FTC And DOJ Issue Joint Report Regarding Antitrust Enforcement And Intellectual Property Rights

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Interesting and difficult questions lie at the intersection of antitrust, intellectual property rights and antitrust enforcement. The U.S. Department of Justice and the Federal Trade Commission (the “Agencies”) recently released a long-awaited joint report on that intersection entitled “Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition” (the “Report”). The Report reaffirms the Agencies’ past approach to these issues and synthesizes various views that were expressed during a 24-day series of hearings jointly conducted by the Agencies in 2002 involving over 300 panelists and over 100 written comments. The overall theme of the Report is that while the characteristics of intellectual property may differ from those of other types of property, “agreements involving intellectual property can be analyzed using the same antitrust rules applied to agreements involving any other property.” The Report does not address some of the more controversial topics in this area of the law, such as how settlements of patent litigation should be analyzed under antitrust law.

Overview

The Report is significant for several reasons. First, the Report highlights the growing importance of intellectual property (“IP”) to the economy generally as well as to the Agencies’ enforcement of antitrust laws specifically. Second, the Agencies’ conclusions affirm that “agreements involving intellectual property can be analyzed using the same antitrust rules applied to agreements involving any other property.” This sentence is consistent with their prior statement in 1995, in Section 2 of the U.S. Dept. of Justice & Federal Trade Comm. Antitrust Guidelines for the Licensing of Intellectual Property (1995) (the “1995 Guidelines”). The Report proceeds to analyze antitrust enforcement issues involving IP using the same principles that apply to issues involving other forms of property, while taking into account the characteristics of IP that are unique. Third, an overarching theme that permeates the Report’s discussion of how agreements involving IP are typically procompetitive and, in most cases, are appropriately analyzed under the rule of reason.

Highlighting the six topics addressed by the Report and settlements of patent litigation, the big topic that was not addressed by the Report, are provided below.

1. Unilateral Refusals To License Patents

The Agencies first address the extent to which patentees should be subject to antitrust liability for unilaterally refusing to license their patents. The discussion focuses, in particular, on the divergent holdings of In re Standard Service, Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997) (“Kodak”), and In re Independent Service Organizations Antitrust Litigation, 326 F.3d 1322 (Fed. Cir. 2003) (the “ISOs”). The Report discusses two circuit decisions that have addressed the issue. Without taking a firm position on how this issue should be treated, the Agencies suggest that, while patentees may blanket antitrust immunity for refusing to license their patents, “liability for mere unconditional, unilateral refusals to license will not play a meaningful part in the interface between patent rights and antitrust protections.” (Report at 30.)

2. Incorporation Of Patents Into Collaboratively Set Standards

The Agencies note the competition concerns that may arise through the efforts of standard-setting organizations (“SSOs”) to prevent from using the incorporation of their patents into industry standards to extract higher royalties than they otherwise would have been able to obtain. To deter such behavior, typically referred to as “hold up,” SSOs often require members to disclose their relevant IP rights ex ante (i.e., during the standard-setting process) and/or to license their IP on fair, reasonable, and non-discriminatory terms if and when the IP is incorporated into a standard. Some SSO members have suggested, however, that “well-designed hold out commitments could be introduced into the standard-setting process through ex ante unilateral announcements of licensing terms by IP holders or through ex ante multilateral licensing negotiations between IP holders and the group of SSO members.” (Id. at 40.)

The Agencies state that they “take no position as to whether SSOs should engage in joint ex ante discussion of licensing terms but recognize that joint ex ante activity may be a useful licensing term during the standard-setting process and/or to license their IP on fair, reasonable, and non-discriminatory terms if and when the IP is incorporated into a standard. Some SSO members have suggested, however, that “well-designed hold out commitments could be introduced into the standard-setting process through ex ante unilateral announcements of licensing terms by IP holders or through ex ante multilateral licensing negotiations between IP holders and the group of SSO members.” (Id. at 40.)

The Report explains that the competitive effects of a joint ex ante discussion of licensing terms are likely to be procompetitive in nature from both a research tool and to share innovation; or (4) otherwise grant protections. The Agencies note the competition concerns that may arise through the efforts of standard-setting organizations (“SSOs”) to prevent from using the incorporation of their patents into industry standards to extract higher royalties than they otherwise would have been able to obtain. To deter such behavior, typically referred to as “hold up,” SSOs often require members to disclose their relevant IP rights ex ante (i.e., during the standard-setting process) and/or to license their IP on fair, reasonable, and non-discriminatory terms if and when the IP is incorporated into a standard. Some SSO members have suggested, however, that “well-designed hold out commitments could be introduced into the standard-setting process through ex ante unilateral announcements of licensing terms by IP holders or through ex ante multilateral licensing negotiations between IP holders and the group of SSO members.” (Id. at 40.)

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The Report explains the procompetitive effects that can result from portfolio cross-licensing and patent pooling, notably in the form of decreased transaction costs. On the other hand, portfolio cross-licensing and patent pooling also may facilitate anticompetitive behavior, such as: (1) fixing, coordinated output reduction, or reduced incentives to innovate. In this regard, the Report observes that pooling arrangements generally receive greater antitrust scrutiny from the Agencies than do cross-licensing arrangements, due primarily to the greater number of market participants involved.

The Report distinguishes between combinations of complementary patents, which are generally procompetitive, and combinations of substitutable patents, which are more likely to have anticompetitive effects. The Agencies indicated, however, that they will engage in a fact-specific examination of portfolio cross-licensing and patent pools regarding whether the patents involved are complementary or substitutable.


The Report discusses three licensing arrangements that are particularly relevant: non-assertion clauses, grantbacks, and reach-through licensing – and evaluates whether the 1995 Guidelines provide adequate instruction on analyzing such arrangements. The Report finds that the procompetitive effects of non-assertion clauses and grantbacks are similar to cross-licenses (discussed above) in that they allow the parties to avoid transaction costs associated with negotiating IP licenses or litigating over IP rights. On the other hand, these licensing practices may be anticompetitive if they (1) are broad or of indefinite duration; (2) help to maintain an illegitimate monopoly or duopoly; (3) encourage innovation; or (4) otherwise grant protections. The Report explains that the standard-setting process through reach-through licensing, the Report states that such licensing creates efficiencies, most prominently the ability to value a research tool and to share innovation risks among parties.

The Report concludes that the 1995 Guidelines contain appropriate instructions regarding IP licensing arrangements. The Report affirms this approach, although it noted that the Agencies, in their discretion, use the 1995 Guidelines to determine whether arrangements are generally procompetitive, bright line, per se prohibitions would risk chilling efficient conduct. Instead, the Agencies address each arrangement on a fact-specific basis and apply the rule of reason to determine whether the arrangement has a procompetitive or anticompetitive effect.

5. Antitrust Issues In The Tying And Bundling Of IP Rights

Tying and bundling refer to practices by which the sale of one item is conditioned on the buyer’s purchase of one or more additional items. Under the 1995 Guidelines, the Agencies, in their discretion, use a rule-of-reason analysis when examining tying and bundling involving IP rights. The Report affirms this approach, although it acknowledges that fact-specific determinations inherently pose difficulties for assessing the likely antitrust implications of proposed arrangements. The Report notes the “human tension between the perspective of tying and bundling arrangements in modern business, often by companies without market power, and concludes that in most instances such practices will not lead to anticompetitive effects.


Finally, the Agencies address competitive issues that may arise through practices that effectively extend a patent beyond its statutory term. The Agencies recognize that such practices may create competitive harm unless “the patent at issue confers market power upon its holder.” (Report at 127.) If the patent does indeed bestow market power, the Agencies believe that “[a]ny absent market division or other practices subject to the per se rule] examine the practice at issue under the rule of reason and will condemn the practice if it unnecessarily extends such market power beyond the statutory term of the patent.” The Agencies explicitly note that “not only is there the potential to extend the market power conferred by a valuable patent beyond its term but can have demonstrable efficiencies.” (Id.) For example, “contracts that require exclusive dealing may encourage a licensor to further develop the licensed technology.” (Id.) The Agencies also argue for a narrow reading of the Supreme Court precedent regarding when royalties might be paid past the expiration of a patent. The Agencies note that it is “possible that collecting royalties after the patent term has expired will reduce the death-