CLIENT ALERT

DOJ/FTC Propose Update to 1995 Antitrust-Intellectual Property Licensing Guidelines and Seek Comments

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On August 12, 2016, the Antitrust Division of the Department of Justice and the Federal Trade Commission announced that they are seeking public comments on a proposed revision of the 1995 Antitrust Guidelines for the Licensing of Intellectual Property. The proposed revisions leave the main principles and substantive guidance of the 1995 IP Guidelines largely intact, while modernizing language and updating relevant authorities to reflect developments in federal statutory law, Supreme Court precedent, agency practice, and other agency guidance that has been issued in the interim, especially the 2010 Horizontal Merger Guidelines. Importantly though, more subtle revisions indicate that the agencies were careful to preserve their flexibility to pursue potentially novel enforcement theories when innovation and intellectual property rights play a key role in competitive dynamics.

The 1995 IP Guidelines in Review

For more than twenty years, the economic principles and policy choices embedded in the Guidelines have guided agency enforcement policy at the intersection of antitrust and IP. When the agencies promulgated the Guidelines in 1995, they consciously marked a break from what had been a relatively hostile antitrust environment for IP licensing based on a misperception that strong IP rights were inconsistent with vigorous competition. This hostile environment culminated in a set of black-letter rules known as the "Nine No-Nos" – a list that banned outright what are often common and efficient licensing practices, such as grantbacks and exclusivity provisions.

The 1995 Guidelines, in contrast, signaled a significant change of attitude about the relationship between the antitrust and IP laws. This shift was premised on the modern view that antitrust and IP are complementary, not antagonistic, areas of law, that work together to promote innovation and consumer welfare. The Guidelines incorporated three fundamental principles:

- The agencies apply the same antitrust principles to IP as to other forms of property.
- The agencies do not presume that IP creates market power as that term is understood under the antitrust laws.
- The agencies recognize that IP licensing allows firms to combine complementary factors of production and is generally procompetitive.

While the Guidelines expressly covered patent, copyright, and trade secret protection, the general antitrust principles also applied to trademark licenses. The Guidelines covered the antitrust analysis of common licensing terms such as field of use and territorial restrictions, exclusivity provisions, grantbacks, and cross-licenses, among others. The Guidelines also covered closely related issues such as patent pooling and various forms of bundling or package licensing arrangements.

Recognizing that most licensing arrangements promote the procompetitive common goals of the antitrust and IP laws by allowing firms to combine complementary assets to produce new and better products and services, the agencies stated that in

"the vast majority of cases, restraints in intellectual property licensing arrangements are evaluated under the rule of reason." The rule of reason is a case-by-case, fact-based standard that requires the agencies to evaluate, as an initial matter, whether a restriction is likely to harm competition. Given the strong potential for procompetitive benefits, the agencies took the position that they would not condemn a licensing arrangement without a comprehensive market analysis unless the agreement was obviously anticompetitive, as with naked price fixing or market division.

Because IP licensing can affect competition between technologies, or among products still under development, the agencies explained that in evaluating the competitive effects of licensing arrangements, they would, when appropriate, consider competition in markets for goods and upstream markets for technology. The agencies also adopted the then more controversial concept of an "innovation market," consisting of "research and development directed to particular new or improved goods or processes, and the close substitutes for that research and development."

The Proposed 2016 Update

In most respects, the proposed update tracks both the letter and spirit of the 1995 Guidelines. The agencies propose non-substantive changes to language and cited authorities, most of which merely lend support to positions the agency has already adopted. For example, the proposed Guidelines correct outdated language regarding the statutory patent term and add citations to important Supreme Court antitrust cases, such as *Illinois Tool Works v. Independent Ink* 547 U.S. 28 (2006), where the Supreme Court held that a patent did not necessarily confer market power under the antitrust laws (a principle the agencies had already adopted as a matter of enforcement policy in 1995). The agencies also add references to other recent high court cases that limit antitrust liability for a firm's unilateral refusal to deal with rivals, *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko*, LLP, 540 U.S. 398 (2004) (in general, competitors have no duty to assist rivals), or for setting minimum resale prices, *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007) (minimum resale price maintenance not per se unlawful), incorporating those cases directly into the IP licensing enforcement framework. The proposed Guidelines also retain, but modernize, the basic analytical framework for assessing competitive effects.

However, while the agencies retain the basic framework from the 1995 Guidelines, they propose modifications to ensure their flexibility to pursue more novel theories of harm.

The most extensive proposed edits, for example, concern the potential impact of licensing agreements on competition in technology and research and development markets. The agencies update the concept of an "innovation market" – renamed as a "research and development market" – to track language from subsequent settlements in potential competition cases involving pharmaceutical and medical device transactions. But consistent with recent agency emphasis on innovation in the merger context, the agencies signal that they may consider the competitive effects of licensing and other conduct involving IP on research and development efforts outside the pharmaceutical and medical device context. Notably, the agencies add new language advising that they will evaluate competitive effects in a research and development market that may be related to "the identification of a commercializable product" in addition to "particular new or improved goods or processes."

The agencies also pay careful attention to how they articulate the rule of reason standard that will almost always apply to IP licensing agreements. In particular, while in *FTC v. Actavis*, 133 S. Ct. 2223 (2013), the Supreme Court rejected anything short of a thorough analysis of competitive effects for conduct that falls within the scope of legitimate IP rights, the agencies signal here

that they may nevertheless consider a truncated analysis for IP licensing arrangements that are not facially anticompetitive, relying on case law in which the protection or transfer of legitimate IP rights was not at issue.

The proposed Guidelines also seek to draw the competitive effects analysis of IP licensing arrangements closer to the analysis of mergers, as set forth in the 2010 revisions to the Horizontal Merger Guidelines. Most notably, the IP Guidelines include a new emphasis on the primacy of competitive effects analysis, which may signal diminished reliance on relevant market definition as a "first step" in assessing licensing provisions.

Implications

From a compliance perspective, the proposed Guidelines largely refresh the 1995 Guidelines and signal continuity. The agencies did not propose significant changes to the basic lens they will use to evaluate IP licensing agreements. Notably, the agencies did not follow the lead of several of their foreign counterparts and propose specialized standards for patent assertion entities or standard-essential patent owners.

However, the significance of the proposed update should not be understated. The agencies' heavily revised treatment of technology and research and development markets may suggest heightened focus on IP licensing arrangements in the context of emerging technologies. In addition, subtle changes to descriptions of the legal standards that the agencies have traditionally applied signal continued careful scrutiny of IP licensing and other conduct at the intersection of antitrust and IP.

The agencies are seeking public comments on the proposed revision to the Guidelines. All comments must be filed on or before September 26, 2016.

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