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The Interplay Between Standards Bodies and Patents

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Technical standards are often used to ensure that products from different companies will interoperate. Many of these standards are created by a standards body composed of companies interested in influencing the particular standard at hand. In a typical process, proposals for the standard are solicited. Members of the standards body then debate and adopt a standard based on the proposals and feedback from the industry at large. Ideally, other participants in the industry would then follow the adopted standard, ensuring interoperability between products.

Patents pose a particularly thorny issue for standards. By definition, the ideal standard is one that is adopted by all companies in an industry. However, if a patentee owns a patent that would be infringed by compliance with the standard, the patentee can effectively hold the entire industry hostage since all industry participants would be infringing.

In an attempt to address this issue, standards bodies typically have a patent policy that describes various participants' obligations with respect to their patent portfolio. While patent policies can vary significantly in their details, they usually follow one of two general approaches. The first approach is centered on disclosure. Participants are required to identify to the standards body any patents that are relevant to the standard being considered. The standards body can then take this factor into account when setting the standard. The other common approach is centered on compulsory licensing. Participants are required to license any patents that are relevant to the standard, typically on "reasonable" and "nondiscriminatory" (RAND) terms. The underlying notion is that the patentee is permitted to reap the rewards for its patent so long as the effect on the industry is not overly burdensome (the reasonableness requirement) and does not tip the marketplace in favor of any particular company (the nondiscriminatory requirement).

Unfortunately, most patent policies fall short of eliminating the patent issue. This is partly because the patent policies themselves are not as fully developed or as well drafted as they could be, resulting in ambiguity in the policy itself. For example, many patent policies may have significant ambiguities regarding who is bound by the policy and for how long, which patents and patent applications are affected and/or the procedure for complying with the obligations under the patent policy. In addition, even if a patent policy was unambiguous regarding its obligations, almost all patent policies do not specify the remedy for breaching an obligation. By default, then, the task of crafting a remedy falls to the courts and the law.

In a typical situation, a patentee brings a lawsuit alleging that a defendant's standards-compliant product infringes the patentee's patent. The defendant makes a defense based on the patentee's obligations under the standard body's patent policy. One common defense theory is that the patentee's actions vis a vis its participation on the standards body have created an equitable estoppel that bars the current infringement suit. Another common theory is that by bring the infringement suit, the patentee has breached its contract obligations under the patent policy.

In order to prevail under the equitable estoppel theory, the defendant must show that the patentee's conduct was misleading, that the defendant relied on the misleading conduct, and that the defendant would be materially prejudiced if the patent is enforced. In the context of a patent infringement suit, the third element of material prejudice typically will naturally follow if the first two elements of misleading conduct and reliance are found.

The first element of misleading conduct can be either a misleading act or a misleading omission, but it must be misleading. This generally requires bad faith or a more malicious intent but does not require a specific intent to mislead. Significantly, neither strict liability nor simple negligence qualifies as misleading. For example, in the case of a disclosure obligation, an accidental failure to disclose a relevant patent typically would not satisfy this first element. Similarly, if the patentee conducted a good faith effort to find relevant patents but simply overlooked the patent in suit, then the first element typically would not be met. However, repeated, persistent silence where the patent policy confers an affirmative duty to speak generally would qualify as misleading conduct.

For the second element, the defendant must rely on the misleading behavior. If the defendant was not aware of the behavior, then it could not possibly have relied upon the behavior and equitable estoppel will not be found. Typically, a defendant argues that the patentee's failure to disclose a relevant patent led the defendant to believe that either the patentee did not have any relevant patents or would not enforce relevant patents. Alternately, a defendant may argue that the standards body would have adopted a different non-infringing standard if the patent had disclosed the relevant patent.

In the case of a disclosure obligation, if the defendant prevails in its equitable estoppel defense, the remedy is usually a complete bar to the infringement action.

The case of a RAND obligation is less clear. Assuming that the patentee has met any disclosure obligation or that there is no disclosure obligation, and that the defendant alleges simply that the patentee has not offered a license on RAND terms, it is generally more difficult for the defendant to show the elements required for equitable estoppel. Much of the difficulty stems from the fact that most patent policies do not define either "reasonable" or "nondiscriminatory." Even if the defendant prevails, the remedy likely is that the patentee will be required to offer a license to the defendant on RAND terms, which again depends on the issue of what is "reasonable" and "nondiscriminatory."

Under the contract theory, the defendant typically argues that the patentee breached a contractual obligation of some sort and the defendant is now entitled to remedies for the breach. This defense theory is usually weaker than the equitable estoppel defense because there must be a contractual obligation between the patentee and the defendant and the remedies are limited to contract remedies.

In many cases, it may not be clear even whether any contract has been formed. In the clearest cases, the patentee will have executed some sort of express agreement, for example a membership agreement to become a member of the standards body. In less clear cases, the defendant may allege a contract obligation based on the bylaws of the standards body and the patentee's express or implied consent to abide by the bylaws. In even less clear cases, the patentee may not have executed any written agreements but the defendant bases his defense on an implied obligation to follow the patent policy of the standards body.

Even when there is a clear contract, the defendant must have some connection to the contract in order to have standing to claim breach of contract remedies. If the contract is between members of the standards body, then a nonmember defendant may not have standing to sue. Presumably, only other members would have standing. It is even possible that the contract is between each member and the standards body, in which case the standards body itself may be the only entity with standing. A nonmember defendant may have standing as a third party beneficiary. However, absent some express statement that nonmembers are intended third party beneficiaries, they typically would be classified as incidental beneficiaries without standing.

Even if the defendant prevailed on a breach of contract claim, contract remedies are not well suited for this type of breach. Conventional contract remedies are based on damages required to put the aggrieved party in the same position he would have been, had the other party not breached.

In the case of a breach of a disclosure obligation, those damages are not well defined. Exactly what position would the defendant be in if the patentee had disclosed his relevant patent? Would a different standard have been adopted? Would the defendant have changed his design to be non-infringing? Would the defendant have avoided entering this market entirely? Would the defendant have taken a license earlier at a lower rate? Specific performance may be available, but in this case specific performance is inadequate since it would require only that the patentee disclose his relevant patent, which it has already done in bringing suit.

The situation for a RAND obligation is better defined. Requiring the patentee to grant a license to the defendant at a RAND rate or capping damages for the infringement suit at the RAND rate would seem to both fall within the scope of a specific performance remedy and adequately address the breach of the RAND obligation. However, this remedy again raises the issue of what is reasonable and nondiscriminatory.

In conclusion, the issue of a patented standard is one that is growing in importance as standards play an ever greater role in technology development. The current situation is markedly improved compared to efforts from prior years but still contains significant uncertainty for companies entering this arena.

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