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Federal Trade Commission/Office of the Secretary
600 Pennsylvania Ave., NW
Room H-135 (Annex X)
Washington, DC 20580

Re: Patent Standards Workshop, Project No. P11-1204

Dear Mr. Clark:

The American National Standards Institute (“ANSI”) is pleased to respond to the Federal Trade Commission’s (“FTC’s”) Request for Comments and Announcement of Workshop on Standard-Setting Issues. By way of introduction, ANSI is a private, not-for-profit organization which coordinates the United States voluntary standards and conformity assessment system. Through its membership ANSI represents the interests of more than 125,000 companies and 3.5 million professionals worldwide. ANSI, with the cooperation of federal, state, and local governments, administers the creation, promulgation, and use of tens of thousands of standards, norms, guidelines, and conformance activities that directly impact businesses and consumers in nearly every industry sector. ANSI also is the established neutral forum for the U.S. voluntary standardization community, and serves as the United States representative to the International Organization for Standardization (“ISO”) and, through the United States National Committee (“USNC”) to the International Electrotechnical Commission (“IEC”).

ANSI is a unique partnership with membership drawn from industry, standards developers and other professional, technical, trade, labor, academic and consumer organizations, and government agencies. In its role as an accreditor of U.S. voluntary consensus standards developing organizations (“SDOs”), ANSI helps to maintain the integrity of the standards development process and determines whether standards meet the necessary criteria to be approved as American National Standards (“ANSs”). ANSI’s approval of these standards (currently numbering approximately 10,000) is intended to verify that the principles of openness and due process have been followed and that a consensus of materially interested stakeholder groups has been reached. ANSI has established “Essential Requirements” that ANSI-accredited SDOs (“ASDs”) must follow in the development and approval of a standard that is to be designated an American National Standard. This includes compliance with several ANSI policy statements including the ANSI Patent Policy.

ANSI understands a number of topics will be discussed during the upcoming FTC Workshop on Standard-Setting issues and provides these comments on the three broad topics identified in the FTC Notice. These include: (1) the disclosure of patent rights during the standard-setting process; (2) the implications of a patent holder’s commitment to license users of the standard on reasonable and non-discriminatory (“RAND”) terms; and (3) the possibility of negotiating license terms prior to choosing a standard.

A. ANSI's Views on Issues Relating to the Disclosure of Patent Rights During the Standard-Setting Process

ANSI believes that an acceptable patent policy is one that is created with the objective of finding a balance among the multiple rights of interested parties, including patent holders, competing manufacturers seeking to implement the standard, technical experts from different stakeholder groups, SDOs, and consumers. Patent disclosure policies vary widely among SDOs. The FTC has itself recognized the wide ranging number and diversity of SDOs with unique needs among their members, their business models, and the technology areas that they address: "standards-development organizations craft rules concerning intellectual property rights that recognize the dynamic character of the standards process, the necessary balancing of the interests of stakeholders in the process, and the varied business strategies of those involved." (FTC letter to Gilbert F. Whittemore, American Bar Association, Re: *In the Matter of Negotiated Data Solutions LLC*, File No. 051-0094, dated September 22, 2008.)

There are a number of factors standards developers consider in fashioning an IP policy that best suits its particular needs, including:

- a. **Type of Policy** (e.g., does the policy apply to patents, trademarks, copyrights, or all three?);
- b. **Scope of Disclosure** (e.g., does the policy apply to just patents that contain essential claims, patents that likely contain essential claims, or the claims themselves; or does the policy not require any specific disclosure information, but rather seeks disclosure that the patent holder just believes that it holds patents with claims that likely will be essential, etc.; or is the policy just "participation-based" with no obligation to disclose at all, but everyone participating agrees to an up-front licensing commitment, sometimes with the option of opting out specific patented technology; or is it a mixture of these approaches?);
- c. **Scope of Licensing Commitment** (e.g., does the license commitment apply to just essential patent claims vis-à-vis the final version of the standard, or more broadly to patents generally? Does it apply to patent applications?);
- d. **Timing of Disclosure** (e.g., is early disclosure encouraged or is it mandated? If it is mandated, how is that obligation described: is it based on the individual participant's knowledge, or is knowledge imputed to the participant from the participant's employer?);
- e. **Patent Searches** (does disclosure require the IP holder to conduct patent searches?);
- f. **Form of disclosure** (e.g., does the policy require the use of a specific form/content of disclosure?);
- g. **Licensing Assurance** (e.g., can the patent holder select from options in terms of its licensing commitment, such as RAND/FRAND, RAND/FRAND-royalty free, or neither, or is the commitment pre-selected by the SDO?);
- h. **Licensing Terms** (e.g., does the SDO allow reciprocity, scope of use, disclosure of licensing terms to the standards body *ex ante*, patent pools, etc.?);
- i. **Enforcement** (e.g., how are disputes resolved, what competition laws apply and how many complaints or what litigation has the SDO experienced in the past ten years regarding the implementation of its IPR policy?); and
- j. **Industry Impact** (e.g., what are the practical implications of the policy's implementation, particularly as it affects innovation, and the global trade and competitiveness of U.S. industry?).

For its part, ANSI has developed a Patent Policy which appropriately addresses the needs of ANSI-accredited SDOs to serve their unique constituencies while allowing for innovation to promote the competitiveness of U.S. industry. The ANSI Patent Policy is contained in the "Essential Requirements" that govern ANSI-accredited SDOs. ANSI-accredited SDOs must follow the requirements of the ANSI Patent Policy in the development of all ANSs. The ANSI Intellectual Property Rights Policy Committee

("IPRPC") continually monitors the responsiveness of the ANSI Patent Policy to the needs of ANSI-accredited SDOs and the participants in those SDOs' standards development programs¹.

The ANSI Patent Policy provides as follows:

ANSI Patent Policy - Inclusion of Patents in American National Standards

There is no objection in principle to drafting an American National Standard ("ANS") in terms that include the use of an essential patent claim (one whose use would be required for compliance with that standard) if it is considered that technical reasons justify this approach.

If an ANSI-Accredited Standards Developer ("ASD") receives a notice that a proposed ANS or an approved ANS may require the use of such a patent claim, the procedures in this clause shall be followed.

3.1.1 Statement from patent holder

The ASD shall receive from the patent holder or a party authorized to make assurances on its behalf, in written or electronic form, either:

- (a) assurance in the form of a general disclaimer to the effect that such party does not hold and does not currently intend holding any essential patent claim(s) or;
- (b) assurance that a license to such essential patent claim(s) will be made available to applicants desiring to utilize the license for the purpose of implementing the standard either:
 - (i) under reasonable terms and conditions that are demonstrably free of any unfair discrimination or
 - (ii) without compensation and under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

3.1.2 Record of statement

A record of the patent holder's statement shall be placed and retained in the files of both the ASD and ANSI.

3.1.3 Notice

When the ASD receives from a patent holder the assurance set forth in 3.1.1 (b) above, the standard shall include a note substantially as follows:

NOTE – The user's attention is called to the possibility that compliance with this standard may require use of an invention covered by patent rights.

By publication of this standard, no position is taken with respect to the validity of any such claim(s) or of any patent rights in connection therewith. If a patent holder has filed a statement of willingness to grant a license under these rights on reasonable and non-discriminatory terms and conditions to applicants desiring to obtain such a license, then details may be obtained from the standards developer.

¹ For example, in 2009 ANSI added a number of clarifications. These clarifications were intended, among other things, to make clear that the ANSI Patent Policy is applicable only to essential patent claims (i.e., claims whose use would be required for compliance with that standard).

3.1.4 Responsibility for identifying patents

Neither the ASD nor ANSI is responsible for identifying patents for which a license may be required by an American National Standard or for conducting inquiries into the legal validity or scope of those patents that are brought to their attention.

The ANSI Patent Policy attempts to strike a balance among the rights of patent holders, the interests of competing manufacturers seeking to implement standards, the consensus of technical experts from different stakeholder groups on the desired content of standards, the concerns and resources of SDOs, the impact on consumer welfare, and the need to avoid unnecessary restrictions that would discourage participation in or otherwise inhibit the standards development process.

The ANSI Patent Policy is very similar to the common patent policy of ISO, IEC, ITU-T, and ITU-R. All of these policies recognize that it is permissible to develop standards that mandate the use of patented items if there are sufficient technical justifications. One recognized result of standards-setting pursuant to internationally-recognized and accepted patent policies (such as those at ISO/IEC, ITU, ANSI and many other well-known standards organizations) is the opportunity to have the “best” technical solution – which may belong exclusively to a patent holder – incorporated into a standard and made available to all relevant manufacturers to exploit in competing commercial products. In return for “sharing” its patented technology (including making it available to its competitors), the patent holder may receive reasonable compensation from implementers of the standard in a non-discriminatory manner. The patent laws were designed in part to stimulate innovation and investment in the development of new technologies, which can be shared at reasonable rates with all those wishing to implement a standardized solution to an interoperability or functionality challenge.

ANSI's Disclosure Requirements: ANSI encourages early disclosure of potentially essential patent claims. Under the ANSI Patent Policy, disclosure may be made by a patent holder or third party with actual, personal knowledge of relevant patents. Once such a disclosure is made, ANSI requires a written statement of assurance in order to determine whether the patent holder will provide an assurance in the form of a general disclaimer to the effect that such party does not hold and does not currently intend holding any invention the use of which would be required for compliance with the proposed American National Standard or will provide an assurance that it is willing to provide licenses: (a) on RAND terms and conditions (including compensation); or (b) on a compensation-free basis (that may include other RAND terms and conditions). If the patent holder submits a patent statement of assurance to the effect of either (a) or (b) above, then this creates a commitment by the patent holder and third-party beneficiary rights in implementers of the standard. (As noted in Section C below, such rights are addressed in a commercial context outside of the standards-setting environment.)

A patent holder, however, may not always be aware that it has potentially essential patent claims to a standard being developed. If a patent holder does not disclose its essential patent claims prior to the completion of the standard and such essential patent claims are later discovered, under ANSI's patent policy, the SDO is required to have received the same written statement of assurance described above.

ANSI's Focus on “Essential” Patent Claims: The ANSI Patent Policy focuses principally on patents containing essential patent claims, defined under the policy as claims “whose use would be required for compliance with” the standard. If it is possible to implement a standard without necessarily infringing on any claims in a certain patent, then that patent is not essential. If the patent is not essential, then the same concerns are not present in that the patent holder cannot “block” others from implementing the standard. In fact, competitors have an incentive to focus on innovative ways to implement the standard without infringing on any related, non-essential patent claims.

ANSI's Encouragement of Early Disclosure: ANSI's Patent Policy Guidelines encourage the early disclosure of patents that are or might be essential to the standard so that the technical committee has as much information as possible as it works on the evolving standard. If disclosures of essential or potentially essential patents by a patent holder include a statement of willingness to license under reasonable terms and conditions in accordance with the ANSI Patent Policy, or under specific reasonable and non-discriminatory licensing terms, this can have the positive effect of affording potential

implementers of the standard under development with the opportunity to negotiate licenses at an early stage of standards development on terms that are mutually beneficial to them and the patent owner.

ANSI's No-Duty-to-Search Approach: The ANSI Patent Policy does not impose a duty on a patent holder to undertake a search of its patent portfolio in order to be able to make a definitive statement to a SDO or ANSI as to whether it has any essential patents.² Nor does it "impute" knowledge of an employer corporation to an employee participant in the standards-setting process.

As a practical matter, it is often virtually impossible to identify every potentially essential patent claim. Often the implication of a specific patent in connection with a particular standard may not be easy to determine or evaluate. Patent searches are expensive, time-consuming, require a potentially complex legal and technical analysis and may still not be dispositive. This problem is exacerbated by the fact that the standard under development usually is evolving and its technical specifications are subject to change up until the final consensus ballot.³

There may be adverse consequences if an unintentional failure to disclose an essential patent precludes an SDO participant from asserting its intellectual property rights against implementers of the standard and from seeking RAND royalties and terms. Companies that have invested billions in research and development in order to develop a patent portfolio may choose not to participate in a standards-setting activity if they are obligated to undertake an enormous patent portfolio search and be burdened in connection with each such activity or risk losing their intellectual property rights. This in turn would deprive standards-setting activities and ultimately consumers of both (a) the possibility of standardizing cutting-edge technology that could then become accessible to competing manufacturers and (b) the participation in the standards-setting activity of individuals with valuable technical expertise.

Companies may have incentives to disclose known patent rights as soon as possible. Many companies would prefer that their own patented material become the industry standard, and so they are

² The ANSI Patent Policy Guidelines section III A provides that: "[D]uring the development period, standards developers may wish to adopt procedures whereby one or more requests are made to participants for the disclosure of patents that may be required for use of standards in process. Such a request could be made, for example, by including it on letter ballots used in connection with the development of a proposed standard. Alternatively, other means could be adopted so that requests are repeated throughout the course of the standards development process -- e.g., by a semi-annual notice mailed to each participant in the development process or appropriate working group(s).

This is not to suggest that a standards developer should require any participant in the development process to undertake a patent search of its own portfolio or of any other. The objective is to obtain early disclosure concerning the existence of patents, where known. A standards developer may also consider taking steps to make it clear that any participant in the process -- not just patent holder -- is permitted to identify or disclose essential patents or essential patent claims that may be required for implementation of the standard. Generally, it is desirable to encourage disclosure of as much information as possible concerning the patent, including the identity of the patent holder, the patent's number, and information regarding precisely how it may relate to the standard being developed."

³ The ANSI Patent Policy Guidelines section III B further provides that: "It should also be emphasized that, notwithstanding the incentive for patent holders to indicate an early willingness to license, it may not be possible for potential patent holders to give such an assurance until the standards development process has reached a relatively mature stage. It might be that only at that time will the patent holder be aware that its patent may be required for use of the proposed standard. This should not, however, preclude a patent holder from giving an assurance that *if* its patent is required for use of the standard it will license on reasonable terms and conditions demonstrably free of unfair discrimination.

Thus, standards developers may wish to adopt procedures that would permit and encourage the early indication by patent holders of their willingness to comply with the Patent Policy by providing one of the assurances specified therein. Such encouragement might take the form of simply advising participants in the development effort that assurances may be made at an early stage, explaining the advantages of early negotiations, or through other means. While participants in the standards development effort might consider a refusal to provide assurances (or a refusal to commit to offer acceptable licensing terms and conditions) as a ground for favoring an alternative technology, the patent holder is only required to provide assurances as called for by the Patent Policy."

willing to disclose it early in the standards development process. Some companies are willing to submit a broad patent statement to the effect that, if it turns out that they do have any essential patents, they will license on a RAND basis (with or without monetary compensation). Other companies are reluctant to submit a more blanket patent statement because they may have some patents that they are not willing to license and they fear that a competitor could seek to have the related technology included in a standard in an effort to gain access to it.

B. ANSI's Views on Who Should Negotiate the RAND Licensing Commitment

RAND is generally defined to mean reasonable and non-discriminatory with the details left to the negotiations of the IP holder and the licensee. This allows for the parties to negotiate an appropriate agreement that addresses their specific circumstances and needs. Further, to ANSI's knowledge, ANSI-accredited SDOs have not sought to determine whether or not any licensing terms are reasonable or non-discriminatory.

C. ANSI's Views on Negotiating Licensing Terms Prior to Choosing a Standard

Nothing in the ANSI Patent Policy prohibits a patent holder from disclosing its proposed licensing terms and conditions. Detailed discussions or negotiations of specific license terms offered by an individual patent holder, however, should take place outside of the standards-setting venue to permit the most efficient development of standards, in part because the expertise of those in attendance usually is technical in nature as distinct from commercial or legal. The discussion of licensing issues among competitors when in a standards-setting context could significantly complicate and potentially delay standards-setting efforts.

The consideration of specific license terms and potential costs of standardization, which may involve the costs of patented technology included in a standard, has been recognized as having potential pro-competitive effects. ANSI agrees with the FTC and Department of Justice ("DOJ") that such considerations, however, if they were to occur in a standards-setting venue, will still be subject to antitrust review and could be challenged as anti-competitive. The DOJ and FTC have explained in their 2007 Joint Report⁴ that any such challenges will be examined under a "rule of reason" analysis:

"The Agencies take no position as to whether [standards setting organizations] SDOs should engage in joint *ex ante* discussion of licensing terms but recognize that joint *ex ante* activity to establish licensing terms as part of the standard-setting process will not warrant *per se* condemnation."

Over the last several years, two ANSI-accredited SDOs revised their patent policies to allow for early disclosure of certain licensing terms.

(1) VITA

In early 2006, VMEbus International Trade Association ("VITA"), an ANSI-accredited standards developer that develops standards for certain computer bus architecture, requested that the DOJ issue a business review letter regarding a proposed new patent policy. VITA described its proposed policy as an effort to avoid the so-called patent "hold up" problem.

The proposed VITA policy requires working group members to use reasonable efforts to disclose patents and patent applications that may become essential to implement a draft VSO standard, to commit to license on FRAND terms, and unilaterally declare the most restrictive licensing terms that will be required. In addition, the policy establishes an arbitration process which may be used to resolve compliance disputes. Working group members may consider the various declared licensing terms when

⁴ See the Joint Report entitled "Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition" which can be located at: <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>.

deciding which technology to support during the standard-setting process. But the proposed policy forbids any negotiation or discussion of specific licensing terms among the working group members or with third parties at all VSO and working group meetings. Working group members will not set actual license terms. The patent holder and each prospective licensee will negotiate separately, subject only to the restrictions imposed by the patent holder's unilateral declaration of its most restrictive terms.

In its response to the request from VITA, the DOJ in October 2006 issued a Business Review Letter to VITA, concluding that it had no present intention to take antitrust enforcement action against the proposed conduct described by VITA:

"The standards set by VSO are a critical element of the growth and continued innovation in the VME industry. VITA's proposed patent policy is an attempt to preserve competition and thereby to avoid unreasonable patent licensing terms that might threaten the success of future standards and to avoid disputes over licensing terms that can delay adoption and implementation after standards are set. The proposed policy does so by requiring working group members to disclose patents and patent applications that may become essential to implement a draft VSO standard, to commit to license on FRAND terms, and unilaterally to declare the most restrictive licensing terms that will be required. In addition, the proposed policy establishes an arbitration process which may be used to resolve compliance disputes. Adopting this policy is a sensible effort by VITA to address a problem that is created by the standard-setting process itself. Implementation of the proposed policy should preserve, not restrict, competition among patent holders. Any attempt by VITA or VSO members to use the declaration process as a cover for price-fixing of downstream goods or to rig bids among patent holders, however, would be summarily condemned."

VITA sought and obtained ANSI re-accreditation for its modified patent policy. ANSI observed that the ANSI Patent Policy applies to the procedures that VITA follows to seek approval of its standards as American National Standards, which is the process over which ANSI has accreditation oversight.

(2) IEEE

On April 30, 2007, the DOJ issued a Business Review Letter to the IEEE (formerly known as the Institute of Electrical and Electronics Engineers, Inc.) ("IEEE"), another ANSI-accredited developer that develops technology standards. The IEEE policy differs from VITA's policy in that it provides for the potential voluntary disclosure of license terms. If the chair of an IEEE standards working group becomes aware that a patent holder may have a potentially essential patent claim on the proposed standard, the chair shall ask the patent holder to provide IEEE a letter of assurance ("LOA") which includes details on the potentially essential patent claim(s) and an opportunity to provide a licensing commitment.

In the IEEE Business Review Letter, the DOJ concluded that IEEE's policy offered potential benefits comparable to VITA's, and did not merit an enforcement challenge. Specifically, the DOJ stated:

"the proposed IEEE policy . . . could generate similar benefits as patent holders may compete to offer the most attractive combination of technology and licensing terms . . . members may make better informed decisions by considering potential licensing fees when weighing the relative costs of technological alternatives in addition to their technological merits."

The IEEE did not request DOJ guidance on joint discussion of relative price that might take place inside or outside IEEE standards development meetings, and the DOJ expressly commented that the Business Review Letter did not address such conduct. The DOJ noted in a footnote, however, that it would "typically apply a rule-of-reason analysis to joint discussions/negotiations of licensing terms in the standard setting context."

Like VITA, IEEE sought and obtained ANSI re-accreditation for its modified patent policy.

D. Conclusion

In conclusion, the ANSI Patent Policy, which is subject to continuing improvement, has proven over time to be a flexible and effective means of addressing the incorporation of patented technology into standards. Indeed, out of the approximately 10,000 current ANSs, for only a relatively small number have questions ever been formally raised regarding the ANSI Patent policy⁵.

Respectfully submitted,

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American National Standards Institute

By: Patricia Griffin, Vice President and General Counsel

⁵ Indeed, there are only four formal appeals on record at ANSI over the last 16 years that relate to the ANSI Patent Policy and only one of them involved a situation in which a patent holder claimed that it may have a patent that could be implicated by an ANS under development. In that case, however, the patent holder was unwilling to make a definitive statement that its technology was “essential” in order to implement the standard. Based on that, and on the fact that the SDO obtained legal advice that the standard did not infringe the patent, ANSI’s Board of Standards Review (“BSR”) concluded that Echelon “did not submit sufficient evidence for the BSR to find that the standard should be disapproved for failure to satisfy the requirements of the ANSI Patent Policy.” Appeal by Echelon Corporation of the BSR’s Decision to Approve EIA 600.31-35, 600.41-43, 600.81-82 and EIA 693 as American National Standards. Link to Echelon decision: <http://members.ansi.org/sites/pgsc/Shared%20Documents/BSR%20EchelonDecisionJan8-1998.pdf>