Updated Antitrust Guidelines for IP Licensing Address New Laws, Omit Some Key Areas

In 1995, the U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) (collectively, the Agencies) published guidelines that explained how and when the Agencies would evaluate intellectual property licensing and related activities under the antitrust laws. In addition to advances in intellectual property and antitrust law that postdated the 1995 guidelines, several recent trends in IP license agreements have raised antitrust concerns. First, the number of standard essential patent (SEP) license agreements has exploded with the increase of technology that is dependent on interoperability standards, including cell phones and the internet. Antitrust litigation surrounding SEP license agreements has become commonplace, with several suits being filed against major companies just in the past two months. Second, patent litigation settlements—particularly ones involving generic pharmaceuticals—have faced antitrust challenges.

After receiving input from industry participants, scholars and the American Bar Association, the Agencies released revised final guidelines on January 12, 2017. Substantively, the updated guidelines do little more than conform the Agencies’ joint policy to some antitrust and IP licensing developments since 1995. The updated guidelines remain silent on other important issues, including SEP licenses and litigation settlement agreements. SEP holders and implementers and parties to settlement agreements will therefore need to consult multiple other references to determine the antitrust implications of their agreements.

DOJ and FTC Guidance on IP Licensing and Antitrust Law

Since 1995, the DOJ and the FTC had adhered to antitrust guidelines that provided guidance on “the licensing of intellectual property protected by patent, copyright, and trade secret law, and of know-how.” The guidelines reflected three core principles:

- First, IP was treated like any other property for purposes of the antitrust laws, requiring parties to apply general antitrust principles, but the Agencies would take the unique characteristics of IP into account when assessing market circumstances and conditions. Consistent with this, the Agencies generally analyzed IP licenses under a rule of reason. Although the Agencies mainly reviewed the effects of IP licenses in the relevant goods markets, but could also examine relevant technology markets and research and development markets.

- Second, IP was not presumed to create market power for antitrust purposes because substitutes are often available. Moreover, even if an IP right did confer market power, that by itself would not violate the antitrust laws.

- Third, IP licenses were viewed as generally procompetitive because they could lead to combining complementary goods, innovation, lower costs and new products.

Nevertheless, the Agencies recognized that IP licenses may raise antitrust concerns when they adversely affect competition. For example, a license agreement that restrains trade by dividing the market among competitors can raise antitrust concerns. Furthermore, although an IP holder is not required “to create competition in its own technology,” when a licensing arrangement “harms competition among entities that would have been actual or likely potential competitors” in the absence of the license, the Agencies would evaluate the antitrust implications of the license. Importantly, the Agencies established a safe harbor for cases in which a restraint in an IP license was not facially anticompetitive and the licensor and licensee collectively account for less than 20 percent of the relevant markets.

New Developments Reflected in DOJ and FTC Updates to IP Licensing Guidelines

On August 12, 2016, the Agencies published proposed updated guidelines in light of developments in the relevant law and changes to the agencies’ related enforcement policies. The Agencies received 24 comments from industry participants, trade groups and law professors. While some commenters praised the Agencies’ “efforts to maintain the relevance of the IP [guidelines] in light of developing law and policy and their reaffirmation of the three core principles noted above, others expressed concern that their efforts were not expansive enough. Specifically, some commenters focused on the lack of guidance to entities licensing SEPs in a centralized location and to litigation settlements.

The differences between the updated guidelines and the 1995 version are largely stylistic, but the new guidelines adopt policies consistent with recent precedent in five areas:

- First, the guidelines now affirm that “antitrust laws generally do not impose liability upon a firm for a unilateral refusal to assist its competitors” because an IP owner’s ability to exclude others from its property promotes competition by offering “incentives for investment and innovation.”
The guidelines also provide examples of how the Agencies will define technology and R&D markets (formerly referred to as innovation markets):

- With respect to technology markets, the guidelines cite court opinions analyzing market definition.[7] For example, the U.S. Court of Appeals for the Third Circuit accepted a Sherman Act Section 2 claim asserting that Qualcomm monopolized the wideband code division multiple access (WCDMA) technology market by promising to license the patented technology on fair, reasonable, and non-discriminatory (FRAND) terms and then raising the price once the technology became part of an industry standard.[8]

- In the research and development market context, the guidelines introduce numerous factors that the Agencies may consider when determining whether there are “close substitutes” for the R&D activity at issue. In assessing the ability of other entities to refocus research efforts on the technology at issue, thereby constraining the alleged anticompetitive activity, the Agencies seek out those currently practicing “close substitute” activities. What constitutes a “close substitute” activity depends on the other entities’ “access to financial support,” current “intellectual property,” “skilled personnel” and their ability to “successfully commercialize innovations.”[9]

**No Guidance on Several Critical Issues for Licensors and Licensees**

While making great strides to reconcile the guidelines with current law, the Agencies did not take the opportunity to address several issues facing IP holders and implementers in a single resource. The Agencies did not describe how they would assess the antitrust impact of SEP licenses. And they were silent on how they will analyze settlement agreements. Instead, the Agencies merely refer individuals and companies to their business review letters, other policy statements and litigation approaches.

SEP licenses facilitate the adoption of interoperability standards, but there is a risk that such agreements may have anticompetitive effects. The updated guidelines do not provide any specific insights into how the Agencies will analyze the antitrust implications of SEP agreements. Instead, parties must piece together how the Agencies will enforce the antitrust laws by referring to the guidelines, speeches, policy statements, business review letters, litigation approaches and recent SEP infringement cases. For example, the DOJ and the Patent and Trademark Office have noted that the owner of an SEP “may gain market power and potentially take advantage of it by engaging in patent hold-up.” Parties will need to add these statements to the guidelines to determine the antitrust risks of SEP agreements. Some commenters on the draft revisions considered this a missed opportunity, while others applaud the omission. At a minimum, the omission provides the Agencies with maximum flexibility, as evidenced by the FTC’s recent action against Qualcomm.

The new guidelines also do not provide any insights into the antitrust implications of settlement agreements, in particular reverse-payment settlement agreements in the pharmaceutical industry. When adapting the guidelines to settlement agreements, parties will need to refer to recent cases dealing with IP settlement agreements, including *FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013). Parties will also need to consider the Agencies’ many policy statements, reports and lawsuits on reverse payment settlements. For example, parties should consider the guidelines in light of the FTC’s statement that compensation to delay entering a market includes “a brand manufacturer’s promise not to market an authorized generic” for a set period of time when deciding the antitrust risk associated with settlement agreements. Some commenters view the lack of a specific discussion about patent settlements as a missed opportunity to update the guidelines to reflect current economic thinking.

**ENDNOTES**


[4] Id. § 5.3.

[5] Id. § 3.4.


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