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# Hughes Hubbard & Reed

## Final IP and International Guidelines

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**January 25, 2017** - On January 13, 2017, the U.S. Department of Justice ("DOJ") and the Federal Trade Commission ("FTC") issued new editions of their Antitrust Guidelines for Licensing of Intellectual Property ("IP Guidelines") and Antitrust Guidelines for International Enforcement and Cooperation ("International Guidelines"). A draft of the updated IP Guidelines had been released for public comment on August 12, 2016, and the updated International Guidelines were likewise circulated for public comment on November 1, 2016. Both sets of Guidelines were first published in 1995, and had not been updated since.

Neither new set of Guidelines reflects a major change from the Agencies' approach to antitrust enforcement in recent years, or even from the 1995 Guidelines. Instead, they largely conform to the earlier guidelines to statutory and case law development since that time, and tackle the growing importance of international cooperation.

It remains to be seen if President Trump's as-yet-unnamed appointees at the DOJ and FTC treat these as useful updates of consensus, mainstream antitrust policy that they will follow, or if they will repudiate them.

### IP Guidelines

The IP Guidelines provide updates on significant pieces of case law and terminology.<sup>1</sup> Specifically, the IP Guidelines are updated to reflect a number of Supreme Court decisions since they were first published in 1995, notably *Illinois Tool Works, Inc. v. Independent Ink, Inc.*<sup>2</sup> (confirming that a patent does not necessarily confer market power), *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*<sup>3</sup> (holding that minimum resale price maintenance agreements are not per se illegal), and *Kimble v. Marvel Entertainments, LLC*<sup>4</sup> (confirming that post-expiry patent royalty license provisions are unenforceable). The new IP Guidelines also use new terminology, such as "Research and Development Market" instead of "innovation market." Notably, however, the IP Guidelines stay away from certain controversial topics that have been a focus of enforcement agency guidelines outside of the U.S. For example, the Japanese, Korean, Canadian, and Chinese guidelines all express views on standard essential patents, but the new IP Guidelines do not discuss them. Similarly, the IP Guidelines do not provide the Agencies' views on patent assertion entities/non-practicing entities (more commonly known as "patent trolls").

The IP Guidelines as finalized last week contain a small number of edits following the public comments received from "academics, private industries, law associations, and non-profit organizations."<sup>5</sup> Perhaps most notable were the comments submitted by the Global Antitrust Institute of George Mason University's Antonin Scalia Law School ("GAI"), which were drafted by -- among others -- Joshua Wright, who leads the new President's antitrust transition team.<sup>6</sup>

The GAI comments were generally strongly supportive of the IP Guidelines. However, those comments did suggest six specific improvements to the draft, but none of them saw their way into the IP Guidelines as finally issued on January 13. These suggestions were: (1) clarify the sections on refusals to license to show that the antitrust laws only impose liability on firms for refusals to license in specific circumstances, in line with the FTC's 2007 Antitrust-IP Report<sup>7</sup>; (2) replace the phrase "unreasonable conduct" with a clear statement of an effects-based approach when discussing intellectual property and market power<sup>8</sup>; (3) limit the inclusion or use of "research and development markets" as an analytic tool; (4) explicitly state that abandoning the rule of reason analysis when evaluating licensing restraints is only permissible in certain limited circumstances; (5) remove references to a policy-focused 2011 IP Report by the FTC<sup>9</sup>; and (6) edit a supposed misinterpretation of *Broadcom v. Qualcomm*.<sup>10</sup> If Prof. Wright transitions into leadership of the Antitrust Division at DOJ or the FTC, some of these suggestions may be reflected changes in agency policy or further revisions of the IP Guidelines.

The edits that were made to the proposed IP Guidelines following the public comments add clarifications in several places. The IP Guidelines also added additional case law and clarifications. Most significantly, the IP Guidelines clarified the type and extent of evidence needed to show that a firm would be a potential competitor in the absence of a license agreement. The Agencies cite two decisions to show when a potential competitor could run afoul of antitrust law: the Supreme Court's holding in *FTC v. Actavis*<sup>11</sup> and the D.C. Circuit's decision in *United States v. Microsoft Corp*<sup>12</sup>. The IP Guidelines also added a citation to a notable 2015 Second Circuit decision, *United States v. Apple, Inc.*,<sup>13</sup> to support the proposition that agreements constituting a horizontal cartel will be considered per se illegal even where there is a vertical dimension to the agreement.

## **International Guidelines**

Much like the IP Guidelines, the International Guidelines do not reflect any significant breaks in enforcement policy, but instead contain updates from recent case law, and also recognize the much greater importance in recent years of the Agencies' cooperation with foreign antitrust authorities. In particular, the International Guidelines were revised to reflect Foreign Trade Antitrust Improvements Act ("FTAIA") case law developments in a substantially rewritten Chapter 3, which discusses when foreign commerce is subject to the Agencies' antitrust enforcement. The updated Guidelines provide a more complete analysis of the Agencies' interpretation of the "effects test," which extends the U.S. antitrust laws to non-import foreign commerce where there is "a direct, substantial, and reasonably foreseeable" impact on U.S. foreign or domestic commerce, based on the case law applying that test. The updated Guidelines take the position that a price-fixing agreement between two foreign manufacturers of a component that they sell to another foreign company for integration into products to be sold into the United States may be subject to the U.S. antitrust laws if it can be shown to be the proximate cause of a substantial and foreseeable increase in the price of the finished goods sold into the United States. The revised International Guidelines also include an entirely new chapter providing a more detailed description of the mechanisms of international enforcement coordination between the Agencies and foreign authorities.

The International Guidelines as finally issued clarify several important points from the November draft. The Agencies received public comment from eight individuals and organizations, including the Antitrust Committee of the International Bar Association ("IBA"), the U.S. Chamber of Commerce, and the American Bar Association ("ABA") Antitrust and International Law sections.

The final International Guidelines appear to have taken some of these comments onboard. Specifically, the Agencies provide further clarification on their application of U.S. antitrust law to conduct involving foreign commerce, though they do not go as far as the comments urge. The final International Guidelines also acknowledge the Seventh Circuit's 2014 decision in *Motorola Mobility LLC v. AU Optronics Corp.*,<sup>14</sup> as urged by the ABA, though the Agencies did not add an in-depth discussion. The final International Guidelines further revise an example on component products to list more factual considerations and confirm that the Agencies would first analyze if the price-fixing of the component had an effect on U.S. import commerce, and then further analyze the evidence "to determine: (1) whether the price fixing was the proximate cause of that effect, (2) whether the effect was substantial, and (3) whether that effect was a result of the price fixing that was foreseeable to a reasonable person making practical business judgments."<sup>15</sup> The Agencies rely on *United States v. Hsiung*,<sup>16</sup> a Ninth Circuit decision that analyzes the "effects test."

The International Guidelines as now issued also strengthen the proposed language on the growing importance of international cooperation in antitrust enforcement, though the Agencies could have gone further in stating their intentions to cooperate. For example, the Agencies added citations to publications by the International Competition Network ("ICN") and the Organization for Economic Cooperation and Development ("OECD") to the Introduction, pointing to the many benefits this type of guidance provides. The International Guidelines also clarify how the Noerr-Pennington doctrine, which protects companies from antitrust liability for concerted conduct aimed at securing governmental action that restrains trade would be applied, by analogy, to petitioning for foreign governmental action.

Notably, the International Guidelines do not clarify the Agencies' position on the open question of whether the FTAIA should be regarded as a jurisdictional or substantive limit on antitrust claims. The ABA argued that the Agencies should take a firm stand that the FTAIA is a jurisdictional bar, pointing to evidence that this is more in line with Congressional intent and the fact that it lowers the litigation burdens on defendants.<sup>17</sup> Most recent court decisions on this issue, however, go the other way, which is perhaps why the Agencies chose not to take a position. The International Guidelines also do not acknowledge the Second Circuit's 2016 *In re Vitamin C Antitrust Litigation*<sup>18</sup> decision in clarifying the Agencies' view of comity principles, despite being urged to do so by both the IBA and the ABA.

Hughes Hubbard's Antitrust & Compliance Group has extensive experience with international antitrust matters and would be pleased to provide guidance and assistance in interpreting the new IP Guidelines and International Guidelines.

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[1] For an in-depth look at the case law changes, please see the Hughes Hubbard News Alert by Michael Salzman and Hannah Miller from September 2016, DOJ and FTC Call for Public Comments on Proposed Updates to Their IP Licensing Guidelines, <https://www.hugheshubbard.com/news/doj-and-ftc-call-for-public-comments-on-proposed-updates-to-their-ip-licensing-guidelines>.

[2] 547 U.S. 28 (2006).

[3] 551 U.S. 877 (2007).

[4] 135 S. Ct. 2401 (2015).

[5] Press Release, FTC, FTC and DOJ Issue Updated Antitrust Guidelines for the Licensing of Intellectual Property (Jan. 13, 2017), <https://www.ftc.gov/news-events/press-releases/2017/01/ftc-doj-issue-updated-antitrust->

guidelines-licensing-intellectual.

[6] The comments are available online at [http://gai.gmu.edu/wp-content/uploads/sites/27/2016/07/GAI-Comment\\_DOJ-FTC-Updated-IP-Guidelines\\_9-19-16\\_FINAL.pdf](http://gai.gmu.edu/wp-content/uploads/sites/27/2016/07/GAI-Comment_DOJ-FTC-Updated-IP-Guidelines_9-19-16_FINAL.pdf).

[7] DOJ & FTC, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (Apr. 2007), <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf>.

[8] While the Agencies did remove the phrase "unreasonable conduct," they did not substantively edit this section.

[9] FTC, The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition (Mar. 2011), <https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf>.

[10] 501 F.3d 297 (3d Cir. 2007).

[11] 133 S. Ct. 2223 (2013).

[12] 253 F.3d 34 (D.C. Cir. 2001).

[13] 791 F.3d 290 (2d Cir. 2015).

[14] 775 F.3d 816 (7th Cir. 2014).

[15] International Guidelines at 23.

[16] 758 F.3d 1074 (9th Cir. 2014).

[17] Joint Comments of the American Bar Association Section of Antitrust Law and Section of International Law on the Proposed Update to the U.S. Department of Justice and Federal Trade Commission Antitrust Guidelines for International Enforcement and Competition (Dec. 1, 2016), <https://www.justice.gov/atr/page/file/915786/download>.

[18] 837 F.3d 175 (2d Cir. 2016).

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