I. Antitrust
   A. Process Abuse
   B. Exclusion
II. Patent
   A. Patent Pools and Stacking
   B. Hold-Up, Disclosure and Licensing
      1. Deception
      2. FRAND
      3. Injunctions
   C. Transfer
Types of Standards

- Informational
- Quality
- Health and Safety
- Interoperability
I. Antitrust Issues
A. Process Abuse

**ASME v. Hydrolevel (U.S. 1982)**

SDO misrepresentations, failure to certify can amount to anticompetitive conduct.
More Process Abuse

*Allied Tube v. Indian Head (US 1988)*

Final vote: 394-390
B. Improper Exclusion

Addamax v. Open Software Fnd. (1st Cir. 1998)

DEC, HP, IBM, Siemens, etc.
Due Process in Standard Setting

- Fair, open and transparent process
- Membership open to all interested parties on a non-discriminatory basis
- Prohibit sharing of competitive information
- Compliance with standards is voluntary
- Participation not conditioned on use of standards
Process Variance: the “hum”
II. Patent Issues

A. Patent stacking

B. Patent “hold up”
A. Stacking and Patent Pools
How High is the Stack?

- ITU H.264 (video compression)
  - 2400 patents
- ETSI GSM (2G mobile telephony)
  - 4700 patents
- ETSI UMTS (3G mobile telephony)
  - 7,700 patents
What is a Patent Pool?

- Aggregated rights
- Single royalty payment by licensee
- Royalty allocated among IP holders
"An interchange of patent rights and a division of royalties according to the value attributed by the parties to their respective patent claims is frequently necessary if technical advancement is not to be blocked by threatened litigation."

"an agreement for cross-licensing and division of royalties violates the Act only when used to effect a monopoly, or to fix prices, or to impose otherwise an unreasonable restraint upon interstate commerce."
Pro-competitive benefits
- Integrate complementary technologies
- Reduce transaction costs
- Clear blocking positions
- Avoid costly litigation

Anticompetitive Risks
- Eliminate price competition among substitutes
- Foster exchange of competitive information
- Discourage R&D by reducing incentives to innovate
Patent Pools and Standards

- Essential Patents:
  - 1997: 9 members, 27 patents
  - 2002: 21 members, 425 patents
  - 2006: > 800 patents
- MPEG LA – licensing administrator
- Essentiality determined by independent expert
- Non-exclusive: individual licenses available from patent owners
- Licensee grantback of essential patents
DVD Letters

- **DVD C3 (1998)**
  - Sony, Philips, Panasonic
  - 210 essential patents
  - Philips acts as license administrator
  - Different licenses for disc and player manufacturers

- **DVD C6 (1999)**
  - Toshiba, Mitsubishi, Matsushita, Hitachi, Time Warner, Victor
  - Essentiality assessment not completed at time of letter
  - Toshiba acts as license administrator
  - Different licenses for disc and player manufacturers

- 5 different 3rd generation wireless telecom standards
- 45 companies claiming essential patents
- 5 separate Platform Co’s, each to license patents essential to one standard
- Independent and separate royalty determinations
- Management Co oversees operation and outsources essentiality determinations
- Licensees can license all or any of the 5 pools
DOJ “favored” approaches

- Essential patents only
- Independent expert determination of essentiality
- Ability to obtain licenses outside the pool
- Nondiscriminatory licensing
- Grantbacks only of essential patents
Overall Share of 251 Laptop Standards

- 75% Pool
- 22% FRAND
- 3% RF

Biddle, White & Woods 2010
Drawbacks of Pools vs. Voluntary Standard Setting

- High up-front costs
  - Essentiaity analysis
  - Establishment of Licensing Program

- Allocation of Royalties

- Lengthy Process
the imposition of excessive patent royalty demands after a standard has been widely adopted in the market
Network Effects, Lock-In and Switching Costs
Lock-In and Switching Costs
How SDOs attempt to address hold-up

- Disclosure Policies
  - SDO participants must disclose essential patents prior to approval

- Licensing Policies
  - SDO participants commit to license essential patents [often on Fair, Reasonable and Nondiscriminatory (FRAND) terms]
  - Sometimes licensing terms may be disclosed “ex ante”
1. Standards Deception (Patent Ambush)
In re Dell (FTC 1996)

VESAs certification: “to the best of my knowledge, this proposal does not infringe on any ... patents”
The *Rambus* Disputes
Patent Policy (Selections)

Standards that call for the use of a patented item or process may not be considered by a JEDEC committee unless all of the relevant technical information covered by the patent or pending patent is known to the committee, subcommittee, or working group.

No program standard shall refer to a patented item or process unless all of the technical information covered by the patent is known to the formulating committee or working group.
**Rambus v. Infineon (Fed. Cir. 2003)**

  - Rambus committed fraud in JEDEC standard-setting activities

- **CAFC (Jan. 2003)**
  - Numerous areas of unclarity in JEDEC policy
    - No affirmative duty to disclose
    - Unclear what patents are covered
    - Unclear when a duty arises
    - “there is a staggering lack of defining details in the EIA/JEDEC patent policy”
  - Rambus may have “dubious business ethics”, but it did not breach the Policy
FTC v. Rambus

FTC’s Claims Against Rambus (2006)
- Monopolization (Sherman Sec. 2)
- Deception → unfair method of competition (FTC Act Sec. 5)

DC Circuit (2008)
- Reversed FTC: no antitrust injury
The *Rambus* Disputes - Results

Rambus®
Your license to speed™

Infinion

Samsung

Hynix

Contreras - Standards - May 17, 2013
Broadcom v. Qualcomm (3rd Cir. 2007)
Post-Rambus SDO Policy Revisions

- ANSI Patent Policy Updates
- Policy revisions by IEEE, ETSI, ITU
- ABA Manual
How SDOs attempt to address hold-up

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A holder of standards-essential patents must offer all implementers of the standard “reasonable terms and conditions that are demonstrably free of any unfair discrimination”

ANSI Essential Requirements, Sec. 3.1.1.b
What FRAND commitments are supposed to accomplish

- Assure implementers that licenses to all essential patents will be available
- Remove hesitation over adopting a patent-encumbered standard
- Patent holders cannot “hold up” the market
- Patent holders cannot lock-out competitors
- No implementer will be advantaged over another
Three Main Problems with FRAND

- Uncertainty
- Uncertainty

- UNCERTAINTY
Aspects of FRAND Uncertainty

- What’s the rate?
- What is “reasonable”?
- Is it a range, or a number?
- How to account for stacking?
- How to know if patents are actually essential?
- When to initiate licensing discussions?
- Who to approach for a license? (Sleeping dogs)
- Must the “starting bid” be reasonable?
- How long must parties negotiate?
- When is a refusal to reach agreement a breach?
- What legal theory, if any, makes FRAND commitments binding?
Current FRAND Disputes

1. Technical Development at SDO
2. FRAND commitment made
3. Standard Approved by SDO
4. FRAND Licenses Granted
Structure of FRAND Commitments

(A) Contract Paradigm - Black to White: “I will grant you a license”

(B) Standards Paradigm – Black to SDO “I will grant Implementers a license”
Motorola FRAND cases (Apple and Microsoft)

H.264

802.11

- Case dismissed for failure to offer evidence likely to prove damages cases.
- Injunctive relief denied.
- Currently on appeal to Fed. Cir.
“Apple states that it will not commit to be bound by any FRAND rate determined by the court and will not agree to accept any license from Motorola unless the court sets a rate of $1 or less for each Apple phone... I questioned whether it was appropriate for a court to undertake the complex task of determining a FRAND rate if the end result would be simply a suggestion that could be used later as a bargaining chip between the parties.”

DISMISSED
Microsoft v. Motorola (W.D. Wash. Apr. 25, 2013)

FRAND methodology
- Stacking
- Public Interest
- Relative value
  - Patents to standard
  - Standard to product
- Modified Georgia-Pacific analysis
  → Moto patents not very valuable
  → $4B → $1.8M/year
Facilitate rate determinations (guidelines/arbitration)

Improve “essentaility” determination

“Cash-only” option
Other Suggestions

- Baseball arbitration of FRAND determination (Lemley & Shapiro, 2013)
- ABA SEP ADR Project (ASAP)
- Ex Ante Disclosure of Terms (VITA)
- Pseudo-Pool aggregate royalty cap (Contreras, 2013)
3. Injunctive Relief
Injunctive Relief in Patent Cases

- Federal Circuit “presumption” of injunction in patent cases
  Re-establishes traditional 4-part “equitable” test for injunctive relief:
  - Irreparable harm
  - Inadequacy of monetary damages
  - Warranted in view of balance of hardships
  - Serves public interest
Does a FRAND commitment preclude seeking injunctive relief?

- **Economic theory**
  - giving a patent holder the extra leverage of an injunction threat after a standard is adopted allows it to extract excess rent

- **Legal theory**
  - If a FRAND commitment has been made, then monetary compensation is, by definition, acceptable to the patent holder, there is no irreparable harm and public interest is served by prohibiting (eBay)

- **Antitrust theory**
  - Seeking injunctive relief after a standard has been broadly adopted is an abuse of market power conferred by the standard
Where *eBay* doesn’t apply...

- International Trade Comm’n
  - Exclusion Orders
  - Subject to “public interest” test only

- Foreign courts
Responses to the FRAND Injunction Question

- DOJ/FTC/EC position papers
- Consideration by ITC as “public interest”
- *Microsoft v. Motorola* (W.D.Wash 2012)
  - Anti-Suit stay prevents enforcement of injunctions worldwide, pending resolution of breach of contract case
- FTC Settlement with Robert Bosch
2012 FTC investigates Google/Moto under FTC Act §5

Alleged seeking injunctions on SEPs is “unfair method of competition”

Jan. 2013: FTC and Google settle
If a FRAND commitment has been made, must negotiate for at least 6 months, then submit to binding arbitration.

No injunctive relief against a licensee willing to pay a reasonable royalty determined by a court or arbitrator.
C. Transfer of Licensing Commitments
FTC v. Negotiated Data Soln’s (2008)

$1000

More than $1000
“Free and clear” sale of patents in bankruptcy threatened unspecified FRAND commitments.

Court requires purchasers to honor commitments
Standards Legal Resources

- *Law, Policy & Economics of Technical Standards*

- ABA SciTech Committee on Technical Standards
  http://apps.americanbar.org/dch/committee.cfm?com=ST202016

- http://essentialpatentblog.com

- ANSI World Standards Week – Legal Issues Forum
  http://www.ansi.org/meetings_events/online_calendar/event_details.aspx?menuid=8&eid=1872#.UZV8opVGKpo