

The Transparency Debate in Standards Development

... and why consortia should care

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The Transparency Debate

- Origin of the debate
- What are the issues?
- Key events
- Implications for consortia



Transparency Debate: Origin of Debate

Narrow focus: widely publicized instances in which participants in standards development have allegedly:

- Failed to disclose patents essential to implement standard
- Failed to comply with RAND obligations they had given during standards development process after standard had achieved ubiquity

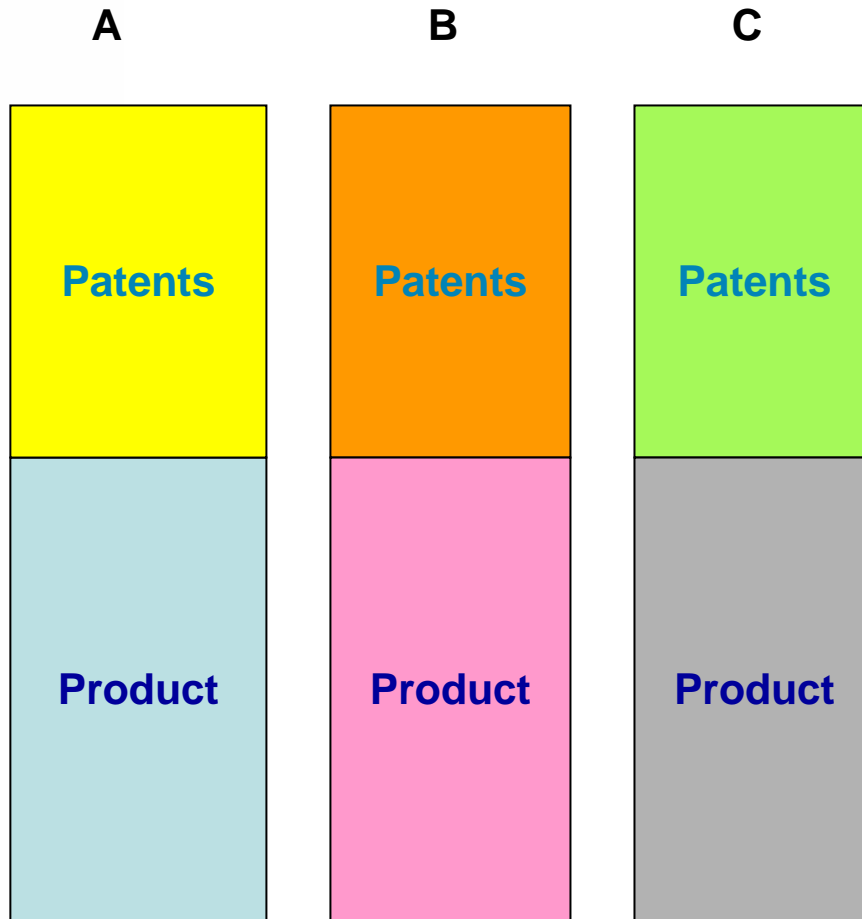


Transparency Debate: Origin of Debate

Broader focus: emergence of **new intellectual property business models** that may create greater incentives to benefit from participation in standards development through patent licensing rather than product development



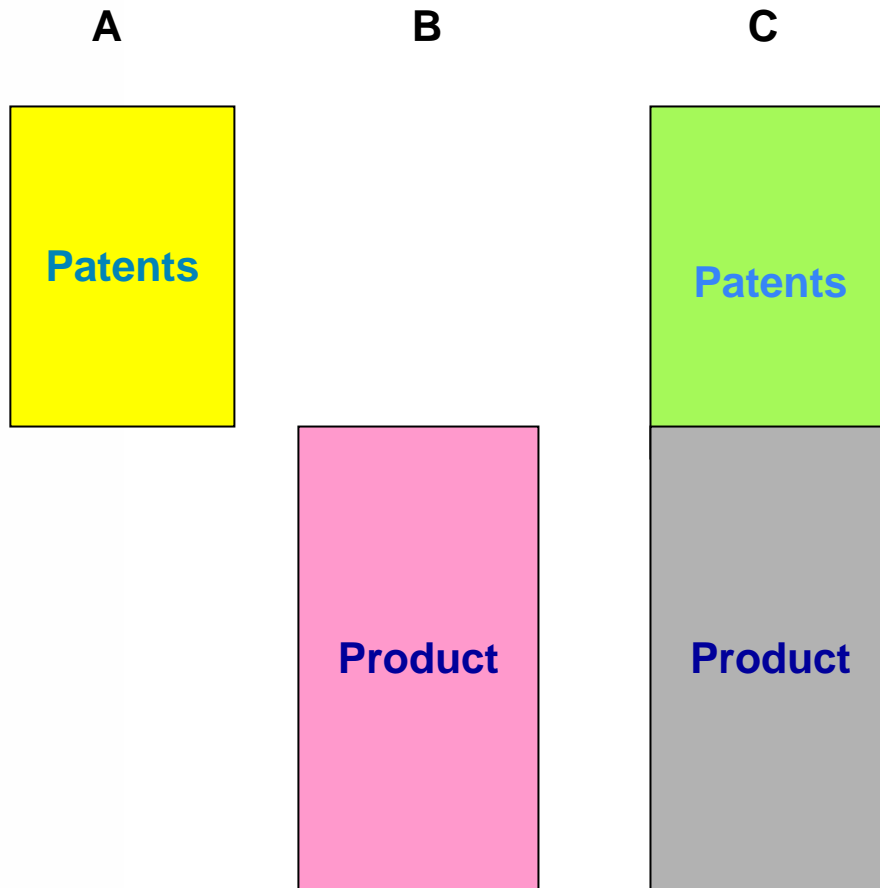
IP Business Models and Standards Development: That Was Then



- Vertically integrated companies
- Each contributes IP to standard
- Mutual infringement (if not licensed)
- FRAND works well:
 - “Balance of terror” discourages patent assertions (de facto cross license between A,B, and C)
 - Patents asserted and formal cross-licenses negotiated only to address perceived imbalance in patent value



IP Business Models and Standards Development: ... And This is Now



- A and B: no longer vertically integrated
- A seeks to maximize patent value (constrained only by what it *thinks* FRAND means)
- B is vulnerable to A and C
- C: defensive value of its portfolio relative to A is low.
- “Balance of terror” no longer constrains A



Transparency Debate: The Issues

- Transparency Advocates Respond by:
 - Encouraging SDOs to change IPR policies:
 - Strengthen patent disclosure rules to avoid ambiguities that can be used to avoid disclosing essential patents
 - Permit, encourage, or require participants to state **up front** on what terms they will license essential patents
 - Licensing commitment, once given, is binding on participant
 - Licensing commitment may be enforced by any subsequent implementer of standard
 - Make clear that licensing commitments bind all subsequent owners of disclosed patent
 - Encouraging ANSI to interpret “Essential Requirements” to permit ANSI-accredited SDOs to make these changes



Transparency Debate: How Transparency Opponents Respond

- General response: transparency movement is “a solution in search of a problem”:
 - Examples where standards process is harmed by failures of participants to disclose essential patents or honor licensing commitments are rare
 - In general, standards development process works well, and “why mess with success?”



Transparency Debate: How Transparency Opponents Respond

- Specific responses:
 - Tightening up patent disclosure rules will require premature disclosure of patents too early in standards development process
 - Early disclosure of binding licensing terms:
 - **Unnecessary**, because participants are always free to negotiate bilaterally
 - **Harmful**, because patent-holders should retain flexibility to adjust licensing terms as demand for standards-compliant products develops (or doesn't).



Transparency Debate: Key Events

- VITA Policy: Adopted January 2007
 - Each contributor of patented technology in VITA standards development must disclose licensing terms for essential patents. Disclosure, once made, is binding, irrevocable
 - Failure to disclose patent or licensing terms results in default royalty-free license to essential patents
 - Department of Justice Business Review Letter; no intent to challenge VITA policy as antitrust violation (letter issued October 30, 2006)
 - ▶ See <http://www.usdoj.gov/atr/public/busreview/219380.htm>



Transparency Debate: Key Events

- IEEE-SA Policy: Adopted April 2007
 - Voluntary disclosure of proposed licensing terms at time contributor discloses essential patents
 - Licensing commitments, once made, are binding on subsequent owners of disclosed patent
 - Department of Justice Business Review Letter; no intent to challenge IEEE-SA policy as antitrust violation (letter issued April 30, 2007)
 - ▶ See <http://www.usdoj.gov/atr/public/busreview/222978.htm>



Transparency Debate: Key Events

Department of Justice / Federal Trade Commission
Report: Antitrust and Intellectual Property Rights (April 2007):

“The Agencies ... recognize that joint *ex ante* activity to establish licensing terms as part of the standard-setting process ... 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 procompetitive benefits, the Agencies will evaluate joint *ex ante* negotiation of licensing terms pursuant to the rule of reason.”



Transparency Debate: Key Events

- Department of Justice / FTC Approach:
 - Not advocating that SDOs *should* adopt rules that encourage or require early disclosure of licensing terms
 - Just saying that SDOs *may* do so consistent with US antitrust law
 - European Commission DG-Comp (European Union's competition enforcer) taking similar view



Transparency Debate: Why Consortia Should Care

- Consortia have sometimes facilitated experimentation with novel IPR policies.
 - Example: World Wide Web Consortium: default royalty-free license
- If Transparency advocates are successful, over time there will emerge greater variety of IPR policies within formal SDO world
- Growing diversity among IPR policies of formal SDOs may reduce incentive to opt-out of formal SDO structure in order to create “bespoke” IPR policy to match goals of prospective members



Transparency Debate: Why Consortia Should Care

- Members of existing consortia or participants involved in formation of new consortia may seek to apply transparency-focused rules in the organizations they create
- Issues consortia may face in evaluating issue:
 - Potential trade-off between transparency and predictability that implementers of standard will enjoy relative to licensing terms and costs against possible delay as considerations of licensing costs and terms are evaluated in standards development process
 - Need for antitrust counseling to address potential legal risks for consortium and participants associated with collective **negotiation** of licenses

Questions?

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