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By Email: ATR.LPS.IPGuidelines@usdoj.gov

Suzanne Munck
Federal Trade Commission
Office of Policy Planning

Frances Marshall
U.S. Dept. of Justice
Antitrust Division
Legal Policy Section

Re: Comments on Proposed Update of DOJ/FTC Antitrust Guidelines for the
Licensing of Intellectual Property

Dear Ms. Munck and Ms. Marshall:

We write in response to your invitation for public comment on the agencies' proposed update of the IP Licensing Guidelines. We agree that the Guidelines warrant updating and generally agree with the proposed changes, except to the extent explained below. However, we concur in the recommendations by others that a more fulsome update would be appropriate to address, in particular: (1) issues involving the licensing, enforcement, and acquisition and sale of standard essential patents (SEPs); (2) special problems posed by patent assertion entities (PAEs); and (3) patent settlements.¹ In connection with such an update, or separately, we urge the agencies to adopt guidelines addressing the risks associated with patent policies adopted by standard-setting organizations.²

¹ See, e.g., Comments of Professor Michael A. Carrier on the Proposed Update on Intellectual Property (IP) Licensing Guidelines (Aug. 25, 2016); see also Comments of Professors Joseph Farrell, Richard Gilbert, and Carl Shapiro on the Proposed Update of DOJ/FTC Licensing Guidelines (Sept. 7, 2016) (urging agencies to address antitrust treatment of SEPs and patent settlements).

² See American Antitrust Institute, Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations (May 23, 2013), available at <http://www.antitrustinstitute.org/content/aai-calls-doj-and-ftc-create-joint-enforcement-guidelines-patent-policies-standard-setting-o>. The guidance provided by the DOJ's Feb. 2, 2015 Business Review Letter to the IEEE provides a building block for such guidelines. See Letter from Renata B. Hesse, Acting Assistant Att'y Gen., U.S. Dep't of Justice, to Michael A. Lindsay, Esq. (Feb. 22, 2015). It is important to address not only what SSOs *can* do without incurring

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Our specific comments and recommendations on the updated draft are as follows:³

1. In footnote 11 (p. 4), we question the usefulness of adding the citation to *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999), to explain the common goals of intellectual property and antitrust law.

Explanation: The parenthetical quote does not explain the relevance of antitrust to innovation. A better reference would be to the FTC’s March 2011 Report, *The Evolving IP Marketplace* (p.1): “The patent system’s exclusive right promotes innovation, but so too does competition, which drives firms to produce new products and services in the hope of obtaining an advantage in the market. The patent system and the antitrust laws share the fundamental goals of enhancing consumer welfare and promoting innovation.”

2. Modify the third sentence of the last paragraph in § 1 (p. 4) to add the bracketed language: “In the absence of intellectual property rights [or other means of appropriability], imitators could more rapidly exploit the efforts of innovators and investors without providing compensation.”

Explanation: Patents are not the only means by which an innovating firm may appropriate the returns from its research and development investments, and in some industries patents are a relatively unimportant means.⁴

3. Add the following as a footnote to the second to last sentence in the last paragraph in § 1 (p. 4): “At the same time, the Supreme Court has recognized the importance of competition to the patent system. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) (“From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.”).”

Explanation: In a general statement about the role of the intellectual property laws, it is important to point out that limits on such rights are an essential feature in promoting innovation.

liability, but also the antitrust risks for their *failure* to act to ensure that their processes are not abused.

³ References to footnote and page numbers are references to the “clean” version of the Proposed Update.

⁴ *See, e.g.,* Wesley M. Cohen et al., *Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)* 2-4 (Nat’l Bureau of Econ. Research, Working Paper No. 7552, 2000); F.M. Scherer, *First Mover Advantages and Optimal Patent Protection*, 40 J. Tech. Transfer, No. 4, 559 (2015); *see generally* Dan L. Burk & Mark A. Lemley, *The Patent Crisis and How the Courts Can Solve It* (2009).

4. Modify the last sentence of the last paragraph in § 1 (p. 4) to add the bracketed language: “The antitrust laws promote innovation and consumer welfare by [preserving competitive markets and] prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.”

Explanation: The existing statement of how antitrust promotes innovation is too narrow. Antitrust promotes innovation by preserving competitive markets generally (under Section 7 of the Clayton Act, as well as Section 5 of the FTC Act and the Sherman Act). *See supra* quote from the *Evolving IP Marketplace* in comment 1; *see also Horizontal Merger Guidelines* § 6.4 (“Competition often spurs firms to innovate.”). The consensus among most economists is that highly concentrated markets are not conducive to innovation.⁵

5. In new footnote 13 (p. 5), delete the citations after *Trinko* and insert the following instead: “At the same time, a refusal to deal with a rival (as to intellectual or other forms of property) may constitute unlawful monopolization in certain circumstances. *See id.* at 408; *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 452, 483 n.32 (1992); *Aspen Skiing Co. v. Highlands Skiing Corp.*, 472 U.S. 585, 601-11 (1985); *cf. FTC v. Actavis, Inc.*, 133 S.C. 2223, 2231 (2013) (“patent and antitrust policies are both relevant in determining the ‘scope of the patent monopoly’—and consequently antitrust immunity—that is conferred by a patent”).”

Explanation: The proposed update adds the following sentence to the text: “The antitrust laws generally do not impose liability upon a firm for a unilateral refusal to assist its competitors, in part because doing so may undermine incentives for investment and innovation.” In support, the new footnote 13 cites *Trinko*, *Colgate*, and the 2007 DOJ/FTC Report’s discussion of *Trinko*. The proposed statement is unbalanced.

The extent to which a refusal to deal (or license IP) may violate Section 2 is an important and controversial issue.⁶ The FTC has recently advocated a robust role for

⁵ *See, e.g.*, Herbert Hovenkamp, *Antitrust and the Patent System: A Reexamination*, 76 Ohio St. L.J. 467, 507 (2015) (“The emergent consensus is that neither Schumpeter nor Arrow had it exactly right, although Arrow was somewhat closer. The innovation/market structure curve is in fact an inverted ‘U.’”); Richard Gilbert, *Looking for Mr. Schumpeter: Where Are We in the the Competition-Innovation Debate?* in *Innovation Policy and the Economy* 159, 162 (Adam B. Jaffe et al. eds., 2006) (“For product innovations, there is little evidence to support the Schumpeterian view that monopoly or highly concentrated market shares promote innovation, and some evidence supporting the conclusion that innovation thrives in more competitive markets.”); *see also* Michael A. Carrier, *Two Puzzles Resolved: Of the Schumpeter-Arrow Statement and Pharmaceutical Innovation Markets*, 93 Iowa L. Rev. 393, 414 (2008) (demonstrating vital role of competition in promoting innovation in the pharmaceutical industry).

⁶ *See, e.g.*, Statement of Commissioners Harbour, Leibowitz and Rosch on the Issuance of the Section 2 Report by the Department of Justice 8-9 (Sep. 8, 2008) (disagreeing with now-withdrawn DOJ Report’s treatment of unilateral refusals to deal, and narrowly interpreting the DOJ/FTC 2007 IP Report’s conclusion that “mere unilateral, unconditional refusals to license

Section 2 enforcement against refusals to deal, arguing that Supreme Court precedent supported liability in two cases where, although there was no prior course of dealing, the monopolist was willing to provide access to non-competitors, and the policy concerns with “enforced sharing” identified in *Trinko* were not present.⁷

This issue arguably deserves more in-depth treatment than has been proposed. In any event, the proposed statement and citation should be more balanced. If the general “right” to refuse to deal with rivals is to be referenced, the qualifications should also be acknowledged alongside.

6. In footnote 68 (p. 30), add the following citation to the footnote: “*See, e.g., Collins Inkjet Corp. v. Eastman Kodak Co.*, 781 F.3d 264, 271 (6th Cir. 2015) (tying arrangement that affects substantial amount of commerce is unlawful if seller has market power in the tying product market, and defendant fails to establish a procompetitive justification).” Delete or move the proposed citation of *United States v. Microsoft* to follow the *Collins Inkjet* citation and change the signal to “cf.”

Explanation: It is worth acknowledging that even for litigation purposes, the “per se” rule is effectively a rebuttable presumption, and the recent *Collins* decision is a good citation for this point. Accordingly, it is unnecessary to cite *Microsoft*’s tying rule of reason, which is limited to platform software, as support for the Guidelines’ approach to taking efficiencies into account.

7. In footnote 70 (p. 31), add the following to the end of the footnote: “Exclusive dealing by a monopolist may raise heightened concerns. *See, e.g., United States v. Microsoft Corp.*, 253 F.3d 34, 70, 79 (D.C. Cir. 2001) (*en banc*) (exclusive dealing may lack sufficient foreclosure to violate Section 1 but nonetheless violate Section 2 where it ‘reasonably appears capable of making a significant contribution to maintaining monopoly power’ (quoting 3 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 651c, at 78 (1996) (alterations omitted))).”

Explanation: In referencing the point that exclusive dealing may violate Section 2, it is worth pointing out that the standard for liability for monopolists may be different from (and more strict) than for firms with less market power under Section 1.

8. In footnote 75 (p. 32), add the following to the end of the footnote: “Patent settlements that involve the payment of large consideration by the patent holder to an

patents will not play a meaningful part in the interface between patent rights and antitrust protection”).

⁷ *See* FTC Brief as Amicus Curiae, *Mylan Pharms. Inc. v. Celgene Corp.*, 2:14-cv-02094 (D.N.J. June 17, 2014); FTC Brief as Amicus Curiae, *Actelion Pharms., Ltd. v. Apotex Inc.*, No. 1:12-cv-05743 (D.N.J. Mar. 11, 2013); *see also* American Antitrust Institute, *Restoring Monopoly and Exclusion as Core Competition Concerns* 18-20 (preview of Am. Antitrust Inst. Monopolization Chapter of 2016 Presidential Transition Rep., posted Apr. 18, 2016), http://www.antitrustinstitute.org/sites/default/files/Monopolizationfinal_0.pdf.

alleged infringer are highly suspect. *See FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013) (holding that payment by brand drug manufacturer to generic challenger to avoid the risk of competition is anticompetitive).”

Explanation: If patent settlements are not to be discussed in any great detail, at least a footnote mention of the landmark *Actavis* case is appropriate.

9. In the text after the last sentence of the last paragraph of § 6 (p. 37), add the following:

“The enforcement of an otherwise *valid* patent also may violate Section 2 of the Sherman Act or Section 5 of the FTC Act when it is in breach of a commitment made by the patentee. For example, the holder of a standard essential patent (SEP) may violate antitrust law when it enforces, or threatens to enforce, its SEP against an implementer of the standard in violation of the SEP-holder’s commitment to license the patent on RAND (reasonable and non-discriminatory) terms.” Insert the following footnote at the end of this text: “*See, e.g.*, Statement of the Federal Trade Commission, *In re Google, Inc.*, FTC File No. 121-0120 (Jan. 3, 2013) (finding that SEP holders committed unfair method of competition when they sought injunctions against willing licensees, in breach of FRAND commitments). Such conduct may violate Section 2 if it threatens monopolization in a downstream product market, or if it involves deception of the standard-setting organization to obtain a monopoly in the technology market. *See Rambus Inc. v. FTC*, 522 F.3d 456 (D.C. Cir. 2008).”

Explanation: If SEP enforcement is not to be addressed in any great detail, at least a brief mention of the issue is appropriate. Moreover, it is important for the Guidelines to acknowledge that abusive enforcement of valid patents may give rise to antitrust liability.

We appreciate the opportunity to provide these comments.

Very truly yours,

[REDACTED]

Richard M. Brunell
Vice President and General Counsel