

MEMORANDUM

TO: IEEE and All Parties Interested in Potential IEEE Patent Policy Issues

FROM: Michael A. Lindsay

DATE: November 16, 2005

RE: Report on Meetings with Justice Department and Federal Trade Commission

This past spring a number of companies interested in standard-developments arranged to have group meetings with representatives of the U.S. Department of Justice and the Federal Trade Commission to discuss the possibility of securing further guidance from the agencies concerning the role of antitrust in standards development, particularly on the issue of “ex ante disclosure” of maximum royalty rates that a patent-holder intends to charge if its patented technology is incorporated into a standard. The companies involved in this initiative were Cisco, Apple, Sun Microsystems, IBM, and HP. These companies also submitted to the agencies, in advance of the meeting, a “White Paper” discussing the topics to be discussed (which we understand has now been made publicly available). The IEEE did not sign onto this paper.

The meetings took place in Washington DC on June 27 and 28 at the respective agencies’ offices. IEEE was not involved in arranging these meetings, but the companies who arranged them invited the IEEE to attend. IEEE sent three representatives to these meetings: Karen Kenney (Associate Managing Director, Business Administration, IEEE-SA), Don Wright (Chair, IEEE-SA PatCom), and Michael Lindsay (antitrust counsel for IEEE-SA, Dorsey & Whitney LLP).

This memorandum attempts to summarize the discussions observed at the meetings. It is based on notes taken at the meeting and supplemented shortly after the meeting, but it is by no means a verbatim transcript. For example, the notes may use a word to capture a participant’s basic idea, even though the speaker did not use the particular word. In short, while we have tried to report accurately on the concepts discussed at the meetings, the reader should not overly emphasize particular phrasing of those concepts.

I. Meeting with Representatives of the Antitrust Division of the U.S. Department of Justice

The meeting with the Antitrust Division of the Justice Department took place on June 27 at 3:00 p.m. and lasted a little more than one hour. The Antitrust Division was represented by Bob Potter (Chief, Legal Policy Section), Frances Marshall (Special Counsel for Intellectual Property, who reports to Bob Potter), and Tor Winston (an economist). Ms. Marshall and Mr. Winston had worked on this issue in 2002 in connection with the joint FTC-DOJ hearings on intellectual property. The private parties in attendance were Gil Ohana from Cisco, Helene Workman from Apple (with Rich Parker from O’Melveny & Myer), Catherine McCarthy of Sun Microsystems, Tim Sheehy of IBM, and Scott Peterson of HP (with Bob Skitol from Drinker Biddle & Reath).

Gil Ohana (Cisco) began the presentation. After a general introduction, he described ANSI's process of revising its IPR policy. The issue of ex ante disclosure has arisen, and there was currently (that is, at the time of the meeting) a proposal before the ANSI Patent Policy Working Group which, if adopted, would preclude ANSI-accredited SDOs from adopting an ex ante disclosure policy.¹ Scott Peterson explained that the ANSI Patent Policy Working Group has about 25 voting members. In late 2002, the Patent Group looked into clarifying its policies because it had received a lot of inquiries. So it set out to clarify, because the words of the policy did not correspond with actual practice. This related to disclosure, and to some extent to licensing. Bob Skitol explained that ANSI was (at that time) balloting on what amounts to an explicit prohibition of ex ante negotiations, which could even be interpreted as banning ex ante disclosures.

Scott Peterson described the existing practice as based on uninformed decision-making. One cannot know the cost of a technology in advance (because of the lack of ex ante disclosures). This leads to two problems. First, it makes it difficult to price a product, since one does not know the cost of this crucial input (royalty expense). Second, standards developers are more willing to include a technology because they do not see a marginal cost to doing so.

Scott Peterson also noted that there is an institutionalized belief that SDO participants should not hear anything about the [royalty] costs of a technology. Gil Ohana reiterated the point that this creates uncertainty in the pricing function. Bob Skitol said that royalties tend to be higher in a world without ex ante disclosure than they would be in an "ex ante disclosure" world. Gil Ohana gave an example of 3GPP, with which the Justice Department has spent a lot of time. He said that Cisco is not a big participant, but he understands that if you add up all the requested royalties, you get to a number that is more than 100% of the product price.

Frances Marshall asked for more information on ANSI. Scott Peterson responded that of the five companies represented in the room, four are involved in the Patent Group. ATIS, IEEE, and TIA all participate in ANSI. Company member Patent Policy Committee participants in ANSI tend to be from the telecom and semiconductor/computer industries. The implementers' perspective is not as well represented as the patent-holders', because implementers do not have the same concentration of interests that patent-holders have. Bob Skitol said that there are many things that the Justice Department could do, but one of them is to consider commenting on the ANSI proposal. Bob Potter asked about the timing of that process. Scott Peterson replied that it is possible that the EC will agree to pass the issue on to the Executive Standards Council, which will then seek public comment, probably in the August-September time frame, so that it can end up back before the Patent Group at its October 2005 meeting to resolve any issues raised during the public comment period. It would still need ANSI Board approval.

Frances Marshall mentioned that then-Assistant Attorney General Hew Pate has addressed this issue in his recent speech. Michael Lindsay agreed that this was helpful, but said that more was required. Frances Marshall asked about the possibility of a Business Review Letter (BRL). Michael Lindsay explained that the IEEE is early in the process of considering revisions to its patent policy, so that it would be premature for the IEEE to submit

¹ This referred to a proposal pending in the working group during the summer 2005.

such a request. Michael Lindsay also explained that the absence of clear guidance from the agencies was an impediment to IEEE's consideration of a revision to its patent policy.

Scott Peterson said that HP holds patents and certainly wants license revenues, but it wants transparency and openness in the process. Tim Sheehy said that IBM shares this view.

Bob Potter then summarized the things that he understood from the meeting that the Justice Department should consider doing:

- issue the joint report from the 2002 hearings
- invite submission of a request for a Business Review Letter
- make more speeches like Hew Pate's
- submit comments to ANSI

Bob Skitol added that one forum in which to make a speech might be the Stanford conference that Catherine McCarthy is organizing. Catherine McCarthy said that she had wanted to invite Hew Pate, but he has now resigned. Bob Potter said that the Antitrust Division has an Acting AAG now (Tom Barnett), and Catherine said that she would like Justice Department representation. Bob Skitol again encouraged the Justice Department's getting involved in dialogue.

Gil Ohana mentioned the EC block exemption discussed in the white paper. He also mentioned the EC investigation of ETSI, and then said that he wasn't encouraging any Justice Department investigation of ANSI or ANSI-accredited SDOs but encouraged Justice Department involvement in SDO rulemaking processes (e.g., by submitting comments).

Bob Skitol said that there is no common understanding of what "RAND" means – even whether it is a reasonable ex ante royalty or a reasonable monopolist royalty. Gil Ohana added that when a company receives a threat of infringement, there is a lot of money at stake.

Frances Marshall asked for some specifics from IEEE. Michael Lindsay said that it is a difficult issue, but IEEE had now received the HP proposal for revision of IEEE's patent policy, which it is considering. Michael Lindsay explained that this proposal calls for not just a RAND commitment, but a commitment with a cap. Don Wright said that IEEE currently does call for LOAs on patent applications (in addition to issued patents).

Scott Peterson added that there is a balance that must be struck between the burden on the patent-holder to know what its portfolio contains and means, versus implementers' need for certainty. Bob Skitol said that this highlights that there is no "one-size-fits-all" approach, and that HP favors experimentation – adding that any disclosure would be better than the status quo. Gil Ohana echoed Scott's point and added that the absence of ex ante disclosure in SDOs is leading some parties to choose private consortia instead of SDOs. Ohana added that unlike SDOs, consortia are not rules-based and offer fewer procedural protections.

II. FTC Meeting

The meeting with the Federal Trade Commission took place the next day, June 28, and also lasted about one hour. The FTC Chairman Deborah Majoras, Gail Levine (Attorney-Advisor), Geoff Oliver, Abbott McCartney, and several other FTC staff members. The same company and IEEE representatives from the previous day attended this meeting as well.

Gil Ohana again took the lead and gave a general introduction, saying that the time was particularly opportune (he made specific reference to the ANSI issue). Chairman Majoras said that the White Paper seemed to be asking for a declaration that ex ante negotiations are per se lawful. She said that this result does not often happen in antitrust. She understands the difficulties of the Rule of Reason, but that is her conclusion – that ex ante negotiations should be subject to the Rule of Reason.²

Gil Ohana said that intention had not been to ask for a declaration of per se lawfulness. Bob Skitol added that the request was for encouragement – that there ought to be a policy preference for SDO experimentation on different forms of disclosure. Chairman Majoras asked whether the FTC should be encouraging ex ante negotiations. Bob Skitol replied that there is a difference between disclosure and negotiation.

Chairman Majoras asked if the current perception somehow chilled the standards process or added to its costs. Gil Ohana offered the 3GPP example from the previous day. Scott Peterson said that ANSI was reacting to the issue – and considering a policy that would preclude ANSI-accredited SDOs from adopting ex ante policies. Bob Skitol mentioned the ANSI comment period. Chairman Majoras asked about the timing. Scott Peterson said that it would be the August-September time frame. Gil Ohana asked if submitting a proposed set of talking points on ANSI would be helpful, and Chairman Majoras said he can submit anything he wants to submit. Chairman Majoras said that she will need to think about whether ANSI is like state legislatures [to which the FTC frequently submits comments on pending legislation].

Michael Lindsay said that more public guidance from the agencies was needed. Don Wright suggested that there should be a presumption of legality for a mandated ex ante disclosure policy, or at least for a policy that permitted ex ante disclosure.

Bob Skitol said that a collective decision not to disclose price terms might create a *Professional Engineers* problem [that is, an agreement to compete only on quality, not price]. Chairman Majoras said that even in an ex ante disclosure world, there would need to be safeguards.

² Since the time of this meeting, FTC Chairman Deborah Majoras has delivered a major speech on this topic. Remarks Of Federal Trade Commission Chairman Deborah Platt Majoras, “Recognizing The Procompetitive Potential Of Royalty Discussions In Standard Setting,” prepared For *Standardization And The Law: Developing The Golden Mean For Global Trade* (Sept. 23, 2005) (conference at Stanford University, Stanford, California) (available at <http://www.ftc.gov/speeches/majoras/050923stanford.pdf>). This report does not attempt to summarize that speech, to which in any event the reader should refer for a more complete and direct statement of Chairman Majoras’s views.

One FTC staff member asked for an explanation of the perceived antitrust concern about ex ante disclosure. Gil Ohana and Bob Skitol both said that it was more a perceived problem of opening a Pandora's box.

Geoff Oliver asked about negotiations (as opposed to disclosure). Bob Skitol said that the first order of priority is to address disclosure; negotiations would be the next step.

Bob Skitol mentioned the HP proposal, with its call for disclosure. Chairman Majoras asked if it was a unilateral disclosure (Bob Skitol said yes). Gail Levine asked if there would be only one round of disclosures; Bob Skitol said yes. Don Wright added that if a patent-holder wanted to lower its price, it could do so, but it could not raise its price. Scott Peterson added that there would be a problem with a rule that said you can have disclosure but not negotiation – you can't "have a cliff."

Bob Skitol said that there is a "fiction" that people know what "RAND" means, and it has resulted in lots of bad litigation. Gil Ohana said that Cisco has seen as high as a 10% royalty demand. Bob Skitol said that it is counterintuitive to say that members of a standards group can agree on RAND (which entails agreement that price must be reasonable) but cannot agree on what RAND means in terms of the actual price for a given patent or license.