

**Before the  
ANTITRUST MODERNIZATION COMMISSION  
Washington, DC**

**COMMENTS REGARDING COMMISSION ISSUES FOR STUDY**

On July 20, 2004, the Antitrust Modernization Commission (“Commission”) issued a request for public comment (“RPC”) about issues recommended for study by the Commission. 69 Fed Reg. 43969 (July 23, 2004). On behalf of Sun Microsystems, Inc. (“Sun”), set forth below in accordance with the RPC is identification of a serious issue that exists at the antitrust intersection of intellectual property law and standards setting.

**Summary of the Issue**

The Commission should undertake to study whether antitrust law and policy should require standards-setting organizations (“SSOs”) to adopt procedures and intellectual property rights (“IPR”) policies that require disclosure -- of the intellectual property to be incorporated in a proposed standard and relevant license terms -- early in the standard development process and prior to voting on the standard in question (*ex ante* adoption<sup>1</sup>). Consideration should also be given to permitting standards development working groups to discuss these matters so that informed decisions can be made on the desirability of incorporating IPRs in the design of the standard.<sup>2</sup>

Antitrust law focuses centrally on consumer welfare. Intellectual property law (patent and copyright laws) provides incentives for innovation by establishing property rights for the creators of new and useful products, breakthrough processes and original works of authorship.

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<sup>1</sup> The *ex ante* perspective is forward looking. Because the *ex ante* point of view prevents the hiding of intellectual property, it permits SSOs and their members to discuss beforehand and with adequate time how a decision would work and whether the decision would have good or bad consequences.

<sup>2</sup> Attached hereto in the form of an Appendix is further discussion of why the *ex ante* issue merits Commission study.

Competition policies and intellectual property policies “generally work together to promote consumer welfare over time.”<sup>3</sup>

To accomplish this goal, antitrust policy should take patent policy into account.<sup>4</sup> As regards the fruits of standards-setting processes, the two legal doctrines should combine to provide downstream consumers with quality and reasonably-priced products. Requiring SSOs to require *ex ante* disclosure of patents to be incorporated into a standard and associated license terms, and to permit discussion of those license terms, would promote informed decision-making and thereby promote consumer welfare.

In conclusion, the Commission should study whether antitrust laws and policies should require that SSOs adopt clear and definite SSO Processes that require *ex ante* disclosure of IPRs, including patent applications, and IPR license terms, and permit standards development working groups to discuss such IPR and IPR license terms for the purpose of developing standards that satisfy the technology requirements of the standard in the most cost-effective manner.

Respectfully yours,

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<sup>3</sup> See TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, A Report of the Federal Trade Commission (October 2003), chap. 6, p. 1.

<sup>4</sup> *Id.*

## APPENDIX

### Further Discussion of Why the Issue Merits Commission Study

The conduct of SSOs and their members related to standards setting is clearly governed by antitrust law and competition policies. SSOs should rely on antitrust principles in framing their procedures and policies regarding IPRs (collectively, “SSO Processes”). SSO Processes have been developed from an understanding of antitrust laws by SSOs and their members. As a general proposition, SSO Processes require members to declare their patents but prohibit members of a standards development working group from discussing license terms under the misconceived belief that to do so would violate antitrust law.

With the advent of the Internet, the explosion of improved and emerging technology, and changes to IPR laws, SSO Processes under which information technology standards are developed have resulted in numerous patent hold-up situations.<sup>5</sup> SSO Processes may also have had the unintended consequence of enabling SSO participants that own patents to impose exorbitant royalties for necessary licenses after the affected standard has been adopted.<sup>6</sup> The net result is detriment to the public.

The intersection of standards development, SSO Processes and IPR was the topic of vigorous discussion during joint hearings held by the Department of Justice and Federal Trade Commission.<sup>7</sup> While the DoJ/FTC hearing record indicates that patent hold-up is a serious problem in the ICT standards-setting area, there did not appear to be consensus as to whether

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<sup>5</sup> See, e.g., Federal Trade Commission and Department of Justice, Antitrust Division, joint hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy (hereinafter “DoJ/FTC Hearings”), Statement of Scott Peterson (<http://www.ftc.gov/opp/intellect/020418scottkpeterson.pdf>).

<sup>6</sup> Robert A. Skitol, “Concerted Buying Power in Standard-Setting: Part of a Solution to the Patent Holdup Problem,” 72 ABA Antitrust L.J. \_\_\_\_ (2004) (forthcoming).

<sup>7</sup> DoJ/FTC Hearings (<http://www.ftc.gov/opp/intellect/index.htm>) (last visited Sept. 21, 2004).

SSO Processes need to be changed to remedy patent hold-up problems.<sup>8</sup> The public is still awaiting the second report on recommendations for antitrust policies to maintain a proper balance with the patent system.

Recently, the relationship between standardization, IPR and SSO member conduct has become the focus of litigation and administrative proceedings. It was the subject of an Administrative Law Judge (“ALJ”) decision in *In the Matter of Rambus, Inc.* (“*Rambus*”)<sup>9</sup> and a Federal Circuit decision in *Rambus v. Infineon, Inc.* (“*Infineon*”).<sup>10</sup> Although the ALJ decision in *Rambus* found that Rambus' conduct was not anticompetitive and the Federal Court decision in *Infineon* determined that Rambus did not commit fraud, both decisions placed responsibility for any improper action by an SSO member/IPR owner squarely on the shoulders of the SSOs, pointing to the SSO Processes as failing to provide clear guidance to SSO members to enable them to know the what, when, where and to whom the members' conduct should be directed.

As the DoJ/FTC Report indicates, and the *Rambus* and *Infineon* decisions infer, it is procompetitive to have clear, well-defined rules of engagement in standard setting so that SSO members know the parameters of how they should conduct themselves. Procompetitive standards-setting policies would require SSO Processes to promote open, early in time and complete disclosure of IPRs and IPR-related license terms and would permit a standards development working group to discuss IPR and IPR license terms so that informed decisions could be made about whether to design around the IPR, to negotiate more reasonable license terms, or to advance the standard even though it incorporates the IPR.

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<sup>8</sup> *Id.*, especially statements by participants during the April 18, 2002 hearing on “Standard Setting Practices, Competition, Innovation and Consumer Welfare,” <http://www.ftc.gov/opp/intellect/020418trans.pdf> (last visited Sept. 21, 2004).

<sup>9</sup> U.S. Federal Trade Commission, *In the Matter of Rambus, Inc.*, Docket No. 9302 (rendered on February 24, 2004) The FTC appealed the ALJ decision to the Commission. The first of two appeal hearings was held on November 21, 2004. The second hearing is scheduled on December 9, 2004.

Early, complete and full disclosure of IPR and IPR license terms together with the ability of a working group to discuss the IPR and IPR license terms are key to developing standards that address the standards technology requirements without overburdening a standard with costly and unnecessary license terms. Furthermore, consumers would receive a direct and positive benefit because they would have quality standards-based products available at competitive and reasonable prices.

The time is ripe for the Commission to study standards-setting antitrust issues and to recommend clarifications or amendments to current law and policies accordingly. Such recommendations would positively impact consumer welfare because they would reestablish the balance between the rights of intellectual property owners and the rights of consumers in relation to standard setting.

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<sup>10</sup> 318 F.3d (Fed. Cir. 2003).