

**OBSERVATIONS ON THE CURRENT DYNAMICS  
OF CONSORTIUM STANDARD SETTING**

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My name is Andrew Updegrove. I am an attorney with the Boston law firm of Lucash, Gesmer & Updegrove, a firm that almost exclusively serves emerging and established technology companies. Our clients also include many standard-setting organizations, and over the past 15 years we have worked with, and usually helped form, over 45 promotional and standard setting consortia.

In that capacity, we have advised our consortium clients on how to structure themselves from both a business as well as a legal standpoint in order to maximize their chances of success. A key component in that regard is guiding them in adopting and administering intellectual property rights (or “IPR”) policies which are at once in compliance with applicable law, supportable by the widest number of potential members, and effective at producing standards which are free of the type of restrictions (economic and contractual) which could prevent broad adoption.

I would like to report to you that the technology industry has settled on and follows a common policy for dealing with intellectual property issues. Unfortunately,

that is not the case today, although there is a strong consensus on the main principles of IPR disclosure, non-discriminatory licensing, and equal rights of participation, among other important, core values. The confusion (or disagreement, as the case may be) exists primarily at the second tier of policy construction. At that level, active debates occur over such issues as when a member must disclose any of its IPR which might be infringed by the implementation of a standard under review, and whether or not such a member should be required to provide a license to such IPR on a royalty-free basis.

I believe that there is a steady movement towards agreeing on a standard set of IPR policy solutions at this second tier of issues. I also believe that many of the debates occurring within consortia on IPR policy issues are part of a healthy and constructive process, whereby participants in the industry are working out practical resolutions to difficult problems. Since many of the issues involved are not susceptible to easy resolution, it is only by a certain amount of grinding of the gears, if you will, that participants with various positions can finally agree upon resolutions that are ultimately acceptable to, if not beloved, by all.

What you should also know about the reality of consortium-based processes (as compared to standard setting within organizations such as ANSI, which have had well-documented procedures for many years) is that there is a degree of confusion as to “best practices” among those charged with creating policies, since comparatively few companies deploy dedicated individuals to take part in the formation of standard-setting consortia. Hence, unless a group charged by their employers with creating a new body includes some practiced individuals, or retains the right advisors, there may be painful false starts before the best solutions are implemented.

Some of these false starts arise from the fact that consortia are superficially similar to joint development efforts. However, joint ventures are typically formed to create and sell proprietary products. Consortia, in contrast, are established to create and promote open standards providing an equal playing field to all, member and non-member alike, to enable the development of feature-rich, proprietary commercial products. Where those forming or managing a consortium do not maintain an awareness of this somewhat subtle distinction, bad practices (and worse IPR policies) can result.

For example, some individuals taking part in IPR policy formulation may promote a requirement for mandatory cross-licensing by end-users of any IPR that they may own which would be infringed by the implementation of a standard. In a joint venture, such a requirement of commercial customers might be part of the natural give and take of contract negotiation, since both sides of the transaction are economically motivated to do business with one another. In the context of standard-setting, however, this type of requirement could cause non-members to reject the standard, since the benefits of implementation may be outweighed by the economic sacrifice of valuable IPR. In a particular case, such a requirement might even be abusive, since a non-member might be put to the choice of surrendering real economic advantages to avoid being locked out of its primary marketplace.

Another common issue arises from the involvement in consortium formation of persons with little background or knowledge in that area. As a result, where those charged with IPR policy formulation are unaware of the reasons why one consortium adopts one policy and a different standards body another, unknowing adoption of inappropriate policies can also result. A good example involves the issue of whether or

not participants in a standard setting process should be required to provide royalty free licenses to any of their IPR which may be infringed by the implementation of the specification under discussion. In the context of the Internet, we are dealing with a world-wide enabling technology with hundreds of thousands, if not eventually millions, of users involved at the code level. To permit IPR holders to levy royalties for technical refinements or commercial exploitation could cripple the continuing evolution of this key information and communication resource. On the other hand, forbidding royalties in the IPR policy of a consortium acting in a more limited commercial setting could unnecessarily deprive a member of the full economic value of its IPR.

In short, there is a knowledge gap in the trenches. However, I believe that this gap is closing rapidly, as IPR policy issues receive more and more attention, and as more and more participants are involved in the process of creating policies and operating under them. Indeed, there is a continuing movement among large companies (at least) towards centralization of standard-setting policy creation and compliance. Since the vast majority of consortia include large companies in their founding groups, the result is that more institutional knowledge is brought to bear at the time that IPR policies are created.

My expectation is that in a fairly limited amount of time a reasonably uniform IPR policy will emerge, based on the traditional ANSI model but with variations to suit particular circumstances. This process is well advanced, with some of the most important terms already being regarded as indisputable. In the past year, in particular, the gap in positions has narrowed significantly, as has the knowledge base of those involved.

Admittedly, until that common policy fully emerges, it will remain difficult to gather consensus among participants in a consortium on a common IPR policy. But

eventually, consensus is always reached. Although the result will predictably not be perfect (as is inevitably the case with any consensus based solution), the process of achieving consensus does insure that the particular needs and dynamics of a given consortium will be well debated, and there is value in that process. Moreover, the positions taken by various companies still diverge widely enough on the most troublesome issues that in order for any policy to be finally adopted, it must steer a reasonably middle course between such extreme positions. As a result, truly “bad” outcomes are rare - and transient at best.

The picture that I am trying to describe, therefore, is one where agreement already exists on the key principles required to achieve practical, valuable results, but where the details remain subject to continuing - but converging - debate. I believe that this is the picture of a healthy marketplace seeking practical solutions in real time, and that such confusion as exists should not be a cause for concern. Were this not to be the case, it can be expected that far more disputes would have risen to date than the record discloses. Since consensus on IPR policies continues to gel, one can only assume that the potential for further disputes or abuses can only abate, rather than increase.

I believe that the picture that the commercial landscape that I have tried to portray is, finally, one of market forces working efficiently to solve real problems in a legally appropriate manner. Given the strategic importance to this country of rapid, consensus-based standard setting, I believe that the government can act best in the national interest by supporting, educating and encouraging, rather than regulating this process.

I thank you for the opportunity to participate in today’s discussion.