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Four Key Changes to Antitrust Guidelines for Licensing of Intellectual Property—DOJ, FTC Invite Comments

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Mark September 26, 2016, on your calendar as the deadline to tell the ***DOJ*** and ***FTC*** what should be changed, or not, in the *Antitrust Guidelines for the Licensing of Intellectual Property*. On August 12, 2016, the DOJ and FTC issued a proposed update to those Guidelines and set the September deadline for comment. The proposed changes are not as dramatic as the update to the Guidelines issued in 1995, but incorporate several key developments in the law since 1995.

Four of the key updates are summarized below.

1. Resale Price Maintenance Conditions in IP Agreements

As far as the agencies are concerned, IP license agreements may now explicitly include requirements on resale price without being per se illegal. The new Guidelines acknowledge that the Supreme Court changed the prevailing law on vertical resale price maintenance (RPM) agreements in 2007, rejecting per se analysis for such agreements and acknowledging procompetitive justifications for the arrangements.[1] Applicable to maximum or minimum resale prices, the new Guidelines recognize that vertical price restrictions will get rule of reason treatment, weighing competitive benefits and harms.

Those who followed the developments in the antitrust analysis around RPM, and who may have been frustrated at the refusal of certain states to adopt the more forgiving analysis of such agreements, may ask for a deeper analysis and discussion in the Guidelines. Certainly the Supreme Court in the *Leegin* decision that changed RPM law felt the need to provide greater specifics regarding the analysis of such agreements, and such guidance may be useful in the Guidelines. Notably, no examples are provided to guide companies in understanding how to apply this turnaround in the law in the IP context.

The DOJ/FTC will likely receive requests for clarification of the seemingly obvious ending phrase that “[a]greements constituting a horizontal cartel will be considered per se illegal.” (Sec. 5.2 at 34). Certainly many in the DOJ still have in mind their case against Apple that asserted that a series of vertical agreements effectively coordinated a horizontal conspiracy among publishers. We can expect a continued focus by the DOJ and FTC on vertical agreements, which may be interpreted as hub-and-spoke conspiracies involving horizontal competitors. However, in light of the special uses of IP licensing agreements, it may be worthwhile for the Guidelines to express the intended warning more directly, particularly by way of RPM conditions in IP licensing.

2. Updating Market Analysis

The new Guidelines include several updates concerning market definition and market power, though none are substantial departures from the earlier version. The agencies reinforce the importance of accurate market analysis, and continue to recite a 20 percent safe harbor provision for IP deals that implicate no more than that amount of power in a properly defined market. The most notable market updates are as follows:

First, the revised Guidelines acknowledge that IP ownership does not necessarily equal market power. They now cite to the Supreme Court's 2006 *Illinois Tool* decision that rejected the few remaining authorities that granted a presumption to patent holders, and that proclamation is incorporated into the new Guidelines. Though the *Illinois Tool* opinion came a decade after the 1995 version of the Guidelines, the DOJ and FTC were ahead of the curve. The earlier version already stated they "will not presume that a patent, copyright, or trade secret necessarily confers market power" and that language remains unchanged. (Sec. 5.3)

Next, the new Guidelines expand on delineating technology markets as one type of market affected by IP licensing arrangements. In addition to citing several cases that have defined technology markets that issued since the last update to the Guidelines, the agency adds the 1999 *Summit Technology* FTC opinion where a patent pooling arrangement eliminated competition in the laser vision correction technology market qualified as price fixing. (Sec. 3.2.2 at n.38) That citation follows an essentially unchanged example of an IP joint venture involving drug manufacturing technologies which may expect antitrust scrutiny for reducing competition and raising prices for the drug.

Finally, the new Guidelines increase the focus on "Research and Development Markets," formerly referred to as "Innovation markets." The revised Guidelines provide an expanded description of how close substitutes are examined in connection with how IP licenses may affect competition in research and development markets. The two principal requirements for an IP license to fall within the antitrust "safe harbor" are unchanged: "(1) the restraint is not facially anticompetitive, and (2) four or more independently controlled entities in addition to the parties to the licensing arrangement possess the required specialized assets or characteristics and the incentive to engage in research and development that is a close substitute of the research and development activities of the parties to the licensing agreement." Intending to ensure full consideration of potential "close substitutes" the revised Guidelines add this analysis:

In evaluating close substitutes, the agencies may consider numerous factors including the following:

- The nature, scope and magnitude of the R&D efforts of the other independently controlled entities;
- Their access to financial support, intellectual property, skilled personnel or other specialized assets;
- Their timing; and
- Their ability, either acting alone or through others, to successfully commercialize innovations.

Though apparently intended to broaden the characteristics for market analysis, and thus expand the types of agreements that will be presumptively free from antitrust scrutiny, the commentary may be seen as identifying ways to defeat the consideration of close substitutes. It is likely that some of the questions regarding the proposed revisions will ask that the Guidelines specify that this is not a list of minimum requirements but instead a list of potential considerations, no one of which is dispositive.

3. When an IP License or Transfer Is Treated as a Merger

Throughout the former and the revised Guidelines, there is an acknowledgement that a more demanding merger analysis may be used to determine anticompetitive effects in the relevant market, even where there is no actual merger. The agencies will consider examining IP transfers and other licensing arrangements as if a merger took place. In that circumstance, the updated Guidelines cite to the newer 2010 Horizontal Merger Guidelines as the applicable analysis. As with the prior Guidelines, such transactions are again excluded from the "safety zone" of certain "transfers of intellectual property rights" found in section 4.3 of the revised Guidelines.

The most notable expansion of this principle comes after calling out sale of all rights, and transfers of exclusive licenses. The revised Guidelines clarify that labels will be disregarded in favor of the substance of the transaction as seen by the agency. They state:

> The Agencies may also apply a merger analysis to a transaction involving a license that does not fall within the traditional definition of an exclusive license but in substance transfers intellectual property rights and raises the same potential antitrust concern – i.e., that the transaction's effect may be to substantially lessen competition in a relevant market. (Guidelines at n.88)

Despite this addition, the agencies provide the same example of an expressly nonexclusive pharmaceutical patent license granted to a horizontal competitor that, combined with the patentee's refusal to grant any other licenses, triggers a merger analysis and excludes the application of the "safe harbor" for IP licenses.

4. Acknowledging Deferred Payments Post-Expiration as Potentially Valid

In the final, brief section titled "Invalid or Unenforceable Intellectual Property Rights" the agencies acknowledge with added citations the growth of antitrust counterclaims and the misuse of intellectual property rights in violation of the Sherman Act and Section 5 of the FTC Act. It has long been settled that a patentee cannot enforce or seek royalties after a patent has expired. However, the revised Guidelines have the relatively recent 2015 decision of *Kimble v. Marvel Entm't, LLC* which addressed that issue. As a result, the revised Guidelines allow that "where royalties are to be paid after the term of a valid patent right expires," such agreements may have "'demonstrable efficacies' that can be taken into account in an effect-based analysis." (Sec. 6 at n.94)

Comments Invited Before September 26, 2016

The agencies will accept comments and suggestions to the revisions, and given the importance of encouraging innovation in IP agreements and clarity concerning antitrust liability, the input is likely to be robust. Though not mentioned above, the revisions do also contain a cite to the newly-adopted Defend Trade Secrets Act, but the dearth of cases relying on the statute prevent real expansion on that point, so further discussion there is unlikely.

One area of potential addition may be characteristics and approaches where standard-essential patents (SEPs) are adopted by an association or industry, or where patent holders are obligated to license on fair, reasonable and non-discriminatory (FRAND) terms. Companies that have faced these issues and could have used clear guidance on the antitrust consequences of unreasonable conditions for licensing SEPs may ask for such an addition to this version of the Guidelines.

The redlined version of the Guidelines showing the changes from the 1995 version can be found here .

The changes, and what might be added, warrant consideration before the deadline. The agencies and industry representatives have an opportunity to more specifically identify additional developments, and enhance investment in research, development, and IP licensing in the next version of the Guidelines—the next chance may not be for another 20 years.

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

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