I have written several times on standard essential patents, including the IEEE approach to standards setting; see my column in the September 2015 issue of *IEEE Power Electronics Magazine*. A standard essential patent covers a technology that is necessarily implicated when meeting a standard that a standard setting organization (SSO) agrees to. The concern has been that the patent owner will use the standard-setting process to induce the other members of the industry to commit to his or her technology and then demand exorbitant royalties for use of the patented technology. The IEEE addressed this issue related to its SSOs by implementing rules that invite patent owners to provide a letter of assurance that signifies the patent owner’s approach to the licensing of its patents if the patented technology is accepted as part of the standard. A preferred licensing approach is to agree to license the patents on a fair, reasonable, and nondiscriminatory (FRAND) basis.

Recently, there have been new concerns, i.e., that there could be abuses caused by the other participants in the SSO. These concerns have been voiced by very influential sources, including the acting chair of the U.S. Federal Trade Commission (FTC) and the assistant attorney general of the Antitrust Division of the U.S. Department of Justice (DOJ). The FTC and the DOJ both have jurisdiction to enforce the antitrust laws of the United States, so their concerns suggest that additional focus on the rules and processes of standards setting may be necessary.

An SSO is a group of industry participants who convene to agree on what a standard should be and ensure the interoperability of products and processes involved in a new technology. One new concern is that an innovator with a patent who participates in an SSO may be subject to concerted action by the other participants (the parties who implement the standard) to the detriment of the innovator. The general public may also be harmed if the technology of the patent owner is prevented from becoming commercially viable for anticompetitive reasons. Devaluing patented innovations in this way can also have the undesirable effect of diminishing the motivation to innovate.

An example of such an abuse would be when action is taken by industry incumbents who are the implementers of a specific technology to “freeze out” a new innovator who has a better technology, simply to maintain their market position. This freeze out can take the form of refusing to seriously consider the new technology or refusing to negotiate with the innovator in good faith to reach reasonable license terms.

The DOJ commentator points out that the hold-up issue (i.e., when the innovator “holds up” the industry)—which was the primary concern in the previous round of consideration of standards setting rules—has a reciprocal in which the innovator is subject to being “held out” by the implementers. The prospect of a holdout offers the implementer of the technology a crucial bargaining chip in negotiating a royalty license or other term. The innovator makes his or her investment before the implementers make theirs, since a patented proposal submitted to the SSO must have sufficient technical development to warrant adoption as the standard. The refusal to deal with the innovator for any noncompetitive reason freezes out the innovator from recouping the benefit of his or her investment, leaving the innovator with little or no recourse. On the other hand, if the patent owner unreasonably asserts his or her patent after agreeing to a FRAND licensing term, according to this new school of thought, his or her efforts are just a
simple breach of the contract agreement to license on FRAND terms, not a violation of the antitrust laws. The “held up” implementers may receive relief by bringing a breach of contract lawsuit.

The DOJ commentator also points out that rules intended to clarify the meaning of FRAND, which could skew the agreement over licensing terms in the direction of the implementers, may warrant a closer look to determine whether they are the product of collusive behavior within the SSO. That is, other members of the SSO, and not the patent owner, may have committed the antitrust violation. In particular, a rule that states that a reasonable royalty must be pegged to the smallest salable component to determine a patent royalty, may, in itself, warrant antitrust scrutiny. Note that the IEEE FRAND rules include such a provision.

Similarly, rules that prevent a patentee from seeking an injunction against infringement to buttress his or her negotiating position with a potential licensee may also warrant scrutiny. The IEEE rules have a provision that prohibits a patent owner from seeking an injunction unless the potential licensee refuses or unreasonably delays negotiations. The DOJ has taken the position that commitments to license on FRAND terms should not be transformed into a compulsory licensing scheme. U.S. policy has generally been averse to compulsory licensing, and, in a 1984 treaty, the Agreement on Trade-Related Aspects of Intellectual Property Rights, a part of the Marrakesh Agreement establishing the World Trade Organization, the United States and many other countries agreed to avoid compulsory licensing. A similar trend of taking a second look at SSOs is also occurring in Europe.

About the Author
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