Chapter 6
Assessing IPR Disclosure within Standard Setting: An ICT Case Study

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ABSTRACT

As part of its “policy project to examine the legal and policy issues surrounding the problem of potential patent ‘hold-up’ when patented technologies are included in collaborative standards,” the Federal Trade Commission held an all-day workshop on June 21, 2011. The first panel of the day focused on patent disclosure rules intended to encourage full knowledge of patents “essential” for a standard and therefore to prevent patent ambush. When patents are disclosed after a standard is defined, the patent holder may have enhanced bargaining power that it can exploit to charge excessive royalties (e.g., greater than the value the patented technology contributes to the product complying with the standard). In this chapter, the authors present a case study on patent disclosure within the ICT sector. Specifically, they take an empirical look at the timing of patent disclosures within the European Telecommunications Standards Institute, the body responsible for some of the world’s most prevalent mobile telephony standards. They find that most members officially disclose their potentially relevant patents after the standard is published, and sometimes considerably so. On the other hand, the authors also find that the delay in declaring patents to ETSI standards has been shrinking over time, with disclosures occurring closer to (although for the most part still after) the standard publication date for more recent standard generations as compared to earlier ones. This latter finding coincides with ETSI policy changes, suggesting that standards bodies may be able to improve patent disclosure with more precise rules.

1. INTRODUCTION

The Federal Trade Commission (FTC) has been interested in the timeliness of patent disclosure within standard setting organizations (SSOs) – and the lack thereof leading to patent ambush – for many years now. It brought its first-failure-to-disclose case in the mid 1990s, against Dell2. At the time, Dell was participating in the standard consortium VESA, on the development of a computer bus standard, but Dell failed to disclose that at least one of Dell’s patents would read on the
standard. The FTC found that Dell’s failure to disclose its relevant IPRs violated US antitrust law, at which point Dell agreed not to assert its patent against companies implementing the VESA bus standard. The next case of this ilk came in 2002, when the FTC began its long running Rambus case. Rambus was accused of failing to disclose relevant patents and patent applications, along with other deceptive conduct. The European Commission took up the cause a few years later, in 2007, when it sent Rambus a Statement of Objections that argued Rambus has violated Article 102 of the Treaty for the Functioning of the EU by abusing a dominant position.

Commentators on the various competition agency cases have largely been in agreement that failing to adequately disclose intellectual property rights (IPR) that might be essential to implement a standard early on in the standard development process is conduct that, at a minimum, should be discouraged and that in the extreme may constitute an antitrust violation (Besen & Levinson, 2009). Some argue that a failure to disclose patents coupled with deceptive behavior aimed at keeping the IPR from coming to light amounts to anticompetitive conduct – hence the Rambus investigation and the many related private lawsuit claims. Others argue that non-disclosure of IPRs in standards is more appropriately deemed a breach of contract with the standards body, but nonetheless agree that deceptive failure to disclose should be stopped (Kobayashi & Wright, 2009).

The economic theory underlying the concern over a failure to timely disclose IPR is one of exploitation. If licensors, especially those that are upstream specialists (like Rambus), are seen as withholding relevant patent disclosures while standard discussions are underway within an SSO, disclosing their patents only after the standard had been defined and member firms may be “locked into” the chosen technology, then those licensors can charge “excessive” licensing fees. In particular, licensors following this kind of opportunistic strategy can not only charge licensing fees based on the value their IPR contributes to products conforming to the standard but also can appropriate some portion of licensees’ upfront and irreversible investments to implement the standard in the downstream market – the definition of patent hold up.

As may be evident from the description above, two key conditions (perhaps among others) underlie the ability to practice patent ambush. The first is SSO members’ lack of knowledge of the undisclosed patents, or an element of surprise. If potential licensees were unaware of a licensor’s IPR on technologies important for a standard during its development, then the licensor would be able to use the element of surprise after these firms were irrevocably committed to the standard – that is, after they had made unrecoverable investments – to hold up licensees by charging “excessive” royalty rates that exploited the cost of switching to any alternative technologies. In contrast, had member firms known of the licensor’s IPR in advance of defining and implementing the standard, especially at a time when the licensors’ technology may have faced competition from other technologies viable for use in the standard, then such exploitation would not be possible. With ex ante knowledge of the IPR, the SSO members could either have voted an alternative technology into the standard, excluding a given licensor’s patented technology altogether, or else they could have negotiated fair and reasonable royalties (RAND) with a particular licensor ex ante, under the credible threat of switching to one of the alternative technologies.

A second key condition required for profitable patent ambush is the presence of viable alternative technologies ex ante. If the licensor’s patents faced reasonable substitutes before the standard was voted on and the licensor attempted to charge more for a license than its technology was perceived to be worth, then potential licensees could simply turn to the next best substitute; the licensor has little to no bargaining power in this case. If instead the patented technology is unique