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High-tech and pharma mergers: ‘vigorous’ enforcement likely to continue under Trump administration

High-tech antitrust enforcement is at the top of the Trump administration antitrust enforcement agenda, including challenges to mergers affecting technology platforms and the pharma and life sciences industries.

Statements by senior leadership at both the US Department of Justice (DOJ) and US Federal Trade Commission (FTC) promise vigorous enforcement in tech and pharma industries, and recent actions against transactions, including non-reportable deals, prove they are serious. The agencies have also signalled an increased scepticism of behavioural remedies.

Two key court decisions will also influence merger review going forward. The DOJ’s loss in its effort to block the AT&T/Time Warner merger and pending appeal will likely impact not only ‘vertical’ mergers but also horizontal tech mergers given the court’s focus on the dynamic competitive landscape. And the Supreme Court’s decision in Ohio v American Express, while not a merger case, warrants attention given that its teaching regarding two-sided markets may well impact merger analysis.

In the current enforcement environment, understanding the unique issues that drive enforcement in the technology arena – from the importance of intellectual property and innovation competition, to network effects and Food and Drug Administration regulations – is critical to achieving merger clearance in close cases.

‘Our mantra is vigorous enforcement’: DOJ and FTC management heed calls for enforcement in high-tech and pharma

New leadership is now at the helm of both the DOJ and FTC, with Makan Delrahim confirmed as Assistant Attorney General for the Antitrust Division in September 2017 and Joe Simons confirmed as chairman of the FTC in April 2018. Delrahim’s deputies are also all in place and Trump has now filled all vacancies on the FTC, so both agencies are at full strength.

During Delrahim’s and Simons’s confirmation hearings, lawmakers questioned their intention to enforce the antitrust laws to combat perceived increasing concentration, both generally, and in high-tech and pharma specifically. Republican Senator Ted Cruz of Texas, for example, asked Simons about the growing market power of large tech companies during his confirmation hearing.

The FTC and DOJ appear to be responding to the calls for vigorous enforcement. In April 2018, Delrahim gave a speech focused on antitrust enforcement in the digital era addressing concerns that:

Antitrust laws are ill-equipped to address competition issues that have arisen in the digital platform economy, and that as a result of the antitrust laws’ supposed lack of adaptability more generally, there have been harmful increases in industry concentration, along with a variety of other social ills.

He argued that, to the contrary, the antitrust laws are well-equipped to deal with ‘evolving business models’ and said that the government stands ready to use those tools.

Likewise, Simons promised during his confirmation hearing that he would investigate whether merger enforcement is ‘too lax’. In June 2018, he announced that the FTC will hold public hearings beginning in September 2018 and continuing into 2019, covering topics ranging from ‘communication, information and media technology networks’ and ‘markets featuring “platform” businesses’, to ‘[t]he intersection between privacy, big data, and competition’ and ‘evaluating the competitive effects of corporate acquisitions and mergers’. The hearings are also expected to address ‘the role of intellectual property and competition policy in promoting innovation’, a topic of great importance to tech and pharma industries. In a meeting with the press announcing the hearings, Simons said that the FTC’s ‘mantra is vigorous enforcement’.

Pharmaceuticals and medical devices remain key focus for enforcers

The FTC’s pro-enforcement cadence is particularly pronounced in the pharmaceutical and medical device industries.

Since being elected, Trump has been outspoken, complaining about drug prices. Trump’s FTC appointees have also voiced concern about drug prices. Simons, for instance, stated during his confirmation hearing that he is ‘very concerned’ about price increases for prescription drugs and said he would look into creating a task force to assess whether anticompetitive conduct is leading to higher prices. Simons said pharmaceutical companies should anticipate that the FTC will continue to bring enforcement actions where it believes a transaction is anticompetitive, especially if there is concern about resulting high drug prices.

Recent enforcement actions have targeted mergers involving medical devices, which seem to attract less rhetoric, but just as much enforcement as pharmaceutical mergers.

In November 2017, the FTC entered a consent order with Abbott Laboratories and Alere settling charges that Abbott’s US$8.3 billion acquisition of Alere would result in a firm with a combined share of 97 per cent in point-of-care blood gas testing systems and a 100 per cent share in point-of-care cardiac marker testing systems. The consent order required the parties to divest Alere’s blood gas testing and cardiac marker testing systems, including intellectual property, technology, and manufacturing facilities.

In December 2017, the FTC entered a final order requiring Integra LifeSciences to divest five medical device product lines...
to complete its US$1 billion acquisition of Johnson & Johnson’s Codman Neuro division, alleging the transaction, as proposed, would harm competition in multiple markets, including dural grafts and intracranial pressure monitoring systems. In each of the five markets, the FTC alleged that Integra and Codman were ‘the only’, ‘two of only three’, or ‘[with Medtronic] the only three’ significant suppliers in the United States. The FTC consent order required Integra to divest related product lines and a manufacturing facility and to supply the buyer with cranial access kits until the buyer is able to secure a different supply source.

**Agencies continue to challenge non-reportable high-tech, pharmaceutical and medical device deals**

Deals that do not have to be reported to the DOJ and FTC under the Hart-Scott-Rodino (HSR) Act – because they fall below the HSR ‘size of person’ and ‘size of transaction’ thresholds – continue to be a focus of the agencies, including in the tech and pharmaceutical and medical device industries.

In December 2017, for instance, the FTC filed an administrative complaint to challenge Otto Bock’s acquisition of FIH Group, a transaction that closed in September 2017. The FTC alleged that Otto Bock is ‘the leading manufacturer and supplier of microprocessor prosthetic knees’ and through this transaction acquired ‘its closest [and] most significant and disruptive competitor’ in the market for microprocessor prosthetic knees. The FTC alleged that Otto Bock thereby eliminated ‘direct and substantial competition’ between the companies, ‘further entrenching Otto Bock as the dominant supplier’.

The FTC alleged that competition between Otto Bock and FIH promoted innovation and asked the administrative law judge to ‘unschramble the eggs’ to ‘restore two or more distinct and separate, viable and independent businesses’. In June 2018, the judge certified the matter to the FTC for consideration of a proposed consent proposal, finding there was a reasonable possibility of settlement, even though complaint counsel did not agree to the proposed settlement.

In December 2017, the DOJ filed a complaint challenging the February 2017 acquisition by TransDigm Group of Schrotth Safety Products and Schrriott Protection Systems, and simultaneously filed a proposed consent order. According to the DOJ, the acquisition combined the ‘world’s dominant supplier of restraint systems used on commercial airplanes’ and its ‘closest and only meaningful competitor’ in restraint systems, which had embarked on an ambitious plan to capture market share . . . by competing . . . on price and heavily investing in research and development of new restraint technologies, resulting in lower prices for customers. TransDigm agreed to divest the entire business acquired.

**What remedies will US antitrust enforcers accept? Trump officials sceptical of behavioural remedies, even to resolve concerns raised by vertical mergers**

The DOJ and FTC have long preferred ‘structural’ remedies – divestiture of an ongoing business – while sometimes accepting divestiture of specific assets, to enable a firm to compete and preserve competition lost by proposed mergers and acquisitions involving horizontal competitors.

On the other hand, both the DOJ and FTC have historically accepted ‘behavioural’ remedies to resolve antitrust concerns raised by proposed vertical mergers and acquisitions, such as a prohibition on discrimination, while allowing the parties to complete the merger to obtain efficiencies from vertical integration.

That position was memorialised in the DOJ’s 2011 Antitrust Division Policy Guide to Merger Remedies, which advised that when addressing a horizontal merger, ‘the Division will pursue a divestiture remedy in the vast majority of cases’, but in addressing a vertical merger, ‘the Division will consider tailored conduct remedies designed to prevent conduct that might harm consumers while still allowing the efficiencies that may come from the merger to be realised.’

Soon after his confirmation, Delrahim announced that the DOJ under his watch would ‘return to the preferred focus on structural relief to remedy mergers that violate the law’. He argued that behavioural remedies adopted to resolve competitive concerns raised by vertical mergers in recent years, including in the 2010 Ticketmaster/Live Nation and 2011 Comcast/NBC Universal mergers, ‘supplant competition with regulation’. Antitrust law, Delrahim argued, should be ‘law enforcement, not regulation’. Other DOJ officials, including DOJ Deputy Assistant Attorney General Barry Nigro, have argued that ‘[t]he imposition of a behavioural remedy inverts the Division’s role into something it is not – the hall monitor for private businesses operating in a free market economy’. Nigro also stated that the DOJ’s obligation to ‘accept only a complete and effective solution to anticompetitive transactions’ means that the DOJ ‘favour[s] structural fixes that promote and protect competition rather than substitute competition with regulation’.

Joe Simons’ FTC is largely following suit, though it has left the door open to occasionally accepting behavioural relief. When asked to name the top three challenges facing the FTC, Joe Simons stated that the ‘30 per cent failure rate [for remedies] is too high and needs to be lowered substantially’. In June 2018, Simons said ‘the best approach is a non-behavioural remedy’ though he said the FTC will accept behavioural remedies in ‘rare, very limited’ circumstances.

This policy shift is already having ramifications for merger challenges. The DOJ refused to accept proffered behavioural remedies in reviewing AT&T’s proposed acquisition of Time Warner and instead sought a preliminary injunction to block the merger. The same district court judge that found the DOJ’s consent agreement, resolving concerns raised by Comcast’s acquisition of NBC Universal to be ‘in the public interest’, denied the DOJ’s effort to block AT&T’s acquisition of Time Warner, discussed further below. The FTC meanwhile appears to be changing its approach to remedies to resolve potential competition concerns in the pharmaceutical industry. The director of the FTC’s Bureau of Competition said during a speech in February 2018 that the FTC will be more sceptical of divestitures of pipeline assets:

> Parties should expect that in transactions where complex pharmaceutical products . . . need to be divested, we will require the divestiture of contract manufacturing capabilities rather than other assets, such as pipeline products. Based on a history of problems with divestitures in this area, our view is that divesting ongoing manufacturing rather than products that haven’t yet come to market places the greater risk of failure on the merging firms, rather than the American public.

**High-profile DOJ losses may impact market definition in high-tech platforms**

The DOJ suffered two high-profile losses in June 2018, which may influence market definition in high-tech mergers.

After a yearlong investigation and six-week trial, the DC District Court refused to enjoin the merger of AT&T and Time Warner. The DOJ alleged that the combination of Time Warner’s media
content with AT&T’s video distribution network would allow the combined firm to ‘use its control over Time Warner’s valuable and highly popular networks to hinder its rivals by forcing them to pay hundreds of millions of dollars more per year for the right to distribute those networks’.34

In its 172-page decision, now on appeal, the DC District Court accepted ‘that vertical mergers “are not invariably innocuous”’, but found that the DOJ failed to ‘meet its burden to establish that the proposed “transaction is likely to lessen competition substantially”’.35 Of particular interest, the court ‘factor[ed] in the dramatic changes that are transforming how consumers view video content’ in its decision.36 This acknowledgement of the importance of forward-looking analysis should lend credibility to arguments about changing industry dynamics in future mergers involving high-tech firms, in horizontal as well as vertical mergers.

The AT&T decision was followed two weeks later by the Supreme Court’s decision in Ohio v American Express.37 There, the Supreme Court held that the DOJ and state attorneys general did not prove that American Express’s non-discrimination rules, prohibiting merchants from steering customers to Visa and MasterCard, were anticompetitive.38

The Supreme Court in Amex reasoned that the effect of conduct on both sides of a ‘two-sided’ market must be considered before concluding conduct is anticompetitive:

> Focusing on merchant fees alone misses the mark because the product that credit-card companies sell is transactions, not services to merchants, and the competitive effects of a restraint on transactions cannot be judged by looking at merchants alone. Evidence of a price increase on one side of a two-sided transaction platform cannot by itself demonstrate an anticompetitive exercise of market power.”39

While the Amex decision leaves many questions unanswered, it opens the door to arguments to win approval for high tech mergers in multi-sided markets.40 In particular, the Supreme Court’s recognition that the ‘commercial realities’ of credit card transactions required looking to both sides of a market provides strong support for the concept that all incentives on parties’ pricing and output decisions must be taken into account in both defining a market, and assessing the harm in that market. 41

Notes

1 Ohio v American Express Co, No. 16-1454 (25 June 2018).
2 Delrahim and Simons each bring years of antitrust experience and served in senior antitrust enforcement positions in the George W Bush Administration – Delrahim as Deputy Assistant Attorney General at the DOJ and Simons as Director of the Bureau of Competition at the FTC. Both appointees emphasise the importance of taking an economic-focused approach to analysing antitrust issues.
3 Fed. Trade Comm’n Nomination Hearing Before the S. Comm. on Commerce, Science & Transp., 115 Cong. (14 February 2018) (witness testimony of Joseph Simons) (‘Let me ask one final question which is a number of members of this committee are concerned about the scope and control of big tech . . . The scope of market power and size and control of public disclosure is unprecedented’).
5 Id.
6 Id.
7 Leah Nylen, ‘FTC should examine whether merger enforcement “too lax,” chairman nominee says’, MLex (2 February 2018).
16 Id.
18 Id.
19 Id.
22 Id at 2, 11. The DOJ specifically alleged that ‘prior to the acquisition, AmSafe and SCHROTH also competed to develop new restraint technologies’.
Megan Browdie is an associate in Cooley's antitrust and competition practice group, resident in the firm's Washington, DC office. Ms Browdie advises clients on antitrust issues, including with respect to mergers and acquisitions, compliance with the Hart-Scott-Rodino Act, licensing of intellectual property and distribution. She has experience in matters before the DOJ, FTC and state attorneys general, as well as in federal court. Ms Browdie has worked with clients in a number of industries, including automotive, consumer goods, computer hardware and software, financial services, oil and gas, pharmaceuticals and medical devices, publishing, and telecommunications.

Ms Browdie serves as a vice chair on the ABA’s Federal Civil Enforcement committee. She has participated in several panels, including ‘Standard Setting: Key Antitrust Issues & Developments,’ ‘FTC v. Sysco/US Foods: Perspectives from The Trenches,’ and ‘Recent Developments’ for the Health Care and Pharmaceuticals Committee, contributed to the DOJ Civil Antitrust Practice and Procedure Manual and been published in the Federal Civil Enforcement Committee and M&A Committee newsletters.

Ms Browdie has been recognised by Super Lawyers, LMG’s Expert Guides as a ‘Rising Star’ in antitrust, and as one of the ABA’s ‘Top 40 Young Lawyers.’

Jacqueline Grise is a partner in Cooley’s antitrust and competition practice group, resident in the firm’s Washington, DC office.

Ms Grise’s practice focuses on the defence of corporate clients in connection with domestic and international mergers and acquisitions, as well as antitrust counselling and other non-merger matters. She regularly represents clients before the FTC, the DOJ and foreign antitrust enforcement agencies. Ms Grise has extensive experience counselling clients through the HSR merger review process, including advocating before the agencies, responding to second requests and coordinating antitrust defence strategies in countries around the world. Her clients span a broad range of industries, including an array of high-tech industries; digital health and e-health; healthcare and pharmaceuticals; consumer and food products; computer and data storage; music recording and publishing; book and magazine publishing; industrial equipment; automotive parts; retail, including internet sales and distribution; and aerospace and defence.

Ms Grise was ranked as among the top 40 antitrust lawyers worldwide under the age of 40 by Global Competition Review (May 2008). She is also recognised as a leading practitioner by Chambers USA, Euromoney’s Guide to the World’s Leading Competition & Antitrust Lawyers and Washington DC Super Lawyers’ Top 50 Women.

Ms Grise is a vice chair of the ABA Antitrust Section’s Health Care and Pharmaceuticals Committee and a member of the Section’s Content Delivery Task Force.
Howard Morse is a partner in and chair of Cooley LLP’s antitrust and competition practice group, resident in the firm’s Washington, DC office.

Mr Morse represents businesses before the DOJ, FTC and state attorneys general, in investigations involving mergers, acquisitions and joint ventures, as well as restraint of trade cases. He also counsels on antitrust issues to help clients achieve their business goals without violating antitrust law and represents clients in antitrust litigation.

Mr Morse has been at the forefront of applying antitrust law to the high-tech sector and the intersection of antitrust and intellectual property law, including issues related to innovation markets, standard setting, patent pools and the settlement of patent litigation. His clients include companies in the pharmaceutical, biotech and medical device, as well as the telecommunications, computer hardware, software, social media and 3D printing industries.

Mr Morse served for 10 years at the FTC, where he was Assistant Director of the Bureau of Competition and received the FTC’s Award for Superior Service for ‘furthering the Commission’s Merger Enforcement Program’ and for ‘advancing the antitrust mission of the Federal Trade Commission in innovation markets and high technology industries’.

Mr Morse has been recognised as a leading antitrust lawyer by Best Lawyers in America, Chambers, Expert Guides to the World’s Leading Competition Lawyers, Super Lawyers, Who’s Who Legal: Competition and Who’s Who Legal: Life Sciences.

Mr Morse is active in the ABA Antitrust Section, for which he has served on the Section Council and has chaired the Section’s Computer Industry, Federal Civil Enforcement and Intellectual Property Committees.

Julia Renehan is an associate in Cooley’s antitrust and competition practice and advises clients on antitrust issues, including mergers and acquisitions, compliance with the Hart-Scott-Rodino Act, and antitrust counselling. She has experience in matters before the US Department of Justice and Federal Trade Commission. Julia has worked with clients in several industries, including consumer goods, computer hardware and software, pharmaceuticals and medical devices, telecommunications and aviation.

Cooley’s attorneys solve legal issues for entrepreneurs, investors, financial institutions and established companies. Clients partner with Cooley on transformative deals, complex IP and regulatory matters, and bet-the-company litigation, often where innovation meets the law.

Cooley has more than 900 lawyers across 12 offices in the United States, Europe and China.

Cooley’s antitrust and competition team is recognised as one of the top-tier practices in the area of antitrust by Chambers USA, Legal 500 and Global Competition Review. Providing a full range of counselling, agency representation, litigation and arbitration services, we handle all aspects of antitrust and competition matters for companies, from emerging companies to Fortune 500 corporations, in virtually every sector of the economy including computer hardware, software, e-commerce, social media, pharmaceuticals, medical devices, biotech, clean tech, telecommunications, aerospace, automotive, defence, oilfield services, industrial manufacturing, consumer products and financial services. We provide expert, practical and timely representation that enables our clients to manage antitrust risk while accomplishing their business objectives.

Our antitrust and competition team is comprised of 40 lawyers in major business and technology centres in the US as well as the UK and China and includes two former assistant directors of the Federal Trade Commission Bureau of Competition and a former acting associate attorney general of the Department of Justice (DOJ) responsible for overseeing the Antitrust Division, as well as former FTC and DOJ staff attorneys.