

IS THERE A NEED FOR GOVERNMENT REGULATION OF THE STANDARD SETTING PROCESS?

An Analysis of Underlying Realities

Andrew Updegrove

updegrove@lgu.com

Lucash, Gesmer & Updegrove LLP

Boston, MA

www.lgu.com

Abstract: *Any examination of the need for government regulation of the standard setting process must be predicated on a detailed understanding of the underlying situation. Currently, there is a wide divergence of practice among consortia and other standard setting bodies, accompanied by wide confusion among participating companies over best practices. This confusion arises from the absence of any perfect solutions for a number of crucial conflicts, and a diversity of opinion on where balance points should be found. From this confusion, a consensus on a range of appropriate intellectual property policy solutions is emerging. These solutions are based upon practical needs and realities, and derive from a recognition that the same solution will not apply to all situations. In such an environment of creative problem solving, it would be counter-productive for overly strict requirements or guidelines to be imposed. However, government support of the standard setting process accompanied by high-level guidance on safe and desirable behavior could be useful in encouraging broader participation in standard setting, as well as in facilitating a more rapidly emerging consensus on best practices.*

There was a time not so long ago when the intellectual property policies and procedures of formal and informal standard setting bodies were a matter of little interest. Many policies were not even reduced to writing, and disputes were rare. This state of benign indifference began to crumble as standards and specifications in the technology industry became more strategic, and as the likelihood of a standard's reading on a member or non-member patent increased. For many companies, the wake up call came in 1996 with the acceptance by Dell Computer of a Federal Trade Commission Consent Decree.

The basis for that sanction was a claim that Dell had participated in a standard setting process and had failed to disclose that it owned a patent which it believed would be infringed by any implementation of the specification under consideration. Only after the adoption of that specification and its initial commercialization did Dell identify its patent and assert a right to require royalties. The government asserted that such behavior was a violation of the antitrust laws, and as part of the consent decree, Dell agreed that it would grant a royalty-free license to any implementer of the specification. Had Dell

disclosed its patent during the course of the adoption process, it could have stated its intention to require a royalty from implementers, and the working group could have decided whether to write the specification in such a way as to avoid infringement, or knowingly adopt the specification subject to the royalty requirement.

The impact of the Dell consent decree was substantial as news of the facts and the penalty became widely known. The aftershocks of that impact are still being felt six years later, and only now is the technology industry beginning to achieve consensus on the proper way that a standard setting process should be conducted. The reason for this long delay is the fact that no perfect middle ground exists on several crucial issues, and the reality that only a slow (and often contentious) process can generate eventual agreement on how to construct a compromise policy to which all can agree - a process that is still not completed.

In order to address this situation, it is crucial to understand what is at stake from a business perspective, as well as the origins of some of the sources of confusion that have made the process so difficult. The following observations are based upon the author's experience in assisting many consortia in creating intellectual property rights (IPR) policies and procedures, and in negotiating the terms of these policies with the business and legal representatives of many of the largest technology corporations in the world.

I. The Issues

Most of the hardest issues revolve around the likelihood that any specification adopted will inadvertently read upon one or more outstanding or applied for patents. Obviously, it is not productive to adopt a standard if an IPR holder can block the implementation of that standard. There is agreement among all standard setting bodies that any party that seeks to contribute technology for incorporation into a standard must agree to grant all parties - members and non-members alike - a license to implement the resulting specification upon "reasonable and non-discriminatory" (or "RAND") terms. Most consortia go one step farther, and do not accept a submission unless licenses will be provided on a royalty-free basis, to facilitate widespread adoption of the resulting standard.¹

After this point, however, viewpoints on most key issues begin to diverge widely. These issues may be usefully sorted and analyzed under the familiar headings of "Who", "What", "When", "Where" and "Why".

¹ Taking the price of contributed technology into account in standard setting is not without peril. In at least one case (*Addamax v. Open Software Foundation*, 888 F. Supp. 274 D. (Mass. 1995), *aff'd*, 152 F. 3d 48 (1998)), a consortium and its members were alleged to have engaged in horizontal price fixing and boycott by a submitter of technology that was not adopted.

Who? Most companies believe that an important part of the standards process is to collect IPR licenses from those members that participate in the process of adopting a standard. The reason is that failing to do so would permit a member to “game” the system, either passively, by failing to disclose, or actively, by pushing the process towards adopting a specification which would entitle it to levy a royalty. This degree of required licensing (or disclosure of an intent not to license) makes obvious sense from a practical perspective. However, some companies believe that a license should be required of every member of the consortium, whether or not they choose to participate directly in a given process.

Others go still farther, and insist that any implementer of a standard - whether a member or not - should grant all other implementers a cross license of its own IPR to the extent necessary to avoid infringement. The impact of this extreme position is likely to defeat the goals of many consortia, since most standards need promotion, and to become effective require the adoption of many players in the industry who have very low motivations to adopt the standard at all. Where a cross license is required, many non-member companies would choose not to implement the standard. It is also worth reflecting on the fact that even such an unlimited cross license policy is likely to reach only a very small percentage of potential patent holders. Moreover, no non-member company can be legally required to participate. As a result, the adoption of a standard is not likely to receive much benefit - but can be severely impaired - by an unlimited cross license requirement. Worse yet, if a standard does become pervasive, an IPR holder may conclude that it must make the difficult choice of either surrendering valuable IPR or being excluded from valuable business opportunities. The antitrust implications of such an eventuality are obvious.

Who (II)? Another issue in this category is whether an assertion by a company that it has no IPR to disclose should be binding only on an individual representative attending a meeting, or on the company itself. For a large multinational company with hundreds of engineers participating in scores of standards setting groups, this prospect is an IPR manager’s nightmare. On the other hand, an assertion to the personal knowledge of a single employee that he or she is unaware of any potential for infringement is essentially worthless. Hence, most companies have acknowledged that (at least) a final, binding statement may fairly be required as to whether a member company will or will not license any of its IPR that would necessarily be infringed by any implementation of the standards under consideration. Some companies therefore would request the opportunity to drop out of the work group proposing the specification in order to avoid the requirement to make such a statement, while others would vigorously oppose this right to prevent “lurking” by IPR owners until the end of the process of adoption.

What? There is also a difference of opinion on what rights an IPR holder must grant. One camp believes that royalty free licenses should be required from every company that participated in the adoption process. The most fervent champions of free licensing would require every member of a consortium to agree to grant a license to whatever specifications may be developed while they are a member (although most

would permit a member to resign to avoid this result in a given situation). Not surprisingly, such a comprehensive rule would lead many technology companies to refuse to participate.

When? One of the most hotly contested issues is the question of when IPR must be disclosed during a standard setting process. This is a sensitive issue, because some companies are not willing to commit to granting a license until they have the opportunity to conduct a patent search to discover what, if any, valuable technology rights may be involved. If the disclosure is required early in the process, then valuable member resources will often be wasted on time-consuming and expensive patent searches, since only one among multiple submissions will typically be adopted. Nevertheless, some concerned members would feel it necessary to conduct a patent search relating to each submission. Since not all work group efforts produce a specification that becomes adopted, all such patent searches might ultimately prove to have been pointless.

For companies with substantial patent portfolios and the desire to participate in many standard setting efforts, early disclosure is therefore an issue of significance. Conversely, other companies are unwilling to spend months on helping develop a draft standard, only to learn at the time that a vote to adopt is taken that a participant has a blocking patent, and is unwilling to make rights under that patent available on RAND terms. Companies that endorse this viewpoint have concluded that the standards effort is more important than maximizing the commercial return on their patent portfolios, so long as they can reserve the right to charge a royalty on any of their IPR that may eventually be found to be covered by a finally adopted specification.

Where? Once a standard is adopted, a question arises as to where an implementer must go to obtain the necessary license rights to implement a standard. The standard setting body would prefer to make all license rights available by means of a simple click-through license agreement at its website. Such a license is typically quite short and simple - it exists principally to exclude any warranties for what is a free standard, and often includes trademark license terms in order to control assertions of compliance by implementers of a specification (a complex topic which is beyond the scope of this paper). However, if a member has asserted the right to require a royalty, or if actual software is involved (e.g., a reference implementation), then it is likely that the IPR owner will insist that a would-be implementer obtain the necessary rights direct from the owner. Typically, the standard setting body does not become directly involved with the terms of such licenses.

How? A reasonable question, of course, is what constitutes RAND terms. To date, despite the fact that most standard setting bodies have avoided specifying required terms, few serious problems appear to have arisen. Most consortia and standard setting bodies, moreover, have shrunk from being involved in disputes, since they lack the resources or the will to become involved. Several standardized approaches have evolved, however. The best known (and most often confused) are the Open Source and Free Software approaches, the latter of which uses two standardized licenses in connection with Linux programs and libraries. These licenses are not specific to particular standard

setting bodies as such, but involve the licensing of technology at the grass roots, program (and even programmer) level.

Another approach is the so called “X Consortium” model, developed for the software products created by X Consortium, a client of this firm until its merger into the Open Group. Under this licensing model, a very simple click-through license is employed to gain all necessary rights. Its common use is usually limited, however, to situations where only copyright rights are being conveyed in order to permit the downloading, studying and copying of a specification. The right to implement is not usually included (separate licenses from one or more IPR owners being required for that purpose), unless the consortium itself has title to the underlying IPR, or obtained the right to sublicense from the owners of the underlying IPR. Where licenses are obtained directly from IPR owners, the diversity of terms is far greater, and the IPR owners, subject to the general RAND requirement, create the forms of licenses.

II. The Origin of the Problem

Why? An interesting question is why given companies take particular positions on certain issues. A simple explanation is that it is difficult for a company to step outside the quotidian realities of its familiar proprietary world and assume the mind-set necessary to truly give something (i.e., IPR underlying a standard) away in order to gain a greater commercial benefit. Typically, that benefit is the luxury of making a safe strategic decision (e.g., knowing in advance that it is committing to what will prove to be a “VHS” rather than a “Betamax” standard). Thus enabled, it can compete with other consortium members in making better and cheaper products based on the adopted standard, and address a more swiftly and surely developing market for those products. Even long time participants in the standards process sometimes catch themselves taking a position which is inconsistent with consortium goals, simply out of habit.

Another cause of confusion and insistence on unnecessary and counterproductive positions is the superficial similarities between commercial joint ventures and consortium initiatives. In the former, a small number of companies forms an alliance under a joint development agreement to create a product or other deliverable which all can then sell, or otherwise exploit. In this type of activity, it is typical for all participants to grant each other cross licenses to the resulting IPR, and to permit each to license the work product to third parties.

While both types of efforts involve diverse companies gathering to agree on technology solutions, there are several significant differences. First, the participants in a commercial joint venture are highly motivated to achieve a common goal, and are therefore willing to share IPR. Similarly, their customers are highly motivated to gain access to the same rights, and are therefore willing to enter into commercial licenses and agree to payment terms. The legal vehicle employed by the joint venture participants - a contract - is appropriate, since few or no new members are expected to join, and the founding members are not expected to leave until the goal has been achieved. Finally,

there is no need to create a pretense of “openness”, because commercial products are the desired deliverables.

In sharp contrast, a consortium or other standard setting body needs to allow members to join and leave, and needs to make it as easy and attractive as possible for non-members of many stripes to adopt and implement its standards. A key component in achieving this goal is to be structured and operate in as “open” a way as possible, to negate any appearance that one or more companies can unduly influence the eventual nature or availability of its standards, thus giving them a commercial advantage over other implementers.

Since most individuals who represent companies in consortium activities - and even those who are tasked with forming new consortia - have limited knowledge about the theory and practice of consortium formation and operation, it is easy for them to assume that whatever previous organization they are familiar with is the gold standard. One unfortunate outcome of this reality is the surprisingly large number of consortia that have been formed on the joint development model. Typically, the founders are referred to as “Promoters” and the non-member implementers as “Adopters”. The number of companies involved in the actual standard setting effort tends as a result to be smaller (and sometimes is assembled by invitation only). Moreover, there are numerous unfortunate legal results, including a long, complex and difficult to negotiate joint venture agreement, the lack of any shield against liability for the actions of other Promoters (other than after the fact indemnification rights), the necessity of joint ownership and/or cross licenses, the lack of a legal entity to sign leases and service agreements, the flow through of profits and losses to each member, and the often justified appearance of a closed club - to name just a few.

III. The Solution

The first step in breaking through the labyrinth of conflicting positions on IPR policies is to break out of proprietary ways of thinking and avoid the type of closed standard setting structures which form a fertile ground for wrong thinking. In contrast to the joint development model, the author long ago adopted the model of a Delaware not-for-profit membership corporation as the best vehicle for forming standard setting consortia. Typically, the organization will have multiple classes of members, with fees and value propositions attractive to a broad range of industry participants. After formation, the consortium is usually qualified as an IRS 501(c)(6) trade association. The resulting entity therefore has attributes that satisfactorily avoid all of the issues inherent in the joint venture model.²

² The author has written extensively on the topic of consortium formation and operation. See, e.g., “Forming, Founding and Funding Standard-Setting Consortia”; IEEE Micro (December, 1993), p. 52, available, with several other articles on the same topic, at <http://www.lgu.com/attorneys/updegrove.shtml>.

Over a fifteen-year period, we have formed over 35 global consortia on this model, and consistently are assisting in the creation of new organizations. In recent years, we have been heavily involved in the creation and negotiation of IPR policies and procedures for many of these organizations, and have developed a standard IPR policy and suite of supporting documentation for their use, based on what we believe to be “best practices”. This document set, with slight adaptations from consortium to consortium, has now been endorsed by many of the largest technology companies through their business and legal member representatives.

In the process of this work, we have seen a striking evolution in the IPR positions of individual companies, and the beginnings of an emerging consensus on proper IPR policy terms. Some leading worldwide technology companies have gone from a position requiring patent searches and prohibiting participation in any process that might require mandatory licensing, to accepting that the benefits of participation justify agreements in advance to license. Others which insisted that any IPR disclosure statements be limited to the knowledge of individual representatives now enthusiastically promote early agreements to license in advance of any patent search.

Still, it remains a challenge for each consortium to reach consensus on an IPR policy that all members can live with, and which can still facilitate the achievement of standard setting goals. It is worth reviewing each of the main issues identified above to highlight how this can be done. At the same time, it will be possible to demonstrate why imposing a rigid, “one size fits all” regulatory template on standard setting would be unduly restrictive, and would hamper the important work of rapid, consensus based standards development.

Who? It is our belief that in most cases only those involved in creating a specification, or at most those who are exercising the right to vote, should be required to state whether or not they will license, and whether or not they will require a royalty. The reason is that requiring all members in a multi-initiative consortium to assert their position would result in fewer companies joining in standard setting efforts. Standard setting in real time has real financial costs. Money to purchase infrastructure and to enable the meetings and communications upon which standard setting is based, and someone needs to pay the bills. Further, standards succeed when they appear to have momentum, and the best way to convince the market that a standard is destined for success is for a consortium to have broad member support.

Nevertheless, there could be situations where different rules should apply. An example might be the cable industry, where a small number of players are involved, and where all can be expected to have IPR that might be infringed by many types of specifications. In such a setting, other industry players might be reluctant to adopt a standard unless they know that all principle players are fully on board. If all such participants willingly agreed to mandatory licensing terms, then a positive good could obtain, all other things being equal.

Who II? On the subject of knowledge, we believe that the best policy will usually be to provide that only disclosure based on individual knowledge will be required until a specification reaches the point where final comments are required. Requesting knowledge-based disclosure will frequently identify member (or third party) IPR that, if discovered early in the process, can be addressed in a more efficient fashion, and we believe that it would be gratuitous not to encourage knowledge-based disclosure.

Similarly, where some companies have strong feelings regarding cross licensing, a harmless compromise is to provide that if an implementer (which we will call the “Asserter” for this example) of a standard contends that an implementation of a given specification would infringe the Asserter’s IPR, then any license granted by the consortium to the Asserter to implement the same specification can be revoked, thus providing a level playing field while not depriving the Asserter of any of its own rights in the process.

What? While we are strong believers that standards, in order to be widely adopted, need to be made available on as easy and load-free a basis as possible, we are also mindful of the fact that standards may incorporate valuable IPR. Injustice could result if IPR holders were to be put to the choice of either being excluded from the formulation of commercially important standards, or granting royalty free licenses. Accordingly, it seems necessary that members be encouraged, but not required, to grant royalty free licenses.

But again, there are situations where requiring royalty-free licenses might be justifiable. A clear and current example being debated within the W3C is whether all participants must agree to royalty free licensing. In the context of a global enabling technology, the justification for such a policy is obvious, whereas in another setting the same requirement might be abusive.

When? As earlier noted, the author believes that institutionally binding assertions should be required only after a specification process has reached the point where those member companies which believe that a patent search is necessary will only be asked to assume this burden for a productive purpose. Accordingly, after an appropriate period (e.g., 45 to 60 days) has passed after a given specification has been posted for final comments, each participating company should be required to state whether or not it has IPR, whether it will or will not make it available, and whether or not a royalty will be required if an IPR license will be provided. The author also believes that a member should not be permitted to void its commitment after this point in the adoption process.

Nevertheless, there may be situations where earlier, binding assertions might be appropriate. Examples might be where the parameters of the resulting standard or specification are clearly defined at the outset, where a process is expected to be long, laborious and expensive, or where there are clear reasons indicating, and common agreement, that great speed is required.

Where? Whether or not all necessary licenses are available at a consortium site or whether implementers must visit multiple sites is, we believe, not a matter of legal significance, so long as all would-be implementers are provided equal access to license rights on RAND terms. From a business perspective, single-site availability (or the practical equivalent, through linking and framing) should be encouraged. This is a decision best left to agreement by the members of an individual consortium. While it is perhaps imaginable that a requirement that IPR owners must provide license availability at or through a single site could cause injustice, this does not appear to be a practice with great potential for abuse.

How? As noted, the subject of RAND terms has not to date proved to be a hot bed of contention in any of the consortia with which the author has been involved. This is likely due to the fact that commercial licensing terms fall within a recognized bandwidth, and because if an IPR owner's technology is valuable enough to license, then an implementer expects to encounter typical commercial license terms. Moreover, if the "non-discriminatory" aspect is maintained, then all implementers know that they will not be comparatively disadvantaged. One of the few situations involving license issues in which the author has been consulted arose not from abusive or deliberately discriminatory terms, but from the fact that the royalty terms of the license did not foresee the specification's applicability in all foreseeable product configurations.

While it is possible that problems may arise in the future, it is difficult to imagine that the industry would demand or desire a government imposed form of license (or portions thereof) to address such a contingency, nor would there be an obvious precedent for such a procedure. Given the fact that circumstances and appropriate terms for a given situation could be expected to vary, this would appear to be the aspect of standard setting for which detailed government dictates would be least appropriate or feasible.

IV. The Future

It would be an extreme understatement to suggest that the technology industry has reached a state of clear consensus on what constitutes the ideal IPR Policy. Within the last two months, the author has had several situations in which he has spoken with two different representatives (often lawyers) of the same company, on the same day, relating to two different consortia, and encountered two different positions on the same issues. Each time, the two points of view were adamantly espoused - and diametrically opposed. In one case, this involved a company with clearly articulated institutional IPR policies, which had gone to great lengths to set up procedures attempting to centralize the approval of participation in consortia with diverse IPR policies and impose consistent IPR policy requirements for joining new consortia. Needless to say, this is an ambitious (and doubtless unachievable) goal for a company with dozens of divisions, operations and legal groups in many countries, and thousands of employees.

The good news is that awareness of the issues at stake in IPR policies has risen remarkably, especially with the wide reporting of the current *Rambus v. Infineon*

litigation, the increasing popularity of the Open Source model, and the very public debate within W3C regarding royalty free licensing requirements. As earlier noted, the bad news is that when the author assists a consortium in revising or adopting an IPR policy, the process typically takes months of explaining and cajoling to achieve consensus on a final result.

While the author does not believe that the time is ripe for strict guidelines to be imposed on the standard setting process, he does believe that the government could serve a useful purpose in several ways, both outside as well as within the purview of those agencies of the government which monitor the marketplace for compliance with the antitrust laws:

- By continuing the dialogue on standard setting issues in venues such as the current DOJ/FTC hearings on intellectual property licensing. Such a dialogue raises awareness of the issues involved, and educates the marketplace with respect to some of the more complex aspects of the applicability of antitrust analysis to the standard setting process;
- By announcing continued support and encouragement for standard setting through the consortium process, and by granting full equality of treatment in government procurement to the standards and specifications produced by consortia as well as by *de jure* standard setting bodies;
- By identifying those aspects of standard setting which it finds to be pro-competitive;
- By offering encouragement for certain principles (e.g., early disclosure of IPR) and confirming that certain types of activities are not ordinarily required in connection with IPR assertions (e.g., patent searches at either the member or the consortium level), but leaving the actual policies and requirements of a given standard setting group to the group and its members;
- By revising the National Cooperative Research and Production Act to explicitly and broadly cover standard setting activities, and by making guidance readily available relating to its interpretation and applicability to given situations;
- By affirming that, within broad principles, a Rule of Reason analysis is appropriate for assessing the appropriateness of a given IPR policy for a given standard setting situation;
- By according standard setting the same degree of recognition and integration into national policy that has been the norm in Europe for some time.

Regardless of what course the government may take, inevitably, IPR policies must and will become standardized through the give and take of commercial activities. This is because there is too much at stake in standard setting in a fast-moving, technology-based economy, and too little time to debate IPR issues endlessly. The current series of debates over IPR policies that is continuing within consortia is serving well to air the issues and educate those involved. At some point, it can be expected that a single policy - with well understood variations appropriate to specific and recurring circumstances - will gain acceptance. When this happens, the staff and members of consortia and standard setting bodies can get back to their real tasks - the setting and promotion of the standards themselves. The government can facilitate this progression best by supporting, rather than regulating, that process.