# Client Alert

**February 18, 2015**

# Department of Justice Will Not Challenge IEEE's Proposed Updates To Its Standard-Setting Patent Policy

On February 2, 2015, the U.S. Department of Justice, Antitrust Division (DOJ) announced that it will not challenge a proposed update to the Institute of Electrical and Electronics Engineers' (IEEE) Standards Association patent policy. IEEE had requested a business review letter from DOJ on its enforcement intentions regarding the proposed update. After an examination of the proposal, DOJ concluded that the update "has the potential to benefit competition and consumers by facilitating licensing negotiations, mitigating hold up and royalty stacking, and promoting competition among technologies for inclusion in standards."[1] DOJ indicated that it "cannot conclude that the update is likely to harm competition," and, to the extent that there are any potential competitive harms from the proposed update, "[its] potential procompetitive benefits likely outweigh those harms."[2]

## IEEE'S PROPOSED POLICY CHANGES AND RATIONALE

IEEE's patent policy governs the incorporation of patented technology in IEEE standards and the terms under which holders of patents essential to IEEE standards commit to make licenses available for use in implementing the standards. IEEE chose to update its policy in light of the "wide divergence" over the years since its last patent policy (in 2007) between owners of standards-essential patents (SEPs) and implementers of standards, particularly over the meaning of "reasonable rates" for potential SEP licenses.[3] IEEE's stated purpose of its policy revision was to "provide greater clarity on issues that have divided SEP owners and standards implementers in recent years."[4] It also noted that updates to the policy would be appropriate in light of DOJ Deputy Assistant Attorney General Renata Hesse's October 2012 speech "Six 'Small' Proposals for SSOs Before Lunch."[5]

The updates to the policy include **four principal elements**:

1. **Clarification on Definition of a "Reasonable Rate"**. The updated proposed policy defines a "Reasonable Rate" for essential patent claims for which IEEE has an Accepted Letter of Assurance[6] as: "appropriate compensation to the patent holder for the practice of an Essential

[1] DOJ Business Review Letter to Michael A. Lindsay, Esq. on behalf of IEE (Feb. 2, 2015) at 16, *available at* http://www.justice.gov/atr/public/busreview/311470.pdf.

[2] *Id.*

[3] IEEE Request for Business Review Letter (Sept. 30, 2014), *available at* http://www.justice.gov/atr/public/busreview/request-letters/311483.pdf.

[4] *Id.* at 15.

[5] *Id.* at 12-13. The speech is available at http://www.justice.gov/atr/public/speeches/287855.pdf.

[6] An Accepted Letter of Assurance is a letter from a patent holder or applicant (the "Submitter") providing assurance that either (a) it will not enforce any of its present or future essential patents against any person complying with the standards, or (b) it will make available a license

Patent Claim excluding the value, if any, resulting from the inclusion of that Essential Patent Claim's Technology in the IEEE Standard." The updated policy offers **three factors** that should be considered in determining a reasonable rate (although the parties are free to consider other factors):

a. The value that the functionality of the claimed invention contributes to the value of the relevant functionality of the smallest saleable Compliant Implementation[7] that practices the Essential Patent Claim;

b. The value that the essential patent claim contributes to the smallest saleable Compliant Implementation that practices the claim, in light of the value contributed by all essential patent claims for the same standard practiced in that Compliant Implementation; and

c. Existing licenses covering use of the essential patent claim, where the licenses were not obtained under the explicit or implicit threat of a "Prohibitive Order" (an injunction or exclusion order), and where the circumstances are otherwise sufficiently comparable to the circumstances of the contemplated license.

2. **Clarification on Nondiscrimination**. The proposed updated policy clarifies that both (i) implementers that make an end-use product and (ii) implementers that make components or sub-assemblies incorporated into an end-use product can invoke the benefits of a Letter of Assurance. The policy provides that the licensing assurance shall extend to *any* Compliant Implementation that practices the essential patent claims for use in conforming with an IEEE standard.

3. **Clarification on Availability of Prohibitive Orders**. The proposed updated policy provides that a Submitter of a Letter of Assurance is *not* permitted to seek a Prohibitive Order unless the implementer fails to participate in, or to comply with the outcome of, an adjudication by a court with the authority to (i) decide patent validity, enforceability, essentiality, and infringement; (ii) award monetary damages; and (iii) resolve defenses and counterclaims. IEEE explained that its proposal "reflects the belief that negotiations between a voluntary submitter of a patent letter of assurance . . . and a potential licensee should attempt to value the contribution of the Essential Patent Claim without considering the possibility of a Prohibitive Order."[8]

4. **Clarification on Permissible Demands for Reciprocal Licenses**. The proposed updated policy explains that where a Submitter's Accepted Letter of Assurance indicates reciprocity, a potential licensee cannot both receive the benefit of the Letter of Assurance *and* refuse to license to the other party the licensee's own essential patent claims on that same standard. The updated

for such implementation without compensation or at reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination (RAND). *See id.* at 9.

[7] The proposed policy defines a "Compliant Implementation" as "any product (e.g., component, sub-assembly, or end-product) or service that conforms to any mandatory or optional portion of a normative clause of an IEEE Standard." *Id.* at 16.

[8] *Id.* at 17.

policy further notes that the parties are free to negotiate any kind of cross-license or portfolio license they wish to negotiate, but a Submitter cannot insist on receiving a cross-license to non-essential patents.

Responding to public comments suggesting that its proposals could amount to "buyer-side price fixing," IEEE claims that such suggestion is "simply wrong" because its policy does not set a maximum royalty; rather, it generally defines the term "reasonable rate" and recommends — but does not require — additional factors for consideration in negotiating a reasonable rate. According to IEEE, the proposed updated policy does not amount to price-fixing because (i) the submission of Letters of Assurance is entirely voluntary, (ii) the proposed updated policy does not retroactively amend previously accepted Letters of Assurance, and (iii) the process used to develop the updated policy was transparent and open to review and comment by all stakeholders.[9] IEEE maintains that its proposed updated policy will "foster more efficient negotiations and reduce the incidence and scope of litigation" over SEPs, although the policy "does not preclude either party from beginning litigation if it is dissatisfied with the other party's timing or reasonableness."[10] It emphasizes that the updated policy's "clarity is precisely what antitrust and competition enforcers in the United States and Europe have been encouraging."

## DOJ'S ANALYSIS AND CONCLUSIONS

DOJ's task in the business review process is to advise the requesting party of the Department's present antitrust enforcement intentions regarding the proposed conduct — not to assess whether the requestor's choices are right as a policy matter. DOJ's policy statements and published guidelines on the issue of standards-setting have consistently emphasized that standards offer significant procompetitive benefits such as facilitating interoperability, which reduces costs for consumers and producers, and promoting innovation.[11] DOJ's general view on standards-setting activities is that "[g]reater clarity and transparency [in licensing commitments] may facilitate the adoption and implementation of standards, thereby increasing the benefits that consumers derive from standards that include patented technologies."

At the outset, DOJ explained that IEEE's update has the potential to facilitate and improve its standards-setting process because (i) the update may provide participants in the process with better *ex ante* knowledge about licensing terms, thereby potentially broadening *ex ante* competition among technologies for inclusion in the standard; and (ii) the information called for by the updated IEEE policy could facilitate both *ex ante* and *ex post* licensing negotiations and reduce patent infringement litigation.[12] It found that a clarification of the RAND commitment embodied in IEEE's updated policy may help parties reach "optimal" outcomes — i.e., ones in which implementers of the standard receive access to the technology they need to manufacture, market, and sell their products, and where patent holders receive compensation that reflects the value of their technology.[13]

[9] *Id.* at 18-19.

[10] *Id.* at 18.

[11] DOJ Business Review Letter at 5 (citing policy statements).

[12] *Id.* at 6.

[13] *Id.*

DOJ considered but ultimately rejected criticisms that the updated policy resulted from a closed and biased process. While noting that "[t]he Department takes seriously these concerns," it concluded that the overall process afforded considerable opportunity for comment on and discussion of the update and thus did not raise antitrust concerns.[14]

DOJ's letter addresses each of the four main elements of the updated policy:

1. **Definition of "Reasonable Rate"**. DOJ determined that IEEE's updated definition of a Reasonable Rate is not likely to result in competitive harm, as it "aligns with generally accepted goals of RAND commitments, namely providing the patent owner with appropriate compensation, while assuring implementers that they will not have to pay any hold-up value connected with the standardization process."[15] DOJ also concluded that the updated policy's three recommended factors for consideration in determining a reasonable rate "focus attention on considerations that may be likely to lead to the appropriate valuation of technologies subject to the IEEE RAND commitment," but emphasized that the update does not mandate any specific royalty-calculation methodology or royalty rates, nor does it prevent the use of other considerations.[16]

2. **Nondiscrimination**. While noting that the proposed update's provision extending the RAND licensing assurance to *any* Compliant Implementation of the standard "entails a departure from historical licensing practices for some licensors," DOJ explained that the proposed update does not mandate specific licensing terms at different levels of production, nor does it direct that a royalty rate be the same at all levels of production.[17] Rather, DOJ concluded that the provision is unlikely to cause competitive harm, as it (i) adds clarity as to who is entitled to a license under the RAND commitment, and (ii) has the potential to facilitate implementation of the standards to the benefit of consumers.[18]

3. **Availability of Prohibitive Orders**. Introducing its analysis of this provision, DOJ commented that the update "recognizes that a voluntarily negotiated licensing agreement between a licensor and licensee is a preferred outcome," and gives specific guidance on the availability of a prohibitive order. Reasoning that "[t]he threat of exclusion from a market is a powerful weapon" that can be used to hold up implementation of a standard, DOJ determined that limiting this threat by regulating patent holders' ability to seek Prohibitive Orders reduces the possibility that a patent holder will engage in hold-up.[19] Citing decisions by U.S. patent courts over the past several years, DOJ found "inherent" in a RAND commitment "a pledge to make licenses available to those who practice such essential patent claims as a result of implementing the standard — in

[14] *Id.* at 7-8.

[15] *Id.* at 11.

[16] *Id.* at 12-13.

[17] *Id.* at 14.

[18] *Id.*

[19] *Id.* at 9.

other words, not to exclude these implementers from using the standard unless they refuse to take a RAND license."[20] DOJ explained that while IEEE's provision may place additional limits on patent holders' ability to obtain injunctive relief in a U.S. court, the restriction, in practice, would not be significantly more restrictive than current U.S. case law and would provide added clarity, which may help parties reach agreement more quickly.[21] Because IEEE's provision "is consistent with the direction of U.S. case law and patent holders can avoid its requirements by declining to submit [a Letter of Assurance]," DOJ concluded that it is unlikely to result in competitive harm.[22]

Notably, DOJ took care to emphasize that although IEEE's provision "is more restrictive than recent guidance on this issue from the U.S. government, the U.S. government does not dictate patent policy choices to private SSOs."[23]

4. **Reciprocity**. DOJ determined that the updated policy's provisions regarding reciprocity were unlikely to result in competitive harm; instead, DOJ found that the provisions "seem[] likely to preserve the efficiencies" of voluntary cross-licenses and package licensing while addressing concerns about coercive cross-licensing and tying.[24] DOJ concluded that the updated policy's provisions "mitigate[] the concern that a firm taking advantage of the commitments others made to the standard can then engage in hold up of the same standard by asserting essential claims it has refused to license on RAND terms," and "will reduce the possibility that a holder of a RAND-encumbered patent could leverage that patent to force a cross-license of . . . a potential licensee's differentiating patents and limit the potential for anticompetitive tying."[25]

In light of DOJ's business review letter, the IEEE Board of Directors voted on February 8, 2015, to approve the updated policy.[26] The approved modifications will become effective within the first quarter of 2015.

## REACTION BY INDUSTRY PARTICIPANTS

Since DOJ's decision and IEEE's vote to approve the updated policy, various technology industry participants have issued public statements either criticizing or praising the updated policy.

On one side, the Innovation Alliance — an organization comprised of Qualcomm, InterDigital, Dolby Labs, Digimarc, and others — denounced the updated policy as "represent[ing] an anti-competitive shift favoring the buyers of inventions at the core of Wi-Fi and other IEEE technologies, at the expense of those who invented them."[27] These companies contend that the updated IEEE policy "could permanently damage technology

[20] *Id.*

[21] *Id.* at 10.

[22] *Id.* at 11.

[23] *Id.* at 10

[24] *Id.* at 15.

[25] *Id.*

[26] The final approved policy is available at http://standards.ieee.org/develop/policies/bylaws/approved-changes.pdf.

[27] Innovation Alliance Statement on the DOJ Decision and IEEE Vote on New IEEE Patent Policy (Feb. 9, 2015), http://innovationalliance.net/from-the-alliance/innovation-alliance-statement-doj-decision-ieee-vote-new-ieee-patent-policy/ .

development at one of the world's most influential standards organizations," as the "changes . . . were developed and advanced not in response to any documented problems with the current policies, but rather to artificially depress the market value of patent-protected technologies."[28] Qualcomm, in a statement emailed to the media, stated that it is reconsidering its participation in IEEE standard setting activities and will not make licensing commitments under the new policy.

On the other side, in a jointly-authored op-ed post, the general counsels of Cisco Systems, Intel, and Verizon countered the Innovation Alliance's view, stating that DOJ's decision "has done consumers and manufacturers a great service," as "[u]ntil now, some of the companies holding patents on key technologies have been able to game the standards system to create unearned benefits for themselves."[29] These three companies pledged to "stand together for the clarifications that will make all companies honor the commitments they make when they agree that their technology can be included in industry standards."[30] In a separate statement, Cisco Systems' Mark Chandler "congratulate[d]" IEEE "for resisting pressure from the few who wanted to use the patent system to force unreasonable costs on makers and users of everyday products like smartphones and wireless routers."[31]

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*Because of the generality of this update, the information provided herein may not be applicable in all situations and should not be acted upon without specific legal advice based on particular situations. Prior results do not guarantee a similar outcome.*

[28] *Id.*

[29] Mark Chandler, Steven R. Rodgers and Craig Silliman, "Bringing Balance to Standards Development: The IEEE Shows the Way," (Feb. 6, 2015), http://thehill.com/blogs/congress-blog/technology/231930-bringing-balance-to-standards-development-the-ieee-shows-the .

[30] *Id.*

[31] Statement of Mark Chandler on the IEEE Decision on Patent Clarifications (Feb. 8, 2015), http://blogs.cisco.com/gov/statement-of-mark-chandler-on-the-ieee-decision-on-patent-clarifications.