



**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

ROUNDTABLE ON COMPETITION, PATENTS AND INNOVATION

-- Note by the Delegation of the United States --

This note is submitted by the delegation of the United States to the Competition Committee FOR DISCUSSION at its forthcoming meeting to be held on 9 - 11 June 2009.

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COMPETITION, PATENTS AND INNOVATION

-- Note by the United States --

1. Introduction

1. In October 2006, the U.S. Federal Trade Commission (“FTC”) and U.S. Department of Justice submitted a Note to the OECD Roundtable on Competition, Patents, and Innovation that discusses the relationship between patent policy and competition policy in promoting innovation, the role of competition policy in promoting reforms within the patent system, developments and proposals for changes to the patent system in the United States, and considerations when formulating antitrust policy involving patent and innovation issues. This Note describes key policy developments between October 2006 and May 2009 and presents some background on the recently concluded FTC Hearings on the Evolving Intellectual Property Marketplace (“2009 FTC Hearings”).¹ The FTC will prepare a public report reflecting what it has learned from these hearings.

2. Recent Developments and Proposals for Changes to the Patent System in the United States

2.1 Supreme Court Litigation

2. Significant U.S. appellate decisions were among the most important patent policy developments between October 2006 and May 2009. One effect of these decisions was to strengthen the influence of competition in patent policy.

3. In 2007, the Supreme Court decided *KSR International Co. v. Teleflex, Inc.*² *KSR* presented the question of when a patent should be denied or invalidated on the grounds that the claimed invention is “obvious” to a hypothetical person of ordinary skill in the pertinent art in light of the content of the prior art and the inventive skill attributable to such a person.³ The issue was whether the U.S. Court of Appeals for the Federal Circuit—the intermediate appellate court with jurisdiction over almost all patent appeals in the United States—improperly limited the statutory analysis of obviousness by imposing a “suggestion” test that required that a patent examiner seeking to reject a patent application, or a litigant seeking to invalidate a patent, demonstrate a specific “suggestion, teaching, or motivation” that would have led a

¹ The 2009 FTC Hearings, which sought information on changes in the intellectual property marketplace and the implications of such changes for public policy, are described at <http://www.ftc.gov/os/2008/11/P093900ipwksfpfn.pdf>. The hearings started in December 2008 and concluded in May 2009.

² 550 U.S. 398 (2007).

³ U.S. legislation provides that that “a patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.” 35 U.S.C. § 103; *see also* *Graham v. John Deere Co.*, 383 U.S. 1, 17–18 (1966) (setting forth a methodology for analyzing obviousness).

person of ordinary skill in the art to combine the elements found in the prior art to create the claimed invention.

4. In *KSR*, the Supreme Court rejected the Federal Circuit’s application of this test, calling it a “rigid rule that limits the obviousness inquiry.”⁴ Rather than confining obviousness analysis to a formalistic conception, the Court said to “look to interrelated teachings of multiple patents; the effects of demands known to the design community. . . ; and the background knowledge possessed by a person having ordinary skill in the art” so as to “determine whether there was an apparent reason to combine the known elements.”⁵ Patents for inventions that are obvious to one of ordinary skill in the art withdraw from the public what is already known and diminishes the resources available to support innovation.⁶ Indeed, the Court warned that “the results of ordinary innovation are not the subject of exclusive rights under the patent laws. Were it otherwise, patents might stifle, rather than promote, the progress of useful arts” as contemplated in the U.S. Constitution.⁷

5. The Court’s 2007 decision in *MedImmune, Inc. v. Genentech, Inc.*⁸ also recognized the potential harm of incorrectly issued patents and the need to eliminate them by expanding the ways in which a patent’s validity may be challenged. Under *MedImmune* a patent licensee that is still paying royalties has standing to challenge the validity of the licensed patent through a declaratory judgment action because the potential for infringement liability creates a “substantial controversy between parties having adverse legal interests,” and thus satisfies the U.S. Constitution’s standing requirement.⁹ As the Court explained in *Lear Inc. v. Adkins*,¹⁰ an earlier case allowing a licensee to challenge patent validity after being sued for breach of contract, allowing challenges to questionable patents vindicates “the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”¹¹

6. In *Quanta Computer, Inc. v. LG Electronics, Inc.*,¹² the Supreme Court grappled with the limits of the longstanding “patent exhaustion” doctrine, which provides that a patented item’s original authorized sale terminates all patent rights to that item. LG Electronics sought through a licensing agreement to prevent a computer maker (Quanta) from combining components made by Intel using LG’s patented computer technology (Intel parts) with other components not embodying that technology (non-Intel parts). In holding that the exhaustion doctrine defeated LG’s suit, the Court emphasized that the exhaustion doctrine applied to method patents (practiced when the licensed Intel parts were used after being combined with non-Intel parts) as well as other patents. The Court concluded that because LG’s licensing agreement with Intel authorized the sale of components that substantially embodied the LG patents at issue in the suit, the exhaustion doctrine prevented LG from further asserting its patent rights with respect to the patents substantially embodied by those products. This holding underscores the legal limits on the ability of a

⁴ 550 U.S. at 419.

⁵ *Id.* at 418

⁶ *Id.* at 415–16.

⁷ *Id.* at 427.

⁸ 549 U.S. 118 (2007).

⁹ *Id.* at 127 (quoting *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)), 131–135.

¹⁰ 395 U.S. 653 (1969).

¹¹ *Id.* at 670.

¹² 128 S. Ct. 2109 (2008).

patentee to extend its rights through contractual restrictions after a product embodying its patented technology has been sold.

2.2 *Administrative Activity by the Patent and Trademark Office*

7. In 2007, the U.S. Patent and Trademark Office (“PTO”) issued four new rules intended to improve the quality and efficiency of the patent examination process in the United States, and to promote innovation and economic growth. These new rules were designed, in some cases, to increase the quality of information that patent applicants are required to provide to patent examiners, and in others to focus applicants on initially presenting their best claims and arguments.¹³ A federal district court struck down the rules as beyond the PTO’s authority. On review in 2009, in *Tafas v. Doll*,¹⁴ the U.S. Court of Appeals for the Federal Circuit provisionally upheld the PTO’s authority to promulgate three of the rules, but remanded the case to the lower court to decide whether the rules were proper. The court struck down one rule dealing with continuation applications. Although the PTO has announced that it will not implement any of the new rules at this time, the following three paragraphs briefly summarize the rules in order to describe the administrative reforms that the PTO has been contemplating.

8. *Rules Limiting the Number of Claims in a Single Patent Document — Provisionally Upheld.* Rules 75¹⁵ and 265¹⁶ are intended to address the PTO’s difficulty in examining patent applications that contain a large number of claims. Specifically, Rule 75 requires an applicant who submits either more than five independent claims or twenty-five total claims to provide the examiner with information in an examination support document (“ESD”). Rule 265 sets forth the requirements for ESDs. To comply with Rule 265, an applicant must conduct a pre-examination prior art search, provide a list of the most relevant references, identify the limitations that are disclosed by each reference, explain how each independent claim is patentable over the references, and show where in the specification each limitation is disclosed.

9. *Rule Limiting Patent Pendency Through Continued Examination—Provisionally Upheld.* In promulgating Rule 114,¹⁷ the PTO sought to limit the time period a patent application can remain pending and to limit the number of examinations that can be requested for a single invention. To that end, Rule 114 provides that a patent applicant may file only a single request for continued examination (“RCE”) in a patent family as a matter of right. For each additional RCE, the applicant must file a petition showing why the information submitted in the RCE could not have been submitted in the original patent application.

10. *Rule Limiting Repetitive Continuation Applications—Struck Down.* Continued examination allows applicants to obtain further examination of a patent application after a “final rejection” by the examiner. These procedures sometimes lead to an unlimited string of filings with progressively less useful communications between the patent examiner and the applicant. (Moreover, continuations increase the probability of a phenomenon known as patent “hold-up,” whereby patent applicants keep continuations pending for extended periods, monitor developments in the market, and then modify their claims to cover a competitor’s product after the competitor has incurred sunk costs in the product’s development and, perhaps, marketing.¹⁸) This set of regulations, which was struck down as beyond the PTO’s statutory

¹³ The Department supported the issuance of these rule changes in a May 2006 submission to the PTO.

¹⁴ 559 F.3d 1345 (Fed. Cir. 2009).

¹⁵ 37 C.F.R. § 1.75.

¹⁶ 37 C.F.R. § 1.265.

¹⁷ 37 C.F.R. § 1.114.

¹⁸ For example, a competitor may invest substantially in designing and developing a product and bringing it to market while multiple continuations are pending and before the patent issues. When the patent finally does issue, redesign might be prohibitively expensive, and the new patentee might be in a position to

authority, would have limited proceedings in the PTO by requiring applicants, after they have received two full rounds of examiner review, to show why any new continuation submissions could not have been made previously.¹⁹

2.3 Legislative Activity

11. The U.S. House of Representatives and the U.S. Senate have considered various proposed far-reaching reforms to the patent system over the past five years.²⁰ Key features of the latest Senate and House bills, introduced in March 2009 (S. 515, as amended April 2, 2009, and H.R. 1260) are summarized below. Some provisions of the proposed legislation incorporate aspects of recommendations made by the FTC's 2003 Report, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*.²¹ Although the bills differ in scope and in the details of their implementation, they share several features. Among other things, the bills would establish a post-grant opposition procedure, change the standards for willful infringement, and permit third parties to submit prior art during patent examination.²²

12. *Post-Grant Patent Review.* Both bills create an expanded post-grant opposition procedure that allows the public to dispute issues of patentability before a board of administrative judges within the PTO. Parties to an opposition procedure may take limited discovery. Parties wishing to oppose the board's decision have a right to appeal.

13. *Limiting Willful Infringement.* The two bills would not allow a plaintiff to plead willful infringement before a court has determined that the patent in suit is not invalid and enforceable, and that the defendant has engaged in acts of infringement. The bills also codify the definition of willfulness set forth in *In re Seagate Technology, LLC*.²³ *Seagate* holds that willful infringement requires a showing of "objective recklessness" on the part of the infringer. In order to prove objective recklessness under *Seagate*, the patentee must show by clear and convincing evidence that (1) the infringer acted despite an objectively high likelihood that its actions infringed a valid patent and (2) the infringer knew or should have known of the objectively high risk. *Seagate* makes it much harder for a patentee to obtain treble damages due to willful infringement, and thus reduces the chilling effect of the pre-*Seagate* willfulness test on legitimate efforts to compete against patentees. The proposed legislative language would reinforce this procompetitive effect.

14. *Third Party Submission of Prior Art.* The bills permit third parties to submit prior art to the PTO during patent examination. They provide that the party that submits the reference must explain the

extract large royalties, which has been called "hold-up." FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003), Ch. 4 at 26–28, available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

¹⁹ 37 C.F.R. § 1.78 (struck down).

²⁰ A number of patent reform bills were introduced in the 2005–08 legislative sessions, but none were enacted. On March 3, 2009, very similar versions of a "Patent Reform Act of 2009" were introduced in the 112th Congress by House Judiciary Committee Chairman Conyers (H.R. 1260) and Senate Judiciary Committee Chairman Leahy (S. 515), the ranking minority members of both committees, and co-sponsors from both parties. On April 2, 2009, the Judiciary Committee sent a complete substitute version of S. 515, which made significant changes to certain provisions, to the full Senate. In May 2009, the Judiciary Committee issued a report on S. 515. S. REP. NO. 111-18 (2009), available at [http://thomas.loc.gov/cgi-bin/cpquery/R?cp111:FLD010:@1\(sr018\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp111:FLD010:@1(sr018)).

²¹ See *supra* note 18.

²² Each bill also contains other provisions not discussed here.

²³ 497 F.3d 1360 (Fed. Cir. 2007).

relevance of the reference and pay a fee to defray PTO expenses. This provision is intended to improve the quality of patents by giving examiners greater access to prior art when deciding patentability and has the added benefit of discouraging frivolous submissions.

15. In addition, both bills would change the way in which district courts calculate reasonable royalties in patent infringement actions. At this stage, it is too early to know which legislative proposal, if any, will be enacted, and thus it is too early to predict the effects of the legislation on innovation.

3. Considerations when Formulating Antitrust Policy Involving Patents and Innovation Issues

3.1 2007 Report by the Agencies on Antitrust and Intellectual Property

16. As part of its efforts to inform consumers, businesses, and intellectual property rights holders about how the Department and the FTC view activities involving intellectual property in the broader context of competition, the agencies issued a joint report in April 2007 entitled *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*.²⁴

17. The Report was based on a series of hearings in 2002 that included comments from more than 300 people, including those with interests in biotechnology, computer hardware and software, the Internet, and pharmaceuticals, as well as independent investors, and leading scholars and practitioners in antitrust law, intellectual property law, and economics. Recognizing that intellectual property laws and antitrust laws share the common goals of “encouraging innovation, industry and competition,” the agencies reported they will use a flexible rule-of-reason approach to determine antitrust liability for the vast majority of conduct involving intellectual property rights. The Report contains, among others, the following conclusions on ex ante licensing negotiations within standard-setting organizations (“SSOs”) and joint licensing agreements such as cross licenses and patent pools.

18. The Report examined joint negotiation of licensing terms by participants in SSOs before the standard is set and determined that such negotiations can be procompetitive. Such negotiations are unlikely to constitute a per se antitrust violation. Usually, the agencies will apply a rule-of-reason analysis when evaluating these joint activities.²⁵

19. According to the Report, cross licenses and patent pools are evaluated for their competitive effects under the rule-of-reason framework articulated in the 1995 Antitrust Guidelines for the Licensing of Intellectual Property.²⁶ Combining complementary patents within a pool is generally procompetitive. Combining of complementary intellectual property rights, especially those that block the use of a particular technology or standard, can be an efficient and procompetitive way to disseminate those rights to would-be users of the technology or standard. Including substitute patents in a pool does not make the pool presumptively anticompetitive; competitive effects will be ascertained on a case-by-case basis.²⁷

²⁴ U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007)*, available at <http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf>.

²⁵ *Id.* at Ch. 2.

²⁶ U.S. Dep’t of Justice & Federal Trade Comm’n, *Antitrust Guidelines for the Licensing of Intellectual Property § 1 (1995)*, reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,132, available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf>.

²⁷ *Id.* at Ch. 3.

3.2 Patent Hold-ups Involving SSOs

20. In recent years the FTC has actively pursued alleged anticompetitive “hold-ups” by patentees that obtained monopoly power as part of a collaborative standard-setting process. In 2006, the FTC ruled that the technology firm Rambus anticompetitively obtained monopoly power over certain computer chip technologies by misleading an SSO as to its patent interests in the technologies that were being standardized. On appeal however, the U.S. Court of Appeals for the District of Columbia Circuit held that the FTC failed to sustain its allegation of monopolization.²⁸ In its 2008 *N-Data* consent decree, the FTC condemned (as an unfair method of competition and an unfair act or practice violative of section 5 of the FTC Act) a breach of a licensing commitment (a one-time paid-up royalty of \$1,000 per licensee) made to an SSO and subsequently relied upon by the market.²⁹

21. In 2007, the U.S. Court of Appeals for the Third Circuit held that the district court erred in dismissing monopolization and attempted monopolization claims against a manufacturer of patented chipset technology based on its alleged failure to license its patented technology on fair, reasonable, and nondiscriminatory (“FRAND”) terms as it had committed to do during the standard-setting process.³⁰ The court held that “(1) in a consensus-oriented private standard-setting environment, (2) a patent holder’s intentionally false promise to license essential proprietary technology on FRAND terms, (3) coupled with an SDO’s reliance on that promise when including the technology in a standard, and (4) the patent holder’s subsequent breach of that promise, is actionable anticompetitive conduct.”³¹ The court remanded the claims to the district court for proceedings to determine whether the claim could be proven. The parties agreed to settle this litigation in April 2009.

3.3 Pay-for-Delay Cases Involving Pharmaceutical Companies

22. Competition between branded and generic pharmaceutical manufacturers provides consumers enormous savings. Thus, any restriction on the market for generic drugs can have a big impact on consumer spending on drugs. To ensure that this market remains free and competitive, the FTC actively pursues agreements between branded drug companies and generic drug companies that prevent or delay the introduction of lower-cost generic formulations. These agreements, referred to as “pay-for-delay” patent settlements or “exclusion payments,” prevent competition from new generic drugs that can drive prices for the branded equivalent down as much as 90 percent. These agreements allow branded manufacturers to share the profits from their branded drugs with potential generic rivals in exchange for delaying the roll out of a lower priced generic, and also prevent other generic manufacturers from entering the market.³² In March 2009, the FTC testified in favor of proposed congressional legislation (H.R. 1706) that would ban anticompetitive pay-for-delay patent settlements.³³

²⁸ *Rambus Inc. v. FTC*, 522 F.3d 456 (D.C. Cir. 2008).

²⁹ *In re Negotiated Data Solutions, LLC*, Dkt. No. 051-0094 (2008), available at <http://www.ftc.gov/os/caselist/0510094/index.shtm>.

³⁰ *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297 (3d Cir. 2007).

³¹ *Id.* at 314.

³² See THE FTC IN 2009 16-17 (Fed. Trade Comm’n Annual Report) (2009), available at <http://www2.ftc.gov/os/2009/03/2009ftcrptpv.pdf>, and THE FTC IN 2008 14–16 (Fed. Trade Comm’n Annual Report) (2008), available at <http://www.ftc.gov/os/2008/03/ChairmansReport2008.pdf>.

³³ *How Pay-For-Delay Settlements Make Consumers and the Federal Government Pay More For Much Needed Drugs, Before the Subcomm. on Commerce, Trade, and Consumer Protection of the H. Comm. on Energy and Commerce*, 111 Cong. (2009) (prepared statement of the Fed. Trade Comm’n presented by Comm’r J. Thomas Rosch.), available at <http://www.ftc.gov/os/2009/03/P859910payfordelay.pdf>.

23. In 2009, the FTC challenged such an agreement between Solvay Pharmaceuticals, Inc., the maker of AndroGel, and two generic drug manufacturers in which the generic drug manufacturers agreed to abandon their patent challenges and delay marketing a generic formulation for nine years, until 2015.³⁴ AndroGel is Solvay's branded testosterone replacement drug, a prescription pharmaceutical with sales of more than \$400 million a year. The FTC charged that, by agreeing to the delay in exchange for payment, the generic manufacturers, Watson Pharmaceuticals Inc. and Par Pharmaceutical Companies, were cooperating with Solvay on the sale of AndroGel and sharing the monopoly profits rather than competing. This case is pending in federal court.

24. In 2008, the FTC charged that Cephalon, Inc. engaged in illegal conduct to prevent competition for its branded drug, Provigil, by paying four firms to refrain from selling generic versions of the drug until 2012.³⁵ Provigil is used to treat excessive sleepiness in patients with sleep apnea, narcolepsy, and shift-work sleep disorder. The four companies had applied to the Food and Drug Administration for approval to market a generic formulation. In the ensuing patent case, the generic companies argued that their products did not infringe the only remaining patent on Provigil, the formulation patent related to the size of the particles used in the drug, and challenged the validity of the patent. Cephalon entered into agreements with these companies, paying more than \$200 million in exchange for agreements not to sell a generic version of Provigil until 2012. No other generic company could enter the market until all four "first filers" relinquished their marketing exclusivity or 180 days had elapsed after one of them entered the market. By these agreements, Cephalon effectively prevented any generic from entering the market until at least 2012. The FTC's complaint before the federal district court alleges that Cephalon's conduct in entering into patent-litigation settlement agreements that included payments designed to prevent generic competition constituted an abuse of monopoly power that is unlawful under section 5 of the FTC Act. Today, the FTC continues to press its case against Cephalon in the federal district court in Philadelphia.

25. Four U.S. circuit courts have examined the competitive effects of these types of settlements featuring exclusion payments from the patent holder of a branded drug to a potential generic entrant (or entrants) that agreed not to enter the market until a later date. One circuit found an agreement per se illegal in which the generic manufacturer received payments and agreed not to compete during the pendency of the litigation using the product at issue or any non-infringing product.³⁶ Three other circuits have not found antitrust liability.³⁷

3.4 Patent Pooling Arrangements

26. In October 2008, the Department issued a business review letter to the Radio Frequency Identification ("RFID") Consortium stating that it does not presently intend to challenge the Consortium's proposal to jointly license patents that are essential to manufacture products compliant with ultra high frequency ("UHF") RFID standards. UHF RFID is an automatic identification and data capture technology that identifies objects using radio frequency waves.³⁸

³⁴ See <http://www.ftc.gov/opa/2009/02/androgel.shtm> (FTC press release regarding suit against Solvay).

³⁵ See <http://www.ftc.gov/opa/2008/02/ceph.shtm> (FTC press release regarding suit against Cephalon).

³⁶ In re *Cardizem CD Antitrust Litigation* 332 F.3d 896 (6th Cir. 2003).

³⁷ In re *Ciprofloxacin Hydrochloride Antitrust Litigation*, 544 F.3d 1323 (Fed. Cir. 2008); In re *Tamoxifen Citrate Antitrust Litigation*, 466 F.3d 187 (2d Cir. 2006); *Schering-Plough Corp. v. FTC*, 402 F.3d 1056 (11th Cir. 2005); *Valley Drug Co., Inc. v. Geneva Pharmaceuticals, Inc.*, 344 F.3d 1294 (11th Cir. 2003).

³⁸ Letter from Thomas O. Barnett, Assistant Attorney Gen., U.S. Dep't of Justice, to William F. Dolan & Geoffrey Oliver (Oct. 21, 2008), available at <http://www.atrnet.gov/subdocs/238429.htm>.

27. The Department analyzed the patent pooling arrangement under the rule of reason, examining both the pool's expected competitive benefits and its potential to restrain competition. It found that the proposed licensing arrangement was "reasonably likely to yield some tangible cost savings by limiting the threat of hold up and royalty stacking and by lowering transaction costs," even though it likely will not offer a license to all essential UHF RFID patents.³⁹

28. The Department also found that the Consortium planned to implement a number of safeguards that would reduce concerns about the ability of the pool's licensing program to harm competition. First, the Consortium will remove patents from the pool that have been found invalid or unenforceable. Second, the Consortium is likely to exclude substitute patents, i.e., those that cover competing technologies, because it intends to include in the pool license only patents that are essential to the UHF RFID standard. Including substitute patents in the pool could permit the price of such technologies to rise. Third, the Consortium's commitment to license its essential patents on RAND terms means that potential downstream competitors of Consortium members will be able to access the technology for uses compliant with the standard. Fourth, using an independent licensing administrator will preclude the Consortium's members from accessing confidential business information of the Consortium's licensees. Finally, the grantback requirement imposed on licensees was narrowly tailored, requiring them to grant back to the Consortium a nonexclusive right to license only patents that are essential to the standard.⁴⁰

3.5 *Ex Ante Licensing within Standard-Setting Organizations*

29. In October 2006, the Department issued a business review letter to the VMEbus International Trade Association ("VITA") stating that it does not presently intend to challenge VITA's proposed patent policy for its standard-setting activities. Under the terms of the proposed policy, patent holders will declare their own most restrictive licensing terms, meaning that the policy has the potential to decrease the price of licenses for use under the standard if patent holders compete to increase the chance that their patented technology would be selected by the working group setting the standard. The Department concluded that the policy would preserve the benefits of competition between alternative technologies, helping VITA to avoid hold up and to improve its decision making by broadening the basis on which working group members decide which technologies to include in its standards.⁴¹

30. The Department also concluded that the policy's prohibition on joint negotiation or discussion of licensing terms among the working group members (or with third parties) meant that the price of licenses would not be anticompetitively depressed by the concerted action of working group members. The Department noted that it likely would evaluate any antitrust concerns about such negotiations or discussions under the rule of reason because such actions could be procompetitive.

31. Pursuant to the VITA policy, actual licensing terms will continue to be determined bilaterally between the patent holder and each potential licensee, subject to the cap declared by the patent holder during the standard-setting process. If SSO members use the patent policy procedures to fix the prices of downstream products, or if patent holders decide to rig their declarations of most restrictive licensing terms the Department would not hesitate to challenge such activities as per se illegal.

32. After the Department issued its business review letter to VITA, the Department received a request for a business review letter from IEEE and its standards association, IEEE-SA, asking the

³⁹ *Id.* at 7–8.

⁴⁰ *Id.* at 8–10.

⁴¹ Letter from Thomas O. Barnett, Assistant Attorney Gen., U.S. Dep't of Justice, to Robert A. Skitol, Esq., Drinker, Biddle & Reath, LLP (Oct. 30, 2006), available at <http://www.atrnet.gov/subdocs/219380.htm>.

Department for its views on IEEE-SA's proposed patent policy.⁴² This policy, which IEEE believed would ensure the wide adoption of IEEE standards, provided patent holders the option of making a voluntary assurance about their intended maximum royalty rates and most restrictive licensing terms, made all licensing assurances by patent holders irrevocable, and made such assurances binding on future owners of the patents.

33. In April 2007, the Department issued a favorable business review letter to IEEE, concluding that IEEE's proposed policy could generate benefits similar to those generated by VITA's proposed policy, even though IEEE's proposal does not require patent holders to publicly commit to their most restrictive licensing terms. Patent holders could compete on licensing terms to increase the likelihood of being selected for the standard. The basis for the decision-making of the working group could be expanded, and the development, implementation, and adoption of IEEE standards could take place faster. The policy might also decrease patent litigation after the standard is set. The Department also noted that SSOs may legitimately choose not to adopt patent policies like IEEE's or VITA's and that experimentation and competition between SSOs in this area should help determine over time which policies will work best in particular contexts.

4. FTC Hearings on the Evolving Intellectual Property Marketplace

34. In launching the 2009 FTC Hearings, the FTC took note of recent judicial developments (summarized in paragraph 2, above) and of the emergence of new business models involving the buying, selling, and licensing of patents.⁴³ Some business models seek to monetize patents based on strategic acquisition and assertion. Others establish a cooperative venture that buys and licenses patents to its members for defensive purposes. Still others seek to create sector-specific funds, similar to mutual funds, that allow investors to earn revenue from royalty streams. Other developing patent-related business models also exist.

35. The implications of recent court decisions and new patent-related business models may have major policy significance, including implications for consumer welfare and competition. The 2009 FTC Hearings are designed to explore these implications by asking (1) how has the marketplace for intellectual property ("IP") changed over the last five or ten years; (2) what are the new business models; (3) what economic evidence is relevant when analyzing whether to grant a patentee a permanent injunction; (4) do the legal rules for patent damages result in awards that appropriately compensate patentees; (5) how have changes in the willfulness doctrine changed the behavior of patentees and potential infringers; (6) how will patent law changes made by Supreme Court and Federal Circuit decisions of the past five years affect the value of patents; (7) how does uncertainty regarding the validity and scope of patents affect the operation of the IP marketplace; (8) how transparent is the current IP marketplace; and (9) during the past five years, what new learning has furthered the understanding of the patent system and the IP marketplace?

36. The first session of the 2009 FTC Hearings comprised three panels that focused on different aspects of the evolving IP marketplace.⁴⁴ The first panel addressed developing business models, including the operation of emerging business models, aspects of the patent system that support those models, industry responses, and implications of the models for patent valuation and licensing. The second panel examined recent and proposed changes in remedies law, including their impact on innovation and

⁴² Letter from Thomas O. Barnett, Assistant Attorney Gen., U.S. Dep't of Justice, to Michael A. Lindsey, Esq., Dorsey & Whitney LLP (Apr. 30, 2007), available at <http://www.atrnet.gov/subdocs/222978.pdf>.

⁴³ See <http://www.ftc.gov/os/2008/11/P093900ipwksprfn.pdf>.

⁴⁴ The first session of the 2009 FTC Hearings was held on December 5, 2008. See <http://www.ftc.gov/opa/2008/11/ipmarketplace.shtm>.

consumers and their use of economic analysis in determining remedies. The third panel assessed legal doctrines that affect the value and licensing of patents, such as holdings in recent Supreme Court cases and doctrines that make the scope and enforcement of patents unpredictable. The third panel also considered whether the notice function of patents operates to support an efficient marketplace.

37. The second session of the 2009 FTC Hearings addressed remedies for patent infringement.⁴⁵ The February 11 hearing addressed patent damages, including the standards that govern the assessment of damages, the application of these standards in court proceedings, and the impact of the resulting awards on business activity, including licensing and innovation. The hearing on February 12 focused on permanent injunctions in the wake of the Supreme Court's *eBay* decision and changes to the willful infringement doctrine.⁴⁶ Panelists discussed, among other issues, the criteria courts have considered in deciding whether to grant or deny an injunction and the effect of these legal doctrines on innovation and business strategies.

38. The third session of the 2009 FTC Hearings centered on practices related to licensing.⁴⁷ The March 18 hearing explored how organizations and inventors from different industries use patents by enforcing exclusivity or licensing. Panelists discussed the effects of recent judicial decisions, uncertainty in the patent system, and the notice function of patents on their decision-making. The March 19 hearing assessed economic perspectives on IP and technology markets and the role of notice and transparency in the IP marketplace.

39. The fourth session of the 2009 FTC Hearings included panels that explored how corporations, inventors, and patent intermediaries value and monetize patents, strategies for buying and selling patents; and the role of secondary markets for intellectual property.⁴⁸

40. The final session of the 2009 FTC Hearings was held in Berkeley, California, in cooperation with the Berkeley Center for Law and Technology and the Berkeley Competition Policy Center.⁴⁹ This session explored how markets for patents and technology operate in different industries, whether those markets operate efficiently, and how patent policy might be adjusted to respond to problems in those markets in order to better promote innovation and competition.

41. The 2009 FTC Hearings have featured presentations by leading experts on the evolving IP marketplace from academia, law, economics, business, and the public sector. FTC staff is carefully assessing the transcripts of hearing sessions, written submissions by hearing participants, and comments by members of the public. The FTC expects to issue a report based on the hearings, one that the FTC hopes will shed light on the policy significance of judicial decisions and new IP business models. The report may also offer tentative recommendations aimed at promoting a sound patent system that is attentive to antitrust concerns—in other words, a system that promotes innovation and economic growth in a manner that optimally balances competition and patent policies.

⁴⁵ The second session was held on February 11 and 12, 2009. See <http://www.ftc.gov/opa/2009/01/iphearings.shtm>.

⁴⁶ For a discussion of the *eBay* decision, see the U.S. Submission to the OECD Roundtable on Competition, Patents, and Innovation in October 2006, DAF/COMP/WD(2006)52, at ¶¶ 34–39, available at <http://www.oecd.org/dataoecd/26/10/39888509.pdf>.

⁴⁷ The third session was held on March 18 and 19, 2009. See <http://www.ftc.gov/opa/2009/02/iphearings.shtm>.

⁴⁸ More information on the fourth session, held on April 17, 2009, is available at <http://www.ftc.gov/opa/2009/03/iphearing.shtm>.

⁴⁹ The final session was held on May 4 and 5, 2009. See <http://www.ftc.gov/opa/2009/04/iphearing.shtm>.