Nearly five years after conducting a series of hearings that addressed the intersection of antitrust and intellectual property, the Federal Trade Commission and the Department of Justice on April 17, 2007, issued a much-anticipated joint report entitled “Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition.” The report combines hearing testimony from industries including biotechnology, computer hardware and software, Internet, and pharmaceuticals with scholarship from practitioners and academics to provide a broad update of the agencies’ understanding of issues at the intersection of antitrust and intellectual property law. In particular, the report discusses the agencies’ competition views with respect to a wide range of activities involving intellectual property, including: refusals to license patents, collaborative standard setting, patent pooling, intellectual property licensing, the tying and bundling of intellectual property rights, and methods of extending market power conferred by a patent post-expiration.

The report emphasizes the soundness of the agencies’ general approach to analyzing intellectual property and antitrust issues, which is grounded in economics and focuses on preserving competition and incentives for creativity and innovation. The report also confirms the ongoing relevance of the agencies’ 1995 Antitrust Guidelines for the Licensing of Intellectual Property (the Licensing Guidelines), and concludes that the agencies will analyze the vast majority of conduct involving the intersection of antitrust and intellectual property under the rule of reason, which considers both the efficiencies of a particular activity as well as any anticompetitive effects it may create. Notably, although the report contains a number of conclusions with respect to the intersection of competition and patents, it does not include any recommendations for legislative reform.

This Client Alert provides an overview of some of the most significant conclusions in the report.

Unilateral Refusals to License Patents

The report begins with an analysis of unilateral refusals to license patents, focusing on two conflicting appellate decisions, Image Technical Services, Inc. v. Eastman Kodak Co. and In re Independent Service Organizations Antitrust Litigation, that have been particularly controversial. The agencies examine the diverging analyses in these decisions and note that hearing panelists agreed that neither decision provides “sufficient guidance on potential antitrust liability for a refusal to license.”

Collaborative Standard-Setting

Of particular significance to technology industries are the agencies’ findings in relation to the antitrust implications of collaborative standard-setting. The report describes the various benefits to efficiency and innovation that can be derived from standard-setting organizations (SSOs), then turns to the potential for a patent owner to “hold up” an SSO by extracting higher royalties after a standard has been locked in. The report

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1 The report can be found at www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.
2 Details about these hearings are available at www.ftc.gov/opp/intellect/index.shtm.
3 The guidelines are available at www.ftc.gov/bc/0558.pdf.
4 125 F.3d 1195 (9th Cir. 1997).
5 203 F.3d 1322 (Fed. Cir. 2000).
discusses various strategies to mitigate hold-up, including the use of disclosure requirements and “reasonable and nondiscriminatory” (RAND) licensing terms.

The agencies state that the use of ex ante disclosure and licensing terms by SSO participants can be procompetitive (because they may mitigate hold-up) and therefore are unlikely to constitute a per se antitrust violation. The report then identifies two types of joint ex ante conduct that the agencies believe, in particular, will rarely give rise to antitrust liability:

- an intellectual property owner’s unilateral announcement of licensing or price terms; and

- bilateral ex ante negotiations about licensing terms that take place between an individual SSO member and an individual intellectual property holder outside the auspices of an SSO.

The agencies’ policy guidance in this area is particularly significant because standard-setting has become subject to increased antitrust scrutiny in recent years. Specifically, the FTC has entered consent orders with Dell and Unocal that alleged violation of Section 5 of the Federal Trade Commission Act. More recently, the FTC found that Rambus violated Section 5 after a full adjudicative trial and required Rambus to license its patents on reasonable and non-discriminatory terms. Rambus has appealed this decision to the U.S. Court of Appeals for the District of Columbia Circuit.

**Intellectual Property Licensing Practices**

The report examines a variety of intellectual property licensing practices, including portfolio cross-licenses, patent pools, non-assertion clauses, grantbacks, and reach-through royalty agreements. It states that the agencies will continue to evaluate the competitive effects of these licensing arrangements under the framework of the IP Licensing Guidelines. The report notes that such licensing agreements typically will be analyzed under the rule of reason because they confer cognizable procompetitive benefits and have limited potential for anticompetitive effects. The report warns, however, that each type of licensing arrangement will be considered on a case-by-case basis.

The agencies also provide some specific conclusions in relation to patent pools, noting in particular that: (1) including substitute patents in a pool does not make the pool presumptively anticompetitive; and (2) the agencies will not generally assess the reasonableness of royalties set by a pool.

**Post-Expiration Patent Extension**

The report concludes by examining practices that extend market power conferred by a patent beyond its statutory term. The agencies state, in particular, that these practices will be analyzed under standard antitrust principles where they confer market power. The agencies acknowledge, however, that collecting royalties beyond a patent’s statutory term can be efficient because it may permit licensees to pay lower royalty rates over a longer period of time, thereby promoting innovation incentives.

**Conclusion**

Despite the agencies’ repeated observations that their analytical frameworks for intellectual property and antitrust issues are sound, there also were certain contentious issues that were noticeably absent from the report. In particular, the competition implications of patent settlements and the antitrust issues associated with uncertain or disputed patent rights, topics which were the focus of multiple hearings, were not discussed in the report. The antitrust analysis of patent settlements is an area in which the agencies’ differences recently spilled into the public domain after the agencies filed briefs with the Supreme Court that expressed strongly differing views. The basis for any possible difference of perspective between the agencies on disputed patent rights is unclear.

For more information on the agencies’ joint report or the implications that the report will have for business, please contact Susan Creighton, Jonathan Jacobson, Matthew Bye, or another member of Wilson Sonsini Goodrich & Rosati’s antitrust and trade regulation practice. Susan Creighton served as deputy director and director of the Bureau of Competition at the FTC while the joint hearings were conducted and the report was developed.

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6 The firm’s antitrust practice released a Client Alert addressing the FTC’s most recent findings on pharmaceutical industry patent settlements in February 2007, which is available at www.wsgr.com/WSGR/Display.aspx?SectionName=publications/PDFSearch/clientalert_genericfirms.htm.