



Licensing IP embodied in standards, Part 2

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..... Much of ANSI's statement (see the "ANSI position" box) reflects common ground between its policy on intellectual property embodied in standards and what the July-August Micro Law column proposed as wise policy for the IEEE and other standardization bodies. However, two principal areas of nonagreement emerge:

- What should happen if the patent owner fails correctly to identify and disclose its patent rights until after adoption of the standard embodying its patented technology?
- Is it a "reasonable" licensing condition for a patent owner to demand that users of the standard must relinquish their own patent rights that are not embodied in the standard?

Failure to disclose patents

According to ANSI, only certain, limited sanctions are appropriate when a patent owner fails correctly to identify and disclose patent rights embodied into a standard until after the standard has been adopted. (This is the pattern of conduct that led to the US Federal Trade Commission's 1995 case against Dell Computer after the 1992 development and adoption of the VESA bus, and to the current outcries against Microsoft over its patent covering the W3C cascading style sheet standard.) Actually, ANSI does not consider them sanctions. Rather, it says that

"there are *incentives* built into the system to prevent a company from keeping silent until the standard is finalized and then, after the standard becomes a de facto marketplace standard, announce its patent rights."

ANSI says the existing and appropriate sanctions/incentives are

1. The approval of the standard is subject to either withdrawal, often rendering the company's innovation relatively useless, or redrafting by the standards committee to elimi-

nate reference to the patented technology.

2. Competitors can avail themselves of their legal rights in court.
3. In the case of deliberate misconduct, the FTC can intervene.
4. In addition, and perhaps most important, a company engaging in such conduct likely would lose stature in the standards development community.

This catalog of sanctions/incentives is pretty flimsy, and far short of what a well-advised standardization body should base



ANSI position

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The US and international standards bodies have long recognized that the incorporation of patented technology into a standard without safeguards could produce an unacceptable anticompetitive effect. As a result, ANSI, ISO, IEC, and most other formal standards organizations developed and implemented patent policies that have evolved to be remarkably consistent. We consider this so important that compliance (or noncompliance) with the ANSI patent policy is one of the criteria considered by ANSI in determining whether to approve or withdraw approval of a standard as an American National Standard.

The ANSI patent policy provides that the patent holder supply ANSI with either

- 1) a general disclaimer to the effect that the patent holder does not hold and does not anticipate holding any invention the use of which would be required for compliance with the proposed standard, or
- 2) a written assurance that either a) a license will be made available to applicants desiring to utilize the license for the purpose of implementing the standard without compensation to the patent holder, or b) a license will be made available to applicants under reasonable terms and conditions that are demonstrably free of unfair discrimination.

This policy has proven over time to be an effective means of policing the incorporation of patented technology into standards when the patent holder discloses its rights prior to the finalization of the standard.

Patent disclosure

What happens if the patent holder fails to identify and disclose its patent rights prior to the completion of the standard?

Under ANSI's patent policy, the patent holder is then required to provide the same assurances to ANSI that are required in situations where patents are known to exist prior to the standard's approval. If those assurances are not forthcoming or if potential users can show that the policy is not being followed, the standard may be withdrawn through the appeals process.

Stern asserts in "Licensing IP embodied in standards" that the decision in the *FTC v. Dell* case supports the proposition that organizations such as ANSI

should insist that company representatives in standard setting should warrant to the organization, on behalf of their employers, that they aren't selling the organization a gold-plated brick.

ANSI does not agree with this contention on either legal or practical grounds. ANSI's Patent Group discussed the FTC decision at length. The following summarizes the Patent Group's views.

When a participant in the standards development process inten-

tionally and deliberately fails to disclose that his or her organization holds a patent relating to the standard in question in an attempt to gain an unfair competitive advantage, the relevant standard would likely be dealt with as a violation of ANSI policies and procedures.

An unintentional failure to disclose a patent interest should not result in a company losing its right to enforce its patent; it simply activates the patent policy. The ANSI guidelines for implementation of the ANSI patent policy the early disclosure of patent rights. However, there should not be an affirmative obligation imposed on companies to research exhaustively their patent portfolios or risk losing their right to seek royalties.

First, as a practical matter, many companies would find this affirmative duty to identify all applicable patents (much less patents applied for) virtually impossible to fulfill.

Many participants, at any given moment, have literally hundreds of employees participating in as many standards development activities and in excess of 10,000 patents in their intellectual property portfolio. In addition, it is virtually impossible for a company's technical representatives to have knowledge of the patents applied for by their company.

Often, the implication of a specific patent in connection with a standard is not easy to determine or evaluate. These companies have invested billions in research and development to develop this portfolio. They should not be required to either assume an enormous research burden each time they participate in a standards development process or effectively be denied the opportunity to participate in that process for fear of rendering their intellectual property a public good. This is true especially when the appropriate action is to comply with the patent policy.

Second, there are incentives built into the system to prevent a company from keeping silent until the standard is finalized and then, after the standard becomes a de facto marketplace standard, announce its patent rights.

There are three risks here. 1) The approval of the standard is subject to either withdrawal, often rendering the company's innovation relatively useless, or redrafting by the standards committee to eliminate reference to the patented technology. 2) Competitors can avail themselves of their legal rights in court. 3) In the case of deliberate misconduct, the FTC can intervene. In addition, a company engaging in such conduct likely would lose stature in the standards development community.

Third, the burden that an overextended view of the commitment patent holders should make is reminiscent of similar burdens that other countries have pursued. It has been repeatedly and successfully prevented from becoming a requirement in the international standards arena.

For example, a few years ago the European Telecommunications Standards Institute (ETSI) proposed an intellectual property policy that many US businesses believed to be coercive. It became the subject of a trade dispute between the European Union and the US. As a practical matter, the ETSI policy required compulsory as opposed to voluntary licensing. Any company that refused to sign the policy would be excluded from ETSI membership. Yet, that membership was a practical requirement for participating in the European telecommunications market.

The plan was that ETSI would announce a one-page "work pro-

gramme” when it undertook a new standards development project. Also, if a member did not quickly disclose its patent rights, the patent would be deemed automatically licensed on terms that were, in effect, acceptable to ETSI. The US government, working together with ANSI and US industry, was successful in persuading ETSI and its members to revise the policy and its implementation to be consistent with the ISO, IEC, ITU, and ANSI policies.

At present, the ISO/IEC patent policy governing ISO and/or IEC international standards is virtually identical to ANSI’s. ANSI, as the US member to ISO and through the US National Committee to IEC, has opposed efforts to change the ISO/IEC and other international patent policies. This effort aims to protect US industry’s rights in connection with its technology. In the global market, there have been (and continue to be) efforts such as ETSI’s to establish a process to facilitate what some would call a “technology grab” of US intellectual property. That effort would reduce or eliminate any competitive advantage the US enjoys as a result of its collective intellectual property portfolio. We have consistently opposed such efforts.

Patent rights

Furthermore, ANSI does not read the final consent order in the *FTC v. Dell Computer Corporation* as supporting the imposition of a duty to disclose. In summary, the FTC filed a complaint against Dell because a Dell engineer participated on a VESA (Video Electronics Standards Association) standards development committee (which is not ANSI-accredited and as to whose procedures ANSI takes no position. Also, when asked, he certified that he had no knowledge of any Dell patents that would be implicated by the standard under development. After the standard was finalized and in widespread use, Dell began asserting patent rights against users of the standard.

The FTC and Dell entered into a consent order pursuant to which, among other things, Dell would agree not to seek royalties. However, the FTC expressly limited the order and its implications to the facts in

that case. The FTC emphasized that it was not intending to signal that there was a general duty to search for patents when a company engages in a standards-setting process.

[T]he relief in this case should not be read to impose a general duty to search.... The order should not be read to create a general rule that inadvertence in the standard-setting process provides a basis for enforcement action. Nor does this enforcement action contain a general suggestion that standard-setting bodies should impose a duty to disclose.

It is true that sorting out intellectual property rights may complicate the standards development process. ANSI believes that it is necessary to balance the right associated with patents and the likely benefits that result from the incorporation of the patented technology in a standard. These benefits include licensing the intellectual property to all who wish to compete on reasonable terms and the resulting benefits to consumers who have a greater selection of products that incorporate a standardized technology. This is perhaps particularly true when the standard is aimed at increasing compatibility between different systems or products.

It is important to avoid making patent holders unwilling to participate in industry standards-setting activities in addition to other industry members. The process certainly would be more efficient if patent holders were not given a choice whether to license their technology and if patent holders and users would not have to determine whether the licensing terms were reasonable and nondiscriminatory. However, it is important not to lose sight of the reasons why patent protection exists—to encourage innovation and the development of new technologies—and the positive and even procompetitive benefits of incorporating intellectual property in standards. When proprietary technology is incorporated into a standard, it is available to all competing companies. This spurs the rate of the technology’s implementation and enhances US competitiveness.

its policy on. The first option may be an illusory remedy in the case of an important standard. Once the VESA bus was adopted, or HTML 4 or Pretty Good Privacy became de facto standards, the bell could not be unring.

The second and third alternatives are equally unsatisfactory. A wise policy should lock the barn before, not after, the horse is gone. Saying that courts and the FTC can intervene after the fact is an abdication of responsibility. A wise policy seeks to establish a setting in which it will not be someone else’s responsibility to mend what never should have broken. Moreover, whether the misconduct was

deliberate misses the point. Negligence should not happen either. In fact, even innocent error should be undone or prevented if possible.

The final sanction/incentive is the most impressive. Conceive of Bill Gates weeping all the way to the bank as the standardization community cries “pariah” and “unclean” after him, because of his abuse of cascading style sheets. Surely that will be a more effective deterrent than a policy that makes the mistake “unhappen.”

It is much more sensible to forget about determining whether the misconduct or error was deliberate. (Assigning blame is a distraction.) The focus should be on creat-

ing a state of affairs such that the error is undone—so that it is as if it never happened. The best way to do that is to have the seller with the dry basement (the metaphor used previously in *Micro Law* for no patents controlling the standard) make sure that the buyer enjoys having the benefit of a dry basement. That means that, when Dell makes a mistake (innocent or otherwise) in saying it holds no patents on the VESA bus, Dell acts toward users of the VESA bus standard (but not other persons) as if Dell has no such patents.

ANSI says that this would create a duty “virtually impossible to fulfill.” Participants

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in standardization have too many employees helping in making standards and too many patents to figure out what is going on here.

These companies have invested billions in research and development to develop this portfolio. They should not be required to either assume an enormous research burden each time they participate in a standards development process or effectively be denied the opportunity to participate in that process for fear of rendering their intellectual property a public good.

That misses the point. The previous Micro Law proposed no duty to make a search of patent files. At most, it would be a duty to be right in one's representations about patents. The only consequence of failure to make a correct disclosure that the last Micro Law proposed was that the undisclosed patent should not be enforced against those who have been made infringers only because they followed the standard that embodies the patented technology. (Other infringers remain liable for patent infringement. Use aside from the standard is patent infringement.)

That does not render intellectual property a public good. The standardization body simply adopts a policy of requiring those who want to participate in its process (which is purely voluntary) to agree to the following: Undisclosed intellectual property embodied into the standard will not be enforced in the narrow zone of use in following the standard. Furthermore, the use of the patent that is so immunized (the zone of patent nonenforcement) is an incremental quantum of use that would not have occurred in the first place but for its embodiment into the standard. All that is at the opposite end of the spectrum from rendering intellectual

property a public good.

ANSI raises a specter of third-world nations making a "technology grab" of US companies' intellectual property to reduce the competitive advantage of US companies in world trade. (I do not buy into ANSI's equation of 'US' to 'US companies' in the passage:

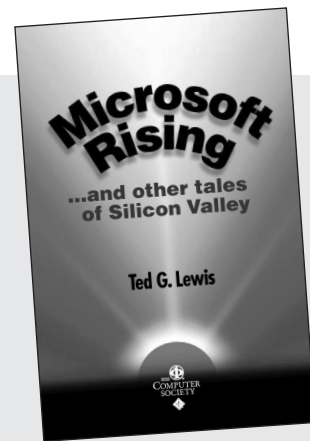
what some [who?] would call a 'technology grab' of US intellectual property. That effort would reduce or eliminate any competitive advantage the US enjoys....

Microsoft's technology and intellectual property are the property of Microsoft, not the US or the US public. The same goes for any competitive advantage that Microsoft has. The day I get my first nickel from Bill Gates is the day I will stop believing that talk like that is a con job.

The connection between foreign, technology-grabbing nations and what ANSI or the IEEE should do when setting standards in the US is tenuous or nonexistent. How does it facilitate a foreign "technology grab" to make an incorrect representation of no patents on a standard result in nonenforcement of the patent against use of the standard? Does no use of the grabbed technology exist apart from use in following the standard? (If so, the technology proprietor is free to opt out of helping set the standard or should simply disclose its ownership of intellectual property rights in advance.) More important, the specter of technology grabbing provides no justification for conduct damaging US nationals, such as Dell's conduct in the VESA bus case or Microsoft's in the style sheet episode. Why should US end users suffer to protect the competitive advantage of these companies in foreign markets?

That gets us to the nub of the argument.

ANSI's underlying premise is that the specter of foreign technology grabbing and whatever burdens result from requiring participants in the process to agree not to enforce undisclosed patents against use of the standard will adversely affect the process. ANSI indicates that



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The Web Standards Project position

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The Web Standards Project (WSP) believes it is critical that key W3C standards for the World Wide Web should remain openly available on a royalty-free and nondiscriminatory basis. These standards form the mutually agreed upon foundation on which the Web is built.

Consequently, Microsoft's patent, which claims ownership over style sheets, was at first extremely worrisome—although we contend that there are many instances of “prior art” that would make the patent impossible to defend. However, Microsoft did heed our call to take steps to ensure that it doesn't try to enforce its patent against W3C's cascading style sheet standards. W3C decided that the steps were acceptable, and we felt it appropriate to defer to W3C's judgment.

Stern raises some interesting questions about Microsoft's licensing offer. However, since we are not patent attorneys, we don't feel qualified to comment about those specifics, although we hope W3C will.

That said, we're not picking on Microsoft on this issue. We're opposed to any private company holding control over an “open” standard because there are inherent conflicts of interest when asking a company to license this open standard to a competitor.

The case of Microsoft vs. cascading style sheets only happened to be one of the more obvious in a series of patents that appear to be overly general. Probably the most prominent now is the Intermind patent, which reportedly patents part of W3C's purported Platform for Privacy Preferences standard and which W3C itself is trying to challenge.

There are a couple issues to consider here. The first is that the US Patent Office seems to have been granting a number of software patents that are too general. While we won't try to argue the legal specifics of these patents, we feel they defy common sense. For example, a few years ago, one company was temporarily granted a patent to the whole notion of interactive multimedia. More recently, a number of companies seem to be patenting their business plans. The danger is that with questionable patents being issued, it's more likely that someone involved in developing an open standard will try to take advantage of things.

This isn't to say that we oppose patents for key Web technologies.

On the contrary, we believe it is appropriate for true innovators to be able to protect their intellectual property and be compensated for it. There are key technologies used on the Web that *are* subject to patent. For example, Unisys holds a patent—and collects royalties—on the LZW compression scheme that's key to the GIF graphics format. However, examples like Unisys are fundamentally different in that Unisys wasn't part of a standards development process to come up with an open standard for graphics compression. If this situation were to come up today, a company like Unisys should be required to make a full disclosure about its patent effort.

This is really the second issue: the standards processes itself. We agree with Stern that full disclosure on all sides is a must. Standards bodies such as the W3C, ANSI, and IEEE should be able to make an informed decision about whether to include something in a standard that may be covered by a patent. This is particularly important if the patent is held (or applied for) by one of the members of the group that is developing that standard.

In both the Microsoft and Intermind cases, there is debate over what people knew and when people knew it. Consequently, it is appropriate to require companies that are developing open standards to either disclose any relevant patent efforts or to guarantee that there are no such landmines. They should be held responsible for knowing the truth of that claim. Stern's analogy to real-estate law is a good one. Requiring companies to be held responsible for their claims is a good incentive for them to make sure they do their homework.

The final issue concerns previous submissions of proposed standards to W3C, which seem to have a wide variety of licensing legalese attached to them. It makes sense for W3C and other standards bodies to require submissions to use standardized legalese so there's no confusion about whether a particular standards proposal comes with strings attached.

Balancing the needs of an open standard against the benefits that innovators should receive is a challenge, particularly in terms of licensing. Therefore, WSP hopes standards bodies like the W3C, ANSI, and IEEE pay careful attention to doing things right.

it is concerned about “making patent holders unwilling to participate in industry standards-setting activities in addition to other industry members.” Say the patent holders are discouraged from participating. Then, the standards that get adopted will be technically inferior because of inferior proposals (from employees of other companies or from academics) or simply because the unused patents embody technology superior to that embodied in the standards.

That chain of reasoning has two questionable links. First, what is the probabili-

ty that patent-owning companies will boycott standardization projects because the IEEE, ANSI, or other body adopts a policy of “Tell, or else don't tell, but then don't enforce”? I have heard this kind of argument for decades at IEEE policy determination meetings.

When a proposal is raised that some companies might dislike, someone says that we must not do it because the companies will stop supporting their employees' IEEE activities. The companies won't let the employees use company time and company funding for IEEE projects. As a

result, the IEEE will come to a crashing halt, because its symbiotic relationship with members' employers will be disturbed. I have yet to see any empirical evidence supporting these arguments. (I should add that I have heard much less of this argument at the Computer Society than at the main IEEE meetings. I have yet to read it in *IEEE Micro*.)

The argument is particularly weak when it comes to standard setting. I question whether Dell or Microsoft (or other companies in their position) would ever risk not participating in the standard-

setting process. The result could be adoption of an industry standard based on a competitor's technology. I suggest that it would require much more of a burden companies than the "don't enforce if you don't tell" policy to make them opt out. (It takes a strong incentive to shoot yourself in the foot intentionally.)

Moreover, even if patented technology is superior to unpatented technology (who knows?), the risk of losing access to it in standard setting is questionable. For the same reasons as those just stated, it is implausible that patent owners will boycott standard setting and thus withhold their patented technology from industry standards.

At best, then, the argument must come down to unfairness.

Is it unfair to require a company to choose between risking being left out of the industry standard (which may be competitively injurious) and agreeing to the "don't enforce if you don't tell" policy? Under the latter choice, the company would have to tell what it knows (which takes disclosed, embodied patents out of the present discussion). If it fails (even after making a reasonable effort) to make correct disclosure, it would have to refrain from enforcing any undisclosed, embodied patent against use in following the standard. Is that unfair? That is hard to decide. Perhaps, given IEEE's and ANSI's anxieties about offending company managements and thereby disturbing the present symbiosis, a compromise should be considered.

Perhaps, when a mistake is made and the company certifies to the standardization body that it made what it considers a good faith, reasonable inquiry, an intermediate solution is appropriate. The patent would be subject to licensing on reasonable and nondiscriminatory terms. The company would propose the terms but a panel from within the standardization group. The panel's approval of the terms would be based on whether the terms would substantially impair use of the standard or otherwise adversely affect end users. I don't know whether such a compromise is really needed to

ensure fairness, but maybe it is. (Unfortunately, the discussion and input of data thus far has not been on a level that seriously addresses such considerations.) I do think that this proposal is as far as it is necessary to go to ensure fairness.

User surrender of patent rights

ANSI's statement is silent on whether it is reasonable for a patentee, such as Microsoft in the style sheet episode, to insist on a key license condition. The condition was that owners of patents not embodied in the standard must give Microsoft a free license, or, in effect, turn their own intellectual property into what ANSI calls a public (that is, free) good. ANSI says only that its policy will result in licensing "on reasonable terms," where what is reasonable is not explained.

There is no legitimate reason to require a start-up company to surrender its own intellectual property (not part of a standard) as the price of using a standard into which a patent has been embodied. One of the major ways a start-up competes with established and entrenched firms is by acquiring patents on new technology. That is how a new entrant displaces the old technology of the established and entrenched firms.

For the reasons suggested in the previous Micro Law, it is unreasonable to require a would-be user of a standard to give up its own patents that are not embodied in the standard. That is not only unjustified but it creates a disincentive to innovation, and that in turn harms the public's interest in a high rate of innovation.

Standardized legalese

George Olsen (see the "The Web Standards Project" box) makes an interesting and sensible suggestion, with which I generally concur. He says that IEEE, ANSI, and others should "require submissions to use standardized legalese so there's no confusion about whether a particular standards proposal comes with strings attached." The need for that is highlighted by the uncertainty over the meaning of Microsoft's proposed licensing terms for cascading style sheets, discussed in the

previous issue of Micro Law. Well-crafted legalese often involves hiding the pea under the shell where it is not expected.

I would fine-tune the Olsen proposal a little, however, because some circumstances may exist in which a company's use of the standardized format would be unfair to the company or otherwise inappropriate. Therefore, I would suggest that IEEE, ANSI, and others should require standardized legalese (preferably the same for ANSI and IEEE, if that is possible), subject to allowing deviation upon a showing of good cause. Good cause would not, of course, mean some lawyer's desire for individual literary self-expression; it would mean a showing of business or technical factors that make licensing this particular IP different from other cases in a way requiring different licensing terms. The IEEE USA (formerly USAB) has an IP legal committee that would doubtless volunteer to develop the standard legalese that Olsen suggests that we need.

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