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## Department of Justice Issues Notable Business Review Letter Concerning Leading Standards Development Organization's IPR Policy

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Last week, the Department of Justice (DoJ) issued an important business review letter indicating that it has no intention of taking enforcement action in connection with significant changes to the intellectual property rights policy of the Institute for Electrical and Electronics Engineers (IEEE). The letter is available at <http://www.usdoj.gov/atr/public/busreview/222978.htm>. The business review letter has important implications for companies that develop technology and products in areas like data networking, where the IEEE is a leading standard-setting body. More broadly, the letter gives significant guidance concerning the permissible scope of discussions about licensing terms during standards development activities.

Collaboration on developing technical standards is often governed by intellectual property rights policies that encourage or require participants to (a) disclose patents that will be essential to implementing a standard, and (b) commit to license those patents on reasonable and non-discriminatory (RAND) terms. To address concerns that participants in standards development have sometimes failed to adhere to patent licensing commitments (or that such commitments may be too vague to be enforceable), some companies have encouraged standards development organizations to adopt rules that permit, encourage, or require participants that disclose essential patents also to commit to license those patents on terms that are announced before the standard is finalized.

Proponents of these so-called "*ex ante*" licensing commitments hope that moving beyond reliance on RAND licensing commitments will give implementers of standards early insight into the actual cost of licensing patented technology and allow standard-setting participants to more accurately weigh the costs and technical merits of various technologies competing to be adopted into a standard. *Ex ante* licensing commitments may also lessen the potential for future disputes over whether a licensor has complied with a (vague) RAND licensing commitment. Opponents of *ex ante* licensing commitments have raised concerns that the disclosure of specific licensing terms in the standards development context may lead to anticompetitive behavior. In particular, multiple prospective patent licensees that are participating in the standards development process might pool their purchasing power to drive down the cost of essential patents below competitive levels.

The IEEE, the standards development organization responsible for pervasive networking standards such as Ethernet and WiFi, revised its patent policy to permit—but not require—a form of *ex ante* licensing commitments. Under the IEEE policy, holders of essential patents are invited unilaterally to commit to offer licenses on conditions no less favorable than a specified license fee and other material licensing terms. Those terms may be summarized or described in a sample licensing agreement. The policy, however, prohibits discussion of specific terms during standards development meetings, including joint negotiations over the actual license terms licensees will receive.

After adopting its new rules, the IEEE sought a business review letter from the Antitrust Division (Division) of the Department of Justice. On April 30, the Division responded that it did not intend to challenge the IEEE's new policy. As it had in an earlier letter involving VITA, a smaller standards development organization, the Division observed that the IEEE's new rules could have significant pro-competitive benefits by providing participants in standards development with information about actual licensing terms.

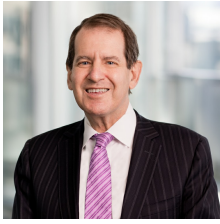
Significantly, the Division expressly took no position on whether it would enforce Section 1 of the Sherman Act to prohibit joint negotiation of licensing terms during the course of standards development. The IEEE letter does, however, reconfirm the Division's position that such joint negotiations would be assessed under the rule of reason, given their potential pro-competitive benefits.

In light of the IEEE letter and the VITA letter (where DoJ took a no-action position with respect to a policy requiring mandatory disclosure of not-to-exceed licensing terms), other standards development organizations may consider revising their policies to permit or even require disclosures of licensing terms before a standard is finalized. Companies that engage in standards development are well advised to ensure that employees who participate in such activities understand the antitrust issues that *ex ante* discussions may raise. In particular, although gaining earlier access to information about licensing terms may provide substantial pro-competitive benefits, employees must understand the potential antitrust risks raised by discussions or agreements among prospective licensees as to the licensing terms they will seek. In addition, as the Division's letter makes clear, patent holders must not collude on the licensing terms they will disclose to standard-setting bodies. Similarly, standard-setting participants must not use *ex ante* discussions as a cover to fix prices on standardized products in downstream markets.

For more information on this or other antitrust and competition matters, please contact the authors listed above.

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