

September 26, 2016

Federal Trade Commission
Antitrust Division, Department of Justice
ATR.LPS.IPGuidelines@usdoj.gov

Re: Proposed Update of DOJ/FTC IP Licensing Guidelines

Dear Members of the Federal Trade Commission (FTC) and Antitrust Division:

I am a law professor who has spent more than a decade in practice and academia looking at antitrust issues related to the licensing of intellectual property. I have also published academic research on intellectual property, licensing, and antitrust law.

1. **Prior agency positions should be clarified**

Agencies have shied away from addressing FRAND, reverse payment, and patent assertion entity issues despite having publicly taken positions on each of these issues.¹ To the extent that previously stated positions continue to be valid, it would be helpful to clearly say so. To the extent that the FTC and/or Antitrust Division believe those positions to be no longer valid, it would be helpful to say so as well.

2. **Guidelines should include a more comprehensive body of relevant case law**

The draft Guidelines include case law developments in resale price maintenance,² unilateral refusals to license,³ and market power.⁴ These cases are relevant and their inclusion is welcome. At the same time, there are a number of other significant cases that would help make the update more comprehensive.⁵ Including these case supports the agencies' intent in updating the Guidelines.⁶

¹ See e.g. American Antitrust Institute, *Comments on Proposed Update of DOJ/FTC Antitrust Guidelines for the Licensing of Intellectual Property* 4, (September 23, 2016); *Comments of Law and Business Scholars Submitted to the U.S. Department of Justice and Federal Trade Commission Regarding a Proposed Update to the Antitrust Guidelines for the Licensing of Intellectual Property*, (September 25, 2016).

² *Leegin Creative Leather Prod., Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007).

³ *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004).

⁴ *Illinois Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006).

⁵ See e.g. *Am. Needle, Inc. v. Nat'l Football League*, 560 U.S. 183 (2010) (eschewing formalistic distinctions in favor of functional considerations of how firms actually operate in determining the presence of an agreement.); *United States v. Apple, Inc.*, 791 F.3d 290 (2d Cir. 2015) (noting that antitrust law does not require identical motives among conspirators when their independent reasons for joining together lead to collusive action); see also *id.* at 314 (condemning "hub-and-spoke" conspiracies); *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201 (Fed. Cir. 2014) (noting that courts must consider facts of record when instructing jury on reasonable royalty and avoid rote reference to any particular damages formula.); *King Drug Co. of Florence v. Smithkline Beecham Corp.*, 791 F.3d 388 (3d Cir. 2015) (patentee promising not to launch authorized generic is strong evidence it is seeking to induce generic competitor to abandon claim with share monopoly profits that would otherwise be lost in competitive market.).

⁶ See Acting Assistant Attorney General Renata Hesse, *FTC and DOJ Seek Views on Proposed Update of the Antitrust Guidelines for Licensing of Intellectual Property*, FTC (August 12, 2016), <https://www.ftc.gov/news-events/press-> ^

3. **Actavis’ holding on patent scope should be included**

The Supreme Court in *F.T.C. v. Actavis, Inc.* noted that “patent and antitrust policies are both relevant in determining the “scope of the patent monopoly”—and consequently antitrust law immunity—that is conferred by a patent.”⁷ Commentators have noted that the holding affects more than reverse payments, and that “any anticompetitive consequence thrown off by the patent system could be subject to challenge.”⁸

The Court was strongly divided in what would probably have been a 5-4 decision if Justice Alito had not recused himself. Justice Breyer, speaking for the Court, rejected the notion held by some lower courts that the scope of the patent is limited to patent law considerations, and that antitrust law and policies cannot be applied in the circumstances of the case.⁹ It is not clear how far this will be applied in the future, especially in lower courts who had rejected the approach and, for that matter, even in the Supreme Court. In terms of the future, there is a lot of wiggle room in that balancing given the lack of clarity over patent scope.¹⁰ Considering the above, it is important for the FTC and Antitrust Division to give their views on what this balancing means in concrete situations.

4. **Kimble should either be discussed in its correct context or omitted from Footnote 88**

Footnote 88 on Page 37 of the draft Guidelines notes that “enforcement of invalid intellectual property rights is distinguishable from licensing agreements where royalties are to be paid after the term of a valid patent right expires. The latter agreements may have ‘demonstrable efficiencies’ that can be taken into account in an effects-based analysis.”¹¹ In support of this position, the Guidelines references the 2007 DOJ and FTC report on *Antitrust Enforcement and Intellectual Property Rights* as well as language from *Kimble v. Marvel Entertainment*.¹²

The above is a misstatement of *Kimble*. It would be inappropriate to treat *Kimble* as giving Supreme Court guidance on the treatment of efficiencies under antitrust law. The Supreme Court was clear in *Kimble* that a per se approach based on the patent term applied, and that

releases/2016/08/ftc-doj-see-views-proposed-update-antitrust-guidelines-licensing (“Although the Guidelines are sound, it is time to modernize them to reflect changes in the law since they were issued.”).

⁷ 133 S. Ct. 2223, 2231 (2013).

⁸ See e.g. Tim Wu, *Intellectual Property Experimentalism by Way of Competition Law*, 9 Competition Policy International (2013). *Id.* (“the implication that the antitrust regime sits in a position of supreme oversight over the patent laws,” was “by far the most significant thing about the opinion.”)

⁹ See e.g. *Actavis*, 133 S. Ct., at 2227 (disagreeing with the Eleventh Circuit’s view that “a reverse payment settlement agreement generally is “immune from antitrust attack so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patent.” *FTC v. Watson Pharmaceuticals, Inc.*, 677 F.3d 1298, 1312 (2012).”)

¹⁰ See e.g. Robin Feldman, *Patent and Antitrust Differing Shades of Meaning*, 13 VA. J.L. & TECH. 5, 3 (2008) (“no one has been able to determine what boundaries are inherent in the patent grant, a confusion that has spawned almost a century of consternation and conflict over what exercise of power lies within the patent grant and what lies outside.”); Daryl Lim, *Patent Misuse and Antitrust: Doctrinal, Empirical and Policy Perspectives* (2013). (surveying various definitions courts have used in defining patent scope.)

¹¹ U.S. Dept. of Justice & Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property: Proposed Update* (Aug. 12, 2016), <https://www.justice.gov/atr/antitrust-guidelines-licensing-intellectual-property>

¹² *Id.* *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401, 2408 (2015) (“bar[ring] royalties for using an invention after it has moved into the public domain” but distinguishing “defer[red] payments for preexpiration use of a patent into the post-expiration period”).

efficiencies from post-expiration terms were irrelevant.¹³ The Court justified this conclusion on the basis that this was a patent case driven by stare decisis considerations, and not an antitrust case.¹⁴

To the extent the Court acknowledged the rule of reason, it did so simply to acknowledge the petitioner's argument.¹⁵ Indeed, the petitioner proposed the rule of reason applied to deferring royalty payments because the petitioner regarded the alternative – the same alternative erroneously cited by the Footnote 88 as supporting procompetitive efficiencies – as being dissatisfactory.¹⁶ If the purpose of the Guidelines is to clarify the agencies' approach, *Kimble* should either be placed in its proper context and clarified or it should be removed from Footnote 88.

5. **Guidelines are an important tool to shape norms and guide the courts**

Adjudicated disputes are few and far between, making the Guidelines a potent means for agencies to shape stakeholder conduct by articulating the boundaries of permissible and impermissible conduct. The agencies have been successful in shaping norms in the merger sphere.¹⁷ By tightening up the Guidelines, courts and other stakeholders will at least know or have a better sense of what agencies think should happen or be done.

In summary, the draft Guidelines are a welcome update after twenty-one years. The updated Guidelines should:

1. Clarify prior positions taken by agencies;
2. Include a more comprehensive body of relevant case law;
3. Include *Activis*' holding on patent scope

¹³ *Kimble*, 135 S. Ct., at 2413 (“The patent laws—unlike the Sherman Act—do not aim to maximize competition (to a large extent, the opposite). And the patent term—unlike the “restraint of trade” standard—provides an all-encompassing bright-line rule, rather than calling for practice-specific analysis. So in deciding whether post-expiration royalties comport with patent law, *Brulotte* did not undertake to assess that practice's likely competitive effects. Instead, it applied a categorical principle that all patents, and all benefits from them, must end when their terms expire.”)

¹⁴ *Id.* at 2412 – 2413 (“If *Brulotte* were an antitrust rather than a patent case, we might answer both questions as *Kimble* would like...But *Brulotte* is a patent rather than an antitrust case, and our answers to both questions instead go against *Kimble*.”)

¹⁵ *Id.*, at 2408 (“Contending that such alternatives are not enough, *Kimble* asks us to abandon *Brulotte* in favor of “flexible, case-by-case analysis” of post-expiration royalty clauses “under the rule of reason.” Brief for Petitioners 45”)

¹⁶ *Id.* (“Yet parties can often find ways around *Brulotte*, enabling them to achieve those same ends. To start, *Brulotte* allows a licensee to defer payments for pre-expiration use of a patent into the post-expiration period; all the decision bars are royalties for using an invention after it has moved into the public domain”) The Court noted that there were other ways around *Brulotte*. See also *id.* (“Too, post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent. Finally and most broadly, *Brulotte* poses no bar to business arrangements other than royalties—all kinds of joint ventures, for example—that enable parties to share the risks and rewards of commercializing an invention.”)

¹⁷ Although the Guidelines are “not binding on the courts,” See *Olin Corp. v. FTC*, 986 F.2d 1295, 1300 (9th Cir.1993), they “are often used as persuasive authority,” *Chi. Bridge & Iron Co. v. FTC*, 534 F.3d 410, 431 n. 11 (5th Cir.2008); *ProMedica Health Sys., Inc. v. F.T.C.*, 749 F.3d 559, 565 (6th Cir. 2014) (2015) (using the agencies’ 2010 Horizontal Merger Guidelines to support its framing of market power and market definition.) See also *id.* at 568 – 569 (using the Guidelines’ discussion of the Herfindahl–Hirschman Index to guide its analysis of market concentration and anticompetitive effects.); *Saint Alphonsus Med. Ctr.-Nampa Inc. v. St. Luke's Health Sys., Ltd.*, 778 F.3d 775, 790 (9th Cir. 2015) (using the Guidelines’ discussion on assessing efficiencies in its analysis of the parties’ arguments.)

4. *Kimble* should either be discussed in its correct context or omitted from Footnote 88
5. Use the Guidelines strategically to shape norms and guide the courts

Sincerely yours,

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