Computer & Communications Industry Association
Tech Advocacy Since 1972

ABSTRACT

STANDARDS AND PATENTS **APRIL 2014**

Standards are of immense strategic importance in IT. Open standards build confidence in technology and emerging markets, promote investment and competition, and enable interoperation among products, systems, and services.

"Openness" is determined not only by how a standard is developed but by how it will evolve in the future, the terms and conditions of use, and how widely it is adopted.

As in other business contexts, participants in standards setting processes should be able to make decisions on the basis of cost and terms of use as well as technical characteristics of the standard.

Background:

In information technology, standards are needed to create new markets, reduce technological and market uncertainty, and promote competition. Once a standard is adopted, patents that must be licensed to implement the standard ("standard-essential patents" or SEPs) become valuable in that they cannot be designed around, and an entire industry is committed to the technology and the standardized technology can be very difficult and costly to excise.

Standard-setting organizations (SSOs) have developed policies to alleviate this problem. Some standards organizations require participating firms to disclose patents, but this disclosure is usually limited to the actual knowledge of those participating in the standards development process since companies do not want the burden of searching their entire patent portfolio. Some SSOs, such as the World Wide Web Consortium, require or prefer that participants commit to licensing patents royalty-free. Markets develop faster if licenses are not needed, and companies will license royalty-free because they can benefit from their familiarity with the technology and control over complementary technology.

In SSOs that allow royalty-bearing patents, participants must at least commit to licensing on fair, reasonable, and nondiscriminatory (FRAND) terms. What this means in practice is left undefined, and no SSO has required SEP owners to forego injunctive relief against implementers of the standard. In practice, many of the largest stakeholders have been extensively cross-licensed with each other so disputes have been rare. However, the emergence of new

participants, upstream innovators, and convergence of stakeholders with different portfolios has resulted in imbalances and conflicts. The smartphone wars have led to aggressive use of SEPs as well as unencumbered patents, and multi-jurisdictional litigation has exposed differences in judicial treatment of standard-essential patents. Competition agencies, including the FTC and DOJ, have inveighed against injunctive relief in cases involving SEPs.

Recent litigation (*Motorola v. Microsoft* and *Innovatio*) has resulted in damage awards for infringement of SEPs that are orders of magnitude smaller than the damages requested by the patent owner. It remains to be seen how the apportionment in these decisions will carry over to non-essential patents, since damages are also defined in terms of "reasonable" royalties. In any case, careful apportionment is needed when there are many patents (and many standards) reading on products.

Last summer, the International Trade Commission, which can grant exclusion orders (equivalent to injunctive relief) but not damages, ruled in favor of Samsung's petition to exclude certain Apple smartphones from entering the U.S. This order was overridden on policy grounds by the USTR on behalf of the President, although the USTR letter did not come to grips with the ITC decision that did not find the Samsung patents to be standard-essential. This unusual and heavily lobbied procedure raised international concerns about the evenhandedness of the U.S. system. A National Academies study, *Patent Challenges For Standard-Setting In The Global Economy: Lessons From Information And Communications Technology,* was released in October. The committee examined problems associated with patent disclosure, injunctive relief, FRAND, and the transferability of FRAND commitments. Significantly, it split on the question of whether the ITC should be permitted to hear cases involving FRAND-encumbered patents since the ITC can only grant exclusion orders; the majority said no.

The Obama administration has favored a stronger federal role in supporting standards efforts where diverse interests make balanced representation and coordination difficult, for example, the Smart Grid, health information, and advanced manufacturing. The administration recently proposed a revision of OMB Circular A-119 (Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities) to better reflect the importance of standards in the global economy. The revision asks agencies to address economic implications, including patent licensing terms.

CCIA's Position: CCIA staunchly supports voluntary industry standards and recognizes the need to protect openly developed standards against opportunistic behavior. Whether patents are standard-essential or not, CCIA believes that "reasonable royalty" should reflect duly apportioned value and should take into account the cost of alternatives.