

Working where IP, technical standards and competition meet

Products driven by new technologies are increasingly underpinned by technical standards. Companies have to understand the potential problems, as well as the opportunities, presented by this emerging issue

By **Marc Sandy Block**

Over the years, the objective in intellectual property asset management – optimising value from intellectual property assets – has not changed. But the challenges, choices, risks and rewards in managing IP assets have. Today, thanks to the growth of technology standards, managing IP is a Gordian knot for asset managers to untangle.

At a time when more companies recognise the increasing value of patents and IP, there is also growing recognition of the need for collaborative innovation, global markets and technical standards. Especially for companies in emerging technologies – such as radio frequency identification, data compression, wireless communications and web services – there is a compelling need for hardware and software products to talk with each other on infrastructures that are widely available.

That is what technical standards are about: creating common platforms, protocols, procedures or designs to achieve safety, security or interoperability. Consider internet addressing – a common, or standardised, way of identifying devices on the network – and how that standard has enabled not only a universal way for connecting devices, but also an assortment of innovative products and services that are built around interconnected devices.

It is not surprising that the same growth technologies that prompt standards also promote innovation and patents. For example, in the wireless communications area, there are numerous standards and hundreds of patents owned by dozens of

companies. These standards often transcend international boundaries and sometimes involve patents awarded in more than one country.

Just what is the relationship between patents and standards; what are the issues that may arise at the interface between them; and how do they inform asset management decisions?

Patents in conjunction with technical standards

Patents and global technical standards would seem unlikely bedfellows. After all, patents are rooted in the right to exclude others, while open standards involve participants, often competitors, in an industry having access to, and using, a common technology. But look a little deeper and open standards can cooperate nicely with patent rights.

If a patent holder's technology is selected for the standard, the number of businesses using the patented technology normally increases. The field of prospective licensees may extend to include not only those with similar products, but also others who network with and must interoperate with the patent holder's products.

Also, when a patent is clearly recognised as necessary (or essential) for implementing the standard, proving the need for a licence may be less rigorous for parties stating that they are in compliance with the standard.

Moreover, collaboration can cut costs and can enable inventors in one company to innovate on the contributions made by other participating experts. In addition, as customers demand more functionality and more interoperability, allowing reasonable access to patents (at times even royalty-

free) can pay off in many ways.

The challenge for an IP asset manager is to be creative in assessing the intersection between patents and standards, and to determine the best course for his company or client (and perhaps a standards community) to follow.

This requires a more expansive view – looking at not just royalties, but how patents and reasonable licensing terms can do a variety of things:

- Expand markets worldwide (especially for your company's products).
- Promote other patent holders to participate and provide access to their standardised patented technology (that might otherwise be unavailable).
- Make your company's technology more attractive for selection by a standard body (making your company an industry leader that, incidentally, does not have to re-design to a new standardised technology).
- Make the standard more attractive and successful than alternative solutions.
- Reduce later disputes that can be costly and time consuming.

The interplay between patents and standards recognises the multiple roles a company may assume: as a patent holder; as one of the developers of the standard; as a developer and marketer of standardised products; as a vendor and user in a network of products and services that depend on the standard; and as an industry member interested in economic growth and innovation. Whether and how a company may participate in the standards process depends greatly on how opportunities are seen through this multifaceted prism.

When patents meet standards in the real world

Consider a typical situation. Your company – Headed Up – plans to participate in a standards development organisation (SDO) – Interpathic – that is organised in the US, but open to companies worldwide. The company's flagship product, Mindlink, is a device that translates thoughts into commands for appliances ranging from global positioning systems through televisions to thermostats. Interpathic will develop standards so that devices such as Mindlink can communicate with other devices using common communication protocols.

Headed Up has a few vital US patents, but other companies also have vital patents

in this rapidly growing, emerging technology. As IP asset manager, you have been asked by Mindlink's product executive what factors should be considered as it plans to enter the world of standards.

In considering whether to join Interpathic, you realise that sitting out the process might provide a strong licensing position not governed by Interpathic's policy. But you also realise that non-participation could result in competing technologies being selected – leaving your company with a largely unused patent. In that Headed Up will, as an implementer, probably need access to the standard and others' patents, joining Interpathic seems to make sense.

You review some books and articles to see what other issues should be considered.

Patent holdup

You read about patent holdups in which SDO participants press for excessive licensing terms – including royalty rates – after the standard's technology is set or after the standard is widely adopted, when design-around is not commercially practical. Holdup by one or more patent holders may not only undercut Headed Up's potential interest in royalty income, but, more importantly, may jeopardise the success of Mindlink and the standard it relies on – and the future of Headed Up.

You also learn that some conduct, such as deceptive failure to comply with a duty to disclose patents to an SDO or failure to comply with a licensing commitment, has been held to violate antitrust or unfair competition laws. As a patent holder, you want to understand the obligations that joining an SDO entails and the consequences, under SDO policy, for non-compliance. Most SDOs require members or at least those working on the standard to commit to grant licences to needed patents under reasonable and non-discriminatory (RAND) terms and conditions. Some SDOs also impose a duty to disclose patents promptly that are needed to implement the standard. As a potential implementer, you want to understand how much information you will have when your company makes critical business decisions.

You read about VITA, an SDO that recently faced four different patent assertions (with allegedly excessive licensing terms), each when the standards were about to be approved, and how VITA has changed its patent policy to address such situations.

To prevent future disruptions, VITA has adopted a policy that requires members who work on a standard to make a “good faith and reasonable inquiry” of attorneys and technical experts working on the standard’s technology to identify “essential patents” – that is, patents with “essential patent claims” that are necessarily infringed when the standard is implemented. Failure to make the inquiry and disclose essential patents results in a royalty-free licence with certain default terms. Each such member is required to disclose its maximum royalty rate and most restrictive licensing terms. Disclosure is required at multiple intervals.

You note that the US Justice Department approved the VITA policy and that other recent US agency statements provide that *ex ante* disclosure of licensing terms (ie, disclosure at a time before a standard is finally approved) will generally not clash with competition law if pro-competitive effects outweigh anti-competitive effects. While some practices such as fixing product pricing or colluding to exclude parties from the standards process can still be problematic, you see that the agencies now appreciate the potential benefits of *ex ante* disclosures.

You also realise that *ex ante* disclosure can avoid later disputes focusing on the vague meaning of RAND licensing terms. You realise that early disclosure involves some balancing: it can lead to lower royalties than if Headed Up set rates after the standard was widely adopted and the industry was locked in to your company’s technology. However, you also appreciate that early disclosure can reduce later attacks on licensing terms (after all, the SDO knew of the terms before it adopted the standard) and can help persuade developers to select your technology over others with no, less favourable or uncertain licensing terms.

In reviewing *ex ante* disclosure measures, you consider the benefits of having Headed Up technology selected and the opportunity for patent licensing, with early disclosed terms, and you further consider the benefits of knowing the costs and licensing restrictions (if any) of Mindlink early in the process.

You decide to review with competent counsel the aptness of proposing *ex ante* disclosure to Interpathic – after confirming that your technical team can comply.

Commitments and injunctions

You read news articles about a recent US Federal Trade Commission action involving a

patent assignee, N-Data, which sought to repudiate an earlier assignor’s patent commitment to an SDO to license requestors for US\$1,000 if the assignor’s technology was incorporated into the standard. Interpathic’s policy should clearly state that a patent holder’s licensing commitment, with or without licensing terms, should be irrevocable – or at least clearly state when it is subject to revision or repudiation. Similarly, conditions under which a licence granted may be revoked should be made clear. It is common for licences to be conditioned on either the grant of a reciprocal licence back or on defensive termination upon the licensee asserting its necessary patents and/or on payment of royalties.

Moreover, you consider whether the patent holder must include a provision in any assignment or transfer of patent indicating that the commitment continues. If Headed Up and other standards participants cannot rely on commitments, their reliance on Interpathic becomes risky. In any event, you and your counsel must ensure that Headed Up’s procedures are aligned with Interpathic’s policy.

As a patent holder and implementer, Headed Up will also want to know if or when, under the SDO policy, a patent holder can seek an injunction – for example, when an implementer rejects a RAND offer.

Practical standards matters

Your review also reveals other practical matters relating to standards:

- How open and transparent is Interpathic to Headed Up’s participation in forming policy and setting standards?
- Will there be due process to ensure that Headed Up will have a fair opportunity to contribute and have its technology selected?
- Will the standard be controlled by a single company – or by a neutral party where standard development is cooperative?
- Will the technology in the standard be properly vetted for quality and properly described and licensed, so that implementers can effectively use it?
- How will the SDO policy address a member’s ability to exclude “necessary” patents from its commitment to license?
- As a patent holder, Headed Up might appreciate the opportunity to withdraw an important patent from the commitment, but as a standards developer and prospective implementer,

Headed Up would see opt out, especially late in the process, as problematic. Are there parties with patents who will likely not join the SDO and who may raise patent issues later?

- Will the SDO's charter be well defined to avoid creep into technical fields where Headed Up might not wish to grant licences?

Critical role

As intellectual property becomes a greater portion of corporate value and as open standards become more vital to your business, the meeting of the two makes the role of the IP asset manager more challenging and more critical.

With some familiarity with the issues arising at the junction of patents, standards and competition law, you can better assist your company (or client) in properly positioning itself to achieve growth and expanded markets, to innovate where it counts, to collaborate to interoperate with

state-of-the-art technology and to realise best overall value for your company's intellectual property. ■

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The article represents his opinions and not necessarily those of his employers. Readers should consult their own counsel in addressing matters discussed in this article



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