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Updating a Patent Policy: The IEEE Experience

Michael A. Lindsay
(Dorsey & Whitney LLP)
&
Konstantinos Karachalios
(IEEE Standards Association)

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Michael A. Lindsay & Konstantinos Karachalios¹

I. INTRODUCTION

The pages of this two-part issue of the *CPI Antitrust Chronicle* provide one more example of the continuing and wide-ranging debate about the intersection of patents and standards. Debate can certainly be healthy, but standards development organizations (“SDOs”) live in the real world—one in which courts² and regulators³ have criticized existing SDO policies as lacking clarity. At some point, an SDO must decide whether its existing patent policy provides sufficient clarity to the holders of potentially essential patents and to the companies that implement its standards—or whether an update of that SDO’s patent policy is warranted.

The IEEE Standards Association (“IEEE-SA”) recently completed an update of its patent policy, and the update took effect on March 15, 2015. Many other SDOs either have been

¹ Mr. Lindsay is a partner at Dorsey & Whitney LLP, and he was one of IEEE’s advisors during the development of the patent policy update discussed in this article. Mr. Karachalios is Managing Director of the IEEE Standards Association.

² See, e.g., *Ericsson Inc. v. D-Link Sys., Inc.*, No. 6:10-CV-473, 2013 WL 4046225, at *25 (E.D. Tex. Aug. 6, 2013) (“The paradox of RAND licensing is that it requires a patent holder to offer licenses on reasonable terms, but it offers no guidance over what is reasonable.”), *aff’d in part, rev’d in part, vacated in part*, 773 F.3d 1201 (Fed. Cir. 2014); *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823, 2013 WL 2111217, at *10 (W.D. Wash. April 25, 2013) (IEEE-SA’s 2007 patent policy does not clarify “what constitutes a reasonable royalty rate or what other terms and conditions are reasonable or nondiscriminatory for any license between interested parties”).

³ For examples of regulatory critiques, see Christine A. Varney (Assistant Attorney General, Antitrust Division, U.S. Department of Justice), *Promoting Innovation Through Patent and Antitrust Law and Policy*, Remarks as Prepared for the Joint Workshop of the U.S. Patent and Trademark Office, the Federal Trade Comm’n, and the Dep’t of Justice on the Intersection of Patent Policy and Competition Policy: Implications for Promoting Innovation 8 (May 26, 2010), available at <http://www.justice.gov/atr/public/speeches/260101.htm> (“Clarity alone does not eliminate the possibility of hold-up . . . but it is a step in the right direction.”); Renata Hesse (Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice), *Six “Small” Proposals for SSOs Before Lunch (“Six Proposals”)*, Remarks as Prepared for the ITU-T Patent Roundtable 11 (Oct. 10, 2012), available at <http://www.justice.gov/atr/public/speeches/287855.pdf> (SDOs should consider taking steps to “eliminate some of the ambiguity that requires difficult ex post deciphering of the scope of a F/RAND commitment”); Edith Ramirez (Chair, U.S. Federal Trade Commission), *Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective*, Address at 8th Annual Global Antitrust Enforcement Symposium, Georgetown University Law Center, Washington, DC 9, 11 (Sept. 10, 2014), available at http://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf; (“[A]dditional clarity on a framework for determining FRAND royalties would benefit industry stakeholders and consumers alike. . . Greater clarity on the terms of a FRAND license is likely to facilitate private negotiations and limit the need to seek a third-party determination of a FRAND rate.”); Joaquín Almunia (Vice President of the European Commission responsible for Competition Policy), *Competition Enforcement in the Knowledge Economy*, Address at Fordham University, New York City 6 (Sept. 20, 2012), available at http://europa.eu/rapid/press-release_SPEECH-12-629_en.htm (stating that “there is a growing consensus on both sides of the Atlantic on the damage that the misuse of standard-essential patents can do to competition” and that the European Commission’s receipt of “many complaints related to standards-essential patents also shows that there is a great need for guidance”).

engaged in similar reviews or may soon do so. Each SDO starts from a different baseline (its own existing policy), and each SDO has its own procedures for policy updates. The IEEE-SA experience, however, may provide some useful guidance as other SDOs address the issues under their own policies and procedures.

II. BACKGROUND

IEEE-SA is an organizational unit of IEEE, the world's premier professional organization for engineers in electrical engineering, information science, and related fields. IEEE-SA is a leading developer of global industry standards in a broad range of electro-technical subjects, including power and energy, biomedical and healthcare, information technology, telecommunications, transportation, nanotechnology, and information assurance. IEEE-SA is governed by a Board of Governors. The Board of Governors appoints the members of the Standards Association Standards Board ("Standards Board"), which oversees the process for initiating, developing, and revising standards. The Standards Board has a Patent Committee ("PatCom") that provides oversight for the use of any patents and patent information in IEEE standards. The standards themselves are then developed through a variety of working groups with internal IEEE sponsors (such as one of IEEE's societies).

IEEE-SA adopted a policy, more than two decades ago, governing the use of patented technologies in IEEE standards, and that policy has been updated periodically since then. IEEE-SA's policy permits the use of "Essential Patent Claims" ("SEPs"), but if IEEE receives notice that a proposed standard "may require the use of a potential Essential Patent Claim," then IEEE requests "licensing assurance, on the IEEE-SA Standards Board approved Letter of Assurance form." Thus, the policy includes two key processes: disclosure and licensing assurance.

IEEE-SA **requires** every participant in an IEEE standards development activity to disclose the identity of anyone that the participant believes may hold an "Essential Patent Claim" for the standard under development.

Once a participant identifies such a holder, the Working Group chair writes to the holder and **requests** that the holder state its licensing intentions, using the IEEE-SA form "Letter of Assurance." Using this form, a patent holder can (a) assure that it will license its SEP to implementers of the standard (either for a reasonable royalty or, at the holder's election, royalty-free), (b) assure that it will not enforce its SEP against implementers, (c) state that it does not have SEPs, or (d) decline to provide assurance.

III. UPDATING THE POLICY

In October 2012, ITU organized a roundtable entitled "High-level ITU talks address rampant patent litigation," with the subtitle "Innovation-stifling use of intellectual property to be tackled." ITU Secretary-General Dr. Hamadoun Touré stated: "We are seeing an unwelcome trend in today's marketplace to use standards-essential patents to block markets. There needs to be an urgent review of this situation: patents are meant to encourage innovation, not stifle it."⁴ At

⁴ This ITU press release (dated 6 July 2012) is *available at* http://www.itu.int/net/pressoffice/press_releases/2012/45.aspx#.VRCPyNa2Lr4. The press release referred to "recent patent disputes that have caused shipments of goods to be impounded at docks" and "the worldwide increase

the same event Deputy Assistant Attorney General Renata Hesse delivered her *Six Proposals* speech. Shortly after this event, the IPR groups of ETSI, ITU, and (somewhat later than the other two) IEEE-SA started to review their respective patent policies.

IEEE-SA's consideration of a possible update to its patent policy began in early 2013. IEEE-SA followed a thorough process for considering whether to update its patent policy and, if so, how. At its March 2013 meeting, the IEEE-SA PatCom discussed the six suggestions of Deputy Assistant Attorney General Renata Hesse (not as a mandate, of course, but as a useful framing of issues). The PatCom chair appointed an Ad Hoc committee ("Ad Hoc"), which reviewed the six suggestions. The Ad Hoc reported back at PatCom's June 2013 meeting and recommended that IEEE-SA update the patent policy in several areas.

Over the course of the following 15 months, the Ad Hoc proceeded to develop a draft policy update. Early in the process, IEEE-SA created a public website where drafts were published for public review and comment, once the Ad Hoc was satisfied with a draft. The Ad Hoc released a total of four public review drafts. Interested parties were asked to make comments using a comment tool (which permitted the Ad Hoc to review, sort, process, and act more efficiently on the 680 comments that were submitted on the drafts). IEEE-SA also provided an email reflector to enable further public dialog during the process. In addition, PatCom invited comments on each of the four public review drafts at its public meetings held over the 15-month period. In June 2014, PatCom approved a revised version of the fourth public draft and forwarded this draft to the Standards Board for consideration.

The policy update then passed through three further stages. In August 2014, the Standards Board considered the proposed policy after receiving live and written input from various stakeholders. The Standards Board approved the proposed policy update and recommended its adoption to the Board of Governors. In December 2014, the Board of Governors considered the proposed policy after receiving live and written input from various stakeholders. Finally, the IEEE Board of Directors decided (although not required to do so under the rules) to review the policy. The Board approved the policy at its February 2015 meeting, and the policy went into effect on March 15, 2015.

IV. SUBSTANCE OF UPDATES

The update addresses four key areas of the patent policy:

1. The update provides a definition of "reasonable" rate as "appropriate compensation to the patent holder for the practice of an Essential Patent Claim excluding the value, if any, resulting from the inclusion of that Essential Patent Claim's technology in the IEEE Standard." The update provides additional clarity by recommending consideration of

in standard essential patent (SEP) litigation" as the basis for ITU's decision to "host a high-level roundtable discussion between standards organizations, key industry players and government officials" in October 2012. ITU describes itself as "the leading United Nations agency for information and communication technologies, driving innovation in ICTs together with 193 Member States and a membership of over 700 private sector entities and academic institutions." See *Newsroom—About ITU*, available at http://www.itu.int/net/pressoffice/press_releases/about.aspx#.VRGEIK3QdGE.

three factors in determining a reasonable rate,⁵ but these factors are not mandatory. Parties (and, in litigation, courts) are free to consider other factors.

2. The update defines “Compliant Implementation” to ensure that makers of **components** that implement an IEEE standard can benefit from Letters of Assurance—but only for use of the component in conforming with the standard. Patent holders cannot refuse to honor their commitment to IEEE to grant licenses to an **unrestricted** number of applicants, and product makers cannot force a patent owner to grant a license beyond the scope of that commitment.
3. The update describes the circumstances in which the patent holder agrees that it will not seek injunctions (from a court) or exclusion orders (from an international trade commission). The update states that parties should negotiate over license terms and makes clear that a patent holder is not prohibited from seeking an injunction if an implementer declines to participate in or comply with the outcome of an adjudication (as specified in the policy).
4. The update provides that a patent holder cannot **require** an implementer to take a license to a non-essential patent or require an implementer to grant to a patent holder a license to the implementer’s own patents (except essential patents on the same IEEE standard). Patent holders and implementers are free, however, to **negotiate** any kind of cross-license or portfolio license that they wish.⁶

V. U.S. DEPARTMENT OF JUSTICE BUSINESS REVIEW LETTER

As it had with its 2007 policy update, IEEE sought and received a favorable business review letter from the U.S. Department of Justice. IEEE submitted a letter describing the policy update and the process for its development. The Justice Department conducted its investigation and on February 2, 2015 issued the requested letter.⁷

The Justice Department acknowledged that IEEE’s policy update created “the potential to benefit competition and consumers by facilitating licensing negotiations, mitigating hold up and royalty stacking, and promoting competition among technologies for inclusion in standards.” The Justice Department concluded that it had no present intention to take antitrust enforcement action against the policy update.

⁵ The three factors are: (1) the value contributed “to the value of the relevant functionality of the smallest saleable Compliant Implementation that practices the Essential Patent Claim,” (2) the value contributed “in light of the value contributed by all Essential Patent Claims for the same IEEE Standard practiced in that [smallest saleable] Compliant Implementation,” and (3) “Existing licenses” that “were not obtained under the explicit or implicit threat of a Prohibitive Order” and “otherwise sufficiently comparable” circumstances and resulting licenses.

⁶ Stakeholders took different positions on whether the policy update merely restates in clearer language what the existing policy already provides or represents a substantive change (a disagreement that itself provided an additional reason for updating the policy). IEEE made clear that it did not seek to amend retroactively the terms of any previously submitted Letter of Assurance, and that it was not expressing a view as to whether any specific provision in the draft policy did—or did not—represent a substantive change from the current policy.

⁷ Business Review Letter from Acting Assistant Attorney General Renata B. Hesse to Michael A. Lindsay (Feb. 2, 2015), available at <http://www.justice.gov/atr/public/busreview/311470.htm>.

VI. SOME CONSIDERATIONS FOR SDOs

As we noted at the outset, each SDO must start with its own existing policy and work through its own procedures. Using its procedures, IEEE-SA was able to achieve consensus on its policy update (with approval by three-quarters of the Board of Governors, and a further approval by the IEEE Board of Directors). Here are four considerations for other SDOs:

1. **Establish and follow a rigorous and consistent governance process.** IEEE has governance processes based on the concept of fiduciary duty to IEEE, independent of any other professional affiliation that its directors or other governance members may have. These principles were applied rigorously throughout the development of the patent policy update.
2. **Use a rigorous process for policy development.** In IEEE's case, the idea for updating the policy came through IEEE's normal process—a proposal at PatCom. PatCom then essentially followed the process that it used in its previous policy update (which took effect in 2007). PatCom developed drafts that it released for public review, provided a commenting tool for reviewers to articulate specific concerns and propose modifications to the text, opened an email reflector for additional public discussion, and held public meetings to entertain further public input. This process provided for a thorough consideration of issues, and the repeated iterations of drafts resulted in significant improvements to the text.
3. **Seek input from stakeholders.** IEEE sought public input as part of its policy-development process, and that input improved the draft. For example, some commenters pointed out that the draft as originally written might prevent (because of local procedural rules) a patent holder from conditionally seeking an injunction in an initial pleading even in circumstances where the patent holder has not agreed, in its Letter of Assurance, to refrain from seeking an injunction. The draft was revised to address this concern. As another example, the definition of “Reasonable Rate” evolved significantly between the first draft and the final draft.
4. **Provide clarity without rigidity.** The policy update provides a core definition of “Reasonable Rate” as excluding “the value, if any, resulting from the inclusion of that Essential Patent Claim's technology in the IEEE Standard.” The update also recommends three considerations in determining a reasonable rate in particular circumstances but does not mandate their use or prohibit other considerations. The updated policy now expressly states that a patent holder and implementer should engage in good faith negotiations without unreasonable delay, and the updated policy better enables the parties to do exactly that.