

GTW ASSOCIATES



Comments of GTW Associates

AUGUST 5, 2011

Patent Standards Workshop , Project No. P11-1204

**George T. Willingmyre, P.E.
President**

GTW Associates
1012 Parrs Ridge Drive
Spencerville, MD 20868
phone 301-421-4138
facsimile 301-421-0977
gtw@gtwassociates.com
<http://www.gtwassociates.com>

Preface

GTW Associates welcomes the opportunity to reply to the FTC's Request for Comments and Announcement of Workshop on Standards-setting regarding "patent hold up" in connection with standardization efforts.

GTW Associatesⁱ is an International Standards and Trade policy Consultancy. GTW Associates has direct experience in the questions FTC has raised in its Request for Comments. GTW Associates' clients comprise governments; standards developers; law firms and corporations active in standards setting.

GTW Associates President George T. Willingmyreⁱⁱ participates in many national and global intellectual property and standards policy activities. GTW Associates monitors the intellectual property right policies and guidelines of global standards organizations and maintains an on line database with links to these policiesⁱⁱⁱ. President Willingmyre advises law firms and companies relative to litigation involving patent policies and procedures in standards setting.

Executive Summary

GTW Associates divides its comments into two parts:

Part I Characteristics of the Standards system and intellectual property rights practice in areas of concern raised by FTC

There is a new question how frequent are ex ante disclosures in practice.

Recommendations addressing and perhaps making more rigorous patent policies within standards setting organizations have little impact on third party owners of essential patents since they are not part of the standard organization in the first place.

There will be several negative outcomes within the voluntary standards community of perceived pressure on standards organizations to adopt mandatory ex ante disclosure of terms and conditions for maximum royalties for essential patents.

Rarely is a single essential patent subject of a license between a patent owner and licensee ... or is a particular term in a license such as "royalty" more important than some other term such as reciprocity or cross licensing.

The reasonable and non discriminatory assurance (RAND) promise the holder of an essential patent makes to comply with the requirement of the patent policy of many standards developers is ambiguous and intentionally so. It is that flexibility that is its strength.

Ex ante auction models attempting to assign fair values to the contributions of intellectual property compared to values attributable to the standard itself do not produce the right outcomes from a social welfare point of view.

Observations on the 2007 AGENCY POLICY CONCLUSIONS ABOUT ANTITRUST CONCERNS ASSOCIATED WITH EX ANTE LICENSING NEGOTIATIONS	
<i>Agencies will evaluate joint ex ante activity to establish licensing terms under the rule of reason</i>	<i>Standards organizations take great care creating and following procedures to minimize the prospect of ANY litigation. Litigation can be of private or government origin. Litigation is an expensive and undesirable activity for a standards organization</i>

	<p><i>If a standards organization’s activity to establish licensing terms is being evaluated AT ALL by anyone capable of suing the organization it is only a matter of degree of problem whether the analysis be by rule of reason or by per se.</i></p>
<p><i>First, an IP holder’s voluntary and unilateral disclosure of its licensing terms, including its royalty rate, is not a collective act subject to review under section 1 of the Sherman Act. Further, a unilateral announcement of a price before “selling” the technology to the standard setting body (without more) cannot be exclusionary conduct and therefore cannot violate section 2</i></p>	<p><i>Participants in ANSI accredited standards setting have long had the option described in sentence one outside of the formal standards process.</i></p> <p><i>They have also had the opportunity to make a declaration consistent with the patent policy and procedures of the standards developer in which they are participating.</i></p> <p><i>Further they can make whatever voluntary and unilateral disclosure they want outside of that standards process of specific licensing terms.</i></p> <p><i>However disclosures WITHIN the standards context are more rare. An example of such a voluntary disclosure of terms and conditions including a royalty WITHIN the standards development context is the letter of Assurance requesting a 5% royalty made by Visible Assets Inc. on September 20, 2008^{iv} IEEE requested a business review letter from the Antitrust Division expressing its enforcement intentions regarding its proposed patent policy^v that would give holders of patents essential to IEEE standards the option of publicly committing to the most restrictive licensing terms they would offer^{vi} It is noteworthy that the Visible Assets Inc . LOA in 2008 is the single such voluntary disclosure of a specific royalty term through 2011 following adoption of the IEEE policy allowing such voluntary disclosures in 2007.</i></p>
<p><i>Second, bilateral ex ante negotiations about licensing terms that take place between an individual SSO member and</i></p>	<p><i>This is the “normal process when there is an essential patent in an ANSI accredited standards setting. That is</i></p>

<p><i>an individual intellectual property holder (without more) outside the auspices of the SSO also are unlikely to require any special antitrust scrutiny because IP rights holders are merely negotiating terms with individual buyers.¹¹²</i></p>	<p><i>negotiations are bilateral and are conducted outside the standards organization. This is the same process that would apply ex post..</i></p>
<p><i>Third, per se condemnation is not warranted for joint SSO activities that mitigate hold up and that take place before deciding which technology to include in a standard... Such joint activities could take various forms, including joint ex ante licensing negotiations or an SSO rule that requires intellectual property holders to announce their intended (or maximum)¹¹⁴ licensing terms for technologies being considered for adoption in a standard. The Department recently analyzed an SSO's proposal to require member firms to disclose their intended most restrictive licensing terms for patents essential to a standard. Pursuant to the rule of reason, the Department concluded that it would not take enforcement action if the policy were adopted because the policy preserved competition between technologies during the standard-setting process.¹¹⁵</i></p>	<p><i>It is not common that standards developers allow "buyers" (members of the SSO who are potential licensees of the standard) to negotiate terms with the "sellers" (rival IP holders) One reason is because the practical world does not work the way these words anticipate it might. There are members of a standards developing organization but these are not typically licensees of the "standard." They are potential licensees of a patent holder. It is the rare case when there are rival competing IP holders. A more likely situation to occur would be when a group of buyers is unhappy with a proposed offer of a maximum royalty rate that may have been made by an owner of an essential patent.</i></p> <p><i>The SSO mentioned in the Agencies' description to the left described such a situation. The SSO had requested and received a business review letter of its proposed policy to require patent holders to disclose their intended most restrictive licensing terms for patents essential to a standard^{vii}. An objection to certain terms of a proposed contract had been raised and after SDO staff discussion with the submitter and a mutual finding the provisions might be determined as "unfair, unreasonable, and discriminatory" the patent holder reconsidered, and submitted a revised sample contract without the offending provisions^{viii}</i></p>
<p><i>The Agencies do not suggest that SSOs are required to sponsor such discussions [ex ante licensing] during the standard-setting process ...</i></p>	<p><i>It is IMPORTANT that the Agencies do not suggest that standards organizations are required to sponsor such [ex ante] discussions during the</i></p>

<p><i>The Agencies take no position as to whether SSOs should engage in joint ex ante discussion of licensing terms</i></p>	<p><i>standard-setting process. The agencies must remain agnostic so as to allow the diversity of the US standards system to continue to contribute to the international competitiveness of the United States in the global economy</i></p>
--	--

Clarity and transparency of patent policies, procedures and the operations there of mitigates problems due to misunderstandings of the expectations of the policies and procedures.

Part II International trade concerns may arise when foreign officials take notice of FTC actions in this regard.

FTC activities about hold up in standards setting in the US will have trade implications by influencing the thinking of competition, trade, standards, commerce and procurement officials in many foreign economies competitive to US producers.

FTC should Anticipate Foreign Use of FTC reports and decisions from this Project No. P11-1204 to the global competitive advantage of foreign countries and should mitigate against this risk through close interagency coordination with trade agencies

Part I Characteristics of the Standards system and intellectual property rights practice in areas of concern raised by FTC

FTC raised many specific questions in its notice of May 18 Request for Comments and Announcement of Workshop on Standard-Setting Issues^{ix}

In Part I GTW Associates focuses on:

Ex Ante Disclosure and/or Negotiation of Licensing Terms

The RAND Licensing Commitment

Clarity and transparency of patent policies, procedures and the operations there of mitigates problems due to misunderstandings of expectations.

There is a new question how frequent are ex ante disclosures in practice.

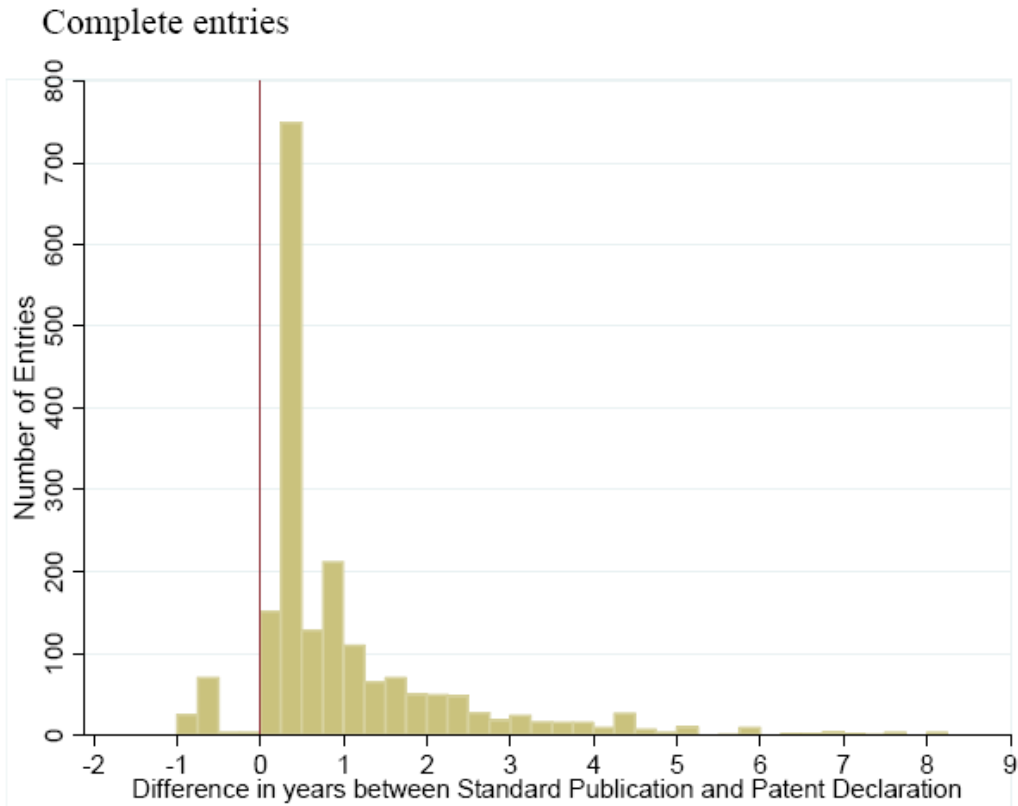
Anne Layne-Farrar in a presentation at the EURAS conference Spring 2010 *IS EX ANTE THE NORM? AN EMPIRICAL LOOK AT IPR DISCLOSURE TIMING WITHIN STANDARD SETTING*^x concludes that most participants in ETSI standards setting formally disclose their potentially relevant IPRs ex post:

... In this paper, I have empirically examined the timing of IPR disclosures within standard setting, namely those developed at ETSI. I find, contrary to the implicit assumption underlying the patent ambush debate, that most participants officially disclose their potentially relevant IPRs ex post, sometimes significantly so. In fact, while the most common (modal) delay tends to be around half a year, a significant number of declarations are made years after the publication of the component of the standard for which the patents are identified as being potentially essential. Furthermore, this pattern of ex post official disclosure holds for all SSO members, not just a few "bad actors". These findings imply that the IPR disclosure norm is indeed ex post.

... Taking all of the results into account, I conclude that while ex post formal IPR disclosure may be a necessary condition (and even this is questionable given the other means available to learn of firms' IPR), it is not a sufficient condition. It is likely that ambush is possible only under particular circumstances, such as where SSO members have no window into their fellow members' R&D and patenting efforts outside of formal disclosure and where patent holders are not repeat players in the industry^{xi}

Excerpted from *IS EX ANTE THE NORM? AN EMPIRICAL LOOK AT IPR DISCLOSURE TIMING WITHIN STANDARD SETTING*^{xiii}

Figure 1: Patent Disclosure Timing



Layne-Farrar makes an important conclusion that the fact of ex post disclosures does not in itself map to the fact of “patent ambush” nor does it equate to evidence of deception on the part of the ex post disclosers. She further concludes that the six month time frame ex post may yet be in the “time frame” when implementers have not yet made irreversible investments and thus even ex post disclosures may not be before “lock – in” has occurred in the marketplace.

Layne-Farrar’s research findings merit her final conclusion: “*This should be investigated further*” with review of the timing of disclosures at other SDOs.

Conclusion Slide Excerpted from IS EX ANTE THE NORM? AN EMPIRICAL LOOK AT IPR DISCLOSURE TIMING WITHIN STANDARD SETTING^{xiii}

The norm is ex post, not ex ante

- The Pattern holds across standards, across firms*
- But delay in disclosure is shrinking over time*

Results have clear implications for policymakers

Finding that a member disclosed relevant IPR ex post is not enough to establish patent ambush

More is needed, such as evidence of deception

The real question is when could lock-in occur?

Modal delay of 6 months may still be ex ante in relation to implementer irreversible investments

This should be investigated further

Recommendations addressing and perhaps making more rigorous patent policies within standards setting organizations have little impact on third party owners of essential patents since they are not part of the standard organization in the first place.

For example the Australian Commonwealth Scientific and Industrial Research Organisation CSIRO^{xiv} did not participate in the IEEE standards work leading to the Wi-Fi standards it maintains infringe CSIRO patents. According to a news report CSIRO to reap 'lazy billion' from world's biggest tech companies June 10, 2010^{xv}

Australia's peak science body stands to reap more than \$1 billion from its lucrative Wi-Fi patent after already netting about \$250 million from the world's biggest technology companies, an intellectual property lawyer says.

The CSIRO has spent years battling 14 technology giants including Dell, HP, Microsoft, Intel, Nintendo and Toshiba for royalties and made a major breakthrough in April last year when the companies opted to avoid a jury hearing and settle for an estimated \$250 million.

Now, the organisation is bringing the fight to the top three US mobile carriers in a new suit targeting Verizon Wireless, AT&T and T-Mobile. It argues they have been selling devices that infringe its patents.

CSIRO, which is also now targeting Lenovo, Sony and Acer in new cases, says mathematical equations in its patents form the basis of Wi-Fi technology used in a whole slew of technology products including smartphones, laptops, routers and games consoles

There will be several negative outcomes within the voluntary standards community of perceived pressure on standards organizations to adopt mandatory ex ante disclosure of terms and conditions for maximum royalties for essential patents.

If ex ante mandatory maximum terms and conditions are newly adopted in a standards organization with a legacy RAND patent policy some companies who had previously

made a RAND statement for their essential patents [but who do not actively pursue licensing (only using their essential patents for defensive purposes)] will state a maximum royalty number because one has been asked for and will begin to seek royalty income for that royalty following approval of the standard.

In a 2006 Study^{xvi} Anne Layne-Farrar, A. Jorge Padilla and Richard Schmalensee find that:

under any approach, patents covering “essential” technologies with a greater contribution to the value of the standard and without close substitutes before the standard gets adopted should receive higher royalty payments after the adoption of the standard.

The move to mandate disclosure of a maximum royalty rate by a consensus standards organization may lead to the standards work of that organization leaving it and moving to a different standards developing organization without the similar requirement or to a consortia with a self contained patent policy.

Rarely is a single essential patent subject of a license between a patent owner and licensee ... or is a particular term in a license such as “royalty” more important than some other term such as reciprocity or cross licensing.

Thus requiring the holder of essential patent to disclose the maximum royalty that will be charged will force the holder to make an assessment of just one aspect of what a license may entail. In some respects requesting a maximum royalty is similar to asking for a “first bid” of the royalty term that may ultimately be agreed in practice in a bilateral negotiation. In practice a license may include many varied terms and conditions.

Michele Herman points this out in clearly in *Negotiating Standards-Related Patent Licenses: How the Deal Is Done*^{xvii}

Patent licenses include a multiplicity of interdependent terms and conditions. The trade-offs made among these terms and conditions depend upon the respective goals of the patentee and licensee, as well as the strength of their respective portfolios. There are even more interrelated terms and conditions when a patent license is part of a larger business deal between the parties.

As such, the fact that some of the patents may contain essential patent claims subject to RAND or RAND-RF terms rarely comes into play as part of the negotiation in the context of the business deal. In recent years, however, when the patentee and an infringer have been unable to reach an agreement, one or both parties may consider when standardized technology is part of the relevant portfolios. If it is, a patentee may use the fact to argue that its portfolio must be licensed in order for the infringer to participate in the relevant market. Meanwhile the infringer may try to ascertain whether or not any of the patents are or should have been subject to a RAND or RANDRF license commitment to either argue that the value of the portfolio should be less or that the patentee has violated the

relevant patent policy, its licensing commitments, or both, and, consequently, is estopped from asserting such patents under a variety of legal and equitable theories.

... Prospective licensees who plan to commercialize the standardized technology generally do not want a license only to essential claims, but rather to all of the patent claims that their commercial implementations infringe

Nature of a RAND assurance

The reasonable and non discriminatory assurance (RAND) promise the holder of an essential patent makes to comply with the requirement of the patent policy of many standards developers is ambiguous and intentionally so. It is that flexibility that is its strength.

As Damien Neven and Miguel de la Mano state in *Economics at DG Competition 2009–2010*:

Quite intentionally, FRAND terms do not specify a concrete royalty rate. It is very difficult to agree on specific licensing terms ex-ante because of the nature of IP rights negotiations: Very little is known about how the market will develop in the future and what is going to be the value of each patent portfolio. Such price negotiations may enhance the risk that technology adopters will coordinate their conduct to extract excessively favorable terms from IPR holders. FRAND is a compromise that balances the incentives of potential licensees and licensors to achieve an efficient adoption and rate of innovation. The former seek protection from becoming dependent on a particular licensor; the latter cannot commit ex-ante to offer specific conditions before the future value of their technology is revealed. FRAND allows for the flexibility that is needed to unblock the standardization process and eventually adopt a standard. FRAND terms naturally vary across players and technologies.

From the perspective of antitrust policy, the built-in ambiguity in the definition of FRAND makes it difficult to identify the counter-factual for 'reasonable' licensing terms that is needed to establish a FRAND violation. However, FRAND may become an empty shell if it is not seen to impose certain constraints on parties in the standard setting process. At the very least, certain obligations from the FRAND commitment derive directly from the above interpretation that patent holders that had committed to FRAND should not appropriate all the rent which can be generated by a standard^{xviii}

Similarly Damien Geradin, Anne Layne-Farrar, and A. Jorge Padilla report in a 2007 study that (compared to RAND approaches) ***ex ante auction models attempting to assign fair values to the contributions of intellectual property compared to values attributable to the standard itself do not produce the right outcomes from a social welfare point of view.***

Swanson and Baumol have suggested that the concept of a 'reasonable' royalty for purposes of RAND licensing must be defined and implemented by reference to ex ante competition. In their opinion, a royalty should be deemed 'reasonable' when it approximates the outcome of an ex ante auction process where IP owners submit RAND commitments coupled with licensing terms and selection to the standard is based on both technological merit and licensing terms . . . We find that given the peculiar characteristics of some of the industries where standardization takes place, in particular the many different business models adopted by innovating companies in those industries, the ex ante auction approach proposed by Swanson and Baumol may not always deliver the right outcomes from a social welfare viewpoint^{six}

Geradin, Layne-Farrar and Padilla continue in this report that it is precisely the threat of private lawsuits that specific offers of terms and conditions by a patent owner are NOT reasonable and non discriminatory as well as the threat of action by the US government that patent holders have strong incentives to live up to the RAND commitments made during a standards setting process.

The absence of a precise, unambiguous test (that is, a test specifying necessary and sufficient conditions) may be regarded as undesirable and seen with apprehension. First, as explained by Lichtman (2007),⁸⁴ it is precisely its vagueness what makes RAND commitments such a powerful ex ante mechanism. Imprecise RAND commitments promote competition among the implementers of a standard. Actual negotiations take place bilaterally and confidentially, with public knowledge of the license offer no more specific than that it will be reasonable and fair. Each firm seeking a license has therefore strong incentives to negotiate the best terms it can win from the patent holder, so that its downstream operations acquire a competitive edge compared to other implementers. The RAND commitment then provides a backstop for this competitive process, enabling licensees to bring private lawsuits in the event that a patent holder is perceived as violating the commitment. With the threat of court imposed royalty terms (likely to be stringent, just as the US Federal Trade Commission imposed in the recent Rambus case⁸⁵), patent holders have strong incentives to live up to their RAND commitment. When viewed in this light, a vague RAND commitment can be seen as fostering competition, contrary to the claims of ex ante auction proponents.^{xx}

In the table below GTW Associates presents in the left column text from the DOJ & FTC 2007 report ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: Promoting Innovation and Competition concerning AGENCY POLICY CONCLUSIONS ABOUT ANTITRUST CONCERNS ASSOCIATED WITH EX ANTE LICENSING NEGOTIATIONS

In the right column GTW presents observations of the marketplace reactions to the policy conclusions of 2007 with implications for policy actions in 2011

<i>GTW Associates Observations on the 2007 AGENCY POLICY CONCLUSIONS ABOUT ANTITRUST CONCERNS ASSOCIATED WITH EX ANTE LICENSING NEGOTIATIONS</i>

Excerpted from pages 53 through 56 concerning standards *ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: Promoting Innovation and Competition*^{xxi}

VI. AGENCY POLICY CONCLUSIONS ABOUT ANTITRUST CONCERNS ASSOCIATED WITH *EX ANTE* LICENSING NEGOTIATIONS

Section of DOJ & FTC Report containing policy conclusion	GTW Observation
<p>Some SSOs, and their participants, have hesitated to allow the question of price to be part of the formal standard setting process in any form. They have allowed neither <i>ex ante</i> unilateral announcements of licensing terms by firms that own the protected technology nor joint discussions about licensing terms between these firms and the SSO members.¹⁰⁹</p> <p>To the extent such prohibitions are based on concerns about <i>per se</i> illegality of <i>ex ante</i> agreements on licensing terms, they fail to account for the pro competitive reasons SSO members have to broaden <i>ex ante</i> competition between technologies beyond the traditional selection criteria, such as technical merit.¹¹⁰ Such <i>ex ante</i> knowledge about licensing terms could help mitigate hold up that is not resolved in the first instance by the existence of SSO rules requiring disclosure of IP or by requirements that SSO members license on RAND terms. Because of the strong potential for pro competitive benefits, the Agencies will evaluate joint <i>ex ante</i> activity to establish licensing terms under the rule of reason. The Agencies' general approach to these issues is outlined below.</p>	<p>Standards organizations take great care creating and following procedures to minimize the prospect of ANY litigation. Litigation can be of private or government origin. Litigation is an expensive and undesirable activity for a standards organization</p> <p>If a standards organization's activity to establish licensing terms is being evaluated AT ALL by anyone capable of suing the organization it is only a matter of degree of problem whether the analysis be by rule of reason or by <i>per se</i>.</p>
<p>First, an IP holder's voluntary and unilateral disclosure of its licensing terms, including its royalty rate, is not a collective act subject to review under section 1 of the Sherman Act. Further, a unilateral</p>	<p>Participants in ANSI accredited standards setting have long had and availed themselves of the option described in sentence one outside of the formal standards process.</p>

<p>announcement of a price before “selling” the technology to the standard setting body (without more) cannot be exclusionary conduct and therefore cannot violate section 2.</p>	<p>They have also had the opportunity to make a declaration consistent with the patent policy and procedures of the standards developer in which they are participating.</p> <p>Further they can make whatever voluntary and unilateral disclosure they want outside of that standards process of specific licensing terms.</p> <p>However disclosure of terms and conditions WITHIN the standards development context are more rare. An example of such a voluntary disclosure of terms and conditions including a royalty WITHIN the standards development context is the letter of Assurance requesting a 5% royalty made by Visible Assets Inc. on September 20, 2008^{xxii} IEEE requested a business review letter from the Antitrust Division expressing its enforcement intentions regarding its proposed patent policy^{xxiii} that would give holders of patents essential to IEEE standards the option of publicly committing to the most restrictive licensing terms they would offer^{xxiv} It is noteworthy that the Visible Assets Inc. LOA in 2008 is the single such voluntary disclosure of a specific royalty term through 2011 following adoption of the IEEE policy allowing such voluntary disclosures in 2007.</p>
<p>Second, bilateral <i>ex ante</i> negotiations about licensing terms that take place between an individual SSO member and an individual intellectual property holder (without more) outside the auspices of the SSO also are unlikely to require any special antitrust scrutiny because IP rights holders are merely negotiating terms with individual buyers.¹¹²</p>	<p>This is the “normal process when there is an essential patent in an ANSI accredited standards setting. That is negotiations are bilateral and are conducted outside the standards organization. This is the same process that would apply ex post.</p>
<p>Third, <i>per se</i> condemnation is not warranted for joint SSO activities that mitigate hold up and that take place before deciding which technology to include in a standard.¹¹³ Rather, the Agencies will apply the rule of reason when evaluating joint activities that mitigate hold up by allowing the “buyers” (members of the SSO who are potential licensees of the</p>	<p>It is not common that standards developers allow “buyers” (members of the SSO who are potential licensees of the standard) to negotiate terms with the “sellers” (rival IP holders) One reason is because the practical world does not work the way these words anticipate it might. There are members of a standards developing organization but these are not</p>

<p>standard) to negotiate licensing terms with the “sellers” (the rival IP holders) before competition among the technologies ends and potentially confers market power (or additional market power) on the holder of the chosen technology. Such joint activities could take various forms, including joint <i>ex ante</i> licensing negotiations or an SSO rule that requires intellectual property holders to announce their intended (or maximum)¹¹⁴ licensing terms for technologies being considered for adoption in a standard. The Department recently analyzed an SSO’s proposal to require member firms to disclose their intended most restrictive licensing terms for patents essential to a standard. Pursuant to the rule of reason, the Department concluded that it would not take enforcement action if the policy were adopted because the policy preserved competition between technologies during the standard-setting process.¹¹⁵</p>	<p>typically licensees of the “standard.” They are potential licensees of a patent holder. It is the rare case when there are rival competing IP holders. A more likely situation to occur would be when a group of buyers is unhappy with a proposed offer of a maximum royalty rate that may have been made by an owner of an essential patent.</p> <p>The SSO mentioned in the Agencies’ description to the left described such a situation. The SSO had requested and received a business review letter of its proposed policy to require patent holders to disclose their intended most restrictive licensing terms for patents essential to a standard^{xxv}. An objection to certain terms of a proposed contract had been raised and after SDO staff discussion with the submitter and a mutual finding the provisions might be determined as "unfair, unreasonable, and discriminatory" the patent holder reconsidered, and submitted a revised sample contract without the offending provisions^{xxvi}</p> <p>Public transparency of such disclosure of maximum terms outside the membership of the standards organization becomes an interesting question. This SSO takes the position that such disclosures are intended for the benefit of members only and that the staff have a fiduciary duty only to the members^{xxvii} and therefore the disclosures are not made public.</p>
<p>If intellectual property holders turn joint <i>ex ante</i> licensing discussions into a sham to cover up naked agreements on the licensing terms each IP holder will offer the SSO, <i>per se</i> condemnation of such agreements among “sellers” of IP rights may be warranted. Similarly, <i>ex ante</i> discussion of licensing terms within the standard-setting process may provide an opportunity for SSO members to reach side price-fixing agreements that are <i>per se</i> illegal. The Agencies will almost certainly treat as <i>per se</i> illegal any effort by manufacturing rivals to fix the price of the</p>	<p>Standards organizations take great care creating and following procedures to minimize the prospect of ANY litigation. Ex Ante multilateral licensing negotiations are rarely if ever sponsored by standards developing organizations</p>

<p>standardized products they “sell” instead of discussing the price of the terms on which they will “buy” a technology input that is needed to comply with the standard. However, such risks are not sufficient to condemn <i>all</i> multilateral <i>ex ante</i> licensing negotiations, particularly given the fact that “[t]hose developing standards already have extensive experience managing this risk.”¹¹⁶</p>	
<p>The Agencies do not suggest that SSOs are required to sponsor such discussions during the standard-setting process. Concerns about legitimate licensing discussions spilling over into dangerous antitrust territory may dissuade some groups from conducting them in the first place. Moreover, it is fully within the legitimate purview of each SSO and its members to conclude that <i>ex ante</i> licensing discussions are unproductive or too time consuming or costly.¹¹⁷ An SSO may also fear that requiring <i>ex ante</i> commitments to licensing terms would deter some IP holders from participating in the standard-setting process, depriving the standard-setting process of the expertise of those IP holders.</p>	<p>It is IMPORTANT that the Agencies do not suggest that standards developing organizations are required to sponsor such [ex ante] discussions during the standard-setting process. The agencies must remain agnostic with regard to the range of legal procedures so as to allow the diversity of the US standards system to continue to contribute to the international competitiveness of the United States in the global economy.</p>
<p>The Agencies take no position as to whether SSOs should engage in joint <i>ex ante</i> discussion of licensing terms but recognize that joint <i>ex ante</i> activity to establish licensing terms as part of the standard-setting process will not warrant <i>per se</i> condemnation. Such activity might mitigate the potential for IP holders to hold up those seeking to use a standard by demanding licensing terms greater than they would have received before their proprietary technology was included in the standard. Given the strong potential for precompetitive benefits, the Agencies will evaluate join <i>ex ante</i> negotiation of licensing term pursuant to the rule of reason.</p>	<p>It is IMPORTANT that the AGENCIES continue to take no position whether standards organizations should engage in joint <i>ex ante</i> discussion of licensing terms . The agencies must remain agnostic with regard to the range of legal procedures available to standards developers so as to allow the diversity of the US standards system to continue to contribute to the international competitiveness of the United States in the global economy.</p> <p>If a standards organization’s activity to establish licensing terms is being evaluated AT ALL by anyone capable of suing the organization it is only a matter of degree of problem whether the analysis be by rule of reason or by <i>per se</i>.</p>

Clarity and transparency of patent policies, procedures and the operations there of mitigates problems due to misunderstandings of the expectations of the policies and procedures.

In comments to the FTC in 2002^{xxviii} GTW Associates stated:

Having completed the survey of the "Intellectual Property Rights Policies of selected standards developers" and having reviewed those policies according to "CONSIDERATIONS IN ASSESSING A STANDARDS DEVELOPING ORGANIZATION'S INTELLECTUAL PROPERTY RIGHTS POLICIES IN ADVANCE OF PARTICIPATION" GTW concludes there is diversity in the specific approach to Intellectual

property rights policies of standards developers around the world. Such diversity itself does not equate to a major problem. **The diversity of IPR approaches within standards setting bodies allows these bodies to "compete" for the business of developing standards based on (among many factors) the power of the applicable IPR policy to attract and hold the interest of key stakeholder participants.** There is a balance of the level of risks and costs that that will attract participants to the standards table. At present, it is possible to begin to discriminate among various organizations. **However in many cases there is insufficient information to make a truly informed decision. What is critical for such competition is that it occur in full daylight with clarity and transparency. Several widely respected, strategic national and international organizations setting global precedents for IPR policy are unable to easily identify their standards with associated IPR claims.**

Since 2002 there has been considerable progress in consensus about the appropriate "content" of text of patent policies depending upon the varying objective of the standards developing organization. Different objectives lead to different patent policy text. Many patent policies of standards developing organizations have undergone great changes and improvement since 2002. The *ABA Standards Development Patent Policy Manual*^{xxix} is a treasure trove reference to the legal advisor or staff to standards organization creating a standards organization's patent policy.

For example in a 2006 analysis whether the earlier JEDEC procedures created a legally enforceable duty to disclosure certain information, a Special Master stated:

Based on the Special Master's independent review of JEDEC's policy, the Special Master concludes that it did not create a legally enforceable duty that required Rambus to disclose its pending and/or planned patent applications to JEDEC or its members. The Special Master further concludes that, in the absence of such a duty, any omission or failure by Rambus to disclosure this information cannot as a matter of law constitute fraudulent concealment under Virginia law.

As a final point, the special master considers Micron's assertions that a legally enforceable duty to discloser arose from the expectations attendant upon the

relationship between JEDEC members. The special Master concludes that this theory of “implied contract” is inapplicable in the face of written JEDEC policy^{xxxv}

The common thread in 2002 and 2011 is the importance of openness and transparency.

NIST’s observed the common thread in 2011 (consistent from 2002) in its observations on the responses to the December 8 RFI on *Federal Agency Participation in Standardization Activities in Select Technology Areas*:

IPR policies of SSOs should be easily accessible and the rules governing the disclosure and licensing of IPR should be clear and unambiguous^{xxxvi}.

There remain gaps to close in regard to the availability of patent polices and of disclosures of relevant and essential patents and of letters of assurance to license such relevant patent claims and when relevant the licensing terms.

Part II International trade concerns may arise when foreign officials take notice of FTC actions in this regard.

FTC activities about hold up in standards setting in the US will have trade implications by influencing the thinking of competition, trade, standards, commerce and procurement officials in many foreign economies competitive to US producers.

Foreign officials monitor US regulatory and procurement practice for important high value intellectual property based economic sectors in the United States. Intellectual Property rights policies applicable to standards setting arise in diverse settings.

For example IP polices may appear in competition policy or procurement policy or intellectual property rights policy or trade policy. Intellectual property rights policies applicable to different sectors may arise in different settings at the same time and there may be little or no coordination between the disparate foreign agencies if there are more than one. .

Often there are National strategic policy objectives implemented though diverse vehicles including standards patent policy.

China and India specifically will scrutinize the comments submitted to and the proposals forthcoming from and conclusions drawn in the FTC Request for Comments and Announcement of Workshop on Standard-Setting Issues^{xxxvii}

FTC should anticipate its findings and conclusions based upon conditions in the United States with substantial legal resources will appear in other countries and may be used to justify many different and sometimes conflicting agendas.

China

Consider events in China since HILL B. WELLFORD Counsel to the Assistant Attorney General Antitrust Division U.S. Department of Justice addressed the China Electronics Standardization Institute Beijing, China in March 2007
ANTITRUST ISSUES IN STANDARD SETTING^{xxxiii}

He cautioned a limited role for government intervention:

IV. Conclusion

There is a role for antitrust enforcers to play in the development of efficient standard setting models, but given the potential importance of this area to dynamic efficiency and long-term consumer welfare, it is a role we should play with great caution. Inefficient rules and policies, particularly ones that become inefficient over time, are nearly inevitable in this area. When inefficient rules are imposed by private SDOs, there are a number of safety valves available; for example, businesses can choose not to participate in standard setting or can form competing SDOs or otherwise contract around the problem. When an unsound rule is proposed by a government enforcer, however, there is often no way to contract around it, and worse, there may be no way to conduct a natural experiment without the rule that can help prove it should be abandoned.

As we consider the challenges and proposed solutions within standard setting, we should keep in mind the power of markets to self-correct. We should keep long-term efficiency as our goal. We should react when we identify actual anticompetitive effects, but we should not overreact to the inevitable short-term missteps – or perceived missteps – that SDOs and businesses will make. And we should take comfort that with the speed of technological change in today's global economy, the short term and long term are increasingly converging. It is no longer so true that, in the quote attributed to a famous economist, "In the long term, we are all dead." Today's long term is something we will all live to experience; increasingly, it is right around the corner. I look forward to seeing you there^{xxxiv}.

Yet in late 2009 and 2010 China proposed patent policies and procedures that had much to do with the Indigenous Innovation national policy^{xxxv} of China and did not meet Wellford's admonition for caution by government and the positive role for market self correction.

Instead in November, 2009, The Standards Administration of China (SAC)^{xxxvi} issued Proposed Regulations for the Administration of the Formulation and Revision of Patent-Involving National Standards and requested public comments. The SAC patent policy proposal as worded was out of synch with the patent policies of international standards setting organisations

For example, Article 9 within Chapter III Statement on Licensing of Patent Rights contained a description of a patentee's irrevocable written statement on patent licensing. This statement was intended to be collected when a patent is required to implement a national standard:

(1) The patentee agrees to license, on a reasonable and nondiscriminatory basis, any organization and person to implement the patent when implementing the national standard at a price significantly lower than the normal royalties;

Gratefully this proposal by Standards Administration of Standards in China has been postponed due to the many international comments forthcoming around the world including those of the IPR working group of the Joint Commission on China and Trade (JCCT) co-chaired by the Secretary of Commerce and USTR. GTW commented in an Intellectual Property -Watch^{xxxvii} Inside Views article^{xxxviii}

The SAC patent policy proposal includes too many unnecessary and damaging restrictions on an IPR owner's ability to monetise and receive a fair and reasonable return on its investment (Article 9) combined with the broad threats of compulsory licensing in Articles 12, 13, and 14. Such provisions upset the delicate balance that must be achieved among the stakeholders in a modern global standards setting process in order to efficiently develop standards employing the most advanced technologies that achieve reasonable implementation costs.

Officials at SAC and no the doubt State Intellectual Property Rights Office, the State Administration for Industry & Commerce or the Antimonopoly Commission and the National Copyright Administration will monitor the work of FTC and how it may support their own efforts.

In Spring the 2010 the CNIS followed SAC with a second proposal. A *second Inside View paper*^{xxxix} called attention to the extraordinary level of detail the China National Institute of Standardization (CNIS)^{xl} - created in form A.3: Patent Licensing Declaration Form proposed to be used to collect information about essential patents.

The form proposed by CNIS regrettably requested an onerous amount of information regarding patents and published/unpublished patent applications far beyond the forms used by comparable standards bodies. This may have produced the net effect of discouraging patent holders from disclosure or being able to comply at all

Brazil

Among other requirements the document states at Brazil has implemented an The e-PING architecture - Interoperability Standards for Electronic Government – defining a minimum set of assumptions, policies and specifications governing the use of Information and Communication Technology (ICT) in the federal government, establishing the conditions of interaction with the other branches and spheres of government and society in general^{xli}. Within this infrastructure a *Reference Document of the e-PING: e-PING Electronic Government Interoperability Standards*^{xlii} Among other requirements the document states on page 8:

In the ambit of the entities aforementioned, are obligatory the specifications contained in the e- PING for:

- all new information systems, which will come to be developed and deployed in the federal government and fall within the scope of interaction, within the federal*

government and with the general society;

- *legacy information systems, which are subject to implementation that involves the provision of services of electronic government or interaction between systems;*
- *other systems, which are part of the objectives of making available the electronic government services.*

3.1. Preferential Adoption of Open Standards

The e-PING defines that, always that possible, open standards will be adopted in the technical specifications. Proprietary standards are accepted, in transitory way, maintaining the perspectives of replacement, as soon as there are conditions for its migration. With no prejudice to such aims, there will be respected the situations in which there is the need of consideration of security requirements and information integrity.

Open Standard:

I - enables the interoperability between several applications and platforms, internal and external;

II - enables application ***without any restriction or fee payment;***

III - can be fully and independently implemented by multiple suppliers of computer programs, in multiple platforms, ***with no charge relating to intellectual property for the necessary technology.***

South Africa

South Africa has adopted^{xliii} a Minimum InterOperability Standard for information system in government (MIOS) The MISO Version 4 document states :

*For the purposes of the MIOS, a **standard shall be considered open if it meets all of these criteria.** There are standards which we are obliged to adopt for pragmatic reasons which do not full conform to being fully open in all respects. In such cases where an open standard does not yet exist, the degree of openness shall be taken in to account when selecting an appropriate standard :*

-It should be maintained by a non-commercial organisation

– Participation in the ongoing development work is based on decision-making processes that are open to all interested parties

- *Open access: all may access committee documents, drafts and completed standards free of cost or for a negligible fee*
- *It must be possible for everyone to copy, distribute and use the standard free of cost*
- *The intellectual rights required to implement the standard (e.g. essential patent claims) are irrevocably available, without any royalties attached*
- *There are no reservations regarding reuse of the standard*
- *There are multiple implementations of the standard.*

India

India has adopted a policy on open standards for e-government^{xiv} The Policy on Open Standards for e-Governance states::

4.1.2 The Patent claims necessary to implement the Identified Standard shall be made available on a Royalty-Free basis for the life time of the Standard.

And

Royalty-Free (RF) A Royalty Free (RF) Standard is a Standard whose license is not conditioned on any payment of royalties, fees and other monetary considerations on its use in an implementation. The RF License is also subject to the following conditions:

a. It shall be available worldwide on non-exclusive basis for the life time of the standard.

FTC should Anticipate Foreign Use of FTC reports and decisions from this Project No. P11-1204 to the global competitive advantage of foreign countries and should mitigate against this risk through close interagency coordination with trade agencies.

FTC's words based on conditions and experiences in the United States with the substantial legal resources in the US will be contemplated in and used in other countries without those substantial resources to justify their own political and economic motivations. Some of these actions based on history will be contrary to US competitive national interests.

These strategies and motivations in other countries may have nothing to do with the competition and antitrust concerns of FTC yet FTC actions may play an

unanticipated role if not great care is taken to contemplate the international trade implications of the domestic topics under consideration.

For example GTW applauds the vision and leadership at FTC and DOJ exemplified by the July 27 DOJ & FTC Memorandum with China:

The framework for cooperation between the U.S. antitrust agencies and the PRC antimonopoly agencies is composed of two parts: the first is the joint dialogue among all parties to this Memorandum on competition policy at the senior official level (the “joint dialogue”) and the second is communication and cooperation on competition law enforcement and policy between individual U.S. antitrust agencies and PRC antimonopoly agencies.^{xlv}

and Assistant Attorney General Christine Varney’s remarks on the occasion of the signing of the memoranda:

Trust with the business community will be built by continuing to demonstrate to them that our enforcement decisions are based on the application of clear and transparent procedural and substantive rules and are taken for the sole purpose of achieving the objectives of our competition laws.^{xlvi}

However this is a prime example of necessary further critical coordination within the US government required for interests of US national trade policy with respect to China’s policies on indigenous innovation in general and policies on intellectual property rights in standards setting specifically. FTC’s and DOJ’s work specifically in the execution of this memorandum and the work and policy reports and recommendations from this Project No. P11-1204 on patent hold up in standards setting within the US must be shared and coordinated with the IPR working group JCCT which commented on the China patent policies in standards setting as mentioned above.

Appendix One

Pricing Patents for Licensing in Standard Setting Organisations: Making Sense of *FRAND* Commitments

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=937930

Anne Layne-Farrar
LECG Consulting

A. Jorge Padilla
LECG Consulting, CEMFI Madrid, CEPR London

Richard Schmalensee
Massachusetts Institute of Technology

November 2006

Abstract: We explore potential methods for assessing whether licensing terms for intellectual property declared essential within a standard setting organization can be considered fair, reasonable, and nondiscriminatory (FRAND). We first consider extending *Georgia-Pacific* to a standard setting context. We then evaluate numeric proportionality, which is modelled after certain patent pool arrangements and which has been proposed in a pending FRAND antitrust suit. We then turn to two economic models with potential. The first—the efficient component-pricing rule (ECPR)—is based on the economic concept of market competition. The second—the Shapley value method—is based on cooperative game theory models and social concepts for a fair division of rents. Interestingly, these two distinct methods suggest a similar benchmark for evaluating FRAND licenses, but ones which might appeal differently to the courts and competition authorities in the US as compared to Europe. We find that under any approach, patents covering “essential” technologies with a greater contribution to the value of the standard and without close substitutes before the standard gets adopted should receive higher royalty payments after the adoption of the standard.

We wish to thank Damien Geradin, Mike Hartogs, Doug Lichtman, Alison Oldale, Trevor Soames and Richard Taffet for comments and suggestions. We also thank Melissa DiBella and Lubomira Ivanova for invaluable research support. Financial support from Qualcomm is also gratefully acknowledged. The ideas and opinions in this paper are exclusively our own. Comments should be sent to alayne-farrar@lecg.com, jpadilla@lecg.com and rschmal@mit.edu.

Appendix Two

The Ex Ante Auction Model for the Control of Market Power in Standard Setting Organizations

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=937930

Anne Layne-Farrar

Compass Lexecon

Damien Geradin

Tilburg University - Tilburg Law and Economics Center (TILEC); University of Michigan Law School; Tilburg Law School

A. Jorge Padilla

Compass Lexecon

April 2007

Abstract:

RAND commitments — i.e., promises to license on reasonable and non-discriminatory terms — play a key role in standard setting processes. However, the usefulness of those commitments has recently been questioned. The problem allegedly lies in the absence of a generally agreed test to determine whether a particular license satisfies a RAND commitment. Swanson and Baumol have suggested that the concept of a 'reasonable' royalty for purposes of RAND licensing must be defined and implemented by reference to ex ante competition. In their opinion, a royalty should be deemed reasonable when it approximates the outcome of an ex ante auction process where IP owners submit RAND commitments coupled with licensing terms and selection to the standard is based on both technological merit and licensing terms. In this paper we investigate whether the ex ante auction approach proposed by Swanson and Baumol is likely to deliver efficient outcomes, both from static and dynamic standpoints. We find that given the peculiar characteristics of some of the industries where standardization takes place, in particular the many different business models adopted by innovating companies in those industries, the ex ante auction approach proposed by Swanson and Baumol may not always deliver the right outcomes from a social welfare viewpoint.

Number of Pages in PDF File: 33

Keywords: RAND, Licensing, Ex Ante Auctions, Reasonable Royalties

Appendix Three

In the Matter of RAMBUS INC, a corporation Docket No. 9302 NOTICE OF FILING OF RULING IN RELATED CASE REGARDING JEDEC DUTY ISSUES RAISED IN COMPLAINT COUNSEL'S APPEAL June 16, 2006

PUBLIC UNITED STATES OF AMERICA BEFORE THE FEDERAL TRADE COMMISSION

COMMISSIONERS: Deborah Platt Majoras, Chairman Pamela Jones Harbour
Jon Leibowitz William E. Kovacic J. Thomas Rosch

In the Matter of

RAMBUS INC, a corporation

Docket No. 9302

NOTICE OF FILING OF RULING IN RELATED CASE REGARDING JEDEC DUTY ISSUES RAISED IN COMPLAINT COUNSEL'S APPEAL

A. Douglas Melamed
WILMER CUTLER PICKERING HALE
AND DORR LLP
2445 M Street, N. W.
Washington, D.C. 20037
(202) 663-6000

Gregory P. Stone
Steven M. Perry
Peter A. Detre
MUNGER, TOLLES & OLSON LLP
355 South Grand Avenue, 35th Floor
Los Angeles, California 90071-1560
(213) 683-9100

Attorneys for Respondent RAMBUS INC.

June 16, 2006

Downloaded from

<http://www.ftc.gov/os/adjpro/d9302/060616notfilingofrulinginreltdcase.pdf> August 3, 2011

Excerpts of pages 1 and 41 through 51 of the document consisting of pages 30 through 39 of "Special Masters Report and Recommendations on Motion of Micron Technology to Compel Defendant Rambus to Produce Certain Documents Testimony and Pleadings (Re: D.I. 500) dated March 6, 2006

Concerning his analysis whether JEDEC procedures created a legally enforceable duty to disclose certain information

planned patent applications related to SDRAM and DDR-SDRAM while JEDEC was adopting standards for that technology. Under the principles set forth in the *Restatement (Second) of Conflicts of Law*, the Special Master applies the "most significant relationship" test and concludes that the law of the Commonwealth of Virginia applies, because Virginia has the most significant relationship to JEDEC and the participation of its members in JEDEC meetings.

Under Virginia Law, the elements of fraud are (1) a false representation, (2) of material fact, (3) made intentionally and knowingly, (4) with intent to mislead, (5) reliance by the party misled and (6) damages resulting from that reliance. *Van Duesen v. Snead*, 247 Va. 324, 441 S.E. 2d 207, 209 (1994); *accord ITT Hartford Group, Inc. v. Virginia Fin. Assocs., Inc.*, 258 Va. 193, 520 S.E. 2d 355, 361 (1999).

Virginia also recognizes fraud by omission, sometimes called fraud by "concealment." Unlike fraud based on affirmative misrepresentation, fraud by concealment requires a showing of intent to conceal a material fact. Reckless nondisclosure is not actionable. *Norris v. Mitchell*, 255 Va. 235, 495 S.E. 2d 809, 812 (1998) ("Therefore, we have required either an allegation or evidence of a knowing and a deliberate decision not to disclose a material fact.").

Importantly, under Virginia law, silence does not constitute concealment in the absence of a duty to disclose. *Norris v. Mitchell*, 495 S.E. 2d at 812-13; *accord Bank of Montreal v. Signet Bank*, 193 F.3d 818, 827 (4th Cir. 1999).

2. Duty to Disclose

Because silence does not constitute fraudulent concealment in the absence of a duty to disclose under Virginia law, the foundation for any fraud argument is whether Rambus had a duty to disclose. Therefore, as a starting point for analysis, the Special Master considers whether Rambus had a legally enforceable duty to disclose information about any pending or planned

patent applications to JEDEC and its members.²² The Special Master concludes that, in the absence of a legally enforceable duty, it is not possible to conduct a crime/fraud analysis because there is no basis to evaluate whether any alleged failure to disclose by Rambus can arise to the level of a misrepresentation of material fact. Simply stated, if there is no duty there can be no fraud.

In this regard, the Special Master is mindful of the Federal Circuit's opinion in its review and reversal of the *Infineon* fraud judgment.²³ Although the Federal Circuit was required to consider on review whether the *Infineon* jury correctly determined that Rambus had a duty to disclose as a matter of fact because neither party had contested the district court's submission of this issue to the jury, the Federal Circuit nonetheless strongly suggested that the question of duty should be analyzed as a matter of law:

While this court reviews this as a factual question, a review of the relevant law of other states and Virginia's law on other tort duties strongly suggests that this issue may well be a legal question with factual underpinnings. For example, according to the Restatement, "whether there is a duty to the other to disclose the fact in question is always a matter for the determination of the court." Restatement (Second) of Torts § 551 [comment] m (1976 Main Vol.). Moreover, Virginia, like most states, considers contract construction a legal question for the court, *Craig v. Dye*, 259 Va. 533, 526 S.E. 2d 9, 11 (2000), and the asserted duty in this case arises from a written contract. A number of states treat the existence of a disclosure duty as a question of law, and the breach of that duty as a question of fact . . . Finally, Virginia treats many

²² The Special Master afforded the parties an opportunity to respond to this issue, by argument (during the September 23, 2005 teleconference with the Special Master) and written submission. (D.I. 697 and letter from F. Cottrell, Esquire, dated October 5, 2005).

²³ Subsequent to this Court's May 16, 2001 Order, the Federal Circuit issued its opinion in *Rambus Inc. v. Infineon Technologies AG*, 318 F.3d 1081 (Fed. Cir. 2003). In the *FTC* case, the ALJ also issued an opinion in the form of an Initial Decision. *In Re Rambus Inc.*, Docket No. 9302, Initial Decision (FTC Fed. 23, 2004). These opinions contain, respectively, a review and an initial decision addressing many of the same issues raised by Micron's instant motion to compel, and both opinions are based upon voluminous and well-developed evidentiary records. Both opinions have also been raised by the parties in briefing on the instant motion and in additional submissions to the Special Master. The Special Master does not give collateral estoppel effect to either opinion. Rather, the Special Master conducts an independent analysis of whether Rambus owed a duty in the first instance.

tort duties as questions of law. *Burns v. Johnson*, 250 Va. 41, 458 S.E. 2d 448, 451 (1995) ("The question whether a duty of care exists in a negligence action is a pure question of law."); *Acme Markets, Inc. v. Remschel*, 181 Va. 171, 24 S.E. 2d 430, 434 (1943).

318 F. 3d 1087, n. 3 (internal citations omitted).

Accordingly, the Special Master examines whether Rambus had a legally enforceable duty to disclose certain information. By its Amended Complaint and briefing, Micron alleges that Rambus' duty to disclose arose from JEDEC policy²⁴ and/or the relationship that existed between Rambus and the other members of JEDEC.

With respect to JEDEC policy, both the Federal Circuit and FTC reviewed extensive evidentiary records detailing JEDEC policy and manuals.²⁵ The Federal Circuit Opinion recites that JEDEC's general counsel considered JEDEC's patent disclosure to be contained in three manuals. 318 F. 3d at 1096 ("John Kelly, EIA's general counsel since 1990 and the person responsible for implementing the EIA/JEDEC patent policy, testified that three manuals, namely, EP-3-F, EP-7-A, and JEP 21-I, contain the patent disclosure policy."). The Special Master begins by considering these policy statements *seriatim*.²⁶

EP-3-F and EP-7-A

"EP-3-F" is an October 1981 EIA manual that outlines the following procedure for using patented items in the standard setting process:

8.3 Reference to Patented Product in EIA Standards

²⁴ During Rambus' membership in JEDEC, JEDEC was a standard-setting body that operated under the auspices of the Electronic Industries Association ("EIA"). The EIA is currently known as the Electronic Industries Alliance.

²⁵ The Initial Decision in the *FTC* case details the ALJ's examination of each and every JEDEC manual and policy, and the ALJ's conclusion that none "impose an obligation to disclose intellectual property." See *In re Rambus, Inc.*, Docket No. 9302, Initial Decision at pp. 83-117 (FTC Feb. 23, 2004).

²⁶ The complete text of JEDEC policy provisions cited herein is reported in *In re Rambus, Inc.*, Docket 9302, Initial Decision pp. 83-87 (FTC Feb. 23, 2004). Relevant portions are also recited in *Rambus Inc. v. Infineon Technologies AG*, 318 F. 3d 1081, 1096-99 (Fed. Cir. 2003).

Requirements in EIA Standards which call for the use of patented items should be avoided. No program of standardization shall refer to a product on which there is a known patent unless all the technical information covered by the patent is known to the Formulating committee, subcommittee or working group. The Committee Chairman must also receive a written expression from the patent holder that he is willing to license applicants under reasonable terms and conditions that are demonstrably free of any unfair discriminations. Additionally, when a known patented item is referred to in an EIA Standard, A Caution Notice, as outlined in the Style Manual, EP-7, shall appear in the EIA Standard.

"EP-7-A" is taken from the 1990 EIA manual and similarly provides:

3.4 Patented Items or Processes

Avoid requirements in EIA standards that call for the exclusive use of a patented item or process. No program [of] standardization shall refer to a patented item or process unless all of the technical information covered by the patent is known to the formulating committee or working group, and the committee chairman has received a written expression from the patent holder that one of the following conditions prevails:

- (1) a license shall be made available without charge to applicants desiring to utilize the patent for the purpose of implementing the standard, or
- (2) a license shall be made available to applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

. . . An appropriate footnote shall be included in the standard identifying the patented item and describing the conditions under which the patent holder will grant a license (see 6.5.2).

Both the EP-3-F manual and the EP-7-A manual were in effect when Rambus joined JEDEC.

Both require that no standard refer to a product on which there is a known patent unless all of the technical information covered by the patent is known to the committee or working group, and that licenses shall be made available on certain terms. The Special Master concludes, however,

that neither of these manuals reference or create an obligation on the part of an EIA or JEDEC member to disclose pending patents or patent applications.²⁷

JEP 21-H and JEP 21-I

Before addressing JEP 21-I, the Special Master turns to "JEP 21-H" which was in effect when Rambus began attending JEDEC meetings in late 1991 and joined JEDEC in 1992. JEP 21-H is the JEDEC Manual of Organization and Procedure (21-H) dated July 1988. It contains the following legend: "Electronic Industries Association. Engineering Department."

Appendix D to JEP 21-H is a non-liability disclaimer incorporated into JEDEC standards.

This disclaimer states:

JEDEC standards are adopted without regard to whether or not their adoption may involve patents on articles, materials or processes. By such action JEDEC does not assume any liability to any patent owner, nor does it assume any obligation whatever to parties adopting the Standards.

JEP 21-H also states that "[a]ll meetings of the JEDEC Solid State Products Engineering Council and its associated Committees, Subcommittees, Task Groups and other units shall be conducted within the current edition of the EIA Legal Guides adopted by the EIA Board of Governors and incorporated hereby by reference." The Special Master concludes that JEP 21-H does not create any obligation on the part of JEDEC members to disclose patents, patent applications, or the intent to file patent applications.

"JEP 21-I," JEDEC Manual of Organization and Procedure (21-I) dated October 1993, also contains the legend: "Electronic Industries Association. Engineering Department." It displays the trademarks of both JEDEC and the EIA. JEP 21-I states, in relevant part:

²⁷ It is undisputed that Rambus advised the Committee of the issuance of its U.S. Patent No. 5,243,703, a divisional patent of its '898 application, in September 2003. What Micron asserts is that Rambus had a duty to disclose pending and/or planned patent applications.

[A]ll meetings of the JEDEC Solid State Products Engineering Council and its associated committees, subcommittees, task groups and other units shall be conducted within the current edition of EIA legal guides adopted by the EIA Board of Governors and incorporated herein by reference.

JEP 21-I, Section 9.1.

Section 9.3 of JEP 21-I discusses the use of patented products in EIA Standards as follows:

EIA and JEDEC standards and nonproduct registrations (e.g., package outline drawings) that require the use of **patented** items should be considered with great care. While there is no restriction against drafting a proposed standard in terms that include the use of **patented** item [FN 1] if technical reasons justify the inclusion, committees should ensure that no program of standardization shall refer to a product on which there is a **known patent** unless all the relevant technical information covered by the **patent** is known to the formulating committee[,] subcommittee, or working group. If the committee determined that the standard requires the use of **patented** items, then the committee chairperson must receive a written assurance from the organization holding rights to such **patents** that a license will be made available without compensation to applicants desiring to implement the standard, or written assurance that a license will be made available to all applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination. Additionally, when a **known patented** item is referred to in an EIA/JEDEC standard, a cautionary note as outlined in this document, shall appear in the EIA/JEDEC standard (see 9.3.1.).

All correspondence between the patent holder and the formulating committee, subcommittee, or working group, including a copy of the written assurance from the patent holder discussed above, shall be transmitted to the EIA Engineering Department and the EIA General Counsel at the earliest possible time and, in any case, before the standard is otherwise ready for subcommittee or committee ballot circulation. (See the Style Manual, EP-7-A, 3.4 for the required language in an EIA Standard that cites a product with a known patent.)

[FN 1]: For the purposes of this policy, the word "patented" also includes items and processes for which a patent has been applied and may be pending.

JEP 21-I, Section 9.3 (emphasis added). The Special Master concludes that, notwithstanding the footnote, this section does not impose an obligation to disclose pending or planned patents. Rather the purpose of this section is to describe the requirements for incorporating known patented products into EIA/JEDEC standards.

Finally, the Special Master turns to Section 9.3.1 of JEP 21-I which states:

9.3.1 Committee Responsibility Concerning Intellectual Property

The Chairperson of any JEDEC committee, subcommittee, or working group must call to the attention of all those present the requirements contained in the EIA Legal Guides, and call attention to the obligation of all participants to inform the meeting of any knowledge they may have of any patents, or pending patents, that might be involved in the work they are undertaking. Appendix E (Legal Guidelines Summary) provides copies of viewgraphs that should be used at the beginning of the meeting to satisfy this requirement. Additionally, all participants must be asked to read the statement on the back of each EIA Sign-in/Attendance Roster.

JEP 21 I, Section 9.3.1. The Special Master concludes that this provision imposes an obligation upon the Committee chairperson, which obligation should be satisfied by showing JEDEC members viewgraphs containing Appendix E. The test of Appendix E provides as follows:

EIA/JEDEC PATENT POLICY SUMMARY

Standards that call for use of a **patented** item or process may not be considered by a JEDEC committee unless all of the relevant technical information **covered by the patent or pending patent** is known to the committee, subcommittee, or working group. In addition, the committee Chairperson must have received written notice from the patent holder or applicant that one of the following conditions prevails:

* A license shall be made available without charge to applicants desiring to utilize the patent for the purpose of implementing the standards(s),

or

* A license shall be made available to applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

In either case, the terms and conditions of the license must be submitted to the EIA General Counsel for review.

An appropriate footnote shall be included in the standard identifying the patented item and describing the conditions under which the patent holder will grant a license.

JEP-21-I, Appendix E. The Special Master also concludes that read together, the provisions of 9.3.1 also fail to create a legally enforceable duty that JEDEC members disclose pending or planned patents to JEDEC and its members. Rather, the Special Master concludes that 9.3.1 describes the procedure to be followed when a patented item is to be used in a standard.

The Federal Circuit's discussion of these policies in *Infineon* is compelling:

The language of these policy statements actually does **not** impose any direct duty on members. While the policy language advises JEDEC as a whole to avoid standards "calling for the use of" a patent and the manual **obligates the chairperson** to remind members to inform the meeting of any patents or applications relevant to the work of the committee, this court finds no language – in the membership application or manual excerpts – expressly requiring members to disclose information.

* * *

In this case there is a staggering lack of defining details in the EIA/JEDEC patent policy. When direct competitors participate in an open standards committee, their work necessitates a written patent policy with clear guidance on the committee's intellectual property position. **A policy that does not define clearly what, when, how, and to whom the members must disclose does not provide a firm basis for the disclosure duty necessary for a fraud verdict.** Without a clear policy, members form vaguely defined expectations as to what they believe the policy requires – whether the policy in fact so requires or not. [FN] **JEDEC could have drafted a patent policy with a broader disclosure duty. It could have drafted a policy broad enough to capture a member's failed attempts to mine a disclosed specification for broader undisclosed claims. It could have. It simply did not.**

[FN] Just as a lack of compliance with a well-defined patent policy would chill participation in open standard-setting bodies, after-the-fact morphing of a vague, loosely defined policy would chill participation in open standard-setting bodies.

318 F. 3d at 1098, 1102 (emphasis added).

Based on the Special Master's independent review of JEDEC policy, the Special Master concludes that it did not create a legally enforceable duty that required Rambus to disclose its pending and/or planned patent applications to JEDEC or its members. The Special Master further concludes that, in the absence of such a duty, any omission or failure by Rambus to disclose this information cannot as a matter of law constitute fraudulent concealment under Virginia law.

As a final point, the Special Master considers Micron's assertions that a legally enforceable duty to disclose arose from the expectations attendant upon the relationship between JEDEC members. The Special Master concludes that this theory of "implied contract" is inapplicable in the face of written JEDEC policy. *See, e.g., The Chase Manhattan Bank v. Iridium Africa Corp.*, 294 F. Supp. 634, 636 (D. Del. 2003) (holding "no implied-in-fact contract can be found when . . . the parties have an express agreement dealing with the same subject . . . [T]o be valid, the implied contract must be 'entirely unrelated to the express contract'.") (*quoting ITT Fed. Support Serv., Inc. v. United States*, 531 F. 2d 522, 528 (Ct. Cl. 1996)). *See also, In re Penn Central Transportation Co.*, 831 F. 2d 1221, 1229 (3d Cir. 1987) ("no implied-in-fact contract can be found when, as here, the parties have an express agreement dealing with the same subject."). JEDEC policy expressly provides that [a]ll meetings of the JEDEC . . . and its associated committees, subcommittees, task groups and other units shall be conducted within the current edition of EIA legal guides adopted by the EIA Board of Governors and incorporated herein by reference." JEP 21-I, Section 9.1. Thus, the Special Master concludes that the

vagaries of an implied policy will not be substituted for the provisions of an express policy, even one that fails to articulate an enforceable standard.²⁸

In summary, the Special Master concludes that Micron did not make a *prima facie* showing of fraud in the absence of a showing that Rambus had a duty to disclose the information that Micron alleges Rambus fraudulently concealed. As a result, the Special Master recommends that Micron's motion to compel the production of documents under the crime/fraud exception be denied.

III. Conclusion: Rambus Has Waived Its Privilege Only as to Certain 1991 to June 1996 JEDEC-Related Documents

The Special Master now turns to Micron's alternative argument, that Rambus should be compelled to produce privileged JEDEC-related documents under the theory that Rambus has waived any applicable privilege. The Special Master concludes that Rambus has waived its privilege only with respect to certain 1991-June 1996 JEDEC-related documents.

A. The Governing Law

For the same reasons discussed in the analysis of the crime/fraud exception herein, *supra* at pages 25-26, the Special Master will analyze whether Rambus has waived any asserted privilege with respect to these additional categories of documents in accordance with principles of federal common law, as construed in this Circuit.

²⁸ Micron argues that, in the *Infinion* case, the Federal Circuit did find a duty of disclosure. The Special Master's reading of that opinion does not support Micron's argument. To the contrary, the Federal Circuit was forced to analyze the existence of a duty to disclose as a question of fact because "neither party contest[ed] the district court's submission of this issue to the jury." 318 F. 3d at 1087. The Federal Circuit actually stated that "[t]he language of these [JEDEC] policy statements actually does not impose any direct duty on members." 318 F.3d at 1098 (emphasis added). The Federal Circuit then went on to review the jury's factual findings that a duty existed and had been breached by Rambus with the caveats that it was "treat[ing policy] language as imposing a disclosure duty" and "Assuming such a duty" *Id.* 318 F. 3d at 1098.

End Notes

ⁱ GTW Associates www.gtwassociates.com is an international standards and trade policy consultancy headed by George T. Willingmyre formerly Vice President of the American National Standards Association advising countries; associations; standards developers; law firms; and companies on the strategic use of standards in the global market.

ⁱⁱ <http://www.gtwassociates.com/gtw/gtwresume.html>

ⁱⁱⁱ Intellectual Property Rights Policies of selected standards developers
<http://www.gtwassociates.com/answers/IPRpolicies.html>

^{iv} http://standards.ieee.org/about/sasb/patcom/loa-1902_1-visible-20Sep2008.pdf

^v <http://standards.ieee.org/develop/policies/bylaws/sect6-7.html>

^{vi} <http://www.gtwassociates.com/answers/DOJ.htm#IEEE>

^{vii} <http://www.gtwassociates.com/answers/DOJ.htm#VITA>

^{viii} Ray Alderman November 9, 2009 email to George Willingmyre
<http://www.gtwassociates.com/answers/VITAdatabase.htm>

^{ix} <http://www.ftc.gov/os/fedreg/2011/05/110509standardsettingfrn.pdf>

^x Is Ex Ante The Norm? An Empirical Look At IPR Disclosure Timing Within Standard Setting", *EURAS Proceedings* 2010.

^{xi} Ibid

^{xii} Ibid

^{xiii} Ibid

^{xiv} <http://www.csiro.au/>

^{xv} <http://www.smh.com.au/technology/enterprise/csiro-to-reap-lazy-billion-from-worlds-biggest-tech-companies-20100601-wsu2.html> and

^{xvi} [Appendix One Pricing Patents for Licensing in Standard Setting Organisations: Making Sense of FRAND Commitments 2006](#)

^{xvii} <http://apps.americanbar.org/intelprop/spring2010/coursematerials/HermanMicheleNegotiatingStandards-Related.pdf>

^{xviii} Economics at DG Competition, 2009–2010 Damien Neven · Miguel de la Mano [Review of Industrial Organization Volume 37, Number 4](#), 309-333, DOI: 10.1007/s11151-010-9270-8
<http://www.springerlink.com/content/c005477680h8n56k/fulltext.pdf> © Springer Science+Business Media, LLC. 2010

^{xix} [APPENDIX TWO THE EX ANTE AUCTION MODEL FOR THE CONTROL OF MARKET POWER IN STANDARD SETTING ORGANIZATIONS 9 April 2007](#)

^{xx} Ibid

^{xxi} U.S. DEPARTMENT OF JUSTICE AND THE FEDERAL TRADE COMMISSION APRIL 2007
<http://www.justice.gov/atr/public/hearings/ip/222655.pdf> pages 54 - 56

-
- xxii http://standards.ieee.org/about/sasb/patcom/loa-1902_1-visible-20Sep2008.pdf
- xxiii <http://standards.ieee.org/develop/policies/bylaws/sect6-7.html>
- xxiv <http://www.gtwassociates.com/answers/DOJ.htm#IEEE>
- xxv <http://www.gtwassociates.com/answers/DOJ.htm#VITA>
- xxvi Ray Alderman November 9, 2009 email to George Willingmyre
<http://www.gtwassociates.com/answers/VITAdatabase.htm>
- xxvii January 2010 Ray Alderman email to G Willingmyre
<http://www.gtwassociates.com/answers/VITAdatabase1.htm>
- xxviii GTW Associates comments to FTC regarding Competition and Intellectual Property June 14, 2002
<http://www.ftc.gov/os/comments/intelpropertycomments/gtwassoc.pdf> Intellectual Property Rights Policies of selected standards developers March 2011 <http://www.gtwassociates.com/answers/IPRpolicies.html> and Considerations assessing a standards developing organization policies before participation
<http://www.gtwassociates.com/answers/IPR%20article.htm>
- xxix <http://apps.americanbar.org/abastore/index.cfm?section=main&fm=Product.AddToCart&pid=5450050>
- xxx Appendix Three In the Matter of RAMBUS INC, a corporation Docket No. 9302 NOTICE OF FILING OF RULING IN RELATED CASE REGARDING JEDEC DUTY ISSUES RAISED IN COMPLAINT COUNSEL'S APPEAL June 16, 2006
- xxxi http://standards.gov/standards_gov/sos_rfi_docs/OBSERVATIONS%205-13-final.pdf
- xxxii <http://www.ftc.gov/os/fedreg/2011/05/110509standardsettingfrm.pdf>
- xxxiii <http://www.justice.gov/atr/public/speeches/222236.htm>
- xxxiv Ibid
- xxxv <http://blogs.wsj.com/chinarealtime/2010/04/07/stanley-lubman-chinas-indigenous-innovation-policy-creates-obstacles-for-foreign-business/>
- xxxvi http://www.sac.gov.cn/sac_en/
- xxxvii <http://www.ip-watch.org/>
- xxxviii GT Willingmyre Take Two: China's Proposed Regulations For Patent-Involving National Standards 21 December 2009 <http://www.ip-watch.org/weblog/2009/12/21/take-two-china%e2%80%99s-proposed-regulations-for-patent-involving-national-standards/>
- xxxix GT Willingmyre China's Latest Draft Disposal Rules For Patents In Standards: A Step Forward?
<http://www.ip-watch.org/weblog/2010/04/01/china%e2%80%99s-latest-draft-disposal-rules-for-patents-in-standards-a-step-forward/> April 1 2010
- xl China National Institute of Standardization (CNIS) is a non-profit national research body engaging in standardization research <http://en.cnis.gov.cn/>
- xli <http://www.governoeletronico.gov.br/acoes-e-projetos/e-ping-padrees-de-interoperabilidade>
- xlii <http://www.governoeletronico.gov.br/biblioteca/arquivos/documento-da-e-ping-versao-2011/>
- xliii <http://www.dpsa.gov.za/dpsa2g/documents.asp>

^{xlii} Policy on Open Standards for e-Governance http://egovstandards.gov.in/policy/policy-on-open-standards-for-e-governance/policy_doc_and_manual_used_in_printing_recd_on_Nov_12.pdf/

^{xlii} MEMORANDUM OF UNDERSTANDING ON ANTITRUST AND ANTIMONOPOLY COOPERATION BETWEEN THE UNITED STATES DEPARTMENT OF JUSTICE AND FEDERAL TRADE COMMISSION, ON THE *ONE HAND*, AND THE *PEOPLE'S REPUBLIC OF CHINA NATIONAL DEVELOPMENT AND REFORM COMMISSION, MINISTRY OF COMMERCE, AND STATE ADMINISTRATION FOR INDUSTRY AND COMMERCE*, ON THE OTHER HAND signed July 27, 2011
<http://www.justice.gov/atr/public/international/docs/273310.pdf>

^{xlii} Remarks on the Occasion of the Signing of the Memorandum of Understanding on Antitrust Cooperation by Assistant Attorney General Christine Varney in Beijing, China July 27, 2011
<http://www.justice.gov/atr/public/speeches/273347.pdf>