

**Misuse of the Standard Setting Process:
Too Much Risk for Your Company to Participate?**

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We all use agreed technical standards every day without thinking about them: DVDs, USB and Firewire connections, 802.11 wireless networking, 110 volt current, shoe sizes (more or less). In modern commerce and especially in electronics, technical standards are frequently the result of investigation and agreement among engineers working in standard setting organizations (SSOs). There are a variety of SSOs and committees within SSOs that are focused on addressing particular technical hurdles or market needs. The names of some SSOs may be familiar to you, such as the International Organization for Standardization (ISO), the American National Standards Institute (ANSI), and the Institute of Electrical and Electronics Engineers (IEEE). You have likely heard of the legal difficulties Rambus has faced related to its participation in the Joint Electron Device Engineering Council (JEDEC), and you may have wondered whether -- if Rambus's conduct is deemed lawful -- the risks of participation in standard setting are greater than the rewards.

The technical standards developed in SSOs often rely on inventions that are protected by patents, and many of the patents are owned by the companies that participate in creating the standards. There is nothing sinister about this. The companies that have done groundbreaking research or created clever solutions to technical problems (and received patents for that work) have an interest in getting their ideas to market and often

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need the help of other companies to do that. The company that developed a laser to read data on a DVD might not have the right engineers to build a tiny motor to spin the disk. We can all benefit from bringing companies like these together. Naturally, the companies that own patents on technologies that get included in standards also stand to benefit. Even a fraction of a penny on each of the millions of DVDs manufactured every year is a nice revenue stream with no operating cost, and if you happen to manufacture disks too, that is another opportunity to profit.

Participation in the standard setting process can offer other benefits, as well. It gives a company the opportunity to gather data while a standard is getting created. This may speed time to market once a standard is adopted. It may give insight into competitors' thinking. It may enable a company to help shape a standard, possibly even steering the standard to incorporate the company's own technology rather than an alternative. And this, in turn, can help to assure licensing revenue from the company's patents.

So, should every company with a few engineers and a patent participate in an SSO? The answer is a resounding "no," despite what your engineers may say. While participation has great benefits for some, it also carries costs and risks that too few companies consider. This article identifies some of those costs and risks to help companies make more thoughtful decisions.

The most serious cost is a loss of control over your intellectual property. SSOs generally require participants to agree, as a condition of participation in creating a standard, to make available any patent they own for free or on reasonable and nondiscriminatory (often called RAND) licensing terms to anyone who wants to use the

resulting standard. This is a stark contrast to the usual rule in patent law that a patent owner can license or refuse a license to anyone it wants and can charge any rate the market will bear. There is little law establishing what licensing rates are reasonable in the context of standard setting, and that can create further uncertainty.

Nondiscriminatory licensing is a bit better understood; it means that a license will be granted on comparable terms to anyone who wants a license to practice the standard.

While generating licensing revenue sounds attractive, many companies rely on the power to deny a license to keep their competitors at bay. Companies entering or creating new markets may depend for success on the market's tacit acceptance of (or acquiescence to) their business plan, and an agreement to license any into business plan may lead to a business failure. A patent may be the only leverage a company has to ensure its success.

Imagine, for this entirely fabricated example, that NTT owned a broad U.S. patent covering all mobile telephone communications, and it offered phone service here using the GSM communication protocol, which is the norm outside the U.S. Imagine NTT joined an SSO devoted to the standardization of mobile phone communications. The goal of the SSO is to facilitate interoperability among mobile systems, and NTT hoped to steer the SSO to fall into line with the GSM protocol used in the rest of the world. NTT agreed when it joined the SSO to license its patent to any mobile phone standard selected by the SSO (perhaps convinced its internationally accepted protocol would prevail). If the SSO selected instead the CDMA protocol as the standard for mobile service in the U.S., NTT would be compelled to license its broad patent to companies that want to use the CDMA protocol. This might give NTT some licensing revenue, but its core business of providing mobile phone service could fail (in the U.S. at least) as the rest of the market

gravitated toward the CDMA standard. The better move might have been to avoid the SSO and inform the market that licenses will be granted only for GSM systems. The exclusionary power of the patent could, in that case, shape the commercial landscape in a manner that would enable NTT to flourish in the U.S. and realize the benefit of its investment in GSM equipment and service systems here.

A different situation is presented for a company that owns a large portfolio of patents and seeks to generate revenue by licensing anyone and everyone. Some would characterize IBM as following this sort of path. IBM owns thousands of patents and is reported to generate more than \$1 billion a year in licensing revenue from them. Under this business model, a company might participate in a number of SSOs and readily grant licenses whenever its patented technologies get included in a standard.

Still a different situation is presented if a company owns patents that are unrelated to its core business. Licensing in that case may be nothing but a windfall. Of course, there can also be many shades of gray here.

Every company needs to decide for itself which path or what combination of these paths will be most advantageous for it. This is not a decision, however, that can typically be made by a lab engineer acting alone, a lawyer acting alone, or an executive acting alone. It requires a deep understanding of the company's business model and future plans, of the company's technology and how relevant it is in the developing marketplace, and of the strength and breadth of company's patents and applications. Only by knowing all of these things is it possible to assess what a company stands to gain and what it stands to lose by participating in an SSO.

If the most serious cost is a loss of control over your intellectual property, the next most serious cost is allocating the proper resources to participate thoughtfully in an SSO. It takes engineering and legal time and money to study multiple versions of draft technical standards as they evolve in an SSO committee. One draft of a standard may hit your company's patents; another draft may not.

IEEE, to take one example, develops standards by soliciting proposals from the public. The proponent of a new standard is guided through a rigorous course that begins with a Project Authorization Request, which defines the scope and purpose for the new standard project. IEEE requires that one of its members sponsor each new project. In order for a standard to be approved by IEEE, it must endure a balloting and comment process. Once a standard is approved by IEEE, it must be approved by ANSI in order for it to be recognized as an American National Standard; ISO certification may follow in the case of international standards.

Compounding the complexity, the obligation to license your patents into the standard may be triggered by joining the SSO; or it may be triggered by remaining a member at the time a particular draft is proposed; or it may be triggered by remaining a member at the time a final standard is approved. The engineer you send to a meeting may only have to represent that she personally does not know of any company patents that a standard would infringe, or your company may be bound to license whether the engineer is aware of your patents or not. Different SSOs have different rules, and legal counsel is almost always needed on this point. What is more, counsel is needed not only at the time a company joins an SSO but on an ongoing basis to determine whether a

particular draft of a standard would infringe the company's patents. This is a real cost that must be weighed against the benefits of participation in an SSO.

Part of the dispute noted above involving Rambus concerns whether Rambus (i) failed to disclose during committee meetings at JEDEC that it owned patents on certain kinds of memory chips for which JEDEC was developing a standard and (ii) wrote new patent claims in pending applications based on information it gained in JEDEC meetings in order to ensure its patents would be infringed. Rambus later sued companies that made chips compliant with the standard developed in JEDEC. Rambus has argued that it acted according to the letter of JEDEC's patent disclosure policy. Some companies have argued that, even if that is true, Rambus violated the spirit of the policy and has acted in an anticompetitive manner. That dispute continues both in private litigation and in U.S. Federal Trade Commission enforcement proceedings.

Ultimately, the courts will determine whether Rambus misused the standard setting process or whether it simply followed poorly drafted rules. This area of the law is truly a complex one. While patent law and contract law may (relatively) easily answer the question whether the standard setting process has been "misused" in a given situation, antitrust law may impose stricter standards of conduct or commercial ethics. It is far from clear what requirements the law will ultimately impose and what conduct will be considered reasonable. This creates a real risk for companies considering participation.

Vigilance is essential to understand in real time whether drafts of standards implicate your company's intellectual property and to decide whether your company is willing to license its intellectual property in support of those standards. Only if your company follows a "we will license anything" approach can you afford to sit back.

Finally, it is worth noting that the standard setting process can be infected by politics and ulterior motives. It can be difficult to determine whether a company is advocating the best technical solution to a particular problem or is advocating only the solution that hits its patents. It can be difficult to determine whether there are tacit agreements among participants to advocate each other's technologies (if you pick my laser, I will pick your disk motor). Moreover, it has been alleged that some companies attend SSO committee meetings solely to gather competitive information. Most SSOs ask members not to disclose confidential information during committee meetings, but disclosures happen (and meetings can highlight the previously unappreciated importance of certain public information). Awareness of these possibilities can help a company to manage its participate more effectively.

The bottom line is that caution and thoughtful reflection are required before committing your company. One law professor who has studied the decision-making processes of companies joining SSOs has observed that the decision whether to join is often made at a relatively low level in companies, without the involvement of senior management or counsel. Avoiding that mistake is a great first step toward protecting company assets and maximizing opportunity.

Participating in the work of an SSO can be a great benefit to a company, and this article is not intended to talk anyone out of that. The benefits, though, must be weighed against the costs that are required to avoid later problems. It is worth noting as well that we are in the midst, particularly in the U.S., of a period of great scrutiny of corporate decision-making and asset management. There may come a day when the decision whether to participate in (or withdraw from) an SSO is challenged by shareholders or

others as a failure of managers. Here, as in all areas of corporate management, the ability to demonstrate in the future that proper consideration was exercised in the present may go a long way toward avoiding exposure.