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Dear Sir/Madam:

These comments are submitted in response to the Commission's request for public comment on its *Draft Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements* (the "Draft Guidelines"), and in particular Chapter 7 relating to Standardisation Agreements.

The views expressed herein are presented on behalf of the Section of Science & Technology Law (the "Section") of the American Bar Association ("ABA"). These comments have not been approved by the House of Delegates or the Board of Governors of the ABA and, accordingly, should not be construed as representing the position of the ABA. We understand that the ABA's Section of Antitrust Law ("Antitrust Section") is also providing comments to the Commission regarding the Draft Guidelines. [We take no position regarding the Antitrust Section's comments, and advise you that the Antitrust Section takes no position regarding the comments submitted herein].

The Section of Science & Technology Law was formed in 1974 to provide a forum for addressing issues at the intersection of law, science, and technology. The Section's Committee on Technical Standardization (the "Committee") has long addressed the issue of standardization as essential to technological development and seeks to improve the development of solutions to policy issues having a mixture of legal and technical factors. Our Committee comprises legal experts in the law of technical standardization from industry, government, legal practice and academia. Many of our members participate regularly in the legal aspects of European standard-setting bodies. Some represent major commercial enterprises with global reach, while others represent standards-development organizations (SDOs) that are active in Europe and throughout the world. Accordingly, we have a strong interest in the legal regulation of standard-setting in Europe and have previously provided comments to the Enterprise & Industry Directorate General on its November 19, 2008 workshop concerning technical standardization and intellectual property in the ICT sector and to the Commission regarding its 2009 white paper "Modernising ICT Standardisation in the EU".

First, we would like to commend the Commission on its publication of the current Draft Guidelines and the careful attention devoted to the legal analysis of technical standards development activities. We believe that the clarity provided by the Commission in many areas will benefit industry and the practice of voluntary standards setting in Europe and to the

extent that standards developed in Europe or by European enterprises are used globally or incorporated into International Standards,, the benefits will be recognized on a worldwide basis. We submit our comments on the Draft Guidelines in order to offer the Commission the perspective of our members and to highlight certain areas in which we believe that the public would benefit from additional clarification and guidance from the Commission.<sup>1</sup> Our comments reflect two general themes: (1) SDO policies relating to intellectual property rights (IPR) often reflect a carefully-crafted balance among competing interests of SDO participants; requiring SDOs that do not fall into the Draft Guidelines' "safe harbor" to demonstrate that they will not restrict competition could result in a significant disruption to numerous SDOs that currently operate in an effective and pro-competitive manner; and (2) the Draft Guidelines might be read as imposing affirmative obligations and potential liability on SDOs themselves, as opposed to SDO participants, in a manner that may chill standards-development activity in Europe and elsewhere.

1. **No "One-Size-Fits-All" IPR Policy.** Standards-development organizations come in many different shapes and sizes. In the International Telecommunications Union (ITU), which is a United Nations treaty-based organization, participants from industry represent different member states and develop standards in a broad array of telecommunications and radiocommunications disciplines. At the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), the members are national bodies or national standards organizations from participating countries, but ISO and IEC are private sector organizations. Others, such as the Institute for Electrical and Electronics Engineers (IEEE) and the Internet Engineering Task Force (IETF), are voluntary membership associations in the private sector. Still other SDOs are private consortia organized by interested companies and dedicated to the development of standards specific to a particular category of products, such as digital optical media (DVD and CD).

Many different types of SDO IPR policies can result in beneficial, pro-competitive standardization activity, and no single set of policy clauses is appropriate for every SDO. This point is amply illustrated by the Section's *Standards Development Patent Policy Manual* (the "*ABA Manual*"), which catalogs and annotates numerous SDO IPR policy provisions from major SDOs across the world.<sup>2</sup>

The IPR policies and rules of each SDO should reflect the requirements and concerns of its participants. So long as these rules are not patently anticompetitive (for example, by promoting horizontal price fixing, exclusion of competitors or allocation of markets and territories), such rules should not, standing alone, be favored or disfavored by enforcement agencies. Rather, anticompetitive conduct may arise from the actions

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<sup>1</sup> Section 7 of the Draft Guidelines relates to two distinct legal areas: technical standardization and the use of "standardized" contract terms. The comments presented herein relate solely to technical standardization. For purposes of clarity, we suggest that the Commission may wish to consider separating these two relatively distinct areas in the final version of the Guidelines.

<sup>2</sup> Am. Bar Assn. Comm. on Tech. Standardization, Sec. of Sci. & Tech. L., *Standards Development Patent Policy Manual* (Jorge L. Contreras, ed., 2007) (hereinafter "*ABA Manual*").

(individually or collectively) of opportunistic SDO participants, whether they are IPR holders or implementers seeking to license (or to avoid licensing) IPR, whatever the policies of the SDO may be. Thus, even if an SDO policy includes the clauses recommended by the Commission, opportunistic participants may seek ways either to circumvent those rules or to limit and qualify them to such a degree that the desired pro-competitive benefits are not achieved. Further, even if an SDO policy includes clauses other than those endorsed by the Commission, participants may actually act well within the confines of the relevant competition laws. It is only those SDO policies that would objectively restrict competition when followed by participants that should be proscribed by the Draft Guidelines.

We believe the above points apply even with the understanding that the Draft Guidelines seek to establish safe harbors for SDO policies. Designating specific policy choices as falling within a safe harbor, and thereby excluding other policies that have successfully been followed, will create significant uncertainty and could, indeed, incentivize challenges to such latter policies or create incentives to unnecessarily modify efficient policies, thus causing substantial disruption to standards development activities. Given the stature of EC issued guidelines, the establishment of such a safe harbor could pose a risk to the efficient and legitimate operation of SDOs both within and outside the EC.

Below is a brief summary of paragraphs in the Draft Guidelines that appear to require or disfavor specific clauses of SDO IPR policies without adequate consideration of the overall context or the potentially pro-competitive effects of such clauses. We have in several cases attempted to direct the Commission's attention to prominent SDOs working in Europe that would potentially be affected by the Draft Guidelines if implemented in their current form. In some of these cases, we also draw your attention to relevant discussions of these provisions and their principal variations in the *ABA Manual*.

278. *"There should be no bias in favour or against royalty free standards..."* We agree with Commission that the competition laws do not favor royalty-free policies over other policies, such as those requiring fair, reasonable and non-discriminatory (FRAND) terms. We note, however, that some SDOs choose to adopt royalty-free policies for various reasons, including the desire to encourage the broadest possible adoption of a standard or to compete with standards that are royalty-bearing. We therefore seek clarification that it is not the Commission's intention to condemn royalty-free policies as restricting competition. While we are not familiar with any SDO that expressly *prohibits* royalty-free licensing of patents necessary to practice a standard and would anticipate a legitimate competition law concern with such a prohibition, we are aware of a number of prominent global SDOs that favor or encourage royalty-free patent licensing.<sup>3</sup> In fact, a common model allows patent holders to select from among a royalty-free FRAND assurance, a royalty-bearing FRAND assurance, or an assurance that it has and intends to

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<sup>3</sup> The Worldwide Web Consortium (W3C) has policies that strongly favor royalty-free licensing (W3C Patent Policy, Section 2 (Feb. 2004)). Another major SDO, the Internet Engineering Task Force (IETF), also states a preference for standards that are unencumbered by patent royalties (IETF RFC 3979, Section 8 (March 2005) (available at <http://datatracker.ietf.org/doc/rfc3979/>)).

obtain no patent claims essential to practice the standard.<sup>4</sup> In our view, such provisions should be decided by the relevant stakeholders.<sup>5</sup>

281. “*The IPR policy should require good faith disclosure of [] intellectual property rights that might be essential.*” We understand the Commission’s concern with deliberate failures of SDO participants to disclose standards-essential IPR and the potential commercial disputes that can arise with respect to such failures.<sup>6</sup> We agree that SDO IPR policies must adequately address those patent issues relevant to its members in order to create a stable basis on which that SDO’s participants can develop standards. Likewise, we would disfavor any approach that enabled opportunistic patent “ambush” and “hold-up” by SDO participants in violation of applicable SDO rules. In fact, the failure of certain SDO IPR policies to clearly and unambiguously enunciate obligations with respect to patent disclosure and licensing commitments is one of the principal factors that led our Committee to develop the ABA Manual.<sup>7</sup> However, we also recognize that SDOs have developed different ways to address potential patent ambush and hold-up scenarios. Some SDOs, as the Commission suggests, require disclosure of essential IPR during the standards-development process. Others, however, do not require disclosure but do require licensing assurances or commitments for all standards-essential patents held by participants, either on FRAND or royalty-free terms as a condition for inclusion of the essential IPR in the standard. And still others do not impose such requirements, but encourage such actions.<sup>8</sup> In our view, disclosure and licensing commitments can each be tailored to work independently or in combination to achieve a rational basis for cooperative work on technical standards while minimizing the risk of opportunistic patent ambush or hold-up.<sup>9</sup>

282. “*All holders of essential IPR [must] provide an irrevocable commitment in writing to license their IPR to all third parties on fair, reasonable and non-discriminatory terms.*” We acknowledge the important role that FRAND licensing commitments play in standards-setting activities.<sup>10</sup> However, as discussed above in relation to Paragraph 281, we believe that disclosure and licensing commitments can each be tailored to work independently or in combination to achieve the pro-competitive benefits that the Commission (and SDOs) seek to achieve, and we do not believe that it is necessary or advisable to mandate that either approach be taken in order to achieve those goals. In particular, we note that at least one prominent global SDO relies solely on a strong disclosure obligation without a formal licensing commitment, a process that has worked with relatively few problems and no resulting litigation for more than two

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<sup>4</sup> See ANSI Patent Policy at [www.ansi.org](http://www.ansi.org).

<sup>5</sup> See ABA Manual, *supra* note 2, at 56-58.

<sup>6</sup> *E.g.*, the various cases brought by and against Rambus, Inc. and the more recent litigation between Qualcomm Corporation and Broadcom, Inc.

<sup>7</sup> ABA Manual, *supra* note 2, at vii (noting that the ambiguities in the JEDEC IPR policy that led to the *Rambus* litigation).

<sup>8</sup> See, *e.g.*, Operating Procedures of the Alliance for Telecommunications Industry Solutions (ATIS).

<sup>9</sup> See ABA Manual, *supra* note 2, at xiii and 31-32.

<sup>10</sup> See *id.* at 47-85.

decades.<sup>11</sup> Moreover, there are differing approaches to the question of which third parties should be eligible to receive IPR licenses<sup>12</sup> and to what degree licensing commitments should be considered irrevocable.<sup>13</sup> Also, many SDOs that have a disclosure-based IPR policy typically offer a disclosing patent holder a choice with regard to its licensing commitment. The licensing commitment often includes the option to offer licenses on FRAND terms (with or without a royalty) or to declare that the patent holder is not willing to offer such licenses.

Many different types of SDO IPR policies can result in beneficial, pro-competitive standardization activity. Imposing limitations on pro-competitive policy options through the Draft Guidelines is likely to chill standardization activity in Europe and to give pause to global SDOs considering the extent of their activities in Europe. It would therefore be helpful if the Draft Guidelines clearly stated that there is no requirement to affirmatively prove that an IPR policy does not restrict competition merely because it does not satisfy the safe harbor requirements established by the Draft Guidelines.

**2. *Imposition of Obligations and Liability on SDOs.*** An SDO is typically no more than a forum for the deliberations of its participants and the publisher/disseminator of the standards that its participants approve. Most SDOs are not-for-profit, thinly-staffed entities that serve a role of convenience and facilitation for those interested in developing applicable standards. The Draft Guidelines do not expressly state that the EC seeks to impose greater liability on SDOs (rather than SDO participants), nor do the Draft Guidelines state which party is responsible for ensuring compliance. Several paragraphs of the Draft Guidelines appear to increase the potential liability of SDOs in several areas or to disrupt the existing practices of SDOs. Because most SDOs would lack the resources to mount a serious legal defense to claims of competition law violation, it is possible that increasing the legal liability of SDOs or limiting the otherwise permissible activities of SDOs would chill European SDO activity. The Section believes that the proper focus of competition law scrutiny should be on potentially anticompetitive behavior of SDO participants (whether IPR holders or implementers seeking to license IPR), rather than on SDOs themselves. To this end, we direct the Commission's attention to the U.S. 2004 Standards Development Organization Advancement Act (SDOAA)<sup>14</sup> which expressly limits SDO anti-competition risk and liability when conducting standards development activities, recognizing that SDOs should be given special deference and consideration from a competition law perspective. In the following paragraphs, we discuss specific provisions of the Draft Guidelines that would appear to increase the prospective liability of SDO entities in a manner inconsistent with this approach.

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<sup>11</sup> The SDO is the Internet Engineering Task Force (IETF), whose patent disclosure policies have been embodied in RFCs 1606, 2026 and 3979, among others.

<sup>12</sup> See ABA Manual, *supra* note 2, at 50 (describing potential beneficiaries of licensing commitment).

<sup>13</sup> See *id.*, at 82-83 (discussing irrevocability of licensing commitments).

<sup>14</sup> 15 USC 4301 *et seq.* (2004).

280. “SDO rules must seek to avoid misuse of the standardisation process through hold-ups and unreasonable royalty rates.” While the Section applauds the Commission’s efforts to reduce opportunistic patent hold-up and other potential abuses, we are concerned that the imposition of certain requirements on SDOs to limit such behavior through their rules would be ambiguous at best and impracticable in most situations. Imposing potential liability on SDOs for failing to anticipate the anticompetitive conduct of their participants and prohibiting such conduct through *a priori* rules reflects an unrealistic view of the process by which SDO IPR policies are developed and approved. Like standards, the formulation of SDO IPR policies is typically a collaborative process led by SDO participants. SDO entities are typically small and administrative in character and their personnel, if any, are not generally responsible for the IPR policies adopted by the SDO. If participants wished to adopt rules that allow anticompetitive behavior, this would be difficult, if not impossible, for the SDO entity to prevent. However, SDO participants would be unlikely to knowingly approve rules permitting anticompetitive conduct because participants are individually motivated to ensure that the standards-development process is free from opportunities for dishonest and abusive behavior. It is worth noting that while rare, a few SDO policies that have recently resulted in litigation (e.g., the JEDEC policy litigated in *Rambus*) were deemed flawed due to their brevity, ambiguity and incompleteness, not any deliberate attempt to enable anticompetitive behavior by the SDO or its participants. In the wake of such litigation, many SDOs have revamped their IPR policies to address the alleged abuses raised in such litigation, demonstrating that SDO participants do, indeed, have an incentive to operate under policies that are as clear and complete as possible. Imposing liability on SDO entities for the failures of these policies, however, does not seem likely to result in greater improvements, but only to place additional burdens on SDOs that may have very little influence in practice. Furthermore, given the complexity of different types of behavior among SDO participants with respect to IPR<sup>15</sup> and the limited, if any, ability of SDO entities to police or even evaluate such behavior, it is unlikely that the imposition of additional liability on SDO entities would appreciably reduce anticompetitive conduct by opportunistic participants.

282. “The IPR policy should also require that all holders of essential IPR [must] provide an irrevocable commitment in writing to license their IPR to all third parties on fair, reasonable and non-discriminatory terms.” This paragraph imposes an obligation on the SDO in relation to “all” holders of essential IPR. We would ask that the Commission clarify whether “all” refers to all SDO participants or all holders of IPR, regardless of whether or not the IPR holders are participants in the SDO. If the former, we note that a single SDO may have multiple standards in development, and participation in one standards development activity should not obligate the participant to make a FRAND commitment for all other standards being developed within the SDO. If the latter, we would respectfully suggest that SDOs have no control or influence over third party IPR holders that are not participants in the SDO. Accordingly, it is not clear that an SDO could realistically impose or enforce such a requirement, and attempting to place

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<sup>15</sup> One telling example is the determination of FRAND royalty rates. Paragraphs 284-285 of the Draft Guidelines acknowledge the complexity of FRAND determinations, determinations that SDO entities are wholly unsuited to make.

such an obligation on the SDO could be viewed as increasing the SDO's liability when third party IPR holders emerge.

288. *“The inclusion of substitute technologies in a standard is likely to give rise to restrictive effects on competition...”* Many standards include substitute, alternative or optional implementations for valid technical and commercial reasons.<sup>16</sup> Indeed, sometimes inclusion of alternative technologies may be the “compromise” without which no standard would be adopted at all. So long as suitable processes are in place to ensure that IPR holders do not abuse their positions, the inclusion of substitute implementations in standards should not be presumed to result in anticompetitive effects. We submit that the considerations relating to technical standards differ from those applicable to patent pools, in which the inclusion of substitute technologies might be viewed as restricting competition. In patent pools, the combination of patents covering alternative, substitutable technologies can be viewed as restricting competition among the holders of patents covering those substitutes, notably outside of standards (depending on the specific relevant markets involved, as well as the other facts and circumstances that require consideration in assessing likely competitive effect).<sup>17</sup> In the standards context, however, patent holders outside of patent pools seldom combine their patents or license them collectively, thus eliminating the crux of the anticompetitive risk that presents itself in the patent pool context. Accordingly, we would suggest that the Commission consider the statements in this paragraph to apply only to the context of patent pools, rather than to all technical standardization. A failure to make this distinction creates the risk of increased liability on SDOs that permit the common practice of standardizing substitute, alternative or optional implementations.

305. *“Standardisation agreements that ... impose restrictions on marking of conformity with standards ... go beyond the objective of achieving efficiencies...”* The mark indicating conformity with a standard is typically a trademark registered by the relevant SDO or conformity testing entity. Permitting the application of that conformity mark to a product or service constitutes a license of that trademark. Accordingly, such licenses are limited and restricted in various ways, in keeping with the valid exercise of rights by a trademark owner. It is unclear what types of restrictions the Commission questions in this paragraph, and we would request that the Commission clarify the types of disfavored restrictions and competitive harms that might flow from them. A failure to provide such clarification could be viewed as imposing additional risk on SDOs that conduct certification programs under customary certification mark licensing programs.

We hope that the above comments are helpful to the Commission as it finalizes the Draft Guidelines. We remain at your disposal to discuss these or any other issues that may be of interest.

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<sup>16</sup> See ABA Manual, *supra* note 2, at 16-18.

<sup>17</sup> See *Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements*, (2004/C 101/02) §219 (“[t]he inclusion in the pool of substitute technologies restricts inter-technology competition and amounts to collective bundling. Moreover, where the pool is substantially composed of substitute technologies, the arrangement amounts to price fixing”).

Respectfully yours,

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