



ANTITRUST ISSUES IN IP LICENSING

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Introduction

- **Basic relationship between antitrust laws and IP laws**
 - **Old view:**
 - AT and IP at odds
 - IP rights eliminate competition while AT encourages competition
 - **New view:**
 - AT and IP complementary
 - IP rights provide incentives to innovate, which itself is pro-competitive
- **IP is treated the same as other forms of property**



Counseling framework

- A few licensing arrangements are always, or **per se**, illegal
- The vast majority of licensing arrangements are analyzed on a case-by-case basis for reasonableness (under the **rule of reason**)
- Focus in today's session on spotting **per se** cases and on navigating through rule of reason analysis
- But first some background...



The Antitrust Laws

- **Sherman Antitrust Act, Section One**
 - Governs **coordinated** conduct
 - Text: “Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.” 15 U.S.C. § 1.
 - Main elements:
 - Requires an agreement between two or more parties;
 - That harms customers (e.g. raises prices or reduces output).



The Antitrust Laws (cont'd)

- **Sherman Antitrust Act, Section Two**
 - Reaches **unilateral** conduct
 - Text: “Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce . . . shall be deemed guilty of a felony. . . .” 15 U.S.C. § 2.
 - Main elements:
 - A party with monopoly power, or close to it;
 - That takes predatory steps to exclude rivals;
 - That harms customers (raises prices/reduces output).



Key Counseling References

- FTC/DOJ 1995 IP Licensing Guidelines (“IP Guidelines”)
 - <http://www.ftc.gov/bc/0558.pdf>
- 2007 FTC/DOJ IP/Antitrust Enforcement and IP Rights Report (“IP2”)
 - <http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf>
 - Confirmed validity of 1995 Guidelines



Refusals to License: Sherman § 2

- **May an IP owner unilaterally refuse to license its IP without violating the AT laws?**
 - Yes, almost always:
 - The policy of the FTC and DOJ is that unilateral refusals to license IP rights will not play a meaningful role in AT enforcement. (IP2)
- Conditional refusals to license IP, however, can raise AT issues.
 - Tying
 - Exclusive dealing
 - Grantbacks
 - Etc.



Analysis of Licensing Terms

- **How to analyze a licensing arrangement:**
 - Are the parties competitors or potential competitors?
 - Do the parties have market power?
 - What is the anticompetitive harm?
 - What are the procompetitive benefits (unless a per se issue)?



Are the parties competitors?

- Agreements between competitors raise more significant antitrust issues than agreements between customers in a vertical relationship (e.g., supplier-customer)
- “The Agencies ordinarily will treat a relationship between a licensor and its licensees, or between licensees, as horizontal when they would have been actual or likely potential competitors in a relevant market in the absence of the license.” IP Guidelines, § 3.3.
 - Product/service/technology specific inquiry.



Do the parties have market power?

- “Market power is the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time.” IP Guidelines, § 2.2.
- Agreements involving parties with “market power” are more likely to raise antitrust concerns.
- Courts and agencies use market share as their main tool in identifying whether firms may have market power.
- Firms with less than 33% market share **generally** will be found to lack market power.
- IP rights no longer support a presumption of market power. (**Independent Ink**)



Safe harbors

- DOJ/FTC “safe harbor”
 - No FTC/DOJ challenge of licensing arrangement if it is not “facially anticompetitive” and parties have low market share:
 - Present goods (e.g., blood pressure medication)
 - The parties to the agreement control no more than 20% of the relevant market.
 - Present IP (e.g., essential patent for developing blood pressure medication)
 - 4 or more other independent competing technologies
 - Future goods and IP (e.g., a wholly different way of treating high blood pressure currently in R&D)
 - 4 or more other independent players in that R&D space



What is the anticompetitive harm?

- Will competition between the parties be limited?
 - E.g., agreement not to enter a market
- Will an actual or potential competitor be excluded?
- Will prices go up?
- Will output decrease?
- Will innovation be stifled?
- It is critical in evaluating proposed licensing arrangements to know the BUSINESS reason. Ask the businesspeople. They can best explain any potential anticompetitive effects.



What are the competitive benefits?

- Will competition between the parties be enhanced?
 - E.g., eliminate blocking patents
- Will an actual or potential competitor be assisted?
- Will prices go down?
- Will output increase?
- Will innovation be encouraged?
- It is critical in evaluating proposed licensing arrangements to know the BUSINESS reason. Ask the businesspeople. They can best articulate the competitive benefits.



Analysis of common license arrangements

- The following are high-level analyses of some common licensing arrangements
- Any of these arrangements must be analyzed on a case-by-case basis
 - Package licenses
 - Cross-licenses
 - Pooling
 - Exclusive licenses
 - Territorial/customer restrictions
 - Field of use
 - Grant-backs



Resale price maintenance

- Licensor requires licensee not to sell products below a certain minimum price
- Also known as vertical price fixing
- For a century was **per se** illegal
- Supreme Court in **Leegin** this year ended per se treatment under Sherman Act
- State law issues – still some per se treatment possible



Package licenses (bundles)

- A package license gives a licensee rights to more than one of the licensor's patents or copyrights.
- Package licenses may violate antitrust laws against tying, however, when the licensor uses its market power to force the licensee to also take less desirable licenses.
- **Per se** review is disfavored by agencies, but still a real possibility in courts
- One (imperfect) option is to also offer the licenses separately.



Cross-licensing

- Cross-licensing is often done to efficiently enable both parties to compete free from fear of litigation. This is very procompetitive.
- Serious problems arise if cross-licenses are used as a guise for price fixing or market allocation.
 - E.g., Summit-VISX



Patent pooling

- Patent pools often are established to efficiently enable parties to license the IP necessary to practice an industry standard.
- Where the patents contributed by the pool members are **complementary**, this is very procompetitive.
- Serious problems arise if pool members contributed technologies are **substitutes** for each other.



Exclusive dealing/licensing

- An **exclusive license** – where the licensor agrees not to license the IP right to any other licensee.
 - Unlikely to raise AT issues unless licensee and licensor are competitors.
- An **exclusive dealing** agreement – where the licensee agrees not to license competing IP.
 - Unlikely to raise AT issues unless rivals are unreasonably foreclosed from access to a necessary input or outlet.



Territorial/customer restrictions

- Between non-competitors – rule of reason and often procompetitive
- Between competitors – per se illegal
 - An agreement not to compete



Field of use restrictions

- Between non-competitors – rule of reason and often procompetitive
- Between competitors – per se illegal
 - An agreement not to compete



Non-compete restrictions

- Limitations on a licensee's right to sell or develop competing products or services
- Analyzed under the rule of reason



Grant-back provisions

- Rule of reason applies
- Question is whether provision unduly stifles innovation by licensee



Royalty issues

- Rule of reason applies
- The antitrust laws are not concerned with royalties being “too high” or “too low”
- Issues raised by:
 - Post-expiration royalties
 - Reach-through



Litigation settlements

- Licenses entered into as part of IP litigation settlements are subject to antitrust review.
- Concerns raised by:
 - Agreements to delay entry
 - “Reverse” payments



Questions?

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