

Standard-Setting And Antitrust



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Antitrust agency actions, *Rambus*, and private litigation suggest that scrutiny of unilateral or collective conduct in the standard-setting area likely will continue. This article identifies common antitrust concerns regarding standard-setting activities and provides guidance for companies participating in standard-setting organizations.

DEVELOPING STANDARDS through industry collaboration can have significant procompetitive benefits. For example, interoperability standards, like those governing certain aspects of the Internet and electrical outlets, enable consumers seamlessly to exchange information and interconnect products from a variety of manufacturers, and performance standards can enhance quality and improve consumers' health and safety. Moreover, coordinating the selection of industry standards can expedite the implementation of new technologies, facilitate entry, and reduce costs.

While the antitrust agencies and courts recognize these potential procompetitive benefits of standard-setting organizations (SSOs), the standard-selection process is not without antitrust risk since it often involves communication and deliberation among competitors. *See* U.S. Dep't of Justice and Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007), at 33-56 (hereinaf-

ter IP Rights Report), www.justice.gov/atr/public/hearings/ip/222655.pdf. This article highlights the key antitrust concerns raised by SSO participation and provides questions that a company should consider as it navigates through the standard-selection process.

RECENT ANTITRUST LITIGATION REGARDING STANDARD-SETTING ORGANIZATIONS • In the past, antitrust litigation regarding the standard-setting process has focused on the potential for collusion among competitors as they jointly develop a standard. *See, e.g., Am. Soc’y of Mech. Eng’rs v. Hydrolevel Corp.*, 456 U.S. 556 (1982). However, recent litigation has highlighted another potentially anticompetitive aspect of standard-setting — the abuse of the standard-setting process by a single company.

It can be very difficult or even impossible to change a standard once it has been adopted industry-wide. Therefore, a company that owns intellectual property rights to technology incorporated in a standard may possess significant market power, potentially fostering anticompetitive conduct such as demanding unreasonable royalties or exorbitant licensing terms from industry participants that adhere to the standard. Such situations often are called “patent holdups.” In order to avoid this scenario, some SSOs have adopted disclosure and licensing obligations requiring companies to disclose their relevant intellectual property rights and to agree to license those rights on reasonable terms before the SSO incorporates new technology into a standard.

Over the past few years, the U.S. Department of Justice Antitrust Division (Department or DOJ) has issued Business Review Letters providing guidance to SSOs and recognizing the potential competitive benefits of disclosure/licensing policies. In 2006, the DOJ analyzed a proposed SSO policy requiring companies that participate in the standard-setting process to disclose all essential intellectual

property rights and to state their most restrictive licensing terms for the technology at the time of disclosure or risk losing the ability to recoup any royalty at all. The Department found that the proposed policy would allow SSO members to make a more informed decision since members could analyze differences in cost as well as technical merit when selecting a standard. Letter from Thomas O. Barnett, Assistant Attorney Gen., U.S. Dep’t of Justice, to Robert A. Skitol, Esq. (Oct. 30, 2006), <http://www.justice.gov/atr/public/busreview/219380.htm>. One year later, the Department acquiesced to a similar SSO policy proposal allowing (but not requiring) patent owners to commit to their most restrictive licensing terms during the standard-setting process. The DOJ noted that more predictable licensing terms “could lead to faster development, implementation, and adoption of a standard as well as fewer litigated disputes after a standard is set.” Letter from Thomas O. Barnett, Assistant Attorney Gen., U.S. Dep’t of Justice, to Michael A. Lindsay, Esq. (Apr. 30, 2007), www.justice.gov/atr/public/busreview/222978.pdf. In 2007, the federal antitrust agencies also issued a joint report addressing intellectual property rights generally, with guidance on SSO disclosure/licensing policies. *See IP Rights Report*.

In addition to policy guidance from the agencies, three cases brought by the Federal Trade Commission (Commission or FTC) illustrate some of the issues that can arise if companies engage in unfair or deceptive conduct related to disclosure/licensing obligations in the standard-setting context. In 2003, the FTC alleged that the Union Oil Company of California (Unocal) monopolized the market for the manufacture of a specific type of gasoline and subverted California’s regulatory standard-setting process by misrepresenting that certain research was non-proprietary while pursuing patents on the same technology. *See In re Union Oil Co. of Cal.*, Dkt. No. 9305 (FTC 2003), www.ftc.gov/os/adjpro/d9305/index.shtm. Once the

state adopted the technology in a standard and the patents were issued, Unocal sought royalties from industry participants that used the mandated technology. After several years of administrative litigation, the case eventually was settled as part of the Commission's review of Chevron Corporation's acquisition of Unocal. Under the settlement, the company agreed to stop enforcing the patents at issue and to release them to the public domain.

In *Rambus*, the FTC filed a complaint alleging that Rambus had unlawfully obtained monopoly power by participating in an SSO process for several years without disclosing that it was actively seeking patents for technologies that were ultimately adopted as the relevant standards. *See In re Rambus Inc.*, Dkt. No. 9302 (FTC 2002), www.ftc.gov/os/adjpro/d9302/index.shtm. The Commission determined that Rambus' deceptive conduct constituted exclusionary conduct that contributed to the company's acquisition of monopoly power. The Commission analyzed the conduct using the traditional standard for monopolization prohibited under Section 2 of the Sherman Act, which the FTC enforces indirectly through Section 5 of the FTC Act. The Commission required Rambus to license its technology, setting a maximum royalty rate. Rambus appealed, and the D.C. Circuit overturned the Commission's decision. The court held that the FTC did not establish that Rambus' conduct "created or reinforced" its market power because there was insufficient evidence that the SSO would have selected an alternative standard or demanded a favorable licensing commitment "but for" Rambus' allegedly deceptive conduct. *See Rambus Inc. v. Fed. Trade Comm'n*, 522 F.3d 456 (D.C. Cir. 2008), *cert. denied*, 129 S.Ct. 1318 (2009). Therefore, according to the D.C. Circuit, the FTC failed to satisfy the exclusionary conduct element of a Section 2 monopolization claim.

At the same time the *Rambus* appeal was pending before the D.C. Circuit, the Commission announced it had reached a settlement with Nego-

tiated Data Solutions (N-Data) to resolve charges that N-Data violated Section 5 of the FTC Act by failing to honor a licensing commitment made by a predecessor company. *See In re Negotiated Data Solutions LLC*, File No. 051 0094 (FTC 2008), www.ftc.gov/os/caselist/0510094/index.shtm. N-Data acquired patents from National Semiconductor that had been incorporated into a widely adopted standard. National Semiconductor had committed to the SSO adopting the standard that the patents would be licensed at reasonable and known royalty rates. According to the FTC's complaint, even though N-Data was aware of National Semiconductor's agreement with the SSO when N-Data acquired the patents, N-Data refused to honor the licensing commitment. Under the settlement, N-Data agreed not to enforce its patents without first offering to license its technology according to National Semiconductor's initial commitment. Unlike *Unocal* and *Rambus*, the FTC pursued the N-Data matter exclusively using the broader "unfair method of competition" and "unfair act or practice" standards under Section 5 of the FTC Act rather than invoking the traditional monopolization standards in Section 2 of the Sherman Act.

Private litigants also may bring cases alleging that companies manipulated or abused the standard-setting process to achieve anticompetitive goals. Private cases often arise out of the same circumstances as government investigations. *See Hynix Semiconductor v. Rambus Inc.*, 250 F.R.D. 452 (N.D. Cal. 2008). Or, private litigants may bring antitrust claims challenging allegedly deceptive conduct during a standard-setting process, even where the conduct has not been challenged by the government. For example, in a case brought by Broadcom Corp. against Qualcomm Inc., the Third Circuit held that when a company participating in a standard-setting process intentionally makes a false commitment to license its technology on certain terms and then reneges on that commitment, it may be actionable anticompetitive conduct if an SSO relied

on the commitment when incorporating the company's technology into a standard. *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007).

As a result, the potential for liability, or at the very least, expensive litigation is real. Companies that participate in a standard-setting process should be mindful of complying with SSO policies.

QUESTIONS TO ASK BEFORE PARTICIPATING IN A STANDARD SETTING ORGANIZATION

• Given the multiple — and potentially conflicting — obligations that companies participating in standard-setting organizations face, it is important to involve counsel in the process at an early stage. Below is a list of key questions that a company should ask before joining a standard-setting organization or participating in a new standard-selection process.

What Are The Potential Anticompetitive Risks Raised By Participation In The Standard-Setting Organization?

Although there are procompetitive benefits to joint standard-setting, SSOs involve agreements among competitors and, as a result, raise traditional concerns regarding collusion. Companies must be careful not to implement the standard in an exclusionary way. And, companies cannot discuss or agree on topics outside the legitimate standard-setting activity, such as the prices or output of downstream standardized products. Evidence that the standard-setting process is being used as a cover to fix prices or to exclude or disadvantage competitors of downstream products may subject the company to per se liability under the antitrust laws. Thus, even the hint of collusive action regarding downstream products could subject the company to costly litigation and potentially severe criminal and civil penalties.

Companies must implement compliance programs and ensure that all employees participating in the SSO are aware of the antitrust risk. Antitrust

compliance programs sensitize employees to conduct that can raise antitrust concern. For example, employees should be cautioned to avoid discussing or sharing information regarding:

- Current product pricing;
- Future product pricing;
- Cash discounts;
- Credit terms;
- Market allocation; and
- “Appropriate” levels of output of downstream products.

Similarly, employees should be aware that companies should not jointly refuse to deal with competitors.

Does The Standard-Setting Organization Have Policies In Place To Ensure That The Standard Selected Will Not Raise Anticompetitive Concerns?

In addition to being alert regarding the traditional anticompetitive risks raised by participation in SSOs, companies should carefully analyze the SSO's policies prior to becoming a member. The SSO and the companies participating in the standard-selection process may be subject to liability under the antitrust laws if the SSO does not have policies or procedures in place to ensure a competitive selection process.

A company should consider which other companies are participating in the standard-setting process. If the standard-selection process does not include adequate industry representation and particularly if the SSO restricts certain companies from participating in the selection process, the SSO and the standard itself may be seen as tools for excluding competitors. Conversely, if there is industry-wide participation in the selection process, there may be a presumption that the marketplace selected the appropriate standard.

Companies also should analyze whether the SSO is developing standards that cover more than what is necessary to achieve the benefits of stan-

dardization. If the standard is not narrowly tailored, it may signal anticompetitive intentions to either exclude competitors or fix downstream prices on what would be an otherwise competitively priced technology.

Note that if a company questions certain SSO policies, it may encourage the SSO to seek a Business Review Letter from the Department of Justice to provide guidance on whether the agency would consider the policies anticompetitive.

Does The Standard-Setting Organization Impose Disclosure Obligations?

After considering the SSO's general policies, the company should consider the disclosure obligations imposed by the SSO. SSOs may have rules requiring members to disclose relevant intellectual property rights. These rules are designed to ensure that members do not manipulate the process by steering the standard-selection process to a patented (or soon to be patented) technology in order to later extract exorbitant licensing fees. While SSO disclosure policies share a common goal, they can vary significantly.

Some SSOs require full disclosure of all intellectual property rights associated with the standard at issue (including both issued patents and pending patent applications). Others only require full disclosure of issued patents. And, still other SSOs implement an entirely optional disclosure regime. These obligations may be imposed on all SSO members regardless of whether they submit a formal proposal to the SSO regarding the relevant standard. Due to this variation, it is critical for business people to review each SSO policy in detail with their management and legal counsel. Here are several preliminary questions a company should ask:

- Does the disclosure policy apply to patent, trademark, copyright, or all intellectual property rights?
- Does the disclosure policy apply to issued patents or pending patent applications, or both?
- If the disclosure policy applies to pending patents, is there a distinction between published or unpublished pending patent applications?

In addition to the variation among disclosure policies, some SSOs have policies with provisions that are subject to interpretation. For example, an SSO may require participants to use their “best efforts” to investigate and disclose their intellectual property rights associated with the relevant standard. While such “best efforts” provisions may be vague, the FTC has assessed the actions and understanding of other SSO members to determine whether the SSO intended to impose a disclosure obligation. See Opinion of the Commission, *In re Rambus Inc.*, Dkt. No. 9302 (FTC Aug. 2, 2006), www.ftc.gov/os/adjpro/d9302/060802commissionopinion.pdf. So, it is wise for business people to inform their counsel about any general understanding among the SSO members in addition to the written rules when the language of the provision may be subject to interpretation.

Does The Standard-Setting Organization Impose Licensing Obligations?

SSOs may not consider disclosure obligations sufficient to protect against potential “patent hold-up” scenarios. As a result, some SSOs require an “open” licensing scheme, in which companies must agree not to enforce their intellectual property rights if their technology is adopted in a standard (i.e., technology in the standard is “open” for all companies to use). Other SSOs opt for a hybrid licensing scheme, in which the company retains the intellectual property rights to its technology but agrees in advance to license the technology on specified terms if the technology is adopted in a standard.

Thus, the extent of the licensing obligation varies among SSOs. Similar to disclosure obligations, some SSOs' licensing obligations cover all intellectual property rights while other SSOs' licensing obligations only cover existing patents. Another variable is the breadth of the licensing terms. SSOs

may require that the intellectual property owner license the technology on reasonable and non-discriminatory terms (RAND) or fair, reasonable, and non-discriminatory terms (FRAND). RAND and FRAND are to some extent vague terms that are subject to fact-specific interpretation. *See* IP Rights Report at 45-47. Therefore, even if a company is willing to make a licensing commitment, the company may be subject to a contract dispute or antitrust lawsuit by a potential licensee that does not agree with the company's interpretation of fair, reasonable, or non-discriminatory.

Once the standard is adopted, it may be difficult for the industry to change to a new standard if the intellectual property owner seeks to hold up industry participants with demands for excessive licensing fees or onerous terms. Thus, unless otherwise explicitly stated, companies involved in SSOs that have licensing obligations should assume they (and any successor companies) will be bound by such licensing commitments in perpetuity.

Requiring companies participating in standard-setting to commit to licensing their technology on specified terms may limit the benefits a company could have gained from asserting its intellectual property rights. However, the licensing mechanism is designed to compensate the company for its contribution and, absent the licensing concession, the SSO and the industry may not have adopted the technology. Without a standard, the industry may not benefit from the efficiencies related to adopting a standard, which increases costs to all industry participants and society.

QUESTIONS FOR ONGOING PARTICIPATION IN A STANDARD-SETTING ORGANIZATION

• Once a company elects to become a member of an SSO, it must be mindful of its disclosure and licensing obligations and keep apprised of recent developments in the law affecting its role as a member of an SSO. Below is a list of questions

that a company currently participating in an SSO or a standard-selection process should consider.

Are There Any Conflicts In The Company's Existing SSO Disclosure And Licensing Obligations?

As standard-setting is largely a technical process, most companies are represented in SSOs not by counsel or senior-level executives but by engineers that specialize in the technology at issue. Since these employees are not necessarily aware of the company's overall business strategy, they potentially could commit the company to conflicting disclosure or licensing obligations.

For example, an employee may commit to make certain broad disclosures regarding the company's technology without having a complete understanding of the company's development pipeline or patent strategy. In SSOs with a disclosure requirement, if the employee represents that the company has no technology affecting a certain standard but it actually has plans to file a patent application for a technology directly incorporated in the standard, the company could run afoul of the SSO disclosure policy. By failing to make the disclosure, the company contractually may be prohibited from licensing the technology on its preferred terms and/or may be subject to liability under the antitrust laws for manipulating the standard-setting process to obtain market power. Similarly, an employee may commit to certain licensing obligations with one SSO that are inconsistent with the company's obligations to another SSO.

To minimize the potential for conflicting SSO obligations, companies should keep an updated account of SSO memberships as well as the major policies and obligations they have agreed to abide by with respect to each standard-setting process. Similarly, companies should keep account of their ongoing patent applications and consider the impact that each could have on any standard-setting process and vice-versa. Counsel should review the

lists regularly to ensure that the company is in compliance with all of its disclosure and licensing obligations.

Have There Been Any Changes To The Company's Disclosure And Licensing Obligations?

In addition to keeping track of existing licensing and disclosure obligations, each company should be aware of changes in SSO obligations. Not only do SSO policies vary significantly, but they are subject to change. Given the scrutiny by the antitrust agencies as well as private litigation involving the standard-setting process, some SSOs are implementing stricter disclosure and licensing policies to discourage patent holdups. This is illustrated by the recent series of Business Review Letters issued by the U.S. Department of Justice, in which it appears that SSOs are tending to modify their policies to increase member obligations rather than decrease them.

What Are The Recent Developments In Competition Law Surrounding Participation In Standard-Setting Organizations?

It is important to remain apprised of recent developments in antitrust law with respect to standard-setting as developed in government cases, private litigation, and Business Review Letters. For example, some FTC Commissioners have expressed their interest in pursuing certain claims under the broader unfair methods of competition standards of Section 5 of the FTC Act even if such conduct may not be reached through Section 2 of the Sherman Act. *See* J. Thomas Rosch, Commissioner, Fed. Trade Comm'n, *The FTC's Section 5 Hearings: New Standards for Unilateral Conduct?* (March 25, 2009), www.ftc.gov/speeches/rosch/090325abaspring.pdf; Concurring Opinion of Commissioner (now Chairman) Jon Leibowitz, *In re Rambus Inc.*, Dkt. No. 9302 (FTC Aug. 2, 2006), [\[jpro/d9302/060802rambusconcurringopinionofcommissionerleibowitz.pdf\]\(http://www.ftc.gov/os/ad-jpro/d9302/060802rambusconcurringopinionofcommissionerleibowitz.pdf\). In addition, the government enforcement standards for monopolization have been controversial and are evolving. *See* Press Release, *Justice Dep't Withdraws Report on Monopoly Law*, U.S. Dep't of Justice, May 11, 2009, \[www.justice.gov/atr/public/press_releases/2009/245710.pdf\]\(http://www.justice.gov/atr/public/press_releases/2009/245710.pdf\). Further, there is significant debate among lawyers and economists regarding whether the antitrust laws are the appropriate vehicle for addressing unilateral conduct in the standard-setting arena.](http://www.ftc.gov/os/ad-</p>
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While this article focuses on liability under the U.S. federal antitrust laws, companies should be aware that, even when their conduct is not challenged under the federal antitrust laws, they may be liable under state unfair practices and consumer protection statutes and, if applicable, competition statutes in other countries or the European Union.

What Other Laws May Be Implicated By Participation In Standard-Setting Organizations?

In addition to liability under antitrust law, participation in SSOs can raise questions under contract law, intellectual property law, and the common law. Even if the antitrust agencies determine that a case cannot be brought or even if an agency pursues a case and loses, a private litigant may bring suit under a variety of other laws. For example, the Federal Circuit applied the doctrine of implied waiver to hold an SSO participant liable for failing to disclose certain intellectual property rights. *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1019-22 (Fed. Cir. 2008).

Companies should be aware of these risks and consult with counsel regularly because actions that are not be susceptible to liability under the antitrust laws may raise concerns under other laws.

CONCLUSION • In the Obama Administration, the antitrust agencies have espoused a commitment to vigorous enforcement of the antitrust laws. DOJ

specifically plans to aggressively pursue monopolization cases and certain FTC Commissioners are keen to expand the scope of conduct subject to the unfair methods of competition standards of Section 5 of the FTC Act. These factors indicate that government scrutiny of companies' unilateral or collective conduct in the standard-setting area will

continue and potentially increase. Similarly, private litigants continue to pursue antitrust claims, often in conjunction with contract and intellectual property claims. Therefore, companies that participate in a standard-setting process should be aware of potential litigation risk and be proactive about compliance with antitrust laws and SSO policies.

PRACTICE CHECKLIST FOR Standard-Setting And Antitrust

Questions To Ask Before Participating In A Standard-Setting Organization

- What are the potential anticompetitive risks raised by participation in the SSO?
- Does the standard-setting organization have policies in place to ensure that the standard selected will not raise anticompetitive concerns?
- Does the standard-setting organization impose disclosure obligations?
 - Does the disclosure policy apply to patent, trademark, copyright, or all intellectual property rights?
 - Does the disclosure policy apply to issued patents or pending patent applications, or both?
 - If the disclosure policy applies to pending patents, is there a distinction between published or unpublished pending patent applications?
- Does the standard-setting organization impose licensing obligations?
 - Does the licensing obligation require companies to modify their intellectual property rights if their technology is adopted in a standard?
 - Does the licensing obligation require companies to agree in advance to license their intellectual property if it is adopted in a standard?
 - If an advance agreement to license is required, on what terms, e.g., reasonable and non-discriminatory (RAND) terms?

Questions For Ongoing Participation In A Standard-Setting Organization

- Are there any conflicts in the company's existing SSO disclosure and licensing obligations?
- Have there been any changes to the company's SSO disclosure and licensing obligations?
- What are the recent developments in competition law surrounding participation in standard-setting organizations?
- What other laws may be implicated by participation in standard-setting organizations?

Best Practices For Companies That Participate In Standard-Setting Organizations

- The easiest way to avoid potential antitrust liability is to implement a program of antitrust compliance. All companies that participate in standard-setting processes should avoid discussion of certain sensitive subjects. Here is a list of topics to avoid at all meetings:

- ___ Do not discuss current or future downstream product prices; be very careful of discussion of past product prices.
 - ___ Do not discuss what is a fair profit level for downstream products.
 - ___ Do not discuss an increase or a decrease in downstream product prices.
 - ___ Do not discuss standardizing or stabilizing downstream product prices.
 - ___ Do not discuss cash discounts or credit terms for downstream products.
 - ___ Do not discuss controlling sales or allocating markets for downstream products.
 - ___ Do not discuss “appropriate” levels of output for downstream products.
 - ___ Do not complain to a competitor about its downstream product prices.
 - ___ Do not discuss refusing to deal with a company (such as a distributor or other customer) because of its pricing or distribution practices.
 - ___ Do not attend unofficial sessions or gatherings.
- In addition, the SSO’s policies should avoid the following:
 - ___ Restrictions on dealing with nonmembers;
 - ___ Exclusions from membership, especially if there is a business advantage in being a member;
 - ___ Limitation on access to SSO information, unless the limitation is based upon protection of trade secrets;
 - ___ Ambiguous obligations regarding disclosure or licensing;
 - ___ Setting a standard for non-essential technology; and
 - ___ Arbitrary removal of technology from a standard.

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