March 7, 2011

Dr. Patrick Gallagher
Director National Institute of Standards and Technology
Co-Chair, National Science and Technology Council's
Sub-Committee on Technology

Via e- mail: SOS-RFI@nist.gov

Re: Standardization feedback for Subcommittee on Standards; Comments of the Intellectual Property Owner's Association

Dear Dr. Gallagher:

The Intellectual Property Owners Association (IPO) welcomes this opportunity to provide its views on the interplay between intellectual property protection and standards in response to the Request for Information (RFI) issued by the National Institute of Standards and Technology (NIST), dated December 2, 2010 in Docket Number 0909100442-0563-02.

IPO is an international association, based in the United States. Its members include more than 200 companies, and approximately 11,000 individuals are involved in the activities of the association either through their companies or as inventors, authors, executives, law firms, or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property covering all areas of technology, many of whom are involved in various formal and informal standards development organizations (SSOs) around the world.

IPO supports strong intellectual property rights. We believe that the constitutional mandate to "promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries," promotes the free enterprise system that has stimulated the American economy to its outstanding performance. Innovation is the key to increasing the standard of living for all Americans. Through innovation we explore new science, develop new products, and become more productive, all of which promote the general good for businesses and citizens in the United States and throughout the world.

Indeed, our members are among the most innovative companies in the world. Collectively, they spend huge sums every year on research and development (R&D). For the most part, this innovation is *practical* innovation designed to improve the products and services offered by our members or to develop new products members can offer to their customers. As a result of their investment and innovations, our members file approximately 30 percent of the patent applications filed in the United States Patent and Trademark Office (USPTO).

Our members regularly address diverse issues involving patents, copyrights, trade secrets, standards, and other aspects of intellectual property. They are active licensors and licensees of intellectual property rights and understand day-to-day considerations that drive licensing transactions. IPO members license intellectual property to generate a return on the owner's R&D investment while allowing the licensee recipient to avoid R&D costs or meet market needs not supplied by the intellectual property owner. In this regard, IPO members recognize the need to define principles that achieve the optimum balance between the rights of intellectual property owners and other industry standard stakeholders.

In recent years, IPO has observed and commented on proposals that, if adopted, could upset this balance by undervaluing the contribution of intellectual property owners in standards setting activities. See for example, Revision of National Standards Involving Patents, released by the Standardization Administration of China (SAC) on 02 November 2009. As written, this policy could have: 1) encumbered patent holders not participating in the standardization process; 2) required patent holders to license their technology "at a price significantly lower than the normal royalties" and 3) required compulsory national standards to be patent free. Based on its vast practical experience, IPO believes successful standardization patent polices are marked by certain general characteristics. While not an exhaustive list, these SSO policies: 1) apply to those parties agreeing to be bound by the policy, 2) balance the interests of all stakeholders, 3) permit patent holders to receive a return on their investment, and 4) recognize the value of negotiation of licensing terms between licensor and licensees outside of the standardization process.

Participants/Members

Most standard setting organizations (SSO) have their own rules governing what intellectual property rights must be disclosed and licensed (IPR Policy). Some bodies have IPR policies under which their members or participants, who are owners of specific, identified intellectual property, commit to licensing their intellectual property to all on a reasonable and non-discriminatory (RAND) basis to the extent the intellectual property rights are necessary to practice the standard. Some require that this license be granted royalty- free (together with other RAND terms and conditions). The development of standards through a standard setting body can advance a particular technology to the benefit of consumers and industry.

Balanced Interests

There is a natural tension among firms involved in standardization based on their business models and the way that they decide to use their intellectual property. Stakeholder interests must be considered and IPR policies must balance the interests of IPR owners with the interests of those who seek to use IPRs as part of standardized solutions (recognizing that in the standards ecosystem these are not distinct categories of stakeholders). Prescriptive rules, by their nature however, do not provide the flexibility to accommodate all such interests and all potential circumstances, as well as each dynamic variable that might arise in connection with standards development. Of particular importance is that the adoption of rigid prescriptive rules may discourage firms with significant IPRs from participating at all. For these reasons, IPO believes that innovation is and will continue to be best served when standard setting organizations and their members/participants agree on reasonable IPR disclosure and licensing policies. They are in the best position to properly balance the interests of all stakeholders and avoid the risk of diluting the value of IPRs of entities that participate in the standards development process. It also will enable competition among standards and standards bodies, which can have its own benefits.

To balance the interests of implementers and innovators, most SSOs adopt disclosure and licensing rules to achieve a practical balance between producing a standard that can be implemented by all and one that encourages innovators to invest in innovative technologies and contribute such technologies for use in the standards. The disclosure policies of most SSOs are limited to patents that contain a claim that *may* be an essential claim. Any commitments to offer licenses, however, typically apply only to those claims that *are* "essential" (or "necessary") – which generally means implementing the final, approved standard necessarily infringes the claim.

This difference makes sense and addresses the underlying purpose for disclosure and licensing statements. The disclosure rule is designed to ensure that standards developers are on notice of the companies that may have patent claims essential to the standard. The licensing statement is then designed to ensure that companies holding patents that are actually essential to the standard will state whether they will offer licenses to such patent claims typically on RAND terms, or whether they are unwilling to license them. This early statement of refusal helps the SSO and its members determine how they wish to proceed to ensure implementation. IPO understands that for this reason, with few exceptions, existing IPR policies defer discussion and determination of licensing terms to the negotiations of the parties in a prospective licensing agreement outside the standards organization.[1]

In short, owners of IPRs should be provided incentives for making their inventions available, even if there is a cost for obtaining access to such technology through a license. As the European Commission has explained, the opportunity of firms to gain access to patented technology, which can lower their costs of market entry and participation, creates a virtuous cycle of dynamic competition that more than offsets any short term effect of high prices during the term of a patent's life. And to the extent patented technology improves performance or reduces the cost of implementation of a standard, the increase in value or cost savings may significantly outweigh any associated licensing costs.

In response to the European Commission, IPO noted inherent characteristics of standardization that mitigate concerns related to "excessive" or "abusive" royalties and fees.[2] For example, IPR holders seeking broad adoption of their patented technologies (especially over available competing technologies), may moderate the royalties sought so as to gain inclusion of the technology in the standard in the first instance and widespread implementation of the standardized solution. By so doing, IPR holders will be able to realize favorable returns on their R&D investment while a wide standards community can access the patented technology. Other firms may not even seek royalties because their strategy is to realize a return on their R&D investment through the sale of products or services and the defensive use

[1] In addition, there is concern about the potentially anticompetitive effects of *ex ante* discussions or agreements by IPR holders regarding royalties or fees, including *ex ante* agreements by potential IPR users regarding the maximum royalties or fees they will pay, as a condition for including a technology in a standard. Placing this type of condition on the inclusion of technology in a standard may also have anticompetitive effects by reducing the value of IPRs below the level at which a return on an IPR holder's investment is possible. Such actions can have adverse competitive effects by discouraging participation in standards organizations and reducing incentives for firms to invest in R&D.

[2] See IPO's letter to the European Commission Regarding the Draft EC Horizontal Guidelines, June 18, 2010,http://www.ipo.org/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=26182.

of their patents. Further, firms may seek to use their IPRs only defensively, and may offer Fair, Reasonable, and Non-Discriminatory (FRAND) terms without compensation and seek to attract the cross-licensing of other standards essential IPRs. Regardless of their approach to licensing, IPR holders are generally motivated by their business interests to negotiate terms that support rapid adoption and wide use of standards. These market dynamics help support the efficient development and introduction of most standards. In sum, self-governing conditions and incentives already exist to prevent, or at least reduce, opportunities for anticompetitive conduct that may give rise to competition law concerns.

Government Participation

The continuous growth in productivity and innovation over the past several decades has been attributed in large part to the current voluntary consensus-based system where private industry stakeholders work in collaboration with the government. IPO foresees this partnership continuing particularly in those areas enumerated in this RFI and encourages the active participation of federal agencies in existing SSOs. However, to the extent there are several government agencies involved in areas such as Smart Grid, Health IT and cybersecurity, IPO suggests there may need to be greater coordination between these agencies to ensure government interests are clearly and adequately represented in the standardization process. In any event, the government should continue to abide by the principles set forth in the National Technology Transfer and Advancement Act, Pub. L. 104-113 (1995) and the 1995 OMB Circular A-119. In this regard, IPO believes the basic principles forming the U.S. Standards Strategy remain sound, relevant and essential to both U.S. competitiveness and global cooperation. This strategy, as embodied in OMB Circular A-119, directs government agencies, except in certain cases, to use voluntary consensus standards. OMB A-119 states in pertinent part:

> a. For purposes of this policy, "voluntary consensus standards" are standards developed or adopted by voluntary consensus standards bodies, both domestic and international. These standards include provisions requiring that owners of relevant intellectual property have agreed to make that intellectual property available on a non-discriminatory, royalty-free or reasonable royalty basis to all interested parties. For purposes of this Circular, "technical standards that are developed or adopted by voluntary consensus standard bodies" is an equivalent term.
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> (1) "Voluntary consensus standards bodies" are domestic or international organizations which plan, develop, establish, or coordinate voluntary consensus standards using agreed-upon procedures. For purposes of this Circular, "voluntary, private sector, consensus standards bodies," as cited in the Act, is an equivalent term. The Act and the Circular encourage the participation of federal representatives in these bodies to increase the likelihood that the standards they develop will meet both public and private sector needs. A voluntary consensus standards body is defined by the following attributes:

(i) Openness.
(ii) Balance of interest.
(iii) Due process.
(iv) An appeals process.
(v) Consensus, which is defined as general agreement, but not necessarily unanimity, and includes a process for attempting to resolve objections by interested parties, as long as all comments have been fairly considered, each objector is advised of the disposition of his or her objection(s) and the reasons why, and the consensus body members are given an opportunity to change their votes after reviewing the comments.

The current voluntary consensus-based system as articulated above is viewed inclusively to cover a diversity of standards-setting approaches, both formal and informal (as in consortia), that meet the needs of the government and other implementers in providing critical standards and promoting innovation. All relevant stakeholders, including the government, should continue to promote this system that has driven the innovation economy for decades.

Thank you for the opportunity to comment on this important issue and for your continued efforts to address the very difficult and complex area involving competition law, IP law, and standardization. This is an area of great interest and concern for IPO members, and any advances in clarifying the issues are always welcome.

Sincerely,

Herbert C. Wamsley
Executive Director