



# **DEPARTMENT OF JUSTICE**

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## **The Art of Persuasion: Competition Advocacy at the Intersection of Antitrust and Intellectual Property**

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Good morning, it is a pleasure to be here in Seattle. I am the Deputy Assistant Attorney General for Criminal and Civil Operations at the Antitrust Division of the U.S. Department of Justice. The Division, of course, is a law enforcement agency and is probably best known for its criminal and civil enforcement programs. I am sure many of you are familiar with some of the Division's recent enforcement actions. Earlier this year, for example, the Division won a trial victory in the e-books case after demonstrating that Apple had conspired with five major publishers to raise e-book prices. The Division currently is suing to block the US Airways/American Airlines merger, which would create the world's largest airline and, as currently constituted, would substantially lessen competition for commercial air travel in the United States. The Division also has an ongoing criminal investigation into price-fixing in the auto parts industry that has resulted in more than \$1.6 billion in criminal fines and significant jail sentences.

But enforcement is only one tool in the Division's toolbox for safeguarding competition. Today I am going to talk about a critically important, if less well known, aspect of the Division's mission: competition advocacy. The Division devotes significant resources to working with other federal agencies, state agencies, and international enforcers to promote competition and sound antitrust policy. We also communicate with the antitrust bar, businesses, and the general public. This advocacy helps ensure that new laws and regulations are not anticompetitive, that agencies take competition into account in performing their missions, and that firms are less likely to violate the antitrust laws.

We have found that competition advocacy is an effective use of Division resources and a necessary complement to our enforcement program. By the time we bring an enforcement action, anticompetitive conduct often has occurred already and

caused consumer harm. Competition advocacy allows the Division to address potential threats to competition before they occur and often on a broad scale, rather than on a case-by-case basis.

For the past several years the intersection between intellectual property rights and antitrust law has been an important priority for the Division's competition advocacy program. Our patent and antitrust laws and policy seek to promote innovation in complementary ways, one by creating enforceable property rights and the other by promoting competition. Our patent system drives innovation by providing exclusive rights which act as incentives for individuals and companies to engage in research and development to create new products and processes and then publish their inventions, upon which others can build and innovate further. Competition also drives innovation. Competitors profit from being at the leading edge of technological change by improving methods of manufacture and introducing new or improved products to the market. As a policy matter, we are interested in seeing that the patent system serves its important role in driving innovation and that the system is not manipulated in a manner that is harmful to competition or innovation.

Today I will discuss three intellectual property-related topics on which the Division recently has focused: standards-essential patents, patent assertion entities, and prospective antitrust guidance regarding intellectual property through guidelines and business reviews. Our competition advocacy on IP topics has resulted in vigorous dialogue, improved rules and regulations, and more competitive outcomes in key IP-driven industries.

## **I. Patents and Standards**

I will begin by discussing issues that arise when patents are incorporated into collaboratively set standards. All of you likely are familiar with standards. They are common throughout the economy: from those related to public health and safety (for example, public access doors in the United States open out, not in, to aid exit in a fire) to those that allow our ubiquitous electronic devices to speak to each other. Smartphones are a great example of the benefits of standards setting. Without the collaboratively set standards that allow for interoperability in wireless communications we likely would not enjoy all the benefits of the mobile devices that have become prolific in the United States and around the world over the past few years. Generally speaking, standards setting is economically beneficial. Standards can increase efficiency and consumer well-being. They also can bring about lower prices to consumers in the short run and increased innovation in the long run.

But collaborative standards setting is not risk free. Let me explain one way that standards setting based on patented technologies can be competitively harmful. In many cases, standards-setting organizations (SSOs) may have choices among competing technologies when they are establishing a standard. Once a standard becomes established and practiced in an industry, however, it may not be possible to shift to alternative technologies, especially if a particular technology is essential to practicing the standard and there are no competing standards.

In these circumstances, a patent owner may gain market power beyond any its technology would have conferred independently by virtue of having that patented technology incorporated into a standard. Once the standard is established, the patent

holder potentially could use this market power to threaten to enjoin a competitor or demand licensing fees that far exceed the rates it might have obtained before the standard was set. We call this type of opportunistic conduct “patent hold-up.”<sup>1</sup>

The threat of patent hold-up is powerful enough that it may make SSO members reluctant to adopt standards using patented technology. Consequently, this threat is problematic because it reduces the potential benefits of standards setting. To address this problem, SSOs often ask that patent holders voluntarily commit to license their standards-essential patents (SEPs) on [fair], reasonable, and non-discriminatory (F/RAND) terms. These F/RAND commitments make standards more attractive by reducing the possibility that SEP holders will try to block from the market a product compliant with the standard or extract exorbitant licensing fees.

However, these F/RAND commitments have not entirely solved the patent hold-up problem. Even after entering into F/RAND commitments, some patent holders have demanded licensing terms that are inconsistent with these commitments by leveraging the power to exclude implementers of standards from using their patented technologies.

How can we address this problem? One way is through *post hoc* antitrust suits against holders of F/RAND-encumbered SEPs who try to engage in patent hold-up. The Federal Trade Commission (FTC) and the European Commission (EC) have demonstrated that this approach can be successful in some cases, and several recent

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<sup>1</sup> U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 35-36 (2007), available at <http://www.justice.gov/atr/public/hearings/ip/222655.htm>; Renata Hesse, Deputy Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, Six “Small” Proposals for SSOs Before Lunch, Remarks as Prepared for the ITU-T Patent Roundtable (Oct. 10, 2012), available at <http://www.justice.gov/atr/public/speeches/287855.pdf>.

decisions from U.S. courts have provided substantial guidance in this area. But, *post hoc* litigation also can be costly and time-consuming.

A more efficient solution would rely on collaboration within the standards industry to improve patent policies at standards bodies. Private SSOs play an essential role in our economy by developing collaborative standards. By working with SSOs on the front end, we hope to minimize the potential for anticompetitive conduct in this context and reduce the need for investigations and enforcement actions. The Division has been engaged for several years in sustained competition advocacy designed to help SSOs make their IP policies more procompetitive.

In October 2012, I spoke at a roundtable sponsored by the Telecommunications Standards Bureau of the International Telecommunications Union (ITU) and outlined six specific proposals SSOs could implement to make their IP policies more procompetitive.<sup>2</sup> The Division also has been actively engaged with the IP policy committees of the ITU, the European Telecommunications Standards Institute (ETSI), and the American National Standards Institute (ANSI) as they have discussed these and other proposals. The Division has urged these bodies to promote the ability of parties to reach negotiated licensing agreements on reasonable terms and generally to discourage precluding anyone from practicing the standard. In most cases, injunctions and exclusion orders (or the threat of one) do not encourage the beneficial use of a standard; they merely tip the bargaining power in favor of the patent holder. When making a F/RAND commitment, the patent owner is saying that its patent may be used by those implementing the standard in exchange for a reasonable royalty from the user. In so doing it is acknowledging that

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<sup>2</sup> Hesse, Six “Small” Proposals for SSOs, *supra* note 1.

in most cases money damages, and not exclusionary relief, are the appropriate remedy for infringement. Therefore injunctions and exclusion orders (from the U.S. International Trade Commission (ITC)) based on the use of F/RAND-encumbered patents essential to a standard should be rare.

The best outcome is a voluntarily negotiated licensing agreement between patent licensor and licensee that gives the implementer of the standard freedom to manufacture its products. In most cases this license will cover a whole portfolio of patents, and perhaps only some of these patents will be F/RAND-encumbered SEPs. But when the parties cannot agree on licensing terms and need to turn to a third-party to resolve the dispute, in most cases they should be able to do so without facing the threat of exclusion from the market. The third party forum also should permit questions related to whether the patent is infringed, valid, and enforceable to be part of the dispute resolution process.

The Division's advocacy is having an impact. Progress has been made at ETSI on the issue of transfer of F/RAND commitments to new owners. At the ITU, participants vigorously debated proposals on the availability of injunctive relief. We also are pleased that ANSI has taken up consideration of these proposals and that the American Bar Association's Science and Technology and IP Sections established a working group whose goal is to create a best practices guide for alternative dispute resolution of F/RAND disputes. We have worked closely with our colleagues at the FTC and the EC on these efforts.

In addition to our outreach to SSOs, the Division has been working over the past couple of years to persuade the ITC to find that it is not in the public interest to base exclusion orders on F/RAND-encumbered SEPs in most cases. In January of this year,

DOJ joined with the United States Patent and Trademark Office to issue a joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments.<sup>3</sup> This Statement explained that, except in limited circumstances, the use of exclusionary measures at the ITC to remedy infringement of F/RAND-encumbered SEPs may cause competitive harm by facilitating patent hold-up and, therefore, may be inconsistent with the public interest. The limited circumstances when exclusion may be appropriate include when a potential licensee (1) cannot afford a F/RAND license; (2) is not subject to the jurisdiction of a U.S. court that can award damages; (3) refuses to pay a F/RAND-determined royalty; or (4) expressly or constructively refuses to negotiate a F/RAND license. The Statement's position is consistent with a patent holder's voluntary commitment to license its patents on F/RAND terms. The Statement does not sanction compulsory licensing of F/RAND-encumbered patents essential to a standard by any governmental authority, in the United States or elsewhere.

The ITC's approach to F/RAND-encumbered SEPs became international news this year when the ITC found that Apple had infringed an SEP that Samsung had committed to ETSI that it would license on FRAND terms. The ITC issued an exclusion order barring importation of certain Apple products into the United States. The United States Trade Representative (USTR) ultimately disapproved the ITC's determination in

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<sup>3</sup> U.S. DEP'T OF JUSTICE & U.S. PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS (2013), available at <http://www.justice.gov/atr/public/guidelines/290994.pdf>; see also *Oversight of the Impact on Competition of Exclusion Orders to Enforce Standards-Essential Patents Before the S. Comm. on the Judiciary*, 112th Cong. (2012) (testimony of Joseph F. Wayland, Acting Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice), available at <http://www.justice.gov/atr/public/testimony/284982.pdf>.



the Apple/Samsung matter on policy grounds relating to the determination's "effect on competitive conditions in the U.S. economy and the effect on U.S. consumers."<sup>4</sup>

In a letter explaining his decision, the USTR cited extensively to the joint DOJ/PTO Policy Statement and encouraged the ITC in future matters to find facts and evaluate the public interest consistent with the Policy Statement. The USTR noted "The Policy Statement's concerns, which [he] strongly share[d], about the potential harms that can result from owners of standards-essential patents [] who have made a voluntary commitment to offer to license SEPs on F/RAND terms ... gaining undue leverage and engaging in 'patent hold-up.'"<sup>5</sup>

As our collaboration with the PTO shows, the Division is by no means working alone on these issues. Indeed, both our sister agency, the FTC, and the European Commission have been active in this area. The FTC recently issued two enforcement decisions regarding liability under Section 5 of the FTC Act for breaching F/RAND commitments to SSOs by seeking injunctive relief in order to resolve a licensing dispute.<sup>6</sup> For its part, the EC has issued statements of objections against two companies for abuse of a dominant position by seeking injunctions in various member states on the basis of SEPs committed to F/RAND licensing.<sup>7</sup> In both matters, the EC's concerns echo those of

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<sup>4</sup> Letter from Ambassador Michael B.G. Froman, U.S. Trade Rep., to Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n 2 (Aug. 3, 2013), *available at* [http://www.ustr.gov/sites/default/files/08032013%20Letter\\_1.PDF](http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF).

<sup>5</sup> *Id.*

<sup>6</sup> Robert Bosch GmbH, Docket No. C-4377 (F.T.C. Apr. 23, 2013), <http://ftc.gov/os/caselist/1210081/130424robertboschdo.pdf>; Motorola Mobility L.L.C., Docket No. C-4410 (F.T.C. July 23, 2013), <http://www.ftc.gov/os/caselist/1210120/130724googlemotorolado.pdf>.

<sup>7</sup> Press Release, European Comm'n, Antitrust: Commission Sends Statement of Objections to Samsung on Potential Misuse of Mobile Phone Standard-Essential Patents (Dec. 21, 2012),

DOJ and the FTC that injunctive relief for infringement of F/RAND-encumbered SEPs is inappropriate in many circumstances, including those in which the implementer of the standard is negotiating a license or agrees to have the parties' differences resolved by a third party.

We also continue to explore where there is room for liability under Section 2 of the Sherman Act in cases where holders of F/RAND-encumbered SEPs seek injunctive relief after a standard is in place. Even in cases where the patent holder did not intentionally deceive the SSO during the standards-setting process, competition and consumers can be harmed by the abrogation of the patent holder's F/RAND commitment, assuming there were alternative technologies or options available to the SSO.<sup>8</sup>

Some important court rulings resolving F/RAND disputes based in contract and patent law have emerged from the so-called "patent wars" in the telecommunications industry. Recent court decisions have determined that holders of F/RAND-encumbered SEPs generally should not be awarded injunctive relief as a remedy in patent infringement suits under the *eBay* standard.<sup>9</sup> As part of the four-pronged *eBay* test for

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[http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm); Press Release, Antitrust: Commission Sends Statement of Objections to Motorola Mobility on Potential Misuse of Mobile Phone Standard-Essential Patents (May 6, 2013), [http://europa.eu/rapid/press-release\\_IP-13-406\\_en.htm](http://europa.eu/rapid/press-release_IP-13-406_en.htm). The EC is currently inviting comments on commitments offered by Samsung to address the EC's concerns, including an abstention from seeking injunctions for mobile SEPs in the European Economic Area for a period of five years against any company that agrees to a particular licensing framework. Press Release, Antitrust: Commission Consults on Commitments Offered by Samsung Electronics Regarding Use of Standard Essential Patents (Oct. 17, 2013), [http://europa.eu/rapid/press-release\\_MEMO-13-910\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-910_en.htm).

<sup>8</sup> Renata B. Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, IP, Antitrust and Looking Back on the Last Four Years, Presented at the Global Competition Review 2nd Annual Antitrust Law Leaders Forum at 21 (Feb. 8, 2013), <http://www.justice.gov/atr/public/speeches/292573.pdf>.

<sup>9</sup> *eBay Inc., v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

permanent injunctive relief, a plaintiff must demonstrate that money damages are inadequate to compensate for the infringement. But, as Judge Posner explained in a case involving a F/RAND commitment, “[b]y committing to license its patents on FRAND terms,” the patent holder committed to license the patent in question “to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent.”<sup>10</sup> Judge Whyte in the Northern District of California similarly equated a RAND commitment to an admission that monetary damages in the form of a RAND royalty would be adequate compensation.<sup>11</sup> These decisions are consistent with our approach in the joint DOJ/PTO Policy Statement and our competition advocacy work at standards bodies.

Recent court decisions have also helpfully recognized that a F/RAND commitment to an SSO is a binding contract and implementers of the standard are third-party beneficiaries of that commitment. As a result, implementers may ask courts to resolve the question of whether a failure to license on F/RAND terms is a breach of contract. Indeed, a jury in the Western District of Washington found recently that Motorola had breached its duty of good faith and fair dealing arising from its commitments to two SSOs to license its SEPs on RAND terms.<sup>12</sup> This case was

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<sup>10</sup> *Apple v. Motorola*, 869 F.Supp.2d 901, 914 (N.D. Ill. 2012).

<sup>11</sup> *Realtek Semiconductor Corp. v. LSI Corp.*, No. C-12-03451, 2013 WL 2181717, at \*6 (N.D. Cal. May 20, 2013); *but see* *Commonwealth Scientific & Indus. Research Organisation (CSIRO) v. Buffalo Technology, Inc.*, 492 F. Supp. 2d 600, 606 (E.D. Tex. 2007) (finding that damages would be inadequate compensation because the patent was not a minor component, would not include the nonmonetary components of a license, or reflect the previous worth of the RAND-encumbered patent).

<sup>12</sup> Verdict Form at 2, *Microsoft v. Motorola*, No. 10-1823 (W.D. Wa., Sept. 4, 2013).

significant: it is the first time a patent holder has been found to have breached a RAND contract.

In order to decide whether Motorola had breached its commitments, the District Judge, Judge Robart, previously determined the appropriate RAND royalty rates and ranges for the patent portfolios Microsoft was seeking to license from Motorola.<sup>13</sup> In making his determination, Judge Robart looked at factors typically used to determine a reasonable royalty rate in patent infringement cases, known as the *Georgia-Pacific* factors.<sup>14</sup> He was expressly guided by four principles: (1) the RAND royalty should promote the adoption of the standard; (2) the RAND royalty should mitigate the risk of patent hold-up; (3) the RAND royalty should address the risk of royalty stacking by considering the royalties demanded by other owners of standards-essential patents; and (4) a RAND commitment should guarantee the patent holder reasonable royalties on the economic value of the patented technology, apart from the value associated with the patent's incorporation into an industry standard.

Judge Robart found the RAND rates and ranges in this case based on a hypothetical negotiation between the parties, employing a modified form of the *Georgia-Pacific* factors. Among the factors he considered were: royalties charged to other licensees; royalties paid by the licensee for comparable patents; the value of the patented technology apart from the value of the standard; alternatives that could have been written into the standard; and the extent to which the infringer made use of the invention. Judge Robart also noted two significant differences in the RAND context: the owner of the

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<sup>13</sup> Microsoft v. Motorola, No. C10-1823, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013).

<sup>14</sup> Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970).

RAND-encumbered patent cannot choose to withhold licensing, and the licensing negotiation must take into account that there are multiple patent owners and consider parallel negotiations and royalties.

More recently, in the *Innovatio* case in the Northern District of Illinois, Judge Holderman applied a modified version of Judge Robart's methodology to determine RAND rates for calculating damages in a patent infringement action.<sup>15</sup> The modifications were required by the different procedural postures in the two cases. In the Microsoft/Motorola matter, Judge Robart was attempting to define a RAND range so that the jury could determine whether Motorola's licensing offers to Microsoft complied with its RAND commitments. Because the *Innovatio* case involved calculating infringement damages, Judge Holderman determined that the court had to find a specific RAND rate, rather than a range. Further, because the *Innovatio* court already had determined that all of Innovatio's patents were essential to a standard, Judge Holderman concluded that he would not adjust the RAND rate on the basis of any pre-litigation uncertainty about the essentiality of the patents.

In my view, both of these cases applied sensible approaches to calculating the appropriate value of RAND-encumbered patents essential to a standard. There may well be other sensible approaches, but these decisions provide important public guidance about how such RAND rates could be calculated, which should make it easier for parties (and other courts) to resolve these kinds of disputes.

In sum, I believe the Division's competition advocacy, in combination with the efforts of other agencies and the courts, is bringing some much-needed guidance to the

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<sup>15</sup> *In re Innovatio IP Ventures, LLC Patent Litig.*, 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013).

issues posed by standards-essential patents that patent owners have committed to license on F/RAND terms. We will continue our work in this area with the hope that the policies governing the use of such standards-essential patents will become even more procompetitive.

## **II. Patent Assertion Entities**

I would like to turn the discussion to “Patent Assertion Entity” (PAE) behavior—a topic which has been garnering significant attention from the government, the media, and academics. In very broad terms, a PAE is an entity whose primary business is acquiring patents for the purpose of asserting them against existing products or services, not for the purpose of practicing, enabling, or developing the technology. In contrast, an operating company is a firm that produces goods or provides services for sale to customers or clients. We have been hearing concerns about PAE activities, including 1) aggressive patent assertion tactics by PAEs that amass huge portfolios of patents; 2) firms buying patents and blanketing small businesses with vague patent demand letters, targeting, for example, coffee shops and small retailers for their use of Wi-Fi or a scanner, and often seeking settlements that are just under the cost of litigation; 3) operating companies selling patents to PAEs who can assert the patents more broadly because they are not constrained by concerns about their reputations or existing cross-licenses (a practice sometimes referred to as privateering); and 4) operating companies jointly creating PAEs that may assert patents against the operating companies’ rivals. Many of these concerns are coupled with claims that PAEs often rely on patents of dubious quality. In addition, high litigation costs may lead firms to settle with a PAE, even when faced with very weak claims.

Some call these tactics “shakedown rackets,” while defenders characterize many PAEs as specialists who increase licensing efficiency and promote innovation by increasing rewards to inventors. We certainly recognize that in some instances patent sales and aggregation can be procompetitive. At the same time, some players in the expanding IP marketplace may be taking advantage of our patent and litigation systems in ways that are at odds with a principal goal of our patent system—to promote innovation.

With this “buzz” as a backdrop, DOJ and the FTC held a public workshop on PAE activities last December.<sup>16</sup> Participants included distinguished academics, individuals from patent aggregation firms and from operating companies, private and government attorneys, consultants, and venture capital representatives. The participants explored the net effect of PAE activities through economic theory, data and real world experiences and then used this knowledge to consider examples through a competition lens. There was no dispute that PAE activities have grown dramatically over the last few years. The Patent Assertion Entity Activities workshop provided a good step towards

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<sup>16</sup> See *Public Workshops: Patent Assertion Entity Activities*, ANTITRUST DIV., U.S. DEP’T OF JUSTICE, <http://www.justice.gov/atr/public/workshops/pae/> (last visited Nov. 5, 2013). The PAE nomenclature has not been universally adopted. For example, one panelist at the joint workshop referred to his company as an IP licensing and development company. Comment of Mosaid Technologies Inc., U.S. Dep’t of Justice & Fed. Trade Comm’n Patent Assertion Entities Activities Workshop at 1 (Apr. 5, 2013), <http://www.justice.gov/atr/public/workshops/pae/comments/paew-0044.pdf>. Another panelist (Robin Feldman) co-authored an article critical of the term “Patent Assertion Entity,” noting that using this term “carries the risk that it could be interpreted to leave out those who do not assert patents themselves, but rather focus on licensing and transferring patents to others who will assert them,” with “the potential to create the same market distortions as those who simply assert the patents directly.” Feldman and her co-authors prefer the term “patent monetization entity” to “describe those whose primary focus is deriving income from licensing and litigation, as opposed to making products.” Robin Feldman, Thomas L. Ewing & Sara Jeruss, *The AIA 500 Expanded: The Effects of Patent Monetization Entities*, UCLA J. OF L. & TECH. (forthcoming) (U.C. Hastings C. of L. Legal Studies Research Paper Ser. No. 45).

understanding how such activities may affect innovation, competition, and U.S. consumers.

However, commenters and panelists noted that continued research is necessary, which is why I am pleased that the FTC announced its intention last month to undertake an economic study, (known as a 6(b) study) to examine PAEs and their impact on innovation and competition. The FTC is seeking public comments on its proposal to gather data and other information from a number of companies.<sup>17</sup>

Through this study, the FTC can use its unique Congressionally-granted authority to collect nonpublic information, such as licensing agreements, patent acquisition information, and cost and revenue data. These data have the potential to provide a more complete picture of PAE activities and fill in some of the empirical gaps in existing research into PAE behaviors, most of which is based on litigation data. I am very much looking forward to seeing the results of this study.

The Administration also has been thinking hard about these issues. In June of this year, the White House issued a fact sheet from the Task Force on High Tech Patents, which found that much of this activity is a “drain on the American economy.”<sup>18</sup> The Fact Sheet identified seven legislative priorities and five executive actions to protect innovators from frivolous patent litigation and ensure the issuance of high quality patents

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<sup>17</sup> Press Release, Fed. Trade Comm’n, FTC Seeks to Examine Patent Assertion Entities and Their Impact on Innovation, Competition (Sept. 27, 2013), <http://www.ftc.gov/opa/2013/09/paestudy.shtm>.

<sup>18</sup> Fact Sheet: White House Task Force on High-Tech Patent Issues: Legislative Priorities & Executive Actions (June 4, 2013), <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>.



to address challenges from PAEs. The Division's leadership was involved in this work, along with many other sister agencies.

The legislative suggestions include: requiring patentees and patent applicants to update the PTO's ownership records to indicate the real party in interest when a patent is asserted;<sup>19</sup> permitting the courts more discretion in awarding attorneys fees in patent cases; and expanding PTO review of certain business method patents. The executive actions include improving the PTO's patent ownership database, increasing training for PTO examiners reviewing software claims, and educational outreach.

The same day that the White House issued its Fact Sheet, the Council of Economic Advisers (CEA) issued a report on PAEs.<sup>20</sup> The CEA Report concluded that PAE activities "significantly retard innovation in the United States and result in economic 'dead weight loss' in the form of reduced innovation, income, and jobs from the American economy" and that PAEs take advantage of uncertainties in the patent system, including uncertainty about the scope or validity of many patent claims (especially software patents).

Members of Congress have also been quite active, introducing a number of legislative proposals for consideration by the House and Senate.<sup>21</sup> Some of these bills are

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<sup>19</sup> The Division has supported the PTO's efforts to improve the quality of ownership information regarding patents. *See* Antitrust Div., U.S. Dep't of Justice & Fed. Trade Comm'n, Comments of the Antitrust Division of the United States Department of Justice And the Federal Trade Commission, Docket No. PTO-P-2012-0047, Notice of Roundtable on Proposed Requirements for Recordation of Real-Party-In-Interest Information Throughout Application Pendency and Patent Term (Feb. 1, 2013), <http://www.justice.gov/atr/public/comments/292147.pdf>

<sup>20</sup> EXEC. OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION (2013), *available at* [http://www.whitehouse.gov/sites/default/files/docs/patent\\_report.pdf](http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf).

<sup>21</sup> SHIELD Act of 2013: Saving High-Tech Innovators from Egregious Legal Disputes, H.R.845, 113th Cong. (2013); Patent Quality Improvement Act of 2013, S.866, 113th Cong. (2013); End Anonymous Patents Act, H.R.2024, 113th Cong. (2013); Patent Abuse Reduction Act, S.1013,

PAE specific; others are agnostic as to the identity of the actors, broadly proposing patent system and patent litigation reforms. These bills propose to address some of the complaints raised about PAE tactics and litigation and touch on many of the White House recommendations. A number of the bills propose shifting fees to address the high cost of litigation.<sup>22</sup> Other suggestions include increasing transparency about patent ownership and/or financial interests,<sup>23</sup> reducing discovery burdens of litigation,<sup>24</sup> heightening pleading requirements in patent infringement actions,<sup>25</sup> and protecting end users.<sup>26</sup>

I am pleased to see all of the thinking invested in these issues and remain hopeful that administrative and legislative reforms will be able to address abuses of the patent and litigation systems.

So that brings me to the role of the Division, or antitrust more broadly. We have heard a number of theories of harm to competition in connection with the wide array of PAE activities. There is no one-size-fits-all antitrust theory that would apply to each of these types of activities.

Most commenters have found that situations where a PAE has some connection to a practicing entity provide for more compelling antitrust theories than straight transfers to

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113th Cong. (2013); Patent Litigation and Innovation Act of 2013, H.R.2639, 113th Cong. (2013); STOP Act: Stopping the Offensive Use of Patents Act, H.R.2766, 113th Cong. (2013); Innovation Act, H.R.3309, 113th Cong. (2013); Innovation Protection Act, H.R.3349, 113th Cong. (2013); Patent Litigation Integrity Act, S.1612, 113th Cong. (2013).

<sup>22</sup> *See e.g.* H.R.845; H.R.3309; S.1013; S.1612.

<sup>23</sup> *See e.g.* H.R.2024; H.R.3309.

<sup>24</sup> *See e.g.* H.R.3309; S.1013.

<sup>25</sup> *See e.g.* H.R.3309; S.1013; H.R.2639.

<sup>26</sup> *See e.g.* H.R.3309; H.R.2639.

a PAE, and I tend to agree. For example, we have heard that competitive concerns can arise in a privateering context, under which a practicing entity transfers patents to a PAE to be used against competitors of the practicing entity. A number of people have suggested this type of activity could be challenged under Section 7, Section 1 or Section 2 (if the practicing entity has market power). Similarly, some have pointed out the potential for operating entities to collude with one another through PAEs; raising rivals' costs and excluding competitors is a possible violation of Section 1 of the Sherman Act. The Division continues to evaluate the competitive impact of PAE activities and to analyze complaints.

### **III. Guidelines and Business Review Letters**

Up to this point, I have been discussing standards-essential patents and patent assertion entities, significant substantive areas where DOJ, along with its sister agency the FTC, has been actively engaged in competition advocacy at the intersection of IP and antitrust. Before I close my remarks, I want to tell you about two of our most effective advocacy tools relating to IP: our joint 1995 DOJ-FTC Antitrust-Intellectual Property Licensing Guidelines<sup>27</sup> (whose continued relevance we reaffirmed in a 2007 joint report on competition and innovation<sup>28</sup>) and our IP-related business review letters. Both tools provide vehicles for the Division to prospectively share our analytic framework about the licensing of IP rights and expand the public's understanding of competition issues that

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<sup>27</sup> U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995), *available at* <http://www.justice.gov/atr/public/guidelines/0558.htm> [hereinafter IP LICENSING GUIDELINES].

<sup>28</sup> U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 3 (2007), *available at* <http://www.justice.gov/atr/public/hearings/ip/222655.htm>.

arise when competition and IP law and policy intersect. Both tools afford private sector actors with greater notice, clarity, and confidence, so they can direct their business acumen and talents toward innovative activities that grow our economy and benefit consumers.

Formal guidelines allow us to provide general guidance about our approach to assessing competitive concerns and how we approach enforcement when investigating business activities. Three long-held principles provide a foundation for our Antitrust-IP guidelines and continue to animate our thinking. First, we apply the same general antitrust principles to all forms of property, including intellectual property, taking into account differences such as the ambiguous nature of the boundaries of intellectual property. Second, we do not presume that an intellectual property right creates market power in the antitrust context. There could, after all, be substitutes for that patented toothbrush that would prevent the owner from raising its price. Third, the licensing of intellectual property generally benefits competition because it permits the integration of complementary factors of production. For example, the patent owner licenses its intellectual property to a manufacturer whose workers use it in her production facility. Consequently, we usually analyze restrictions in licensing agreements under the rule of reason; only where a licensing restraint is so plainly anticompetitive does it warrant unlawful per se treatment. Such restraints include naked price-fixing agreements, market allocation agreements among competitors, and certain group boycotts.<sup>29</sup>

Business review letters allow us to take these general principles and provide prospective guidance to specific proposals. For those not familiar with this process,

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<sup>29</sup> *Id.* at 16.

individuals who are concerned about the legality of future business activities under the antitrust laws can formally request that the Division issue a statement of our present enforcement intentions.<sup>30</sup> The Division may require documents and additional information from the requesting party about the proposed business conduct. Once complete, the business review letter will be published and should provide the requesting party and the public with helpful information about the scope, interpretation, and application of the antitrust laws to the proposal. We publish several such business review letters a year, and they can all be accessed either directly from our website or by email request to the Division.<sup>31</sup>

Business review letters can touch on novel business proposals at the frontiers of antitrust law. Most recently, we issued a business review letter analyzing a new licensing model developed by Intellectual Property Exchange International, Inc. (“IPXI”), which creates a proprietary market for licensing patents. Under IPXI’s proposal, it planned to obtain exclusive patent licenses from various patent holders, which IPXI would then sublicense through the sale of tradable instruments. These instruments provide the rights to a defined subset of patents on a per use basis. IPXI formally requested a business

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<sup>30</sup> 28 C.F.R. §50.6 (2010).

<sup>31</sup> *Business Reviews*, ANTITRUST DIV., U.S. DEP’T OF JUSTICE, <http://www.justice.gov/atr/public/busreview/index.html> (last visited Nov. 5, 2013). For information on business review letters issued before 1992, contact the Antitrust Documents Group at [atrdocs.grp@usdoj.gov](mailto:atrdocs.grp@usdoj.gov).

review at the end of November 2012.<sup>32</sup> We issued our business review letter in March of 2013.<sup>33</sup> The exchange launched its first offering in June of 2013.<sup>34</sup>

IPXI's model presents a novel approach to monetizing patents, in an industry where more efficient and procompetitive licensing practices are needed. Our letter shared our competitive analysis and articulated how IPXI's model could potentially generate needed efficiencies. Our letter also described potential antitrust concerns and the strengths and weaknesses of proposed safeguards. Due to inherent uncertainties and potential concerns associated with IPXI's business model, we declined to state our present enforcement intentions. Sharing our analysis with IPXI and the public serves as an important complement to our guidelines, which we hope encourages creative solutions to inefficient practices. Supporting consumers today and potentially averting enforcement action later is the very definition of competition advocacy that benefits businesses and U.S. consumers.

Lastly, IP licensing does not happen in a domestic vacuum. It is a global practice that provides the world with access to transformative U.S. innovations, provides U.S. businesses with further incentives to push the technological envelope and collaborate with partners overseas, and provides U.S. consumers with expanded access to novel international products and services. And just as IP licensing practices can sometimes raise competitive concerns domestically, they can do so in foreign jurisdictions, as well.

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<sup>32</sup> Letter from Garrard R. Beeney, Partner, Sullivan & Cromwell LLP, to Renata B. Hesse, Acting Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice (Nov. 30, 2012).

<sup>33</sup> Letter from William J. Baer, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Garrard R. Beeney, Partner, Sullivan & Cromwell, (Mar. 26, 2013), <http://www.justice.gov/atr/public/busreview/295151.htm>.

<sup>34</sup> Press Release, IPXI, IPXI Launches First Offering (June 5, 2013), <http://www.ipxi.com/ipxi-launches-first-offering.html>.

As part of our competition advocacy, we meet with our sister enforcement agencies around the globe so that they may learn from our experiences and best practices and we may learn from theirs. This mutually advantageous give-and-take promotes convergent competition enforcement policies related to intellectual property rights. The result is more cross-border trade, faster diffusion of cutting edge technologies, enhanced incentives for innovation, and more global economic growth.

In the past, we have consulted with jurisdictions such as the EC, Japan, and Korea when their IP-competition related guidelines were in development. Chinese authorities are also drafting guidelines on IP and competition, and we welcome our engagement with them as well concerning how such rules may promote competition in China. We are actively engaged in this work and embrace opportunities to nurture and deepen relationships with our foreign counterparts on these issues. In our view, consistent application of sound antitrust principles to intellectual property rights and the strengthening of those principles through the shared learning of best practices benefits all parties wherever they are applied.

#### **IV. Conclusion**

Competition advocacy seeks to achieve procompetitive change through the art of persuasion. It depends on rigorous analysis, compelling evidence and arguments, active engagement with decision makers in the public and private sector, and the development of relationships based on trust and respect. It requires tenacity and commitment on the part of the Division's leadership and staff. We are fortunate to have effective tools at our disposal that we have put to good use—and will continue to put to good use—in our efforts to make standards-setting activities more procompetitive, to understand the

competitive implications of patent assertion entity activities and new models for licensing intellectual property rights, and to work towards principled convergence across jurisdictions around our analytic approach to the competition and intellectual property law and policy interface.