

# Antitrust Issues in IP Licensing

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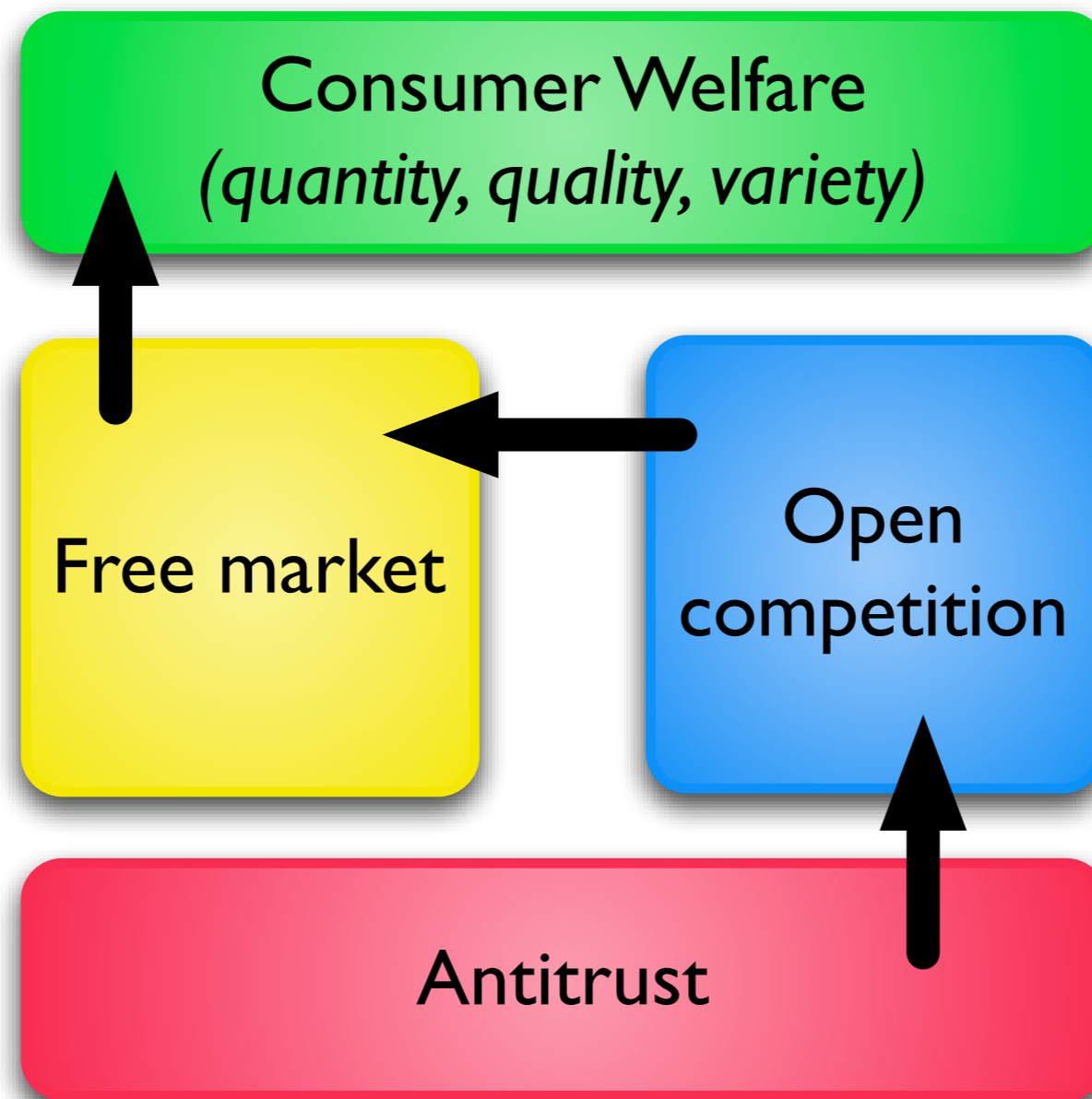
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Chicago  
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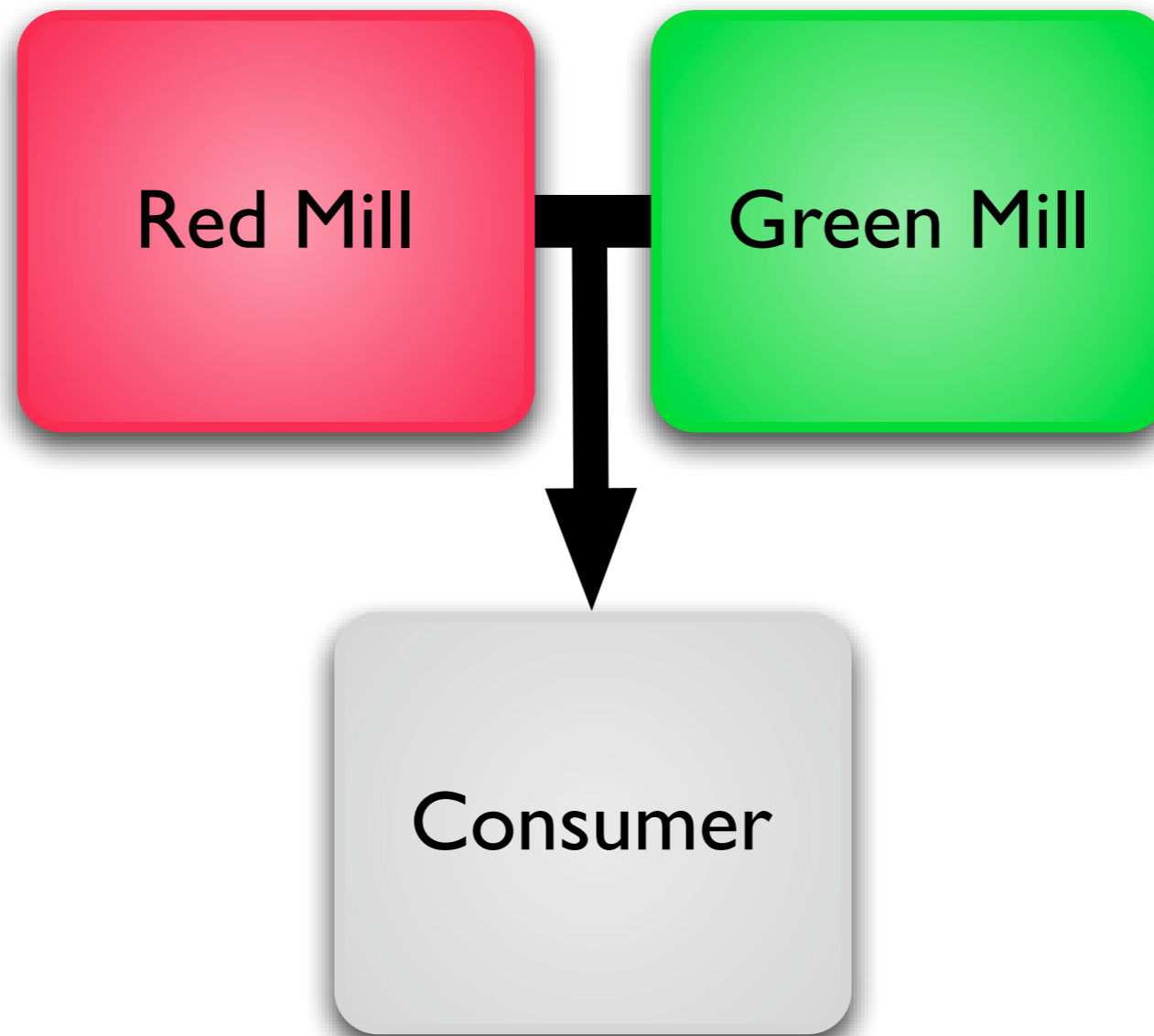
# Syllabus

- Key concepts of the federal antitrust laws
- The IP/antitrust interface
- Key antitrust issues in IP licensing

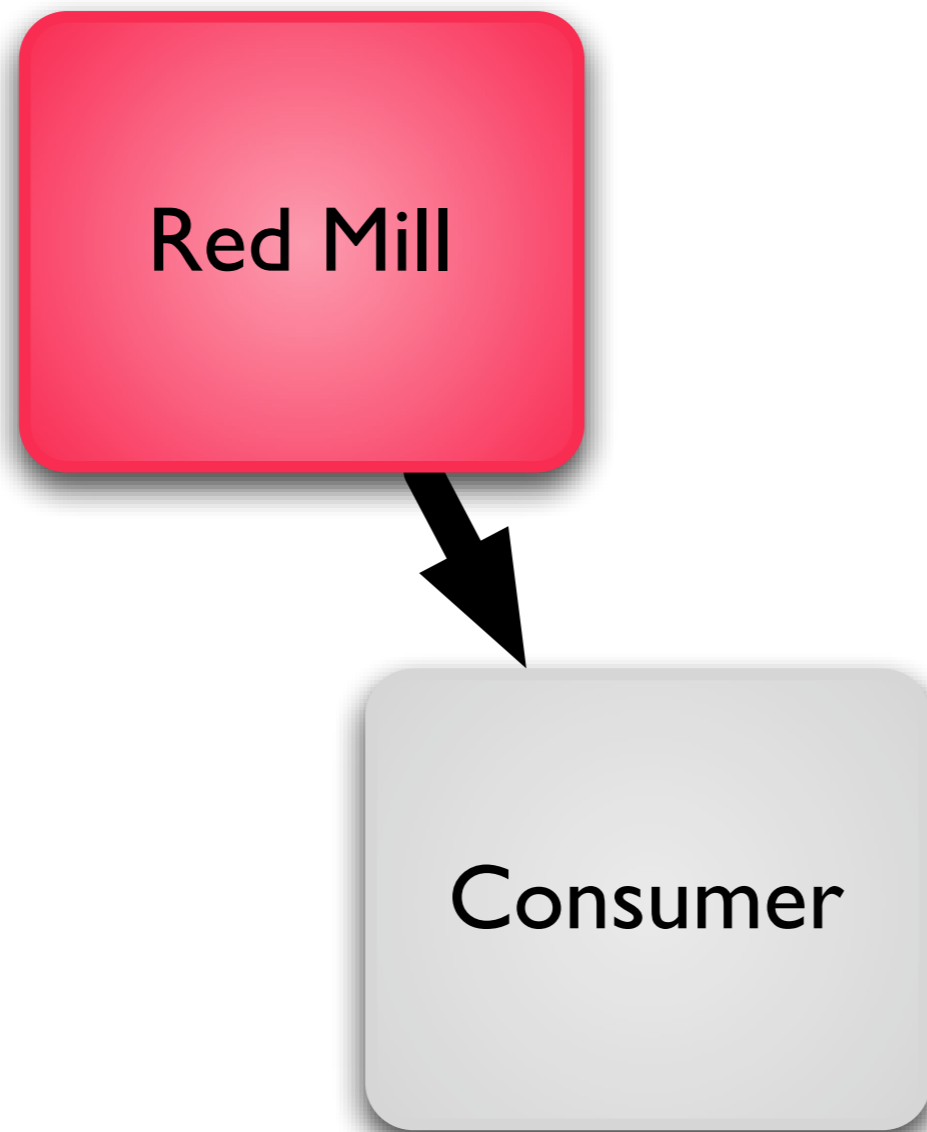
# The end and the means of antitrust law



# Consumer exploitation



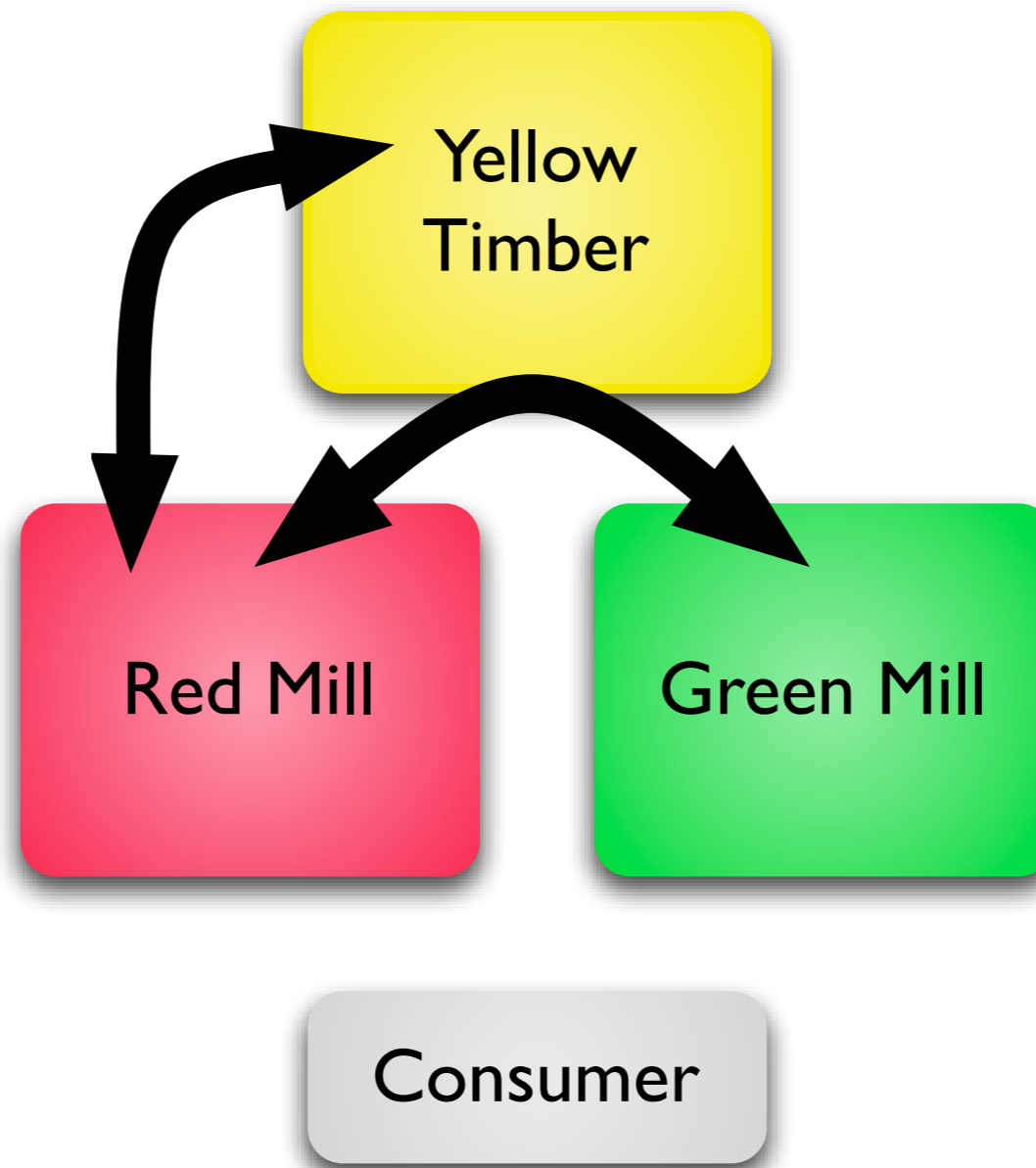
# Competitor exclusion



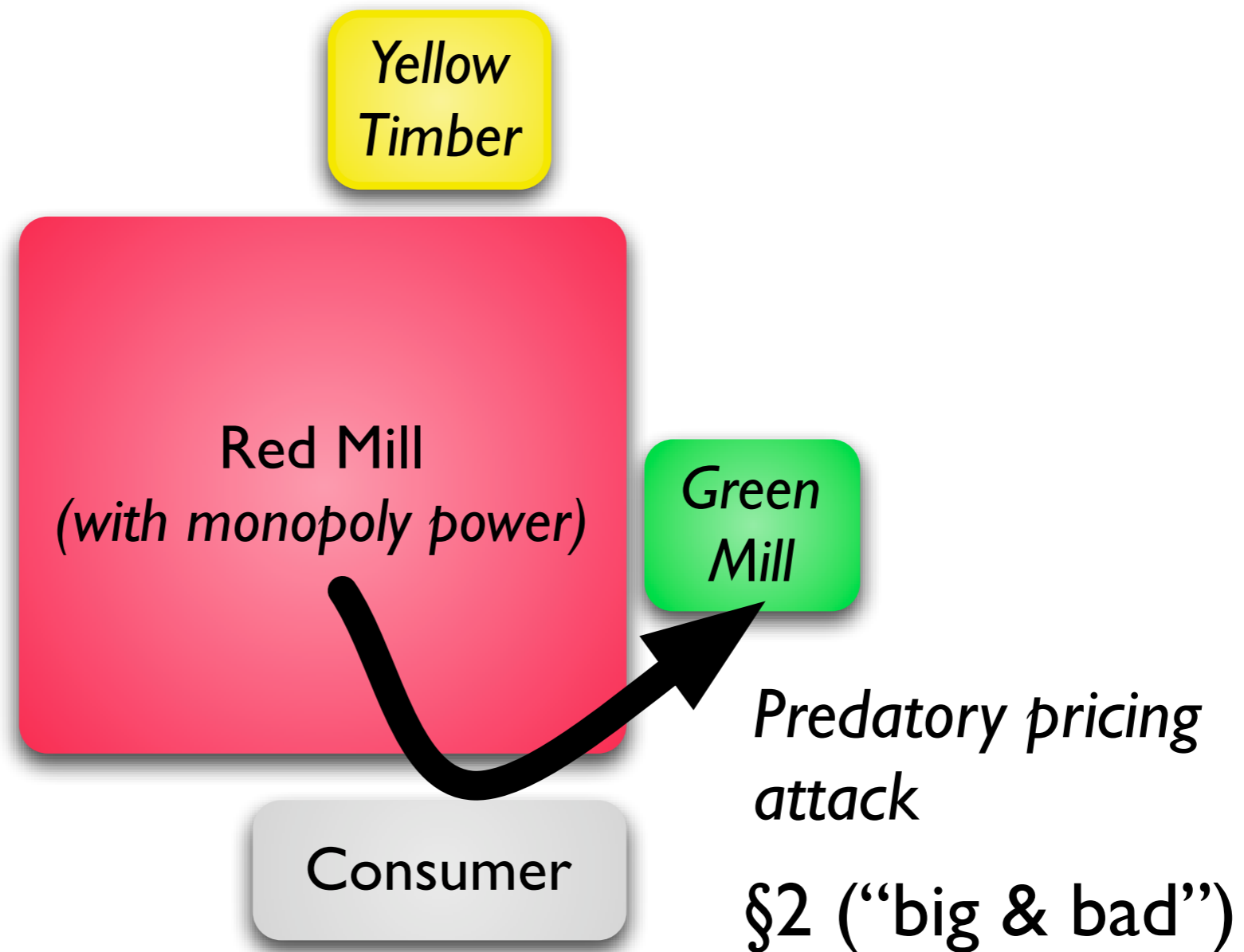
# Coordinated v. unilateral conduct

Vertical  
agreement  
§1

Horizontal  
agreement  
§1



# Coordinated v. unilateral conduct



# Rule of reason v. *per se* illegality

- *Rule of reason* (concept driven approach)
  - Conduct is lawful, unless anticompetitive effects outweigh procompetitive effects
  - Critical inquiry: market power and exclusionary effects
  - All vertical non-price agreements
- *Per se illegality* (category driven approach)
  - Conduct is illegal, irrespective of its (lack of) effects
  - Horizontal price fixing, territorial and customer allocation, bid rigging (civil and criminal penalties)
  - Minimum resale price maintenance

# The IP/antitrust interface

- Antitrust is concerned with open competition and in that context exclusion of competitors
  - Competitive exclusion requires market power
- Exclusivity is the defining feature of the IP laws
  - **But IP exclusivity does not *imply* market power**
- True conflict exists only where IP exclusivity translates into market power
  - Conduct “*inside*” IP exclusivity = IP wins
  - Conduct “*outside*” IP exclusivity = antitrust wins

# The 1995 IP Guidelines

- IP is comparable to any other form of property
- IP is not presumed to create market power
- IP licensing is generally procompetitive

# Market power

- Market power is the “ability to profitably raise prices for some meaningful period of time.”
- Rules of thumb (use with caution!)

Share	§1	§2
0-33%	no	no
33-66%	yes	no
66-100%	yes	yes

# Markets and safety zones

Market for	Example	Safety zone
Goods	Drug	20%
Technology	Compound patent	4 rivals
Innovation	Future compound and related IP	4 rivals

# Territorial restraint

Example	P grants a license to A to sell its patented widgets in New York and a license to B to sell its widgets in California.
Nature, Standard, and Risk	Vertical non-price restraint, rule of reason, low risk
Comment	<ul style="list-style-type: none"><li>• Expressly permitted under §261 Patent Act and §101 Copyright Act</li><li>• May be <i>per se</i> illegal if means to implement market allocation between A and B</li></ul>

# Field of use restriction

Example	P grants a license to its patented software to A for sale to commercial customers and to B for sale to non-commercial customers
Nature, Standard, and Risk	Vertical non-price restraint, rule of reason, low risk
Comment	<ul style="list-style-type: none"><li>• "[F]ield of use restrictions ... are generally upheld ... and are reviewed in accordance with the ROR." <i>B. Braun Med. Inc. v. Abbott Labs</i>, 124 F.3d 1419, 1426 (Fed. Cir. 1997).</li><li>• May be <i>per se</i> illegal if means to implement customer allocation between A and B</li></ul>

# Exclusive dealing

Example	A grants a license to sell its patented widgets to B, provided that B does not license, sell, make, and distribute <i>competing</i> widgets.
Nature, Standard, and Risk	Vertical non-price restraint, rule of reason, medium risk
Comment	<ul style="list-style-type: none"><li>• To what extent are A's competitors foreclosed from access to market? (20% safe harbor, more than 30% indicates a potential problem)</li><li>• Procompetitive justifications include incentives for B to use, sell, and further develop A's technology.</li></ul>

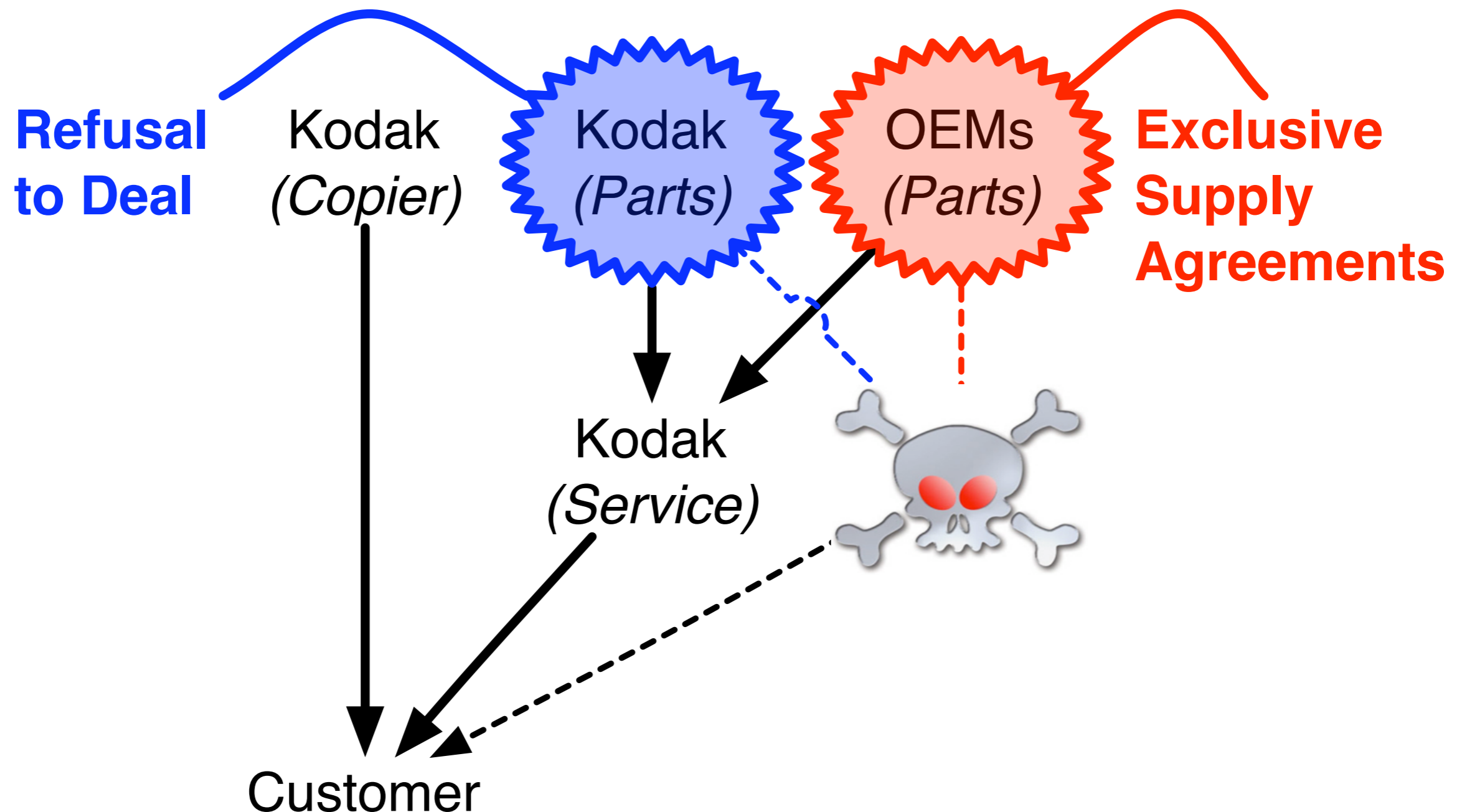
# Resale price restraints

Example	A grants a license to sell its patented widgets to distributor B, provided that B sell the widget for no less than \$10/unit
Nature, Standard, and Risk	Vertical (minimum) <i>price restraint</i> , <i>per se illegal</i> , high risk
Comment	<ul style="list-style-type: none"><li>• <i>U.S. v. Gen. Electric</i>, 272 US 426 (1926) is an historical aberration and should not be relied upon</li><li>• After <i>State Oil. v. Khan</i>, 522 U.S. 3 (1997) <i>maximum RPM</i> should come under the rule of reason</li></ul>

# Refusals to deal

Example	A makes patented copiers, patented spare parts, and sells maintenance services. B enters the service market as an ISO. A refuses to sell patented spare parts to B, driving B out of business.
Nature, Standard, and Risk	Unilateral conduct, monopolization, medium to high risk
Comment	<ul style="list-style-type: none"><li>• Conflicting case law <i>ITS v. Eastman Kodak</i>, 125 F.3d 1195 (9th. Cir. 1997) (for <math>\pi</math>) and <i>CSU v. Xerox Corp.</i>, 203 F.3d 1322 (Fed. Cir. 2000) (for <math>\Delta</math>).</li><li>• There is no obligation to use or license bona fide IP</li><li>• Antitrust issues usually involve exclusionary conduct <i>outside</i> the scope of the IP grant</li></ul>

# Refusals to deal: *Kodak I*, *Kodak II*, and *Xerox*



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# Tying

Example	A sells ink-jet printers and ink. The printers are patented, the ink is not. A sells the printer under the condition that that buyer and licensee C use the printer only with ink purchased from A. B, who makes only ink, sues A for tying.
Nature, Standard, and Risk	Vertical non-price restraint, modified <i>per se</i> rule, risk depends entirely on market share
Comment	<ul style="list-style-type: none"><li>• Modified <i>per se</i> rule requires market power in the tying market (here ink-jet printers)</li><li>• No more “patent equals market power” presumption, after <i>Illinois Tool v. Independent Ink</i>, 126 S.Ct. 1281 (2006)</li><li>• Market power threshold around 33%</li><li>• Antitrust law now in line with §271(d)(5) Patent Act</li></ul>

# The economics of tying

- Ambiguous economic effects
  - Most ties are efficient (e.g., right and left shoes)
  - Some ties create barriers to entry (e.g., OS and browser)
- Without **market power** in the tying product, no possible harm to competition (critical insight!)
  - No more “patent equals market power” presumption!
- Key elements of a tying claim
  - Two distinct products (A and B), the sale of one is conditioned upon the purchase of the other
  - Sufficient market power in A to harm competition in B

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# Package licenses

Example	A licenses a portfolio of patents (P1, P2, and P3), essential to making and using a particular digital audio compression format in a package.
Nature, Standard, and Risk	Similar to tying, rule of reason, risk depends on market power and nature of patents (see below)
Comment	<ul style="list-style-type: none"><li>• Procompetitive (transaction cost savings) if patents are essential and complementary (i.e., no <i>independent</i> demand for P1, P2, and P3).</li><li>• Including non-complementary patents <i>increases</i> risk (but harm to competition requires market power with respect to at least one patent)</li><li>• Also offering patents in unbundled form <i>decreases</i> risk.</li></ul>

# Patent pools

<p>Example</p>	<p>A and B create licensing company C. They transfer blocking patents P1 and P2 to C and agree to split C's profits 50/50.  <i>Variant:</i> The patents are not blocking but for competing technologies.</p>
<p>Nature, Standard, and Risk</p>	<p>Horizontal agreement among (potential) competitors, rule of reason or <i>per se</i>, medium to high risk</p>
<p>Comment</p>	<ul style="list-style-type: none"> <li>• Pooling blocking patents is procompetitive (before the pooling, no one, including A and B can use the technology)</li> <li>• Pooling essential (non-blocking) patents is <i>usually</i> procompetitive. Offering patents outside the pool lowers the risk.</li> <li>• Pooling <i>competing patents</i> and setting a single price through C is <i>per se</i> illegal price fixing!</li> </ul>

# License agreements to settle IP litigation

<p>Example</p>	<p>Patented drug manufacturer A enters into a settlement with generic challenger B. Pursuant to the settlement: (i) B gets an exclusive 180-day license prior to the expiration of the patent; and (ii) A pays B \$100 million.</p>
<p>Nature, Standard, and Risk</p>	<p>Horizontal agreement among competitors, rule of reason or <i>per se</i>, high risk</p>
<p>Comment</p>	<ul style="list-style-type: none"> <li>• Strong arguments that “money for delay” payments are lawful under the ROR, at least in the Hatch-Waxman generic drug context, <i>if the delay stays within the patent period and the patent is not clearly invalid</i>, <i>Schering-Plough v. FTC</i>, 402 F.3d 1056 (11th Cir. 2005); <i>In re Tamoxifen</i>, 2006 WL 2401244, No.03-7641 (2nd Cir. Aug. 10, 2006)</li> <li>• Naked “exit payments” are <i>per se</i> illegal.</li> </ul>

**Questions? Email me!**

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