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COMPETITION COMMITTEE**

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Working Party No. 2 on Competition and Regulation

STANDARD SETTING

-- American National Standards Institute --

14 June 2010

The attached document is submitted to Working Party No. 2 of the Competition Committee FOR DISCUSSION under item III of the agenda at its forthcoming meeting on 14 June 2010.

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1. Introduction

1. The American National Standards Institute (“ANSI”) is pleased to respond to OECD’s invitation for written submissions relating to the OECD roundtable discussion on standard setting, to be held on June 14, 2010.

2. By way of introduction, ANSI is a private, not-for-profit organization which coordinates the United States voluntary standards and conformity assessment system. Through its membership ANSI represents the interests of more than 125,000 companies and 3.5 million professionals worldwide. ANSI, with the cooperation of federal, state, and local governments, administers the creation, promulgation, and use of tens of thousands of standards, norms, guidelines, and conformance activities that directly impact businesses and consumers in nearly every industry sector. ANSI also is the established neutral forum for the U.S. voluntary standardization community, and serves as the United States representative to the International Organization for Standardization (“ISO”) and, through the United States National Committee (“USNC”) to the International Electrotechnical Commission (“IEC”).

3. ANSI understands a number of topics will be discussed during the roundtable based on the contributions from the delegates and other presentations; however, ANSI will focus these comments on the topics identified in the invitation to this event. These include:

- What are the potential benefits and harms from standard setting activity?
- How can the harms be mitigated?
- To what extent should the government be involved in setting standards?
- What licensing rules are applied to intellectual property related to standards?
- What is the appropriate role of government in the resolution of disputes about standards?

4. ANSI is a unique partnership with membership drawn from industry, standards developers and other professional, technical, trade, labor, academic and consumer organizations, and government agencies. In its role as an accreditor of U.S. voluntary consensus standards developing organizations (“SDOs”), ANSI helps to maintain the integrity of the standards development process and determines whether standards meet the necessary criteria to be approved as American National Standards (“ANSs”). ANSI’s approval of these standards (currently numbering approximately 10,000) is intended to verify that the principles of openness and due process have been followed and that a consensus of materially interested stakeholder groups has been reached. ANSI has established “Essential Requirements” that ANSI-accredited SDOs (“ASDs”) must follow in the development and approval of a standard that is to be designated an American National Standard. This includes compliance with several ANSI policy statements including the ANSI Patent Policy. ANSI and its accredited SDOs are often characterized as the “*de jure*” or more formalized standards-setting process in the United States.¹

¹ ANSI is often asked about the total number of standards (and standards setting bodies) in the United States. It is estimated that in the U.S. today there are hundreds of “traditional” standards developing organizations – with the 20 largest SDOs producing 90% of the standards – and hundreds more “non-traditional” standards development bodies, such as consortia. This means that the level of U.S. participation is quite expansive as the groups themselves are comprised of individual committees made up of experts addressing the technical requirements of standards within their specific area of expertise.

5. ANSI believes that there are great benefits and pro-competitive effects of a voluntary standardization system. ANSI testified to the Federal Trade Commission (“FTC”) several times about these pro-competitive effects. As far back as 1995 ANSI advised the FTC:

The benefits and pro-competitive effects of voluntary standards are not in dispute. Standards do everything from solving issues of product compatibility to addressing consumer safety and health concerns. Standards also allow for the systemic elimination of non-value-added product differences (thereby increasing a user’s ability to compare competing products), reduce costs and often simplify product development. They also are a fundamental building block for international trade. As the Court of Appeals for the First Circuit explained:

The joint specification development, promulgation, and adoption efforts would seem less expensive than having each member of CISPI [a trade association] make duplicative efforts. On its face, the joint development and promulgation of the specification would seem to save money by providing information to makers and to buyers less expensively and more effectively than without the standard. It may also help to assure product quality. If such activity, in and of itself, were to hurt Clamp-All by making it more difficult for Clamp-All to compete, Clamp-All would suffer injury only as result of the defendants’ joint efforts having lowered information costs or created a better product.... And, that kind of harm is not “unreasonably anticompetitive.” It brings about the very benefits that the antitrust laws seek to promote.

Clamp-All Corp. v. Cast Iron Soil Pipe Institute, 851 F.2d 478, 487 (1st Cir. 1988) (Breyer, C.J.) (citation omitted; emphasis in original).

Therefore, the analysis of any possible anti-competitive effects a standard may have must, under the “rule of reason”, be weighed against its pro-competitive and positive effects. This, however, is somewhat easier said than done.

One of the principle difficulties confronted by enforcement agencies and the courts when applying the “rule of reason” to standardization activities is that any cost- benefit analysis or consideration of possible alternative standards requires a technical expertise that these bodies normally admittedly lack. The obvious alternative is to leave the resolution of technical issues to the experts who participated in the standards development process and focus instead on the process itself. As pointed out in the Standard-Setting² article, focusing on the standards development process has the benefit of (1) being easier for courts and enforcement agencies to analyze, (2) providing clear guidance to the business community and (3) being designed (and if necessary modified) to reduce if not eliminate the possibility of anti-competitive activity. Standard-Setting at 256.

As of the end of 2009, some 223 of these standards developers were accredited by ANSI; there are approximately 10,000 American National Standards (“ANS”).

According to data provided in NIST Special Publication 806, Standards Activities of Organizations in the United States (1996 Edition; edited by Robert B. Toth), there are more than 93,000 standards produced and nearly 700 organizations that cited standards development as an area of activity. Of these, the federal government is the largest single creator and user of standards (more than 44,000 of them); the private sector in America collectively has about 49,000 standards.

² J. Anton & D. Yao, *Standard-Setting Consortia, Antitrust, and High Technology Industries*, 64 Antitrust L.J. 247 (Fall 1995) (“Standard Setting”).

This has been ANSI's approach, and it has been effective. In its role as the accreditor of U.S. standards developing organizations (SDOs), ANSI seeks to further the integrity of the standards development process and to determine whether candidate standards meet the necessary criteria to be approved as American National Standards. ANSI's approval of these standards is intended to verify that the principles of openness and due process have been followed and that a consensus of all interested parties has been reached. These requirements ensure that the playing field for standards development is a level one. In addition, ANSI considers any evidence that the proposed American National Standard is contrary to the public interest, contains unfair provisions or is unsuitable for national use. (Emphasis added, original footnote deleted, one footnote added for clarification.)

6. The ANSI system has a long-standing history of effective self-policing. To the extent that the ANSI process has not detected and deterred all potential antitrust-related problems, the problems that surfaced up until 1995 were generally addressed by the private sector in a handful of private action lawsuits³. There are now approximately 10,000 ANSI-approved American National Standards that provide dimensions, ratings, terminology and symbols, test methods, performance and safety requirements. The voluntary standards development process has proven its effectiveness across a diverse set of industries and in federal, state, and local government processes. These industries include telecommunications, safety and health, information technology, petroleum, banking, and household appliances.

7. The U.S.'s market-driven, private sector-led approach to global standardization is substantially different from the top-down approach favored in many other countries. Though the U.S. system is unique, it is based upon a set of globally accepted principles for standards development, which include:

- **Transparency**
Essential information regarding standardization activities is accessible to all interested parties.
- **Openness**
Participation is open to all affected interests.
- **Impartiality**
No one interest dominates the process or is favored over another.
- **Effectiveness and Relevance**
Standards are relevant and effectively respond to regulatory and market needs, as well as scientific and technological developments.
- **Consensus**
Decisions are reached through consensus among those affected.
- **Performance Based**
Standards are performance based (specifying essential characteristics rather than detailed designs) where feasible.
- **Coherence**
The process encourages coherence to avoid overlapping and conflicting standards when appropriate.

³ Although private cases were a principle mechanism prior to 1995 when ANSI testified to the FTC, as shown below, the FTC has been much more active since then in looking at competition cases and standards development, *see*, for example, *Dell, Rambus, Unocal, and N-Data*.

- **Due Process**
Standards development accords with due process so that all views are considered and appeals are possible.
- **Technical Assistance**
Assistance is offered to developing countries in the formulation and application of standards.

8. Working in partnership with stakeholders from government and industry, ANSI continues to explore how standards and conformity assessment-based solutions – developed with the consensus of all interested parties – can meet the critical needs of the United States and the entire global community.

3. ANSI's Approach to the Intersection of Standards and Intellectual Property

9. The intersection of standards-setting, patent rights and antitrust concerns has been the subject of inquiry and debate for many years. The standards community has fashioned IP policies and procedures to provide a roadmap that allows for the inclusion of patented material in standards. There are a number of factors standards developers consider in fashioning an IP policy that best suits its particular needs, including:

1. **Type of Policy** (*e.g.*, does the policy apply to patents, trademarks, copyrights, or all three?);
2. **Scope of Disclosure** (*e.g.*, does the policy apply to just patents that contain essential claims, patents that likely contain essential claims, or the claims themselves; or does the policy not require any specific disclosure information, but rather seeks disclosure that the patent holder just believes that it holds patents with claims that likely will be essential, etc.; or is the policy just “participation-based” with no obligation to disclose at all, but everyone participating agrees to an up-front licensing commitment, sometimes with the option of opting out specific patented technology; or is it a mixture of the two general approaches?);
3. **Scope of Licensing Commitment** (*e.g.*, does the license commitment apply to just essential patent claims vis-à-vis the final version of the standard, or more broadly to patents generally? Does it apply to patent applications?);
4. **Timing of Disclosure** (*e.g.*, is early disclosure encouraged or is it mandated? If it is mandated, how is that obligation described: is it based on the individual participant’s knowledge, or is knowledge imputed to the participant from the participant’s employer?);
5. **Patent Searches** (does disclosure require the IP holder to conduct patent searches?);
6. **Form of disclosure** (*e.g.*, does the policy require the use of a specific form/content of disclosure?);
7. **Licensing Assurance** (*e.g.*, can the patent holder select from options in terms of its licensing commitment, such as RAND/FRAND, RAND/FRAND-royalty free, or neither, or is the commitment pre-selected by the SSO and/or the specific technical committee?);
8. **Licensing Terms** (*e.g.*, does the SSO allow reciprocity, scope of use, disclosure of licensing terms to the standards body *ex ante*, patent pools, etc.?);
9. **Enforcement** (*e.g.*, how are disputes resolved, what competition laws apply and how many complaints or what litigation has the SSO experienced in the past ten years regarding the implementation of its IPR policy?); and

10. Industry Impact (e.g., what are the practical implications of the policy's implementation, particularly as it affects innovation, and the global trade and competitiveness of U.S. industry?).

10. For its part, ANSI has developed a Patent Policy which generally must be followed by ANSI-accredited SDOs in the development of all American National Standards ("ANSs"). A copy is attached in **Appendix A**. The ANSI Patent Policy attempts to strike a balance among the rights of the patent holder, the interests of competing manufacturers seeking to implement the standard, the consensus of the technical experts from different stakeholder groups on the desired content of the standard, the concerns and resources of the SDO, the impact on consumer welfare, and the need to avoid unnecessary strictures that would discourage participation in the standards development process. There has not been any adjudicated abuse of the ANSI Patent Policy in the approximately 35 years ANSI has had such a policy.

11. Under the ANSI Patent Policy, disclosure may be made by a patent holder or third party with actual, personal knowledge of relevant patents. Once such a disclosure is made, ANSI requires a written statement in order to determine whether the patent holder will provide licenses (a) on reasonable and non-discriminatory ("RAND") terms and conditions or (b) on a compensation-free basis (that may include other RAND terms and conditions). If the patent holder submits a patent statement to the effect of either (a) or (b) above, then this creates a commitment by the patent holder and third-party beneficiary rights in implementers of the standard.

12. ANSI Patent Guidelines, which inform the Patent Policy, advise that discussion of licensing issues among competitors in a standards-setting context could significantly complicate, delay or derail standards-setting efforts. A copy of ANSI's Patent Policy Guidelines is attached in **Appendix B**. Moreover, discussion of licensing terms may impose a risk that the SDO and the participants will become targets of allegations of improper antitrust conduct. The potential antitrust risks that have been associated with the discussion of license terms should be distinguished from the adoption by SDOs of rules that permit, encourage, or require participants in standards development that identify patents they believe are essential also to disclose the terms on which they will license their essential IP, and to do so as early as possible in the standards development process.

13. The ANSI Patent Policy is very similar to the common patent policy of ISO, IEC, ITU-T, and ITU-R. All of these policies recognize that it is permissible to develop standards that mandate the use of patented items if there are sufficient technical justifications. As recognized by the United States Federal Trade Commission in *American Society of Sanitary Engineering*,⁴ if a standards development organization comes to enjoy significant market power, its decisions to exclude a patented invention from a standard can unreasonably restrain trade by misleading consumers, depriving them of information about the performance of the product, or even excluding a technically advanced product from the market.

14. One recognized result of standards-setting pursuant to internationally-recognized and accepted patent policies (such as those at ISO/IEC, ITU, ANSI and many other well-known standards organizations) is the opportunity to have the "best" technical solution -- which may belong exclusively to a patent holder - - incorporated into a standard and made available to all relevant manufacturers to exploit in competing commercial products. In return for "sharing" its patented technology (including making it available to its competitors), the patent holder may receive reasonable compensation from implementers of the standard in a non-discriminatory manner. The patent laws were designed in part to stimulate innovation and

⁴ See *American Society of Sanitary Engineering*, Dkt. C-3169, 106 F.T.C. 324 (1985). It is noteworthy that the invention at issue in that case -- the Fillpro valve designed by J.H. Industries - which was "excluded" from the standard was not an "essential" technology. If permitted by the standard, it would be one of many conforming implementations of the standard.

investment in the development of new technologies, which can be shared at reasonable rates with all those wishing to implement a standardized solution to an interoperability or functionality challenge.

15. Over the last several years, two ANSI-accredited Standards Developing Organizations revised their patent policies and each requested a “Business Review Letter” from the U.S. Department of Justice relating to such policies. A Business Review Letter is a statement of the current enforcement intentions of the U.S. Department of Justice with respect to the specific conduct described by the organization requesting the letter. Information related to these Business Review Letters (“BRLs”) can be found on pages 20-22 of the ANSI GSC-14 Contribution which is referenced and linked in our contribution.

4. U.S. Government Role In Standard Development

16. The U.S. standardization system and its consensus-based, public-private partnership is reflected in the *National Technology Transfer and Advancement Act of 1995* (“NTTAA”), Public Law 104-113. This law directs all federal government agencies to use for regulatory, procurement, and other agency activities, wherever feasible, standards and conformity assessment solutions developed or adopted by voluntary consensus standards bodies in lieu of developing government-unique standards or regulations. The NTTAA also encourages government agencies to participate in standards development processes, where such involvement is in keeping with an agency’s mission and budget priorities.

17. The NTTAA remains the cornerstone for promoting the use of voluntary consensus standards and conformance in both regulation and procurement at the federal level. The Office of Management and Budget (“OMB”) – through its OMB Circular A-119 – confirms that close interaction and cooperation between the public and private sectors is critical to developing and using standards that serve national needs and support innovation and competitiveness.

18. The federal government is a key player in the U.S. standardization system. Over three thousand Federal agency representatives participate in the private sector-led standards development process consistent with the mandate and authority under the NTTAA and OMB Circular A-119. Even more importantly, government participation means that government users understand both the intent and content of specific standards and conformity assessment activities. Government representatives currently participate in the activities of hundreds of standards developing organizations, at both the technical and policy levels.

19. The US Government recently established a new Subcommittee on Standards, under the U.S. National Science and Technology Council (“NSTC”). The purpose of this Subcommittee is to improve coordination among U.S. federal government agencies’ standards engagement, and to help the U.S. government better address challenges associated with standardization in emerging, multi-disciplinary technologies that are national priorities. ANSI has played a key role in providing information about this activity to the stakeholders in the U.S. Standards System and in gathering useful information for the NSTC Subcommittee on Standards (“SoS”).

5. The Role of U.S. Government in the Resolution of Disputes About Standards

20. The U.S. Federal Trade Commission (“FTC”) and the U.S. Department of Justice (“DOJ”) have commenced several significant enforcement actions arising in the standard-setting context.

5.1 *In re N-Data*

21. *In re N-Data*, the FTC announced a proposed settlement of a claim under Section 5 of the FTC Act involving a patent holder’s attempts to change the licensing terms for an essential patent from those that had been offered by a predecessor owner of the patent as part of its licensing commitment to the

standards body. The Complaint alleged that Negotiated Data Solutions, LLC (“N-Data”) engaged in unfair methods of competition and unfair acts or practices relating to the Ethernet standard for local area networks. In a 3-2 decision, the FTC ruled that the licensing commitment made by the previous patent owner was binding upon N-Data given that N-Data knew about the commitment but nevertheless sought to dramatically increase the cost to license the patent. The Complaint did not allege a violation of the antitrust laws.

22. By way of background, employees of National Semiconductor Corporation (“National”) were members and active participants in IEEE, the standards organization responsible for developing the Fast Ethernet Standard. National disclosed to the group working on the standard that it had filed a patent application for certain technology that it proposed be adopted into the standard. According to the majority statement, based on National’s assurance that a license would be made available to implementers of the standard on a nondiscriminatory basis for a one-time fee of \$1,000, IEEE incorporated the technology into the Fast Ethernet standard and into subsequent revisions of the standard. Thereafter, National assigned a number of the patents covering the technology to a telecommunications start-up company founded by former National employees who, in turn, assigned the patents a second company N-Data. Both companies had knowledge of the “encumbrance” on the patents. Chairman Majoras, one of the dissenting Commissioners, commented that at the time of the original licensing assurance the IEEE’s IPR policy did not state that an assurance was irrevocable and that others had modified licensing assurances under the policy. The dissenting Commissioners also disagreed with the imposition of liability based only on Section 5 of the FTC Act, without a finding that the conduct was unlawful under the antitrust laws.

5.2 *In re Dell*

23. In 1996, the FTC alleged in *In re Dell*, 121 FTC 616, 616-18 (1996) (No. C-3658) that during an SDO’s deliberations about a certain standard, Dell, a member of that SDO, twice certified that it had no IP relevant to the standard and that the SDO adopted the standard based, at least in part, on Dell’s representations. The FTC described those representations as “not inadvertent.” 121 F.T.C. at 625-626. After the SDO adopted the standard, Dell demanded royalties from those using its technology in connection with that standard. The FTC brought an action against Dell on the basis of this conduct and, ultimately, accepted a consent agreement under which Dell agreed not to enforce the patent in question against firms using it as part of the standard.

5.3 *Rambus*

24. In June 2002, the FTC commenced an enforcement action against Rambus (*In re Rambus Inc.*, Docket No. 9302) alleging violations of Section 5 of the FTC Act by virtue of Rambus’ conduct in connection with a standards-setting activity at JEDEC. Rambus had developed and patented SDRAM architecture for random access memory. The FTC alleged that JEDEC’s patent policy first impliedly and then later expressly required the disclosure of any knowledge of patents or pending patents that might be necessary to implement the standard under development. According to the Complaint, Rambus had patents and patent claims that read on the standard and it deliberately chose not to disclose them. In addition, the Complaint alleged that Rambus engaged in an intentional effort to amend its patent claims so that they would continue to map against the evolving standard. By this deceptive conduct, according to the Complaint, Rambus unlawfully monopolized four technology markets in which its patented technologies compete. In July 2006, the Commission found that Rambus’ “acts of deception constituted exclusionary conduct under Section 2 of the Sherman Act, and that Rambus unlawfully monopolized the markets for four technologies” that were incorporated into the Dynamic Random Access Memory (“DRAM”) standards adopted by the JEDEC in violation of Section 5 of the Federal Trade Commission Act.

25. On April 22, 2008 the U.S. Court of Appeals for the D.C. Circuit vacated the FTC's decision and remanded the matter back to the FTC for further proceedings consistent with the Court's opinion. The Court of Appeals unanimously determined the FTC failed to demonstrate that Rambus's conduct was exclusionary under settled principles of antitrust law and thus failed to establish its claim that Rambus unlawfully monopolized the relevant markets. In doing so, the Court also expressed its "serious concerns" about the strength of the evidence relied on to support some of the Commission's findings regarding the scope of JEDEC's patent disclosure policies and Rambus's alleged violation of those policies. Among other things, the Court noted its concern that: (1) there appeared to be no record support for the Commission's allegation that JEDEC participants were obliged to disclose not merely relevant patents and patent applications but also their work in progress on amendments to pending applications; and (2) some of the SDRAM technologies at issue were adopted by JEDEC more than two years after Rambus left that organization.

26. The Commission requested that the United States Supreme Court review the case and that request was denied in February, 2009. In May 2009, the FTC officially dropped the case against Rambus.

5.4 *In Re Unocal*

27. The FTC commenced an enforcement action against the Union Oil Company of California ("Unocal") on March 4, 2003 (*In re Union Oil Company of California*, Docket No. 9305). The Complaint charged Unocal with wrongfully obtaining or seeking to obtain monopoly power and unreasonably restraining trade in violation of Section 5 of the FTC Act. Unocal filed two motions to dismiss the Complaint. The first motion sought dismissal based on *Noerr-Pennington* immunity and the second for failure to make sufficient allegations that Unocal possesses or dangerously threatens to possess monopoly power.

28. In his Initial Decision dated November 25, 2003, the Administrative Law Judge (ALJ) dismissed the Complaint by granting each of these motions in part. He held that FTC Complaint Counsel did not meet its burden of (a) establishing that the *Noerr-Pennington* doctrine did not apply to shield Unocal's actions vis-à-vis CARB from antitrust liability and (b) alleging sufficient facts to support jurisdiction when the allegations of misconduct involve substantial issues of patent law.

29. On July 7, 2004, the FTC reversed and vacated the Initial Decision, reinstated the Complaint and remanded for further consideration of the Complaint's allegations. 2004 FTC LEXIS 115, July 7, 2004. The FTC found that neither the *Noerr-Pennington* doctrine nor the claimed absence of FTC jurisdiction provided an adequate basis for Unocal's motion to dismiss. Less than a year later, on June 10, 2005, the FTC announced a consent order settling the complaint against Unocal. Under the terms of the settlement, Unocal will cease enforcing its gasoline patents and release all such patents to the public.

6. Conclusion

30. ANSI welcomes the opportunity to be able to offer some input to the OECD as it considers these issues. We realize that some will argue that standard setting may be prone to anti-competitive behavior because standards are often set by groups that include actual and potential competitors. They will note that standards can have the effect of excluding non-chosen technologies. Standard setting can also yield cost advantages for certain technologies, can result in payments from one competitor to another for technology, and can ultimately have substantial influences on the prices paid by consumers as well as product variety. Some recent work has alleged that firms on occasion "hijack" the standard setting process by urging a standard-setting body to promote a technology which standard-setting body members believe will be accessible at no cost and then patenting key elements of the standard and charging royalties. At the same time, standard setting bodies may be urged to announce prices for different technologies prior to setting the

standard, to avoid such hijacking, but these announcements and decisions based on them could pose risks of collusion, buyer cartel behavior, and price fixing.

31. ANSI believes the system it has in place has numerous safeguards that mitigate against these fears and concerns from actually occurring. ANSI also realizes that the system used in the USA is often misunderstood. ANSI frequently updates delegations from other countries on changes that are occurring in the USA and what ANSI is doing to address current issues and improve its system. ANSI files comments in proceedings in other countries where public comment is sought and has provided input to the European Commission, the Government of India, and to China's National Institute of Standardization ("CNIS") which is drafting a Guide for the Implementation of the Inclusion of Patents in National Standards for the Chinese National Standards Body (SAC –Standardization Administration of China). ANSI has also prepared educational materials such as its Open Standards Critical Issues paper which discusses ANSI's view on Open Standards and Open Source. (A copy of that paper is attached as **Appendix C.**)

32. ANSI, for example, typically makes contributions to the Global Standards Collaboration meetings (www.gsc.etsi.org) on various topics and specifically contributions to the GSC IPRWG. ANSI's contribution to GSC-14 may provide useful additional information to the OECD delegates. ANSI appreciates the opportunity offered by OECD to provide some information on ANSI and the U.S. standards system. More information is available on the ANSI Web page (www.ansi.org) and we would be happy to answer specific questions.

APPENDIX A

33. The ANSI Patent Policy, excerpted from the *ANSI Essential Requirements: Due process requirements for American National Standards* is reproduced here in its entirety:

3.0 Normative American National Standards Policies

34. Every ANSI-Accredited Standards Developer (ASD) shall comply with the normative policies contained in this section. The ASD may choose to: 1) include the text that follows, as appropriate, in its accredited procedures along with any additional information as required; or 2) submit to ANSI a written statement of full compliance with these policies in addition to policy statements that satisfy the requirements set-forth in this section.

3.1 *ANSI patent policy - Inclusion of Patents in American National Standards*

35. There is no objection in principle to drafting an American National Standard (ANS) in terms that include the use of an essential patent claim (one whose use would be required for compliance with that standard) if it is considered that technical reasons justify this approach.

36. If an ANSI-Accredited Standards Developer (ASD) receives a notice that a proposed ANS or an approved ANS may require the use of such a patent claim, the procedures in this clause shall be followed.

3.1.1 *Statement from patent holder*

37. The ASD shall receive from the patent holder or a party authorized to make assurances on its behalf, in written or electronic form, either:

- assurance in the form of a general disclaimer to the effect that such party does not hold and does not currently intend holding any essential patent claim(s); or
- assurance that a license to such essential patent claim(s) will be made available to applicants desiring to utilize the license for the purpose of implementing the standard either:
 - under reasonable terms and conditions that are demonstrably free of any unfair discrimination; or
 - without compensation and under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

3.1.2 *Record of statement*

38. A record of the patent holder's statement shall be retained in the files of both the ASD and ANSI.

3.1.3 *Notice*

39. When the ASD receives from a patent holder the assurance set forth in 3.1.1 b above, the standard shall include a note substantially as follows:

NOTE – The user’s attention is called to the possibility that compliance with this standard may require use of an invention covered by patent rights.

By publication of this standard, no position is taken with respect to the validity of any such claim(s) or of any patent rights in connection therewith. If a patent holder has filed a statement of willingness to grant a license under these rights on reasonable and nondiscriminatory terms and conditions to applicants desiring to obtain such a license, then details may be obtained from the standards developer.

3.1.4 *Responsibility for identifying patents*

40. Neither the ASD nor ANSI is responsible for identifying patents for which a license may be required by an American National Standard or for conducting inquiries into the legal validity or scope of those patents that are brought to their attention.

APPENDIX B

GUIDELINES FOR IMPLEMENTATION OF THE ANSI PATENT POLICY: AN AID TO MORE EFFICIENT AND EFFECTIVE STANDARDS DEVELOPMENT IN FIELDS THAT MAY INVOLVE PATENTED TECHNOLOGY

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Updated September 2008 to reflect updates to the ANSI Patent Policy approved by the Patent Group and the IPRPC
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About the American National Standards Institute

41. ANSI is a nonprofit, privately funded membership organization that coordinates the development of U.S. voluntary national standards and is the U.S. member body to the International Organization for Standardization (ISO) and, via the United States National Committee (USNC), the International Electrotechnical Commission (IEC).

42. The Institute was founded in 1918, prompted by the need for an “umbrella” organization to coordinate the activities of the U.S. voluntary standards system and eliminate conflict and duplication in the development process. For over seventy years, this system has been successfully administered by the private sector, via ANSI, with the cooperation of federal, state and local governments. The Institute serves a diverse membership of over 1300 companies, 250 professional, technical, trade, labor and consumer organizations and some 30 government agencies. Standards exist in all industries, including safety and health, telecommunications, information processing, petroleum, medical devices, etc.

43. Some of the Institute’s key functions include:

- Coordinating the self-regulating, due process consensus based U.S. voluntary standards system;
- Administering the development of standards and approving them as American National Standards;
- Providing the means for the U.S. to influence development of international and regional standards;
- Promoting awareness of the growing strategic significance of standards technology to U.S. global competitiveness.

I Purpose

44. These Guidelines are intended to assist voluntary standards developers, and those that participate in the standards development process, in understanding and implementing the ANSI Patent Policy (the “Patent Policy”, see Exhibit A). Drafted by a task force formed by ANSI for the purpose of studying the Patent Policy, the Guidelines seek to encourage the early disclosure and identification of patents that may relate to standards under development, so as to thereby promote greater efficiency in standards development practices.

45. By definition, guidelines are suggestions -- adherence is not essential for standards developers to be found in compliance with ANSI’s Patent Policy. Rather, this is an effort to identify possible procedures that a standards developer may wish to adopt, either in whole or in part, for purposes of effectively implementing the Patent Policy. Additional or different steps may also be selected for such purposes.

II An Overview of the ANSI Patent Policy

46. The Patent Policy is set forth in Section 3.1 of ANSI’s “Essential Requirements: Due process requirements for American National Standards” as approved by the ANSI Board of Directors (the “ANSI Essential Requirements”). Compliance (or non-compliance) with the Patent Policy is one of the criteria to be considered by ANSI’s Board of Standards Review (“BSR”) in determining whether to approve (or withdraw approval of) an American National Standards. See ANSI Essential Requirements, Section 4.2.

As set forth in the ANSI Procedures:

47. There is no objection in principle to drafting an American National Standard (“ANS”) in terms that include the use of an essential patent claim(one whose use would be required for compliance with that standard) if it is considered that technical reasons justify this approach. ANSI Essential Requirements, Section 3.1.

48. However, where a proposed ANS or an approved ANS may require the use of such patent claim, the procedures detailed in Sections 3.1 must be followed.

49. In particular, *the identified party or patent holder* must supply the ANSI-accredited standards developer (“ASD”) with either:

- an assurance in the form of a general disclaimer to the effect that such party does not hold and does not anticipate holding any essential patent claim(s); *or*
- an assurance that a license to such essential patent claim(s) will be made available to applicants desiring to utilize the license for the purpose of implementing the standard, either:
 - under reasonable terms and conditions that are demonstrably free of any unfair discrimination; *or*
 - without compensation and under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

ANSI Essential Requirements, Section 3.1.1.

50. The Patent Holder’s statement of intent to comply shall be retained in the files of both the ASD and ANSI ANSI Essential Requirements, Section 3.1.2.

51. While ANSI's counsel will verify that the information required from the patent holder has been supplied, counsel will not undertake to evaluate whether the terms and conditions satisfy the substantive test set forth in Section 3.1 (i.e. whether the terms and conditions are "reasonable" and/or "free of any unfair discrimination"). Such a decision is the exclusive province of the Board of Standards Review (or, on appeal, the ANSI Appeals Board) if the issue is raised during the approval process or in a petition for withdrawal of approval. In making its decision, the BSR shall consider all information of record it finds relevant.

52. Neither the standards developer submitting a standard for approval nor ANSI is responsible for identifying patents for which a license may be required by an American National Standard or for conducting inquiries into the legal validity or scope of any patents brought to their attention. (ANSI Essential Requirements, Section 3.1.4.)

53. A standards developer seeking approval of a proposed American National Standard should take steps that it reasonably concludes are sufficient to permit a representation to ANSI that the Patent Policy has been met. In turn, ANSI, through its BSR, will take those steps that it reasonably concludes are sufficient to determine that the Patent Policy has been met based on the record before the BSR. Upon publication, the standard shall bear a notice in form specified in Section 3.1.3.

III Possible Procedures for Implementing the Policy

A Early Disclosure of Patent Rights

54. Experience has indicated that early disclosure of essential patents or essential patent claims is likely to enhance the efficiency of the process used to finalize and approve standards. Early disclosure permits notice of such patent claims to the standards developer and ANSI in a timely manner, provides participants the greatest opportunity to evaluate the propriety of standardizing the patented technology, and allows patent holders and prospective licensees ample time to negotiate the terms and conditions of licenses outside the standards development process itself.

55. Accordingly, during the development period, standards developers may wish to adopt procedures whereby one or more requests are made to participants for the disclosure of patents that may be required for use of standards in process. Such a request could be made, for example, by including it on letter ballots used in connection with the development of a proposed standard. Alternatively, other means could be adopted so that requests are repeated throughout the course of the standards development process -- e.g., by a semi-annual notice mailed to each participant in the development process or appropriate working group(s).

56. This is not to suggest that a standards developer should require any participant in the development process to undertake a patent search of its own portfolio or of any other. The objective is to obtain early disclosure concerning the existence of patents, where known.

57. A standards developer may also consider taking steps to make it clear that any participant in the process -- not just patent holder -- is permitted to identify or disclose essential patents or essential patent claims that may be required for implementation of the standard. Generally, it is desirable to encourage disclosure of as much information as possible concerning the patent, including the identity of the patent holder, the patent's number, and information regarding precisely how it may relate to the standard being developed. Further, to assist in international standardization, a standards developer may deem it appropriate to encourage the disclosure of relevant unexpired foreign patents.

58. Similarly, a standards developer may wish to encourage participants to disclose the existence of pending U.S. patent applications relating to a standard under development. Of course, in such a situation

the extent of any disclosure may be more circumscribed due to the possible need for confidentiality and uncertainty as to whether an application will mature into a patent and what its claimed scope will ultimately be.

B Early Indication of a Willingness to License

59. The early identification of relevant essential patents or essential patent claims should also increase the likelihood of an early indication from the patent holder that it is willing to license its invention, that it is prepared to do so on reasonable terms and conditions demonstrably free of unfair discrimination, or that the patent in question is not required for compliance with the proposed standard. A patent holder may have a strong incentive to provide an early assurance that the terms and conditions of the license will be reasonable and demonstrably free of unfair discrimination because of its inherent interest in avoiding any objection to the standardization of its proprietary technology. As a consequence, patent holders and prospective licensees would be provided greater opportunities to negotiate acceptable license terms.

60. It should be reiterated, however, that the determination of specific license terms and conditions, and the evaluation of whether such license terms and conditions are reasonable and demonstrably free of unfair discrimination, are not matters that are properly the subject of discussion or debate at a development meeting. Such matters should be determined only by the prospective parties to each license or, if necessary, by an appeal challenging whether compliance with the Patent Policy has been achieved.

61. It should also be emphasized that, notwithstanding the incentive for patent holders to indicate any early willingness to license, it may not be possible for potential patent holders to give such an assurance until the standards development process has reached a relatively mature stage. It might be that only at that time will the patent holder be aware that its patent may be required for use of the proposed standard. This should not, however, preclude a patent holder from giving an assurance that *if* its patent is required for use of the standard it will license on reasonable terms and conditions demonstrably free of unfair discrimination.

62. Thus, standards developers may wish to adopt procedures that would permit and encourage the early indication by patent holders of their willingness to comply with the Patent Policy by providing one of the assurances specified therein. Such encouragement might take the form of simply advising participants in the development effort that assurances may be made at an early stage, explaining the advantages of early negotiations, or through other means. While participants in the standards development effort might consider a refusal to provide assurances (or a refusal to commit to offer acceptable licensing terms and conditions) as a ground for favoring an alternative technology, the patent holder is only required to provide assurances as called for by the Patent Policy.

C Subsequently Discovered Patents

63. The Patent Policy applies with equal force to situations involving (1) the discovery of essential patent claims that may be required for use of a standard subsequent to its adoption and (2) the initial issuance of a patent after adoption. Once disclosure is made, the holder is obligated to provide the same assurances to ASD as are required in situations where essential patent claims exist or are known prior to approval of a proposed standard as an American National Standard.

64. Thus, if notice is given of a patent that may be required for use of an already approved American National Standard, a standard developer may wish to make it clear to its participants that the ANSI procedures require the patent holder to provide the assurances contained in the Patent Policy or suffer the withdrawal of ANSI's approval of the standard as an American National Standard.

IV Conclusion

65. Good standards development is often time consuming and demands considerable effort by those participating in the process. In fields that may involve the use of patented technology in a standard, therefore, it is particularly important that a patent holder's willingness and intention to comply with ANSI's Patent Policy be ascertained as soon as possible. Doing, so, however, does not require participants in standards development meetings to become involved in negotiating the terms and conditions of a possible license with the patent holder. To the contrary, what is required is the use of effective procedures designed to assure an understanding of the Patent Policy and to foster prompt compliance with it.

Exhibit A

66. ANSI Essential Requirements, Section 3.1

ANSI's Patent Policy

3.1 ANSI patent policy - Inclusion of Patents in American National Standards

67. There is no objection in principle to drafting an American National Standard (ANS) in terms that include the use of an essential patent claim (one whose use would be required for compliance with that standard) if it is considered that technical reasons justify this approach.

68. If an ANSI-Accredited Standards Developer (ASD) receives a notice that a proposed ANS or an approved ANS may require the use of such patent claim, the procedures in this clause shall be followed.

3.1.1 Statement from patent holder

The ASD shall receive from the patent holder or a party authorized to make assurances on its behalf, in written or electronic form, either:

- (a) assurance in the form of a general disclaimer to the effect that such party does not hold and does not currently intend holding any essential patent claim(s); or
- (b) assurance that a license to such essential patent claim(s) will be made available to applicants desiring to utilize the license for the purpose of implementing the standard either:
 - (i) under reasonable terms and conditions that are demonstrably free of any unfair discrimination; or
 - (ii) without compensation and under reasonable terms and conditions that are demonstrably free of any unfair discrimination.

3.1.2 Record of statement

A record of the patent holder's statement shall be retained in the files of both the ASD and ANSI.

3.1.3 Notice

When the ASD receives from a patent holder the assurance set forth in 3.1.1 (b) above, the standard shall include a note substantially as follows:

NOTE – The user’s attention is called to the possibility that compliance with this standard may require use of an invention covered by patent rights.

By publication of this standard, no position is taken with respect to the validity of any such claim(s) or of any patent rights in connection therewith. If a patent holder has filed a statement of willingness to grant a license under these rights on reasonable and nondiscriminatory terms and conditions to applicants desiring to obtain such a license, then details may be obtained from the standards developer.

3.1.4 Responsibility for identifying patents

69. Neither the ASD nor ANSI is responsible for identifying patents for which a license may be required by an American National Standard or for conducting inquiries into the legal validity or scope of those patents that are brought to their attention.

APPENDIX C

CRITICAL ISSUE PAPER

Title: Current Attempts to Change Established Definition of “Open” Standards

Issue: The term “open standard” has been used recently to describe a standard that may be copied, used and distributed for no fee and/or whose embedded technology is irrevocably available on a royalty-free basis. This definition has created some confusion among standards developers and users because it is contrary to the definition of “open” and “openness” long held by the American National Standards Institute (ANSI) and many other recognized standards bodies who understand the term to describe a collaborative, balanced and consensus-based approval process for the promulgation of domestic or international standards.

Background: Historically, ANSI and many U.S.-based developers of voluntary consensus standards have used the terms “open” or “openness” to characterize a process that has certain important features. These include:

- consensus by a group or “consensus body” that includes representatives from materially affected and interested parties;
- broad-based public review and comment on draft standards;
- consideration of and response to comments submitted by voting members of the relevant consensus body as well as by the public;
- incorporation of approved changes into a draft standard; and
- availability of an appeal by any participant alleging that due process principles were not respected during the standards-development process.

These same features are central to the policies of well-recognized regional and international standards bodies such as the International Telecommunications Union (ITU), International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), European Telecommunications Standards Institute (ETSI) and the WC3 Consortium. Further, these features are endorsed in Annex 4 of the Second Triennial Review of the WTO/TBT Agreement.

By contrast to these well-established notions of standards organizations that develop “open” standards, other incompatible definitions of the term “open standard” exist, both within the standardization industry and within certain industrial sectors. For example, recently the European Commission’s Interchange of Data Between Administrations (“IDA”) released a document which seeks to establish a European interoperability framework to support the delivery of electronic government services. In that document, entitled *European Interoperability Framework of Pan-European E-Government Services*, the IDA stated that an “open standard” is one that is “available to all interested parties” and subject to copying, distribution and use “for no fee or at a nominal fee” and whose

intellectual property is “irrevocably available on a royalty-free basis” with “no constraints on the re-use of the standards.”

But using the term “open standard” to define a specification whose sole quality is that is unconditionally and freely available to those who wish to implement it is misleading for two reasons.

First, it ignores the fact that essential patent holders have the right to decide how they will license their intellectual property. The terms and conditions used in the development of “open standards” should balance the interests of those who will implement the standard with the interests and voluntary cooperation of those who own intellectual property rights that are essential to implementation of the standard. Such terms and conditions should readily promote, and not unreasonably burden, accessibility to the standard for the communities of interested implementers. To achieve such balance, the payment of reasonable license fees and/or other reasonable and nondiscriminatory license terms may be required by the intellectual property rights holders. This balance of licensing rights (rather than waiver thereof) is consistent with an open standard. The word “open” does not imply “free” from monetary compensation or other reasonable and nondiscriminatory license terms.

Further, an open standard may involve the payment of a fee to obtain a copy of the standard. Such fees are sometimes used to offset the costs associated with managing open standards development process.

Additional Information:

- *ANSI Essential Requirements: Due process requirements for American National Standards (2005 edition)*
- American National Standards Institute - Introduction

ANSI Policy Body Addressing Issue: Intellectual Property Rights Policy Committee

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