Further, just as in many other situations, ADR may be appropriate in some situations, but it may not be in others. Given this, there is no reason that the FTC should direct such a course of action.

Finally, I would note that some of the proposals reflected in the Proposed Guidelines are reminiscent of proposed implementations of patent policies in the international arena made several years ago that arguably were being made to compel licensing of U.S. technology to foreign competing interests contrary to the rights of patent holders. I would caution against our

own government setting forth guidelines that could be used to possibly disadvantage U.S. competitive interests abroad.

## **Conclusion**

I strongly believe that the standards development process in the U.S. and internationally, is effective, including the manner in which it addresses the inclusion of patented material. For many years the standards community has been cognizant of the issues that exist in connection with using patents in the development of standards, and these issues have been considered and addressed. Industry guidelines have also been developed, and highly sophisticated counseling is available from legal sources who are intimately familiar with all the vagaries of the issues.

Thus, the Proposed Guidelines are not a starting point. They raise issues that have long been discussed and rejected because they would hinder standards development, its competitively advantageous aspects and attendant benefits to consumers.