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FTC and DOJ Antitrust Division Request Comments on Proposed Revisions to Antitrust Guidelines for Licensing IP

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After several turbulent years of litigation and policy wrangling, many have asked whether the federal antitrust agencies should rewrite their two-decade old ***Antitrust Guidelines for the Licensing of Intellectual Property*** (https://www.justice.gov/atr/antitrust-guidelines-licensing-intellectual-property) ("Guidelines"). Should they provide clearer guidance regarding thorny questions about licensing standard essential patents (SEPs), patent assertion entities (PAEs), reverse payment settlements, or other matters that have prompted new guidelines from other enforcers around the world? On August 12, the Federal Trade Commission and US Department of Justice's Antitrust Division responded with **modest updates to the Guidelines** (https://www.ftc.gov/news-events/press-releases/2016/08/ftc-doj-seek-views-proposed-update-antitrust-guidelines-licensing?utm_source=govdelivery), likely setting themselves up for considerable commentary in the weeks to come.

Modest Changes

The agencies' proposed modifications are generally modest in nature and do not amount to a broad change in their enforcement priorities or approach. The agencies specifically affirmed that the Guidelines continue to be rooted in three basic economic and legal principles: (1) conduct involving IP rights is subject to the same antitrust analysis as conduct involving other types of property, but accounting for the unique characteristics of the property rights; (2) intellectual property does not, in and of itself, create market power; and (3) IP licensing is generally procompetitive because it allows parties to combine complementary units of production and distribution. The draft Guidelines also made several revisions aimed to emphasize that both agencies exercise latitude and flexibility in enforcement matters; most notably, the agencies propose eliminating a sentence that says the "Guidelines must be applied in unforeseeable circumstances."

Noteworthy Changes

Despite the modest nature of the updates, some of the suggested revisions are especially noteworthy, including:

- The agencies have revised statements of general antitrust principles to reflect the research presented in the FTC's 2011 *Evolving IP Marketplace* report and recent agency enforcement activity involving SEPs. For instance, the agencies now specifically note that "generally" a competitor does not have a duty to deal, implying there are some circumstances, perhaps with SEPs, in which a competitor may have a duty to deal under its obligation to license SEPs on fair, reasonable, and non-discriminatory (FRAND) terms.
- In accordance with the Supreme Court's decision in *Illinois Tool Works v. Independent Ink*,[1] the draft Guidelines reinforce that IP rights do not automatically confer market power. In addition, the possession of market power, by itself, does not violate the antitrust laws.
- The Supreme Court's "sliding scale" approach to the rule of reason in *FTC v. Actavis, Inc.*[2] is included as the framework for evaluating all licenses involving IP. This demonstrates the agencies' belief that the more flexible liability analysis in the *Actavis* decision extends beyond the confines of its original facts (i.e., reverse payment settlements for infringement litigation between branded and generic pharmaceutical manufacturers) to other IP licensing scenarios. Note, however, that the proposed revisions to the Guidelines do not provide further clarity to the nebulous guidance that the Supreme Court provided in *Actavis* regarding the application of the rule of reason.
- The proposed revisions to the Guidelines repeatedly delete references to "Innovation" when discussing "Research and Development Markets." This change may be a response to historical criticism regarding the inability to quantify innovation when defining antitrust markets.
- Consistent with the Supreme Court's decision in *Leegin Creative Leather Products, Inc. v. PSKS*,[3] resale price maintenance is no longer illegal *per se* under federal law and instead is analyzed under the rule of reason. The Guidelines note, however, that RPM remains *per se* unlawful under the antitrust laws of some states.
- The Guidelines acknowledge the creation of a federal cause of action for the misappropriation of trade secrets, which was established by the Defend Trade Secrets Act of 2016.[4]

What about SEPs? Reverse Payments? PAEs?

The agencies chose not to address outright a few areas of recent controversy and change in the law. In particular, and despite the express treatment of those topics in recent updates to antitrust/IP guidelines issued by other competition agencies,[5] the Guidelines do not speak directly to the treatment of SEPs, so-called reverse payment settlement agreements, or the aggressive enforcement activity of certain PAEs:

- SEPs are patents that have been formally incorporated into a particular technological standard by a standard-setting organization (SSO). They can present unique antitrust risks because of the collaborative nature of SSOs and the potential for SEP holders to demand excessive royalties after the patent's inclusion in a standard. Many SSOs address this problem by requiring that the patent holder license its SEPs on FRAND terms, and courts have held that failure to license SEPs on FRAND terms can harm competition.[6] The FTC and DOJ's proposed Guidelines offer no guidance on the agencies' approach with respect to SEPs, aside from a brief acknowledgement that the agencies may impose "licensing requirements to remedy anticompetitive harm."[7]
- As mentioned above, although the draft Guidelines adopted the "sliding scale" approach to the rule of reason under the Supreme Court's *Actavis* decision, the draft Guidelines fail to mention the express holding of that decision: that reverse payments are not presumptively unlawful but may violate the antitrust laws. Prior to *Actavis*, reverse payments were common in patent infringement settlements between branded and generic pharmaceutical manufacturers; the branded manufacturers (patentees) would pay the generic manufacturers (would-be infringers) in exchange for a delay in bringing the generic drug to the market for a specified period of time. Questions persist in the courts about how *Actavis* applies beyond its limited facts, including to non-cash settlements, contemporaneous "side deals," and arrangements involving authorized generics.[8]
- Finally, the proposed updates are silent regarding the antitrust implications of PAE enforcement activity. Because PAEs, unlike operating companies, do not sell products that are capable of being countersued by defendants for patent infringement, some have suggested that aggressive PAE activity uniquely distorts competition and thus

violates antitrust law. Despite an ongoing multi-year investigative study by the FTC into PAE enforcement activity,[9] the proposed updates do not address the issue.

The absence of any explicit mention of these issues is likely to prompt comments from various technology and pharmaceutical companies, as well as other commentators.

Public Comment Is Available Now

Comments in response to the proposed revisions are due by **September 26**. For more information about the proposed updates, or for assistance in preparing public comments to them, please contact the authors or your Orrick relationship partner.

[1] 547 U.S. 28 (2006).

[2] 133 S. Ct. 2223 (2013).

[3] 551 U.S. 877 (2007).

[4] Pub. L. No. 114-153, § 2(a), 130 Stat. 376, 376-80 (codified at 18 U.S.C. § 1836(b)).

[5] *See* Canadian Competition Bureau, "**Intellectual Property Enforcement Guidelines** (http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04031.html)" (updated March 31, 2016); Japan Fair Trade Commission, "**Guidelines for the Use of Intellectual Property under the Antimonopoly Act** (http://www.jftc.go.jp/en/pressreleases/yearly-2016/January/160121.files/IPGL_Frand_press.pdf)" (updated January 21, 2016); China's National Development and Reform Commission, "**Anti-Monopoly Guideline on Intellectual Property Abuse** (http://www.ipkey.org/en/ip-law-document/download/3363/3832/23)" (draft issued for comments December 31, 2015); Korea Fair Trade Commission, "Guidelines for Review of Unreasonable Exercise of Intellectual Property Rights" (effective December 24, 2014).

[6] *See, e.g., Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297, 313-14 (3d Cir. 2007); *Microsoft Mobile Inc. v. Interdigital, Inc.*, No. 15-723-RGA, 2016 WL 1464545 (D. Del. April 13, 2016); *Research In Motion Ltd. v. Motorola Inc.*, 644 F. Supp. 2d 788, 793-96 (N.D. Tex. 2008).

[7] Proposed Revision, p. 11 n.25.

[8] *See, e.g., In re Loestrin 24 Fe Antitrust Litigation*, 814 F.3d 538 (1st Cir. 2016); *King Drug Co. of Florence, Inc. v. Smithkline Beecham Corp.*, 791 F.3d 388 (3d Cir. 2015) (petition for certiorari pending, **and the Solicitor General was invited to file a brief** (http://blogs.orrick.com/antitrust/2016/06/09/supreme-courts-request-for-views-of-the-united-states-on-cert-petition-in-lamictal-reverse-payment-case-flags-potential-issues-for-practitioners/)).

[9] FTC, **PAE study** (https://www.ftc.gov/policy/studies/patent-assertion-entities-pae-study) (study results expected soon).