

# Unresolved legal questions about patents and standard setting

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..... This column will be one of several concerning presently unresolved legal issues that arise in connection with standard setting and the licensing or enforcement of patents that cover some aspect of the standard. Resolving these issues might require standard-setting organizations to adopt appropriate

bylaws. Or companies participating in standards setting might have to submit letters of agreement. Unfortunately, however, such documents are often absent, and the courts end up setting "default" procedures to govern the aftermath of silence by standard-setting organizations on these points.

## What is a standard and what is standard setting?

A committee of an organization such as the IEEE or ANSI, subject to formal bylaws and other documents, writes a formal, or so-called *de jure* standard. Generally, any interested member of the industry or industries involved can participate in the standards-setting process, usually through employees who are members of the organization.

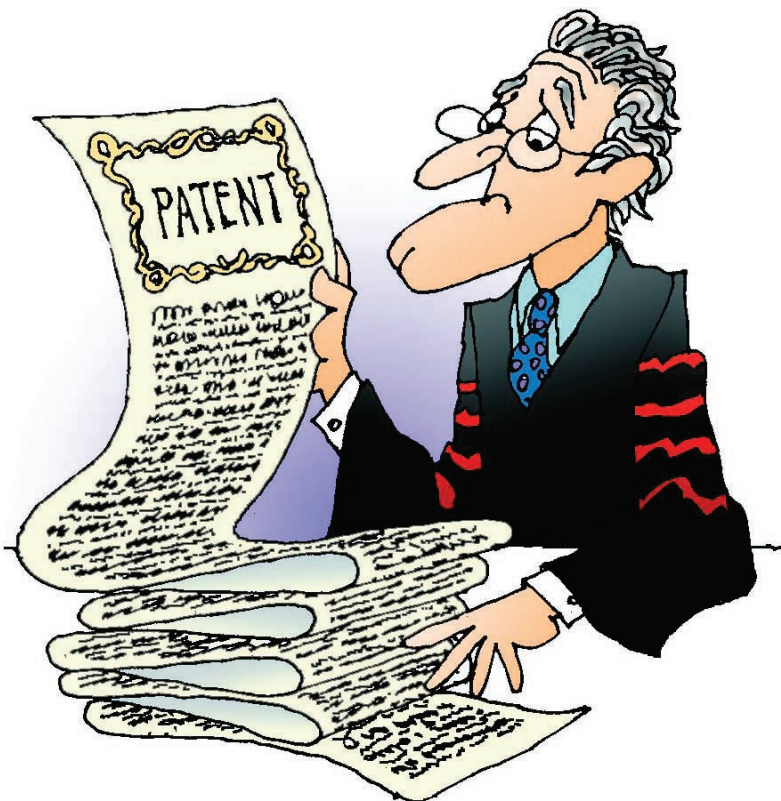
But what about an informal, ad hoc group operating on a one-shot or narrowly focused basis? The same question exists for an industry patent pool in which self-selected industry members join together to combine patents to establish mutually compatible products. Such groups might not invite all members of the industry to participate in their process, but the disk format, data protocol, or other technical product that they agree on can become a *de facto* industry standard. Do the same legal rules apply here as in IEEE standards?

For purposes of the present discussion, I make no distinction between standards set by IEEE and ANSI, on the one hand, and private, ad hoc bodies on the other hand. I apply the term "industry standard" to all of them alike.

## What is a patent?

Legal disputes have frequently arisen from differences in opinion over what patents are covered by the standard-set-

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ting policy of an organization. Clearly, the policy will cover patents that issue before the process started for a given standard. But what of those that issue after the process has begun, or even after the standard is finalized or published? If the patent application from which the patent emerged was pending during the standard-setting process, does the organization's policy apply to the patent once it issues? Since patents often take three years or more after the filing date to emerge from the US Patent and Trademark Office, the problem is by no means hypothetical.

Some standard-setting organizations' bylaws or other policy documents specifically address this issue, but many are silent. That leaves the courts to determine the supposed intent of the parties. That is always problematic, of course, because the patent owner is likely to assert that its intent was that applications were not included in any undertaking for royalty-free or reasonable-royalty licensing, while everybody else involved might have the opposite

view of the collective intent. This issue has come up in at least three cases so far.

In a mid-1990s dispute between Mitsubishi and Wang over the standard for single, in-line memory modules (SIMMs), the court found that the standard-setting organization's patent policy at the time that it adopted the SIMM standard did not apply to applications, as distinguished from issued patents. In a dispute in 2000 between San Disk and Lexar, the court found that the written regulations of the standard-setting organization did not cover applications. But there was a factual dispute over whether the standard-setting organization's members had an unwritten agreement to include pending applications, as well.

More recently, Rambus and Infineon disagreed over a JEDEC standard on DRAMs. The district court found that Rambus had defrauded JEDEC and Infineon by persuading JEDEC to adopt a standard that required the use of Rambus technology covered by pending patent applications, which Rambus altered during the standard-setting process to more closely track the

standard's details. A JEDEC official testified that the members understood that the organization's patent policy applied to applications as well as issued patents, although the written language did not so state. However, the Federal Circuit court, on an appeal from the fraud judgment against Rambus, reversed this decision. The Federal Circuit court held that no credible evidence supported the conclusion that the members understood the policy to apply to applications. The same issue is also pending before the US Federal Trade Commission (FTC), which brought a proceeding against Rambus under the FTC Act for unfair trade practices.

In addition, an FTC proceeding against Unocal (see <http://www.ftc.gov/opa/2003/03/unocal.htm>) raises similar charges. According to the FTC's complaint, Unocal illegally acquired monopoly power over technology for producing low-emissions gasoline that California law requires most months of the year. The FTC says that Unocal misrepresented to the California Air Resources Board (CARB) that the technology Unocal urged be adopted was in

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the public domain, but at the same time Unocal filed a patent application on the technology. When CARB adopted the technology as mandatory and the patent issued, Unocal tried to extract hundreds of millions of dollars in patent royalties, which would be passed on to consumers in the form of higher gasoline prices. The FTC seeks an order requiring Unocal to stop trying to enforce the illegally acquired patent rights.

The frequency of disputes over what is a "patent" or when graduation from patent application to patent counts should send a clear signal to standard setters that they should explicitly address the matter in bylaws or other documentation. When an organization's documentation clearly specifies what the patent policy extends to, the courts will respect that statement as amounting to a contractual obligation among those involved. But when organizations brush the issue under the rug, the

courts and other tribunals will decide the matter on their own, with less predictable results for those involved.

### What patents are included?

Standard-setting organizations use different language to describe the scope of their patent policies on the obligation to offer royalty-free or reasonable-royalty licenses. Some use the vague term "relating" to the standard adopted. Others write of patents that "cover" or "read on" the standard, or are "likely" to do so. Still others write of patents that are "essential" to practicing the standard or those that are "necessary." Organizations often distinguish between patents that are essential and those that are useful but not indispensable. Different licensing obligations might apply to these two categories—necessary or essential patents might be subject to royalty-free licensing; merely useful ones, to reasonable-royal-

ty licensing or to no particular licensing obligation at all. So-called merely useful or desirable patents can provide lower manufacturing costs or permit the addition of optional features. But it is often unclear whether the inability to use a patent considered merely useful will have the effect of excluding would-be competitors from the marketplace.

The Department of Justice's Antitrust Division approved as not being anticompetitive a patent pooling agreement concerning a standard format for digital video discs. The licensing policy required a form of reasonable-royalty licensing for all patents whose use was essential as a practical matter in using the standard. Whether a patent met this definition was made the call of an independent technical expert retained by the pool for this purpose. Perhaps this approach represents the best balance struck so far between competing interests.

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Clearly, standard-setting organizations that use vague language about what patents are subject to licensing obligations are asking for disputes to arise. Such disputes can later require court intervention. But reaching agreement on the proper scope for a patent policy has often seemed difficult. Accordingly, standard-setting organizations seeking to avoid contention have been tempted to brush the issue under the rug. They wanted to get on with what seemed more important to them at the time: establishing a particular standard.

### Duty to inquire

Often, a standards-setting organization will require participants in standards to certify that their companies do not own any patents that will cover technology in the standard. Or, if they do own such patents, these companies must offer them on a royalty-free or reasonable-royalty basis. The IEEE typically does require such certification, for example. Several cases have involved allegedly intentional concealment of patents or misrepresentations to a standard-setting organization. Generally, intentional misconduct of this sort results in legal condemnation.

But what happens when a company makes a mistake? It might own many patents, and the person certifying the absence of patents might be ignorant of some of them. Should the obligation to certify carry with it a duty to make a diligent inquiry and investigation into the patent portfolio of the employee's company?

Many have bitterly opposed the imposition of any such duty. They say that it would destroy the standards-setting process because companies will refuse to let their employees participate if participation includes such obligations. Their reason they give is that such obligations would open them up for severe consequences if they inadvertently violate the obligations. For example, violation of the antitrust laws can lead to imposition of treble damages for resulting harm to victims. (ANSI is among those that strongly oppose any requirement of disclosure or any obligation to investigate patent cov-

erage.) Others point to past abuses and assert that such abuses are intolerable. Perhaps the resolution depends on the proposed consequences of a failure to make a reasonable inquiry. The less the consequences are, the less the threat to the standard setting process.

One possible compromise (suggested in a previous Micro Law column) is that negligent (as compared to intentional) failure to disclose the existence of pertinent patents should result in the unenforceability of the undisclosed patent against the standard's users. Or perhaps simply making the patent policy of the standard-setting organization apply to the undisclosed patents would suffice. This remedy would rule out punitive measures or damages for the misrepresentation, and would merely restore the status quo ante position of the undisclosed patent.

### License terms

Some standard-setting organizations require reasonable-royalty licensing. This is a term that occurs in the patent statute and has frequently been involved in litigation, both under patent and antitrust laws. What is reasonable-royalty licensing in a given case might cause a dispute, but it is not really one of the unresolved issues in this field.

Some standard-setting organizations require licensing on "reasonable and nondiscriminatory terms and conditions" or terms that are not "unreasonably discriminatory." There has been considerable dispute over what types of terms meet this test. For example, does this language require that every license have the same royalty rate? It probably doesn't. There is a body of law on reasonable-royalty licensing in patent law, and contract disputes have frequently arisen over so-called *most-favored-nations* clauses. These clauses require that any given licensee shall not have to pay a higher royalty than any other licensee. Courts have interpreted most-favored-nations clauses not to require absolute equality when the circumstances of a licensee's situation are very different. For example, if a cross-license of the licensee's patents occurs,

that is a legitimate basis for lowering the royalty to that licensee. Omission of some patents, for example, because of an earlier license of those patents under a different agreement, is another legitimate cause for a lowering of royalties.

In addition to a wide range of factual circumstances that can alter what is a reasonable royalty in a given instance, there have arisen more fundamental disputes over what type of conduct is reasonable and nondiscriminatory in licensing such standards-related patents. One contentious issue is whether a patent owner can properly make "one-time-only bargain sale" licensing offers for, say, a 30-day period, and then charge latecomers and those who refuse to be stampeded into accepting the "bargain" a much higher rate.

Also, what of offers for a lower rate if the licensee agrees to something extraneous to the standard or maybe ancillary, like agreeing to buy related hardware from the licensor? What happens if a standard's user challenges the applicability of the given patent to the user's products, or its validity? Suppose that the patent owner sues and prevails in an infringement action. Is the user-defendant still entitled to a license under the standard-setting organization's patent policy? These questions raise public policy issues over the public's interest in prohibiting certain conduct as unduly oppressive or anticompetitive and in having patent invalidity aired publicly. A substantial body of public law opposes agreements of this type outside the standard-setting process.

Perhaps standards-setting organizations can resolve some of these issues by the more careful and specific drafting of bylaws and other documents. But other issues are inevitably more resistant to resolution by planning in advance. To the extent that organizations can narrow the scope of unresolved issues by addressing them in advance, however, the standards-setting process will gain from the effort.

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