Proskauer

DOJ Provides New Guidance on Required Licensing of Essential Patents in Standard-Setting

February 6, 2015

DOJ recently concluded that a standard-setting organization's proposal to update its policy regarding patents underlying its standards was pro-competitive. DOJ's analysis of the association's process and legal structure provides useful guidance for how professional associations of all stripes and sizes can enhance their antitrust compliance efforts.

On February 2, 2015, the DOJ issued a Business Review Letter confirming that DOJ would not pursue antitrust action against a leading technology association and its standard-setting body regarding the association's proposed updated policy on standards-essential patents. The Institute of Electrical and Electronics Engineers (or IEEE) and its standards development unit, the Standards Association (IEEE-SA), had written to the DOJ in September 2014 asking for a Business Review Letter from the Antitrust Division regarding a proposed change to the association's policy governing the incorporation of patented technology in the association's standards.

The proposed policy update at issue sought to clarify the terms under which holders of patents essential to IEEE standards commit to make licenses available for use in implementing IEEE standards. After a self-described "thorough review," the DOJ announced that it had "determined that it does not intend presently to challenge the Update if it goes into effect," finding that the updated policy had numerous procompetitive benefits that were likely to outweigh any potential competitive harms.

The IEEE had explained in its request that the update to its existing patent policy was necessary because, "[i]n the last several years, SEP owners and standards implementers have litigated over patent demands" and "the availability of injunctions and exclusion orders." DOJ summarized the underlying issue surrounding the patent policy change as follows:

"SSOs [standard setting organizations] use licensing commitments—such as commitments to license on RAND [reasonable and non-discriminatory] terms—to promote inclusion of the best technologies in standards and to ensure access to those technologies. The inherent ambiguity in the meaning of the terms 'reasonable' and 'nondiscriminatory,' however, can limit the benefits of RAND licensing commitments. Greater clarity and transparency may facilitate further the adoption and implementation of standards, thereby increasing the benefits that consumers derive from standards that include patented technologies." [1]

The Letter first addressed critics of the proposed update that had challenged the association process and legal structure pursuant to which the proposed update was approved by IEEE-SA. DOJ stated that it "takes seriously these concerns" because an SSO "biased in favor of one set of interests [presents] a danger of anticompetitive effects and antitrust liability." The proposed policy update, and the association's approval process, had been the subject of criticism. Specifically, some holders of potentially standards-essential patents had criticized the IEEE's process and policy decision as being biased in favor of licensee-companies that relied on the patents in order to provide their own services and products. Ultimately, because DOJ found the process to have afforded considerable opportunity for comments and discussion, the DOJ concluded that the process did not raise any antitrust concerns and that implementation of the update was unlikely to harm competition.

Second, the DOJ analyzed whether the update's provisions were substantively anti-competitive. The IEEE's proposed update contained four primary provisions, each of which DOJ subjected to its own antitrust analysis: "(1) the availability of prohibitive orders; (2) the meaning of 'Reasonable Rate'; (3) permissible demands for reciprocal licensing; and (4) the production levels to which IEEE licensing commitments apply." Acknowledging the pro-competitive benefits of standards generally, and of patent policies at SSOs specifically, the DOJ concluded that the IEEE's proposed policy update "has the potential to facilitate and improve the IEEE-SA standards-setting process" in various ways, including by bringing greater clarity to the IEEE RAND commitment.

After analyzing in detail each of the four primary provisions, the DOJ concluded that the IEEE's proposed update to its patent policy: (1) is unlikely "to harm competition by anticompetitively reducing royalties and thereby diminishing incentives to innovate;" and (2) "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."

Though narrowly tailored to address the IEEE's proposed update to its patent policy, the learnings contained within DOJ's Business Review Letter provide a roadmap for professional associations that wish to avoid antitrust scrutiny while promoting their members' interests. First, DOJ will scrutinize processes that may optically appear to endorse or favor the interests of small groups of stakeholders above the good of the organization. Associations can protect against such concerns by implementing and complying with well-documented and transparent decision-making processes. Transparent safeguards that include an open commenting period and a multi-step vote, and that require multiparty approval by independent groups within the organization, are less likely to raise antitrust concerns. These measures can demonstrate that the membership involved in making decisions has a fiduciary duty towards the association and therefore will take action or vote in the association's best interests rather than that of a small group. Second, open dialogue and a transparent voting framework can provide documented and defensible policies that further ensure the association's compliance with antitrust laws. By making processes transparent, trade associations can create a record of best practices to stave off potential antitrust conspiracy claims by regulators or private litigants based on allegations that a small cadre of members holds a disproportionate influence in the organization's decision-making process.

[1] The views, characterizations and quotes regarding substantive patent licensing RAND commitments that are reflected in this alert are those of the U.S. Department of Justice and should not be misinterpreted to be those of Proskauer Rose LLP.

Related Professionals

- **Stephen R. Chuk**
  Partner
- **John R. Ingrassia**

Partner

- **Colin Kass**
  Partner
- **Christopher E. Ondeck**
  Partner