

**Testimony by Amy A. Marasco
Vice President and General Counsel,
American National Standards Institute (“ANSI”)**

before the Federal Trade Commission and Department of Justice

Standards-Setting Practices: Competition, Innovation and Consumer Welfare

April 18, 2002

My name is Amy Marasco and I am the Vice President and General Counsel of the American National Standards Institute, Inc., which usually is referred to by its acronym, ANSI. ANSI appreciates the opportunity to provide comments in connection with the hearings on “Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy” jointly sponsored by the Federal Trade Commission (“FTC”) and the Department of Justice (“DOJ”).

The voluntary consensus standardization system in the United States is the most effective and efficient in the world. At the same time and almost incongruously, the U.S. system is distributed, diversified and extremely complex. This is in stark contrast to standards systems in many other nations of the world, where the government itself is the coordinator of standards or plays a major role in the financing or control of that nation's standards system. For more than 80 years, the U.S. system has been administered and coordinated by the private sector through ANSI, with the cooperation of federal, state and local governments. ANSI also is the established forum for the U.S. voluntary standardization community, and serves as the United States representative to two major, non-treaty international standards organizations: The International Organization for Standardization (“ISO”) and, through the United States National Committee, the International Electrotechnical Commission (“IEC”).¹

¹ ANSI also represents the U.S. in the International Accreditation Forum (“IAF”), which has the goal of reducing duplicative conformity assessment requirements (that often serve as non-tariff barriers to trade) by providing the basis for product certifications and quality system certifications/registrations performed once, in one place and accepted worldwide. ANSI also participates in the international Quality Systems Assessment Recognition Program (“QSAR”). Because of the breadth of its participation in standards activities worldwide, the Institute is able to provide a central source of information and education on standards, conformity assessment programs and related activities in the U.S. and abroad.

ANSI is a unique partnership of over 1,000 members with several hundred companies, 250 standards developers and other professional, technical, trade, labor, academic and consumer organizations, and some 25 government agencies. In its role as the only accreditor of U.S. voluntary consensus standards developing organizations (“SDOs”), ANSI ensures the integrity of the standards development process and determines whether standards meet the necessary criteria to be approved as American National Standards. ANSI’s approval of these standards (currently numbering approximately 12,000) is intended to verify that the principles of openness and due process have been followed and that a consensus of all interested stakeholder groups has been reached.

ANSI and its accredited SDOs are often characterized as the “de jure” or more formalized standards-setting process in the United States. However, there is a plethora of standards-setting activities being conducted outside of the ANSI process in organizations such as fora or consortia, each of which has its own and often unique standardization process. Almost all standards-setting organizations have a policy or procedural requirement that addresses the inclusion of patented material in standards. These policies reflect the nature of the standards under development, the interplay between patents and the relevant industry sector, the objectives of the standards-setting body, and the consensus of the participants. Accordingly, such policies vary widely in response to these differing needs and objectives.

The ANSI Patent Policy, which applies to the development of all American National Standards, was derived with the objective of finding a balance among intellectual property rights, competing interests in implementing a given standard, the standards-setting milieu, and the avoidance of unnecessary rigidity that may inhibit U.S. competitiveness both nationally and in increasingly global markets. The Policy’s efficacy is, in our view, evidenced by the fact that there has not been any adjudicated abuse of the process relating to patents that has occurred in connection with any American National Standard.

Through active participation in regional standardization organizations such as COPANT (for Latin America) and PASC (for the Pacific Rim), ANSI provides strong advocacy for the use of U.S. standards and technology throughout the global marketplace. In doing so, ANSI works very closely with the National Institute of Standards and Technology (“NIST”), the Office of the U.S. Trade Representative (“USTR”), the U.S. Departments of Commerce and State, and other federal agencies, as well as with hundreds of trade associations, companies, and consumer and labor organizations.

Standards-setting, Intellectual Property Law
and Antitrust Law All Help Promote Competition and Innovation

The benefits and procompetitive effects of voluntary standards are not in dispute. Standards do everything from solving issues of product compatibility to addressing consumer safety and health concerns. Standards also allow for the systemic elimination of non-value-added product differences (thereby increasing a user's ability to compare competing products), provide for interoperability, improve quality, reduce costs and often simplify product development. They also are a fundamental building block for international trade. As the Court of Appeals for the First Circuit explained:

The joint specification development, promulgation, and adoption efforts would seem less expensive than having each member of CISPI [a trade association] 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.

Clamp-All Corp. v. Cast Iron Soil Pipe Institute, 851 F.2d 478, 487 (1st Cir. 1988) (Breyer, C.J.) (citation omitted; emphasis in original), *cert. denied*, 488 U.S. 1007 (1989); *see also Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988) ("When ... private associations promulgate safety standards based on the merits of objective expert judgments and through procedures that prevent the standard setting process from being biased by members with economic interests in stifling product competition those private standards can have significant procompetitive advantages.")

As FTC Chairman Timothy Muris also has observed, both intellectual property law and antitrust law promote innovation and enhance consumer welfare:

The tensions between the doctrines tend to obscure the fact that, properly understood, IP law and antitrust law both seek to promote innovation and enhance consumer welfare. The goal of patent and copyright law, as enunciated in Article I section 8 of the Constitution, is "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." IP law, properly applied, preserves the incentives for scientific and technological progress - i.e., for innovation. Innovation benefits consumers through the development of new and improved goods and services, and spurs economic growth.

Similarly, antitrust law, properly applied, promotes innovation and economic growth by combating restraints on vigorous competitive activity. By deterring anticompetitive arrangements and monopolization, antitrust law also ensures that consumers have access to a wide variety of goods and services at competitive prices. Matters that involve both IP and antitrust can be exceedingly complex, both legally and factually.²

Accordingly, the standardization of a patented invention can yield procompetitive benefits, stimulate innovative research and development, and make the patent holder's intellectual property more accessible to consumers through competing products.

Intellectual Property, Antitrust and Standards-Setting: A Balancing Act

The intersection of standards-setting, patent rights and antitrust concerns is not new territory. For decades the standards community has fashioned related policies and procedures to provide a roadmap for the inclusion of patented material in standards. At ANSI, it was recognized that it is necessary to balance the rights of the patent holder, the interests of competing manufacturers seeking to implement the standard, the consensus of the technical experts from different stakeholder groups on the desired content of the standard, the concerns and resources of the SDO, the impact on consumer welfare, and the need to avoid unnecessary strictures that would discourage participation or disadvantage U.S. interests in non-U.S.-based standards organizations.

ANSI has long recognized that the incorporation of patented technology into a standard without certain safeguards could produce an unacceptable anti-competitive effect. Hence ANSI developed and implemented a patent policy. (The ANSI policy is very similar to the patent policy of ISO and IEC and that used by a treaty-based standards organization, the International Telecommunication Union or ITU.) Compliance (or non-compliance) with the ANSI Patent Policy is one of the criteria considered by ANSI in determining whether to approve or withdraw approval of a standard as an American National Standard. An ANSI Board-level committee must approve the ANSI Patent Policy and any proposed changes to it.³

The ANSI Patent Policy expressly provides that “[t]here is no objection in principle to drafting a proposed American National Standard in terms that include the use of a patented item, if it is considered that technical reasons justify this approach.” In other words, the technical experts from different stakeholder groups participating in the standards-setting process have to agree that the inclusion of the patented technology is the best technical solution to fulfill the objective of the standards-setting activity. As recognized by the FTC in *American Society of Sanitary Engineers*,⁴ excluding a patented invention from a standard can unreasonably restrain trade by misleading consumers, depriving them of information about the performance of the product, or even excluding a technically advanced product from the market.

The ANSI Patent Policy then provides as follows:

² Remarks of FTC Chairman Timothy J. Muris, *Competition and Intellectual Property Policy: The Way Ahead*, before the American Bar Association Antitrust Section Fall Forum, November 15, 2001.

³ The ANSI Patent Policy is contained in the noted sections of the *ANSI Procedures for the Development and Coordination of American National Standards* (the “ANSI Procedures”), which can be found in the Reference Library on ANSI Online (www.ansi.org). The *ANSI Guidelines for Implementation of the Patent Policy* can be found at www.ansi.org/public/library/guides/ppguide.html. While the primary input for the ANSI Patent Policy comes from the ANSI Patent Group, the Policy ultimately is approved by the Board of Directors’ National Issues Committee (“NIC”). The NIC is made up of representatives from all of ANSI’s stakeholder groups, including industry, SDOs, government and consumer representatives.

⁴ See *American Society of Sanitary Engineering*, Dkt. C-3169, 106 F.T.C. 324 (1985). It is noteworthy that the invention at issue in that case – the Fillpro valve designed by J.H. Industries - which was “excluded” from the standard was not an “essential” technology. If permitted by the standard, it would be one of many conforming implementations of the standard.

1.2.12 ANSI patent policy - Inclusion of Patents in American National Standards

There is no objection in principle to drafting a proposed American National Standard in terms that include the use of a patented item, if it is considered that technical reasons justify this approach.

If the Institute receives a notice that a proposed American National Standard may require the use of a patented invention, the procedures in 1.2.12.1 through 1.2.12.4 shall be followed.

1.2.12.1 Statement from patent holder

Prior to approval of such a proposed American National Standard, the Institute shall receive from the identified party or patent holder (in a form approved by the Institute) either: assurance in the form of a general disclaimer to the effect that such party does not hold and does not currently intend holding any invention the use of which would be required for compliance with the proposed American National Standard or assurance that:

- a) a license will be made available without compensation to the applicants desiring to utilize the license for the purpose of implementing the standard; or
- b) a license will be made available to applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

1.2.12.2 Record of statement

A record of the patent holder's statement shall be placed and retained in the files of the Institute.

1.2.12.3 Notice

When the Institute receives from a patent holder the assurance set forth in 1.2.12.1 a) or b), the standard shall include a note as follows:

NOTE – The user's attention is called to the possibility that compliance with this standard may require use of an invention covered by patent rights.

By publication of this standard, no position is taken with respect to the validity of this claim or of any patent rights in connection therewith. The patent holder has, however, filed a statement of willingness to grant a license under these rights on reasonable and nondiscriminatory terms and conditions to applicants desiring to obtain such a license. Details may be obtained from the standards developer.

1.2.12.4 Responsibility for identifying patents

The Institute shall not be responsible for identifying all patents for which a license may be required by an American National Standard or for conducting inquiries into the legal validity or scope of those patents that are brought to its attention.

Disclosure may be made by a patent holder or third party with actual, personal knowledge of relevant patents. Once such a disclosure is made, then ANSI requires a written statement to the effect that the patent holder (a) will not license the patented material to implementers of the standard, (b) will license on a royalty-free basis or (c) will license on reasonable and non-discriminatory (“RAND”) terms and conditions. If the patent holder submits a patent statement to the effect of either (b) or (c) above, then this creates third-party beneficiary rights in implementers of the standard.

Such rights are then addressed in a commercial context outside of the standards-setting environment. The SDO usually does not have the capability and necessary resources to adjudicate what are essentially commercial and highly technical issues. The SDO’s responsibility is to ensure that the due process-based procedures for developing consensus on the standard are properly followed. The standards-setting participants are often technical experts who do not have legal or business responsibilities with regard to licensing issues. Moreover, many believe that the discussion of licensing issues among competitors in a standards-setting context imposes a risk that the SDO and the participants will become targets of allegations of improper antitrust conduct.

One result of standards-setting is the opportunity to have the “best” technical solution -- which may belong exclusively to a patent holder -- incorporated into a standard and made available to all relevant manufacturers to exploit in competing commercial products. In return for “sharing” its patented technology (including making it available to its competitors), the patent holder usually receives a reasonable royalty charged to implementers of the standard in a non-discriminatory manner.

What happens if the patent holder does not identify and disclose its patent rights prior to the completion of the standard and such patent rights are later discovered or disclosed? Under ANSI's patent policy, the patent holder is then required to provide the same assurances to ANSI that are required in situations where patents are known to exist prior to the standard's approval. If those assurances are not forthcoming or if potential users can show that the policy is not being followed, the standard may be withdrawn either by the consensus committee or through the appeals process.

The ANSI Patent Policy also embraces the following concepts:

1. The ANSI Patent Policy applies only to “essential” patents. If it is possible to implement a standard without necessarily infringing on a certain patent, then that patent is not essential. However, if the patent is not essential, then the same concerns are not present in that the patent holder cannot “block” others from implementing the standard. In fact, competitors have an incentive to focus on innovative ways to implement the standard without infringing on the related patent. It also is difficult to ascertain the degree to which a patent has to “relate to” the standard in order to be covered by the Policy (reminiscent of the popular “Six Degrees of Kevin Bacon” game). This would be, at best, a nebulous and to some degree arbitrary determination.

2. The ANSI Patent Policy does not impose a duty on patent holders to undertake a search of its patent portfolio in order to be able to make a definitive statement to a SDO as to whether it has any essential patents.⁵ Nor does it “impute” knowledge of an employer corporation to an employee participant in the standards-setting process.

⁵ The ANSI Patent Policy Guidelines provide that: “[D]uring the development period, standards developers may wish to adopt procedures whereby one or more requests are made to participants for the disclosure of patents that may be required for use of standards in process. Such a request could be made, for example, by including it on letter ballots used in connection with the development of a proposed standard. Alternatively, other means could be adopted so that requests are repeated throughout the course of the standards development process -- e.g., by a semi-annual notice mailed to each participant in the development process or appropriate working group(s). This is not to suggest that a standards developer

If disclosure were based on the knowledge of the participating companies, patent searches would become a requirement. As a practical matter, many companies would find such an affirmative duty to identify all applicable patents virtually impossible to fulfill. Many U.S. participants, at any given moment, have literally hundreds of employees participating in as many standards development activities and in excess of 10,000 patents in their intellectual property portfolio. Patent searches are expensive, time-consuming and not dispositive. They also require a potentially complex legal analysis in addition to a technical one.

Often the implication of a specific patent in connection with a particular standard is not easy to determine or evaluate. This problem is exacerbated by the fact that the standard under development usually is evolving and its technical specifications are subject to change up until the final consensus ballot.⁶

The problem becomes exacerbated if the “punishment” for an unintentional failure to disclose an essential patent is to preclude the patent owner from asserting its intellectual property rights against implementers of the standard. Companies that have invested billions in research and development in order to develop a patent portfolio will likely choose not to participate in a standards-setting activity if they are obligated to undertake an enormous patent

should require any participant in the development process to undertake a patent search of its own portfolio or of any other. The objective is to obtain early disclosure concerning the existence of patents, where known. A standards developer may also consider taking steps to make it clear that any participant in the process -- not just patent holder -- is permitted to identify or disclose patents that may be required for implementation of the standard. Generally, it is desirable to encourage disclosure of as much information as possible concerning the patent, including the identity of the patent holder, the patent’s number, and information regarding precisely how it may relate to the standard being developed.”

⁶ The ANSI Patent Policy Guidelines further provide that: “It should also be emphasized that, notwithstanding the incentive for patent holders to indicate any early willingness to license, it may not be possible for potential patent holders to give such an assurance until the standards development process has reached a relatively mature stage. It might be that only at that time will the patent holder be aware that its patent may be required for use of the proposed standard. This should not, however, preclude a patent holder from giving an assurance that *if* its patent is required for use of the standard it will license on reasonable terms and conditions demonstrably free of unfair discrimination. Thus, standards developers may wish to adopt procedures that would permit and encourage the early indication by patent holders of their willingness to comply with the Patent Policy by providing one of the assurances specified therein. Such encouragement might take the form of simply advising participants in the development effort that assurances may be made at an early stage, explaining the advantages of early negotiations, or through other means. While participants in the standards development effort might consider a refusal to provide assurances (or a refusal to commit to offer acceptable licensing terms and conditions) as a ground for

portfolio search and be burdened in connection with each such activity or risk losing their intellectual property rights. This in turn would deprive standards-setting activities and ultimately consumers of both (a) the possibility of standardizing cutting-edge technology that could then become accessible to competing manufacturers and (b) the participation in the standards-setting activity of individuals with valuable technical expertise.

This is not to say that there are not incentives for companies to disclose known patent rights as soon as possible. Many companies would prefer that their own patented material become the industry standard, and so they are willing to disclose it early in the standards development process. Some companies are willing to submit a broad patent statement to the effect that, if it turns out that they do have any essential patents, they will license on a RAND or royalty-free basis. Other companies are reluctant to submit a more blanket patent statement because they may have some patents that they are not willing to license and they fear that a competitor could seek to have the related technology included in a standard in an effort to gain access to it.

As noted *infra*, the real concern is the deliberate and intentional failure to disclose information in an effort to gain an unfair competitive advantage. And as further noted *infra*, there are current mechanisms in place to discourage such conduct.

3. The ANSI Patent Policy does not apply to pending patent applications. This is due to the confidential nature of such applications and the fact that patent applications impose an additional layer of uncertainty (above and beyond the changing technical content of a standard under development) given the dynamic nature of the patent approval process and the fact that a valid patent determination has not yet been made. However, ANSI is considering a proposal to modify its Patent Policy to apply to “published” pending patent applications given that the concerns regarding confidentiality are no longer present once the application has been made public. Nothing in the Patent Policy precludes the voluntary disclosure of pending patent applications. The ANSI Patent Policy treats patents approved after the standard’s completion

favoring an alternative technology, the patent holder is only required to provide assurances called for by the Patent Policy prior to the final approval of the proposed standard as an American National Standard.”

in the same manner that it treats subsequently discovered patents. The Patent Policy is applied and, if the patent holder is not willing to license its technology on royalty-free or RAND terms, then the standard's approval may be revoked.

4. Assessment of the existence and validity of asserted patent rights is conducted outside of the standards-setting venue. ANSI and the SDOs do not have the ability or the resources to undertake this effort. In addition, if they did undertake this responsibility, they would be faced with possible claims if their determination was either incorrect or incomplete.⁷

5. Specific licensing terms are discussed outside of the standards-setting venue.⁸ As noted before, injecting the review or discussion of proposed licensing terms into the standards-setting process often is not appropriate given that the expertise of those in attendance usually is technical in nature as opposed to commercial or legal. In addition, because of concern over possible claims of improper conduct by the SDOs and participants, discussion of licensing terms is unlikely to occur without a clear "safe harbor" protection mechanism. Certainly nothing in the ANSI Policy prohibits a patent holder from voluntarily disclosing its proposed licensing terms and conditions. However, RAND does not mean that each licensee will receive exactly the same set of terms and conditions because other considerations (such as reciprocal cross-licensing) will be a factor.

6. The ANSI Patent Policy applies only to patented material. ANSI considered whether to fashion a policy relating to the incorporation of copyrighted material (such as software) in American National Standards and determined that such a policy was not necessary. The legal issues relating to copyrighted material are very different than those relating to patented

⁷ See, e.g., *Sony Electronics, Inc. v. Soundview Technologies, Inc.*, 157 F.Supp.2d 190 (D. Conn. 2001).

⁸ The ANSI Patent Policy Guidelines provide that: "It should be reiterated, however, that the determination of specific license terms and conditions, and the evaluation of whether such license terms and conditions are reasonable and demonstrably free of unfair discrimination, are not matters that are properly the subject of discussion or debate at a development meeting. Such matters should be determined only by

material. Moreover, SDOs have addressed this issue on a case-by-case basis effectively for many years.

Several years ago, the International Telecommunication Union (ITU) located in Geneva, Switzerland began to develop a policy in this regard pursuant to which proprietary, copyrighted material would be treated in a manner similar to patented inventions. The United States⁹ submitted an objection to this proposed policy and its position paper was well received. An excerpt from the United States position paper is set forth below:

“The United States does not support the proposal, which treats copyrighted software source code in a manner similar to patented technology. Instead, standards bodies such as the ITU should continue their current practice of addressing copyrighted software source code on a case-by-case basis.

The reasons underpinning the United States’ concerns in this regard are in large measure as follows:

1. The legal issues relating to copyrighted material are very different than those relating to patented material. “Copyright” only protects one particular expression of an idea, while a patent defines a specific technology. Just as copyright law does not bestow on the copyright owner intellectual property rights similar to those that patent law provides for patent holders, there are compelling reasons to treat copyrighted and patented material differently when they are reflected in standards.
2. Standards, such as ITU Recommendations, often can be written around copyrighted material using performance-based requirements or creating a new expression of the underlying idea within the technical process. Accordingly, addressing the inclusion of copyrighted software source code in standards requires establishing a mechanism in each instance to determine the most effective course rather than developing a broad policy like that addressing patented technology.
3. An inventor may be able to obtain a patent when a technology represents something more than one expression of an idea’s implementation, and other elements required for patent protection can be met.

the prospective parties to each license or, if necessary, by an appeal challenging whether compliance with the Patent Policy has been achieved.”

⁹ Because the ITU is a treaty-based standards organization, the United States member body is the United States Department of State. ANSI prepared a proposed U.S. position paper on this topic that underwent the necessary process to become the U.S. submission to the ITU-R. ANSI was then asked to join the ITU working group addressing this issue.

4. When the issue of including copyrighted software source code in standards has been addressed in the past, it was handled effectively on a case-by-case basis.”

As noted in greater detail *infra*, ANSI believes that it is extremely important that any enforcement agency viewpoints regarding standards-setting activities in the United States take into consideration (a) related U.S.-based viewpoints articulated internationally and (b) the effects of such viewpoints vis-à-vis the ability of U.S. businesses and technology to compete in global markets.

With regard to the possible inclusion of trademarks in proposed American National Standards, the *ANSI Procedures* provides as follows:

1.2.11 Commercial terms and conditions

Provisions involving business relations between buyer and seller such as guarantees, warranties, and other commercial terms and conditions shall not be included in an American National Standard. It is not acceptable to include proper names or trademarks of specific companies or organizations, acceptable manufacturer lists, service provider lists, or similar material in the text of a standard or in an annex (or the equivalent). Where a sole source exists for essential equipment, materials or services necessary to determine compliance with the standard, it is permissible to supply the name and address of the source in a footnote or informative annex as long as the words "or the equivalent" are added to the reference. In connection with standards that relate to the determination of whether products or services conform to one or more standards, the process or criteria for determining conformity can be standardized as long as the description of the process or criteria is limited to technical and engineering concerns and does not include what would otherwise be a commercial term or proper name.

In ANSI's experience, this restriction on including commercial terms and conditions in the text of standards has worked effectively and rarely been the basis of any objection to an American National Standard.

The Need For Flexibility To Accommodate Differing Objectives in U.S. Standards-Setting Activities

No one condones the intentional abuse of a standards-setting process by a participant in order to gain an unfair competitive advantage. Many of the due process-based procedural requirements reflected in the *ANSI Procedures* provide certain safeguards in the process in order to minimize the risk of unacceptable and anticompetitive conduct surreptitiously taking hold.

With respect to the inclusion of patented technology in standards, there are incentives built into the system that causes it to be effective in discouraging duplicitous conduct by participants. The risks are that (1) the approval of the standard is subject to withdrawal, often rendering the company's innovation relatively useless, (2) competitors can and usually do avail themselves of their legal rights in court if they believe they are being unfairly disadvantaged, and various legal claims, such as equitable estoppel, laches, patent misuse, fraud and unfair competition may be available to prevent a patent holder from enforcing a patent covering an industry standard due to the patent holder's improper conduct in a standards-setting context, and (3) in the case of deliberate misconduct, the FTC or DOJ can intervene. In addition, a company engaging in such conduct likely would lose some of its stature in the standards development community.

The ANSI Patent Policy has proven over time to be an effective means of addressing the incorporation of patented technology into standards. I am not aware of any abuse of the process relating to patents that has occurred in connection with any American National Standard.

Recently, ANSI has become aware of some criticism being leveled at traditional patent policies such as ANSI's. Some commenters have raised the specter of an epidemic of "patent ambush" situations in which patent holders deliberately and secretly manipulate a standards-setting project to enhance unfairly the value of their intellectual property. Some of these commenters have suggested that specific, uniform and widespread enforcement agency "guidelines" are necessary in order to put sufficient strictures on this perceived threat.

Standards-setting activities are very complicated and involve a range of activities about which it is difficult to generalize. Some consortia, with the general consent or acquiescence of their members, have tailored their patent policies to mirror certain of their stated objectives. For

example, as noted in the *Dell* case, the Video Electronics Standards Association (“VESA”) was seeking to establish “open” standards that did not include any essential patents. As noted by the FTC in Appendix A to the Order in that case:

The outcome of any Commission enforcement action depends on the facts of the particular case. The Dell case involved an effort by the Video Electronics Standards Association (“VESA”) to identify potentially conflicting patents and to avoid creating standards that would infringe those patents. In order to achieve this goal, VESA -- like some other standard-setting entities -- has a policy that member companies must make a certification that discloses any potentially conflicting intellectual property rights. VESA believes that its policy imposes on its members a good-faith duty to seek to identify potentially conflicting patents. This policy is designed to further VESA's strong preference for adopting standards that do not include proprietary technology.

.....

Other commenters asked whether the Commission intended to signal that there is a general duty to search for patents when a firm engages in a standard-setting process. The relief in this matter is carefully limited to the facts of the case. Specifically, VESA's affirmative disclosure requirement creates an expectation by its members that each will act in good faith to identify and disclose conflicting intellectual property rights. Other standard-setting organizations may have different procedures that do not create such an expectation on the part of their members. Consequently, the relief in this case should not be read to impose a general duty to search.¹⁰

Essentially, ANSI believes that each standards-setting organization has to establish its own patent policy based on its objectives, the nature of the standard being developed, and the consent of its participants. ANSI's Patent Policy provides a proven, solid foundation for other organizations to consider using with whatever modifications they and their participants decide will be beneficial to their activities.

While ANSI certainly agrees that intentional abuses of the standards-setting process are not to be tolerated, ANSI is concerned that some of the espoused proposals may in fact be unnecessary and undesirable. The ANSI system is in large measure self-policing, and its efficacy is evidenced by the rarity with which someone cries “foul”, including competitors, who are very capable of raising the alarm when they believe that they are being treated unfairly. Given this track record, delineated, generalized, one-size-fits-all guidelines from the FTC or

DOJ do not appear to be needed or warranted; in fact, they may very well be counter-productive. Such guidelines could stifle competition and the standardization of technological advances. Different approaches by different groups with different participants and different objectives provide the necessary flexibility to maximize the overall results for the U.S. community as a whole.

This conclusion is supported by the fact that, since the early 1980's, the FTC has publicly concluded only two investigations relating to patents and standards-setting: *American Society of Sanitary Engineering*, Dkt. C-3169, 106 F.T.C. 324 (1985) and *In re Dell Computer Corp.*, 121 F.T.C. 616, No. C-3658, 1996 FTC LEXIS 291 (May 20, 1996). And, while the press has more recently suggested that the FTC may be conducting some pending investigations, given that there are literally thousands of standards projects underway at any given time in hundreds of SDOs, it is hard to point to a proven need for delineated agency guidelines.

The very infrequent occasion on which a standards-setting participant is sued by a prospective licensee or by an enforcement agency demonstrates that the current overall system of individually tailored patent policies effectively polices itself under existing legal principles. Competitors in fact are challenging the conduct of those who allegedly are abusing the standards-setting process. These competitors have the relevant technological and market expertise to most readily detect violations of RAND or other unacceptable misconduct and make their concerns public.

In addition, the enforcement agencies can continue their important role in bringing enforcement actions when warranted by the facts in any given situation. Each such situation will require a detailed, complex analysis of the facts and any findings should be limited to such facts and not create *de facto* industry standards or guidelines.¹¹ Certainly the specter of an

¹⁰ 121 F.T.C. 616, Appendix A.

¹¹ In connection with the *Dell* matter, ANSI and other commenters expressed concern that the Commission's decision might be interpreted as establishing a general "duty to search" for essential patents. The Commission responded to those concerns by issuing a statement that the decision was limited to the unique facts of that case and did not create or suggest a general duty to search.

enforcement agency investigation provides a significant incentive for companies participating in standards activities to behave in an appropriate manner.

Finally, ANSI is concerned that any delineated U.S. enforcement agency guidelines may have adverse effects in the international standards arena. If such guidelines suggest any “duty to disclose” at the risk of losing valuable intellectual property rights, then it is likely that standards-setting bodies outside of the U.S. will seek to use such a mandatory obligation as a basis for their own imposition of burdensome and potentially harmful obligations on U.S. companies that seek to participate in these non-U.S.-based standards processes.

For example, several years ago the European Telecommunications Standards Institute (“ETSI”) proposed an intellectual property policy that many U.S. businesses and the U.S. Government believed to be coercive, and it became the subject of a trade dispute between the European Union and the United States. As a practical matter, the ETSI policy required compulsory as opposed to voluntary licensing. Any company that refused to sign the policy would be excluded from ETSI membership, and yet that membership was a practical requirement for participating in the European telecommunications market. The plan was that ETSI would announce a one-page “work programme” when it undertook a new standards development project, and if a member did not quickly disclose its patent rights, then the patent would be deemed automatically licensed on terms that were, in effect, acceptable to ETSI. The U.S. Government, working together with ANSI and U.S. industry, was successful in preventing the ETSI policy from becoming a reality.

At present, the ISO/IEC patent policy governing ISO and/or IEC international standards is virtually identical to ANSI’s, and ANSI, as the U.S. member to ISO and (through the United States National Committee) IEC, has opposed efforts to change the ISO/IEC and other international patent policies in an effort to protect U.S. industry’s rights in connection with its technology. In the global market, there have been (and continue to be) efforts such as ETSI’s to establish a process to facilitate what some would call a “technology grab” of U.S. intellectual property in an effort to reduce or eliminate any competitive advantage the U.S. enjoys as a result of its collective intellectual property portfolio. In short, in addition to the concerns raised above, ANSI cautions the FTC and DOJ to avoid enunciating any intellectual property rights duty, policy or guidelines that competitors in other nations could attempt to bootstrap into an unacceptable condition for participating in the global marketplace.

Thank you. I very much appreciate this opportunity to comment on these issues, and I am very willing to provide additional information upon request and/or receive any input from the FTC and DOJ on what we at ANSI can do to address anti-competitive concerns or issues as they relate to the voluntary, consensus standards development process.