Avoiding the Legal Mire

STANDARD SETTING PRESENTS THREE TYPES OF LEGAL ISSUES: ANTITRUST, INTELLECTUAL PROPERTY, AND CHOICE OF A COMMERCIAL VEHICLE THROUGH WHICH TO CARRY OUT THE STANDARD SETTING.

Colm MacKernan

Ablondi, Foster, Sobin, and Davidow, p.c.

When *IEEE Micro* last addressed the issue of standard setting in August 1994, Richard Stern suggested that, at least legally, the idea was akin to the "conjugal activity of porcupines. It must be carried out carefully." This article intends to explain at least a little of how to avoid serious puncture wounds during the process. Since we are using an analogy here, perhaps I can suggest another example involving railways.

Most of the world, including Germany, uses the standard rail gauge established in 1830 for the Liverpool & Manchester Railway, 4 feet, 8-1/2 inches. Russia decided to build its railways with a gauge of 5 feet to hamper invasion by Germany. This made it impossible for the Germans to interconnect their railways with Russia's (especially useful for the Russians during war). In effect, Russia chose its railway standard to frustrate its competitors. However, despite the current popularity among business people of the writings of Sun Tzu, legal authorities look with some disfavor upon the attitude that business is war. Instead they expect companies engaged in standard setting to follow at least some of the legal rules.

Most joint or multilateral standards begin by following a simple pattern. For example, acquaintances in a particular business who work for different companies meet one another, perhaps by design, perhaps by accident—say, in a cocktail bar at some convention—and start to discuss a mutual problem or issue. Usually all are at least vaguely acquainted with the research that each other's company is up to. Someone suggests it might be a good thing if a standard were to be agreed upon for some device. Maybe some general ideas are sketched out on the back of a napkin. Then everyone goes home and talks with management. Some e-mail flits about, the idea comes to be taken more seriously, and someone in management decides that pursuing a standard would be a good thing. This is when the legal problems start.

Another type of standard for legal purposes is unilateral or de facto standards, the best known of which include DOS and Windows, although others exist. This type of standard develops because what economists call "market externalities" favor companies making their products compatible with those of major product manufacturers in a given industry sector. In other words, it is easier to sell a Windows program than something that runs on a Commodore 64. However, when the source of these unilateral standards—say, Microsoft or IBM, becomes dominant in an industry, new antitrust issues can arise. Since these issues are somewhat different from the issues related to joint standards, and for that matter are still evolving, I discuss them separately and later in this article.

Putting together a joint technical standard

0272-1732/98/$10.00 © 1998 IEEE

presents an array of complex legal issues that include intellectual property rights, company and contract law, and most importantly, antitrust or competition law. Intellectual property issues arise directly out of information that must be exchanged among parties to the standard, and indirectly out of the need to enforce the standard. Company and contract law issues come from the legal vehicle that must be created to establish the standard. Finally, antitrust problems arise because commercial standard setting usually requires the cooperation of companies that are both competitors and commercially powerful within their given industries.

It is this last issue, antitrust and competition law, that drives many of the legal decisions involving intellectual property, and which must be clearly understood before other legal problems can be addressed. Moreover, participants must consider both US antitrust law and European Community competition law, since modern product standards tend to be global in scope. Since US and EC competition law are, in effect, the standards upon which most countries base their competition laws, an arrangement that is legal under either law will generally become legal everywhere.

> People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in conspiracy against the public, or in some contrivance to raise prices.—Adam Smith, *The Wealth of Nations*

To a degree, many antitrust enforcers probably agree with Adam Smith, but the courts have told them they must still prove a scheme was indeed cooked up between competitors at a meeting. It is reasonable to suggest that the US Department of Justice's Antitrust Division and the European Commission's Directorate General IV (DG IV) react with some suspicion when they hear of competitors meeting. A company's antitrust counsel usually aren't wildly happy about such meetings, even less happy if they are private or secret, and just plain miserable if there was no clear agenda for the meetings. Of course, they may be dancing for joy at the thought of future legal fees.

In the context of standard setting, it does not help the situation that standards have a long and ignoble history of being used to lock out competitors, allocate markets, and bolster cartels. To this must be added a second factor, cost. Antitrust litigation, even when the defendant wins, can be horribly disruptive and expensive. It requires legions of lawyers, economists, accountants, expert witnesses, and endless depositions of everyone from senior company officials to engineers involved in the project. For this reason, when setting standards, the first legal rule is "better safe than sorry," especially since safety is possible at comparably little cost.

When setting standards, the first legal rule is "better safe than sorry," especially since safety is possible at comparably little cost.

Joint standards

Joint standards have a history of turning, if not into a conspiracy against the public, at least into a conspiracy against competitors. Particularly when a company is not invited to a standard-setting meeting, there is a strong concern that the companies present will choose their standards not only for efficacy, but also because a competitor has trouble meeting the standard.

Two well-known US Supreme Court decisions illustrate some of the ploys used to eliminate competition through standard setting. In *Allied Tube & Conduit Corp.* v. *Indian Head, Inc.,* Indian Head, a manufacturer of steel conduit, packed a meeting of the National Fire Protection Association, the organization that establishes the National Electrical Code. Indian Head then used CB radios and hand signals to direct its voters to veto certification of the type of plastic conduit manufactured by Allied Tube. The Supreme Court ruled that since the NFPA was a private body, the activity in question violated the *Sherman Act.*

A similarly devious business ploy utilizing standards is found in another US Supreme Court case—*American Society of Mechanical Engineers* v. *Hydrolevel Corp.* In that case, a manufacturer of boiler safety devices, McDonnell & Miller, used its presence on a standard-setting committee of the American Society of Mechanical Engineers to secure from that organization an interpretation of a standard that Hydrolevel's products could not comply with. It then sent the interpretation to customers of Hydrolevel who, naturally concerned about having boilers they installed blow

In general, standard setting tends to forward competition, particularly in the area of microelectronics and computers, because it allows many competitors to manufacture compatible components.

up (or at least about their legal liability), were disinclined to purchase the Hydrolevel device. Unfortunately for the ASME and McDonnell & Miller, devious does not mean smart, and collectively they paid Hydrolevel millions of dollars in damages, treble damages being awarded under the *Sherman Act*.

These cases illustrate a key problem in joint standard setting—if the companies involved choose a standard that a disfavored competitor cannot easily comply with, there is a fair chance of being accused of conspiring to exclude that competitor. It should be pointed out that under European competition law, the result would likely be the same; although private lawsuits are rarer, and official investigations and fines more common, fines can run into many millions of dollars.

Facts that might lead to such an accusation would most likely arise under intellectual property law. For example, a competitor lacks access to a key patent controlled by one of the members of a standard-setting group, and thus simply cannot manufacture products meeting the standard without infringement. It is also possible that the standard in a more subtle way prohibits a key feature of the competitor's product. However, if the competitor's problem in compliance with the standard is a simple quality issue, an antitrust complaint would probably not be possible.

Avoiding the accusation of having manipulated the standard-setting process against a competitor is not actually difficult. For example, in *Consolidated Metal Products Inc.* v. *American Petroleum Institute* it was alleged that competitors had, through the Institute, sought to delay certification of Consolidated's drilling equipment. The Institute was able to defeat this accusation by showing that its members had followed standard procedures already in place. Similarly, in *Clamp-All Corp.* v. *Cast Iron Soil Pipe Institute* a court found that when the standard-setting group limited its activities to "legitimate standard-setting activity," it was not violating antitrust law.

The Institute was again rescued by its procedures in *Greater Rockford Energy & Technology Corp.* v. *Shell Oil Co.* In that case, Rockford alleged that the "seven sister" oil companies had conspired to ensure that the Institute set standards to hamper the sale of gasohol (alcohol blended with gasoline). The Institute and the oil companies successfully defended the lawsuit because they could show that the standard was set according to established procedures and criteria. In all of these cases, the key issue was that the groups involved had a clear agenda and objectives to pursue. They could show that any decisions they might make, although potentially detrimental to a competitor, had been made for a legitimate competitive purpose.

But what is a legitimate competitive purpose? In the US it is established by the so-called "rule of reason" that asks whether the objective pursued broadly forwards competition. In Europe, a similar rule established under Article 85 of the Treaty of Rome asks whether an agreement between competitors would enhance competition and lead to progress while sharing benefits with consumers. In general, standard setting tends to forward competition, particularly in the area of microelectronics and computers, because it allows many competitors to manufacture compatible components. Moreover, a higher standard than the norm is usually chosen, allowing the broader introduction of new technology and devices. Thus, if the standard-setting group sticks to setting quality criteria as a basis for deciding between technologies to use, it is on much safer legal ground. Avoiding classic antitrust language—such as "this will crush those other guys" and the like—is also a good idea.

In this context, a European case—*Magill*—is also of interest, even though it did not involve standards. *Magill* was an Irish magazine that wanted to publish a TV guide containing schedules for all six television channels available in Ireland. Before *Magill*, the only magazines carrying weekly listings were owned by each of the three networks—each magazine listed only the channels that company controlled. The companies released their scheduling information to the newspapers on the condition that they only publish the listings daily. *Magill* published these listings in a weekly format and was promptly and successfully sued by the TV companies for copy-

right infringement in the Irish courts. However, in a landmark judgment, the European Court of Justice (and earlier the European Commission) ruled that the listings were an essential facility that had to be made available to *Magill*. The legal doctrine in *Magill* is known as the "essential facilities doctrine," and is recognized in the US as well as Europe. The doctrine's important aspect to standard setting is that antitrust authorities can and do force companies to make essential facilities available to competitors—and a refusal to do so can violate the law. Standards can be considered essential facilities.

Multilateral standards

Refusal to deal, group boycotts, and price discrimination constitute a major set of issues that must also be considered. In a classic multilateral standard group, the various members will typically contribute results of their technical research; in this respect, the standards group is akin to a patent pool. Patent pools are regarded with suspicion under antitrust law, particularly when nonmembers cannot compete effectively in the market without access to the technology and participants are powerful players in the marketplace. In the US, closed patent pools (pools with licenses restricted to the original members) are regarded with great hostility and are very difficult to defend. Even when the pool is open, if the licenses granted by the pool vehicle are perceived as discriminatory in nature, they may be challenged. In Europe, a patent pool will typically require notification and exemption by DG IV (see box this page). A related issue concerns tying: requiring licensors to buy a selection of technology as a package deal. When several companies get together to offer their technology as a group, tying may be regarded as cartel conduct—raising prices for each company's technology licenses by closing off license options.

A final antitrust issue that must be considered is the unwelcome guest. (Micro Law addresses this problem in more detail on page 6.) Some companies may be unwelcome as members of a standard-setting group or early users of a standard. Perhaps they are considered disruptive, or perhaps there is a perception that because any new development will compete with their unilateral standard they would rather sabotage the process.

The European question

Internationally, one aspect of playing it safe is the question of whether to notify the EC of standard-setting agreements. The primary European competition statute is Article 85 of the Treaty of Rome. The first part of the statute makes all agreements that may restrain competition in the European Union broadly illegal. It exposes the members of such an agreement to fines and a threat of voidness under its second section. The last section of the statute allows the Commission to exempt agreements "notified" to it on various public policy grounds.

Since this structure could lead to the European Commission's Directorate General IV (DG IV) being swamped with notifications, the Commission issued a set of broad collective exemptions known as block exemptions. It includes exemptions for licensing and R&D, but it is not necessarily clear whether standards agreements would always fall within this category. The licensing (technology transfer) block exemption does not apply to patent pools, while the R&D exemption requires parties to be free to use R&D joint venture results. This means that if an agreement is likely to have a significant impact in Europe, it is probably wise to notify the Commission of this agreement. (The technology transfer block exemption is available for DG IV on the Internet at http://europa.eu.int/en/comm/dg04/lawenten/en/techtft.htm; the R&D is at http://europa.eu.int/en/comm/dg04/lawenten/en/41885.htm.)

Notification is a relatively simple, if somewhat burdensome, process. There is a questionnaire, known as Form A/B (also available on the Internet at http://europa.eu.int/en/comm/dg04/lawenten/en/entente3.htm#3385), that asks various questions about the participants, most of which are prosaic. Some details of the market may need to be provided, along with some argument as to why an exemption should be granted. The submission is confidential (and DG IV has a good history of maintaining confidentiality). The big advantage of notification is that it provides absolute safety from fines while the DG IV reviews the notification. And the review can typically take a year or so (unless the item proposed is competitively outrageous), during which the agreement can go forward.

Microsoft has been accused over the years of using standard-setting groups as a way of milking out competitors' secrets, without necessarily disclosing its own, particularly its crucial application programming interfaces for Windows. Sun Microsystems might suggest that inviting Microsoft to join in designing standards for Java is unwise, since Microsoft probably does not bear a potential alternative to Windows much goodwill. It is possible that members of a group could legally refuse a request for admission from a difficult guest—provided they were sure the company could not accuse them later of selecting a standard to competitively injure it. There is also some precedent for groups refusing to sell products to potentially disruptive or destructive companies or individuals. The classic example consists of insurance company blacklists of companies whose factories have burned down repeatedly under unexplained circumstances. However, like him or not, calling Bill Gates an arsonist will probably be considered a little strong by the courts.

The courts have generally looked at the pur-

The best way to resolve this problem is to agree to a confidentiality and nonuse agreement with the other members of the group before detailed information is exchanged.

pose behind standards and examined them to determine if they are designed to achieve the stated technological objective of the standard-setting group. When a group is not allowed to be a member of a standard-setting group, key factors determining legality are the extent of the commercial injury to an excluded or nonqualifying firm as well as harm to market competition. Enforcement of the standards directly by the members is also likely to cause problems. A final point to remember is that if the government sets the standards, the members of the standard-setting group will generally be immune to antitrust liability. However, governments are increasingly disinclined to engage in detailed standard setting, preferring to leave this task to private parties and the market.

Intellectual property issues

The intellectual property issues involved in joint standard setting fall into four main categories:

- technical information exchanged and pooled by the members of the standard group,
- technical information not exchanged by the members,
- securing of intellectual property rights for the standard-setting group, and
- licensing of those rights by the group.

The first problem arises from companies engaged in standard setting—they will likely have to exchange a substantial amount of secret information. However, it is quite possible that the effort to set a standard will prove unsuccessful, and the members will discover that they have exchanged very important trade secrets with their most significant competitors. Such a disclosure may not just be commercially damaging, it may harm the ability of the companies to obtain patents for the information disclosed. Why? Either because the disclosure is considered a publication, or because it violates the on-sale bar (and the companies that know of the disclosure happen to be the most likely candidates to infringe future patents). The best way to resolve this problem is to agree to a confidentiality and nonuse agreement with the other members of the group before detailed information is exchanged.

The trouble with confidentiality and nonuse agreements is somewhat like the difficulty Hollywood studios experience when evaluating scripts and movie proposals. Simply put, it can be very difficult to show where an idea came from, especially in a creative or inventive environment where ideas often resemble each other. Thus there is at least some risk that a company signing such an agreement may be accused of violating it because it engaged in parallel research and subsequently came up with products based on parallel information. A few ways of dealing with this problem exist. The first is to escrow the developments in some way so that technical ideas can be demonstrated to predate the exchange. (One way to escrow research is to file a provisional application with the patent office. Such an application is confidential and proof that you possessed the data therein as of the filing date.) A second way is to make sure that if one member of the group discloses data relating to a technical concept, you promptly disclose your development work in the same area. Finally, the last precaution would be to build some sort of license option into the confidentiality and nonuse agreement that provides for a neutral arbitrator to determine both the probability of unauthorized use and appropriate royalties.

A surprisingly common problem is the nondisclosure of information by members of the standard-setting group. At least three of the best known examples involve the computer and data industries: *Potter Instrument* v. *Storage Technology; Stambler* v. *Diebold;* and most recently the Federal Trade Commission's suit—*In re Dell.* In 1965, Potter patented technology relating to magnetic tape data recording. IBM suggested this technology to ANSI as a standard in 1973, and Potter stayed silent about its patent while the standard was adopted. The court held that Potter's action precluded (estopped) it from asserting patents when its competitors started manufacturing equipment to the standard.

In the *Stambler* case, the plaintiff had been a member of another ANSI committee setting

a standard for a personal ID validation system. Knowing that the proposed standard would infringe its patent, the plaintiff left the committee. The court again held that the patent holder was estopped from asserting its patent. *Dell* was a further extension of the unenforceability of an undisclosed patent. In *Dell*, the FTC found that Dell concealed the existence and ownership of a key patent for the VL bus. The FTC chose to use its antitrust authority to enjoin Dell under a consent decree from enforcing its patent against users of the VL bus for a period of 10 years.

In many respects, it is more important for a company with technology it does not want to cede free to other members of the group to understand the implications of these cases. Generally, if you want to separately license a piece of technology that will likely be used in the standard under discussion, or not license it at all, it is best to disclose that fact promptly to the other members of the standard-setting group. If you allow standard setting to go ahead without revealing the proprietary nature of the technology, then you may lose the ability to enforce intellectual property rights against users of the standard.

The next issue to deal with is licensing intellectual property from the members of the group to various companies that will use the standard. One of the complications of this issue is that the members of the standard-setting group may want to receive royalties for their technology contributions. One simple way to resolve the issue is to grant nonexclusive licenses to the standard-setting vehicle (I would recommend a Delaware corporation or limited liability corporation) with the right to sublicense. The sublicense royalties are then payable to the technology owners, less a small handling fee. The vehicle would then license users of the standards. To avoid accusations of bundling, the original source of each technology would, as a result of the nonexclusive license, remain as an alternate source of the technology. Because the corporation pays almost all the royalties it receives as an expense to the original source of the technology, the vehicle should not be liable for tax on most of the royalties it receives, and double taxation can be largely avoided.

A somewhat different problem is how to handle the issue of technology developed by the standard-setting group, or at its behest. Part of this issue turns on the substantiality of the vehicle. Is it basically a shell company designed to own the various assets associated with the standard? Or is it a more substantial organization, employing its own engineers and research facilities? In the first situation, if additional technical work is to be performed, it will likely be by the members of the group. Here the issue is whether each member of the group exclusively owns what it develops, must provide it free to the standard-setting vehicle, or can charge royalties for the extra development. And who funds the development work? The simple solution is for all the members to agree contractually to fund various aspects of the work performed by each other's researchers, or to balance out the workload and cross-license any developments to one another. The technology can then also be licensed to the standard-setting vehicle in the same way as outlined earlier.

If the second arrangement is to be used, the problem becomes whether the organization can make a profit, and if it can't, how the expense is to be recovered. One way is for the group members to lend funds for research work to the standard-setting vehicle. The vehicle would then offset interest and repayment due against any royalties the members would otherwise have to pay the vehicle. Of course, it is possible that there may be no royalties involved, and none of the other members may want remuneration for their technical contributions.

R&D joint ventures

In 1984, Congress, concerned that US antitrust law discouraged companies from cooperating to develop useful new technology, enacted the *National Cooperative Research Act*. It allows companies forming a joint venture for the purposes of R&D to register the joint venture with the FTC and the attorney general. However, the benefits of registration are not spectacular. If you register the R&D joint venture, you can only be sued for single damages and attorney fees, rather than treble damages and attorney fees. Nonetheless, you can still be sued, with all the cost and inconvenience that such a suit entails.

Moreover, you must file with the FTC within 90 days of forming the R&D joint venture, thus making the planned standard public. This might allow the ill-disposed to sabotage the standard, rush out competing standards, or try to gate crash the standard-setting group. Finally, the provision that protects you from treble damages only applies if your conduct is within the terms of the notification. So if the R&D leads members of the joint venture to change their plans and move in a different direction, the immunity may not apply. On the upside, the information you need to supply when registering under the *National Cooperative Research Act* is very similar to the information you need to give the EC in a notification (see box, page 37), so that some of the work done for each need not be duplicated.

Until the confidentiality and nonuse agreement is in place, participants should know what is confidential and what is not.

A technology standard can be enforced, at least in part, through a trademark. In this arrangement, the corporation established by the standard-setting group applies for and obtains a trademark. It owns and then licenses it to users of the standard, including the members of the standard-setting group. Before companies can affix a trademark, clear criteria are established that products must fulfill. The standard group's corporation can retain an independent laboratory to test products and ensure that they reach the criteria, or the corporation can employ its own technicians. However, technicians employed by members of the standard-setting group should not get involved in testing products, particularly products that compete with those of their own companies.

The vehicle

There is some debate among lawyers as to the best legal vehicle through which to set standards. An easy answer to the question actually exists. From the legal perspective, the best vehicle is a government agency. If a government agency sets the standard, it is almost certain that the private companies that participate will benefit from broad legal immunity under what is known as the *Noerr Pennington* doctrine. This would even apply if private parties wrote the standard...so long as the government implemented it. Of course there are two downsides to the government being the standard-setting vehicle. First, do you really want to deal with the inevitable inflexibility of a government bureaucracy? And second, even if you were prepared to deal with such a bureaucracy, in a re-inventing government era, could you persuade the Feds or anyone else to set one up?

Other possibilities include either contracts, partnerships, or corporations. The principal recommendation given for the contract or partnership arrangement is flexibility. However, the flexibility of a contract or partnership arrangement is also a downside. The difficulty is that if litigation or an antitrust investigation arises, the motivation behind every choice in the partnership agreement or contracts will become an antitrust issue. The advantage of choosing a corporate vehicle is that corporation law forces many of the choices that need to be made. Thus in a corporation, the shareholders, in this case the members of the standard-setting group, are obliged to participate at some level in corporate decision making. Similarly, bylaws for the corporation can be written that establish how decisions are to be taken, building in an additional layer of legal protection.

A few etiquette rules

Once the standard-setting group is established, it is possible that a large number of different employees will be involved in standard setting. It is of vital importance that they understand both the legal issues involved in standard setting and the things they absolutely must not do. Absolutely top of the list is to discuss in any way the potential impact of any choice on competitors. Instead, participants should stick to an established agenda and criteria for deciding between various technical options. Although this advice might appear obvious, it cannot be overemphasized. In a surprisingly large number of antitrust cases, employees of the defendant have said astonishingly unwise things about the competition, usually in what can only be described as very unfortunate language (often coupled with the type of profanities that impress juries). It is also important that everybody involved in the standard-setting group, attending meetings, or sharing the group's information sign an appropriate confidentiality agreement. Until the confidentiality and nonuse agreement is in place, participants should know what is confidential and what is not.

Unilateral or de facto standards

Plenty of paper and ink have been expended on the Microsoft situation, so I'll avoid any discussion of the company itself and focus instead on earlier, completed cases involving unilateral standards. Four well-known cases, two US (*Kodak* v. *Berkey Photo*; *SCM* v. *Xerox*) and two European (*IBM* and *Tetra Pak II*), illustrate this point.

The *Kodak* and *IBM* cases are very similar. The first case, Kodak, involves a product that is now practically obsolete, the Instamatic camera, and in particular a flat Instamatic camera called the 110. Kodak in the 1960s and 1970s, in the words of the Second Circuit Court of Appeals, completely dominat-

ed the amateur photography market, supplying film, paper, cameras, and photo-finishing equipment. Ultimately, everyone in the photography industry had to buy Kodak products, or had to make their product compatible (sound familiar?) with those of Kodak. Kodak introduced a product—Instamatic film that came in a cassette and was easily loaded into cameras designed to use it. However, Kodak kept the film product a secret until just before its introduction. With the later 110 cartridge, Kodak was to go further, using a new film that required different processing and yet another camera design. When the new 110 cameras came onto the market, all of Kodak's competitors, including Berkey who sold the Keystone brand of cameras, were caught flatfooted.

The 110 cameras dominated the market for the next few years, and Kodak, which had the advance knowledge of the format necessary to get to market first, manufactured almost all the 110 cameras sold. Berkey sued and initially won an enormous antitrust verdict of almost $100 million, along with various injunctions under Section 2 of the *Sherman Act*. However, in a very heavily criticized decision, the Second Circuit Court of Appeals reversed almost all of the verdict. That decision in many respects set the stage for much of what's happening with Microsoft today. However, it's also a decision that might be decided differently if it were to go before the courts today, since the concept of essential facilities is now more broadly recognized in the US, in part because of famous cases such as *MCI* v. *AT&T*.

Ten years after the *Kodak* case, the EC was to address a very similar case in *IBM*. At the time of the *IBM* case, Big Blue dominated the computer market, especially the market for mainframe computers. IBM, though, also wanted to dominate the peripherals market for the mainframes it sold. To that end, IBM started to make unexpected interface changes to its machines so that one group in particular, manufacturers of Winchester disk drives (the ancestor of today's hard disks), found it very difficult to manufacture products compatible with IBM's machines. However, the Commission was to come to a completely different conclusion to that of the US court in *Kodak*. It ruled that the information necessary to make Winchester drives compatible with IBM's computers had to be released to competing manufacturers in good time.

It is probably reasonable to suggest that European competition law takes a much harsher view of the abuse of unilateral or informal standards.

Tetra Pak II is again a case where a company massively dominates the market, and as the *II* designates, became a somewhat persistent sinner against European competition law. As a result, until this year Tetra Pak had paid the highest fine ever imposed on a single company anywhere in the world for antitrust violations—more than $90 million. Tetra Pak is a Swedish company that owns the technology used for the manufacture of brick-type food and liquid cartons, such as those used in the US for small cartons of juice. A key feature of this packaging is that it is aseptic (meaning milk packaged in this way will stay fresh for months without refrigeration). This type of packaging dominates most of mainland Europe for milk sales; in fact, almost all retail milk sold in Europe comes in Tetra Paks.

Tetra Pak used all sorts of techniques to reinforce its dominant position. In *Tetra Pak I*, for instance, the company purchased the only serious competing technology. *Tetra Pak II* involved the techniques it used to ensure that only Tetra Pak supplied the materials to be used in Tetra Pak machines. Tetra Pak had a remarkable array of commercial restrictions including clauses controlling use and modification of machines by dairies, requirements that the dairies could only use Tetra Pak cartons in the machines, any improvements in the Tetra Pak process must be ceded back to Tetra Pak, and so on. The importance of the *Tetra Pak* case stemmed from the determination by the European Commission that Tetra Pak was dominant under Article 86. The subsequent fines were quite savage. One thing that should be remembered, though, is that many of Tetra Pak's activities, such as tying and grant-back clauses, are illegal even under Article 85. One does not need to be dominant for fines to apply.

SCM v. *Xerox* is another case that requires a little historical reminder. As recently as the 1980s, Xerox absolutely dominated the photocopier industry—so much so that many people still call a photocopy a Xerox and use xerox

as a verb. (For various trademark reasons, the company itself really hates that.) Xerox had become dominant in dry-paper xerography because it had the foresight in 1956 to buy exclusive rights to the technology necessary to practice the process. However, by the 1970s other companies, including companies that had unwisely chosen not to purchase the technology when it was available, rankled at Xerox's dominance of the business.

Staying out of legal trouble in standard setting does not require massive legal preparation, but it does require a little thought, and at least a basic knowledge of the issues involved.

One of those companies sued Xerox—and lost. In the process the court made an interesting ruling. In effect it said that Xerox could not be punished for its foresight in realizing that a nondominant piece of technology could be of enormous future importance. But perhaps the most important point to be remembered was that in 1956 Xerox was not dominant, and the process purchased was not really commercial. Had Xerox purchased something so important in, say, 1976, it would likely have experienced the same treatment that the European Commision meted out in *Tetra Pak I*—either license or divest.

It is probably reasonable to suggest that European competition law takes a much harsher view of the abuse of unilateral or informal standards. In part, this probably stems from the fact that one of the two principal provisions in the Treaty of Rome dealing with competition law, Article 86 specifically addresses abuses of a dominant position. It is easy to define the owner of key intellectual property rights as having a dominant position. Certainly, many Article 86 cases have dealt with de facto standards. However, as Microsoft's legal travails might indicate, the US is beginning to take a much less sanguine view of de facto standards than it did at the time of the *Kodak* case.

It would be a mistake to read this article and come away with the conclusion that antitrust and competition law is implacably hostile to the establishment of standards. The truth is very much the opposite. However, realistically, the standard-setting process can be and has been abused, and we do live in a litigious society. Staying out of legal trouble in standard setting does not require massive legal preparation, but it does require a little thought, and at least a basic knowledge of the issues involved. Moreover, it requires at least some simple planning. Merely wandering into the process without preparation is an easy way to contribute to your lawyer's favorite charity. MICRO

Colm MacKernan practices international antitrust and intellectual property law with the law firm of Ablondi, Foster, Sobin, and Davidow, p.c., in Washington, D.C. His practice includes both US law and European Community law. He received his BA in physics from the University of Dublin, Trinity College, and his JD from Georgetown University Law Center.

Direct questions concerning this article to Colm MacKernan at Ablondi, Foster, Sobin, and Davidow, p.c., 1150 18th Street, NW, Suite 900, Washington, DC 20036; cmackernan@ablondifoster.com.