

Statement of Donald Deutsch
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on
Intellectual Property Strategies in Standards Activities
Before the
Federal Trade Commission / Department of Justice Hearings
on
Competition and Intellectual Property Law and Policy in the Knowledge-
Based Economy

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My name is Don Deutsch. I am Vice President for Standards Strategy and Architecture at Oracle Corporation. Oracle 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).

Oracle, an independent software vendor with headquarters in Redwood Shores California, is committed to and dependent on standards. We are submitting these comments to support and clarify my statements at the panel on Intellectual Property Strategies in Standards Activities on the morning of April 18, 2002. On behalf of Oracle Corporation, I thank the FTC and DOJ for holding hearings on this important topic.

Standards setting practices, especially in the Information Technology (IT) arena, have served the industry and the economy well in the past and continue to evolve. Oracle welcomes this exchange of opinions on the appropriate practices for

standards and intellectual property. Because of the diversity of opinions and rapid evolution of practices, we believe it is premature to engage in policy making at this time. In the spirit of the exploratory nature to these hearings, I offer the following thoughts for consideration in this debate. Appreciating that a significant volume of detailed explanation pertaining to standard setting organizations and intellectual property will be received during this hearing, my comments are brief in an effort to focus attention on a few important points.

I. General Considerations Regarding Standard Setting

Standard setting involves a potentially infinite variety of considerations in a variety of situations, and therefore does not lend itself to strict rules. Despite this diversity, I believe there are some common needs in standard setting that are driven by business reality and which therefore are necessary to successful standard setting activities. Two of these are: Open Participation, and Transparency.

A. Open Participation

Standards deal with things that competitors are willing to agree on for their mutual benefit of growing the size of the market. Companies reserve other areas, which are not the subject of standardization, to differentiate their products and provide the basis for competition. In order to achieve broad acceptance of standards and the resulting largest possible market, it is important to include ALL stake holders in the standards development process. That means that small as well as large players from all technical/philosophical camps should be able to participate as equals. Indeed, history has repeatedly shown that attempts to seek competitive advantage through standardization by precluding major stake holders result in failure; the ignored constituency merely opens a

competing standards effort that confuses the market and ensures that there is more than one “standard” option.

B. Transparency

It goes without saying that the final result of a standard setting activity must be available to all participants. This transparency is also necessary with respect to the rights and obligations of the parties, the process to be followed to develop the standard, the identity of all participants in the effort, and the sometimes evolving objective of the standard setting activity.

Far too often, standard setting consortia, special interest groups or whatever other term may be given to informal standard setting activities, are characterized by private deals among a subset of the participants. The result is the rather bizarre situation of a standard setting activity characterized by decidedly non-standard agreements. While many criticize the *de jure* standard setting process as too slow and cumbersome, it has the distinct benefit of transparency. Successful standard setting requires not only development of the standard, but also its adoption, and, all else being equal, lack of clarity with respect to the process or the rights and obligations of the participants is certain to impede the development or adoption of the standard.

II. Patent Licensing and Disclosure Obligations

Patent licensing obligations have become one of the most hotly contested issues in standard setting bodies. There is no simple solution to this problem. Indeed, there may be situations where it is best to adopt a standard that includes patented technology. Often, however, this is not the case.

A. Scope

Often forgotten in the debate over patent licensing obligations is the actual scope of the obligation. When the scope of the licensing obligation is limited to patents that are essential to compliance with the standard the obligation is immediately limited. This is so because standards by definition have limited scope. As a practical matter, a standard that specifies too much is unlikely to be adopted because it requires agreement on so much more than a standard that has more limited scope. Also, in the highly innovative area of information technology, such a standard is unlikely to have any lasting power as the technology changes so rapidly.

Many contend that mandatory royalty free licensing of patents (or claims thereof) that are essential to complying with a standard strips a company of its intellectual property and therefore discourages companies to either innovate or engage in the standard setting process. While this may on occasion be true, it is generally the exception instead of the rule. Typically, when a company engages in development of a technology that is proposed as a standard it does not limit itself merely to development of the essential technical elements required for compliance with the standard. Instead, the standard is a component of other work in the area.

A requirement that essential patent rights be licensed if that company contributes its work to a standards development effort therefore requires licensing of a relatively “thin” piece of technology. Only the patent claims, if any, that are essential to compliance with the specification must be licensed; other uses can be precluded. The underlying technology that is not “essential to compliance” can be maintained as proprietary, allowing the contributor to compete based on its non-essential implementation capabilities.

B. Disclosure

The debate on patent disclosure tends to be as fierce as the debate on patent licensing because the two in theory act as substitutes. In other words, a stated obligation to license avoids the need to disclose, while compliance with disclosure avoids the need to license. In reality, addressing disclosure obligations requires that a line be drawn somewhere along the following continuum of participation in standard setting activities.

- **Primary Contributor** - At one end is the contributor that develops a specification and seeks to have it adopted as a standard.
- **Other Contributor** - Moving along the continuum is the contributor that makes less significant contributions or suggestions.
- **Participant** - Further down the continuum is the participant that regularly receives information as to the standard but who provides little or no input.
- **Passive Member** - Standards bodies, consortia or *de jure* organizations that develop specifications for multiple standards are likely to have members who have no involvement in or knowledge of a particular specification.
- **Non-Member** - At the far end of the continuum is the complete outsider who may hold essential patent rights. The most stringent disclosure obligations on participants, or even on non-participating members of a consortium that sets a variety of standards, will not eliminate the risk of patents being held by non-participating, or non-member, organizations.

The objections to disclosure focus on two issues. First is the potentially burdensome nature of disclosure for companies with large patent portfolios. Searching and analyzing a large portfolio is argued by some to be prohibitively burdensome. If forced to search and analyze their portfolios, many large companies will simply not participate in standard setting. The second objection relates to the disclosure of pending patent applications, which are secret in all countries for at least 18 months, and in the U.S. potentially until the patent issues. Also, the changing nature of a patent application makes an analysis as to whether there are claims that may cover the standard even more difficult.

These objections can certainly be legitimate in certain cases. However, the problem can be put in perspective by focusing on the situation where disclosure of patent rights to contributions that are necessary to compliance with the specification is required. When the disclosure obligation is triggered by a contribution to the standard setting activity, extensive searching of a patent portfolio and the accompanying analysis are not required. This is so because the technology has been identified. Moreover, when a decision is made in a company to contribute certain technology to a standard setting activity the required analysis is largely a business decision and management can decide if that technology can be licensed, irrespective of the existence of patent rights, and if so, on what terms, or if it should be kept proprietary.

This analysis can be extended to standard setting activities that are not limited to cases where any given company's contribution can be easily identified. For example, some organizations do not distinguish between contributors and other participants. Extending the disclosure obligations from contributors to participants and passive members makes the above-described business analysis increasingly difficult (but not impossible),

because the technology is not as well defined and the burden for tracking the standards development activity is greater.

III. The IT Industry Benefits from Standards and Lack of Regulation

Since its inception in the middle of the last century, the IT industry has operated with relatively little governmental regulation. This freedom has provided a net benefit to consumers, and nourished an industry sector that is dominated by U.S. domiciled companies. Standards have proliferated in this environment. The standards setting system has been able to meet market needs including government regulatory and procurement requirements.

A central element of all of this activity has been the decision making power of the IT industry and its customers through the marketplace where standards are embraced or ignored. Within this environment, the technology has moved from centralized mainframes, to desktop computing to Internet computing. Small companies have grown to be industry leaders while formerly large companies have vanished. Indeed it is illustrative that in this environment, a then small, start-up company collaborated with companies many times its size to develop in 1986 the first standard for the Structured Query Language (SQL) used in relational databases; that company, Oracle, is today the second largest software company in the world with \$11 billion of annual revenues. The fact that all of this has occurred with minimal governmental intervention should indicate caution in any policy making.

I recognize that disputes regarding standard setting activities have of course arisen over the years. However, having been involved in standard setting for over 25 years, I would caution against drawing conclusions to support policy making from anecdotal evidence. Although unfortunate situations may arise in certain standard setting activities, this does not necessarily indicate the existence of a systemic problem.

IV. Summary

The IT industry has grown and thrived in a vibrant and unfettered standardization environment with little government intervention. This has resulted in benefits to customers as well as the U.S. dominated world-wide IT industry.

Standardization topics and activities are increasingly diverse and therefore not amenable to strict rules; nevertheless, some characteristics are common to successful standard setting activities. Open participation and transparency ensures that all interested parties are welcome and participate on an equal basis.

Limiting the scope of the patent licensing obligations to only those essential for compliance with the standard reduces the potential impact on those with intellectual property and enables product differentiation and marketplace competition. Disclosure obligations can be defined to limit the burden on patent holders while at the same time protecting the interests of all participants in the standards process.

Thank you for the opportunity to submit these comments. Oracle is willing to provide any additional information that you may require in discussing the policy issues surrounding standards setting and intellectual property.