THE FTC AND DOJ WEIGH IN ON THE INTERSECTION OF ANTITRUST ENFORCEMENT AND IP RIGHTS

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In April of 2007, the Federal Trade Commission and the Department of Justice issued a report purposed at providing guidelines for antitrust enforcement and intellectual property rights.[1] While the practice of intellectual property continues to flourish, the FTC and DOJ are concerned with determining the appropriate limitations of antitrust principles in relation to IP while not undermining free competition. Nevertheless, antitrust limitations should not seek to undermine innovation, particularly in the patent system premised upon the promotion of innovation.

The goal of the FTC-DOJ Report is to develop a better understanding of questions that arise when IP law and antitrust law intersect and to examine the historical approaches of each agency in resolving such issues. The Report is based on a series of hearings entitled, "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy." Hearing participants included representatives from small and large firms, academics, and legal practitioners. Scholarly literature was also consulted.

In the Report, the Agencies weigh in on a number of areas of concern that arise when IP law and antitrust law intersect, including: (i) unilateral refusals to license patents; (ii) patents being incorporated into collaboratively set standards (e.g., the Institute of Electrical and Electronic Engineers standards); (iii) antitrust implications on portfolio cross-licensing agreements and patent pools; (iv) variations in IP licensing practices; (v) antitrust implications with tying and bundling IP rights; and (vi) extension of market power conferred from patents beyond its statutory breadth. The Report provides unprecedented insight into the FTC and DOJ's collaborative perspective on these issues. Below is a brief overview of the issues addressed by the Report.

UNILATERAL REFUSALS TO LICENSE PATENTS

Does an unconditional refusal to license patents have antitrust implications? There are two fairly recent appellate cases in which this was a central question: Image Technical Services, Inc. v. Eastman Kodak ("Kodak") and In re Independent Service Organizations Antitrust Litigation ("CSU").[2] Claimants in both cases alleged violations of § 2 of the Sherman Act after an OEM refused to sell patented parts and/or license patented technology. Section 2 of the Sherman Act is balanced against Section 271(d)(4) of the Patent Code. ("No patent owner… shall be denied relief or deemed guilty of misuse or illegal extension of the patent by reason of having… refused to license or use any rights to the patent."). While the Ninth Circuit found sufficient pretext evidencing a conspiracy to create a monopoly in Kodak, the Court of Appeals for the Federal Circuit in CSU declined to consider the patentee's subjective motivation, concentrating on objective economic evidence of monopolistic intent, in effect finding no conspiracy.[3] The Report provides several conclusions based on the hearings including, *inter alia*:

- Section 271(d)(4) of the Patent Act does not create antitrust immunity for unilateral refusals to license patents.[4]
- Antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.[5]

[1] *See* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007).

[2] 125 F.3d 1195 (9th Cir. 1997) and 203 F.3d 1322 (Fed. Cir. 2000), respectively.

[3] *See* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007) at 16-17.

[4] PROMOTING INNOVATION AND COMPETITION *supra* at 6 & 16-32.

[5] *Id*.

- Conditional unilateral refusals to license, however, do raise antitrust concerns "because they can create anticompetitive incentives that cannot be created through unconditional refusals to license."[6] Such "undesirable result[s]" might include "exclusive dealing, cross-licensing requirements, exclusive grantbacks, tying, selective licensing, or even price fixing…"[7]

PATENTS INCORPORATED INTO COLLABORATIVELY SET STANDARDS

Oftentimes businesses in particular industries collaborate to share and develop best practices or standards, e.g., SDRAM. Such standard-setting organizations ("SSOs") have been concerned with standards being set that promote practices within the scope of patents assigned to participating organizations. Some consider it to be an improper/deceitful mode of promoting their business.

The Report states that the FTC and DOJ promote enhanced disclosure requirements for members of the standard setting organizations. Any interest in IP rights that may be infringed by the standard must be disclosed to the SSO. Additionally, the Agencies considered *ex ante* licensing discussions that would require participates to commit to licensing terms before the standard setting organization adopts the patented technology. The FTC and DOJ found that such requirements would be procompetitive.[8] Even joint *ex ante* consideration of license terms – by SSO members with other SSO members or bilateral negotiations – should not trigger special antitrust scrutiny.

[6] PROMOTING INNOVATION AND COMPETITION *supra* at 19.
[7] *Id*.
[8] PROMOTING INNOVATION AND COMPETITION *supra* at 7-8 & 33-56.

ANTITRUST IMPLICATIONS ON PORTFOLIO CROSS-LICENSING AGREEMENTS AND PATENT POOLS

Portfolio cross-licensing or patent pool agreements are often undertaken where several enabling technologies are patented by different organizations. Each organization may collaborate to lower the price of any royalties they might have to pay by including in the bargain a license of their patented technology. In such arrangements patents are not licensed individually but as a group. According to the Agencies, portfolio cross-licensing can lead to price fixing, output restrictions and discouraging innovation.

In sum, the Agencies acknowledged that while "[c]ombining complementary patents with in a pool is generally procompetitive," each agreement will be reviewed on a "case-by-case basis" and that any such portfolio cross-licensing agreements and patent pools will be analyzed under a rule of reason approach.[9] Notably, the Agencies will concentrate on the formation of the pool and whether its structure is "likely to enable pool participates to impair competition" (as opposed to evaluating the reasonableness of any royalties).[10]

VARIATIONS IN IP LICENSING PRACTICES

Variations in licensing practices (including those in which IP are the underlying asset) may raise an anti-competitive brow. Section 1 of the Sherman Act prohibits contracts or conspiracies that restrain trade – i.e., vertical restraints in trade. Such restrictions are reviewed according to the rule of reason which balances the anticompetitive effects the restraint will have (if any) against its procompetitive benefits. Courts ask if the restraint is "reasonably necessary" to achieve its procompetitive benefits.[11]

According to the Agencies, the test should not change for agreements relating to IP. "The Agencies will continue to apply the flexible rule of reason analysis of the Antitrust-IP Guidelines to assess intellectual property licensing

[9] PROMOTING INNOVATION AND COMPETITION *supra* at 8-9 & 57-86.
[10] *Id*.
[11] PROMOTING INNOVATION AND COMPETITION *supra* at 9.

agreements, including non-assertion clauses, grantbacks, and reach-through royalty payments."[12] The rule of reason is preferable to a bright-line test because the competitive impact of the licensing practice may differ according to the circumstances of its application.[13] The Agencies recommended their 1995 Antitrust Guidelines for the Licensing of Intellectual Property for instructions on how specific licensing practices should be analyzed (e.g., non-assertion clauses, grantbacks, and reach-through royalty agreements.)

ANTITRUST IMPLICATIONS WITH TYING AND BUNDLING IP RIGHTS

Tying and bundling of IP rights can implicate antitrust law as well. Tying occurs when a seller conditions the sale of one product or service upon a second purchase. In the IP context, companies may require the purchase of a portfolio of patents or other IP before they enable rights to the desired patented technology, thus driving up the overall sales price. Bundling arrangements occur when products or services are sold only collectively (e.g., as a set of golf balls or a pair of socks). When IP rights are distributed in this manner such agreements may be subject to antitrust review.

The Agencies reaffirmed the traditional approach stated in its 1995 Antitrust Guidelines for the Licensing of Intellectual Property, "Agencies consider both the anticompetitive effects and the efficiencies attributable to a tie, and would be likely to challenge a tying arrangement if: '(1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.'"[14] In sum, tying and bundling arrangements that involve IP will be evaluated in a fashion similar to those that do not involve IP.

EXTENSION OF MARKET POWER CONFERRED FROM PATENTS BEYOND ITS STATUTORY BREADTH

A patentee is only entitled to royalties related to use of the patented technology before the expiry of the patent. A patentee may, however, collect royalties for past usage beyond the statutory term of the patent. The FTC-DOJ Hearings also focused on agreements that extended market power beyond the term of a patent, e.g., collection of royalties beyond the statutory term.

According to the Agencies, such agreements should be evaluated according to their ability to confer market power. In such instances, "[s]tandard antitrust analysis applies to practices that have the potential to extend the market power conferred by a patent beyond its expiration."[15] Arguably then, the more market power the agreement enables, the greater degree of (antitrust) scrutiny the agreement will be subject to.

CONCLUSION

Overall the Report provides very detailed insight as to the FTC and DOJ's take on several points of intersection between IP law and antitrust law. Many conclusions in the Report are in line with the 1995 Antitrust Guidelines for the Licensing of Intellectual Property.[16] Both Reports are worth consulting should the aforementioned issues/questions arise in practice.

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[12] PROMOTING INNOVATION AND COMPETITION *supra* at 10 & 87-102.

[13] *Id*. at 88.

[14] PROMOTING INNOVATION AND COMPETITION *supra* at 11 & 103-114.

[15] PROMOTING INNOVATION AND COMPETITION *supra* at 12 & 115-23.

[16] U.S. DEP'T OF JUSTICE & FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995).