

Patent Portfolio Management and Technical Standard Setting: How to Avoid Loss of Patent Rights

by

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I. The Antitrust Background

Standard setting can potentially be accomplished in either of two ways: it can be performed unilaterally²—as for example is done by Dolby Laboratories, Inc.³—or it can be done collaboratively. When standards are set by collaborative activities, and multiple parties act in concert for the purpose of standard setting, the antitrust laws are implicated. Under section 1 of the Sherman Act⁴, agreements in restraint of trade are made illegal, but unless a *per se* violation is involved, conduct of competitors is evaluated in light of a rule of reason.⁵

Collaborative standard setting does indeed have the effect of restraining trade, in that standard setting discourages competition with respect to the aspects that are standardized. In the words of the Supreme Court, agreement to a standard

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² Unilateral standard setting might still carry a risk of liability under section 2 of the Sherman Act for monopolization or attempted monopolization. Compare *In the Matter of Intel Corp.*, FTC Dkt. No. 9288, 64 Fed. Reg. 14246 (1999), wherein the FTC alleged that Intel retaliated commercially against customers who had patents that they either sought to enforce against Intel or refused to license royalty-free to Intel; the matter was settled by a stipulated order. See also William J. Baer and David A. Balto, *Antitrust Enforcement and High-Technology Markets*, 5 MICH. TELECOMM. TECH. L. REV. 73, 85-88 (1999) available at <http://www.mtlr.org/volfive/balto.pdf>. See also *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997)(liability for monopolization in unilateral refusal to license). But see *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000)(unilateral refusal of Xerox to license patent rights held not an antitrust violation).

³ See www.dolby.com.

⁴ 15 U.S.C. § 1.

⁵ See *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 501 (1988), discussed below.

involves “after all, implicitly an agreement not to manufacture, distribute, or purchase certain types of products.”⁶ In that case, *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, steel conduit manufacturers packed a meeting of the National Fire Protection Association with new members recruited for the purpose of defeating a proposed amendment to the National Electrical Code to permit the use of plastic conduit, and a Sherman Act violation was found.

On the other hand, there are clearly circumstances where standards perform a valuable function.⁷ The First Circuit, in *Clamp-All Corp. v. Cast Iron Soil Pipe Institute*, had this to say about the benefits of standard setting:

The *joint* specification development, promulgation, and adoption efforts would seem less expensive than having each member of CISPI [a trade organization] make duplicative efforts. On its face, the joint development and promulgation of the specification would seem to save money by providing information to makers and to buyers less expensively and more effectively than without the standard. It may also help to assure product quality. If such activity, in and of itself, were to hurt Clamp-All by making it more difficult for Clamp-All to compete, Clamp-All would suffer injury only as result of the defendants’ joint efforts having lowered information costs or created a better product.... And, that kind of harm is not “unreasonably anticompetitive.” It brings about the very benefits that the antitrust laws seek to promote.⁸

In general, however, where a group of competitors in an organization, in the guise of standard setting, seeks to exclude or harm other competitors, there is a potential basis for finding an antitrust violation.⁹ This is, of course, only one technique for unlawfully gaining a competitive advantage. There are a wide range of techniques to abuse standard-setting processes for the purpose of benefiting a

⁶ *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 (1988).

⁷ See *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. at 501.

⁸ *Clamp-All Corp. v. Cast Iron Soil Pipe Institute*, 851 F.2d 478, 486-87 (1st Cir. 1988) (Breyer, C.J.)(original emphasis).

single competitor or a group of competitors at the expense of other competitors. Given this circumstance, standard-setting activities may run afoul not only of section 1 of the Sherman Act, but also, for example, section 2 of the Sherman Act (monopolization or attempted monopolization), the Federal Trade Commission Act (section 5¹⁰ of which makes unfair methods of competition unlawful), as well as other statutes and doctrines. We address below more particularly cases where the standards happen to involve patents and the implications such cases hold for patent portfolio management.

II. Standard Setting Cases Where Patents Have Been Involved

A number of important cases have dealt with the failure of a competitor to notify the standard-setting organization of the existence of a pending or issued patent.¹¹ In *Stambler v. Diebold, Inc.*, 1988 WL 95479, 11 U.S.P.Q.2d 1709 (E.D.N.Y. 1988), *aff'd*, 878 F.2d 1445 (Fed. Cir. 1989), the patent holder participated in standard setting by a standard setting organization, but failed to notify the organization that the standard was covered by its patent, and enforcement of the patent was barred by the doctrines of laches and estoppel.

Similarly, in *Wang Laboratories, Inc. v. Mitsubishi Electronics America, Inc.*, 103 F.3d 1571, 1580-1582 (Fed. Cir. 1997), again a company participated in standard-setting activities but failed to disclose the pendency of a patent covering the standard; enforcement was held barred by the existence of an implied license.

⁹ In addition to *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, see, for example, *American Society of Mechanical Engineers v. Hydrolevel Corp.*, 456 U.S. 556 (1986), cited in *Allied Tube & Conduit Corp.* at 500.

¹⁰ 15 U.S.C. § 45.

¹¹ A wide-ranging treatment of this subject appears in Cowie and Lavelle, *Patents Covering Industry Standards: The Risks to Enforceability Due to Conduct Before Standard-Setting Organizations*, 30 AIPLA Q. J. 95-151 (No. 1, Winter 2002).

In somewhat similar circumstances, the Federal Trade Commission has engaged in enforcement activity. The FTC brought an enforcement action against Dell Computer under section 5 of the FTC Act in connection with Dell's role in standard setting by the Video Electronics Standards Association for the VL Bus design used with 486-based computers. Although Dell had certified that it had no intellectual property rights reading on the standard, Dell later sought to enforce a patent covering the standard. The case was settled, under terms which included the agreement of Dell not to enforce its patent nor to enforce any patent that Dell intentionally failed to disclose on request of a standard-setting organization in the course of standard setting.¹²

In the cases discussed above, the patent in question covered the standard, in the sense that practice of the standard would necessitate infringement of the patent. Where practice of the standard does not necessitate infringement of the patent in question, there may still be a risk of liability if some untoward conduct is involved. In *Rambus v. Infineon*, although the patents in question were found not to cover the standard, non-disclosure of patent rights in the standard-setting process nevertheless gave rise to a claim for fraud.¹³ On the other hand, the Federal Circuit would not use the doctrine of equitable estoppel to imply a license to the accused infringer; in this case, the patent holder had offered a royalty-free

¹² *In re Dell Computer Corp.*, 121 FTC 616, 1996 WL 350997 (1996).

¹³ 164 F. Supp. 2d 743 (E.D. Va. 2001), now under appeal, 33 Fed. Appx. 505 (Fed. Cir. 3/21/2002). For commentary, see Veronica Smith Lewis, "*Rambus v. Infineon*—The Latest Standard Setting Patent Disclosure Guidance," AT-IP Report, September 24, 2001, www.abanet.org/antitrust/committees/intel_property/sep24report.html.

license but only on adoption of a particular standard by the standard-setting organization, and the standard had not been adopted.¹⁴

Another potential problem for the patent holder in standard setting is engaging in licensing practices that are deemed to be discriminatory or unfair. It may be that in *Rambus v. Infineon*, discussed above, the underlying problem was that Rambus was seeking a steep royalty rate to license its technology,¹⁵ and although this fact was not specifically articulated in the trial court's analysis, it may have colored the outcome. On the other hand, in *Townshend v. Rockwell Int'l. Corp.*, no claim for liability under sections 1 and 2 of the Sherman Act was found to have been asserted in a counterclaim alleging that a license to practice a standard was conditioned on the grant of low-royalty rate cross-licenses, since among other things, "a patent owner's pursuit of optimum royalty income is not an act in restraint of trade" and "cross-licensing is considered a pro-competitive practice".¹⁶

A related issue is when standard setting, performed with apparent openness, is considered merely concerted action by competitors to maintain conditions favorable to themselves at the expense of other competitors or the consuming public. Such a circumstance was raised by the case of *Addamax Corp. v. Open Software Foundation*.¹⁷ In this case it was held that the Open Software Foundation, which was formed by major competitors in the computer industry

¹⁴ *Windbond Elec. Corp. v. International Trade Comm'n*, 262 F.3d 1363, 1374-1375 (Fed. Cir. 2001).

¹⁵ See Lewis, "Rambus v. Infineon—The Latest Standard Setting Patent Disclosure Guidance," AT-IP Report, September 24, 2001, *supra*, n. 13.

¹⁶ *Townshend v. Rockwell Int'l. Corp.*, No. C-0400, 2000 WL 433505 at *8, 55 U.S.P.Q.2d 1011 (N.D. Cal. March 28, 2000).

¹⁷ 888 F. Supp. 274 (D.Mass. 1995).

(including Hewlett Packard, Digital and IBM) to develop a platform-independent version of the UNIX operating system, could not escape trial on a rule-of-reason Sherman Act challenge to selection of a vendor as sole supplier for a security product for the operating system. Risks of this kind of attack, which arguably cuts close to the bone of standard setting, are supposed to have been reduced somewhat by the National Cooperative Research Act of 1984,¹⁸ but in fact the Open Software Foundation had filed with the Department of Justice and the FTC in accordance with the Act.¹⁹ Guidelines for Collaborations Among Competitors, adopted by the FTC and Department of Justice (Oct. 1,1999) (April 2000) may be helpful in this respect.²⁰

What lessons can be learned from these decisions? The first point is that a patent holder has the most leverage when the patent rights in question cover practice of the standard itself. In contradistinction to this kind of patent coverage are patent rights that are merely useful, but not necessary, in practice of the standard.

The second point is that the patent holder with the first kind of leverage—patent rights that cover the standard—has two choices in connection with a standard-setting organization. He can avoid participation in the process at all and then have a good prospect for asserting the patent rights against all infringers.²¹ Or he can participate in the process, in which case the participation must be under

¹⁸ 15 U.S.C. § 4301.1b.

¹⁹ See Balto, *Standard Setting in the 21st Century Network Economy*, 18 THE COMPUTER AND INTERNET LAWYER (no. 6, June 2001) at 9, n. 51 and accompanying text.

²⁰ Available at www.usdoj.gov/atr/public/guidelines/guidelin.htm. And see Balto, *id.*

²¹ *Compare In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322, (Fed. Cir. 2000), *supra*, note 2.

circumstances where the patent rights are clearly disclosed and where they are made available under circumstances (at least if the standard is adopted) that do not favor one competitor or any group of competitors.

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