

April 25, 2002

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By Federal Express and Facsimile (202-326-2496)

Donald S. Clark
Office of the Secretary
Federal Trade Commission
600 Pennsylvania Avenue NW
Washington, D.C. 20580

Re: Comments regarding competition and intellectual property (“Patent Pools and Cross-Licensing: When Do They Promote or Harm Competition?”)

Dear Mr. Clark:

I am an antitrust litigation attorney with some recent experience in patent pool litigation. Prior to private practice, I was a staff attorney with the Antitrust Division of the Department of Justice. This letter addresses some practical issues in analyzing patent pools.

The “starting point” takes antitrust analysis directly into the “patent thicket.”

Patent pools can harm competition if the patentees would have likely competed with one another absent the patent pool.¹ In contrast, patent pools are “likely to have procompetitive benefits”² when the pools are combining technologies that would not, or could not, compete.

Starting with this question makes good practical sense: “[w]e first have to be sure that competition was restrained or threatened. Only then do we ask whether the restraints are

¹ *Antitrust Guidelines for the Licensing of Intellectual Property* at 3.1 (1995)(“antitrust concerns may arise when a licensing arrangement harms competition among entities that would have been actual or likely potential competitors”).

² *Id.* at Example 10.

reasonably necessary to achieve a procompetitive purpose.”³ In the Department of Justice’s 1997 business review letter regarding MPEG LA, for example, Joel Klein wrote: “[a] starting point for an antitrust analysis of any patent pool is an inquiry into the validity of the patents and their relationship to each other.”⁴ This starting point is part of the *IP Guidelines* and improves the analysis considerably over the case law on patent pools.⁵

My concern, though, is that this “starting point” antitrust inquiry can devolve entirely into technical patent law issues. With respect to patent pools, the issues of patent interrelationships multiply exponentially. The costs of litigating patent cases within antitrust cases can be prohibitive for licensees that otherwise would challenge a patent pool. And it is unclear that *post hoc* resolution of each validity and scope issue necessarily “pays for itself” by improving a court’s or enforcement agency’s assessment of how likely the patentees would have competed absent the pool.

To begin with, the relationships among patents do not always fall into mutually exclusive categories. For simplicity, the *IP Guidelines* illustrate two polar situations. In Example 9, none of the patents are blocking. In Example 10, all of the patents assigned to the pool are blocking, meaning “[n]one of the patents assigned to the corporation can be used without infringing a patent owned by the other firm.”⁶ The first pool will likely be challenged. The second will likely not be challenged. But, the relationships between patents are not usually “either/or” propositions:

Were it possible to clearly and definitively classify the relationship between patents into two mutually exclusive categories—competing and noncompeting—the problem of evaluating the propriety of patent pooling would be greatly simplified. But the relationship that patents bear to each other is not often an either/or matter. The relationship of patented processes or products can be competing, complementary, or blocking, or a little of each.⁷

³ Willard T. Tom, “Licensing and Antitrust: Common Goals and Uncommon Problems,” (October 12, 1998) (American Conference Institute 9th National Conference on Licensing Intellectual Property), at 5.

⁴ See letter of June 26, 1997 from Joel I. Klein to Gerrard R. Beeney.

⁵ G. Priest, *Cartels and Patent Licenses*, 20 *J. Law & Econ.* 309, 377 (1977); L. Kaplow, “The Patent-Antitrust Intersection: A Reappraisal,” 97 *Harv.L.Rev.* 1813, 1848 (1984)(“Patent-antitrust doctrine is noted for its indeterminacy and its frequent shifts in directions.”); John H. Barton, “Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation,” 65 *Antitrust Law Journal* 449 (Winter 1997)(“We have replaced the 1970s pattern of weak patent law and strong antitrust law with a 1990s pattern of strong patent law and weak antitrust law.”)

⁶ *Antitrust Guidelines for the Licensing of Intellectual Property* at Examples 9 and 10.

⁷ W. Bowman, *Patent and Antitrust Law* at 202 (1973).

Patents that are both complementary and possible substitutes cannot be ignored. That issue may determine whether the patent pool is considered a horizontal arrangement. Although not a patent case, *United State v. Microsoft* held that complements may also be substitutes and have tremendous antitrust significance.

Looking at relationships among all of the patents in a pool, the complexity grows exponentially by the number of patents involved. The portfolio of MPEG-2, for illustration only, now includes almost 400 patents worldwide (92 patent families plus worldwide counterparts).⁸

Strategic behavior by pools also creates proof problems. Most pools receive careful antitrust counseling; there is usually some documentation of efficiency gains and favorable characterizations of patents as complementary. Ward Bowman recognized the resulting proof problems almost 30 years ago:

Identifying by court decision the relationship of patents pooled or cross-licensed, often long after pooling has been accomplished, is difficult, time-consuming, and expensive. In addition, when private litigation is involved there is often strong incentive to submerge or to conceal pertinent information with respect to both the validity and the scope of the patent claims. There is also, between private litigants, incentive to stress *noncompeting* rather than *competing* patent characteristics.⁹

The track record of courts piercing the patentees' "disguises" has not been reassuring:

The evaluation of cross-license agreements presents yet greater difficulties where the patents are competing and together exert significant effect on commerce. It is for these cross-licenses that an anticompetitive effect is most probable and *per se* prohibition, if extended beyond fixing prices, is most likely to be appropriate. The justifications for such agreements are to reduce the uncertainty of the patent process where invention has been or is likely to be simultaneous and to conserve litigation costs. Yet the monopoly gains available where uncertainty is absent will encourage other firms to invest to

⁸ See www.mpegla.com.

⁹ Bowman, above, at 242-43.

contrive litigation and to camouflage their patents so that they appear simultaneous, and the success of courts in piercing these disguises—even with the help of special master—has not been reassuring.¹⁰

As a result, the patentees' characterizations of patent validity and/or scope prior to forming a pool can be "opportunistic"¹¹ and less than reliable evidence.

Making the "but for world" more testable.

Because proof of the "but for world" without the patent pool is difficult, the best "starting point" should be a prediction based on all the evidence and expressed as a likelihood. How likely would the patentees have competed absent the pool?

Patentees obviously argue that they would not have competed. In many cases, they argue they *could not* have competed without infringing each other's patents. Even if the patentees document their "blocking" concerns prior to forming the pool, those concerns should not end the antitrust inquiry based on the "blocking defense." Nor should the antitrust inquiry be contingent entirely on a *post hoc* courtroom resolution of technical patent issues. Businesses every day manufacture, use and sell technology despite uncertainty about patent validity and scope. Businesses move in and out of markets while taking account of legal uncertainties. Businesses compete even though their patent rights are uncertain. A judicial resolution of technical patent issues no doubt can affect a court's or enforcement agency's assessment of how likely the businesses would have competed, but the antitrust inquiry should not be contingent on final resolution of those issues. The complexity and expense of reaching such a resolution are often not worth any improvement in assessing the real likelihood of competition under all of the actual circumstances.

Beyond these proof issues, the courts and enforcement agencies could help make the competitive effects of patent pools more testable. Compulsory licensing would allow licensees to test alternative packages. While a pool may assert that its patents are each essential to compliance with a technology standard, others in the industry may disagree. Those licensees may be willing to take the business risks and legal risks of licensing a different package of patents. (Royalties under compulsory licensing are always a difficult issue, but one possibility would be a royalty for each patent licensed equal to each licensor's share of the package attributable to that same patent. Also, the formation of licensee pools may create efficiencies that mirror licensor pools. A group of

¹⁰ G. Priest, *Cartels and Patent Licenses*, 20 *J. Law & Econ.* 309, 377 (1977); see also L. Kaplow, "The Patent-Antitrust Intersection: A Reappraisal," 97 *Harv.L.Rev.* 1813, 1848 (1984) ("Patent-antitrust doctrine is noted for its indeterminacy and its frequent shifts in directions.")

¹¹ O. Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* at 26-28 (1975).

Donald S. Clark
April 25, 2002
Page 5

licensees may have the resources and shared interests to evaluate alternative patent packages or even to challenge the pool under the antitrust laws.

Sincerely yours,

GAMMAGE & BURNHAM

By _____
James A. Craft

JAC/jac