

Book Review

Intellectual Property Rights and Competition in Standard Setting

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Intellectual Property Rights and Competition in Standard Setting

Valerio Torti

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In the book *Intellectual Property Rights and Competition in Standard Setting: Objectives and tensions*, Valerio Torti (2016) “seeks to resolve the tension that may potentially arise in the field of standard setting between intellectual property rights (IPRs) and competition law” (p.1). The tension concerns the exclusive rights granted to IPR owners as an incentive for investing in innovation, on the one hand, and possible abuse of market power by owners of standard essential patents (SEPS), on the other. Think of patent ambush¹ in standard setting and breaches of licensing terms, behavior which economists refer to as ‘opportunism’ or ‘hold-up’ (Farrell et al., 2007). Torti, a law scholar working as a post-doctoral research fellow at the Centre for Law and Business of the National University of Singapore, is exploring the optimal policy model to ensure effective standardization (p.2) in the IT sector.

Let me start by introducing the subject, the structure of the book and Torti’s main point, before addressing why I think this law-oriented book may also be interesting to interdisciplinary scholars of standardization like myself and providing some comments.

The amount of case law on patent use and abuse in standardization - and the “clash between the private character of IPRs and the public nature of standards” (Torti, p.1) - is rising. There is a heated debate, foremost among economists and lawyers, on e.g. mechanisms for best assigning monetary value to SEPS and how to best ensure ‘fair play’ given the benefits of both innovation and interoperability. In this respect, FRAND policies of standards bodies and consortia², that is, policies about licensing patents on Fair, Reasonable and Non-Discriminatory terms, have been much scrutinized. Torti also argues the need to clarify FRAND policies. But he discusses it foremost as a framework requirement for his proposal, which I will turn to below.

In developing his line of argument, he covers an extensive amount of literature. In Part I, he reviews the objectives of competition and IP law, and how these relate to standardization. In Part II, he examines relevant case law, and the different perspectives and regulatory provisions the US en the

EU have for tackling patent-related disputes. In Part III, he integrates his insights and argues for a model that ‘reconciles IPRs and competition in standard setting’ (title of chapter 7). Key to his model is that patent owners should provide an ex ante maximum price cap for licensing. Part and parcel are, among other things, the duty to disclose IPRs at a sufficiently early stage of standardization and a more robust FRAND policy (p. 225).

Ex ante licensing disclosure has already been heavily debated and adopted as policy by two U.S.-based standards developing organizations (VITA³ and IEEE⁴; Contreras, 2011). Whether it strikes the best achievable balance between private IP and public interoperability and innovation interests, and also best solves hold-up problems standard setting organizations are facing, as Torti argues, I cannot fully assess, not having a legal background. However, the outcome of Torti’s reasoning seems to concur with Contreras’ findings, who concludes in report on the matter that “process-based criticisms of ex ante policies and the predicted negative effects flowing from the adoption of such policies, are not supported by the evidence reviewed.” (Contreras, 2011, p.1) While Torti will be aware that he has not fully cleared the thorny issue about the timing of maximum price cap setting (Torti, 2016, p.202) and patent disclosure (p.206), overall, the book is well-structured, persuasive and annoying rhetoric stylistic devices⁵ are few and far between.

Why would the book be interesting to non-legal scholars? In many economic studies of standardization, the value of competition, innovation and IPRs are basic axioms seldom questioned. Torti scrutinizes them as a stepping stone for analyzing case law. He qualifies them as secondary goals and concludes, for example, that “competition systems and their enforcement processes should not aim at the protection of rivalry *per se*.” (p.12) Instead, competition should be interpreted in the light of societal welfare (p.13). Moreover, the book discusses some noteworthy court cases (e.g. Rambus and Qualcomm) and contains interesting quotes, such as a quote from Judge Scalia of the US Supreme Court. Judge Scalia argues that perfect market competition does not stimulate innovation: “The opportunity to charge monopoly prices – at least for a short period – is what attracts business acumen (...) it induces risk taking that produces innovation”(p.109). Regarding innovation, Torti emphasizes the need to reward companies for innovations. But he questions, albeit in passing, whether “the adoption of non-proprietary standards [would] lead to fewer firms investing in innovation” (p.54). In sum, he shows that little can be taken for granted.

Do I have any critique? I would like to push the point about not taking things for granted on two issues. First, Torti seems to fear that IPRs owners will not participate in standardization unless reasonably rewarded. If not, he argues, this may lead to less innovative, lower quality standards (p.56, p.100, p.195). I am not convinced this will be the case. It would imply a lesser quality of standards developed under a Royalty Free regime (e.g. W3C⁶ and IETF⁷); and would engineer-standardizers agree that this could also be said about SEP workarounds? Moreover, I could imagine that in many cases a standard *per se* and the promise of interoperability are precious enough to attract IPRs owners. If so, fear for lower quality standards should not enter consideration.

Second, apparently court rulings need to take prior case law into consideration. Torti describes, for example, the highly debated ruling of the German court in the Orange Book Standard case (p.112). In a subsequent similar case, to better meet European policy objectives, the European Court of Justice had to draw from a different source of law to circumvent the German ruling. This is ‘interesting’, to say the least. And it illustrates how, as a matter of course, social constructs such as case rulings become ‘institutionalized’ (Powell and DiMaggio, 1991). Breaking with prior jurisdiction is not an option for lawyers, it seems, whereas repair case rulings are. Was the noted judicial circumvention a one-off thing? One would generally hope for judicial parsimony and restraint in addressing IPR issues in standardization. But possibly in vain, considering, for example, the Rambus case (section 3.1.3). The way I read Torti’s discussion of the case I do not understand why, ultimately, Rambus’ behavior was not judged according to the spirit of JEDEC’s⁸ IPR policy (and the Federal Trade Commission’s

decision) rather than the letter. Torti accepts – or maybe must accept in the light of former rulings – the US Court of Appeal’s verdict. While I understand that prior case law is a lawyer’s reference framework, accepting things the way they are is only one step away from saying that this is also how they should be. It reminds me of what Candide’s tutor Pangloss says to Candide: “noses are made to wear glasses, (...) and pigs are made for consumption” and therefore we live in the best of all worlds (Voltaire, 1759, chapter 1, *transl. TE*).

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ENDNOTES

- ¹ “(...) when firms fail to disclose to an SSO the existence of IPRs they own over a technology that could be part of a specific standard [and] decide to (...) maintain control over their own property rights.” (Torti, p.90)
- ² For an inventory of FRAND policies, see e.g. Bekkers & Updegrove (2012)
- ³ VMEBus International Trade Association.
- ⁴ Institute for Electrical and Electronics Engineers.
- ⁵ I refer to phrases such as “The position of the court *seems undoubtedly* more persuasive (...) (p. 177) and “the exclusion of a general duty to search essential IPRs (...) *may well encourage* innovators to take part in standard setting” (p.226). [*italics by TE*]
- ⁶ World Wide Web Consortium.
- ⁷ Internet Engineering Task Force.
- ⁸ JEDEC, is a standards setting organization for the microelectronics industry.