ARNOLD & PORTER LLP

Antitrust Issues in Intellectual Property Licensing

Presentation to Chinese Government Interagency Delegation

Jonathan Gleklen

March 27, 2009

U.S. Approach To IP Licensing Has Evolved

- **1890-1910:** Competition law does not limit conduct involving IP rights
- **1910-1970s:** Perceived "conflict" between IP and antitrust
  - Conduct "within the scope" of the IP grant is lawful, while conduct that affects markets "outside the scope" is suspect
- **1970s-Present:** Recognition that IP and antitrust serve the same goal
  - Antitrust and IP laws seek to maximize economic welfare by bringing better products to consumers
  - IP rights and IP licensing have long-term procompetitive effects
  - Reflected in the DOJ/FTC Antitrust Guidelines for Licensing Intellectual Property (1995)

IP Licensing Facilitates Efficiencies That Competition Law Encourages

- IP licensing often allows firms to combine complementary assets and skills in order to bring new products to market
  - The IP owner may lack the technology, the skills, or the customer relationships to effectively bring all products covered by the IP to market
  - The IP owner's ability to bring products to market may be blocked by IP owned by others
- A legal environment that facilitates IP licensing is essential for economic growth and development and for bringing the benefits of new products to consumers

Key Principles Underlying The Antitrust Analysis of IP Licenses

- The same rules and analysis apply to licensing of patents, copyrights, and trade secrets
- Intellectual property is essentially comparable to other forms of property, and restrictions in IP licenses are not subject to any greater level of scrutiny than other types of agreements
  - In some cases they may be subject to less scrutiny given that there is no duty to license IP and that IP is subject to easier misappropriation

Key Principles Underlying The Antitrust Analysis of IP Licenses (cont.)

- It is improper to assume that ownership of intellectual property conveys market power
  - Most patented inventions or copyrighted works compete in a broader market with other products (some of which may not be protected by IP)
- IP licensing is generally procompetitive because it allows firms to combine complementary factors of production
- IP owners are not required to create competition in their own technology
- ***If rules governing IP licensing are too restrictive or are unclear, firms will choose not to license their IP at all***

Determining Whether A License Agreement Is Procompetitive or Anticompetitive

- Because IP owners are not required to create competition in their own technology, the important question is whether the license eliminates competition that would have existed if the IP had never been licensed
  - Where there is no reduction in competition that would have existed absent the license, it does not matter that the IP license might have been structured in a way that is less restrictive of competition
  - Where the license ***does*** effect competition that would have existed absent the license, the reasonableness of the restriction must be analyzed in light of the procompetitive benefits achieved

Many License Terms Raise No Competition Concerns

- "High" royalty rates
  - Charging all that licensees are willing to pay or keeping IP for the inventor's own use are ways of capturing the full value of the innovation rather than restricting competition
- Field of use, customer, and territorial limitations limited to use of the licensed IP
  - IP owners have the right to refuse to license, and may therefore license less than all of their rights by imposing field of use, territorial, or customer restrictions on the use of the IP
  - Where the licensee could not have competed without a license, field of use restrictions are procompetitive
    - They increase incentives to license
    - They increase incentives for the licensee to invest in the commercialization and distribution of products incorporating the licensed technology

Market Effects Analysis Is Necessary Even Where A License Restrains Competition Beyond The IP

- Almost all license restrictions have the potential to result in efficiencies that benefit competition and consumers
  - Exclusive dealing requirements may be justified by the need to prohibit misappropriation of the licensed IP or to ensure that the licensee invests in commercialization of the licensed technology
  - Package licensing may be justified as an efficient way to ensure access to all IP needed to implement a technology
  - Tying can be justified by the need to ensure that the licensed technology works properly
  - Grantbacks can be justified by the need to ensure that the licensor is not disadvantaged by having granted a license

Considerations In Analyzing The Competitive Effects Of IP Licensing

- Market effects analysis requires consideration of actual impact on competition and innovation rather than assumptions about effects
- Issues to consider:
  - Is there a substantial reduction in the competition that would have occurred if there were no IP license at all?
  - Does the IP license lead to reduced innovation?
  - Did the licensor have practical alternative ways – at the time license was granted – to accomplished the same result with less adverse effect on competition or innovation?

License Restrictions Are Of Greatest Concern Where They Are Only A "Sham" To Cover A Cartel

- Intellectual property rights do not justify price fixing or market division agreements between firms that would compete even without the IP licenses
  - Example: Agreement to fix prices or divide markets that applies even though the licensed IP is not used in the manufacture of the covered products