

**BEFORE THE U.S. DEPARTMENT OF JUSTICE
AND THE FEDERAL TRADE COMMISSION**

In re:
Proposed Update to the Antitrust
Guidelines for the Licensing of
Intellectual Property

COMMENTS OF PUBLIC KNOWLEDGE

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COMMENTS OF PUBLIC KNOWLEDGE

I. Introduction and Summary

Public Knowledge respectfully submits the following comments in response to the request for comments dated August 12, 2016.¹

The Department of Justice and Federal Trade Commission are to be commended for reaffirming their critical role, and the critical role of antitrust law overall, in the field of intellectual property. In recent years, patent owners and attorneys have developed numerous novel ways of licensing and asserting patents, many of which are positive and beneficial to innovation, but some of which are by design or effect anticompetitive or detrimental to consumers. Updated guidance is important to reflect these updated business practices.

Preserving competition is the work of antitrust law, and competition is especially important for innovation because competition is a key driver of innovation. Competition forces firms to develop new and better products to establish and maintain leadership in the marketplace. One review of empirical scholarship found “evidence that competition promotes innovation when the measure of competition is an index of proximity of firms to a technological frontier, rather than a simple measure of market concentration.”² Monopoly provides no comparable pressure to innovate. As Apple’s former CEO Steve Jobs explained: “what’s the point of focusing on making the product even better when the only company you can take business from is yourself?”³

Some suggest that monopoly is necessary for innovation, perhaps to imply that antitrust law ought to stay out of the way of industries that deal in intellectual property. Yet this hypothesis, generally drawn from the work of Joseph Schumpeter, is strongly questioned and should not deter robust enforcement of the antitrust laws in the intellectual property field. Empirical studies regularly are “contrary to Schumpeter’s argument that

¹The commenter is a non-profit organization that is dedicated to preserving the openness of the Internet and the public’s access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new and emerging technologies. Public Knowledge regularly explains these public interest views in agency comments and *amicus curiae* briefs, and indeed the U.S. Court of Appeals for the Ninth Circuit quoted Public Knowledge’s brief in *Microsoft Corp. v. Motorola, Inc.* for the proposition that a RAND commitment of a standard-essential patent “must be construed in the public interest because it is crafted for the public interest.” 795 F.3d 1024, 1052 n.22 (9th Cir. 2015).

²Richard Gilbert, *Looking for Mr. Schumpeter: Where Are We in the Competition-Innovation Debate?*, 6 INNOVATION POL’Y & ECON. 159, 206 (2006), available at <http://www.nber.org/chapters/c0208.pdf>. It would thus be incorrect to say, as commenter Global Antitrust Institute proposes, that “there is very little empirical basis to presume any systematic relationship between market structure, competition, and innovation.”

³*The Seed of Apple’s Innovation*, Bus. WK., Oct. 12, 2004, available at <http://www.bloomberg.com/news/articles/2004-10-11/the-seed-of-apples-innovation>.

monopoly can promote innovation.”⁴ If anything, economic theory suggests an inverted-U model, in which market concentration facilitates innovation up to a point, but greater monopolization thereafter hinders innovation.⁵ This result comports with the basic notion that patents are monopolies with limits,⁶ and demonstrates that antitrust law, while not a whole solution for promoting innovation, must continue to play a key role in ensuring the degree of competition necessary to remain at the peak of the inverted U of innovation.⁷

The following comment lays out four general recommendations for the update of the Agencies’ Antitrust Guidance on Intellectual Property Licensing.

1. The section applying antitrust principles to hypothetical situations should be augmented to include further examples that reflect current business practices. Such practices include licensing of standard-essential patents, practices of aggregating and asserting patents (including so-called patent privateering), and placement of post-sale restrictions on use or resale of goods after sale.

2. The Guidance should note that there is not necessarily a unilateral right to refuse to license. Though this principle was long a fixture of intellectual property law, a recent Supreme Court case undermines the effectiveness of that principle in many situations.

3. The Guidance should be clarified to emphasize that patents and copyrights are not physical property. The Guidance itself does not intend this, rather merely stating that antitrust analysis for intellectual property is the same as analysis for other types of property, and the Guidance does indeed note that there are substantial differences between intellectual property and other property. Nevertheless, attempts to compare intellectual property and physical property have led to widespread confusion among some. The Agencies would do well to avoid exacerbating such confusion, especially given that the Guidance could sidestep the difficult analogy between intellectual property and physical property by simply stating that antitrust analysis for intellectual property will be the same as other antitrust analysis in general, without making any reference to physical property.

⁴Gilbert, *supra* note 2, at 205 (reviewing studies). It is worth noting that Schumpeter’s hypothesis that monopoly promotes innovation is only half of the theory; Schumpeter also believed that large firm size was necessary for innovation. Insofar as the current startup economy thoroughly rejects the latter half of the theory, it is surprising how much reliance is placed on the former half relating to monopolization. See Joel B. Rosenberg, *Research and Market Share: A Reappraisal of the Schumpeter Hypothesis*, 25 J. INDUS. ECON. 101, 109 (1976) (finding that empirical data “casts some doubt on the validity of the Schumpeter hypothesis”).

⁵See F.M. Scherer, *Market Structure and the Employment of Scientists and Engineers*, 57 AM. ECON. REV. 524, 530 (1967); Philippe Aghion et al., *Competition and Innovation: An Inverted-U Relationship*, 120 Q.J. ECON. 701, 707 (2005); Wesley M. Cohen & Richard C. Levin, *Empirical Studies of Innovation and Market Structure*, in 2 HANDBOOK OF INDUSTRIAL ORGANIZATION 1075 (Richard Schmalensee & Robert Willig eds., 1989).

⁶See, e.g., *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851 (2014) (noting that the public “has a ‘paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope’”) (quoting *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)).

⁷See Glenn C. Loury, *Market Structure and Innovation*, 93 Q.J. ECON. 395, 395 (1979) (“Both theoretical and empirical studies have suggested the existence of a degree of concentration intermediate between pure monopoly and atomistic (perfect) competition that is best in terms of R & D performance.”) (citations omitted).

4. The Agencies should emphasize that intellectual property owners' interest in licensing does not override the government's power to regulate licensing practices. Quite a few people, even within the federal government, have expressed an incorrect view that the government has no power to interfere with the licensing arrangements of intellectual property owners. Besides being simply wrong on the law, that view undermines the Agencies' abilities to do their jobs of protecting consumers and competition from improper business practices. To ensure that such views do not further confuse the proper regulatory role of government, the Agencies should strongly and explicitly reject this notion that intellectual property licensing receives some special exemption from regulatory oversight.

II. The Guidelines Should Address Specific Contemporary IP Licensing and Assertion Practices

Section 5 of the Guidance applies general principles of antitrust analysis to particular business practices. The selection of examples ought to be updated to reflect contemporary business practices involving intellectual property. Doing so would provide more effective guidelines to firms engaging in those practices, and it would offer the Agencies an opportunity to apply their antitrust expertise to the type of conduct seen in the marketplace today.

The following is a brief list of business practices that should be considered for discussion in section 5.

A. Intellectual Property in Technical Standards

The Agencies are familiar with the issues raised by standard-essential patents.⁸ The widespread reliance of technologists and consumers on standards-based technologies indicates the importance of such patents, and the growing body of case law on standard-essential patents indicates the importance of antitrust analysis in this field.⁹

There are at least two possible areas for the Guidance to consider with respect to standard-essential patents.

⁸See, e.g., 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 (Jan. 8, 2013) [hereinafter DOJ-USPTO POLICY STATEMENT], <http://www.justice.gov/atr/public/guidelines/290994.pdf>; U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 33–56 (2007) [hereinafter FTC-DOJ REPORT], available at <http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf>. It is possible that the Agencies intend to rely on reports such as these as a substitute for augmenting the Guidance itself. But to ensure that the Guidance is complete on key issues, at least a summary and pointer to the relevant reports would be warranted in the Guidance.

⁹See, e.g., *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024 (9th Cir. 2015); *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. 2014).

1. The most commonly discussed area is assertion of such patents, especially when those patents are subject to an agreement on fair licensing (a so-called FRAND agreement). The incorporation of patented technology into a widely-used standard unquestionably increases the likelihood of market power in the holder in that patent, rendering antitrust oversight on such patent holders important.

In assessing market power with respect to a standard-essential patent, the relevant market is that of the standard, not of the particular patent. That is because competitors generally cannot pick and choose portions of a standard to implement; either they implement the standard or they do not.¹⁰ Thus, when a standard has market power, patents designated as essential to that standard generally will derive market power therefrom, and therefore should be treated as having market power in the usual case, even when the patent only covers a portion of the standard that, in isolation, may not have market power.¹¹

2. The second area for consideration is standards bodies themselves. As courts have recognized,¹² the creation of technology standards can be procompetitive insofar as standards facilitate the development of new compatible products, but a standards consortium can also act anticompetitively by adopting technologies that benefit some competitors over others.¹³ The Agencies have observed that the cover of a standards body meeting

¹⁰Standards that permit for partial compliance may thus raise different issues that would have to be considered in appropriate cases.

¹¹Some have remarked that patents may be designated as essential to a standard even though they in reality do not cover technology in the standard. This is no excuse for avoiding antitrust scrutiny. Construction of patents is subject to reasonable disagreement, and if a patent owner—presumably in the best position to know the proper interpretation of the patent—believes a patent to be relevant to a standard, then that belief ought to be taken at face value. And to the extent that companies are wrongly designating patents as standard-essential when in reality they are not, that practice raises even more serious questions of anti-competitiveness and potentially even deception, since competitors may feel compelled to take a license for technology that they do not practice.

¹²See *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500–01 (1988) (noting that standards associations “have a serious potential for anticompetitive harm” but also that “standards can have significant procompetitive advantages”); *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 310 (3d Cir. 2007) (finding that holder of a patent on standardized technology is in a “unique position of bargaining power” in which it “may be able to extract supracompetitive royalties from the industry participants”); *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012) (“[S]tandards threaten to endow holders of standard-essential patents with disproportionate market power.”); *In re Dell Computer Corp.*, 121 F.T.C. 616, 624 n.2 (1996) (“[T]he standard effectively conferred market power upon Dell as the patent holder.”); *id.* at 626 (finding FTC record “replete with discussion of the procompetitive role of standard-setting organizations”).

¹³It is sometimes suggested that standard-essential patents do not trigger antitrust concerns because the patented technologies adopted into the standards are superior and thus merit any higher royalty rates that the patent owners may demand. This misses the point. Even if a technology is superior to substitutes and does merit a higher royalty on its own, the lock-in effect of incorporation into a standard still adds to the value of the technology in a way unrelated to the technological value. Furthermore, standards bodies do not adopt a patented technology into a standard purely based on merit; they certainly consider the patentee’s willingness to license on fair terms before adopting the technology. To allow the patentee to about-face and then start demanding excessively high royalties would certainly raise concerns that sound in antitrust.

“may give manufacturers an opportunity to discuss downstream prices with less risk of detection, making collusion less expensive.”¹⁴ Thus, the Agencies must also consider the activities of standards bodies, especially when those bodies are composed of patent-holding companies (rather than disinterested parties such as scientists).

While the discussion of standard-essential patents generally revolves around formally adopted standards, antitrust concerns may arise with respect to *de facto* standards as well. For example, there may be antitrust issues with the so-called “open early, closed late” strategy in which a firm invites others to use a technology royalty-free until those others become locked in, and then revokes its invitation and asserts its intellectual property.¹⁵

Although the discussion thus far has focused on patents, it need not be so limited. In the recent case *Oracle America, Inc. v. Google Inc.*, the Federal Circuit held copyrightable an application programming interface, that is, the set and arrangement of words used as commands for operating a computer system.¹⁶ There are substantial questions as to the correctness of that decision under copyright law,¹⁷ but insofar as it is precedent likely to be applied, the Agencies ought to consider the extent to which technology standards may be encumbered by copyrights as well as patents. Numerous standards, such as the HTTP standard on which the World Wide Web is based, incorporate sets of command words, and the *Oracle* decision opens up the possibility that the contributor may assert copyright claims against implementers of the standard, on the theory that implementing the standard requires use of that supposedly copyrighted set of commands. While standards bodies have long considered the anticompetitive risk of patents on standards technologies and developed contractual countermeasures, standards bodies do not appear to have ever considered the parallel anticompetitive risk of copyrights on the implementation of standards (likely because the longstanding view was that application programming interfaces were not copyrightable).¹⁸ Thus, copyright in application programming interfaces could present even greater antitrust challenges with respect to technology standards.

¹⁴FTC-DOJ REPORT, *supra* note 8, at 51.

¹⁵See CARL SHAPIRO & HAL R. VARIAN, INFORMATION RULES: A STRATEGIC GUIDE TO THE NETWORK ECONOMY 231 (1999) (“One of the worst outcomes for consumers is to buy into a standard that is widely expected to be open, only to find it ‘hijacked’ later, after they are collectively locked in.”); Proposed Brief for Public Knowledge as Amicus Curiae in Support of Plaintiff, *Arista Networks, Inc. v. Cisco Sys. Inc.*, No. 5:16-cv-923 (N.D. Cal. May 25, 2016).

¹⁶See *Oracle Am., Inc. v. Google Inc.*, 750 F.3d 1339, 1381 (2014).

¹⁷See, e.g., Pamela Samuelson, *Why Google’s Fair Use Victory over Oracle Matters*, THE GUARDIAN (May 31, 2016), <https://www.theguardian.com/technology/2016/may/31/google-fair-use-victory-oracle-software-androids>.

¹⁸*Compare* INST. OF ELEC. & ELECS. ENG’RS, INC., IEEE-SA STANDARDS BOARD BYLAWS § 6, at 15–19 (2015) [hereinafter IEEE-SA BYLAWS], available at http://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf (providing extensive rules on patented subject matter submitted to an IEEE standards process), with *id.* § 7.2.2, at 20 (providing that with respect to copyright in submitted material, licenses are granted to IEEE but not to others such as implementers of the standard).

B. Patent Privateering and Assertion Practices

The Agencies should also consider ways in which current patent assertion practices implicate antitrust. No introduction is necessary for the ongoing concerns relating to abusive patent assertion entities, the so-called “patent trolls” who assert often-questionable patents against a wide range of companies, and who have attracted the attention of lawmakers, the Administration, and the public at large.¹⁹ Certainly pure matters of patent and litigation policy should be left to Congress and the courts. But as FTC Chairwoman Edith Ramirez noted recently, the antitrust-enforcing Agencies “have a role to play in advancing a greater understanding of the impact of PAE activity and using our enforcement authority where appropriate to curb anticompetitive and deceptive conduct.”²⁰

Chief among these is the practice of “patent privateering,” in which an operating company transfers patents to a patent assertion entity, who is then free to assert the patent against the operating company’s competitors.²¹ Commenters to DOJ and FTC’s joint workshop on patent assertion entities have identified numerous potential competition issues when patents are transferred from operating companies to assertion entities, such as undermining pro-competitive cross-licensing arrangements and circumventing commitments such as FRAND agreements.²² Numerous commentators agree, observing that these sorts of “hybrid PAEs” engaged in contractual arrangements with operating companies are particularly troubling from an antitrust perspective.²³

¹⁹If an introduction to the matter is desirable, see Brief of Public Knowledge as *Amicus Curiae* in Support of Respondent at 4–8, *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401 (Mar. 4, 2015) (No. 13-720), available at https://www.publicknowledge.org/assets/uploads/documents/13-720_bsac_Public_Knowledge.pdf.

²⁰Edith Ramirez, Chairwoman, Fed. Trade Comm’n, Opening Remarks at the Computer & Communications Industry Association and American Antitrust Institute Program 2 (June 20, 2013), available at https://www.ftc.gov/sites/default/files/documents/public_statements/competition-law-patent-assertion-entities-what-antitrust-enforcers-can-do/130620paespeech.pdf.

²¹See, e.g., Tom Ewing, *Indirect Exploitation of Intellectual Property Rights By Corporations and Investors: IP Privateering and Modern Letters of Marque and Reprisal*, 4 HASTINGS SCI. & TECH. L.J. 1, 5–6 (2012), available at <http://scienceandtechlaw.org/wp-content/uploads/2015/10/Indirect-Exploitation-of-Intellectual-Property-Rights-By-Corporations-and-Investors.pdf>.

²²See Comments of Google, Blackberry, Earthlink & Red Hat 11–18, *Patent Assertion Entities* (Fed. Trade Comm’n & U.S. Dep’t of Justice Apr. 5, 2013), available at <https://www.justice.gov/sites/default/files/atr/legacy/2013/04/15/paew-0049.pdf>; cf. *Micron Tech., Inc. v. Rambus Inc.*, 645 F.3d 1311, 463–64 (Fed. Cir. 2011) (noting that avoidance of RAND obligation can raise antitrust concerns).

²³Fiona M. Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions*, 79 ANTITRUST L.J. 463, 494 (2014); see also Ilene Knable Gotts & Scott Scher, *The Particular Antitrust Concerns with Patent Acquisitions*, COMPETITION L. INT’L, Aug. 2012, at 30, 32, available at <https://www.wsgr.com/publications/PDFSearch/sher-august-12.pdf> (“[T]he troll may have a stronger incentive to extract monopoly rents from infringers because it is not susceptible to counterclaims for infringement.”); Mark A. Lemley & Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2165–66 (2013), available at <http://columbialawreview.org/missing-the-forest-for-the-trolls-3/> (noting reputational matters that deter operating companies, but not assertion entities, from aggressive litigation); Mark S. Popofsky & Michael D. Laufert, *Patent Assertion Entities and Antitrust: Operating Company Patent Transfers*, ANTITRUST SOURCE, Apr. 2013, at 1, 5–6,

More generally, abusive patent assertion can raise antitrust concerns. For example, a number of commentators have agreed that a patent assertion entity that aggregates enough complementary patents may attain market power, rendering them open to antitrust scrutiny.²⁴ Furthermore, patent assertion entities' portfolios may have market power under nontraditional yet nonetheless correct and important market definitions. At least one court has recognized that a patent assertion entity engaging in abusive litigation practices could possibly have monopoly power by possessing a large patent portfolio that was "inescapable" for banks offering online services,²⁵ and potentially engaged in unlawful acts of monopolization by aggregating patents in the field in ways that were designed to hold up the online banking industry.²⁶ It has further been suggested that the secrecy of many patent assertion entities' operations, combined with unclarity and ambiguity in patents that may be exploited to encompass a broader monopoly than intended, can offer more opportunities for patent owners to engage in anticompetitive behavior.²⁷

All of this goes to show that the Agencies, in their antitrust enforcement capacities, have important capabilities to deal with at least some facets of the patent assertion problems being faced today. The FTC's pending section 6(b) study on patent assertion entities will hopefully shed further light on what may be done in this field,²⁸ and representatives of both of the Agencies have indicated a willingness to engage in it.²⁹ An update to the Guidance would provide great value both in centralizing the Agencies' thinking on these matters and in advising industry and the public on the proper role of antitrust law with respect to patent assertion entities.

available at http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/apr13_full_source.authcheckdam.pdf.

²⁴See, e.g., Ramirez, *supra* note 20, at 9 ("Portfolio acquisitions that combine substitute patents, for example, may raise the risk of harming competition."); Morton & Shapiro, *supra* note 23, at 487 ("By purchasing a large share of all the patents reading on a product or product line, along with the most promising design-around alternatives, a PAE may be able to acquire monopoly power in the relevant technology market.").

²⁵See *Intellectual Ventures I LLC v. Capital One Fin. Corp.*, 99 F. Supp. 3d 610, 623–24 (2015). Sections 3.2.2 and 3.2.3 of the Guidance currently recognize both a "technology market" consisting of intellectual property and its close substitutes, and a "research and development market," that is, a market in "competition to develop new or improved goods or processes." These are related market definitions that could potentially be applied to patent assertion practices.

²⁶See *id.* at 626.

²⁷See Justin R. Orr, *Patent Aggregation: Models, Harms, and the Limited Role of Antitrust*, 28 BERKELEY TECH. L.J. 525, 551–53 (2013); see also FED. TRADE COMM'N, *THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION* 76 (2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf> (noting that uncertainty in patent scope "can greatly inhibit innovation and competition").

²⁸See Agency Information Collection Activities; Proposed Collection; Comment Request, 78 Fed. Reg. 61,352 (Fed. Trade Comm'n Oct. 3, 2013).

²⁹See Ramirez, *supra* note 20; Fiona F. Scott Morton, Deputy Assistant Attorney Gen. for Econ. Analysis, Dep't of Justice, Address at the Fifth Annual Searle Conference on Antitrust Economics and Competition Policy, Northwestern University: Patent Portfolio Acquisitions: An Economic Analysis (Sept. 21, 2012), available at <https://www.justice.gov/atr/file/518966/download>.

C. Post-Sale Conditions Placed on Goods

The Federal Circuit recently held in *Lexmark International, Inc. v. Impression Products, Inc.* that a manufacturing firm that owns patents on its product may impose conditions on use, resale, or disposal of the product.³⁰ Consumers who disobey those conditions become infringers of the patents, despite the exhaustion doctrine that ordinarily prevents a patent-owning seller from bringing an infringement action against a purchaser.³¹ Moreover, patent infringement resulting from violation of a post-sale condition continues for the life of the product, meaning that even innocent downstream purchasers are liable for patent infringement.

Lexmark is currently on petition for certiorari before the Supreme Court, which has sought the views of the Solicitor General.³² Insofar as it is currently binding law, though, the Agencies ought to consider the antitrust implications of the business practice of imposing post-sale restrictions.

For example, many manufacturers use post-sale conditions to impose tying requirements, forcing consumers to use patented devices only with approved components—often unpatented ones.³³ Others disallow consumers from repairing devices or using third-party repair parts, thus effectively eliminating any market in aftermarket repairs and other complementary goods and services.³⁴ Thus, to the extent that post-sale conditions continue to be enforceable under patent law, the Agencies should view many such conditions in use today as potentially requiring antitrust review.

III. There Is Not Necessarily a Unilateral Right to Refuse to License

Certain portions of the Guidance recite the common view that a patent owner may unilaterally refuse to grant a patent license. However, this is no longer the case, because while a patent owner can of course refuse to offer a license, that total refusal cannot be enforced in court.

³⁰See *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 726 (Fed. Cir. 2016) (en banc), *petition for cert. filed*, No. 15-1189 (Mar. 21, 2016).

³¹See *Lexmark Int'l*, 816 F.3d at 753. *But see* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”).

³²See Call for the Views of the Solicitor General, *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, No. 15-1189 (June 20, 2016).

³³See, e.g., *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992) (component of medical device); *Lexmark Int'l*, 816 F.3d at 727–28 (printer toner cartridge).

³⁴See, e.g., *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 337–38 (1961) (replacement fabric tops for convertibles).

When a firm is adjudged to infringe a patent, the firm is not necessarily precluded from practicing the patent thereafter. For that to be so, the ordering court must issue a permanent injunction against the firm. While injunctions were once issued as a matter of course, the Supreme Court in *eBay Inc. v. MercExchange, LLC* rejected that approach and required courts to apply the standard four-factor test before permanently enjoining firms from engaging in infringing activities.³⁵ Thus, courts should not and do not issue injunctions after every finding of infringement; studies confirm the reduction in issuance of injunctions following *eBay*.³⁶

Certain patents may be precluded from application of injunctive remedies. For example, injunctions may not issue on some standard-essential patents subject to a FRAND obligation,³⁷ a condition on licensing that has been recognized by both courts³⁸ and the Agencies.³⁹ Owners of standard-essential patents thus may not have the unilateral right to refuse to license.

Insofar as a patent owner is not guaranteed to win an injunction, the patent owner does not have a unilateral right to refuse to license. The patent owner will presumably receive damages, lost profits, or at least a reasonable royalty, which will certainly affect the economic calculus of ongoing infringement, but the patent owner cannot necessarily prevent the other firm from practicing the patent altogether.

That a patent owner does not have a unilateral right of refusal has implications for antitrust enforcement, and these should be reflected in the Guidance, particularly in the relevant discussions in sections 2.1 and 3.1. The correct analysis would seem to be as follows: First, the Agency would determine whether a refusal to license would be enforceable by injunctive relief. If so, then the Agencies would follow the analysis currently in section 3. If the Agency determines that a court would not issue an injunction, however, then the Agency should consider a licensing requirement as one possible option to remedy anti-competitive behavior.

³⁵See *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 394 (2006).

³⁶See Christopher B. Seaman, *Permanent Injunctions in Patent Litigation After eBay: An Empirical Study*, 101 IOWA L. REV. 1949, 1982 & n.228 (2016) (noting decline in injunction grant rate from 95% prior to *eBay*, down to 72.5% thereafter).

³⁷See, e.g., IEEE-SA BYLAWS, *supra* note 18, § 6.2 (providing that a submitter to a standard “who has committed to make available a license for one or more Essential Patent Claims agrees that it shall neither seek nor seek to enforce a Prohibitive Order based on such Essential Patent Claim(s) in a jurisdiction” in most situations).

³⁸See *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012) (“Implicit in such a sweeping [FRAND] promise is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made.”).

³⁹See DOJ-USPTO POLICY STATEMENT, *supra* note 8, at 6 (“In some circumstances, the remedy of an injunction or exclusion order may be inconsistent with the public interest. This concern is particularly acute in cases where an exclusion order based on a F/RAND-encumbered patent appears to be incompatible with the terms of a patent holder’s existing F/RAND licensing commitment to an SDO.”).

IV. The Guidelines Should Be Clearer in Their Discussion of the Relationship Between Intellectual Property and Other Property

Section 2 of the Guidance explains that antitrust applies with respect to conduct involving intellectual property in the same way that it applies to conduct involving other forms of property. The Guidance correctly notes that this means nothing more than that case-by-case analysis is required in view of the particular nature of the property in question.

Although these statements are correct, the Guidance should be clarified to further emphasize that intellectual property is very different from personal or real property in many important respects, some of which will indeed be relevant to antitrust analysis. This clarification is necessary to avoid erroneous extrapolations that intellectual property ought to be treated like physical property, extrapolations that many outside parties have shown a penchant for drawing.

Intellectual property is not physical property, and the law does not treat it as such. The Patent Act provides that patents “shall have the *attributes* of personal property,”⁴⁰ but emphatically does not say that patents *are* personal property.

A key difference between intellectual property and physical property, likely to be relevant to antitrust analysis, is that intellectual property provides only a right to exclude, and no right to possess or use. Two patent owners holding patents on related technology may be able to block each other from producing any goods or services under either patent.⁴¹ For example, if (hypothetically) one company owned the patent on telephone speakers and another on telephone microphones, then if both companies refused to license their patents, no company would be allowed to manufacture a telephone. This potentially leads to a worse situation from a competition or consumer perspective: “When owners have conflicting goals and each can deploy its rights to block the strategies of the others, they may not be able to reach an agreement that leaves enough private value for downstream developers to bring products to the market.”⁴²

The Guidance recognizes this (in footnote 12, for example), but greater emphasis on the wide disparity between intellectual property and physical property is necessary because their similarities have been misleadingly used in attempts to broaden intellectual property rights. Certain commentators take the notion that patents and copyrights are property to imply that a regulatory reduction in the scope of a patent or copyright constitutes a taking under the Fifth Amendment.⁴³ Despite the fact that the Supreme Court has never explicitly

⁴⁰35 U.S.C. § 261 (emphasis added).

⁴¹See Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, 1 INNOVATION POL’Y & ECON. 119, 122–23 (2001).

⁴²Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698, 700 (1998).

⁴³See, e.g., Adam Mossoff, *Supreme Court Recognizes that Patents are Property*, CENTER FOR PROTECTION INTELL. PROP. (June 22, 2015), <http://cpip.gmu.edu/2015/06/22/supreme-court-recognizes-that-patents-are->

adopted and in fact rejected such a theory,⁴⁴ this notion that intellectual property receives the same level of protection as physical property is so pervasive that even the Copyright Office appears to have adopted it.⁴⁵ It would be wise for the Guidance to avoid providing further fuel for these misguided theories.

Indeed, there appears to be no particular reason for the Guidance to mention physical property at all. Antitrust analysis involving intellectual property is not just the same as antitrust analysis involving other property; the analysis is the same as antitrust analysis *in general*, whether over property, contracts, price arrangements, or anything else. The Guidance could be greatly simplified and thereby avoid difficult questions about how close intellectual property is to physical property, by omitting reference to physical property and stating the correct and straightforward point that the same principles that the Agencies apply to antitrust analysis in general also apply to analysis involving intellectual property.

V. The Agencies Should Correct the Widespread Misunderstanding that Intellectual Property Holders Are Exempt from Regulatory or Antitrust Scrutiny

The existence of this Antitrust Guidance for Intellectual Property Licensing demonstrates an obvious point: intellectual property holders are subject to regulatory oversight just like everyone else. Yet there is a common misunderstanding among many, that ownership of a right gives the owner a freedom to license that somehow overrides any sort of regulation or control. It behooves the Agencies to explicitly reject this belief, both because it is wrong and because it would tend to confuse and potentially even diminish the important antitrust oversight role that the Agencies play.

Without question, intellectual property holders' freedom to engage in licensing or assertion practices is strictly cabined by antitrust law, consumer protection law, commu-

property/ (discussing belief that *Horne v. Department of Agriculture* recognized that “patents are property secured by the Fifth Amendment Takings Clause”); Gregory Dolin & Irina D. Manta, *Taking Patents*, 73 WASH. & LEE L. REV. 719 (2016).

⁴⁴See *Schillinger v. United States*, 155 U.S. 163, 168 (1894) (holding that cause of action for government use of patented invention does not fall under the Takings Clause). See generally Camilla A. Hrdy & Ben Picozzi, *The AIA Is Not a Taking: A Response to Dolin & Manta*, 72 WASH. & LEE L. REV. ONLINE 472, 474–79 (2016) (discussing case law rejecting or questioning the notion that patents are property under the Takings Clause). Certainly it is recognized that patents operate as property in some contexts. See *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 642 (1999) (noting that “patents may be considered ‘property’ for purposes of our analysis” under the Due Process Clause of the Fourteenth Amendment, but nevertheless holding that infringement of patents by states does not violate that constitutional provision). But that only strengthens the view that patents may not be considered property in other contexts.

⁴⁵See Letter from Maria A. Pallante, Register of Copyrights, to Marsha Blackburn et al., House of Representatives 11 n.51 (Aug. 3, 2016) [hereinafter Copyright Office Letter], available at https://www.publicknowledge.org/assets/uploads/documents/CO_set-top_letter_%281%29.pdf (suggesting that FCC proposed rule to increase competition in video programming set-top box devices “may also raise Fifth Amendment concerns” because of impact on copyright owners’ ability to negotiate licenses).

nications law, and any number of other legal and regulatory schemes. *Federal Trade Commission v. Actavis, Inc.* explained that antitrust law may prohibit a settlement arrangement between two companies, even if that settlement was over a private patent dispute.⁴⁶ Specifically the Supreme Court, in reviewing a potentially anticompetitive settlement agreement, held that certain “anticompetitive effects fall within the scope of the exclusionary potential of the patent,” but the justices nevertheless concluded that they “do not agree that that fact, or characterization, can immunize the agreement from antitrust attack.”⁴⁷

It is thus disappointing to see so many mistaken statements, even from within government itself, that intellectual property holders have an inviolable right to enter licensing arrangements of any sort that they desire, and that government has no role in—or is even prohibited from—regulating such arrangements. For example, the Federal Communications Commission recently opened an inquiry into opening up video set-top boxes (currently generally distributed as a tied bundle with video programming services) to competition from third-party manufacturers.⁴⁸ Spokespersons for both DOJ and FTC have noted this set-top box proceeding as potentially beneficial to competition,⁴⁹ but the Copyright Office has largely objected to the proposal on the grounds that it would be an “encroachment on the exclusive right to license,”⁵⁰ or more specifically that the proposal would “inappropriately restrict copyright owners’ exclusive right to authorize parties of their choosing to publicly [*sic*] perform, display, reproduce and distribute their works according to agreed conditions, and to seek remuneration for additional uses of their works.”⁵¹ The Copyright Office also has objected to DOJ’s interpretation of the ASCAP and BMI consent decrees to require 100% licensing of musical works, on the grounds that the interpretation “would contravene the basic rule [that] the exclusive rights comprised in a copyright[] are divisible without limitation”—another example of the Office questioning federal agency authority to impose pro-competitive limitations on copyright owners’ licensing practices.⁵²

⁴⁶See *Fed. Trade Comm’n v. Actavis, Inc.*, 133 S. Ct. 2223, 2237 (2013).

⁴⁷*Actavis*, 133 S. Ct. at 2230.

⁴⁸See *In re Expanding Consumers’ Video Navigation Choices*, 31 F.C.C. Rcd. 1544 (Feb. 18, 2016) (Notice of Proposed Rulemaking and Memorandum Opinion and Order).

⁴⁹See John Eggerton, *DOJ Blesses FCC Set-Top “Inquiry”*, MULTICHANNEL NEWS (Feb. 3, 2016), <http://www.multichannel.com/news/fcc/doj-blesses-fcc-set-top-inquiry/397101> (quoting Assistant Attorney General Bill Baer as saying, “We welcome the Commission’s inquiry into whether new set-top box rules may better unlock the power of consumer choice”); Comment of the Bureau of Consumer Protection, Federal Trade Commission at 1 n.2, *Expanding Consumers’ Video Navigation Choices*, 31 F.C.C. Rcd. 1544 (Apr. 22, 2016) (MB No. 16-42) (“I understand that the goal of the NPRM is to enhance competition among set-top box providers. The FTC has a dual mission to protect consumers and promote competition.”).

⁵⁰Copyright Office Letter, *supra* note 45, at 7 (title capitalization removed).

⁵¹*Id.* at 10 (emphasis removed).

⁵²VIEWS OF THE UNITED STATES COPYRIGHT OFFICE CONCERNING PRO LICENSING OF JOINTLY OWNED WORKS 19 (2016), available at <http://www.copyright.gov/policy/pro-licensing.pdf>.

The Copyright Office is not alone in viewing intellectual property owners as exempt from regulation. Patent owners have on occasion tried (and generally failed) to argue that Patent Office proceedings to reconsider the validity of issued patents are unconstitutional limitations on the scope of patent rights.⁵³ And the recently filed complaint against DOJ’s interpretation of the ASCAP and BMI consent decrees contends that the interpretation “diminishes and encumbers the copyright interests and private contractual rights and relationships of songwriters and composers,” therefore “violating plaintiffs’ rights of procedural and substantive due process, and taking their property without compensation.”⁵⁴ That reasoning, taken to its logical end, would mean that the Fifth Amendment enters into any government regulation that “diminishes and encumbers [] copyright interests,” even tangentially.⁵⁵

These views are fully contradicted by centuries of law holding that government may restrict intellectual property owners’ right to license. Besides *Actavis*, the Supreme Court in *Kimble v. Marvel Entertainment, LLC* recently affirmed its precedent holding that a patent owner has no right to license a patent for royalties extending past the expiration of the patent—a rejection of freedom of licensing for patentees, in favor of a more restrictive scheme.⁵⁶ *Lear, Inc. v. Adkins*, in rejecting a rule prohibiting licensees from challenging the validity of patents licensed, contemplated the patent owner’s interest in freedom to license but found it “plain that the technical requirements of contract doctrine must give way before the demands of the public interest” in permitting invalidity actions against improper patents.⁵⁷ Turning to communications regulation, *United Video, Inc. v. Federal Communications Commission* upheld broadcast television rules challenged as invalid under the Copyright Act; the D.C. Circuit rejected the challengers’ argument that the FCC “has authority only over communications law and has no power to interfere with copyright matters,” instead finding that “Congress intended” to allow the FCC to impose rules that might have effect on copyright value.⁵⁸

⁵³See, e.g., *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 600–05 (Fed. Cir. 1985) (rejecting numerous constitutional arguments that the patent reexamination statute caused patent owners to be “deprived, in effect, if not in law, of the right to exclude” under the patent), *reh’g granted on other grounds*, 771 F.2d 480 (Fed. Cir. 1985); *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1288–93 (Fed. Cir. 2015) (same, with respect to *inter partes* review of patents), *petition for cert. filed*, No. 15-1330 (U.S. Apr. 29, 2016); Brief of Law Professors Gregory Dolin et al. as *Amici Curiae* in Support of Petitioner at 22, *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (Feb. 29, 2016) (No. 15-446) (arguing that *inter partes* review “qualifies as a *per se* physical taking”).

⁵⁴Complaint for Declaratory and Injunctive Relief at ¶¶ 61–62, *Songwriters of N. Am. v. United States Dep’t of Justice*, No. 1:16-cv-1830 (D.D.C. Sept. 13, 2016).

⁵⁵For example, the ASCAP and BMI consent decrees are between DOJ and the two performing rights organizations; copyright owners are not a party to the decrees and are thus only incidentally affected by the interpretation of the decrees.

⁵⁶See *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401, 2415 (2015).

⁵⁷*Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

⁵⁸*United Video, Inc. v. Fed. Commc’ns Comm’n*, 890 F.2d 1173, 1183–84 (D.C. Cir. 1989).

Indeed, in *United States v. Microsoft Corp.*, the D.C. Circuit considered and forcefully rejected the argument that the exercise of copyright licensing may not be regulated:

Microsoft's primary copyright argument borders upon the frivolous. The company claims an absolute and unfettered right to use its intellectual property as it wishes: "[I]f intellectual property rights have been lawfully acquired," it says, then "their subsequent exercise cannot give rise to antitrust liability." That is no more correct than the proposition that use of one's personal property, such as a baseball bat, cannot give rise to tort liability. As the Federal Circuit succinctly stated: "Intellectual property rights do not confer a privilege to violate the antitrust laws."⁵⁹

The contention that intellectual property owners' right to license ought not be diminished by regulation thus has very little to stand upon, in view of this extensive case law sanctioning regulations of and limits on those licensing rights. It is thus important that the Agencies explicitly reject this mistaken contention, both to avoid further instances of others making the same mistake, and to avoid any appearance that the Agencies' power to prevent antitrust harms is curtailed in the intellectual property context. Contrary to that contention, the Agencies' power to prevent such harms is greatly important to the public.

Certainly antitrust law cannot address the full range of interests in advancing innovation. Commentators note that analysis under antitrust's rule of reason focuses on current market conditions rather than the interest in developing future inventions.⁶⁰ Antitrust law is incomplete in its ability to promote innovation and prevent abuses of intellectual property, which is why doctrines such as patent and copyright misuse must exist as separate and independent checks on the activities of intellectual property owners.⁶¹

But while some take this incompleteness to demand the Agencies to stay out of intellectual property owners' businesses, the correct answer is that the concern for future innovation counsels for the Agencies to apply more and more careful scrutiny to intellectual property owners. Actual research and development efforts can indeed be pro-consumer

⁵⁹*United States v. Microsoft Corp.*, 253 F.3d 34, 63 (D.C. Cir. 2001) (per curiam) (en banc) (quoting *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000)) (internal citations omitted).

⁶⁰See, e.g., Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 431 (2003) ("Antitrust tests, however, are aimed only at identifying particular types of harm. They cannot address the full range of patent policy concerns.").

⁶¹See HERBERT HOVENKAMP, MARK D. JANIS, MARK A. LEMLEY & CHRISTOPHER R. LESLIE, *IP AND ANTITRUST* § 3.2d (2d ed. 2014) ("[C]ourts have treated extension of a patent grant . . . as an evil to be avoided regardless of a demonstrable effect on competition."); Brief of Public Knowledge as *Amicus Curiae* in Support of Respondent at 9–22, *Kimble*, 135 S. Ct. 2401 (Mar. 4, 2015) (No. 13-720), available at https://www.publicknowledge.org/assets/uploads/documents/13-720_bsac_Public_Knowledge.pdf. The Agencies may thus be concerned, as a policy matter, about the Federal Circuit's recent trend of applying antitrust-like rule of reason analysis to patent misuse claims, thereby making that doctrine duplicative of or more restrictive than antitrust law. See, e.g., *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992). Misuse ought to cover an independent body of improper activity specific to intellectual property.

and pro-competitive, and will thus likely not be impeded by the Agencies' activities. But the mere platitude that intellectual property incentivizes innovation cannot shield all practices involving intellectual property, however harmful they may actually be. In a world where intellectual property owners seem to be putting much of their innovative efforts into inventing new legal strategies for extracting rents at the expense of consumers, competition, and the public interest, the Agencies play a crucial role in weeding out abusive practices from those that actually further the constitutional objective of promoting the progress of science and useful arts.

VI. Conclusion

Public Knowledge thanks DOJ and FTC for providing the opportunity to submit these comments. If there are any questions relating to the matters presented herein, the undersigned would be happy to provide further information as necessary.

Respectfully submitted,

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