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Memorandum

Updated Antitrust Guidelines for the Licensing of Intellectual Property Reaffirm Core Principles

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On January 13, 2017, the Federal Trade Commission and the Antitrust Division of the Department of Justice (collectively, the "Agencies") released the first-ever update to the Antitrust Guidelines for the Licensing of Intellectual Property (the "Guidelines"). Originally issued in 1995, the Guidelines had been in place for over two decades without alteration, and were silent on many of today's hot-button issues. The Agencies received over twenty public comments urging a wide range of revisions, but ultimately remained true to their stated goal of "moderniz[ing]" the Guidelines "without changing the agencies' enforcement approach" and without "expanding the IP Licensing Guidelines to address other topics." The changes include several important substantive updates, but consist largely of a refresh of the initial version, and come with a clear message that the Agencies will continue to rely on previous policy statements and guidance documents to cover issues not addressed in the revised Guidelines.

The Guidelines Remain True to the Original Core Principles With Modest Updates

At the outset, the updated Guidelines reaffirm the same core principles enumerated in the 1995 iteration:

1. The Agencies apply the same analysis to conduct involving intellectual property as to conduct involving other forms of property.
2. The Agencies do not presume that intellectual property creates market power in the antitrust context.
3. The Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive.

The Agencies therefore intend to continue to analyze intellectual property licensing with careful consideration of potential procompetitive benefits. Indeed, as Acting Chair of the FTC Maureen Ohlhausen

noted in her concurring statement regarding the Guidelines, the "modest[]" update emphasizes the importance of intellectual property to innovation, and makes it clear that the Agencies do not intend to delineate special rules for intellectual property.

The Guidelines also acknowledge relevant developments in antitrust analysis more generally, and apply them as appropriate in the IP context. For example, one revision to the Guidelines suggests that the Agencies will consider a longer timeline for market acceptance of new technology.[1] The Guidelines also remove all references to "truncated" applications of rule of reason analysis.[2] Additionally, the update reworks the Guidelines' discussion of international licensing arrangements in recognition of the often global nature of IP licenses.[3]

Recent Developments in Statutes and Case Law

As would be expected, the updated Guidelines incorporate case law and statutory developments since 1995. Many of these additions simply provide updated support for longstanding principles (such as the *Illinois Tool Works* case), while others represent a significant change in direction from longstanding precedent and policy (such as the *Leegin* decision). These updates include:

- Statutory updates to the duration of patents and copyrights
- The recent enactment of the Defend Trade Secrets Act, which provides a private cause of action for trade secret misappropriation
- The Supreme Court's holding in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, which confirmed the Agencies' opinion that a patent does not necessarily confer market power
- The Supreme Court's holding in *Leegin Creative Leather Products v. PSKS, Inc.* reversing the longstanding principle that resale price maintenance is considered a per se violation of the antitrust laws, and holding that it should instead be evaluated under a rule of reason analysis
- The Supreme Court's holding in *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP* that the antitrust laws generally do not impose liability on a firm for a unilateral refusal to assist its competitors

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[1] While the 1995 version states that the Agencies will estimate market acceptance of new technologies over a two-year period beginning with commercial introduction, the new text omits this language, consistent with a change found in the Agencies' 2010 Horizontal Merger Guidelines relating to the timeliness of new entry (see Section 9.1).

[2] The 1995 Guidelines contain two in-text references to truncated analysis—one pertaining to inquiries into market conditions under the rule of reason, and another to analysis of horizontal restraints under the rule of reason. The omission of this language implies an intent to provide additional flexibility to analysis of intellectual property licensing.

[3] The Guidelines clarify that when the Agencies determine that there is a "sufficient nexus to the United States," the principles stated therein apply equally to all licensing arrangements, though the Agencies will consider whether international comity or the involvement of a foreign government counsels against investigation or enforcement.

- The Supreme Court's holding in *FTC v. Actavis* that in the context of intellectual property licensing, the antitrust laws may prohibit exclusion of a would-be competitor "even though the firm's prospects may be uncertain"

The Guidelines Do Not Address SEP and FRAND Concerns

Despite urging by commenters during the notice period, the Agencies declined to provide additional guidance regarding standards-essential patents ("SEPs") and issues related to their licensing on terms that are fair, reasonable and non-discriminatory ("FRAND"). In recent years, the Agencies and courts have wrestled with issues unique to SEPs, such as attempts by competitors to obtain injunctive relief after committing a patent to a standard, and bundling of SEPs and non-SEPs.

Though the Agencies have provided guidance through business advisory letters, speeches, and enforcement actions, many commenters criticized the failure to elaborate on these positions, and memorialize previous guidance, in the updated Guidelines. Others commended the Agencies for refusing to create a separate analytical framework for SEPs. In a simple statement included in the Agencies' press release accompanying the issuance of the final Guidelines, the Agencies stated that the same effects-based analysis "remains applicable to all IP areas" and that "the business community may consult the wide body of DOJ and FTC guidance available to the public—in the form of published agency reports, statements, speeches, and enforcement decisions—which rely on this analytical framework and further illuminate each agency's analysis of a variety of conduct involving intellectual property, including standards-setting activities and the assertion of standards-essential patents."

This indicates that the Agencies' decision not to comment on SEPs and FRAND licensing in the Guidelines should not be interpreted as a sign that the Agencies will cease enforcement in this area. Firms should expect that the Agencies will, as they have for the last two decades, continue to bring actions against SEP holders who violate FRAND commitments or patent assertion entities that engage in anticompetitive conduct in attempts to enforce patent rights, even though such behavior is not explicitly mentioned in the Guidelines. Indeed, only days after issuing the updated Guidelines, the Federal Trade Commission filed a complaint in federal district court charging Qualcomm Inc. with violating the FTC Act by allegedly refusing to license its SEP to competitors and forcing customers to enter into overly-burdensome licensing terms. *FTC v. Qualcomm Inc.*, No. 5:17-cv-00220 (N.D. Cal. January 17, 2017).

Concluding Remarks

The Guidelines' modest revisions serve to reinforce established IP antitrust policy, rather than to reorient it. As in the past, the Guidelines are useful in helping companies and their counsel identify practices that are likely to be challenged as anticompetitive. The Agencies will continue to evaluate each matter before them

on a case-by-case basis, however. With advice of qualified counsel, parties may consider utilizing the business review letter or advisory opinion processes offered by the Agencies to obtain additional guidance as to a specific transaction.

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