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When Does the Shield Become a Sword?

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The rewards and pitfalls of standard setting¹ conjure images of the legend of Damocles.² From afar, the benefits of a “collaborative standard-setting process [that] enable[s] industry participants to share knowledge and develop a best-of-breed product or process”³ appear enormously attractive. The widespread acceptance of a standard that promotes product interoperability “may expand the availability of a technology and ancillary products and services by enabling more firms to rapidly enter and serve the market,” thus “impart[ing] pro-competitive benefits to markets and their participants, both producers and consumers, by capitalizing on the ‘network effects’ at

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¹ Simply put, “[s]tandard setting is a common method of achieving interoperability.” *Int’l Norcent Tech. v. Koninklijke Philips Elec. N.V.*, No. CV 07-00043 MMM (SSx), 2007 WL 4976364, at *1, n.6 (C.D. Cal. Oct. 29, 2007) (citing *Rambus, Inc. v. Infinion Tech. AG*, 330 F. Supp. 2d 679, 696 (E.D. Va. 2004)). Interoperability is defined as “the ability of one manufacturer’s product to interface with other manufacturers’ products.” *Id.* (quoting Mark A. Lemley, *Standardizing Government Standard-Setting Policy for Electronic Commerce*, 14 BERKELEY TECH. L.J. 745, 746 (1999)).

² See CICERO, TUSCULAN DISPUTATIONS 5.61 (Gavin Betts trans.), at http://www.livius.org/sh-si/sicily/sicily_t11.html (last visited Apr. 30, 2008).

³ Letter from Thomas O. Barnett, Assistant Attorney Gen., Antitrust Division, U.S. Dep’t of Justice, to Robert A. Skitol, Esq., Drinker, Biddle & Reath, LLP 7 (Oct. 30, 2006) (inner quotation marks omitted) [hereinafter “VITA Letter”], available at <http://www.usdoj.gov/atr/public/busreview/219380.pdf>.

play in an advanced industrial economy.”⁴ Despite these substantial rewards, the specter of patent holdup (i.e., “after the standard is set, the holder of a patent essential to that standard identifies a patent, or attempts to impose licensing terms, that [standards development organization] members could not reasonably have anticipated”⁵) looms as an ever-present threat.

To blunt the rapier of patent holdup, some standards development organizations (“SDOs”)—most notably, VITA and IEEE—have adopted ex ante licensing strategies (with the approval Antitrust Division of the U.S. Department of Justice) that require a patent holder to announce its most restrictive licensing terms,⁶ although the VITA policy requires potential licensors to forego ex ante negotiations and simply commit to the disclosed terms,⁷ while such a commitment is optional and discussions of “the relative costs and benefits of alternative technologies” would be permitted subject to “certain limits”⁸ under IEEE procedures. These policies were approved, inter alia, because disclosures of the most onerous licensing conditions would make manifest to SDO members “the most attractive combination of technology and licensing terms.”⁹

⁴ Wynne Carvill & Khurshid Khoja, *Antitrust Issues Presented in Setting Interoperability Standards*, INTELL. PROP. ANTITRUST 279 (2003).

⁵ Hill B. Wellford, Counsel to the Assistant Attorney Gen., Antitrust Division, U.S. Dep’t of Justice, *Antitrust Issues in Standard Setting*, 2d Annual Seminar on IT Standardization and Intellectual Property, China Electronics Standardization Institute 10 (Mar. 29, 2007), available at <http://www.usdoj.gov/atr/public/speeches/222236.htm>.

⁶ See Letter from Thomas O. Barnett, Assistant Attorney Gen., Antitrust Division, U.S. Dep’t of Justice, to Michael A. Lindsay, Esq. 4-5 (Apr. 30, 2007) [hereinafter “IEEE Letter”], available at <http://www.usdoj.gov/atr/public/busreview/222978.htm>; See also VITA Letter, *supra* note 3, at 4.

⁷ VITA Letter, *id.* at 9.

⁸ IEEE Letter, *supra* note 6, at 4-5.

⁹ *Id.* at 10. See also VITA Letter, *supra* note 3, at 9 (“Requiring patent holders to disclose their most restrictive licensing terms in advance could help avoid this outcome by preserving the benefits of competition between alternative technologies that exist during the standard-setting process.”).

But as the U.S. District Court for the Eastern District of Virginia acknowledged in its decision in *Rambus, Inc. v. Infineon Technologies AG*,¹⁰ SDOs “allow industry players to meet as a group and exercise their influence on their particular industry. It almost goes without saying, therefore, that the collusive atmosphere presents a very real opportunity for anticompetitive behavior.”¹¹ Indeed, ex ante joint negotiations between the SDO and an individual firm may turn the threat of patent holdup on its head by creating a situation where “powerful industry groups [can] dictate the terms of licenses to patent owners, which would discourage the incorporation of patents into industry standards and deprive the marketplace of the most meritorious standards.”¹² In the absence of a “naked buyer cartel,”¹³ when does an SDO’s conduct devolve from a lawful attempt to combat patent holdup and approach a monopsonistic conspiracy that violates the U.S. Sherman Act?

In the absence of price-fixing or other practices that “always or almost always tend to restrict competition and decrease output,”¹⁴ a fact-finder will evaluate the SDO’s conduct using a rule of reason analysis. Under this framework, a disgruntled patent holder must establish that:

1. the defendant(s) engaged in some form of joint action, and
2. this joint action amounted to an unreasonable restraint of trade.¹⁵

¹⁰ *Rambus, Inc. v. Infineon Technologies AG*, 330 F. Supp. 2d 679 (E.D. Va. 2004) [hereinafter *Rambus*].

¹¹ *Id.* at 696 (citing *Allied Tube Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1998)).

¹² *Carvill & Khoja* (2003), *supra* note 4, at 302.

¹³ Robert A. Skitol, *Concerted Buying Power: Its Potential for Addressing the Patent Holdup Problem in Standard Setting*, 72 ANTITRUST L.J. 727, 727 (2005) (inner quotation marks omitted).

¹⁴ *Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc.*, 441 U.S. 1, 19-20 (1979).

¹⁵ *See, e.g., Golden Bridge Tech., Inc. v. Nokia, Inc.*, 416 F. Supp. 2d 525, 529 (E.D. Tex. 2006) (citation omitted) [hereinafter *Golden Bridge Tech., Inc.*]; *Int’l Norcent Tech. v. Koninklijke Philips*

As SDOs are by their very nature a form of “joint action,” the plaintiff’s primary challenge will be demonstrating that the practice at issue qualifies as “unreasonable.”¹⁶ Taking into account all circumstances surrounding the practice, a fact-finder must “weigh the anticompetitive effects of the at-issue conduct against the procompetitive effects the conduct might have had. Stated otherwise, it requires the fact-finder to determine whether the challenged conduct, on balance, promotes or suppresses competition.”¹⁷

As a general principle:

[an] analysis of SDO conduct should focus on efficiency because efficiency is the whole reason for standard-setting. The justification for cooperatively setting a standard, as opposed to letting standards develop accidentally or from the technological solutions proposed by individual firms, is that collaboratively-set standards can be more useful to society.¹⁸

Both antitrust enforcers and legal commentators have been quick to recognize that:

[a]greements on what to include in the standard is a necessary part of every standard setting process; knowing the costs as well as technical implications of including proprietary technologies prior to agreeing on their inclusion (1) enhances the quality of decision making; (2) increases the prospects for achieving a procompetitive “open” standards outcome, and (3) diminishes the risk of falling into an ex post exclusionary patent holdup outcome. These benefits are cognizable efficiencies for antitrust analysis purposes, just as they would be in any bona fide product or technology joint venture.¹⁹

However, “[t]here is no doubt that members of [SDOs] have economic incentives to restrain competition and that the product standards set by such associations have a

Electronics N.V., No. CV 07-00043 MMM (SSx), 2007 WL 4976364, at *6 (C.D. Cal. Oct. 29, 2007) (citations omitted).

¹⁶ See, e.g., *Golden Bridge Tech., Inc., id.* at 529-32.

¹⁷ *Rambus, Inc., supra* note 10, at 698 n.27 (citing *National Soc’y of Prof’l Eng’rs v. United States*, 435 U.S. 679, 691 (1978)).

¹⁸ Wellford (2007), *supra* note 5, at 15.

¹⁹ Robert A. Skitol, *Concerted Buying Power: Its Potential for Addressing the Patent Holdup Problem in Standard Setting*, 72 ANTITRUST L.J. 727, 735 (2005).

serious potential for anticompetitive harm.”²⁰ During a recent speech, then-FTC Chairman Deborah Platt Majoras articulated possible anticompetitive harms associated with ex ante joint negotiations:

- First, a fact-finder should be mindful that “[SDO] members could use joint ex ante royalty discussions to force patent holders to offer royalty rates below the competitive level,”²¹ which would discourage a company that has expended resources developing the technology from proffering it as a standard and, equally significant, deprive consumers of both the technology itself and the efficiencies to be had if it is incorporated into a variety of related products.
- Second, a fact-finder may also consider “whether an uncoordinated series of bilateral negotiations between patentees and individual would-be licensees would be equally capable of mitigating hold up,”²² thus eliminating the temptation for monopsonistic collusion altogether.
- Finally, “[j]oint ex ante royalty discussions ... offer an opportunity for [SDO] members to reach side price-fixing agreements that are per se illegal”²³—and SDOs should take all precautions to ensure that lawful policies intended to guard against patent holdup do not unintentionally shield conduct that has no redeeming value under antitrust law.

As with any issue to be examined under the rule of reason, the legality of SDOs’ ex ante joint negotiation policies must be evaluated on a case-by-case basis. Although it is evident that SDOs have “presumptively legitimate reason[s]” for requiring disclosure of patentees’ most restrictive licensing terms when considering whether a technology

²⁰ *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1988).

²¹ Deborah Platt Majoras, Chairman, Fed. Trade Comm’n, Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting, Address at Standardization and the Law: Developing the Golden Mean for Global Trade, Stanford University (Sep. 23, 2005), at 8-9, available at <http://www.ftc.gov/speeches/majoras/050923stanford.pdf>.

²² *Id.* at 10.

²³ *Id.*

should be adopted to promote interoperability across products, “[c]apping the total price to be paid to all IP owners may create monopsony problems because it depresses the total price to be charged for innovation.”²⁴ Based on the principles set forth above, a measured rule of reason analysis should afford SDOs “significant leeway to adopt reasonable rules that are necessary to the operation of their business, even if those rules indirectly regulate the circumstances under which competition occurs.”²⁵ However, any discussion of price—other than the disclosure of the patentee’s most restrictive licensing terms—during ex ante joint negotiations should remain verboten, should the shield against patent holdup be wielded as a sword against the innovating companies.

²⁴ Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1943 (2002).

²⁵ *Id.*