Update on the antitrust ghost in the standard-setting machine

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The following is a guest column, following up Richard Stern’s Micro Law column in the May-June 2005 issue of IEEE Micro, by two lawyers involved in presenting Hewlett-Packard’s RAND proposal to the IEEE PatCom recently.

Richard Stern’s Micro Law column in the May-June 2005 issue of IEEE Micro (“The Antitrust Ghost in the Standard-Setting Machine”) captured the essence of a long-running obstacle to addressing the anticompetitive patent “hold-up” (the term refers to the practice of pointing a gun at someone to induce him to share his wealth) that undermines the open-standards objectives of standards developing organizations (SDOs). That obstacle is the misconceived fear of antitrust liability if an SDO allows any consideration of license intentions beyond vague or vacuous commitments to reasonable and nondiscriminatory (RAND) licensing during the course of a standard-setting process. Recent statements from top officials of both the Antitrust Division of the US Department of Justice (DOJ) and the US Federal Trade Commission (FTC) support Stern’s conclusions that the antitrust ghost is a sham excuse for inaction, that the time has come for its “exorcism,” and that antitrust concerns should no longer inhibit SDOs’ “adoption of measures that deter the abuse of RAND promises.” Both enforcement agencies have thereby given a welcome boost to proposals of that very kind that are now before the IEEE’s Patent Committee (PatCom).

DOJ weighs in
On 3 June 2005, Assistant Attorney General Hewitt Pate (shortly before his departure as antitrust division chief) addressed this subject in one part of a speech on “Competition and Intellectual Property in the US: Licensing Freedom and the Limits of Antitrust.” Noting the problematic nature of RAND commitments because affected parties “tend to disagree later about what level of royalty rate is reasonable,” he reported that SDOs have told DOJ that antitrust concerns cause them to avoid any discussion of actual royalty rates. He then observed, “It would be a strange result if antitrust policy is being used to prevent price competition.” Although noting “a possibility of anticompetitive effects from ex-ante license fee negotiations,” he pointed out that “it seems only reasonable to balance that concern against the inefficiencies of ex-post negotiations [negotiations by standards adopters for RAND licenses after a standard has been adopted that uses patented technology] and licensing hold-up.” In this connection, he cited with approval a provision in the European Union’s recently adopted intellectual property licensing guidelines to the effect that “firms normally should be allowed to negotiate royalty rates [during a standard has been adopted that uses patented technology] and licensing hold-up.” In this connection, he cited with approval a provision in the European Union’s recently adopted intellectual property licensing guidelines to the effect that “firms normally should be allowed to negotiate royalty rates [during a standard has been adopted that uses patented technology] and licensing hold-up.” In this connection, he cited with approval a provision in the European Union’s recently adopted intellectual property licensing guidelines to the effect that “firms normally should be allowed to negotiate royalty rates [during a standard has been adopted that uses patented technology] and licensing hold-up.”

FTC weighs in
On 23 September 2005, FTC Chair Deborah Majoras delivered a speech entitled “Recognizing the Procompetitive Potential of Royalty Discussions in Standard Setting.” Noting that “agreements on RAND rates can be vague” and thus insufficient to protect against hold-up conduct, she expressed interest in a range of proposals calling for ex-ante consideration of intended royalty rates. As she then observed, antitrust concerns “may have unduly” inhibited such measures even though they are “announcements of pricing intentions or royalty discussions that may, in fact, provide procompetitive benefits.” More specifically, she said a patent holder’s “voluntary and unilateral disclosure of its maximum royalty rate… is highly unlikely to require antitrust scrutiny” and “it is hard to see how announcing one’s price before sale (without more) could amount to” an antitrust violation.

But Majoras then encouraged consideration of steps well beyond simply allowing disclosures. She said that “joint ex-ante royalty discussions that are reasonably necessary to avoid hold-up do not warrant per se condemnation.” Instead, the FTC “would apply the rule of reason” to evaluate such discussions “because, quite simply, they can be a sensible way of preventing hold-up, which can itself be anticompetitive.” Indeed, as she added, “transparency on price can increase competition among rival technologies striving for incorporation into the standard at issue” and can avoid conferring “market power on the holder of the chosen technology,” thereby resulting in “lower consumer prices” as well as more “efficient development of standards.” The latter result, in her view, could be expected from
“reduction in ex-ante uncertainty on royalty rates” and thus less need for litigation to resolve issues relating to them.

Majoras cautioned that, in any rule-of-reason analysis of such royalty discussions, procompetitive benefits of the type discussed have to be weighed against the risk of anticompetitive harms. As she explained, however, the risk side of the picture should be quite manageable and certainly is “not cause for declaring the entire enterprise per se illegal.”

**Proposals before IEEE PatCom**

At the IEEE PatCom meeting on 7 June 2005, Hewlett-Packard proposed several changes to the current IEEE patent policy to enhance the transparency and utility of disclosures about patent claims in general, and expected license terms in particular, during the standard-setting process. At the IEEE PatCom meeting on 20 September 2005, HP’s proposals were presented in more detail and discussed at some length. PatCom intends to give the proposals extended consideration over the months ahead and, if they achieve committee “consensus” support, PatCom will seek their approval by the IEEE Standards Activity Board.

The proposals include the following key elements:

- The IEEE would require a new letter of assurance (LOA) for submission by all parties possessing or expecting to possess patents implicated in a proposed standard.
- The LOA would require disclosure of both issued patents and pending patent applications that might give rise to infringement claims against compliant implementations.
- The submitter would commit to licensing that is either royalty-free or RAND and, if RAND, would be encouraged (though not required) to state the maximum royalty rate.
- Submitters who provide the RAND commitment would be encouraged (though not required) to attach a sample license agreement.
- LOAs would be due “as soon as reasonably feasible in the standards development process but no later than the approval of the standard.”
- The “reasonable” part of a RAND commitment would be defined in ex ante terms, that is, “rates that a willing licensor and a willing licensee would agree to in an arm’s-length transaction in a competitive environment before the adoption of the proposed IEEE Standard.”
- Submitted LOAs would be irrevocable and also binding on subsidiaries, affiliates, successors, and assignees.
- LOAs would apply not only to an entire standard but also to all subsequent revisions.
- LOAs would then become binding contracts between each submitter and the IEEE with all users and implementers of the resulting IEEE standard being intended third-party beneficiaries.

These proposals elicited a great deal of interest both at the 20 September PatCom meeting and at a 22–23 September conference in Palo Alto, California, on “Standardization and the Law: Developing the Golden Mean for Global Trade,” cosponsored by the Stanford Law School Program in Law, Science and Technology and Sun Microsystems (the occasion for Majoras’ speech). A recurring question raised and debated throughout that conference was what SDOs can do to prevent or reduce opportunities for patent hold-up conduct and its adverse impact on open standards objectives. Several speakers commented favorably upon the new proposals to IEEE as moving in a direction that other SDOs should also consider. Other speakers, however, reacted against the whole idea of royalty disclosures of any type, still spooked by the antitrust ghost even after all of the encouraging words from both of the antitrust enforcement agencies. Perhaps because Halloween is coming, the ghost is not yet entirely exorcised.

All indications are that the antitrust enforcement agencies are prepared to provide more specific support and guidance to SDOs generally as and when they dip toes into these new types of disclosure initiatives. DOJ’s procedures for business review letters and the FTC’s similar procedures for advisory opinions are among the available means for obtaining meaningful protection against antitrust risk. Indeed, the IEEE will likely ultimately seek advice of this sort under one or the other of those procedures for the proposals now under consideration, since a clearance from the FTC or DOJ makes it extremely unlikely that antitrust liability would ever later be found or that antitrust claims would ever even be asserted. A publicly issued business review letter or advisory opinion on contemplated changes to the IEEE patent policy could thereby prod other SDOs to consider similar changes in their rules. The whole standard-setting community would benefit from the encouragement of policy and practice innovations of this type.

In the meantime, these same general kinds of concerns about inadequate patent disclosure during standard-setting processes and associated interest in policy reform are growing in Europe. One of the speakers at the Stanford conference was Cecilio Madero Villarejo, a senior official of the European Commission’s Competition Directorate. He reported on a recent commission inquiry into the European Telecommunications Standards Institute’s disclosure practices. The result, he said, was a commission request for changes aimed at making patent disclosures during ETSI proceedings more timely and thus more useful to all participants. We understand that ETSI is now also considering proposals from one of its members for disclosure of royalty information roughly similar to the proposals now before the IEEE PatCom. For all parties committed to open standards objectives, it is encouraging to see this evolving cross-Atlantic policy convergence.
Micro Innovations

Patents: To file or not to file?

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In my last column, I discussed the three criteria for patentability: novelty, usefulness, and nonobviousness. I also touched on the practical value of obtaining a patent in terms of discoverability—the ease with which infringement can be determined, and in terms of avoidance—the ease with which a potential user of someone’s invention could achieve similar results without using that invention.

In this column, I will continue the discussion of the practical value of a patent. Suppose that you have decided that your invention is novel, useful, and nonobvious. Further, suppose that you have decided that your invention is unavoidable (that is, it is the only reasonable way to do whatever it does), and that infringement would be easily discoverable. The remaining questions as to whether to proceed with a patent application are:

1. Who would be likely to use your invention?
2. Based on your answer to #1, what is the value to you of owning the patent?
3. How much will it cost you to obtain the patent?
4. Will your patent stand up in court if it is challenged?

Likely users of an invention
Who would be likely to use your invention? If it is a direct competitor of yours, it is likely that your lawyers have previously negotiated a cross-licensing agreement with the competitor. This means that you and your competitor have already agreed to allow use of each other’s patents. In this case, the value (to you) of your patent is indirect. It does not translate directly into money, but to the extent that it pertains to a useful invention, it creates value to your competitor; hence the competitor’s inclination to maintain the cross-licensing agreement grows stronger.

On the other hand, if your invention provides you with a significant competitive advantage, you may want to hold it close to the vest as a trade secret. Once you file a patent application, it becomes a matter of public record, and the document can teach your competition about the issues addressed by your invention. In some cases, you might choose to not file an application for this reason.

If the likely users of your invention are not competitors of yours, then its value to you is direct. You can market your patent to those likely users, and exact licensing fees from those who want to use it. In fact, there are companies and individuals who produce no products, but do exactly this. Their business is to create intellectual property, file the relevant patents, and market those patents to obtain licensing fees.

Cost of filing and maintaining a patent
How much will it cost you to obtain the patent? In addition to your time and effort spent writing the patent and prosecuting it through to issuance (which usually...
involves iteration with the patent examiner in the PTO, you or your company needs to pay your lawyers (who make sure that your patent legally covers your invention, and who do the formal filing of your patent application), as well as pay the PTO a filing fee, which covers the PTO’s cost of examining your application.

If you also decide to file your patent in other countries, you will need to hire lawyers in those countries (who are familiar with the laws there) and pay filing fees there as well.

These preliminary costs will be in the general range of $20,000 for a typical “no frills” patent. If your patent is granted, you or your company will then pay an issuance fee, as well as periodic maintenance fees every few years as long as you want to maintain the rights to your patent. This will cost several thousand more dollars over the life of your patent. The total cost of prosecuting and maintaining a patent will be in the range of $25,000-$40,000 for a typical patent issued in the United States and other major countries.

I was recently discussing patents with an academic colleague and observed that the literature in professional conferences and journals does not generally reference patents. This always seemed strange to me because it is frequently the case that the first public disclosures of major new ideas are patents—not conference proceedings. My colleague offered the explanation that patents are not referenced because they are not “peer reviewed.”

While ideas for patents are not disclosed externally (that is, to the public) to achieve a consensus of opinion, they are generally scrutinized internally by other technical experts and lawyers to achieve a consensus of opinion. Prior to investing the $25,000-$40,000 needed for a patent, ideas are heavily peer reviewed. In fact, I wonder how many articles in professional conferences and journals would have seen print if the sponsoring organizations had to pay $25,000.

**Value of owning a patent**

In assessing the value of obtaining a patent, keep in mind that your patent is not sacrosanct. It is merely a vehicle that you can use to negotiate with potential users of your invention. If those negotiations fail, then your patent merely entitles you to argue its validity in court. Anyone who chooses to infringe on your patent can argue that: they are not doing exactly what your patent describes, but are actually doing something else; or, your patent is invalid and should not have been granted in the first place because there was prior art in light of which your invention was “obvious.” These are protracted proceedings that are not fun to be a part of unless you are being well paid for your participation.

Will your patent stand up in court if it is challenged? In an infringement lawsuit, all parties will bring in experts to argue subtle technical points in front of a judge that has a legal education, but generally not a technical education. Further, these arguments will usually take place a few (or even many) years after the relevant patent issued.

In my last column, I described the ambiguity in deciding what was “obvious to someone with ordinary skill in the art.” It is much more ambiguous to determine what “would have been obvious to someone with ordinary skill in the art only in light of what was known x number of years ago, but hypothetically ignoring those things that are innately understood today by the experts that are testifying.”

**Legal tactics**

Many of these suits end in a settlement, meaning that there is no final adjudication. Instead the parties involved reach an agreement. This tends to happen for important inventions because at least one of the parties is under huge financial pressure to end the proceedings. In particular, if a manufacturer is told to stop selling products until a decision can be reached, and if the opposing attorneys give every sign of protracting that decision, the revenue stream will dry up for the manufacturer if he remains intractable.

This is a basic principle of the siege, borrowed from military tactics: When placing a region under siege, cut off the supply chain. I have heard of many cases in which a party has made dubious claims of infringement on a thriving enterprise so as to try to squeeze that enterprise for money using exactly this tactic. They force a settlement to an argument that they know that they eventually would lose.

Another tactic that has been used by a number of companies that are strictly in the intellectual property (IP) business—companies that file and market patents, but that produce no other goods—is the tactic of so-called “submarine patents.” If such a party gets an inkling that there will be a new emerging area of importance, such as a new technology that will see a surge of new inventions, they attempt to file patents in this area before they have actually invented anything. This is a matter of crafty writing. It comprises an embodiment that is generic and claims that are extremely broad and nonspecific, even ambiguous.

If they manage to get a patent like this issued, then it is known as a submarine patent. It exists innocuously below the surface until the targeted area actually emerges, and someone actually invents something. When this happens, the assignee of the submarine patent will then try to make the argument that his patent already describes the new invention, albeit generically.

**Alternatives to filing a patent**

I mentioned that an alternative to filing a patent is to keep quiet about the invention and hold it as a trade secret. This may be the preferred action for inventions that are extremely valuable. It would not apply to those inventions deemed not valuable enough to warrant the time and money required to obtain a patent. For inventions in this category, the usual action is to publish the invention in a public forum. The public forum could be a journal or a conference (with published proceedings), or it could be a technical disclosure bulletin.

The reason to publish an invention that you are not going to file is that patent applicants are to establish a record of your invention so as to preclude other parties from filing a patent application on the same invention at a later time. That is, if subsequent to your published article, someone
attempts to file a patent application on the same idea, the patent should not be granted since it does not meet the primary criterion for patentability: novelty. You can prove that the other party did not have the idea first.

Returning now to the question of why the literature in professional conferences and journals does not tend to reference patents, I can say that the goal—hence, the emphasis—of a patent or a technical disclosure is very different from that of a conference or journal article.

In a patent, the emphasis of the embodiment is on the what of the invention. Exactly what is it? The value of the invention is not relevant to the legal document known as a patent, although it was probably argued to the examiner during its prosecution, and was certainly established in your internal review. Most patents contain no performance analysis. This is not the point of a patent.

Conversely, conference and journal articles emphasize the value of an idea. Most papers that I’ve seen do not describe anything that is startlingly new. In fact, you would probably not file patents on the new ideas described in most papers. Most of the new ideas are wrinkles on something that is already known. Instead, the gist of most papers is a performance benefit analysis of a new variation on a well-established method of doing something. Typically, the established method will have long since been patented.

So when deciding whether to file a patent on your idea, or whether to take a different action (publish the idea or hold it as a trade secret), first you have to decide whether the idea is patentable. Then you have to assess the value of the patent to you in light of its cost. Its value is determined by the set of likely users of your idea, and the tactics that you and the potential users of your idea are likely to deploy. The cost is determined by how complex the patent will be (basically, the number of claims), and by how globally you intend to file it.

Let’s suppose that in light of these considerations, you have decided that it is worth filing a patent on your idea. The next obvious question is: how do you write a patent? In my next column, I will describe the contents of a patent. If you have no experience writing patents, all sections of a patent are very straightforward to write except for the “claims” section. Since the claims section determines what ideas are covered in a legal sense, it is very important to get this right. I will explain how.

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