ANTITRUST RISK IN PATENT POOLS AND SSOs
AVOIDING PRICE FIXING, EXCLUSIONARY CONDUCT

 Patent Pools

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Technology increasingly important in world’s economies

IPR increasingly important . . . and international

IPR increasingly matter of joint activity
- standards setting
- patent pools

IPR increasingly subject to competition/antitrust analysis

Analysis increasingly done in multiple jurisdictions

Difficult situation for business planning
Antitrust and economic analysis has evolved over past 25 years

Has come to view that collective licensing could be pro-competitive, increasing competition through innovation

Therefore changed analysis to “rule of reason” requiring close analysis of specific facts

Today’s “better view” - examine arrangements for promotion of procompetitive effects and avoidance/minimization of anticompetitive effects
Definition, for our purposes:

- collective licensing by a group of patent holders
- whose patents are infringed by practice of a standard
Transactional efficiency: more patents in fewer transactions

Greater efficiency generally means lower price

Can increase speed to market of new technology

Reduces risk of litigation, therefore uncertainty

Reduces “blocking” risk

Integration of complementary technologies
Joint activity by companies that could/do compete

Jointly price competing technologies

Classic cartel to protect what’s inside, exclude what’s outside

Impede innovation by excluding alternative technology

Impede innovation by foreclosing alternative technology

Impede innovation by shielding invalid/expired patents

Licensors may also be licensees
   could use pool to optimize terms in their favor
   could “cross-license” v “sign and pay”
Less guidance available than business likes/needs

Not much case law in major antitrust jurisdictions

Best authority is “enforcement intent” of competition authorities found in public guidance.

But enforcement agency “guidance” not binding on courts.
There is very little law on this issue in US.

Best authority is “enforcement intent” of DOJ and FTC found in jointly-published “guidelines” and in business review letters

Some “standard practices” have evolved around this guidance.
Additional US Risk Factor: Multiple Forums

US Government Enforcement
- Department of Justice
- Federal Trade Commission

US Private Enforcement
- Antitrust in Federal Courts
  - Circuit Court appeals
- IP in Federal Courts
  - Federal Circuit appeals
- International Trade Commission
  - Federal Circuit appeals
DOJ-FTC (1995)
Antitrust Guidelines for the Licensing of Intellectual Property

Antitrust Enforcement and IP Rights Promoting Innovation and Competition
Department of Justice prior-review process

Submit letter with detailed description of *intended* course of conduct

Department may take one of two courses:

- Indicate privately that it continues to have concerns, or
- Issue a Business Review Letter (“BRL”)

BRL sets forth DOJ understanding of the proposed course of conduct

Indicates “no present intention” to proceed with enforcement

- Publicly-available
- So is originally-submitted request letter
- And all supporting material
### Business Review Letters

**Significant Limitations**

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<th>Delay</th>
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<td>• Process can take anywhere from 6 - 18+ months</td>
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<td>• DOJ will review only <em>prospective</em> conduct</td>
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<td>• Therefore cannot start proposed activity until process ends</td>
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<th>Lack Of Certainty</th>
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<td>• Even “favorable” outcome is subject to severe limitations</td>
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<td>• DOJ reserves right to sue if:</td>
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<td>• actual conduct does not conform exactly to proposed conduct</td>
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<td>• market conditions change</td>
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<td>• “current” analysis by DOJ changes</td>
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Business Review Letters

IEEE

VITA

3G Patent Platform

6C DVD Pool

3C DVD Pool

MPEG-2 Pool
DOJ-FTC Antitrust Guidelines for Collaborations Among Competitors (2000)

http://govinfo.library.unt.edu/amc/report_recommendation/toc.htm
There is very little law on this issue in Europe.

Best guidance is EC analysis of issues in context of Technology Transfer Block Exemption Regulations which were issued in 2004.


Antitrust/competition analysis of patent pooling always comes back to core principles

Must analyze under both frameworks
  - IPR/licensing
  - Antitrust/competition law and policy

Either analysis alone — particularly IPR/licensing — risks wrong conclusions
  - Licensing: “more” generally better
  - Antitrust: “more” can be illegal
Achieving Benefits While Reducing Risks Requires Careful Supervision in Formation/Operation

Formal, written guidelines

Binding on members

Covering

- commitment to antitrust compliance
- participation qualifications/rights
- conduct of meetings/communications
- scope of licenses
- licensing practices

Antitrust counsel present at all meetings and reviewing all other communications
“Essential” Patents

Key concept in analysis of risks/benefits

“Technically Essential Patents”
are necessarily and unavoidably infringed
by practice of standard
in absence of a license

Necessarily: standard-compliant product infringes
Unavoidably: there is no technology alternative
Essential patents are necessarily complements

Essential patents do not compete with each other

Essential patents collectively make up a single “product”

Essential patents are mutually blocking

Non-essential patents may be/have substitutes

Non-essential patents in pool may foreclose competing technology

Non-essential patents may be substitutes rather than complements
Company must have essential patent to join

Determination of essentiality must be technical, not commercial

Determination of essentiality must be made by neutral 3rd party, not by patentee or other members

Members should be willing to license their own essential patents individually
Private litigation brought by Philips against infringers

But at International Trade Commission, not in courts

Competition issues raised in defense

Unlicensed CD manufacturers found to infringe

But ITC ruled inclusion of “non-essential” patents was anticompetitive “patent misuse” described as tying of essential and non-essential patents under both per se and rule of reason analyses

Remedy: Each patent in pool is unenforceable
Federal Circuit reversed ITC decision
Sept. 21, 2005  04-1361

Error to analyze as *per se* offense - should be analyzed under rule of reason
☐ because not “always” anticompetitive
☐ because have pro-competitive effects

Inadequate proof that there were commercially viable alternatives to the patents called non-essential

Inadequate proof that any such competitive technology was foreclosed from these licensees
“Patent misuse” is equitable defense to infringement

“... restrain practices that do not in themselves violate any law, but that drew anticompetitive strength from the patent right and thus were deemed to be contrary to public policy” *Mallinckrodt*, 1992

“key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect” *Windsurfing*, 1986
Patent misuse applied to tying can be analyzed as *per se* or under rule of reason *Virginia Panel*, 1997

Under rule of reason, can be held impermissible misuse if restrains competition in a relevant market *Monsanto v McFarling*, 2004; *Windsurfing* 1986

35 USC 271(d) specifies what is *not* misuse, “even though those practices might otherwise be subject to scrutiny under the antitrust laws”

“safe harbor” [on tying issue] applies to conditioning patent license on another patent license or on purchase of product *unless* patent owner “has market power for the patent or patented product on which the license or sale is conditioned” 271(d)(5)
Unlike some antitrust tying cases, patent license really a covenant not to sue, and does not require licensee to actually use technology.

Therefore, does not foreclose patentee from using alternative (competing) technology.

Because no evidence that any part of price attributable to non-essential patents, the non-essential patents (analytically) are equivalent of “free”.
Consideration of pro-competitive effects of patent pooling, plus prior analysis, means patent pools should be analyzed under rule of reason, not *per se*

Inadequate proof that there were commercially viable alternatives to some patents called “non-essential”

Inadequate proof that these licensees sought alternatives to the non-essential patents for which there was proof of commercially viable alternatives or that licensees were dissuaded by presence of non-essential patents

Risk that patents “essential” when licensed can become “non-essential” as technology develops