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Antitrust Agencies Release Update to IP Licensing Guidelines for Comment

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The Antitrust Division of the Department of Justice (DOJ) and Federal Trade Commission (FTC) are seeking public comment on a proposed update to the agencies' *Antitrust Guidelines for the Licensing of Intellectual Property*.

The proposed update, the first since the *Guidelines* were issued in 1995, moves in the direction of greater freedom for patent, copyright, and trademark owners. The revisions generally reflect court decisions and a few statutory changes to the intellectual property laws over the last 20 years.

Further changes are possible in response to public comments, warranting close attention to the final proposed *Guidelines*, likely to be issued before current senior officials leave office.

Key changes include: (1) incorporating Supreme Court decisions (a) confirming that simply holding a patent does not support a presumption of market power and (b) recognizing that resale price maintenance may have procompetitive benefits and should therefore be judged under the rule of reason; (2) clarifying the position that there is generally no liability for unilaterally refusing to license; and (3) clarifying the antitrust "safety zone" applicable to licensing agreements.

Interestingly, the agencies released these proposed *Guidelines* before the FTC's study on Patent Assertion Entities (PAEs), which the FTC commenced in 2013. FTC Chairman Edith Ramirez told the ABA Antitrust Section leadership last week that the study would be released "soon."

Comments on the proposed *Guidelines* are due September 26.

Incorporation of Supreme Court decisions

The proposed *Guidelines* incorporate two Supreme Court decisions handed down since the *Guidelines* were issued in 1995: *Illinois Tool Works v. Independent Ink* (2006)and *Leegin Creative Leather Products v. PSKS* (2007).

In *Illinois Tool Works*, the Court held that a patent cannot be presumed to confer market power. That case made clear that a license that conditions the sale of a patented product on the purchase of unpatented products is not illegal in the absence of proof of market power.

The Court's decision in *Leegin* held that minimum resale price maintenance (RPM) is not *per se* illegal and should instead be evaluated under the rule of reason, overruling the 100 year-old decision in *Dr. Miles Medical v. John D. Park & Sons* (1911), which held that RPM agreements constituted illegal price-fixing.

In perhaps the most significant change, the proposed *Guidelines* indicate that the agencies "will apply a rule of reason analysis to price maintenance in intellectual property licensing agreements." The proposed *Guidelines* note, however, that "some states continue to prohibit minimum resale price maintenance" under state antitrust law.

Antitrust laws generally do not impose liability for a unilateral refusal to license

The agencies also propose to modify the *Guidelines* to reflect conclusions from the agencies' 2007 report, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*.

Most importantly, the proposed *Guidelines* build upon the Supreme Court's decision in *Verizon Communications v. Law Offices of Curtis V. Trinko* (2004) and the 2007 report's conclusion that "[a]ntitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections."

The proposed *Guidelines* advise that "the antitrust laws generally do not impose liability upon a firm for a unilateral refusal to assist its competition, in part because doing so may undermine incentives for investment and innovation."

This position is consistent with arguments U.S. authorities have articulated with foreign competition law officials but is arguably inconsistent with positions that FTC has taken in amicus briefs in pharmaceutical cases involving product hopping and sales to prospective generic competitors.

Additional guidance on when antitrust "safety zone" applies to licensing agreements

The 2010 *Guidelines* provided "safety zones" for licensing agreements that meet certain criteria, depending on whether the licensing agreement might impact a product, technology, or research and development market.

In a research and development market, the "safety zone" applies if "(1) the restraint is not facially anticompetitive and (2) four or more independently controlled entities in addition to the parties to the licensing arrangement possess the required specialized assets or characteristics and the incentive to engage in research and development that is a close substitute of the research and development activities of the parties to the licensing agreement."

The proposed *Guidelines* provide guidance on the meaning of "close substitutes." The agencies indicate that they will look at factors like "the nature, scope and magnitude of the R&D efforts of the other independently controlled entities; their access to financial support, intellectual property, skilled personnel or other specialized assets; their timing; and their ability, either acting alone or through others, to successfully commercialize innovations."

Other changes

The proposed *Guidelines* replace the concept of an "innovation market" in favor of a "research and development" market.

The agencies report that the change is largely semantic, defining a research and development market as consisting of "research and development related to the identification of a commercializable product," in addition to efforts "directed to particular new or improved goods or processes."

It is also worth noting the agencies' skeptical treatment of the Supreme Court's June 2015 decision in *Kimble v. Marvel Entertainment*, which was incorporated into a footnote. The Court, in a 6-3 decision, upheld the 50-year-old *Brulotte* rule, which makes it patent misuse for a patent owner to require royalties to be paid on sales after a patent's expiration.

Despite economic theories and antitrust law principles that pointed to overturning *Brulotte*, the Court relied on *stare decisis* to keep *Brulotte* in place. The agencies reference possible "demonstrable efficiencies" that may result from overturning *Brulotte*, appearing to invite parties to call on Congress to enact legislation to supersede *Brulotte*.

Finally, the proposed *Guidelines* incorporate developments in IP statutory law, including the enactment of the Defend Trade Secrets Act of 2016, which creates a new federal cause of action for trade secret misappropriation, revisions to the Leahy-Smith America Invents Act, which lengthened the term of a patent from

17 years to 20 years, and amendments to the Copyright Act, which extended the term of a copyright from 50 to 70 years.

Proposed Guidelines remain silent on key issues

The proposed *Guidelines* remain silent on several controversial issues that are almost certain to be the subject of public comment. The proposed *Guidelines*, for instance, do not address (i) allegedly anticompetitive "hold-up" by owners of standard-essential patents (SEPs) subject to commitments to license on fair, reasonable and non-discriminatory (FRAND) terms; (ii) when SEP owners may seek injunctive relief to enforce such patents; or (iii) reverse payments made in settlement of patent litigation in the pharmaceutical industry. These topics have been the subject of recent agency efforts, including several DOJ business review letters and FTC litigation. The proposed *Guidelines* also do not address licensing strategies of patent assertion entities (PAEs), which, as noted above, remain subject to an ongoing FTC study.

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