Morgan Lewis

THE FUTURE OF STANDARD SETTING

CENTER FOR THE PROTECTION OF INTELLECTUAL PROPERTY'S SIXTH ANNUAL FALL CONFERENCE

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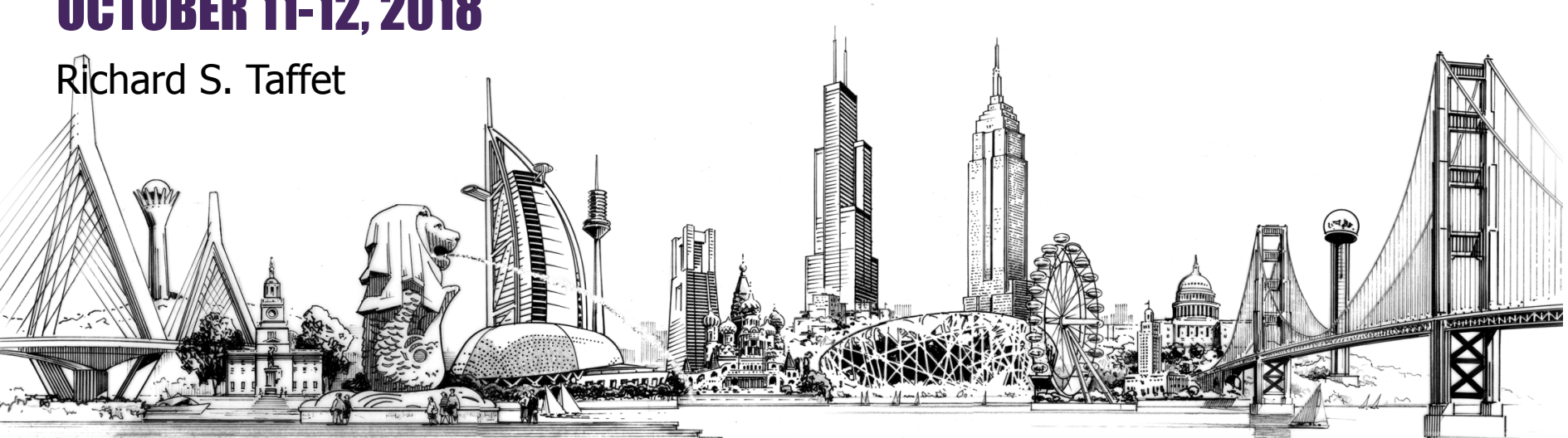

Diverse Approaches to Standard Setting

- **Standard setting will continue to take place in a range of global and regional fora with different approaches to IPR**
  - **Global partnership projects** (e.g., 3GPP, oneM2M)
  - **Industry-specific Standards Development Organizations ("SDOs") with diverse patent policies** (including as facilitated by ANSI's flexible Patent Policy)
  - **Industry consortia and Special Interest Groups ("SIGs")** (e.g., Bluetooth SIG)
- **Balanced IPR Policies are ever more important to promote competition and innovation, and should be market – not government – driven**
  - "Across industries, we expect that patent policies and the requirements for the inclusion of patented technology in a standard will vary depending on the technology in question. By contrast, … advocacy by government agencies in recent years could lead SSOs to adopt a uniform approach to articulating specific commitments necessary for inclusion in a standard – an approach that may be skewed too far in the direction of implementers. This unfortunate trend should not continue." (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), The "New Madison" Approach to Antitrust and Intellectual Property Law at 12 (Mar. 16, 2018))

Global Partnership Projects

- **Organized to develop global standards based on consistent technical and policy approaches**
- **Individual members are bound by the IPR Policies of their respective Organizational Partners**
  - Individual members declare to their respective Organizational Partner any IPRs which they believe to be essential, or potentially essential, to any work ongoing within the partnership project (e.g., 3GPP Working Procedures Article 55)
  - Organizational Partners encourage their members to offer licenses for their SEPs on fair, reasonable terms and conditions and on a non-discriminatory basis to implement the standard. (*Id.*)
- **Global partnership projects require harmonization and consistency of Organizational Partners' IPR policies to support the global availability and interoperability of standardized products – consistency of IPR policies is necessary to avoid conflicting obligations in different jurisdictions.** (e.g., oneM2M Partnership Agreement, Annex 1, Arts. 1, 3.1)

Global Partnership Projects: Examples

- **Third Generation Partnership Project (3GPP)**
  - Almost 600 participating members
  - 7 Organizational Partners: ARIB (Japan), ATIS (U.S.), CCSA (China), ETSI (Europe), TSDSI (India), TTA (Korea), and TTC (Japan)
  - Develops technical specifications for 3G WCDMA (UMTS), 4G LTE, and now 5G standards
- **oneM2M**
  - Almost 200 participating members
  - 8 Organizational Partners: ARIB (Japan), ATIS (U.S.), CCSA (China), ETSI (Europe), TIA (U.S.), TSDSI (India), TTA (Korea), TTC (Japan)
  - Develops technical specifications for machine-to-machine (M2M) communications systems

ANSI-Accredited SDOs

- **ANSI – umbrella organization with more than 1,000 members, accredits SDOs to create and maintain American National Standards**
  - 241 ANSI-accredited SDOs have issued more than 12,000 American National Standards, covering a wide array of industries, products, and activities
  - ANSI-accredited SDOs are required to implement ANSI's "Essential Requirements: Due Process Requirements for American National Standards" to ensure principles of openness and due process are followed
  - ANSI's Patent Policy is part of the ANSI Essential Requirements

ANSI's Patent Policy

- **Flexible and balanced approach**
  - ANSI-accredited SDOs use the ANSI Patent Policy as a foundation to develop their own patent policies based on their objectives and the interests of their members
  - ANSI determines whether each SDO's policy sufficiently complies and aligns with ANSI's Essential Requirements, including the ANSI Patent Policy
  - In practice, most ANSI-accredited SDOs have adopted the ANSI Patent Policy verbatim, or in substantively equivalent form
  - ANSI's flexible, hands-off approach avoids one-size-fits-all guidelines that would stifle competition, including competition among SDOs

Evolution of ANSI's Patent Policy

1932

"As a general proposition **patented designs or methods should not be incorporated into standards.** However each case should be considered on its merits, and if a patentee be willing to grant right as will avoid monopolistic tendencies, favorable consideration to the inclusion of such patented designs in a standard[] might be given."

1967

Patented inventions may be incorporated into standards if the patent holder licenses "without compensation" or "under specified terms and conditions that **are demonstrably nonexclusionary**," which shall be "submitted for review by Institute counsel."

1970

Patented technology may be incorporated into standards if '**technical reasons** justify drawing up an American National standard in terms which include the use of a patented item." Royalty bearing licenses should be made available "under **reasonable terms and conditions that are demonstrably free of any unfair discrimination**."

1997

License terms and conditions **no longer** required to be submitted to ANSI counsel for review.

2007

License commitments **no longer** required to be in a form "approved" by ANSI.

Recent ANSI Decision on License Commitments

- **ANSI recently struggled to determine whether the specific wording of a license commitment accepted by an ANSI-accredited SDO (limiting license commitment to "wholly compliant" implementations of the standard), was consistent with the ANSI Patent Policy**
- **In a September 14, 2017 "Initial Decision," ANSI's Executive Standards Council (ExSC):**
  - Deferred to the SDO's acceptance of the license commitment using the "wholly compliant implementation" language (September 14, 2017 Initial Decision of the ANSI ExSC concerning statements from patent holders required by section 3.1.1 of the *ANSI Essential Requirements,* at 1)
  - Created new ambiguity by defining the term "wholly compliant implementation" to suggest that unless an SDO made a specific change in its patent policy to redefine terms, "wholly compliant implementation" by default would mean implementation that "meets all normative requirements for the individual component but is not required to meet all the other normative requirements of the standard." (*Id.* at 1–2)
- **Multiple appeals were filed challenging the Initial Decision, including because the proposed default definition of "wholly compliant implementation" threatened to upset the balance struck among the relevant stakeholders and overturn decades of industry practice and understanding with respect to license commitments.**

Recent ANSI Decision on License Commitments (cont.)

- **On February 23, 2018, ANSI's ExSC issued a "Summary Decision" addressing the appeals from the Initial Decision by:**
  - Denying any intention in the Initial Decision to create a default requirement to license at the component level:

    "We also take this opportunity to emphasize that paragraph 7 of the Initial Decision was not intended to create a 'default' interpretation of the ANSI Patent Policy requiring licensing at the component level. . . . We do not wish to express or imply any such 'default' interpretation and we leave it to negotiations between patent holders and implementers to decide what licensing terms are appropriate in particular standards, subject to the terms of an ASD's patent policy." (February 23, 2018 Decision of the ANSI ExSC Appeals Panel at 14)
  - Interpreting "wholly compliant implementation" to mean "only what the ANSI Patent Policy already requires – that the license be for 'the purpose of implementing' the standard. . . ." (*Id.*)
  - Providing notice that "ANSI w[ould] no longer accept customized statements of assurance (unless pursuant to an accredited, customized patent policy . . .) that deviate from the language of the ANSI Patent Policy." (*Id.*)
  - Establishing a Task Force to evaluate: (i) "whether there is a continuing need to require that SDOs submit statements of assurance to ANSI;" and (ii) "if so, to evaluate the feasibility of reinstating a simple, standardized form of assurance that includes a 'check the box' type of format." (*Id.* at 15)

ANSI Task Group Recommendations

- **On September 7, 2018, based on the Task Group's recommendation, ANSI published a proposed revision to the ANSI patent policy that would "remove the requirement that patent holder letters of assurance be submitted to ANSI" for ANSI's review and approval.** (ANSI Standards Action, Vol. 49, #36 at 43 (September 7, 2018))
- **The Task Group also developed an *optional* letter of assurance form, which reaffirms importance of ANSI's flexible approach:**
  - "Consistent with its desire to promote flexibility and innovation in standards development work, ANSI has no mandatory patent assurance form and does not require the use of this particular form by ASDs. . . . For the avoidance of doubt, an ASD is free, in accordance with its own ANSI-accredited procedures, to either recommend the use on a voluntary basis by its participants, or to require the use by its participants, of a particular patent assurance form. Nothing in this form is intended to limit an ASD's flexibility in this regard."
- **It remains to be seen how SDOs will implement ANSI's optional letter of assurance form -- whether they will seek to use the form as a means to foster licensing freedom, or to impose restrictions that might inhibit efficient standardization.**

Importance of Flexible, Balanced Approach

- **Formation of ANSI Task Group attracted the attention of DOJ – Letter from Assistant Attorney General Andrew Finch to ANSI's General Counsel:**
  - Cautioned that if ANSI adopted a standardized form of assurance, "depending on the options that are included and how they are worded," such standardized forms could "materially affect the rights of the patent holders who choose from among the available options, as well as the rights of implementers who wish to license technology subject to the available options." (March 7, 2018 Letter from Andrew C. Finch, Principal Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Patricia Griffin, ANSI Vice President and General Counsel, and Amy Marasco, Chair, ANSI IPRPC)
  - Repeated previous warnings that "the Antitrust Division will ... be skeptical of rules that SSOs impose that appear designed specifically to shift bargaining leverage from IP creators to implementers, or vice versa." (*Id.*)

Importance of Flexible, Balanced Approach (cont.)

- **Letter to ANSI was consistent with DOJ's recent emphasis on flexibility and balancing interests of innovators and implementers in standard setting:**
  - "[A]t SSOs, we hope to see a diversity of views represented on patent policy committees to give us confidence that patent policies are based on reasoned and unbiased decision-making. . . . As long as an SSO's IP policies are the product of a consensus or a clear majority that includes both standard-essential patent holders and implementers, the Department of Justice should have no reason for concern." (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), The "New Madison" Approach to Antitrust and Intellectual Property Law at 11–12 (Mar. 16, 2018))
  - "[B]ecause a key feature of patent rights is the right to exclude, standard setting organizations and courts should have a very high burden before they adopt rules that severely restrict that right or—even worse—amount to a de facto compulsory licensing scheme." (*Id.* at 5)

Importance of Flexible, Balanced Approach (cont.)

- **A flexible, balanced approach to SDO licensing requirements is therefore required to avoid raising concerns of harm to competition and innovation**
  - "[S]tandard setting only works—and consumers only reap the benefits of innovative and interoperable products—when both patent holders and patent implementers have the incentives to participate in the process. To that end, I have encouraged standard setting organizations to think carefully about the patent policies they adopt, so that incentives are not skewed towards one group or the other." (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), The Long Run: Maximizing Innovation Incentives Through Advocacy and Enforcement at 3–4 (Apr. 10, 2018))
  - SDOs should avoid mandating inflexible "licensing requirements that could skew incentives away from technological advancement . . . we must be careful that in our attempts to promote competition, we do not inadvertently stifle it." (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), Competition, Intellectual Property, and Economic Prosperity at 5 (Feb. 1, 2018))

Importance of Flexible, Balanced Approach (cont.)

- **Antitrust agencies have also begun to question whether potential for "hold-up" by innovators justifies efforts to limit the rights of SEP holders in standard setting, and whether potential "hold-out" by implementers is in fact a greater concern**
  - "I view the collective hold-out problem as a more serious impediment to innovation. Here is why: most importantly, the hold-up and hold-out problems are not symmetric. What do I mean by that? It is important to recognize that innovators make an investment before they know whether that investment will ever pay off. If the implementers hold out, the innovator has no recourse, even if the innovation is successful. In contrast, the implementer has some buffer against the risk of hold-up because at least some of its investments occur after royalty rates for new technology could have been determined. Because this asymmetry exists, under-investment by the innovator should be of greater concern than under-investment by the implementer." (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), Take It to the Limit: Respective Innovation Incentives in the Application of Antitrust Law at 5 (Nov. 10, 2017))
  - "… we agree with the Division that hold-out in the standard-setting process can raise serious concerns under antitrust law when such hold-out is the result of collusion among potential adopters/licensees." (Joseph Simons, Chairman, Fed. Trade Comm'n, Prepared Remarks at the Georgetown Law Global Antitrust Enforcement Symposium at 6 (Sept. 25, 2018))

Importance of Flexible, Balanced Approach (cont.)

- **Antitrust agencies also now agree there is no duty under the antitrust laws for a patent holder to license on FRAND terms, even after committing to do so**
  - "There is no duty under the antitrust laws for a patent holder to license on FRAND terms, even after having committed to do so." Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), Antitrust Law and Patent Licensing in the New Wild West at 7 (Sept. 18, 2018))
  - "To be clear, a FRAND commitment may create a duty under contract law to fulfill that obligation, and courts may be tasked with determining the relevant FRAND rate where parties disagree over this contract term. Section 2, however, is agnostic to the price that a patent-holder seeks to charge after committing to such a term." (*Id.* at 7)
  - "Transforming such a contract obligation into an antitrust duty would undermine the purpose of the antitrust laws and the patent laws themselves, both of which serve the same goal of increasing dynamic competition by fostering greater investment in research and development, and ultimately in innovation." (*Id.* at 8–9)
  - "We agree with the leadership of the Department of Justice Antitrust Division that a breach of a FRAND commitment, standing alone, is not sufficient to support a Sherman Act case, and the same is true even for a fraudulent promise to abide by a FRAND commitment." (Joseph Simons, Chairman, Fed. Trade Comm'n, Prepared Remarks at the Georgetown Law Global Antitrust Enforcement Symposium at 5 (Sept. 25, 2018))

Importance of Flexible, Balanced Approach (cont.)

- **SDO rules allowing innovators to share to some extent the increased social welfare created by standardization are necessary in order to secure incentives to innovate and contribute technology to welfare-enhancing standards development**
  - ". . . standard setting decisions are intended to be a recognition that a technology is superior to its alternatives. A favorable SSO decision, like a patent itself, is a reward for an innovator's meritorious contribution whose wide-ranging benefits can ripple throughout the economy, contributing to dynamic competition. Arguments that inclusion in a standard confers market power that could harm competition typically rest on the unreasonable assumption that the winning technology is no better than its rivals." (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), The "New Madison" Approach to Antitrust and Intellectual Property Law at 8–9 (Mar. 16, 2018))
  - "By voluntarily participating in the standard setting process . . . owners of rival technologies and prospective licensees assume the risk that the outcome of that process may have an exclusionary effect where there are patents covering the 'winning' technology. Simply winning selection by a standard setting process does not constitute unlawful exclusionary conduct under the antitrust laws. This is because that selection, regardless the reason for it, contributes to unification around a single standard, which creates interoperability benefits for consumers that could not be achieved without unification." (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), Antitrust Law and Patent Licensing in the New Wild West at 6 (Sept. 18, 2018))

Economic Efficiency of a Flexible Approach

- **ANSI's "hands off" approach recognizes economic efficiencies of keeping negotiation of commercial terms outside standardization process**
  - Assumption is that SEP owners will negotiate in good faith to reach commercial terms that best reflect each party's commercial priorities
  - "Incomplete" terms allow efficient adaption to specific circumstances and changes over time
  - If parties cannot agree, FRAND terms can be determined and enforced as a matter of contract law
  - Avoids risk of collusion among implementers, and liability exposure for SDOs
- **Existing incentives mitigate risks of hold-up**
  - Approved standard may be subject to withdrawal
  - Competitors can protect their legal rights if they believe that they are being unfairly disadvantaged
  - Intervention by the FTC or DOJ for cases of deliberate, deceptive misconduct
  - Risk of exclusion from future standards development, which is a "repeat" game

Diversity of Approaches Among ANSI-Accredited SDOs

- **Two ANSI-accredited SDOs have used flexibility afforded by ANSI Patent Policy to customize their patent policies to include restrictive requirements limiting the rights of innovators with respect to their patented technologies:**
  - VMEbus International Trade Association ("VITA") amended its patent policy in 2007 to require SEP holders to disclose the maximum terms that would be sought in licensing fees from implementers before any determination of what technology will be included in the standard
  - The Institute of Electrical and Electronics Engineers ("IEEE") amended its patent policy:
    - In 2007 to require holders of essential patents to disclose maximum royalty rates
    - In 2015 (i) to require essential patent holders to commit to offering licenses based on the "smallest compliant implementation" of a standard, (ii) to include a restrictive definition of "reasonable rate," and (iii) to prohibit licensors from seeking injunctions against parties allegedly infringing on the licensor's SEPs

Consequences of Implementing Restrictive Requirements

- **Changes to VITA Policy caused largest contributor of technology to VITA standards to withdraw because new policy was perceived as putting its standards essential patents at unfair risk** (Anne Layne-Farrar, *Proactive or Reactive? An Empirical Assessment of IPR Policy Revisions in the Wake of Antitrust Actions*, 59 ANTITRUST BULL. 373, 409–10 (2014))
- **2015 changes to IEEE Patent Policy resulted in marked increase in negative patent declarations to IEEE** (Ron D. Katznelson, *The IEEE Controversial Policy on Standard Essential Patents – The Empirical Record Since Adoption*, (October 29, 2016, updated March 2017), *available at* http://bit.ly/IEEE-LOAs)
- **Decline in positive license commitments "significantly jeopardis[es] the IEEE Standards Association as a venue for development of open technology standards that include significant patent intellectual property."** (Keith Mallinson, *Development of innovative new standards jeopardised by IEEE patent policy* at 1 (Sept. 2017) *available at* http://www.4ipcouncil.com/application/files/6015/0479/2147/Mallinson_IEEE_LOA_report.pdf)

Conclusion

- **Flexible and balanced approach – including as facilitated by ANSI's Patent Policy – promotes competition and innovation**
- **Diversity of approaches to IPR encourages competition among SDOs with different patent policies in the same industry, allowing" the more efficient regime to prevail."** (Makan Delrahim, Assistant Attorney General, U.S. Dep't of Justice (Antitrust Division), The "New Madison" Approach to Antitrust and Intellectual Property Law at 12 (Mar. 16, 2018))
- **VITA and IEEE illustrate risks of abandoning flexible, balanced approach in favor of more restrictive requirements**

THANK YOU