

STANDARDS, INTELLECTUAL PROPERTY AND ANTITRUST

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One of the theses of Libicki, Schneider, Frelinger and Slomovic's Scaffolding the New Web: Standards Policy for the Digital Economy (Rand, 2000) (paper distributed at symposium) is that intellectual property (IP) law may pose a high barrier to standard setting that is essential to digital economy. While this is an important issue, there are ways to work with IP in the standard-setting context.

- I. Background: Standard setting and IP necessarily involves interaction of IP law, antitrust law, and contract law.
 - A. The problem – There is a fundamental conflict between broad IP rights (the exclusive rights granted by patent/copyright/trademark law) and the necessity of interoperability in the digital economy. In creating standards, the challenge is to balance the individual ownership rights recognized by patent/copyright laws and competition values protected by antitrust laws.
 - B. Patent issues come into play where patented material is “essential” to the standard, i.e., adopters would not be able to implement the standard without infringing on the patent.
 1. The concern is that the holder of IP incorporated into a standard will be able to extract monopoly rents, thus raising costs and decreasing the likelihood that the standard will be widely adopted.
 2. The traditional rule is that you don't have to license to anyone to whom you don't want grant a license.
 - a. There have been exceptions made by the courts in some cases where interoperability was an issue – applicable antitrust theories may include the essential facilities doctrine (Intergraph v. Intel, 88 F. Supp.2d 1288 (N.D. Ala. 2000)) and monopoly leveraging theories. Courts may require licensing as a remedy in such cases.
 - b. ITI supported the principle of a patent owner's right to refuse to license its IP in the Xerox case before the Federal Circuit in 1999. See In re Independent Service Organizations Antitrust Litigation, 203 F.3d 1322 (Fed. Cir. 2000)
 - C. When there is a formal standard-setting process at work, antitrust concerns about manipulation of the process arise.
 - D. Note the difference between formal standard setting and situations in which a standard arises de facto in the marketplace, which was more the case with Intel and Microsoft.

1. Generally, there are different concerns when something becomes the standard through market dominance (e.g., DOS, IBM computer system architecture). When the holder of the IP that is the standard abuses that position, this can raise serious competitive issues.
 - a. To the extent that an IP owner makes interface/information available for free so that the technology will become a standard, then once the technology becomes a de facto standard ceases to license or offers to do so on unreasonable terms, there could be an antitrust violation.
 - b. Example – the Kodak ISO litigation, in which the court found that users had been “locked in” to using patented technologies. See Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997). But consider the more recent opinion of Federal Circuit in the Xerox case, In re Independent Service Organizations Antitrust Litigation, 203 F.3d at 1322.
2. A company’s behavior once it is in the position of holding access to IP contained in a standard is important. See U.S. v. Microsoft, 97 F. Supp.2d 59 (2000); In re Intel Corporation, 64 Fed. Reg. 14246 (1999).

II. What’s the legal framework?

A. Patent law

1. Patent law has its roots in the Constitution, which provides that “Congress shall have the power to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” (art. 1, § 8, cl. 8).
2. The law of patents is set out in the Patent Act, codified in Title 35 of the U.S. Code, which requires an inventor seeking a patent to prove that he/she has developed a novel, useful and nonobvious process or product.
3. The grant of a patent gives one the right to exclude others from making, using or selling the claimed technology for 20 years from date of filing.
4. Patent applications are secret during the period of review, which can take years.
5. Types of patents include utility patents, design patents, plant patents, and the business methods patent, which has recently been rejuvenated by the courts and has taken on tremendous importance in the digital economy.

B. Copyright Law

1. The law of copyright is codified in Title 17 of the U.S. Code.
2. Copyright law provides narrower protection than patent law – it merely protects “expression”, defined as the original arrangement of symbols of communication based on the creative choice of the author.
 - a. Copyright law does not protect “ideas,” processes/methods of operation or facts
 - b. Software is generally protected by copyright, but copyright law does not necessarily protect every element in software. For example, copyright may not protect process-driven interfaces, elements dictated by efficiency, elements dictated by external factors, etc.
3. The courts have often been reluctant to grant/enforce proprietary rights in aspects of software that are essential to achieving compatibility among systems or are incorporated into standards. Courts often try to write around the copyright or grant an implied license.
4. Copyright raises different issues than patent law, because it is often more difficult to define what is protected.
5. Some things that are copyrightable may ultimately be patentable as well.

C. Antitrust

1. The three major antitrust laws that affect standard-setting are the Sherman Act, the Clayton Act, and the Federal Trade Commission Act
2. The essential antitrust problem with standard setting, particularly in the trade association context, is that a standard adopted by a group of competitors that discriminates against/excludes/damages other competitors may violate the antitrust laws.
 - a. Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492 (1988) (violation of antitrust laws found where association recruited new members to vote for standard that excluded makers of plastic conduits).
 - a. American Society of Mechanical Engineers v. Hydrolevel Corp., 456 U.S. 556 (1986)(violation of antitrust laws found where members of association conspired to release interpretation of relevant code which was unfavorable to competitor).

3. It is interesting to note that IP and the antitrust laws are not always in direct conflict: the antitrust law has become increasingly focused on creating and safeguarding market conditions that promote innovation.
4. Standard-setting activities are usually analyzed under the rule of reason, which balances the anticompetitive effects of and procompetitive justifications for the conduct at issue.
5. The issue in the IP context is generally not the presence of IP in a standard, but how the IP came to be incorporated into the standard and how the IP rights are enforced.

III. How do we reconcile these legal frameworks in the standard-setting context? There are two ways to address the conflict between antitrust and IP rights in standard-setting -- post-hoc (as plaintiff or defendant in a law suit) or at the outset, by making sure that the standard-setting process is fair, access to proprietary information is not unduly limited, and the standards adopted have good technical support.

A. Post-hoc – The problem is that lawsuits are slow and expensive.

1. Antitrust lawsuits are lengthy and complicated and one usually needs affirmative anticompetitive behavior (U.S. v. Microsoft) or a merger for the government agencies to get involved.
 - a. The FTC is getting more involved in standard-setting issues. E.g., In re Dell Computer Corp., 121 FTC 616 (1995)(FTC brought suit under Section 5 of FTC Act when Dell failed to disclose that it owned the patent for VL Bus design incorporated into a Video Electronics Standards Association standard, and in fact represented that the standard did not infringe, and then attempted to enforce patent rights after the standard was adopted. As part of the settlement, Dell agreed not to enforce its patent).
2. Patent/copyright law – Patent law has more rigid doctrines than copyright law and thus provides stricter protections. Copyright presents tougher issues in the standard-setting context, but there are often ways to write standards around copyrighted materials due to the narrower protections it provides. But see Lotus Dev. Corp. v. Borland International, Inc., 516 U.S. 233 (1996) (spreadsheet interface copyrightable and infringed).
 - a. Doctrine of equitable estoppel – prevents enforcement of a patent where one misleads others as to one’s IP rights during the standard-setting process and then attempts to assert them after the standard has been adopted.
 - i. The elements of equitable estoppel are: (1) statements or actions that communicate information in a misleading manner; (2) reliance on the

communications; and (3) injury resulting from the reliance.

ii. E.g., Stambler v. Diebold, Inc., 11 U.S.P.Q.2d (BNA) 1709 (E.D.N.Y. 1988), aff'd, 11 U.S.P.Q.2d 1709 (Fed. Cir. 1988) (patent holder was member of ANSI committee that considered and adopted standard that read on its patent, but did not notify ANSI of fact; when patent holder sought to enforce patent against infringer, court held claims barred by laches and estoppel).

b. Doctrine of legal estoppel – may be used by the courts in some contexts to imply the grant of a license.

i. The elements of legal estoppel are: (1) the parties had existing relationship; (2) within that relationship one party transferred to other right to use technology; (3) for valuable consideration.

ii. E.g., Wang SIMM case -- Wang promoted adoption of standard incorporating patent while patent was pending, and failed to disclose existence of its pending application. Wang sued all adopters of standard, and most of them settled. Mitsubishi, however, fought and was found by a jury to have been given implied license based on encouragement by Wang to adopt standard/begin manufacturing and its actual adoption of the technology and commencement of manufacturing. Wang Laboratories, Inc. v. Mitsubishi Electronics America, Inc., 29 U.S.P.Q.2d (BNA) 1481 (C.D. Cal. 1993).

c. Patent/copyright misuse – provides a defense to infringement. This doctrine is similar to but may go beyond antitrust law and gives a court grounds to refuse to find infringement if public policy dictates. The parameters of the doctrine, however, are not always clear. Moreover, misuse can be cured by a disclosure of proprietary interest on the part of the IP holder and an agreement to license on fair and reasonable terms.

B. How do we avoid problems from the start? A proactive approach is the best approach.

1. The first issue to address is whether to adopt a standard that includes IP at all. The group could keep IP out of process altogether, for example by focusing on performance standards

rather than specific technologies, outcomes rather than how to achieve them.

- a. Copyright is special – there are often ways to write around copyrighted source code, but in some cases it must be included in the standard.
 - b. Note that one cannot automatically exclude technology from a standard just because it is patented, without any further evaluation or reasons for the exclusion. See In re American Society of Sanitary Engineering, 106 FTC 324 (1995) (FTC argued that policy of per se exclusion of patented technologies from standards process could result in exclusion of innovative products from market entry).
 - c. ISO policy – discourages use of proprietary (patented) IP in standards; incorporate only in “exceptional cases” where justified by “technical reasons.” ISO has no policy on copyrighted source code.
 - d. ANSI policy – permits incorporation of patented technology in standard if technical reasons justify approach. ANSI has no policy on copyrighted source code.
2. If the group chooses to adopt a standard that includes an IP component, then the group should focus on three issues: procedure, disclosure, and licensing.
- a. Procedure – Is the process fair?
 - i. Have everyone’s views been aired?
 - ii. Is there a sound technical basis for adopting a particular standard?
 - iii. Have these technical justifications been articulated?
 - iv. Addamax v. Open Software Foundation, 888 F. Supp. 274 (D. Mass. 1995) -- Standard-setting is not *per se* illegal. Plaintiff sued on theory that standard-setting process itself reduced market prospects and lost.
 - b. Disclosure – Have all ownership interests been disclosed?
 - i. It may be that even after IP claims have been disclosed, the group still wants to adopt a standard that includes IP (and pay), but everyone must have all the information at the outset.
 - ii. ANSI encourages disclosure by owners of patents that may be incorporated into a standard, but imposes no affirmative duty to search one’s patent portfolio. The group has no policy on copyrights.

- iii. ISO says patent owners have a duty to disclose ownership interest. The group has no policy on copyrights.
- iv. The Dell case implies that there is a duty to search for patents that must be disclosed. A stinging dissent by FTC Commissioner Azcuenaga argued that there was no proof in the case that Dell had intentionally misled competitors during standard-setting process, and the imposition of a duty to search could slow technological growth and chill participation the in standard-setting process.
- v. Affirmative representation vs. silence – silence can be just as bad.
- vi. The burden is on the proponent of a new standard to identify and disclose IP.
- vii. Must patent *applications* be disclosed? This is an open issue. ANSI says only patents must be disclosed, although it encourages the disclosure of patent applications. ISO says “published” applications must be disclosed, but does not require the disclosure of unpublished applications for confidentiality reasons.
- viii. Problem – It can be difficult to know early in the process whether specific patents will be implicated.
- c. License – there are different options available with respect to requiring licensing of IP incorporated into a standard, but you need a policy.
 - i. Option 1 – Require free licensing of any IP incorporated into a standard.
 - ii. Option 2 – Restrict terms upon which one can license IP incorporated into standard, e.g., require licensing on “nondiscriminatory” and/or “reasonable” terms (although there are often arguments over what these terms mean).
 - iii. ANSI and ISO combine these two approaches with respect to patented technologies incorporated as part of standards, requiring licensing for free or on nondiscriminatory and reasonable terms reached by negotiation of parties. The organizations do not generally review licensing terms for reasonableness absent a specific appeal.

- iv. “Nondiscriminatory” doesn’t necessarily mean the terms have to be the same for all comers.
- v. It is permissible to condition licensing on reciprocity for essential technology patents also incorporated into standard.

IV. Conclusions

- A. IP is not an insurmountable barrier to standards, but it is something that must be addressed at the outset. One needs to pay close attention to issues of process, disclosure, and licensing.
- B. IP policies may vary between different standard-setting organizations, but one needs to know the rules of the game.
- C. Most organizations are addressing the issue on an ad hoc basis right now.
- D. A final question to think about – what should the policy be on IP developed jointly as part of standard-setting process?