CLIENT ALERT

FTC Hosts Workshop on Intellectual Property Rights In Standard Setting: Tools to Prevent Patent Hold-Up

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On June 21, the FTC held a workshop to explore issues in standard setting with scholars, economists, practitioners and industry participants from standards bodies and companies including Cisco, Microsoft, SAP, Intel and others.

The agenda included three separate panel discussions: disclosure obligations in standards setting; *ex ante* disclosure or negotiation of licensing terms; and the relevance and significance of RAND licensing commitments.

The panel on IPR disclosure policies and practices of standard setting focused on whether hold-up actually results from failure by parties to disclose IPR prior to the adoption of a standard. Panelists agreed that (at least in most cases) *general* disclosure by parties holding relevant IPR is sufficient to prevent hold-up, by allowing potential licensees to identify the relevant parties with which they will have to negotiate. There was also general agreement that *specific* disclosure of every essential patent may be less important, and not requiring it reduces the burden on participants, not all of whom have the inclination or the resources to conduct exhaustive patent searches.

The panel also addressed whether "essentiality" is the appropriate nexus between a standard and a patent disclosure requirement. Several panelists noted that in practice, disclosure often covers more than just "essential" patents, either because patent holders prefer a blanket disclosure for efficiency reasons, or because patent holders view certain IPR as "commercially essential" rather than strictly "technically essential."

The second panel discussion focused on disclosure or negotiation of licensing terms prior to adoption of a standard. Many panelists expressed some degree of hesitation about *ex ante* discussion of terms, based on concerns that standard body representatives may not always understand the antitrust implications. That such discussions would be evaluated under the rule of reason is small consolation to companies that prefer to avoid litigation altogether. There were also questions about how effective disclosure actually is; the consensus was that many participants disclose their "worst-case" terms to avoid being held to less favorable terms after the standard is adopted, particularly in post-adoption bilateral negotiations with implementers.

The third panel addressed the significance of commitments to license patents on reasonable and non-discriminatory ("RAND") terms, and began with the question of how meaningful a RAND commitment really is. Most panelists agreed that RAND commitments are valuable chiefly when they are given by repeat players who have a reputational interest in honoring the commitment. Several panelists expressed frustration that there is no remedy short of litigation for enforcing a RAND commitment. The panel also addressed a practical problem, which is that licensing negotiations seldom center on a single patent, or even multiple patents that read on a single standard. This situation can often mean that a RAND commitment for one patent is "masked" by a broader negotiation, making it difficult for parties to determine whether a given patent is being licensed on more or less favorable terms than those initially identified as "reasonable."

The FTC is accepting public comments on these issues until July 8, 2011. For more information on the public comment process, visit the FTC's website at http://www.ftc.gov/os/fedreg/2011/05/110509standardsettingfrn.pdf.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.