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To: Federal Trade Commission
Antitrust Division, Department of Justice
ATR.LPS.IPGuidelines@usdoj.gov

Re: Proposed Update of DOJ/FTC IP Licensing Guidelines

We are Professors of Economics with first-hand experience in the development of guidelines for the licensing of intellectual property and for horizontal mergers. Each of us has served as Deputy Assistant Attorney General for Economics in the Antitrust Division (Shapiro twice), and Farrell has also served as Director of the FTC's Bureau of Economics. Each of us has also published academic research on intellectual property and its licensing.

Since the *Antitrust Guidelines for the Licensing of Intellectual Property* were issued in 1995, the Agencies have repeatedly emphasized the importance of innovation to their enforcement efforts. Consistent with that emphasis, the DOJ and the FTC have given substantial additional guidance since 1995 relating to IP Licensing. Yet much of this additional guidance is absent in the very limited proposed update. We are concerned that issuing such a minor update to the IP Guidelines will delay or forestall the issuance of a much-needed major update, and that it might be misinterpreted as a departure from guidance that the Agencies have previously offered.

Updating the IP Guidelines in a meaningful way would not require the Agencies to sail into uncharted waters. To the contrary, the DOJ and FTC have done much to chart the IP Licensing shoals over the past 20 years. The Agencies could substantially update the IP Guidelines simply by incorporating previous policy statements into the IP Guidelines. A great deal of valuable guidance can be found in the 2003 report issued by the FTC, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," the 2007 report issued by the DOJ and the FTC, "Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition," and the 2011 report issued by the FTC, "The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition." Further relevant guidance can be found in a number of DOJ Business Review Letters relating to patent pools and patent licensing, including the recent IEEE letter. Also significant is the January 2013 "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments" issued by the DOJ and the Patent and Trademark Office. To our dismay, little or none of this guidance is reflected in the proposed update.

The antitrust treatment of *Standard-Essential Patents* (SEPs) that patent owners have promised to license on reasonable terms is of great importance to the business community. The FTC has brought a number of enforcement actions involving SEPs, and the economics literature has become much more developed in this area. Agency officials have given numerous speeches relating to SEPs, and the Agencies have issued a number of reports and statements regarding SEPs. Both the DOJ and the FTC have provided guidance on critical issues such as *ex ante* agreements regarding FRAND obligations, the pursuit of injunctions for alleged infringement of SEPs, the basis for calculating infringement damages for SEPs, and whether FRAND commitments travel with patent assignments. Updating and unifying DOJ and FTC guidance relating to SEPs is vital and long overdue.

The antitrust treatment of *Patent Settlements* also is crying out for clear, up-to-date guidance from the DOJ and the FTC. The FTC has been very active in this area for many years, challenging “pay-for-delay” settlements in the pharmaceutical industry, and there has been a great deal of development of case law involving pharmaceutical firms, including the Supreme Court’s landmark decision in the *Actavis* case. But the antitrust issues associated with patent settlements are not confined to the pharmaceutical industry; they arise more generally and relate to the inherently probabilistic nature of patent rights. Furthermore, the economics literature relating to probabilistic patents and patent settlements has made great strides since the IP Guidelines were issued.

We have identified here two major areas where updated guidance on IP licensing is long overdue and would be very valuable to the business community and helpful to the courts. By focusing on these areas we do not intend to imply that they are the only ones where substantial new guidance could be helpful. But a revision of the Guidelines that ignores these areas might be seen as a retreat from the Agencies’ policy statements and enforcement actions in these areas.

We encourage the Agencies to drop their plans to issue the proposed minor revision and instead raise their ambitions and develop and issue a major revision. If that route is impractical or unattractive to the current Agency leaders, we hope, at the very least, that they will explicitly state that issuing these minor revisions is *not* a substitute for a major revision in the near future.

Sincerely yours,

Joseph Farrell
Professor of Economics

Richard Gilbert
Professor of Economics, Emeritus

Carl Shapiro
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