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Re: ANSI Comments in response to Public Consultation on proposed Guidelines for the assessment of horizontal cooperation agreements under EU competition law

The American National Standards Institute (“ANSI”) is pleased to respond to the European Commission’s (“EC”) invitation for written submissions relating to the proposed Guidelines for the assessment of horizontal cooperation agreements under EU competition law, especially the Chapter on standards development. ANSI has maintained a regular dialogue with the EC over many years as part of ANSI’s ongoing meetings with Commission staff and the European Standards Organizations (“ESOs”) that started in 1989. ANSI also recently commented during the EC’s Public Consultation on the European Standardization System (“ESS”) that closed on May 21, 2010. ANSI will first describe the system used at ANSI for the more than 200 organizations that are accredited by ANSI to respond to concerns or issues which the EC is considering in its proposed Guidelines and then offer specific ANSI comments.

Although many on the EC staff are familiar with ANSI, for others who may be reviewing these comments, ANSI is a private, not-for-profit organization which coordinates the United States voluntary standards and conformity assessment system. The voluntary consensus standardization system in the United States is the most effective and efficient in the world. At the same time and almost incongruously, the U.S. system is distributed, diversified, and extremely complex. 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”).

#### **A. U.S. Voluntary Consensus Standardization System**

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”)<sup>1</sup>, 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 9,600) 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.<sup>2</sup>

Because of the breadth of its participation in standards activities worldwide, the Institute is able to provide a central source of information and education on standards, conformity assessment programs and related activities in the U.S. and abroad. Through active participation in regional standardization organizations such as COPANT (for Latin America) and PASC (for the Pacific Rim), ANSI provides strong advocacy for the use of U.S. standards and technology throughout the global marketplace. In doing so, ANSI works very closely with the U.S. National Institute of Standards and Technology (“NIST”), the Office of the U.S. Trade Representative (“USTR”), the U.S. Departments of Commerce and State, and other federal agencies, as well as with hundreds of trade associations, companies, and consumer and labor organizations.

In keeping with the policies and goals stated in ANSI’s *United States Standards Strategy*, ANSI administers a policy committee that formulates ANSI positions on intellectual property issues in domestic, regional, and international policy areas. The ANSI Intellectual Property Rights Policy Committee (the “ANSI IPRPC”) is responsible “for broad-based policy and position decisions regarding national, regional and

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<sup>1</sup> In these Comments ANSI uses the convention of saying Accredited Standards Developer or “ASD” when referring to an SDO accredited by ANSI and when it is developing an American National Standard and thus must comply with ANSI procedures. We use the term SDO when referring to both ASDs and other more traditional SDOs, and the more generic term: “SSO” or Standards-Setting Organization when intending to cover ASDs, SDOs, and fora/consortia or other groups that are typically not accredited. It is ANSI’s understanding, that in the EU, only bodies such as ITU, ISO, and IEC; the European Standards Organizations (“ESOs – CEN, CENELEC, and ETSI); as well as national bodies such as DIN, BSI, AFNOR, etc., might be called “SDOs” and all others might be called SSOs from an EU perspective.

<sup>2</sup> ANSI is often asked about the total number of standards (and standards setting bodies) in the United States. It is estimated that in the U.S. today there are hundreds of “traditional” standards developing organizations and hundreds more “non-traditional” standards development bodies, such as consortia. This means that the level of U.S. participation is quite expansive as the groups themselves are comprised of individual committees made up of experts addressing the technical requirements of standards within their specific area of expertise.

As of June 2010, some 223 of these standards developers were accredited by ANSI; there are approximately 9,600 American National Standards

According to data provided in NIST Special Publication 806, *Standards Activities of Organizations in the United States* (1996 Edition; edited by Robert B. Toth), there were at that time more than 93,000 standards produced and nearly 700 organizations that cited standards development as an area of activity. Of these, the federal government was the largest single creator and user of standards (more than 44,000 of them noted in that publication); Toth reported the private sector in America collectively had about 49,000 standards in 1996. *Also see*, Footnote 11 which references as many as 950 organizations involved in setting standards globally. ANSI currently has records for over 327,000 documents in the NSSN from various SSOs tracked or reported to ANSI.

international intellectual property matters, including the global trade aspects of such matters.”

ANSI believes that there are great benefits and pro-competitive effects of the voluntary standardization system. ANSI testified to these benefits before the U.S. Federal Trade Commission (“FTC”) in 2002 at its joint hearing with the U.S. Department of Justice (“DoJ”):

The benefits and procompetitive effects of voluntary standards are not in dispute. Standards do everything from solving issues of product compatibility to addressing consumer safety and health concerns. Standards also allow for the systemic elimination of non-value-added product differences (thereby increasing a user’s ability to compare competing products), provide for interoperability, improve quality, reduce costs and often simplify product development. They also are a fundamental building block for international trade. As the U.S. Court of Appeals for the First Circuit explained:

The joint specification development, promulgation, and adoption efforts would seem less expensive than having each member of CISPI [a trade association] make duplicative efforts. On its face, the joint development and promulgation of the specification would seem to save money by providing information to makers and to buyers less expensively and more effectively than without the standard. It may also help to assure product quality. If such activity, in and of itself, were to hurt Clamp-All by making it more difficult for Clamp-All to compete, Clamp-All would suffer injury only as result of the defendants’ joint efforts having lowered information costs or created a better product.... And, that kind of harm is not “unreasonably anticompetitive.” It brings about the very benefits that the antitrust laws seek to promote.

*Clamp-All Corp. v. Cast Iron Soil Pipe Institute*, 851 F.2d 478, 487 (1st Cir. 1988) (Breyer, C.J.) (citation omitted; emphasis in original), *cert. denied*, 488 U.S. 1007 (1989); *see also Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988) (“When ... private associations promulgate safety standards based on the merits of objective expert judgments and through procedures that prevent the standard setting process from being biased by members with economic interests in stifling product competition those private standards can have significant procompetitive advantages.”)

As FTC Chairman Timothy Muris also has observed, both intellectual property law and antitrust law promote innovation and enhance consumer welfare:

The tensions between the doctrines tend to obscure the fact that, properly understood, IP law and antitrust law both seek to promote innovation and enhance consumer welfare. The goal of patent and copyright law, as enunciated in Article I section 8 of the Constitution, is "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." IP law, properly applied, preserves the incentives for scientific and technological progress - *i.e.*, for innovation. Innovation

benefits consumers through the development of new and improved goods and services, and spurs economic growth.

Similarly, antitrust law, properly applied, promotes innovation and economic growth by combating restraints on vigorous competitive activity. By deterring anticompetitive arrangements and monopolization, antitrust law also ensures that consumers have access to a wide variety of goods and services at competitive prices. Matters that involve both IP and antitrust can be exceedingly complex, both legally and factually.<sup>3</sup>

Accordingly, the standardization of a patented invention can yield procompetitive benefits, stimulate innovative research and development, and make the patent holder's intellectual property more accessible to consumers through competing products.

Testimony by Amy A. Marasco, then Vice President and General Counsel, American National Standards Institute, before the Federal Trade Commission and Department of Justice, *Standards-Setting Practices: Competition, Innovation and Consumer Welfare*, April 18, 2002.

This has been ANSI's approach, and it has been effective. In its role as the accreditor of U.S. standards developing organizations, ANSI seeks to further the integrity of the standards development process and to determine whether candidate standards meet the necessary criteria to be approved as American National Standards. ANSI's approval of these standards is intended to verify that the principles of openness and due process have been followed and that a consensus of all interested parties has been reached. These requirements ensure that the playing field for standards development is a level one. In addition, ANSI considers evidence that the proposed American National Standard is contrary to the public interest, contains unfair provisions, or is unsuitable for national use.

The ANSI system has a long-standing history of effective self-policing. To the extent that the ANSI process has not detected and deterred all potential antitrust-related problems, the problems that surfaced up until 1995 were generally addressed by the private sector in a handful of private action lawsuits.<sup>4</sup> There are now approximately 9,600 ANSI-approved American National Standards that provide dimensions, ratings, terminology and symbols, test methods, performance and safety requirements. The voluntary standards development process has proven its effectiveness across a diverse set of industries and in federal, state, and local government processes. These industries include telecommunications, safety and health, information technology, petroleum, banking, and household appliances.

ANSI's IPR policy is based upon a set of globally accepted principles for standards development.<sup>5</sup> Such principles promote adoption of standards, minimize the

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<sup>3</sup> Remarks of FTC Chairman Timothy J. Muris, *Competition and Intellectual Property Policy: The Way Ahead*, before the American Bar Association Antitrust Section Fall Forum, November 15, 2001.

<sup>4</sup> Although private cases were a principle mechanism prior to 1995 when ANSI testified to the FTC, the FTC has been active since then in looking at competition cases and standards development, *see*, for example, FTC Cases such as *Dell*, *Rambus*, *Unocal*, and *N-Data*.

<sup>5</sup> These Principles are based on the WTO TBT Committee's Decision on *Principles for the Development of*

potential for standards to be used as a barrier to trade and limit the potential for anticompetitive conduct. These principles include:

- ***Transparency***  
Essential information regarding standardization activities is accessible to all interested parties.
- ***Openness***  
Participation is open to all affected interests.
- ***Impartiality***  
No one interest dominates the process or is favored over another.
- ***Effectiveness and Relevance***  
Standards are relevant and effectively respond to regulatory and market needs, as well as scientific and technological developments.
- ***Consensus***  
Decisions are reached through consensus among those affected.
- ***Performance Based***  
Standards are performance based (specifying essential characteristics rather than detailed designs) where feasible.
- ***Coherence***  
The process encourages coherence to avoid overlapping and conflicting standards when appropriate.
- ***Due Process***  
Standards development accords with due process so that all views are considered and appeals are possible.
- ***Technical Assistance***  
Assistance is offered to developing countries in the formulation and application of standards.

In addition, U.S. interests strongly agree that the process should be:

- ***Flexible***, allowing the use of different methodologies to meet the needs of different technology and product sectors;

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*International Standards, Guides and Recommendations with Relation to Articles 2, 5, and Annex 3 of the Agreement*, <http://docsonline.wto.org/DDFDocuments/t/G/TBT/1R8.doc> and reflected in the *United States Standards Strategy* (“USSS”). The *United States Standards Strategy* establishes a framework that can be used by all interested parties to further advance trade issues in the global marketplace, enhance consumer health and safety, meet stakeholder needs and, as appropriate, advance U.S. viewpoints in the regional and international arena. [www.ansi.org/standards\\_activities/nss/ussss.aspx](http://www.ansi.org/standards_activities/nss/ussss.aspx). ANSI on its own behalf and on behalf of ASDs in their development of American National Standards, has accepted the *Code of Good Practice for the Preparation, Adoption and Application of Standards by Standardizing Bodies* (Annex 3 of the TBT Agreement). [www.standardsinfo.net/info/livelink/fetch/2000/148478/6301438/docs\\_wto/tbtList\\_20100323.pdf](http://www.standardsinfo.net/info/livelink/fetch/2000/148478/6301438/docs_wto/tbtList_20100323.pdf)

- **Timely**, so that purely administrative matters do not result in a failure to meet market expectations; and
- **Balanced** among all affected interests.

Working in partnership with stakeholders from government and industry, ANSI continues to explore how standards and conformity assessment-based solutions – developed with the consensus of all interested parties – can meet the critical needs of the United States and the entire global community.

## **B. ANSI’s Approach to the Intersection of Standards and Intellectual Property**

A review of the history and factors SDOs consider in fashioning IPR policies as well as a discussion of ANSI’s own Patent Policy will provide a helpful backdrop to the specific comments ANSI provides in **Section D** below relating to the EC Horizontal Competition Guidelines. The intersection of standards-setting, patent rights and antitrust concerns has been the subject of inquiry and debate for many years. The standards community has fashioned IP policies and procedures to provide a roadmap that allows for the inclusion of patented material in standards. There are a number of factors standards developers consider in fashioning an IP policy that best suits its particular needs, including:

- Type of Policy** (*e.g.*, does the policy apply to patents, trademarks, copyrights, or all three?);
- 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, but everyone participating agrees to a licensing commitment, sometimes with the option of opting out specific patented technology; or is it a mixture of the two general approaches?);
- 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?);
- 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?);
- Patent Searches** (does disclosure expressly require or implicitly necessitate the IP holder to conduct patent searches or is disclosure based on the knowledge of the particular persons? Are such implied or express actions reasonable and practical when considering the environment for the standards development and market for the final standard?);
- 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,<sup>6</sup> RAND/FRAND-compensation-free, or neither, or is the commitment pre-selected by the SSO and/or the specific technical committee?);
- h. **Licensing Terms** (*e.g.*, does the SSO 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 SSO 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 must be followed by ANSI-accredited SDOs in the development of all American National Standards. The ANSI Patent Policy is contained in a set of procedures that govern ANSI-accredited SDOs known as the “Essential Requirements.” (**Appendix A** contains the ANSI Essential Requirements). The ANSI IPRPC continually monitors the responsiveness of the ANSI Patent Policy to the needs of ANSI-accredited SDOs and in 2009 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).

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 the standards development process. 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 in order to determine whether the patent holder will provide licenses (a) on RAND terms and conditions or (b) on a compensation-free basis (that may include other RAND terms and conditions). If the patent holder submits a patent statement 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.

Such rights are addressed in a commercial context outside of the standards-setting environment. The SDO usually does not have the capability and necessary resources to adjudicate what are essentially commercial and highly technical issues. The SDO's responsibility is to ensure that the due process-based procedures for developing consensus on the standard are properly followed. The standards-setting participants are

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<sup>6</sup> ANSI generally uses the term “RAND” – Reasonable and Non-Discriminatory, whereas in the EU the preferred term is “FRAND” – Fair, Reasonable and Non-Discriminatory. ANSI considers the terms as meaning the same thing and they can be used interchangeably.

often technical experts who do not have legal or business responsibilities with regard to licensing issues.

The discussion of licensing issues among competitors in a standards-setting context could significantly complicate, delay or derail standards-setting efforts. Moreover, it may impose a risk that the SDO and the participants will become targets of allegations of improper antitrust conduct. The potential antitrust risks that have been associated with the discussion of license terms should be distinguished from the adoption by SDOs of rules that permit, encourage, or require participants in standards development to identify patents they believe are essential and also to disclose to potential licensees the terms on which they will license those patents, and to do so as early as possible in the standards development process. The ANSI-based IPR policies, however, as explained impose no restriction on the early disclosure of potentially essential patent claims or licensing terms, and, indeed, encourage the early disclosure of such potentially essential claims.

A patent holder, however, may not be aware that it has potentially essential patent claims to a standard being developed. What happens if the patent holder does not identify and disclose its patent rights prior to the completion of the standard and such patent rights are later discovered or disclosed? Under ANSI's patent policy, the patent holder is then required to provide the same assurances to ANSI and the ASD that are required in situations where patents are known to exist prior to the standard's approval. If those assurances are not forthcoming or if potential users can show that the policy is not being followed, the standard may be withdrawn either by the consensus committee or through the appeals process.

ANSI Patent Guidelines, which inform the Patent Policy, advise that the determination of specific license terms and conditions, and the evaluation of whether such license terms and conditions are reasonable and demonstrably free of unfair discrimination, are not matters that are properly the subject of discussion or debate at a development meeting. Such matters should be determined only by the prospective parties to each license or, if necessary, by an appeal challenging whether compliance with the Patent Policy has been achieved. A copy of ANSI's Patent Policy Guidelines is attached in **Appendix B**.

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.

The ANSI Patent Policy also embraces the following concepts:

1. The ANSI Patent Policy focuses principally on patents containing essential patent claims. 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. In addition, if the Policy were to apply to a broader category of patents (such as those that “relate to” the standard) it would be difficult to ascertain the degree to which a patent has to “relate to” the standard in order to be covered by the Policy. This would be, at best, a nebulous and to some degree arbitrary determination.

That being said, ANSI does 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.

2. 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.<sup>7</sup> Nor does it “impute” knowledge of an employer corporation to an employee participant in the standards-setting process.

As a practical matter, it would be virtually impossible to identify every potentially essential patent. Often the implication of a specific patent in connection with a particular

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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.”

standard may not be easy to determine or evaluate. Patent searches are expensive, time-consuming, require a potentially complex legal and technical analysis and are still not 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.<sup>8</sup>

The problem becomes further exacerbated if the “punishment” for an unintentional failure to disclose an essential patent is to preclude the patent owner from asserting its intellectual property rights against implementers of the standard. 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 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.

The real concern is the deliberate and intentional failure to disclose an essential patent in an effort to gain an unfair competitive advantage. As discussed later in this paper, there are mechanisms currently in place to discourage such conduct.

3. The ANSI Patent Policy currently does not address patent applications. Nothing in the Patent Policy precludes the voluntary disclosure of patent applications.<sup>9</sup>

<sup>8</sup> 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 any 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. ”

<sup>9</sup> In fact some ANSI-accredited SDOs in their implementation of the ANSI Patent Policy do cover published

The ANSI Patent Policy treats patents approved after the standard's completion in the same manner that it treats subsequently discovered patents. The Patent Policy is applied and, if the patent holder is not willing to license its technology on RAND terms (with or without monetary compensation), then the standard's approval may be revoked.

4. Assessment of the existence and validity of asserted patent rights is conducted outside of the standards-setting venue. ANSI and the SDOs do not have the ability or the resources to undertake this effort. In addition, if they did undertake this responsibility, they would be faced with possible claims if their determination was either incorrect or incomplete.<sup>10</sup>

5. Specific licensing terms are discussed outside of the standards-setting venue. Nothing in the ANSI Policy prohibits a patent holder from voluntarily disclosing its proposed licensing terms and conditions. Discussion or negotiation of specific license terms, 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. ANSI recognizes, however, that the consideration by standards participants of potential costs of standardization, which may involve the costs of patented technology included in a standard, may be relevant to their determinations whether to support a particular standard, and is aware of the position of the U.S. Department of Justice Antitrust Division, that the availability of such information may have potential pro-competitive effects. For these reasons, as stated, ANSI's policy does not prohibit, and indeed encourages, the disclosure of such information outside of the standards setting venue. Following this approach is also consistent with ANSI's position of avoiding even the threat of antitrust challenge, which may arise because, as U.S. Department of Justice and Federal Trade Commission statements have observed, there may be instances where the anticompetitive effects of joint discussions regarding costs and IPR licensing terms (such as price fixing or collusion to exclude parties) may outbalance pro-competitive effects of standardization and be subject to scrutiny under the antitrust laws. Even if the conduct is ultimately shown to be consistent with applicable antitrust laws, the cost to an SDO and its members may be prohibitive of continued standards development activities.

In addition, a RAND license that might be negotiated by a patent owner and standards implementers will not necessarily reflect exactly the same set of terms and conditions for each licensee. This is because other considerations (such as reciprocal cross-licensing) may be a factor.

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pending patent applications, *see* the Telecommunications Industry Association's IPR Policy for example. ([www.tiaonline.org/standards/procedures/manuals/documents/tia\\_eng\\_manual-5th\\_edition\\_102009\\_final.pdf](http://www.tiaonline.org/standards/procedures/manuals/documents/tia_eng_manual-5th_edition_102009_final.pdf)). The ANSI Patent Policy Guidelines suggest such an approach: "Similarly, a standards developer may wish to encourage participants to disclose the existence of pending U.S. patent applications relating to a standard under development. Of course, in such a situation the extent of any disclosure may be more circumscribed due to the possible need for confidentiality and uncertainty as to whether an application will mature into a patent and what its claimed scope will ultimately be."

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*See, e.g., Sony Electronics, Inc. v. Soundview Technologies, Inc.*, 157 F.Supp.2d 190 (D. Conn. 2001) in which an asserted claim failed.

### C. General Comments Specific to Proposed EC Horizontal Guidelines

Because the EC Horizontal Agreement Guidelines likely will have extra-territorial effects, ANSI appreciates the opportunity of sharing its perspective and experiences.

As a general matter, ANSI comments that consideration of SDO IPR policies should accommodate the following principles to allow for effective standardization, and encourages the Commission to reflect these principles in the final Guidelines:

1. Patented technology can provide great technical and competitive worth, as well as currency, to a standard, and incentives should exist for IPR holders to contribute their patented technologies to the standards process. Accordingly, SDO IPR policies and rules should not impose undue burdens on IPR holders that substantially diminish such incentives.
2. Interests of patent holders, implementers and users, ANSI-accredited standards developers and other SDOs,<sup>11</sup> as well as government users of standards, as applicable, must be appropriately balanced in determining the proper scope and focus of IPR policies and practices of SDOs. Also, practical burdens and risks associated with compliance with such policies and practices are critical.
3. In balancing the interests of relevant stakeholders, the opportunity for standards users to negotiate licenses to patented technology included in standards should be available, and IPR holders should be able to obtain reasonable license terms, both monetary and non-monetary that result from such negotiations. Standards users should not have the opportunity to use patented technology without agreeing to available license terms.
4. Copies of standards and other SDO deliverables must be accessible.
5. There is no “one-size-fits-all” IPR policy applicable to all standards contexts. It is well-recognized that SDOs must be able to tailor their IPR policies based on multiple factors. The interests and needs of the industry and those involved in developing and using the standardized technology, the maturity of the standard's technology, the value and role of intellectual property to progress in the field, the need for speed and the need for formalities, the practical costs and budget in developing a standard, and the regional interests in trade and economic growth can all impact the policies and practices of SDOs. For example, while ANSI’s IPR policy accommodates RAND licensing with or without compensation, in some

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Note that Standards-Setting Organizations (“SSOs”) are not limited to just those standards developers accredited by ANSI, but can also include standards developers that are less formal like fora/consortia and Special Interest Groups (“SIGs”). ConsortiumInfo.org currently list 656 organizations, <http://www.consortiuminfo.org/links/linksall.php>; at GSC-14, 227 SSOs in the ICT Sector were reviewed, [http://www.itu.int/dms\\_pub/itu-t/oth/21/05/T210500000100104PDFE.pdf](http://www.itu.int/dms_pub/itu-t/oth/21/05/T210500000100104PDFE.pdf); and CEN has a listing on its Web site of 232 organizations in just the ICT Sector, <http://www.cen.eu/cen/Sectors/Sectors/ISSS/Consortia/Pages/default.aspx>. In ANSI’s NSSN, a national resource for global standards ([www.nssn.org](http://www.nssn.org)) there are currently 950 SSOs that have records and over 327,000 standards records.

specific contexts related to the Internet, at least one SDO, the W3C provides for a generally compensation-free model.<sup>12</sup> In other SDOs, for example those that focus on mobile telephony, semiconductors, and chemical standardization -- where major, risky R&D investment may be required -- a compensation model permitting IPR holders to define whether their licenses will be royalty-bearing or compensation-free is generally followed.<sup>13</sup> Some SDOs such as the IEEE, ETSI, TIA, ATIS and others, create hundreds of standards involving many subjects, with broad-based interested participants, have well-defined processes and rules, and have an association behind them. Other SSOs in the form of special interest groups or consortia are more often focused on specific subject matters, have more narrowly focused interests, and involve only those parties with an interest in the specific subject matter. The variety of standards development policies is highlighted in the *ABA Standards Development Patent Policy Manual*<sup>14</sup> which annotates, *inter alia*, different policy clauses relating to patent disclosures, licensing commitments, normative and informative references, and SDO actions and responsibilities that may be used depending on specific circumstances.<sup>15</sup>

For all of these reasons, ANSI submits that while safe harbors such as the one proposed in the Draft Guidelines may be useful, the Draft's limited and narrow consideration of what specific IPR policy may be entitled to "safe harbor" status may create a negative inference that most current IPR policies reflect anti-competitive practices. This in turn could result in limiting the positive flexibility that SDOs now have in fashioning their IPR policies. This is of particular concern to ANSI because its policy is inconsistent with certain features required by the Draft Guideline's safe harbor. The same would be true with regard to many of the IPR policies of ANSI's accredited SDOs, and likely many other SDOs and other standards organizations.

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<sup>12</sup> See W3C ([www.w3.org](http://www.w3.org)) that provides for a RAND with no compensation model with a very limited allowance for royalty bearing patents. See also OASIS which allows working groups to select from RAND, RAND with no compensation, and non-assert "modes". IETF provides for RAND with compensation model.

<sup>13</sup> See e.g., IPR policies of JEDEC ([www.jedec.org](http://www.jedec.org)), ATIS ([www.atis.org](http://www.atis.org)), ETSI ([www.etsi.org](http://www.etsi.org)), ECMA ([www.ecma.org](http://www.ecma.org)) and VITA ([www.vita.com](http://www.vita.com)).

<sup>14</sup> [www.abanet.org/abastore/productpage/5450050](http://www.abanet.org/abastore/productpage/5450050)

<sup>15</sup> The FTC has recognized the wide ranging number and diversity of SSOs and that each has unique needs among its members, their business models, and the technology areas that they address. The FTC has advised several parties in its responses to comments in the *N-Data* proceeding of its understanding that:

"The Commission understands that 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. The content and intention of such rules will be one of several factors to be assessed in determining whether, under any given set of facts, challenged conduct by a holder of intellectual property rights may constitute a violation of the FTC Act. In addition, any such assessment would be likely to include (among other things) the timing and content of any assurances provided the holder of IP rights; the nature, timing and offered justification for any changes in those assurances; and the effects of the conduct on the standard-setting process and competition in relevant markets affected by the standards. As with many other competition-related enforcement matters, the question of liability under the FTC Act likely will turn on a careful assessment of the surrounding facts." (FTC response letter to the American Bar Association)

Thus, ANSI offers the following high-level remarks followed by detailed comments below.

First, as commented, ANSI appreciates the EC's effort at attempting to define a "safe harbor" in which SDOs might be secure from claims of anti-competitive conduct. However, ANSI is concerned with the likelihood that negative inferences may arise from failure to satisfy each and every "safe harbor" requirement. In this regard, at a minimum, ANSI respectfully suggests that unambiguous language be added to the Draft making it clear that the policy requirements for compliance with the safe harbor should not be considered any indication that other IPR policies, including those that are based on an encouragement model (such as the case with ANSI's IPR policy) rather than a requirement model, are in any manner anticompetitive, nor should they be presumed in any way to be likely in violation of EC competition law. Moreover, it may be inappropriate to trigger an analysis under Article 101(3) against SDO IPR policies such as those that comply with ANSI's requirements merely because they are outside of the Draft's "safe harbor," where such action would result in a time consuming and enormously expensive legal challenge. As commented, even if it is ultimately established that a policy such as one that comports with ANSI's requirements raises no competition law concerns, the cost to an SDO to make that showing would be prohibitive, would diminish the effectiveness of standardization, and would establish an unwarranted bias non-reflective of the actual competitive dynamics that may exist. It is thus recommended that ¶ 316's example either be dramatically revised or deleted to clearly dispel the negative implication addressed above.

Second, ANSI is concerned with the Draft's consideration of issues relating to the parameters of licensing on fair, reasonable and nondiscriminatory ("FRAND") terms. FRAND (or RAND as used by ANSI), by necessity must be flexible in nature, and SDOs do not seek to impose or define specific parameters as FRAND or unFRAND. Rather, the determination of FRAND licensing terms is best left to the negotiation between IPR holders and prospective licensees. The ANSI-based IPR policies, however, as explained, impose no restriction on the early disclosure of potentially essential patent claims or licensing terms and, indeed, encourage the early disclosure of such potentially essential claims. ANSI-accredited SDOs do not, moreover, seek to assess concepts of "excessive" licensing terms or how to value specific patent claims that may be essential to a particular standard. SDOs do not have the expertise or resources to undertake such analyses, and even if they did, such undertakings could expose SDOs to litigation claims. Even if such claims were unsuccessful they would impose unacceptable costs on the standards system, and would involve concepts that are subject to great controversy (*e.g.*, how to determine the economic value allowed for an essential patent claim) and uncertainty. Further, if SDOs were to attempt to undertake such tasks, and expose themselves and members to the risks identified, participation in standards development by IPR holders and standards users could be chilled: IPR holders because they would be restricted in their abilities to seek a return on their R&D investments and standards implementers because they would be exposed to the risk and expense of legal challenge. We respectfully

submit that like SDOs, government enforcement agencies are also not well-equipped to make such determinations.

Third, some proposed provisions of the Draft could be improved if they recognized greater flexibility for IPR policies. Such changes would be appropriate because of the necessity to balance what may be significant conflicting interests. Thus, while implementers understandably desire greater certainty in patent license commitments, overly strict obligations on patent holders, including with respect to the transferability of their rights, could be unworkable and burdensome. Similarly, precluding all substitute technologies (where alternatives can be pro-competitive and benefit the standard) and precluding all joint discussions of license terms (in the specific situation where an SSO may prescribe some of the terms as part of the policy itself) may be counterproductive from a competition perspective.

Fourth, the Guidelines discuss in Paragraph 278 that: “There should be no bias in favour or against royalty-free standards.” It is not clear what is intended. As explained above, in at least some circumstances a compensation-free model has been adopted by an SDO. Thus, Paragraph 278 could be clarified by stating that “SDOs have the flexibility of selecting FRAND policies allowing for compensation-free licensing, compensation-bearing licensing, or both, or even some hybrid thereof, and that the Guidelines shall show no bias for or against such policies on that basis alone.” Such a change would comport with ANSI’s experience that RAND/FRAND policies which may or may not include any compensation or a license fee and which provide the greatest flexibility, succeed because they accommodate all stakeholders’ interests. The success of such is evidenced by the tens of thousands of standards that have been implemented under such RAND/FRAND policies, such as those of ISO, IEC, ITU, ETSI, CEN, CENELEC, ANSI and its ASDs, and many other SSOs.

**D. Comments on Specific Sections of the Proposed EC Horizontal Guidelines**

**Table of Comments on EU Horizontal Guidelines**

Column 1 is the Guideline as written. Column 2 lists our ANSI concerns about the Guideline. Column 3 is a suggested edit of the Guideline with deletions in brackets [ ~~and strikethrough~~ ] and additions underlined.

<b>Guideline as Written</b>	<b>ANSI Concerns About Guideline</b>	<b>Suggested Edit of Guideline</b>
268. Any standard terms containing provisions which influence the prices charged to customers ( <i>i.e.</i> , recommended prices, rebates, etc.) would constitute a restriction of competition by object.	ANSI is concerned that the word “influence” may be read overly broad. As an example, a manufacturer paying a royalty to an IPR holder to practice a standard would probably pass some of that cost to the customers. Therefore, any non-zero royalties would “influence” the price upward and thus violate the literal wording of this Guideline. If such a strict construction is accepted, then the only acceptable practice is royalty-free licensing which denies the patent holder the ability to receive a return on the investment that produced the invention and innovation. Price fixing is always anti-competitive regardless if it occurs in a standard setting or not.	268. Any standard terms containing provisions which [ <del>influence</del> ] <u>establish</u> the prices charged to customers ( <i>i.e.</i> , recommended prices, rebates, etc.) would constitute a restriction of competition by object.

<b>Guideline as Written</b>	<b>ANSI Concerns About Guideline</b>	<b>Suggested Edit of Guideline</b>
278. First, with respect to unrestricted participation and the procedure for adopting the standard, the rules for the standard-setting organisation, and in particular its IPR policy, should guarantee that all relevant actors can participate in the process leading to the selection of the standard. Notably, the relevant rules should not exclude or discriminate against specific groups of IPR holders. There should be no bias in favour or against royalty free standards, depending on the relative benefits of the latter compared to other alternatives. The standard-setting organisations should also have objective and non-discriminatory procedures for allocating voting rights.	<p>ANSI agrees the standards setting process should be open to materially interested parties, and this <i>Openness</i> principle is one of ANSI’s Essential Requirements. It also a requirement under the WTO TBT principles noted in footnote 5:</p> <p>“Membership of an international standardizing body should be <b>open</b> on a non-discriminatory basis .... [t]his would include openness without discrimination with respect to the participation at the policy development level and at every stage of standards development ...”</p> <p>And as previously noted ANSI on its own behalf and on behalf of ASDs in their development of American National Standards, has accepted the <i>Code of Good Practice for the Preparation, Adoption and Application of Standards by Standardizing Bodies</i> (Annex 3 of the TBT Agreement).</p> <p>However, ANSI requests that the modifier “IPR” be removed from the word “policy,” since ANSI and other standards groups may not</p>	278. First, with respect to unrestricted participation and the procedure for adopting the standard, the rules for the standard-setting organisation, [ <del>and in particular its IPR policy,</del> ] should guarantee that all relevant actors can participate in the process leading to the selection of the standard. Notably, the relevant rules should not exclude or discriminate against specific groups of IPR holders. There should be no bias in favour or against <u>either FRAND with compensation or FRAND without compensation approaches</u> . [ <del>royalty free standards, depending on the relative benefits of the latter compared to other alternatives.</del> ] The standard-setting

	<p>codify this principle as part of their IPR policy but in other of their procedures or policies.</p> <p>As mentioned in ANSI’s General Comments, Paragraph 278 of the Guidelines indicates that “[t]here should be no bias <u>in favour</u> of <u>or against</u> royalty-free standards”. This could be interpreted to disqualify royalty-free groups (e.g., CableLabs and the Bluetooth SIG) from the safe harbor provisions. Similarly, does a blanket RAND licensing obligation show “bias” against royalty-free standards?</p> <p>Also the words “<b>of the latter</b>” do not make sense since there is no antecedent for the “latter” and there is no “former.” This may have just been a typo, but clarification is sought for the final Guidelines.</p> <p>ANSI suggests this Guideline be re-written to provide that there should be no bias in favour or against either FRAND with compensation or FRAND without compensation. The relevant rules should not exclude or discriminate against specific groups of IPR holders.</p>	<p>organisations should also have objective and non-discriminatory procedures for allocating voting rights.</p>
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<b>Guideline as Written</b>	<b>ANSI Concerns About Guideline</b>	<b>Suggested Edit of Guideline</b>
<p>280. Third, the standard-setting organization’s rules must seek to avoid the misuse of the standardization process through hold-ups and the charging of abusive royalty rates by IPR holders. These objectives should be ensured in standard-setting organizations through rules which are binding on the standard-setting organization’s members.</p>	<p>This proposed Guideline could be interpreted to mean that <u>any</u> compensation-bearing IP adopted into a standard will necessarily cause an “abusive” or “hold-up” result, which would be contrary to the approach taken by ANSI, and many other global SDOs, that expressly accommodate the ability for patent holders to seek and obtain any compensation in relation to essential patent claims. Thus, ANSI would like to see this Guideline tempered with an acknowledgment that the IPR grant confers with it the right for the patent holder to obtain a reasonable royalty rate or other reasonable licensing terms that provide proper incentive to innovate and join SDOs. ANSI believes the free marketplace, and not a government guideline, is a better approach to address what may be construed as “abusive,” respecting the rights of patent holders with the freedom to request particular reasonable licensing terms and implementers free to express their interests through negotiations. To the extent disputes arise, which may involve commercial rather than competition law issues, private remedies may then be pursued, and to the extent competition law issues do arise enforcement agencies could then have a role. Finally, SDOs should not be required to monitor royalty rates or other licensing terms, a task for which they typically neither have the expertise or resources. SDOs</p>	

	<p>typically have RAND/FRAND policies that leave licensing negotiations up to the parties, and most SDOs also have a complaint and appeals process to deal with any alleged violation of its IPR Policy. ANSI requires via its Essential Requirements that all of its Accredited SDOs have a complaint and appeals process.</p>	
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Guideline as Written	ANSI Concerns About Guideline	Suggested Edit of Guideline
<p>281. This requires a clear and balanced IPR policy that protects against companies abusing market power with respect to a standard. Thus, the IPR policy should require good faith disclosure of those intellectual property rights that might be essential for the implementation of a standard under development before that standard is agreed. This requires that the IPR holders make reasonable efforts to identify existing and pending IPR reading on the potential standard.</p>	<p>ANSI notes that in standardization work there is a big difference between the words “shall” and “should.” Thus, ANSI questions how to interpret those words in the context of the EC’s proposed Guidelines. In this paragraph the EC states: “This REQUIRES a clear and balanced IPR Policy ...” That is read by ANSI as a mandatory or SHALL statement. The next sentence, however, states “[T]he IPR policy SHOULD REQUIRE ...” which is generally suggestive or encouragement language but falls short of a <u>mandatory duty</u> or <u>obligation</u>. But then the next sentence says: “This REQUIRES ...” which reads as though the SHOULD requirement is really a SHALL requirement. In its final Guidelines the EC should make explicit what is mandatory or SHALL and what is just encouraged or SHOULD.</p> <p>ANSI notes the suggested solution in this Guideline of “making reasonable efforts to identify existing and pending IPR” that might be essential before the standard is agreed could be interpreted to <u>require a patent search</u>. ANSI does not support policies that mandate patent searches. Patent searches may be too onerous on some SDO members. Some members may own thousands of patents making a search impossible on a standard that will evolve as it goes from first draft to adopted standard. Such a Guideline unfairly favors smaller companies with smaller IPR portfolios who can conduct such a search every time the standard is revised. Larger companies may have to <u>avoid</u> such SSOs which in turn means pro-competitive alternative technology choices will not be available. ANSI notes that ETSI’s policy provides for “reasonable endeavours” to make disclosures - other policies maintain different approaches, including ANSI and the ISO/IEC/ITU’s Policy. This diversity of approaches underscores the one size does not fit all principle. As noted earlier in these Comments in the description of the ANSI approach and its Patent Policy ANSI does encourage the early disclosure of patents that are or might be essential to the standard so that the</p>	<p>281 This requires a clear_ and balanced IPR policy that protects against companies abusing market power with respect to a standard. Thus, the IPR policy [<del>should require</del>] <u>may request</u> good faith disclosure of those intellectual property rights that might be essential for the implementation of a standard under development before that standard is agreed. [<del>This</del>] <u>Such a request may</u> require[s] that the IPR holders make reasonable efforts to identify existing and pending IPR reading on the potential standard. <u>In no case is a patent search mandatory for any participant in the SSO.</u></p>

	<p>technical committee has as much information as possible as it works on the evolving standard.</p> <p>ANSI also believes this EC Guideline has some ambiguities between what may be requested in the form of patent disclosure (<i>e.g.</i>, identifying patents an SSO member believes MAY be relevant to a draft standard) and what may be identified as essential patents (<i>e.g.</i>, patents containing claims that would necessarily be infringed by implementation of the adopted standard, <i>i.e.</i>, “<i>essential claims</i>”). This ambiguity also goes to where the disclosure policy lies. For example, in one instance, it may be proper to have the disclosure rule fall onto the corporation owning the IPR. In that case the corporate representative would have to do some research before attending SSO meetings. In other instances the disclosure is limited to the personal knowledge of the company representative attending the SSO meetings (<i>i.e.</i>, no duty to search for relevant data held by others in the corporation.) ANSI favors policies that limit disclosure knowledge to that of the representative and not the entire corporation. One solution to clarify this Guideline is to consider the interplay between the disclosure policy and the “license” commitment. If a patent holder commits to licensing its essential patent claim(s) on RAND terms with no compensation, the need for disclosing such patent(s) is minimized and might warrant “safe harbor” status. The EC might also consider the risks and benefits of allowing a safe harbor when a RAND-with-compensation commitment for essential patent claim(s) is made.</p> <p>ANSI also notes that its Patent policy currently does not <u>require</u> patent applications, to be disclosed though some ANSI-accredited SDOs do expand their IPR policies to cover published pending patent applications. (<i>See</i> ANSI comments para. 3 and footnote 9 on page 11.)</p> <p>Finally, ANSI recommends this EC Guideline be changed to include language that if an IPR policy was not within the safe harbor described herein, a negative inference should not be inferred. In other words, failure to have any disclosure policy, or failure to have a mandatory disclosure policy, or licensing commitment policy should not be inferred to likely violate anti-competition laws.</p>	
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Guideline as Written	ANSI Concerns About Guideline	Suggested Edit of Guideline
<p>282. The IPR policy should also require that all holders of essential IPR in technology which may be adopted as part of a standard provide an irrevocable commitment in writing to license their IPR to all third parties on fair, reasonable and non-discriminatory terms (“FRAND commitment”).</p>	<p>Again ANSI questions how to read language such as “<i>should also require</i>” and is that meant to be mandatory or suggestive or encouragement?</p> <p>This language could be interpreted to require: compulsory licensing of IPRs; require holders of essential IPRs to not only license essential claims but also non essential claims; apply to non-members/non-participants and if the SSO or patent holder does not comply they may be in violation of competition law.</p> <p>If interpreted in this fashion, these requirements would impose a heavy burden on SSOs and IPR holders and be inconsistent with the patent policies of most major standards organizations around the world.</p> <p>In addition, most SSOs have either a disclosure-based IPR policy (where participants make a disclosure and then state whether or not they will license on a RAND or RAND with no compensation approach), or a participation-based IPR policy (where participants agree up-front to license whatever essential patent claims they have in connection with the final standard on RAND or RAND without compensation as set by the IPR policy). But a significant number of SSOs do not have <u>both</u> approaches reflected in a single IPR policy.</p>	<p><del>[282. The IPR policy should also require that all holders of essential IPR in technology which may be adopted as part of a standard provide an irrevocable commitment in writing to license their IPR to all third parties on fair, reasonable and non-discriminatory terms (“FRAND commitment”).]</del></p> <p><b>REPLACE WITH</b></p> <p><u>282. SSOs should adopt a disclosure-based IPR policy that first encourages early disclosure of likely essential patents and then asks the patent holder to either commit to licensing or disclose that it is not willing to license essential claims on FRAND terms.</u></p>

Guideline as Written	ANSI Concerns About Guideline	Suggested Edit of Guideline
<p>284. An abuse of the market power gained by virtue of IPR being included in a standard constitutes an infringement of Article 102. In this context and in case of a dispute, an assessment of</p>	<p>This rule seems to imply that an established <i>ex post</i> royalty rate that is higher than a calculated <i>ex ante</i> royalty rate would be determinative in establishing an excessive royalty rate in proving anticompetitive practices. There are many factors that go into a licensing negotiation beyond just the royalty rate.<sup>16</sup> The totality of the</p>	

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In its April 23, 2009 Comments to the FCC in the *CUTFATT* matter, FCC MB Docket No. 09-23, the American Bar Association Section of Science and Technology Law (“ABA”) identified at page 4 many of these other factors:

“[T]here are many factors that courts and private parties consider when evaluating the reasonableness of patent royalty rates, licensing, and cross-licensing terms, etc. In the context of determining “reasonable royalty” damages for patent infringement, for example, the court in *Georgia Pacific v. United States Plywood Corp* relied on fifteen factors to be considered including royalty rates received by the patent holder for the same patent, royalties paid by the licensee for similar patents, the commercial relationship between the licensor and licensee, and the nature and scope the license. In the standards-setting context, participants negotiate royalties alongside a variety of other terms, many of which may have an impact on royalty rates. These negotiations

<p>whether fees for patents in the standard-setting context are unfair or unreasonable, will be based on whether the fees bear a reasonable relationship to the economic value of the patents. Various methods may be available to make this assessment. In principle, cost-based methods are not well adapted to this context because of the difficulty in assessing the costs attributable to the development of a particular patent or groups of patents. Instead, it may be possible to compare the licensing fees charged by the undertaking in question for the relevant patents in a competitive environment before the industry has been locked into the standard (ex ante) with those charged after the industry has been locked in (ex post). This assumes that the comparison can be made in a consistent and reliable manner.</p>	<p>circumstances of both the licensing terms and the market effects must be reviewed before declaring any behavior as anti-competitive. Because of the multiple terms, conditions, representations, warranties, etc, in an IP license, ANSI believes it is better for the patent holder and the standard implementer to negotiate their own license to their mutual satisfaction. In some circumstances an implementer may agree to a higher royalty rate in exchange for concessions on other licensing terms. If a private agreement cannot be reached, this Guideline should allow both parties to seek their own remedies such as in a courtroom. Finally, this Guideline, presumes the IPR holder would participate in the <i>ex ante</i> standard at the lower royalty rate which may not be true.</p>	
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<b>Guideline as Written</b>	<b>ANSI Concerns About Guideline</b>	<b>Suggested Edit of Guideline</b>
<p>285. Another method of assessing the relationship of the IPR fees to the economic value of the patents could be to obtain an independent expert assessment of the relevant IPR portfolio's objective quality and centrality to the standard at issue. It may also be possible to rely on previous unilateral ex ante disclosure of most restrictive licensing terms. This also assumes that the comparison can be made in a consistent and reliable manner. These</p>	<p>FRAND is generally an undefined term and as stated above left to the negotiations of the IP holder and the licensee. SDOs typically do not engage in determining whether a royalty is reasonable and nondiscriminatory given all the factors that typically go into licensing negotiations. Assessing what is FRAND in any given circumstance is not an easy task. The Guidelines address the FRAND uncertainty in Paragraphs 284 and 285. In Paragraph 284, fairness and reasonableness are measured by "economic value" which may be assessed based on licensing rates charged before lock-in. In Paragraph 285, "economic value" may be assessed based on an expert's review of "objective quality" and "centrality to the standard." The Paragraphs also look to the</p>	

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take place on a bilateral basis between a licensor and a licensee, and accordingly, the terms and conditions not only vary based on the standard involved, the particular essential patent claims, etc., but the parties' unique interests." (Footnotes omitted)

<p>guidelines do not seek to provide an exhaustive list of appropriate methods to assess whether the royalty fees are excessive.</p>	<p>value of the patent invention(s) before lock-in occurs. ANSI offers the following observations regarding these assessments:</p> <ol style="list-style-type: none"> <li>1. Looking to the “economic value” of the patent(s) is a useful and relevant test. However, the key terms are less than precise. For example, is the patent holder’s refusal to license in the past an aspect of economic value? While the stated indicia are useful, they should not be the <u>only factors</u> in determining reasonable royalty. The statements by the EC that “Various methods may be used to make [the economic value] assessment” and that “the Guidelines do not provide an exhaustive list” are appreciated. The Guidelines should be cautious in potentially restricting how parties may determine a reasonable royalty.</li> <li>2. An essential patented invention may be a small component in a standard that may, in turn, be part of a greater product. Or it may be a vital component critical to purchasers. An invention’s “centrality to the standard” AND OVERALL PRODUCT should be considered in determining what percentage (or other compensation) is appropriate for the applicable royalty base. The royalty determined by the rate and the base should reflect the value of the essential patent(s) and not unrelated features or components.</li> <li>3. Section 284 proposes that royalties prior to “lock-in” should be considered, suggesting that reasonableness should be informed by rates charged before standardization effects (e.g., “lock-in”) take hold. SDOs may not be equipped to make such analyses and should not be required to do so in order to qualify for “safe harbor,” although specifying the time when reasonableness is determined is more process-related and possibly workable by an SDO.</li> <li>4. Because “economic value” is not precisely defined, ANSI observes that there is often a range of qualifying values. Caution is advised before considering whether allegedly unreasonable royalty rates may be considered an “abuse of market power.” A patent holder and implementer should have latitude in establishing FRAND royalty rates and licensing terms, before “abuse” may be considered an issue.</li> </ol>	
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	<p>5. The notion of using prior <i>ex ante</i> disclosures of most restrictive terms (for apparently different patents in the standard) warrants careful consideration, as suggested by the caveat in Paragraph 285. Patented inventions and license arrangements can differ in many value-related respects. The difficulty in drawing comparables in patents can be seen in several recent U.S. cases. In <i>ResQnet v Lansa</i>, 2008-1365 (Fed Cir 2010), a royalty of 12.5% was rejected because other licenses relied on did not mention the infringed patents. The court cited the <i>Lucent v Microsoft</i> case, 2008-14885 (Fed Cir 2009) in which “license agreements relied on were radically different from the hypothetical agreement under consideration.” The <i>ResQnet</i> court required a link. References to agreements that involved providing software and maintenance and rebranding of products and did not mention the subject patents were criticized by the court. ANSI appreciates the EC effort to better define FRAND, but also notes the importance of comparisons being “consistent and reliable.”</p>	
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Guideline as Written	ANSI Concerns About Guideline	Suggested Edit of Guideline
<p>286. To ensure the effectiveness of the FRAND commitment, there should also be a requirement on all IPR holders who provide such a commitment to take all necessary measures to ensure that any undertaking to which the IPR owner transfers its IPR (including the right to license that IPR) is bound by that commitment.</p>	<p>The Draft Guidelines address a current and important issue, the transfer of essential patents or claims from one party (subject to a license commitment) to another party (who has made no direct commitment). This issue arose in the EC when Bosch transferred patents to IPcom, and also occurred in the U.S. recently when the FTC addressed the <i>Negotiated Data Systems</i> (“N-Data”) case. In <i>N-Data</i>, National Semiconductor offered to license all requestors under its [essential] technology for \$1,000 if its technology was selected for the standard. The patents were assigned to Vertical and then to N-Data who advised the IEEE standards organization that it would license under other terms. ANSI recognizes that Paragraph 286 helps provide certainty to standards implementation but offers the following comments:</p> <ol style="list-style-type: none"> <li>1. “all necessary measures” is a strict requirement which may be difficult to comply with legally or practically. If such a provision is included in the</li> </ol>	

	<p>Guidelines, the EC should re-visit the level of duty and consider revising it to “reasonable” measures and providing guidance on acceptable practices in this regard.</p> <p>2. SDOs often seek license commitments not to just identified and listed patents but to “essential” patents – that is, patents to the extent they include patent claims needed to implement the standard. SDO participants may not know which of their patents have essential claims – making it harder to comply with an absolute commitment. Also, some local laws may make compliance with a strict requirement difficult to satisfy. The “all necessary measures” may impose an undue burden and risk on patent holders.</p> <p>3. The Guidelines might state that certain practices satisfy the “safe harbor,” such as providing notice to patent transferees that standards commitments apply or including a specific or general provision in an assignment agreement by which licenses and commitments made pursuant to a standard apply. Some SDOs have updated their rules to address this situation – such as the IEEE.<sup>17</sup> Reference to such solutions should help determine what approaches are workable and balanced at this time.</p> <p>ANSI notes EC guidance in this area may not be warranted at the present times since as noted many SDOs are already taking actions to revise their policies to address the patent transfer question.</p> <p>Another example of an ANSI-accredited SDO, the Telecommunications Industry Association (“TIA”) requires in its procedures for Letters of Assurance (“LoA”) (<a href="http://www.tiaonline.org">www.tiaonline.org</a>): “The statements contained in Paragraphs (2a) or (2b), if marked, along with any modifications selected above <u>are irrevocable and shall be binding upon the undersigned.</u> In the event <u>the rights of the undersigned in and to the Essential Patent(s) subject to such commitments are assigned or transferred, the undersigned shall notify the assignee or transferee of the existence of such commitments.</u>” (Emphasis added)</p>	
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Guideline as Written	ANSI Concerns About Guideline	Suggested Edit of Guideline
<p>288. The inclusion in a standard of substitute technologies (i.e., technology which is regarded by users/licensees as interchangeable with or substitutable for another technology, by reason of the technologies' characteristics and intended use and which could, in the present context, be adopted in an alternative standard) may limit inter-technology competition. Where a standard is composed of substitute technologies, the arrangement can in practice amount to foreclosure of competitors by excluding one potentially competing alternative technology from being included in a different standard. As a general rule, the inclusion of substitute technologies in a standard is likely to give rise to restrictive effects on competition with the meaning of Article 101(1).</p>	<p>While there <i>can be</i> a competition concern when a standard or a "standards-related" patent pool covers alternative technologies, there is concern over the "<i>general rule</i>" characterization in Paragraph 288. A standard may specify alternative or substitute criteria that implementers must select from. In a U.S. case (that turned on voting issues),<sup>18</sup> one group of metal pipe makers voted against inclusion of plastic pipes in the standard. There is concern that precluding alternatives from the standard may itself be anti-competitive. The Paragraph might be enhanced by clarifying when substitutes restrict competition. Otherwise, this rule could require SDOs to advise their standards development participants to avoid instances where a standard authorizes selection among workable alternatives, even when beneficial to the standard.</p>	

Guideline as Written	ANSI Concerns About Guideline	Suggested Edit of Guideline
<p>295. Moreover, should the standard terms (binding or non-binding) contain any terms which have a likely negative effect on competition relating to prices, rebates, interest or other parameters influencing the actual sales price (even if they do not directly set the price), they would give rise to restrictive effects on competition within the meaning of Article 101(1).</p>	<p>Many terms in a license, with royalty rate being only one of those terms, may indirectly have an effect on consumer pricing. This Guideline could thus be construed to assert that most licenses are anti-competitive under Article 101(1). ANSI does not believe this was the EC's intent. Instead, ANSI believes the totality of the circumstances, including all of the licensing terms and market effect should be considered before an anti-competitive violation is made.</p>	

<sup>18</sup>

*Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988)

Guideline as Written	ANSI Concerns About Guideline	Suggested Edit of Guideline
<p>305. Standardisation agreements that entrust certain bodies with the exclusive right to test compliance with the standard, or impose restrictions on marking of conformity with standards, unless imposed by regulatory provisions, go beyond the objective of achieving efficiencies and may not be indispensable to the attainment of these objectives.</p>	<p>This provision may cast some doubts over the legitimacy of certain groups that have been established to provide for conformity and interoperability testing of products. ANSI supports the principles in the ISO/IEC Directives that standards themselves should not specify a <b>particular form</b> of conformity assessment even though the standard may specify the criteria that would need to be tested. Part 2 of ISO/IEC Directives provide:</p> <p>“6.7 Aspects of conformity assessment</p> <p>Product standards, process standards and service standards shall be so written that conformity can be assessed by a manufacturer or supplier (first party), a user or purchaser (second party), or an independent body (third party).”</p> <p>However, ANSI is also aware of groups that are established by industry, typically for interoperability reasons, to test products to certain standards and if found to comply, then have a logo or mark licensing program, and only products that have undergone testing at that entity can use that mark or logo in advertising or on their products. A company can decide whether the value of the mark is worth the expense of the testing program or whether their product will be rejected by consumers unless it bears that compliance mark. ANSI believes such programs aid consumers, foster interoperability and are not anti-competitive. The WiFi Alliance tests for compliance with WLAN standards, CableLabs tests cable modems, and there is logo licensing scheme for the USB standards.</p> <p>However, ANSI also supports the principle that those Conformity Assessment programs should be open to all manufacturers and impartial in their handling of requests for testing and fees assessed, etc. These Conformity Assessment principles are covered in ANSI’s <i>National Conformity Assessment Principles</i> document, 2<sup>nd</sup> edition.<sup>19</sup></p>	

<sup>19</sup> See, [www.standardsportal.org/usa\\_en/conformity\\_assessment/conformity\\_assessment.aspx](http://www.standardsportal.org/usa_en/conformity_assessment/conformity_assessment.aspx)

One such principle is:

“All parties desiring to have their products, processes, services or personnel assessed for compliance with relevant requirements are allowed to make application to any conformity assessment body and have their applications accepted and processed in a reasonable time.”  
(Emphasis added)

## **Conclusion**

No one condones the intentional abuse of a standards-setting process by a participant in order to gain an unfair competitive advantage. Many of the due process-based procedural requirements reflected in the ANSI procedural requirements for the development of American National Standards provide certain safeguards in the process in order to reduce the risk of unacceptable and anticompetitive conduct surreptitiously taking hold.

With respect to the inclusion of patented technology in standards, there are incentives built into the ANSI system that cause it to be effective in discouraging duplicitous conduct by participants. The risks are that (1) the approval of the standard is subject to withdrawal, often rendering the company's innovation relatively useless, (2) competitors can and usually do avail themselves of their legal rights in court if they believe they are being unfairly disadvantaged, and various legal claims, such as equitable estoppel, laches, patent misuse, fraud, and unfair competition may be available to prevent a patent holder from enforcing a patent covering an industry standard due to the patent holder's improper conduct in a standards-setting context, and (3) in the case of deliberate misconduct, the FTC, DOJ, the EC, or other competition authorities can intervene. In addition, a company engaging in such conduct likely would lose some of its stature in the standards development community.

The ANSI Patent Policy has proven over time to be an effective means of addressing the incorporation of patented technology into standards. And, as noted, the ANSI IPRPC continues to monitor the effectiveness of that policy and its responsiveness to current needs. ANSI is not aware of any abuse of the process relating to patents that has occurred in connection with any American National Standard that has not been remedied.

ANSI believes that each standards-setting organization should establish its own patent policy based on its objectives, the nature of the standard being developed, and the consent of its participants, and should avoid any requirements that arguably would require unnecessary patent searches. ANSI's Patent Policy provides a proven, solid foundation for other organizations to consider using with whatever modifications they and their participants decide will be beneficial to their activities and ANSI-accredited SDOs are required to have Patent Policies that are consistent with the ANSI Patent Policy in their development of American National Standards. This aspect of compliance with ANSI Essential Requirements is reviewed during audits, approval of ANSs, and upon any complaint or appeal of non-conformance with ANSI policies in the development of an ANS.

The infrequent occasions in which SDO IPR policies and standards-setting processes have been the subject of competition law challenges demonstrate that the current overall system of individually-tailored patent policies effectively polices itself under existing legal principles. Competitors in fact challenge the conduct of those who allegedly are abusing the standards-setting process. These competitors have the relevant technological and market expertise to most readily detect violations of (F)RAND or other unacceptable misconduct and to assert their rights.

ANSI thanks the Commission for inviting ANSI and others to participate in the Public Consultation process and for the opportunity to comment and contribute to the EC's considerations.

Very truly yours,

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Patricia A. Griffin



**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

**DAF/COMP/WP2/WD(2010)25  
For Official Use**

**Working Party No. 2 on Competition and Regulation**

**STANDARD SETTING**

**-- American National Standards Institute --**

**14 June 2010**

*The attached document is submitted to Working Party No. 2 of the Competition Committee FOR DISCUSSION under item III of the agenda at its forthcoming meeting on 14 June 2010.*

Please contact Mr. Sean Ennis if you have any questions regarding this document [phone number: +33 1 45 24 96 55 -- E-mail address: sean.ennis@oecd.org].

**JT03285450**

## 1. Introduction

1. The American National Standards Institute (“ANSI”) is pleased to respond to OECD’s invitation for written submissions relating to the OECD roundtable discussion on standard setting, to be held on June 14, 2010.

2. 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”).

3. ANSI understands a number of topics will be discussed during the roundtable based on the contributions from the delegates and other presentations; however, ANSI will focus these comments on the topics identified in the invitation to this event. These include:

- What are the potential benefits and harms from standard setting activity?
- How can the harms be mitigated?
- To what extent should the government be involved in setting standards?
- What licensing rules are applied to intellectual property related to standards?
- What is the appropriate role of government in the resolution of disputes about standards?

4. 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 and its accredited SDOs are often characterized as the “*de jure*” or more formalized standards-setting process in the United States.<sup>1</sup>

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<sup>1</sup> ANSI is often asked about the total number of standards (and standards setting bodies) in the United States. It is estimated that in the U.S. today there are hundreds of “traditional” standards developing organizations – with the 20 largest SDOs producing 90% of the standards – and hundreds more “non-traditional” standards development bodies, such as consortia. This means that the level of U.S. participation is quite expansive as the groups themselves are comprised of individual committees made up of experts addressing the technical requirements of standards within their specific area of expertise.

5. ANSI believes that there are great benefits and pro-competitive effects of a voluntary standardization system. ANSI testified to the Federal Trade Commission (“FTC”) several times about these pro-competitive effects. As far back as 1995 ANSI advised the FTC:

*The benefits and pro-competitive effects of voluntary standards are not in dispute. Standards do everything from solving issues of product compatibility to addressing consumer safety and health concerns. Standards also allow for the systemic elimination of non-value-added product differences (thereby increasing a user’s ability to compare competing products), reduce costs and often simplify product development. They also are a fundamental building block for international trade. As the Court of Appeals for the First Circuit explained:*

*The joint specification development, promulgation, and adoption efforts would seem less expensive than having each member of CISPI [a trade association] make duplicative efforts. On its face, the joint development and promulgation of the specification would seem to save money by providing information to makers and to buyers less expensively and more effectively than without the standard. It may also help to assure product quality. If such activity, in and of itself, were to hurt Clamp-All by making it more difficult for Clamp-All to compete, Clamp-All would suffer injury only as result of the defendants’ joint efforts having lowered information costs or created a better product.... And, that kind of harm is not “unreasonably anticompetitive.” It brings about the very benefits that the antitrust laws seek to promote.*

*Clamp-All Corp. v. Cast Iron Soil Pipe Institute, 851 F.2d 478, 487 (1st Cir. 1988) (Breyer, C.J.) (citation omitted; emphasis in original).*

*Therefore, the analysis of any possible anti-competitive effects a standard may have must, under the “rule of reason”, be weighed against its pro-competitive and positive effects. This, however, is somewhat easier said than done.*

*One of the principle difficulties confronted by enforcement agencies and the courts when applying the “rule of reason” to standardization activities is that any cost-benefit analysis or consideration of possible alternative standards requires a technical expertise that these bodies normally admittedly lack. The obvious alternative is to leave the resolution of technical issues to the experts who participated in the standards development process and focus instead on the process itself. As pointed out in the Standard-Setting<sup>2</sup> article, focusing on the standards development process has the benefit of (1) being easier for courts and enforcement agencies to analyze, (2) providing clear guidance to the business community and (3) being designed (and if necessary modified) to reduce if not eliminate the possibility of anti-competitive activity. Standard-Setting at 256.*

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As of the end of 2009, some 223 of these standards developers were accredited by ANSI; there are approximately 10,000 American National Standards (“ANS”).

According to data provided in NIST Special Publication 806, Standards Activities of Organizations in the United States (1996 Edition; edited by Robert B. Toth), there are more than 93,000 standards produced and nearly 700 organizations that cited standards development as an area of activity. Of these, the federal government is the largest single creator and user of standards (more than 44,000 of them); the private sector in America collectively has about 49,000 standards.

<sup>2</sup> J. Anton & D. Yao, *Standard-Setting Consortia, Antitrust, and High Technology Industries*, 64 *Antitrust L.J.* 247 (Fall 1995) (“*Standard Setting*”).

*This has been ANSI's approach, and it has been effective. In its role as the accreditor of U.S. standards developing organizations (SDOs), ANSI seeks to further the integrity of the standards development process and to determine whether candidate standards meet the necessary criteria to be approved as American National Standards. ANSI's approval of these standards is intended to verify that the principles of openness and due process have been followed and that a consensus of all interested parties has been reached. These requirements ensure that the playing field for standards development is a level one. In addition, ANSI considers any evidence that the proposed American National Standard is contrary to the public interest, contains unfair provisions or is unsuitable for national use. (Emphasis added, original footnote deleted, one footnote added for clarification.)*

6. The ANSI system has a long-standing history of effective self-policing. To the extent that the ANSI process has not detected and deterred all potential antitrust-related problems, the problems that surfaced up until 1995 were generally addressed by the private sector in a handful of private action lawsuits<sup>3</sup>. There are now approximately 10,000 ANSI-approved American National Standards that provide dimensions, ratings, terminology and symbols, test methods, performance and safety requirements. The voluntary standards development process has proven its effectiveness across a diverse set of industries and in federal, state, and local government processes. These industries include telecommunications, safety and health, information technology, petroleum, banking, and household appliances.

7. The U.S.'s market-driven, private sector-led approach to global standardization is substantially different from the top-down approach favored in many other countries. Though the U.S. system is unique, it is based upon a set of globally accepted principles for standards development, which include:

- **Transparency**  
Essential information regarding standardization activities is accessible to all interested parties.
- **Openness**  
Participation is open to all affected interests.
- **Impartiality**  
No one interest dominates the process or is favored over another.
- **Effectiveness and Relevance**  
Standards are relevant and effectively respond to regulatory and market needs, as well as scientific and technological developments.
- **Consensus**  
Decisions are reached through consensus among those affected.
- **Performance Based**  
Standards are performance based (specifying essential characteristics rather than detailed designs) where feasible.
- **Coherence**  
The process encourages coherence to avoid overlapping and conflicting standards when appropriate.

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<sup>3</sup> Although private cases were a principle mechanism prior to 1995 when ANSI testified to the FTC, as shown below, the FTC has been much more active since then in looking at competition cases and standards development, *see*, for example, *Dell, Rambus, Unocal, and N-Data*.

- **Due Process**  
Standards development accords with due process so that all views are considered and appeals are possible.
- **Technical Assistance**  
Assistance is offered to developing countries in the formulation and application of standards.

8. Working in partnership with stakeholders from government and industry, ANSI continues to explore how standards and conformity assessment-based solutions – developed with the consensus of all interested parties – can meet the critical needs of the United States and the entire global community.

### 3. ANSI's Approach to the Intersection of Standards and Intellectual Property

9. The intersection of standards-setting, patent rights and antitrust concerns has been the subject of inquiry and debate for many years. The standards community has fashioned IP policies and procedures to provide a roadmap that allows for the inclusion of patented material in standards. There are a number of factors standards developers consider in fashioning an IP policy that best suits its particular needs, including:

1. **Type of Policy** (*e.g.*, does the policy apply to patents, trademarks, copyrights, or all three?);
2. **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 the two general approaches?);
3. **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?);
4. **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?);
5. **Patent Searches** (does disclosure require the IP holder to conduct patent searches?);
6. **Form of disclosure** (*e.g.*, does the policy require the use of a specific form/content of disclosure?);
7. **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 SSO and/or the specific technical committee?);
8. **Licensing Terms** (*e.g.*, does the SSO allow reciprocity, scope of use, disclosure of licensing terms to the standards body *ex ante*, patent pools, etc.?);
9. **Enforcement** (*e.g.*, how are disputes resolved, what competition laws apply and how many complaints or what litigation has the SSO experienced in the past ten years regarding the implementation of its IPR policy?); and

**10. 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?).

10. For its part, ANSI has developed a Patent Policy which generally must be followed by ANSI-accredited SDOs in the development of all American National Standards ("ANSs"). A copy is attached in **Appendix A**. The ANSI Patent Policy attempts to strike a balance among the rights of the patent holder, the interests of competing manufacturers seeking to implement the standard, the consensus of the technical experts from different stakeholder groups on the desired content of the standard, the concerns and resources of the SDO, the impact on consumer welfare, and the need to avoid unnecessary strictures that would discourage participation in the standards development process. There has not been any adjudicated abuse of the ANSI Patent Policy in the approximately 35 years ANSI has had such a policy.

11. 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 in order to determine whether the patent holder will provide licenses (a) on reasonable and non-discriminatory ("RAND") terms and conditions or (b) on a compensation-free basis (that may include other RAND terms and conditions). If the patent holder submits a patent statement 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.

12. ANSI Patent Guidelines, which inform the Patent Policy, advise that discussion of licensing issues among competitors in a standards-setting context could significantly complicate, delay or derail standards-setting efforts. A copy of ANSI's Patent Policy Guidelines is attached in **Appendix B**. Moreover, discussion of licensing terms may impose a risk that the SDO and the participants will become targets of allegations of improper antitrust conduct. The potential antitrust risks that have been associated with the discussion of license terms should be distinguished from the adoption by SDOs of rules that permit, encourage, or require participants in standards development that identify patents they believe are essential also to disclose the terms on which they will license their essential IP, and to do so as early as possible in the standards development process.

13. 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. As recognized by the United States Federal Trade Commission in *American Society of Sanitary Engineering*,<sup>4</sup> if a standards development organization comes to enjoy significant market power, its decisions to exclude a patented invention from a standard can unreasonably restrain trade by misleading consumers, depriving them of information about the performance of the product, or even excluding a technically advanced product from the market.

14. 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

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<sup>4</sup> See *American Society of Sanitary Engineering*, Dkt. C-3169, 106 F.T.C. 324 (1985). It is noteworthy that the invention at issue in that case -- the Fillpro valve designed by J.H. Industries - which was "excluded" from the standard was not an "essential" technology. If permitted by the standard, it would be one of many conforming implementations of the standard.

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.

15. Over the last several years, two ANSI-accredited Standards Developing Organizations revised their patent policies and each requested a “Business Review Letter” from the U.S. Department of Justice relating to such policies. A Business Review Letter is a statement of the current enforcement intentions of the U.S. Department of Justice with respect to the specific conduct described by the organization requesting the letter. Information related to these Business Review Letters (“BRLs”) can be found on pages 20-22 of the ANSI GSC-14 Contribution which is referenced and linked in our contribution.

#### **4. U.S. Government Role In Standard Development**

16. The U.S. standardization system and its consensus-based, public-private partnership is reflected in the *National Technology Transfer and Advancement Act of 1995* (“NTTAA”), Public Law 104-113. This law directs all federal government agencies to use for regulatory, procurement, and other agency activities, wherever feasible, standards and conformity assessment solutions developed or adopted by voluntary consensus standards bodies in lieu of developing government-unique standards or regulations. The NTTAA also encourages government agencies to participate in standards development processes, where such involvement is in keeping with an agency’s mission and budget priorities.

17. The NTTAA remains the cornerstone for promoting the use of voluntary consensus standards and conformance in both regulation and procurement at the federal level. The Office of Management and Budget (“OMB”) – through its OMB Circular A-119 – confirms that close interaction and cooperation between the public and private sectors is critical to developing and using standards that serve national needs and support innovation and competitiveness.

18. The federal government is a key player in the U.S. standardization system. Over three thousand Federal agency representatives participate in the private sector-led standards development process consistent with the mandate and authority under the NTTAA and OMB Circular A-119. Even more importantly, government participation means that government users understand both the intent and content of specific standards and conformity assessment activities. Government representatives currently participate in the activities of hundreds of standards developing organizations, at both the technical and policy levels.

19. The US Government recently established a new Subcommittee on Standards, under the U.S. National Science and Technology Council (“NSTC”). The purpose of this Subcommittee is to improve coordination among U.S. federal government agencies’ standards engagement, and to help the U.S. government better address challenges associated with standardization in emerging, multi-disciplinary technologies that are national priorities. ANSI has played a key role in providing information about this activity to the stakeholders in the U.S. Standards System and in gathering useful information for the NSTC Subcommittee on Standards (“SoS”).

#### **5. The Role of U.S. Government in the Resolution of Disputes About Standards**

20. The U.S. Federal Trade Commission (“FTC”) and the U.S. Department of Justice (“DOJ”) have commenced several significant enforcement actions arising in the standard-setting context.

##### **5.1 *In re N-Data***

21. *In re N-Data*, the FTC announced a proposed settlement of a claim under Section 5 of the FTC Act involving a patent holder’s attempts to change the licensing terms for an essential patent from those that had been offered by a predecessor owner of the patent as part of its licensing commitment to the

standards body. The Complaint alleged that Negotiated Data Solutions, LLC (“N-Data”) engaged in unfair methods of competition and unfair acts or practices relating to the Ethernet standard for local area networks. In a 3-2 decision, the FTC ruled that the licensing commitment made by the previous patent owner was binding upon N-Data given that N-Data knew about the commitment but nevertheless sought to dramatically increase the cost to license the patent. The Complaint did not allege a violation of the antitrust laws.

22. By way of background, employees of National Semiconductor Corporation (“National”) were members and active participants in IEEE, the standards organization responsible for developing the Fast Ethernet Standard. National disclosed to the group working on the standard that it had filed a patent application for certain technology that it proposed be adopted into the standard. According to the majority statement, based on National’s assurance that a license would be made available to implementers of the standard on a nondiscriminatory basis for a one-time fee of \$1,000, IEEE incorporated the technology into the Fast Ethernet standard and into subsequent revisions of the standard. Thereafter, National assigned a number of the patents covering the technology to a telecommunications start-up company founded by former National employees who, in turn, assigned the patents a second company N-Data. Both companies had knowledge of the “encumbrance” on the patents. Chairman Majoras, one of the dissenting Commissioners, commented that at the time of the original licensing assurance the IEEE’s IPR policy did not state that an assurance was irrevocable and that others had modified licensing assurances under the policy. The dissenting Commissioners also disagreed with the imposition of liability based only on Section 5 of the FTC Act, without a finding that the conduct was unlawful under the antitrust laws.

## 5.2 *In re Dell*

23. In 1996, the FTC alleged in *In re Dell*, 121 FTC 616, 616-18 (1996) (No. C-3658) that during an SDO’s deliberations about a certain standard, Dell, a member of that SDO, twice certified that it had no IP relevant to the standard and that the SDO adopted the standard based, at least in part, on Dell’s representations. The FTC described those representations as “not inadvertent.” 121 F.T.C. at 625-626. After the SDO adopted the standard, Dell demanded royalties from those using its technology in connection with that standard. The FTC brought an action against Dell on the basis of this conduct and, ultimately, accepted a consent agreement under which Dell agreed not to enforce the patent in question against firms using it as part of the standard.

## 5.3 *Rambus*

24. In June 2002, the FTC commenced an enforcement action against Rambus (*In re Rambus Inc.*, Docket No. 9302) alleging violations of Section 5 of the FTC Act by virtue of Rambus’ conduct in connection with a standards-setting activity at JEDEC. Rambus had developed and patented SDRAM architecture for random access memory. The FTC alleged that JEDEC’s patent policy first impliedly and then later expressly required the disclosure of any knowledge of patents or pending patents that might be necessary to implement the standard under development. According to the Complaint, Rambus had patents and patent claims that read on the standard and it deliberately chose not to disclose them. In addition, the Complaint alleged that Rambus engaged in an intentional effort to amend its patent claims so that they would continue to map against the evolving standard. By this deceptive conduct, according to the Complaint, Rambus unlawfully monopolized four technology markets in which its patented technologies compete. In July 2006, the Commission found that Rambus’ “acts of deception constituted exclusionary conduct under Section 2 of the Sherman Act, and that Rambus unlawfully monopolized the markets for four technologies” that were incorporated into the Dynamic Random Access Memory (“DRAM”) standards adopted by the JEDEC in violation of Section 5 of the Federal Trade Commission Act.

25. On April 22, 2008 the U.S. Court of Appeals for the D.C. Circuit vacated the FTC's decision and remanded the matter back to the FTC for further proceedings consistent with the Court's opinion. The Court of Appeals unanimously determined the FTC failed to demonstrate that Rambus's conduct was exclusionary under settled principles of antitrust law and thus failed to establish its claim that Rambus unlawfully monopolized the relevant markets. In doing so, the Court also expressed its "serious concerns" about the strength of the evidence relied on to support some of the Commission's findings regarding the scope of JEDEC's patent disclosure policies and Rambus's alleged violation of those policies. Among other things, the Court noted its concern that: (1) there appeared to be no record support for the Commission's allegation that JEDEC participants were obliged to disclose not merely relevant patents and patent applications but also their work in progress on amendments to pending applications; and (2) some of the SDRAM technologies at issue were adopted by JEDEC more than two years after Rambus left that organization.

26. The Commission requested that the United States Supreme Court review the case and that request was denied in February, 2009. In May 2009, the FTC officially dropped the case against Rambus.

#### **5.4 *In Re Unocal***

27. The FTC commenced an enforcement action against the Union Oil Company of California ("Unocal") on March 4, 2003 (*In re Union Oil Company of California*, Docket No. 9305). The Complaint charged Unocal with wrongfully obtaining or seeking to obtain monopoly power and unreasonably restraining trade in violation of Section 5 of the FTC Act. Unocal filed two motions to dismiss the Complaint. The first motion sought dismissal based on *Noerr-Pennington* immunity and the second for failure to make sufficient allegations that Unocal possesses or dangerously threatens to possess monopoly power.

28. In his Initial Decision dated November 25, 2003, the Administrative Law Judge (ALJ) dismissed the Complaint by granting each of these motions in part. He held that FTC Complaint Counsel did not meet its burden of (a) establishing that the *Noerr-Pennington* doctrine did not apply to shield Unocal's actions vis-à-vis CARB from antitrust liability and (b) alleging sufficient facts to support jurisdiction when the allegations of misconduct involve substantial issues of patent law.

29. On July 7, 2004, the FTC reversed and vacated the Initial Decision, reinstated the Complaint and remanded for further consideration of the Complaint's allegations. 2004 FTC LEXIS 115, July 7, 2004. The FTC found that neither the *Noerr-Pennington* doctrine nor the claimed absence of FTC jurisdiction provided an adequate basis for Unocal's motion to dismiss. Less than a year later, on June 10, 2005, the FTC announced a consent order settling the complaint against Unocal. Under the terms of the settlement, Unocal will cease enforcing its gasoline patents and release all such patents to the public.

## **6. Conclusion**

30. ANSI welcomes the opportunity to be able to offer some input to the OECD as it considers these issues. We realize that some will argue that standard setting may be prone to anti-competitive behavior because standards are often set by groups that include actual and potential competitors. They will note that standards can have the effect of excluding non-chosen technologies. Standard setting can also yield cost advantages for certain technologies, can result in payments from one competitor to another for technology, and can ultimately have substantial influences on the prices paid by consumers as well as product variety. Some recent work has alleged that firms on occasion "hijack" the standard setting process by urging a standard-setting body to promote a technology which standard-setting body members believe will be accessible at no cost and then patenting key elements of the standard and charging royalties. At the same time, standard setting bodies may be urged to announce prices for different technologies prior to setting the

standard, to avoid such hijacking, but these announcements and decisions based on them could pose risks of collusion, buyer cartel behavior, and price fixing.

31. ANSI believes the system it has in place has numerous safeguards that mitigate against these fears and concerns from actually occurring. ANSI also realizes that the system used in the USA is often misunderstood. ANSI frequently updates delegations from other countries on changes that are occurring in the USA and what ANSI is doing to address current issues and improve its system. ANSI files comments in proceedings in other countries where public comment is sought and has provided input to the European Commission, the Government of India, and to China's National Institute of Standardization ("CNIS") which is drafting a Guide for the Implementation of the Inclusion of Patents in National Standards for the Chinese National Standards Body (SAC –Standardization Administration of China). ANSI has also prepared educational materials such as its Open Standards Critical Issues paper which discusses ANSI's view on Open Standards and Open Source. (A copy of that paper is attached as **Appendix C.**)

32. ANSI, for example, typically makes contributions to the Global Standards Collaboration meetings ([www.gsc.etsi.org](http://www.gsc.etsi.org)) on various topics and specifically contributions to the GSC IPRWG. ANSI's contribution to GSC-14 may provide useful additional information to the OECD delegates. ANSI appreciates the opportunity offered by OECD to provide some information on ANSI and the U.S. standards system. More information is available on the ANSI Web page ([www.ansi.org](http://www.ansi.org)) and we would be happy to answer specific questions.

## APPENDIX A

33. The ANSI Patent Policy, excerpted from the *ANSI Essential Requirements: Due process requirements for American National Standards* is reproduced here in its entirety:

### 3.0 Normative American National Standards Policies

34. Every ANSI-Accredited Standards Developer (ASD) shall comply with the normative policies contained in this section. The ASD may choose to: 1) include the text that follows, as appropriate, in its accredited procedures along with any additional information as required; or 2) submit to ANSI a written statement of full compliance with these policies in addition to policy statements that satisfy the requirements set-forth in this section.

#### 3.1 *ANSI patent policy - Inclusion of Patents in American National Standards*

35. 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.

36. 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*

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

- 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
- 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:
  - under reasonable terms and conditions that are demonstrably free of any unfair discrimination; or
  - without compensation and under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

##### 3.1.2 *Record of statement*

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

3.1.3 *Notice*

39. 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 nondiscriminatory terms and conditions to applicants desiring to obtain such a license, then details may be obtained from the standards developer.*

3.1.4 *Responsibility for identifying patents*

40. 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.

## APPENDIX B

### **GUIDELINES FOR IMPLEMENTATION OF THE ANSI PATENT POLICY: AN AID TO MORE EFFICIENT AND EFFECTIVE STANDARDS DEVELOPMENT IN FIELDS THAT MAY INVOLVE PATENTED TECHNOLOGY**

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Updated September 2008 to reflect updates to the ANSI Patent Policy approved by the Patent Group and the IPRPC  
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#### **About the American National Standards Institute**

41. ANSI is a nonprofit, privately funded membership organization that coordinates the development of U.S. voluntary national standards and is the U.S. member body to the International Organization for Standardization (ISO) and, via the United States National Committee (USNC), the International Electrotechnical Commission (IEC).

42. The Institute was founded in 1918, prompted by the need for an “umbrella” organization to coordinate the activities of the U.S. voluntary standards system and eliminate conflict and duplication in the development process. For over seventy years, this system has been successfully administered by the private sector, via ANSI, with the cooperation of federal, state and local governments. The Institute serves a diverse membership of over 1300 companies, 250 professional, technical, trade, labor and consumer organizations and some 30 government agencies. Standards exist in all industries, including safety and health, telecommunications, information processing, petroleum, medical devices, etc.

43. Some of the Institute’s key functions include:

- Coordinating the self-regulating, due process consensus based U.S. voluntary standards system;
- Administering the development of standards and approving them as American National Standards;
- Providing the means for the U.S. to influence development of international and regional standards;
- Promoting awareness of the growing strategic significance of standards technology to U.S. global competitiveness.

## I Purpose

44. These Guidelines are intended to assist voluntary standards developers, and those that participate in the standards development process, in understanding and implementing the ANSI Patent Policy (the “Patent Policy”, see Exhibit A). Drafted by a task force formed by ANSI for the purpose of studying the Patent Policy, the Guidelines seek to encourage the early disclosure and identification of patents that may relate to standards under development, so as to thereby promote greater efficiency in standards development practices.

45. By definition, guidelines are suggestions -- adherence is not essential for standards developers to be found in compliance with ANSI’s Patent Policy. Rather, this is an effort to identify possible procedures that a standards developer may wish to adopt, either in whole or in part, for purposes of effectively implementing the Patent Policy. Additional or different steps may also be selected for such purposes.

## II An Overview of the ANSI Patent Policy

46. The Patent Policy is set forth in Section 3.1 of ANSI’s “Essential Requirements: Due process requirements for American National Standards” as approved by the ANSI Board of Directors (the “ANSI Essential Requirements”). Compliance (or non-compliance) with the Patent Policy is one of the criteria to be considered by ANSI’s Board of Standards Review (“BSR”) in determining whether to approve (or withdraw approval of) an American National Standards. See ANSI Essential Requirements, Section 4.2.

### As set forth in the ANSI Procedures:

47. 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. ANSI Essential Requirements, Section 3.1.

48. However, where a proposed ANS or an approved ANS may require the use of such patent claim, the procedures detailed in Sections 3.1 must be followed.

49. In particular, *the identified party or patent holder* must supply the ANSI-accredited standards developer (“ASD”) with either:

- an assurance in the form of a general disclaimer to the effect that such party does not hold and does not anticipate holding any essential patent claim(s); *or*
- an 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:
  - under reasonable terms and conditions that are demonstrably free of any unfair discrimination; *or*
  - without compensation and under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

### ANSI Essential Requirements, Section 3.1.1.

50. The Patent Holder’s statement of intent to comply shall be retained in the files of both the ASD and ANSI ANSI Essential Requirements, Section 3.1.2.

51. While ANSI's counsel will verify that the information required from the patent holder has been supplied, counsel will not undertake to evaluate whether the terms and conditions satisfy the substantive test set forth in Section 3.1 (i.e. whether the terms and conditions are "reasonable" and/or "free of any unfair discrimination"). Such a decision is the exclusive province of the Board of Standards Review (or, on appeal, the ANSI Appeals Board) if the issue is raised during the approval process or in a petition for withdrawal of approval. In making its decision, the BSR shall consider all information of record it finds relevant.

52. Neither the standards developer submitting a standard for approval 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 any patents brought to their attention. (ANSI Essential Requirements, Section 3.1.4.)

53. A standards developer seeking approval of a proposed American National Standard should take steps that it reasonably concludes are sufficient to permit a representation to ANSI that the Patent Policy has been met. In turn, ANSI, through its BSR, will take those steps that it reasonably concludes are sufficient to determine that the Patent Policy has been met based on the record before the BSR. Upon publication, the standard shall bear a notice in form specified in Section 3.1.3.

### **III Possible Procedures for Implementing the Policy**

#### ***A Early Disclosure of Patent Rights***

54. Experience has indicated that early disclosure of essential patents or essential patent claims is likely to enhance the efficiency of the process used to finalize and approve standards. Early disclosure permits notice of such patent claims to the standards developer and ANSI in a timely manner, provides participants the greatest opportunity to evaluate the propriety of standardizing the patented technology, and allows patent holders and prospective licensees ample time to negotiate the terms and conditions of licenses outside the standards development process itself.

55. Accordingly, during 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).

56. 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.

57. 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. Further, to assist in international standardization, a standards developer may deem it appropriate to encourage the disclosure of relevant unexpired foreign patents.

58. Similarly, a standards developer may wish to encourage participants to disclose the existence of pending U.S. patent applications relating to a standard under development. Of course, in such a situation

the extent of any disclosure may be more circumscribed due to the possible need for confidentiality and uncertainty as to whether an application will mature into a patent and what its claimed scope will ultimately be.

### ***B Early Indication of a Willingness to License***

59. The early identification of relevant essential patents or essential patent claims should also increase the likelihood of an early indication from the patent holder that it is willing to license its invention, that it is prepared to do so on reasonable terms and conditions demonstrably free of unfair discrimination, or that the patent in question is not required for compliance with the proposed standard. A patent holder may have a strong incentive to provide an early assurance that the terms and conditions of the license will be reasonable and demonstrably free of unfair discrimination because of its inherent interest in avoiding any objection to the standardization of its proprietary technology. As a consequence, patent holders and prospective licensees would be provided greater opportunities to negotiate acceptable license terms.

60. It should be reiterated, however, that the determination of specific license terms and conditions, and the evaluation of whether such license terms and conditions are reasonable and demonstrably free of unfair discrimination, are not matters that are properly the subject of discussion or debate at a development meeting. Such matters should be determined only by the prospective parties to each license or, if necessary, by an appeal challenging whether compliance with the Patent Policy has been achieved.

61. It should also be emphasized that, notwithstanding the incentive for patent holders to indicate any 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.

62. 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.

### ***C Subsequently Discovered Patents***

63. The Patent Policy applies with equal force to situations involving (1) the discovery of essential patent claims that may be required for use of a standard subsequent to its adoption and (2) the initial issuance of a patent after adoption. Once disclosure is made, the holder is obligated to provide the same assurances to ASD as are required in situations where essential patent claims exist or are known prior to approval of a proposed standard as an American National Standard.

64. Thus, if notice is given of a patent that may be required for use of an already approved American National Standard, a standard developer may wish to make it clear to its participants that the ANSI procedures require the patent holder to provide the assurances contained in the Patent Policy or suffer the withdrawal of ANSI's approval of the standard as an American National Standard.

#### ***IV Conclusion***

65. Good standards development is often time consuming and demands considerable effort by those participating in the process. In fields that may involve the use of patented technology in a standard, therefore, it is particularly important that a patent holder's willingness and intention to comply with ANSI's Patent Policy be ascertained as soon as possible. Doing, so, however, does not require participants in standards development meetings to become involved in negotiating the terms and conditions of a possible license with the patent holder. To the contrary, what is required is the use of effective procedures designed to assure an understanding of the Patent Policy and to foster prompt compliance with it.

#### ***Exhibit A***

66. ANSI Essential Requirements, Section 3.1

#### ***ANSI's Patent Policy***

##### ***3.1 ANSI patent policy - Inclusion of Patents in American National Standards***

67. 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.

68. If an ANSI-Accredited Standards Developer (ASD) receives a notice that a proposed ANS or an approved ANS may require the use of such 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 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 nondiscriminatory terms and conditions to applicants desiring to obtain such a license, then details may be obtained from the standards developer.

#### **3.1.4 Responsibility for identifying patents**

69. 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.

## APPENDIX C

### CRITICAL ISSUE PAPER

Title: Current Attempts to Change Established Definition of “Open” Standards

Issue: The term “open standard” has been used recently to describe a standard that may be copied, used and distributed for no fee and/or whose embedded technology is irrevocably available on a royalty-free basis. This definition has created some confusion among standards developers and users because it is contrary to the definition of “open” and “openness” long held by the American National Standards Institute (ANSI) and many other recognized standards bodies who understand the term to describe a collaborative, balanced and consensus-based approval process for the promulgation of domestic or international standards.

Background: Historically, ANSI and many U.S.-based developers of voluntary consensus standards have used the terms “open” or “openness” to characterize a process that has certain important features. These include:

- consensus by a group or “consensus body” that includes representatives from materially affected and interested parties;
- broad-based public review and comment on draft standards;
- consideration of and response to comments submitted by voting members of the relevant consensus body as well as by the public;
- incorporation of approved changes into a draft standard; and
- availability of an appeal by any participant alleging that due process principles were not respected during the standards-development process.

These same features are central to the policies of well-recognized regional and international standards bodies such as the International Telecommunications Union (ITU), International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), European Telecommunications Standards Institute (ETSI) and the WC3 Consortium. Further, these features are endorsed in Annex 4 of the Second Triennial Review of the WTO/TBT Agreement.

By contrast to these well-established notions of standards organizations that develop “open” standards, other incompatible definitions of the term “open standard” exist, both within the standardization industry and within certain industrial sectors. For example, recently the European Commission’s Interchange of Data Between Administrations (“IDA”) released a document which seeks to establish a European interoperability framework to support the delivery of electronic government services. In that document, entitled *European Interoperability Framework of Pan-European E-Government Services*, the IDA stated that an “open standard” is one that is “available to all interested parties” and subject to copying, distribution and use “for no fee or at a nominal fee” and whose

intellectual property is “irrevocably available on a royalty-free basis” with “no constraints on the re-use of the standards.”

But using the term “open standard” to define a specification whose sole quality is that is unconditionally and freely available to those who wish to implement it is misleading for two reasons.

First, it ignores the fact that essential patent holders have the right to decide how they will license their intellectual property. The terms and conditions used in the development of “open standards” should balance the interests of those who will implement the standard with the interests and voluntary cooperation of those who own intellectual property rights that are essential to implementation of the standard. Such terms and conditions should readily promote, and not unreasonably burden, accessibility to the standard for the communities of interested implementers. To achieve such balance, the payment of reasonable license fees and/or other reasonable and nondiscriminatory license terms may be required by the intellectual property rights holders. This balance of licensing rights (rather than waiver thereof) is consistent with an open standard. The word “open” does not imply “free” from monetary compensation or other reasonable and nondiscriminatory license terms.

Further, an open standard may involve the payment of a fee to obtain a copy of the standard. Such fees are sometimes used to offset the costs associated with managing open standards development process.

Additional Information:

- ***ANSI Essential Requirements: Due process requirements for American National Standards (2005 edition)***
- American National Standards Institute - Introduction

ANSI Policy Body Addressing Issue: Intellectual Property Rights Policy Committee

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