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INTERNATIONAL BAR ASSOCIATION

ANTITRUST COMMITTEE

UNILATERAL CONDUCT AND BEHAVIOURAL ISSUES WORKING GROUP

SUBMISSION REGARDING THE US DOJ AND FTC PROPOSED UPDATE TO THE ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY

1 Introduction and purpose of submission

1.1 The IBA

The IBA is the world's leading organisation of international legal practitioners, bar associations and law societies. The IBA takes an interest in the development of international law reform and helps to shape the future of the legal profession throughout the world.

Bringing together antitrust practitioners and experts among the IBA's 30,000 individual lawyers from across the world, with a blend of jurisdictional backgrounds and professional experience spanning all continents, the IBA is in a unique position to provide an international and comparative analysis in this area. Further information on the IBA is available at www.ibanet.org.

1.2 Purpose of Submission

The International Bar Association's Unilateral Conduct And Behavioural Issues Working Group (***Working Group***) sets out below its submission on the Proposed Update to the Antitrust Guidelines for the Licensing of Intellectual Property (***Proposed Update***) issued by the US Department of Justice (***DOJ***) and Federal Trade Commission (***FTC***) in August 2016.

The Working Group welcomes the opportunity to comment on a number of aspects of the Proposed Update. The Working Group commends the DOJ and FTC for their efforts to modernise the guidelines on antitrust law in the context of intellectual property licensing.

This submission proceeds in two sections. First, it comments on the specifics of the proposed amendments. Second, it outlines some additional material which the DOJ and FTC may consider introducing to the Proposed Update.

2 The Proposed Update

2.1 Section 1: Intellectual Property Protection and the Antitrust Laws

Section 1.0 provides a concise explanation of the basic nature of patents, copyrights and trade secrets. This explanation could potentially be enhanced by adding a brief overview or definition of 'know-how' , in the interests of completeness.

In **Section 1.0, in footnote 11,** it is noted that both patent and antitrust laws share the purpose of enhancing innovation and consumer welfare. The Working Group suggests that it could be useful

to mention that this situation extends to the relationship between trade secrets and copyright laws as well.

2.2 Section 2: General Principles

The Working Group notes the three general principles underlying the Guidelines that are set out in Section 2. These general principles are important and it is good to see them clearly specified up front.

Section 2.1, paragraph 4 refers to "international licensing arrangements". In the context of international arrangements it could be useful to expand this reference by mentioning that the Guidelines and US antitrust law only apply if the US has jurisdiction under the *Foreign Trade Antitrust Improvements Act* of 1982, which states that the *Sherman Act* shall not apply to trade or commerce with foreign nations, unless the conduct has "a direct, substantial and reasonably foreseeable effect" on US import or export commerce.[1]

Section 2.2, paragraph 1 elaborates on the principle that intellectual property rights do not necessarily confer market power upon the holder. This rightly takes into account the analysis in *Illinois Tool Works v. Independent Ink* case, noting that although intellectual property rights do confer some power to exclude, the existence of "actual or potential close substitutes" can prevent the exercise of market power.

The Working Group considers that Section 2.2 could also mention a further typical economic phenomenon that can go against such market power. Namely, the countervailing power of the buyers in the market. For example, in European competition law, this factor is key in terms of establishing, or refuting, dominance.[2]

2.3 Section 3: Antitrust Concerns and Modes of Analysis

To enhance the clarity of **Example 4 under section 3.3**, the Working Group suggests that the final sentence could be extended with: "which in itself does not mean that this gives rise to anti-competitive effects".

2.4 Section 5: Application of General Principles

The Working Group commends the FTC and DoJ for updating Section 5 to incorporate the change in the prevailing law regarding vertical resale price maintenance (***RPM***) agreements arising from the Supreme Court decision in the 2007 *Leegin* case, which rejected a per se analysis and accepted pro-competitive justifications for RPM conduct.[3] However, there are some elements of the section which the Working Group considers could be further improved.

In **section 5.2, paragraph 2,** it would be useful for the Guidelines to provide a clarification as to the types of agreements that will be considered as hard core cartels in the context of licensing (to clarify the final sentence: "Agreements constituting a horizontal cartel will be considered per se illegal.") In doing so, the FTC and DoJ may also consider whether it would be useful to refer to the approach to hub and spoke and mixed horizontal cartel cases or the joint negotiation by licensees of royalties.

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[1] 15 USC 6a.

[2] See e.g. paragraph 164 of the European Commission's 2014 guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0328(01).

[3] *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007).

The analysis in **section 5.2** could be bolstered. It might be useful to incorporate an example to guide businesses on how the new law will apply to vertical RPM agreements in an intellectual property context.

In relation to **section 5.5,** which looks at cross-licensing and pooling arrangements, the Proposed Update could provide more guidance on patent pool arrangements. The Working Group recognises that detailed guidance is available in different instruments, as set out in footnote 79 of the Proposed Update. Yet, the updated guidelines could be an opportunity to harmonize and consolidate this guidance in the one document.

3 Additional Areas for Analysis

3.1 The DOJ and FTC have, however, missed an opportunity to address important issues at the intersection of antitrust and intellectual property law. We urge them to do so in a revised draft. As to some of these issues, such as SEP and FRAND, both agencies have been active and have taken enforcement positions.

3.2 Settlement Agreements

The discussion on invalid or unenforceable intellectual property rights in **section 6** is important. However, the Working Group considers that it would be helpful if additional guidance could be built in about the agencies' approach to settlement agreements in the intellectual property context in view of the fact that there has been a significant amount of litigation in this area.

For example, the Proposed Update could include a section on settlement agreements similar to that in the European Commission's guidelines.[4] Those guidelines specify the scope of allowable settlement agreements. They also express that some forms of pay-for-delay settlement agreements can prove problematic. This is also a relevant observation in the US context, as recognised in footnote 88 of the Proposed Update. It could be useful for the Proposed Update to more directly address this issue and provide guidance to companies on what conduct is acceptable in relation to settlement agreements. It would also be helpful to state the key finding in the *Actavis* case, which was that reverse payments are not presumptively unlawful, but may violate antitrust laws.[5]

3.3 FRAND

The Working Group considers that it would be useful to include additional guidance on issues related to standard essential patents (**SEPs**) and fair reasonable and non-discriminatory (**FRAND**) licensing. Among other things, it would be helpful for these guidelines to make clear that FRAND commitments run with the patent and cannot be avoided by transfer. The Proposed Update does not address any issues relating to SEPs/FRAND licensing, even though the area has received significant attention from both the DOJ and FTC in the last decade. This includes the FTC challenging the mere act of seeking injunctive relief after having committed a patent or some patents to a standard.[6] The DOJ has also actively discouraged injunctions, requesting

[4] See the European Commission's 2014 guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreement available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0328(01), section 4.3, paragraphs 238-239.

[5] *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2237-38 (2013).

[6] See e.g. In the matter of Rambus Inc., FTC Docket No. 9302, Opinion of the Commission (2 August 2006); In the Matter Negotiated Date Solutions LLC, FTC File No. 051 0094; In the Matter of Union Oil Co. of California, FTC Docket No. 9305 (4 March 2003); In the Matter of Robert Bosch GmbH, Docket No. C-4377, file No. 121 0081, Statement of the Commission; In the Matter of Motorola Mobility LLC and Google Inc., Commission Statement (3 January 2013).

standard setting organisations to limit the rights of SEP holders to allow injunctions to be sought only where the potential licensee is "unwilling" to take a FRAND license. It would be helpful for the agencies' views on these issues to be foreshadowed in the Guidelines, even if only in general terms. Also, the principles enumerated in the DOJ and US Patent and Trademark Office Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments[7] (January 8, 2013) could usefully be incorporated or at least referenced in the guidelines.

3.4 Patent Asserting Rights

Another issue which the Working Group considers would be usefully addressed in the Proposed Update relates to patent assertion entities (***PAEs***). PAEs focus on buying and asserting patents, as opposed to contributing to the development of new technologies. Some elaboration on where PAEs sit within the antitrust law, as well as their role in the intellectual property market, both generally and more specifically in relation to research and development markets, would be a welcome addition. The Working Group also notes that the FTC is about to issue its 6(b) study on PAEs and it may be helpful to reference or include the findings of this study.

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[7] https://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf