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Department of Justice Gives Antitrust Guidance to Standards Development Organizations

Last week, the United States Department of Justice issued a business review letter that provides important guidance to standards development organizations ("SDOs") that have or wish to adopt certain disclosure policies regarding the licensing of essential patents.[1] As a general matter, any discussions among competitors of royalty rates or other terms or conditions on the licensing of patents raises significant antitrust issues. Among other things, any such discussions might be taken as evidence of collusion in violation of Section 1 of the Sherman Act.

In its letter, the Justice Department stated that it had no present intention to take enforcement action against a trade association that proposed to adopt a new policy that would require participants in its standards development processes to disclose patents that are essential to implement a new standard and to declare the most restrictive licensing terms that will be required to license any such patents. This is a significant development for all SDOs because it may encourage them to consider the adoption of new disclosure policies or the modification of existing disclosure policies to incorporate similar provisions.

In many standards-setting processes, participants can often choose between substitute technological solutions, some of which may be patented. Of course, when a standard incorporates patented technology, the patent holder may be in a position to impose onerous licensing terms that may restrict the use of the standard. Some SDOs have sought to avoid this potential "hold-up" problem by requiring patent holders to disclose essential patents and patent applications, and to license those patents on reasonable and non-discriminatory ("RAND") terms. Because of fears about potential antitrust liability, however, many SDOs strictly avoid any discussion of actual royalty rates or other terms or conditions on the licensing of essential patents.

The experience of some SDOs with the requirement that holders of essential patents agree to license on RAND terms has not been entirely satisfactory. The trade association that requested last week's business review letter, for example, reported that several firms had claimed to have patents that were essential to the implementation of a standard, yet demanded royalties that were

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[1] Letter from Thomas O. Barnett, Assistant Attorney General, Antitrust Division, United States Department of Justice, to Robert A. Skitol, Esq. (Oct 30, 2006) *available at* http://www.usdoj.gov/atr/public/busreview/219380.pdf.

significantly higher than expected. In one of those instances, the licensing terms demanded by the patent owner rendered a standard commercially infeasible. In response, the trade association proposed to adopt a new policy that would require each participant to disclose any essential patents early in the standard development process and—at the same time—unilaterally declare the maximum royalty rates and most restrictive non-royalty terms that it will request for licensing any essential patents if the standard is ultimately adopted.

In its business review letter, the Justice Department analyzed the proposed new policy under the rule of reason, which considers both the policy's expected benefits and its potential to restrain competition. It recognized that requiring patent holders to disclose their most restrictive licensing terms in advance could enable participants to "make more informed decisions when setting a standard" and would decrease the chances that the standard setting efforts would "be jeopardized by unexpectedly high licensing demands from [a] patent holder." It therefore concluded that "adopting this policy is a sensible effort . . . to address a problem that is created by the standard-setting process itself."

At the same time, the Justice Department acknowledged that the trade association's proposed new policy would "somewhat" relax the traditionally strict rules adopted by many SDOs that forbid all activities that could potentially result in antitrust liability, including restrictions on discussing the terms and conditions of licenses for essential patents. It emphasized, however, that the proposed policy would not affect the trade association's current prohibition on joint negotiation and discussion of patent licensing terms by participants or with third parties at all meetings of the trade association. It also cautioned that "any attempt by [the trade association or participants] to use the declaration process as a cover for price-fixing of downstream goods or to rig bids among patent holders . . . would be summarily condemned" as a *per se* violation of the Sherman Act.

While last week's business review letter suggests that SDOs may have some new flexibility in crafting disclosure rules relating to maximum royalties for essential patents, it is important to bear in mind that such business review letters merely express the Justice Department's current enforcement intentions. Although business review letters may be cited as persuasive authority in civil litigation, they have no binding precedential effect, and the Justice Department always reserves the right to bring an enforcement action in the future if it determines that the conduct at issue proves to be anticompetitive in purpose or effect. Accordingly, the potential for antitrust liability requires proceeding with caution. SDOs considering whether to adopt or modify disclosure rules—as well as SDO participants that would be subject to such rules—should seek legal advice.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues discussed in this memorandum may be addressed to any of the following:

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