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The intersection of antitrust and intellectual property has continued to generate a great deal of controversy and is perhaps the most fertile subject area for the development of new competition law and policy. Though an overall convergence is perceptible with regard to a number of issues, differences in the laws, legal systems, and policy priorities in various jurisdictions have resulted in divergence with regard to others. This article seeks to provide an overview of the major developments in key areas in which competition issues are implicated by the structure or use of intellectual property rights.

I. IP LICENSING

In the EU, the primary recent developments with respect to intellectual property licensing have included the adoption of the Technology Transfer Block Exemption Regulation (“TTBER”)¹ and the accompanying EC Guidelines.² The TTBER sets forth a general exemption, which applies if (i) certain market shares of the parties do not exceed certain thresholds³ and (ii) the license agreement does not contain *per se* violations (often referred to as “hard-core”

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¹COMMISSION REGULATION (EC) No 772/2004 ON THE APPLICATION OF ARTICLE 81(3) OF THE TREATY TO CATEGORIES OF TECHNOLOGY TRANSFER AGREEMENTS, OJ 27 April 2004, L. 123, p. 11.

²GUIDELINES ON THE APPLICATION OF ARTICLE 81 OF THE EC TREATY TO TECHNOLOGY TRANSFER AGREEMENTS, OJ 27 April 2004, L. 101, p. 2 (“EC Guidelines”).

³The threshold is a combined market share of 20 percent for competitors (Article 3(1) TTBER) and a market share of 30 percent for each party if they do not compete (Article 3(2) TTBER). Both thresholds apply to the relevant technology and the relevant product market (Article 3(3), Article 1(1)(i) TTBER).

restrictions in EC terminology).⁴ If a license agreement does not qualify for exemption pursuant to the TTBER, the EC Guidelines summarize and make transparent how the Commission applies Article 81 EC and how it interprets the TTBER.⁵

In contrast to its predecessors, the TTBER ties the availability of an exemption to a number of factual and legal factors. In the years since the TTBER has come into effect, the practical challenge for business may be less in drafting new license agreements in accordance with the TTBER than in monitoring the relevant facts such that any appropriate amendments may be made to license agreements already in force. For instance, the TTBER's list of "hard core" restraints of trade differs for competitors and non-competitors. This concept turns on whether competing products and/or technology are available to the parties, a circumstance that can change over time.

In the EU, the most important recent development related to refusals to license is the EU Court of First Instance ("CFI") 2008 Microsoft decision, which restates the proposition that the refusal to license Intellectual Property ("IP") rights amounts to a violation of Article 82 EC only in "exceptional circumstances."⁶ The CFI found that, according to established case law, such exceptional circumstances exist only where the following conditions are fulfilled: (i) the refusal relates to a product or a service that is indispensable to the exercise of a particular activity in a neighboring market; (ii) the refusal excludes any effective competition in that neighboring market; and (iii) the refusal prevents the "appearance of a new product for which there is

⁴For example, the prohibition on sales into a territory that is reserved for the other party to the agreement is a "hard core" restriction, Article 4(1)(c)(iv) TTBER.

⁵There is a second safe harbor in the EC Guidelines (at ¶ 131), outside the scope of the TTBER and often overlooked but, in practice, frequently more relevant. Article 81(1) EC is unlikely to apply to a license agreement if (i) there are at least four competing technologies at comparable cost; and (ii) the parties to the license agreement do not control any of these technologies.

⁶Court of First Instance, 17 September 2007, Case T-201/04 – Microsoft, at 331.

potential consumer demand.”⁷ In addition, there must be no objective justification for the refusal for Article 82 EC to be infringed.

In Microsoft, one of the key issues was whether the third condition, i.e. the prevention of the “appearance of a new product” was satisfied. The complainants sought access to Microsoft’s interoperability information to develop essentially the same product as Microsoft, namely a work group server operating system interoperating with Microsoft’s client PC operating system. The CFI considered that the circumstances related to the appearance of a new product were not the sole parameters determining whether a refusal to license IP rights was capable of harming consumers.⁸ In this particular case, the CFI agreed with the European Commission that the refusal to license harmed consumers because it limited technical development.

Thus, the CFI’s Microsoft decision means that there can be “exceptional circumstances” justifying the imposition of a compulsory license even when the refusal does not prevent the emergence of a new product, but simply where the refusal prevents technical development. This decision could significantly erode the IP owner’s ability to control its IP rights because potential licensees are likely to be able to demonstrate that access to the licensor’s IP will enable them to further technical developments. Notably, in its February 2009 guidance paper on Article 82 EC, the European Commission mentions the effect of a refusal to supply on product innovation not as a necessary condition for application of Article 82 EC but only by way of example.⁹

In the United States, perhaps the most important recent precedent relating to the licensing

⁷Microsoft, at 332.

⁸Microsoft, at 647.

⁹European Commission, GUIDANCE ON THE COMMISSION’S ENFORCEMENT PRIORITIES IN APPLYING ARTICLE 82 OF THE EC TREATY TO ABUSIVE EXCLUSIONARY CONDUCT BY DOMINANT UNDERTAKINGS, OJ 24 February 2009, C45, p. 7: “. . . considers that consumer harm may, for instance, arise where the competitors that the dominant undertaking forecloses are, as a result of the refusal, prevented from bringing innovative goods or services to market and/or where follow-on innovation is likely to be stifled.” (¶ 87).

of intellectual property did not involve intellectual property at all. In *Trinko*, the Supreme Court confronted the issue of whether a regulated telecommunications provider violated the antitrust laws by failing to provide access to its communications network to a reseller of telecommunications services. The Supreme Court indicated that, in the absence of specific situations (such as a pre-existing course of business dealings), a company, including a monopolist, generally has no obligation to deal with rivals.¹⁰ Thus, any prior ambiguity regarding whether a patent-holder has an obligation to license its intellectual property would appear to be resolved; in the absence of a pre-existing licensing or business arrangement, or some other prior course of dealing, it would appear that an intellectual property owner may refuse to license its IP to any other parties. It is perhaps unclear whether *Trinko* would also apply to an IP-holder that licenses its IP widely, but selectively refuses to license to one particular company. In their Antitrust and IP Report, the Department of Justice (“DOJ”) and Federal Trade Commission (“FTC”) did not go so far as to say that a refusal to license IP would always be free of antitrust liability. They did acknowledge, however, that “the unilateral right to decline the grant of a license is a core part of the patent grant” and that “liability for mere unconditional, unilateral refusals to license will not play a meaningful part in the interface between patent rights and antitrust protections.”¹¹

In the Antitrust and IP Report, the DOJ and FTC also issued helpful commentary with respect to many common licensing practices. They acknowledged that non-exclusive non-assert provisions and grantback clauses have pro-competitive justifications and only rarely harm

¹⁰Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 409-410 (2004).

¹¹U.S. DEP’T OF JUSTICE & FEDERAL TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (APRIL 2007), at 30 [hereinafter, the IP REPORT].

competition.¹² Consistent with the Federal Circuit decision in *Philips v. ITC*, the DOJ and FTC stated that they would apply a rule of reason analysis to a package license arrangement, and that a single patent holder's tying and bundling of patents "usually are not anticompetitive."¹³ Perhaps most surprisingly, the DOJ and FTC departed from long-standing but somewhat outdated patent law precedent to acknowledge that a provision requiring continued payment of royalties after expiry of the underlying patents may have pro-competitive benefits, and thus would not necessarily violate the antitrust laws.¹⁴

The China Antimonopoly Law ("AML")¹⁵ was enacted very recently, effective August, 2008. Accordingly, there is little precedent to provide guidance to how the enforcement agencies and courts may interpret the AML. Concerns have been expressed, however, regarding Article 55 of the AML, which sets forth the general principal for dealing with antitrust and IP issues.

Article 55 provides that:

This Law is not applicable to conduct by business operators to exercise their legitimate intellectual property rights in accordance with intellectual property laws and relevant administrative regulations; however, this Law is applicable to the conduct of business operators to eliminate or restrict market competition by abusing intellectual property rights.

No clear definition of IP "abuse" is offered in the AML or relevant IP laws at this time, raising fears that conduct, such as mere refusals to license, might be construed as an "abuse" warranting compulsory licenses.

¹²*Id.* at 99 ("In general, the Agencies expect that non-assertion agreements, grantbacks, and reach-through licenses either will not raise any competitive concerns or that the efficiencies of these types of agreements will be sufficient to alleviate competitive concerns.").

¹³*Id.* at 114.

¹⁴*Id.* at 116-119.

¹⁵China Antimonopoly Law, available in Chinese at http://www.gov.cn/flfg/2007-08/30/content_732591.htm.

In addition, Article 48 of the China's newly amended Patent Law (effective Oct. 1, 2009) stipulates that compulsory licenses may be granted where "[t]he patentee's act of exercising the patent rights is determined as a monopolizing act and [the compulsory license will] eliminate or reduce the adverse consequences of the said act on competition."¹⁶ Thus, a patent office-granted compulsory license is now available to remedy anticompetitive behavior by patentees. According to other relevant Patent Law regulations and rules, a compulsory license is generally a non-exclusive license granted at the request of a third party, against which an "exploitation fee" may be paid. Although no compulsory licenses have been granted in China to date by the State Intellectual Property Office under the Patent Law for AML violations, or any other reason since the law first came into effect in 1985, recently Chinese courts reportedly have denied injunctions to prevailing patentees in patent infringement cases based on calculations of the impact on public interest.¹⁷

In Japan, perhaps the most important recent development is the 2007 publication by the Japan Fair Trade Commission ("JFTC") of the *Guidelines for the Use of Intellectual Property under the Antimonopoly Act* ("Japan IP Guidelines"),¹⁸ which replaced the Guidelines for the patent and know-how licensing agreement under the Antimonopoly Act ("AMA") of 1999 ("Former Guidelines").¹⁹

The Japan IP Guidelines are intended to further clarify the JFTC's attitude towards restrictive business conduct accompanied by the exercise of intellectual property rights that will

¹⁶China Patent Law, available in China at http://www.gov.cn/flfg/2008-12/28/content_1189755.htm.

¹⁷Zhuhai Jingyi Glass Engineering Company v. Shenzhen Airport Corporation, available in Chinese at http://case.ipr.gov.cn/ipr/case/info/Article.jsp?a_no=111960&col_no=65&dir=200708.

¹⁸Guidelines for the Use of Intellectual Property under the Antimonopoly Act.

¹⁹Guidelines for Patent and Know-how Licensing Agreements under the Antimonopoly Act.

create negative effects on competition. The scope of the Japan IP Guidelines is broader than that of the Former guidelines with respect to the types of intellectual property covered, as the Japan IP Guidelines apply with respect to technology protected under the Patent Act, the Utility Model Act, the Act Concerning Layout Design of Semiconductor Integrated Circuits, the Seeds and Seedling Act, the Copyright Act, the Design Act, and technologies protected as know-how.

The Japan IP Guidelines established a safe harbor that defines the scenarios where restrictions are deemed to have a negligible effect on competition: (i) the combined market share of firms using the technology in the relevant product market is 20 percent or less; or (ii) at least four firms hold rights to alternative technologies.²⁰ The Japan IP Guidelines also introduced a new section applicable to the prohibition of technology use, which includes refusals to license.²¹ It is generally accepted that an IP holder may unilaterally refuse to license its intellectual property right or file a lawsuit to seek an injunction against any infringement of the right. However, the Japan IP Guidelines indicate certain exceptions including, among other things, acquisition of intellectual property rights which are not necessary for the acquirer or are expected to be used by competitors, in order to exclude competitors by refusing to license.

With respect to non-price restrictions, the Japan IP Guidelines provide that intellectual property holders are generally permitted to restrict the scope of use of licensed technologies to certain uses or territories. However, the Japan IP Guidelines point out that non-price restrictions may pose antitrust issues under multiple licensing or cross licensing schemes. For example, the licensor and licensees may substantially restrain competition by mutually agreeing to common

²⁰Guidelines for the Use of Intellectual Property under the Antimonopoly Act § 2.5

²¹Guidelines for the Use of Intellectual Property under the Antimonopoly Act § 3.1(1), §4.2

restrictions on the scope of technology use under multiple licensing or cross licensing systems.²²

The Japan IP Guidelines also provide that non-assertion provisions may have adverse effects on competition because they may impede the licensee's incentive to engage in research and development.²³

Recently, the JFTC delivered a controversial administrative order against the Japan Society for Rights of Authors, Composers and Publishers ("JASRAC"). JASRAC obtains rights to license copyrighted music, issues licenses, and distributes royalties to copyright owners. The JFTC argued that JASRAC has excluded competing organizations and has monopolized the market through blanket licenses. These blanket licenses give the licensees the right to perform all of the copyrighted compositions managed by the JASRAC and pay royalties calculated as a percentage of revenues (not depending on the amount of copyrighted music used) because licensees (broadcasters) refrain from obtaining licenses from other copyright management organizations in order to avoid additional royalty payments.

II. PATENT POOLS

In the EU, the TTBER does not apply to multi-party license agreements. The EC Guidelines set forth the European Commission's analytical matrix for its assessment of patent pools pursuant to Article 81 EC.²⁴ The European Commission's analysis is primarily guided by whether the pooled technologies are (i) technological "complements" or "substitutes,"²⁵ and (ii)

²²Guidelines for the Use of Intellectual Property under the Antimonopoly Act § 3.2(2), (3)

²³See, e.g., Microsoft, JFTC Hearing Decision No. 13 of July 30, 2008 (issuance of the cease and desist order regarding non-assertion of patent clauses included in the license agreement between Microsoft and computer manufacturers).

²⁴EC Guidelines, ¶ 210-235.

²⁵Two technologies are "complements" if they are both required to produce the product or carry out the process to which the technologies relate. They are "substitutes" if either technology allows the IP holder to produce the product or carry out the process to which the technologies relate. See EC Guidelines ¶ 216.

“essential” or “non-essential.”²⁶ If the patent pool is composed only of technologies that are “essential” (and, therefore, by necessity also “complements”), the formation of the pool typically falls outside the scope of Article 81(1) EC, irrespective of the market shares involved. If the pool includes “non-essential” technologies, it is likely to be caught by the prohibition of Article 81(1) EC if the pool has significant market power (“dominance”). However, the pool may benefit from an individual exemption under Article 81(3).

The EC Guidelines recognize that pool members are typically free to negotiate and determine royalties for the technology package and each technology’s share of the royalties, either before or after the standard is set.²⁷ However, if the pool has a “dominant” market position, royalties and other licensing terms should be fair, non-discriminatory, and non-exclusive.

Although not binding at EC Member State level, national courts and antitrust agencies are known to refer to the EC Guidelines where appropriate. For instance, when the regional court of Düsseldorf, Germany, had to decide on an infringement claim for damages by a patent holder, it first had to determine whether enforcing the patent would be in violation of Article 81 EC since the at-issue patent formed part of a patent pool (MPEG-2). The court drew extensively on the EC Guidelines and found in favor of the patent holder.²⁸

In the United States, patent pools have historically been subject to challenge under both Sections 1 and 2 of the Sherman Act, as a “tying” offense or as an attempt to monopolize, or

²⁶A technology is “essential,” as opposed to “non-essential” if (i) there are no substitutes for that technology inside or outside the pool; and (ii) the technology constitutes a necessary part of the package of technologies for the purpose of producing the product or carrying out the process to which the pool relates. *See* EC Guidelines ¶ 216.

²⁷EC Guidelines ¶ 225.

²⁸Regional court (Landgericht) of Düsseldorf, Germany, 13 November 2006 – MPEG-2, WuW/EDE-R212, at V.2b.

actual monopolization. The courts and the U.S. antitrust agencies have generally accorded lenient rule of reason treatment to patent pools that exchanged rights in blocking patents, i.e., patents that could not be practiced without infringing the other parties' patents. In contrast, greater scrutiny, sometimes involving application of the *per se* rule, has been given to patent pools involving competing patents, i.e., patents that can be practiced as alternatives to achieve the same purpose.²⁹ Last year, the DOJ confirmed in a Business Review Letter that it will not challenge pools licensing patents that are "essential" to practice a particular technology or implement a technological standard.³⁰

Beyond the central issue of the legality of the patent pool itself, ancillary restrictions in patent pool agreements and licensing practices may pose antitrust risk. Such restrictions include agreements not to license others without consent of all members of the pool, to allocate customers, or to maintain prices. Courts have found such restrictions to violate Section 1 of the Sherman Act where the pool members jointly held market power in a relevant market (the market for the "tying" patents), and to violate Section 2 where the members had achieved monopoly power through the pooling, or there was a dangerous probability that such power would be achieved.³¹ The agencies have emphasized that patent pools may be challenged if they are used to fix prices, allocate markets, discourage participants from making technological

²⁹See U.S. DEP'T OF JUSTICE & FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 1 (1995), reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,132 [hereinafter, INTELLECTUAL PROPERTY GUIDELINES]. It is important to note that pooled licenses of competing IP rights may not violate the antitrust laws where there are compelling efficiencies that justify the arrangement. See *Broadcast Music v. CBS*, 441 U.S. 1, 24 (1979)(blanket licenses of musical works not *per se* unlawful).

³⁰See, e.g., DOJ Business Review Letter to William F. Dolan and Geoffrey Oliver (Oct. 21, 2008) (approving RFID Consortium patent pool where an independent patent evaluator would assess whether patents included were "essential" to implementing a the RFID Consortium standard for radio frequency ID labels and readers).

³¹See, e.g., *United States v. Krasnov*, 143 F. Supp. 184 (E.D. Pa. 1956), *aff'd per curiam*, 355 U.S. 5 (1957).

improvements, or significantly harm excluded competitors.³²

In 2007, the agencies issued their long-awaited IP Report, which confirmed that patent pools can achieve multiple efficiencies and generally reaffirmed these long-standing approaches to patent pools and cross-licenses, generally applying the rule of reason to such arrangements.³³ The IP Report also stated that pooling agreements “typically warrant greater antitrust scrutiny than do cross-licensing agreements due to the collective pricing of pooled patents, greater possibilities for collusion, and generally larger number of market participants.”³⁴ The agencies also highlighted their concerns about the anticompetitive risks of concerted decisions on licensing outside a pool that excluded competitors outside the pool from offering a competitive product or process.³⁵ Finally, the report notes that the agencies will not generally assess the reasonableness of royalties set by patent pools, but instead will assess whether the terms governing the operation of the pool may enable members to raise prices or restrict output in a relevant market.³⁶

Recent court decisions have been generally consistent with the approaches set forth in the IP Report, generally applying the rule of reason and finding patent pools not to be anticompetitive, especially where licensees have the opportunity to negotiate separate licenses of individual patents in the pool.³⁷ A recent decision affirming dismissal of a suit against a patent pool of DVD patents highlights the difficulty of surviving a motion to dismiss allegations of

³²INTELLECTUAL PROPERTY GUIDELINES § 5.5.

³³IP REPORT at 57-84.

³⁴*Id.*, at 58.

³⁵*Id.*, at 80.

³⁶*Id.*, at 82-83.

³⁷*See, e.g.,* Sumitomo Mitsubishi Silicon Corp. v. MEMC Electronic Materials, 2007 U.S. Dist. LEXIS 61964 (N.D. Cal. 2007).

antitrust violations based on the operation of a patent pool. Chinese companies filed suit against four manufacturers of DVDs and DVD players that jointly licensed a pool of patents applicable to the manufacture of such products, alleging, inter alia, that the pool included non-essential patents, and that the members conspired through the patent pool to fix prices of the relevant technologies and conspired to monopolize the DVD market. This patent pool had been the subject of a DOJ Business Review Letter in which the DOJ had determined not to challenge the pool, because it provided substantial pro-competitive benefits.³⁸ The district court twice dismissed the complaint with leave to amend.³⁹ It then dismissed the Second Amended Complaint with prejudice, noting that the plaintiffs had repeatedly failed to allege facts to state a claim, and that the complaint instead indicated that the market for DVD players was highly competitive. The U.S. Court of Appeals for the Federal Circuit affirmed the dismissal.⁴⁰

Statements and positions taken by the nominees to lead the DOJ and the FTC in the Obama administration indicate that the agencies' approach to patent pools and cross-licensing will remain essentially the same as those set out in the IP Report, perhaps with greater scrutiny for pools representing a high share of a relevant market.

In Japan, the IP Guidelines define "patent pools" as a business activity in which multiple patent owners centralize their rights to a certain corporation or organization so that the members of the pool may obtain necessary licenses from such corporation or organization.⁴¹ The Japan IP Guidelines expressly state that patent pools may encourage effective use of technologies and do

³⁸Letter from Charles A. James, Assistant Attorney Gen., U.S. Dep't of Justice to Ky P. Ewing, Esq. (Nov. 12, 2002), available at <http://www.usdoj.gov/atr/public/busreview/200455.pdf>.

³⁹*Wuxi Multimedia v. Koninklijke Philips Electronics*, No. 04cv1136, 2006 U.S. Dist. LEXIS 9160 (S.D. Cal., Jan. 5, 2006).

⁴⁰*Wuxi Multimedia, Ltd. v. Koninklijke Philips Elecs., N.V.*, 2008 U.S. App. LEXIS 12091 (Fed.Cir., June 5, 2008).

⁴¹Guidelines for the Use of Intellectual Property under the Antimonopoly Act § 3.2(1)

not immediately constitute antitrust violation. However, under certain circumstances, patent pools may be challenged either as private monopolization or as unreasonable restraint of trade under Section 3 of the AMA.

The Japan IP Guidelines provide that refusal to license pooled patents without justifiable reason in order to prevent new entries or expansion of business by any existing firm may be recognized as exclusionary conduct, and thus private monopolization.⁴² In 1997, as the first patent pool case challenged under the AMA, the JFTC issued a cease and desist order against pachinko (Japanese pinball machine) manufacturers. The JFTC argued that the manufacturers delegated the management of patent rights necessary to manufacture pachinko machines to the association controlled by the manufacturers and, by refusing to grant licenses, made it difficult for any other firm to enter the market. Such acts were found to be private monopolization in violation of Section 3.⁴³ Although there are no precedents, the Japan IP Guidelines mention that certain practices in relation to patent pools and licensing, such as agreements to fix prices, outputs or customers, to prohibit improvement of the licensed technology, or not to license new entrants, may raise antitrust concern as unreasonable restraint of trade.⁴⁴

The *Guidelines on Standardization and Patent Pool Arrangements* (“Standardization and Patent Pool Guidelines”),⁴⁵ published by the JFTC in June 2005, supplement the Japan IP Guidelines with regard to patent pools. The Standardization and Patent Pool Guidelines state that the formation of patent pools with regard to standardized specifications may enhance competition by helping efficient licensing of multiple rights, preventing excessive license fees,

⁴²*Id.*, at § 3.1(1)

⁴³JFTC Recommendation Decision No. 5 of 1997 on August 6, 1997

⁴⁴Guidelines for the Use of Intellectual Property under the Antimonopoly Act § 3.2(1)

⁴⁵Guidelines on Standardization and Patent Pool Arrangements.

and facilitating prompt development and dissemination of new products. However, the Standardization and Patent Pool Guidelines also note that patent pools established and operated by competitors may have adverse effects on competition in that such pools may impose mutual restrictions on the use of technologies and business activities of the participants. In order to increase legal certainty, the Standardization and Patent Pool Guidelines provide for a safe harbor for patent pools among competitors: (i) where the share of the pool of the relevant product market is below 20 percent; or (ii) there are at least four other competing standardized specifications.⁴⁶

III. STANDARD SETTING

In 2005, the European Telecommunications Standardisation Institute (ETSI) changed its standard-setting rules following a European Commission investigation. These changes strengthened the requirement for early disclosure of IP rights in order to minimize the risk of patent ambush.⁴⁷

In the summer of 2007, the European Commission sent a statement of objections to Rambus and initiated a formal investigation against Qualcomm based on allegations of infringement of Article 82 EC.

The European Commission had come to the preliminary conclusion that Rambus engaged in “intentional deceptive conduct” in the DRAM standard-setting process, for example by not disclosing the existence of the patents that it later claimed were relevant to the adopted standard. The European Commission’s preliminary view was that without Rambus’s “patent ambush,” it

⁴⁶*Id.* § 3.1(2)

⁴⁷European Commission press release No IP/05/1565, 12 December 2005.

would have been limited in the amount of the royalty rates it could charge.⁴⁸ It was probably not entirely unrelated to the on-going Rambus investigation when European Commissioner Kroes, in June 2008, urged standard-setting organizations to request ex ante disclosure of essential patents and maximum royalty rates.⁴⁹ The Qualcomm investigation relates to patents that are essential to the WCDMA standard.⁵⁰ The European Commission followed complaints that alleged that Qualcomm's licensing terms and conditions were not fair, reasonable and non-discriminatory ("FRAND"). Both investigations are pending.

Recent years in the United States have seen a number of important developments with respect to the application of antitrust law to issues involving intellectual property rights and standards. The most significant developments relate to issues of deception with respect to the existence of relevant patents and the negotiation and enforcement of licensing commitments.

The leading case with respect to so-called "patent ambush," or deception with respect to the existence of patents covering technologies proposed for use in a standard, is *Rambus Inc. v. FTC*. The FTC commenced an enforcement action alleging that Rambus had deceived the JEDEC standard-setting body into believing that it did not have patents or patent applications relating to technologies proposed for use in and incorporated in two JEDEC standards. According to the FTC's complaint, Rambus, while it was a JEDEC member, concealed one issued patent and four pending patent applications covering the technologies in question, and was

⁴⁸European Commission, MEMO/07/330, 23 August 2007.

⁴⁹Commissioner Neelie Kroes, "Being Open About Standards," OpenForum Europe—Breakfast seminar, Brussels, 10 June 2008, p. 4: "In addition, if we are to include proprietary technology in a standard then ex ante disclosure may help those involved make a properly informed decision. Competition law should not stand in the way. . . . And it may increasingly entail ex ante disclosure of maximum royalty rates. Standards bodies do important work in difficult circumstances. . . . If they need help in tightening up their rules to avoid being manipulated by narrow commercial interests, or to design the right ex ante rules, then they have my support."

⁵⁰European Commission, MEMO/07/389, 1 October 2007.

affirmatively engaged in developing additional patent applications specifically intended to cover the JEDEC standards. Rambus waited until the standards were adopted and companies had invested substantial amounts to implement the standards before asserting its patents against those companies. The full Commission reversed an ALJ decision in favor of Rambus, finding that Rambus had unlawfully acquired monopoly power in the markets for the relevant technologies by means of its deceptive conduct.⁵¹

On appeal, the U.S. Court of Appeals for the D.C. Circuit reversed. The court held that the Commission had failed to establish that Rambus's deceptive conduct had caused Rambus's acquisition of monopoly power.⁵² The Commission had found that, in the absence of Rambus's deception, either JEDEC would have either adopted alternative technologies or its members would have negotiated licensing commitments. The court assumed that if the conduct excluded alternative technologies from the standard, that conduct could constitute the basis for an antitrust violation. It held that if the technologies might nevertheless have been included in the standard, Rambus might have acquired monopoly power despite its conduct, and depriving JEDEC members of an opportunity to negotiate a price limitation would not constitute unlawful monopolization.⁵³

The implications of the *Rambus* decision remain unclear. Some have opined that the decision is limited to the facts of that case, and simply reflect a failure of proof in that case. However, if a fact-finder were to presume (as the FTC did in *Rambus*) that, in the absence of a patent disclosure a standards organization normally adopts its preferred technology and,

⁵¹In the Matter of Rambus Inc., FTC Dkt. No. 9302, Commission Decision (Aug. 2, 2006), *rev'd*, 522 F.3d 456 (D.C. Cir. 2008).

⁵²*Rambus Inc. v. Fed. Trade Comm'n*, 522 F.3d 456, 463-67 (D.C. Cir. 2008).

⁵³*Id.*

therefore, it hypothetically might be willing to adopt the same technology if subject to a very small royalty, this could defeat a finding of causation regardless of the size of the royalties ultimately charged for the technology.

The second issue considered by the courts and agencies involves licensing commitments made by patent holders to standards bodies. First, the FTC and DOJ have confirmed that standards bodies do not necessarily violate the antitrust laws by requiring patent-holders to state the terms upon which they would license their patents. Rather, such requirements should be reviewed pursuant to the rule of reason.⁵⁴ Second, although the agencies have not so stated explicitly, they have implied that an organization's prior negotiation of royalty rates and licensing terms might not violate antitrust laws, so long as the negotiation was part of a good faith effort to select among two or more alternatives for a standard.⁵⁵

Third, in *Broadcom v. Qualcomm*, the Third Circuit held that a false and deceptive promise to license a patented technology on RAND terms, in the context of cooperative standard-setting, could constitute unlawful monopolization.⁵⁶ In that case, Broadcom alleged that Qualcomm offered a RAND commitment with respect to patents covering certain telecommunications technologies, with no intent to honor that commitment, in order to get its technologies into international telecommunications standards. Once companies were committed to implementing the standards, Qualcomm allegedly started demanding royalties that were unreasonable and discriminatory. The matter has been returned to district court for consideration of the factual merits of the allegations.

⁵⁴See Letter from Assistant Attorney General Thomas O. Barnett to Robert Skitol re VITA (Oct. 30, 2006); Letter from Assistant Attorney General Thomas O. Barnett to Michael A. Lindsay re IEEE (Apr. 30, 2007).

⁵⁵Antitrust & IP Report at 53-54.

⁵⁶*Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007).

Finally, in its *N-Data* consent, the FTC implied that a patent-holder's failure to abide by an honestly-made licensing commitment would not violate the antitrust laws. However, it could constitute an unfair method of competition pursuant to the FTC Act.⁵⁷ The *N-Data* matter involved a commitment by National Semiconductor to the IEEE to license relevant patents for a one-time flat fee of \$1,000 per company. Pursuant to that commitment, the IEEE incorporated the technology in question into a standard relating to wired LAN networks. Several years later, however, the patents were transferred to a spin-off company, and ultimately to N-Data. N-Data informed the IEEE that it was revoking the licensing commitment, and sought to collect royalties significantly in excess of the earlier commitment. The FTC filed an enforcement action, pursuant to Section 5 of the FTC Act, which was resolved with a consent agreement pursuant to which N-Data agreed to offer all potential licensees the opportunity to license on the basis of a flat \$1000 fee. This matter has raised a number of questions; in particular, because there is little precedent regarding the meaning of the term "unfair method of competition," the limits of FTC enforcement under this statute are unclear.

In Japan, the Standardization and Patent Pool Guidelines generally regard standard setting as not posing antitrust issues because the standardization enables the firms to promptly commercialize products, to expand demand, and to enhance consumer welfare. Nevertheless, standard setting may be challenged as private monopolization, an unreasonable restraint of trade, or an unfair trade practice in violation of Sections 3 or 19 of the AMA if the participants: (i) restrict prices, outputs, or marketing activities of the products with the standardized specifications; (ii) mutually restrict, without reasonable ground, the development of alternative standards or prohibit production or distribution of products incorporating alternative standards;

⁵⁷In the Matter of Negotiated Data Solutions LLC, FTC Dkt. No. 051-0094 (consent agreement) (2008).

(iii) jointly expand the scope of standards where this is not necessary to ensure compatibility among the products or to realize any other benefit arising from standard setting; (4) unreasonably exclude competing technologies; or (5) exclude specific competitors from participating standard setting.⁵⁸

The Japan IP Guidelines also provide (limited) guidance on the treatment of standard setting under the AMA. If the holder of a patent that is adopted in the standard, and that patent is necessary to develop or manufacture the relevant products, refuses to license after the patent holder has caused the members of the standard setting organization to incorporate its patented technology in the standard through deceptive means, it may be considered as illegal exclusionary conduct constituting either private monopolization in violation of Section 3 or an unfair trade practice in violation of Section 19 of the AMA.⁵⁹

IV. IP ISSUES IN THE PHARMACEUTICAL INDUSTRY

The European Commission launched a sector inquiry into the pharmaceutical markets under Article 81 and 82 EC in January 2008, beginning with dawn raids, followed by over 200 questionnaires to innovators and generics. “Sector inquiries” are an investigative tool for the European Commission⁶⁰ and not an enforcement action, although the way in which the Commission presents its findings often indicates the course the Commission intends to take in enforcing the EC competition rules. The focus of the inquiry was on the overlap between IP and antitrust in the pharmaceutical sector.

In November 2008, the European Commission issued a preliminary report,⁶¹ which

⁵⁸Guidelines on Standardization and Patent Pool Arrangements § 2.2

⁵⁹Guidelines for the Use of Intellectual Property under the Antimonopoly Act §§ 3.1(1), 4.2(2)

⁶⁰See Article 17 of EC Regulation No 1/2003.

⁶¹European Commission, Pharmaceutical Sector Inquiry: Preliminary Report, 28 November 2008.

concludes that originator companies are engaged in practices intended to delay or block market entry of generic versions of the original patented medicines. First, the Commission found that originator companies are using a variety of strategies (a “tool-box” of instruments) to delay or prevent the entry of generics. These strategies include: filing numerous patents on a single medicine (referred to as "patent clusters" or "patent thickets"); making "divisional patent" applications; engaging in out-of-court disputes and patent litigation (most won by generic companies); intervening in national procedures for the approval of generic medicines; entering into settlement agreements with generic companies, in particular to restrict a generic's ability to market its product and involving a value transfer from the originator company to the generic manufacturer by way of a direct payment; "reverse payment" settlements; and launching second generation or follow-on medicines just prior to the loss of patent exclusivity for the first generation product. Second, as regards competition among originators, the report finds that companies engage in “defensive patenting strategies” aimed at blocking the development of new competing products by other originator companies.

The preliminary report does not yet proceed to qualify any of these strategies as a violation of the EC competition rules. The European Commission had invited stakeholders and the general public to comment on its factual findings and indicated that a final report will be issued in spring 2009. It remains to be seen whether (and, if so, in which circumstances) the Commission will be able to demonstrate that any of the “tactics” described in the report can be characterized as violations of competition law.

In the United States, one especially active area has been antitrust challenges to reverse payment settlements of pharmaceutical patent infringement actions by branded drug

manufacturers against generic equivalent drug manufacturers. The U.S. “Hatch-Waxman” law allows the manufacturer of the generic bioequivalent of an already-approved drug to rely on the Food and Drug Administration’s prior determination of the safety and efficacy of the branded drug. The generic manufacturer may file an “abbreviated” new drug application and, if it seeks approval to market its generic drug before the expiration of the patent covering the existing drug, give notice that it believes the patent to be invalid or not infringed. The generic manufacturer must delay marketing of its product for a specified period of time, and the branded manufacturer may immediately challenge the generic’s patent infringement.

It is common for these patent challenges to be resolved with a settlement agreement under which the generic manufacturer will refrain from introducing its product for a number of years, in exchange for a payment by the branded manufacturer. As the payment flows from the patent holder to the challenger, in contrast to royalty payments, these are called “reverse payment” settlements. This is a result of the Hatch-Waxman law enabling the generic manufacturer to bring about a patent challenge without incurring the costs of beginning to manufacture and market a product that may infringe the branded manufacturer’s patent.

The FTC and private plaintiffs have brought antitrust challenges to reverse payment settlements. Given the inherent uncertainty of whether the infringement action would be successful, they claim that, but for the payment to the alleged infringer, the litigants’ agreement would have allowed the generic to enter earlier. Simply put, given the potential for earlier entry, the reverse payment must have bought an agreement not to compete until later.

The federal courts have overwhelmingly rejected this theory. The courts have held that, so long as the patent is not “objectively baseless” and the agreement does not keep the generic

off the market for longer than would the patent itself, there is no harm to competition. Patents create lawful monopolies that last for the term of the patent, and a settlement that does not exclude competition beyond the exclusionary power of the patent cannot violate the antitrust laws.⁶²

The Supreme Court has not addressed these issues. The FTC sought Supreme Court review of the Eleventh Circuit's *Schering-Plough* reversal of the FTC administrative decision striking down that reverse payment settlement. The Solicitor General and DOJ opposed the FTC petition, and in 2006 the Supreme Court declined to take the case.

Within the last year, the FTC has initiated two new federal court challenges to reverse payment cases.⁶³ The *Cephalon* complaint claims that, although there was no monetary payment, the branded manufacturer entered into separate transactions with the alleged infringers to induce them to settle and agree to delay introducing generic products. Similarly, in *Watson*, the FTC alleged that "co-promotion agreements" with the generics constituted a reverse payment that kept them off the market.

With the advent of the Obama Administration, both the executive and legislative branches of the U.S. Government may align against the position won in the judicial branch. Legislation has been introduced to prohibit any patent infringement settlement agreement in

⁶²This is the position of all the Courts of Appeals that have heard these cases. *See, e.g.,* In re Ciprofloxacin Hydrochloride Antitrust Litig., 544 F.3d 1323 (Fed. Cir. 2008); *Schering-Plough Corp. v. FTC*, 402 F.3d 1056 (11th Cir. 2005), *cert. denied*, 126 S. Ct. 2929 (2006); In re Tamoxifen Citrate Antitrust Litig., 466 F.3d 187 (2006), *cert. denied* sub nom. *Joblove v. Barr Labs, Inc.*, 127 S. Ct. 3001 (2007); *see* In re K-Dur Antitrust Litig., C.A. No. 01-1652 (JAG) (D.N.J. 2009) (recommending summary judgment in favor of defendants in private challenge to settlement addressed in *Schering-Plough*). The one appeals court decision finding a reverse payment violation involved an agreement that excluded competition beyond the exclusionary power of the patent. In re Cardizem CD Antitrust Litig., 332 F.3d 896 (6th Cir. 2003), *cert. denied* sub nom. *Andrx Pharm., Inc. v. Kroger Co.*, 543 U.S. 939 (2004).

⁶³*FTC v. Watson Pharm.*, No. CV09-00598 (C.D. Cal. filed Feb. 2, 2009); *FTC v. Cephalon Inc.*, No. 08-0244 (JDB) (D.D.C. filed Feb. 13, 2008) (transferred to E.D. Pa.).

which the generic “receives anything of value,” with very limited exceptions.⁶⁴ The new FTC Chairman is a strong supporter of the FTC’s prior actions, and the new Assistant Attorney General in charge of the Justice Department’s Antitrust Division has promised to align the DOJ and FTC views, echoing statements made by President Obama.

V. CONCLUSION

Recent development in antitrust jurisprudence in the United States, the EU, Japan, and China demonstrate that the important issues at the intersection of antitrust and intellectual property law are still evolving, in ways that are likely to prove challenging to companies whose ability to compete depends heavily upon their important IP rights. Such companies must continue to monitor closely the ways in which antitrust/IP law is developing in each of these leading jurisdictions in order to minimize the risk of violations and serious sanctions.

⁶⁴S.369, § 29(a)(1).