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September 26, 2016

**Via Email:**

[ATR.LPS.IPGuidelines@usdoj.gov](mailto:ATR.LPS.IPGuidelines@usdoj.gov)

ATR-LPS-IP Guidelines

Dear Sir/Madam:

**RE: COMMENTS ON PROPOSED UPDATES TO THE FEDERAL  
TRADE COMMISSION AND U.S. JUSTICE DEPARTMENT  
ANTITRUST GUIDELINES FOR THE LICENSING OF  
INTELLECTUAL PROPERTY**

On behalf of the American Bar Association Sections of Antitrust Law and Intellectual Property Law, we are pleased to submit the attached comments on the Proposed Update to the Federal Trade Commission and U.S. Justice Department Antitrust Guidelines for the Licensing of Intellectual Property.

Please note that these views are being presented only on behalf of the Section of Antitrust Law and the Section of Intellectual Property Law. They have not been approved by the House of Delegates of the Board of Governors of the American Bar Association and should not be construed as representing the policy of the American Bar Association.

If you have any comments or questions after reviewing this report, we would be happy to provide further comments.

Sincerely,

[REDACTED]

William C. MacLeod  
Chair, Section of Antitrust Law

[REDACTED]

Donna P. Suchy  
Chair, Section of Intellectual Property Law

Attachment

# COMMENTS OF THE ABA SECTIONS OF ANTITRUST LAW AND INTELLECTUAL PROPERTY LAW TO

## PROPOSED UPDATE TO FEDERAL TRADE COMMISSION AND U.S. JUSTICE DEPARTMENT ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY

September 26, 2016

The Sections of Antitrust Law and Intellectual Property Law of the American Bar Association (ABA) (collectively the “Sections”) are pleased to submit these comments to proposed updates to the Antitrust Guidelines for Licensing of Intellectual Property (“Guidelines”)<sup>1</sup> issued by the U.S. Department of Justice (“DOJ”) and the Federal Trade Commission (“FTC”) (collectively the “Agencies”) for comment on August 12, 2016 (hereinafter referred to as the “Proposed Update”).<sup>2</sup> The views expressed herein are being presented on behalf of the Antitrust Section and the Intellectual Property Section and have been approved by the Sections’ Councils. They have not been approved by the House of Delegates or the Board of Governors of the ABA and, accordingly, should not be construed as representing the policy of the ABA.

The Sections applaud the Agencies’ efforts to maintain the relevance of the IP Guidelines through the Proposed Update. Intended to “assist those who need to predict whether the Agencies will challenge a practice as anticompetitive,”<sup>3</sup> the Guidelines have largely withstood the test of time. The Agencies’ approach to evaluating the competitive impact of licensing arrangements has not changed fundamentally since the Guidelines were issued in 1995. Consequently, the Sections understand that the proposed revisions do not anticipate changes in the way that the Agencies currently evaluate licensing practices, but rather are intended to more accurately reflect developments in relevant antitrust and intellectual property law since 1995. The Sections believe that the Proposed Update will assist market participants to better understand their obligations under the antitrust laws in a number of areas.

The following points are particularly useful:

- **Reinforcement of Core Analytical Principles.** The Proposed Update and the accompanying press release<sup>4</sup> emphasize that the Agencies will continue to apply the

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<sup>1</sup> U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, PROPOSED UPDATE OF ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (August 12, 2016), [www.ftc.gov/reports/antitrust-guidelines-licensing-intellectual-property-proposed-update-1995-guidelines-issued](http://www.ftc.gov/reports/antitrust-guidelines-licensing-intellectual-property-proposed-update-1995-guidelines-issued).

<sup>2</sup> U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (April 6, 1995), [www.justice.gov/atr/antitrust-guidelines-licensing-intellectual-property](http://www.justice.gov/atr/antitrust-guidelines-licensing-intellectual-property) [hereinafter “1995 GUIDELINES”].

<sup>3</sup> 1995 GUIDELINES § 1.

<sup>4</sup> See Press Release, *DOJ and FTC Seek Views on Proposed Update of the Antitrust Guidelines for Licensing of Intellectual Property – Revisions Undertaken Jointly by the Two Agencies* (Aug. 12, 2016), [www.ftc.gov/news-events/press-releases/2016/08/ftc-doj-seek-views-proposed-update-antitrust-guidelines-licensing](http://www.ftc.gov/news-events/press-releases/2016/08/ftc-doj-seek-views-proposed-update-antitrust-guidelines-licensing) and

same basic analytical tools that have governed the antitrust analysis of licensing arrangements for more than twenty years. Notably, the Agencies reaffirm three principles that have become pillars of their analytical approach: first, “the agencies apply the same antitrust analysis to conduct involving intellectual property as to conduct involving other forms of property, taking into account the characteristics of a particular property right.”<sup>5</sup> Second, IP rights do not, by themselves, create market power; and even if an IP right does confer market power, “that market power by itself does not offend the antitrust laws.”<sup>6</sup> Third, licensing is generally pro-competitive.<sup>7</sup> The Sections agree that these principles remain firmly grounded in antitrust law and economics, and applaud the Agencies’ continued commitment to them.

- **Alignment With Post-1995 Case Law.** The Proposed Update reflects several changes in law since 1995. For example, the Update states that, following *Leegin*,<sup>8</sup> the agencies will apply a rule of reason analysis to price maintenance in IP licensing agreements.<sup>9</sup> In addition, the Update cites *Trinko*<sup>10</sup> and the 2007 Antitrust-IP Report<sup>11</sup> for the proposition that “the antitrust laws generally do not impose liability upon a firm for a unilateral refusal to assist its competitors, in part because doing so may undermine incentives for investment and innovation.”<sup>12</sup> The Sections agree that these updates are useful to anchor the Guidelines in generally applicable principles of U.S. antitrust law.
- **Alignment With Other Guidelines.** The Proposed Update would align the Guidelines with the 2010 Horizontal Merger Guidelines.<sup>13</sup> That alignment will make it easier for parties to understand the analysis likely to be used by the Agencies when

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[www.justice.gov/opa/pr/doj-and-ftc-seek-views-proposed-update-antitrust-guidelines-licensing-intellectual-property](http://www.justice.gov/opa/pr/doj-and-ftc-seek-views-proposed-update-antitrust-guidelines-licensing-intellectual-property) [hereinafter PRESS RELEASE].

<sup>5</sup> PRESS RELEASE; *see also* PROPOSED UPDATE § 2.1.

<sup>6</sup> PROPOSED UPDATE § 2.2.

<sup>7</sup> *See* PRESS RELEASE; *see also* PROPOSED UPDATE § 2.

<sup>8</sup> *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007).

<sup>9</sup> PROPOSED UPDATE § 5.2.

<sup>10</sup> *Verizon Commc’ns v. Law Offices of Curtis V. Trinko*, 540 U.S. 398, 407-08 (2004).

<sup>11</sup> U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007).

<sup>12</sup> PROPOSED UPDATE § 2.1 and n.13.

<sup>13</sup> U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, HORIZONTAL MERGER GUIDELINES (August 19, 2010), [www.ftc.gov/public-statements/2010/08/horizontal-merger-guidelines-united-states-department-justice-federal](http://www.ftc.gov/public-statements/2010/08/horizontal-merger-guidelines-united-states-department-justice-federal) [hereinafter “HMG”].

they are reviewing a transaction that could be seen as coming within the scope of both guidelines.<sup>14</sup>

- **Alignment With Enforcement Practice.** The Proposed Update retains the concept of “innovation markets,” but refers to them as “research and development markets.” The Press Release indicates that this revision is intended to “more accurately reflect how these markets have been defined in enforcement actions.”<sup>15</sup> The Sections agree that tailoring the language of the Guidelines to better reflect how the Agencies think about the boundaries within which competitive effects of licensing arrangements are evaluated is valuable. However, the Sections believe that several aspects of the research and development market concept could be clarified. They are discussed below.

The Sections have identified a handful of areas for further potential clarifications:

- **“Unreasonable Conduct.”** The end of Section 2.2 notes that “unreasonable conduct” may draw Agency action where an intellectual property owner lawfully acquired or maintained market power.<sup>16</sup> While U.S. practitioners will likely understand this phrase to be shorthand for the rule of reason, this may not be true for other readers, including non-U.S. competition authorities that now look to the Guidelines as a model. As the DOJ recently acknowledged, many of these newer agencies analyze single firm conduct very differently than U.S. agencies do,<sup>17</sup> and these “[i]nternational differences are perhaps greatest with conduct related to intellectual property.”<sup>18</sup> Against this background, it may be helpful to substitute more detailed language for “unreasonable conduct” or to insert a footnote citing the basic elements of a Section 2 claim. For example, “unreasonable conduct” might be replaced with “conduct that unreasonably excludes competition through harm to the competitive process.” A potential footnote might read:

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<sup>14</sup> *Cf.*, e.g., the more open-ended approach to market definition in PROPOSED UPDATE § 3.2, which states that the Agencies will “normally” (but not necessarily in every case) define a relevant market in which a licensing agreement’s effects are likely to occur *with* HMG § 4 (“The Agencies’ analysis need not start with market definition.”); *see also* the deletion of the text surrounding footnote 39 of the 1995 GUIDELINES, which cited to the 1992 Horizontal Merger Guidelines.

<sup>15</sup> *See* n.4 *supra*.

<sup>16</sup> PROPOSED UPDATE, § 2.2, redline page 8.

<sup>17</sup> Principal Deputy Assistant Attorney General Renata B. Hesse, CAN THERE BE A “ONE-WORLD APPROACH” TO COMPETITION LAW? (Remarks at the Chatham House Conference on Globalization of Competition Policy, June 23, 2016), [www.justice.gov/opa/speech/principal-deputy-assistant-attorney-general-renata-b-hesse-delivers-remarks-chatham-house](http://www.justice.gov/opa/speech/principal-deputy-assistant-attorney-general-renata-b-hesse-delivers-remarks-chatham-house) (“While there is much in common between how the US and most other jurisdictions approach potentially exclusionary conduct by individual firms, some of our differences are significant... Agencies and courts in the US have also been more reticent than our global counterparts about finding unilateral conduct to be unlawfully exclusionary”).

<sup>18</sup> *Id.*

*See, e.g.,* United States v. Grinnell Corp. 384 U.S. 563 (1966) (“The offense of monopoly under § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident”); NYNEX Corp. v. Discon, Inc., 525 U.S. 128, 135 (1998) (holding that the mere presence of an anticompetitive motive, even fraud that allowed a monopolist to raise prices, did not constitute a Sherman Act violation in the absence of harm to the competitive process).

- **Truncated Rule of Reason.** While the Guidelines currently state that a truncated rule of reason analysis will be used to assess IP licensing arrangements “in some circumstances,” the Proposed Update deletes that language and adds a reference to the *Actavis* decision (which in turn quotes *California Dental*).<sup>19</sup> Clarification of when such a truncated analysis will be used would be a useful addition.
- **Research and Development Markets.** We have several suggestions for the revised Section on innovation (now: research and development) markets. First, the Sections note that the research and development market concept is rarely applied in practice, especially outside of the biological and pharmaceutical industries and in enforcement actions relating to the licensing of IP.<sup>20</sup> Accordingly, it would be useful to clarify that the change in terminology is not intended to broaden the scope of the concept.

Second, the 1995 Guidelines included two significant limitations to the use of innovation markets in analyzing licensing agreements, including that the Agencies must first be able to “reasonably identify the firms with the required capability and incentive” to participate in the potential innovation market. This factor appears to have been eliminated as a result of the deletion of Example 3.<sup>21</sup> The Sections found this factor helpful guidance and have encouraged agencies in other jurisdictions to include similar reservations in their IP Guidelines.<sup>22</sup> The Sections ask that the Agencies clarify whether the implied deletion was intentional.

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<sup>19</sup> *FTC v. Actavis*, 133 S. Ct. 2223, 2237-38 (2013) (quoting *California Dental Assn. v. FTC*, 526 U. S. 756, 775, n.12 (1999)). *See* PROPOSED UPDATE at 23 n.51 and 52.

<sup>20</sup> The Sections are aware of no reported antitrust cases relating to the licensing of IP in innovation markets. *See* ABA Section of Antitrust Law, *Market Definition in Theory and Case Studies* Ch. XII (ABA Publishing 2012).

<sup>21</sup> *See* p. 18 of the redline version of the PROPOSED UPDATE.

<sup>22</sup> *See* JOINT COMMENTS OF THE AMERICAN BAR ASSOCIATION SECTIONS OF ANTITRUST LAW, INTELLECTUAL PROPERTY LAW, INTERNATIONAL LAW, AND SCIENCE & TECHNOLOGY LAW ON REVISIONS TO THE KOREA FAIR TRADE COMMISSION’S REVIEW GUIDELINES ON UNFAIR EXERCISE OF INTELLECTUAL PROPERTY RIGHTS at 7-8 (October 30, 2015).

Third, the Proposed Update would revise the second paragraph of Section 3.2.3 to state that “[a] research and development market consists of the assets comprising research and development related to the identification of a commercializable product, or directed to particular new or improved goods or processes, and the close substitutes for that research and development.” The Sections would clarify that if the “commercializable products” cannot reasonably be expected to compete with each other, significant competition concerns in research and development markets are less likely.<sup>23</sup>

The Sections appreciate the opportunity to comment on the Proposed Update. The Sections would be pleased to respond to any questions that the Agencies may have regarding these comments or to provide any additional comments or information that may assist the Agencies in finalizing the revised Guidelines.

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<sup>23</sup> For example, if the R&D in Example 3 of the Guidelines was geared toward producing non-competing types of plastic used in different applications.