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# Antitrust Issues in Licensing

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PLI Understanding the IP License 2011

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# Antitrust in Licensing

- General Principles
- Federal Guidelines
- Key Questions
- Application to Licenses
- Refusals to License
- Settlements
- Standards Development
- EU law

# General Principle

- Historical: Inherent conflict between IPR laws granting “monopoly” & antitrust laws prohibiting monopoly
- Current: IPR & antitrust laws are complementary
  - Both encourage innovation, competition & consumer welfare
  - IPR laws do not necessarily confer monopoly, but only right to exclude
  - *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 547 U.S. 28 (2006)

# Guidelines

- 1995 Antitrust Guidelines for the Licensing of Intellectual Property
  - Technology & innovation markets
  - Safety zone
- 2000 Antitrust Guidelines for Collaborations among Competitors
  - Safety zone
- 1992 Horizontal Merger Guidelines
  - Product & service markets
- Caveats
  - Persuasive only
  - Other sources of antitrust challenges

# Key Questions

- What is the arrangement
- What are the business goals & how will the arrangement achieve them
- What are the relationships of the IP involved & the parties
- What is the likely competitive impact
  - Prices, output
  - Competitors
    - Exclusion or handicap
  - Impact on market position
  - Incentives to innovate

# Key Questions, cont'd

- Efficiencies
- Objectors
- Alternatives

# Licenses

- Licenses generally are pro-competitive
- Some types of licenses require scrutiny
- Some restrictions in licenses require scrutiny

# Licenses Are Pro-Competitive

- Licensor exploitation of technology
- Licensee access to technology
- Substantiality?



# Some Types of Licenses Require Scrutiny

## ■ Types of Licenses

- Cross licenses
- Package licenses
- Patent pools

## ■ Questions

- Relationships of IP involved
  - blocking/complementary/competing
  - basic/improvement
- Business reasons/need
- Administration

# Cross Licenses

- Basic/improvement patents
- Blocking/complementary/competing patents
- Business reason/need

# Package Licenses

- Need for package
  - Complementary/blocking
  - Basic & improvement
- Business reason
- A tie?

# Patent Pools

- Business reason/need for pool – blocking, complementary, basic/improvement IPR, standards
- Scope of pool
  - only patents needed to fulfill purpose
  - portion of available technologies involved
- Administration of pool
  - neutral, especially on sublicenses & royalties
  - firewalls

# Patent Pools, cont'd

- Collateral agreements
- Impact on future innovation

# License Restrictions

- *Per se* offensive terms
- Exclusivity
- Ties
- Grant back requirements
- Royalties
- Other restrictions

# *Per Se* Offensive

- Price fixing
- Output restraints by competitors
- Market allocations by competitors
- Business reasons
- Alternatives

# Exclusivity

- Exclusive license
  - Nature as acquisition
- Exclusive dealing
- Foreclosure



# Ties

- Business reason
- Status of tying technology
- Extent of exclusion
- Need to monitor
- Patent misuse

# Grant Back Requirements

- Exclusive/non-exclusive
- Scope of requirement
- Business need
- Disincentives to innovate
- Alternatives

# Royalties

- Hybrid licenses
- Multiple patents
- Deferred royalties
- Differentiated royalties
- Total sales royalties

# Other Restrictions

- Use, customer restrictions
- Territorial restrictions
- Resale restrictions
  - Price
  - Output
- Agreement not to challenge validity

# Refusals to License

## ■ General Rules

- 35 U.S.C. §271(d)
- *Hartford-Empire Co. v. U.S.*, 323 U.S. 386 (1945)
- 15 U.S.C. §2

## ■ Exclusion of Competitors

- *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1<sup>st</sup> Cir. 1994)
- *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9<sup>th</sup> Cir. 1997)
- *In re Independent Service Organizations Antitrust Litigation (Xerox)*, 203 F.3d 1322 (Fed. Cir. 2000)
- *Verizon Communications Inc. v. Trinko*, 540 U.S. 398 (2004)

## ■ Refusal to use & to permit others to use

- Technology developed internally
- Acquired technology

# Settlements

- Licenses as part of settlements
- No antitrust immunity
- Reverse payments
  - Hatch-Waxman
- Shams

# Standards Development

- Increase consumer welfare & efficiency
- Potential for abuse
  - *Allied Tube & Conduit Corp. v. Indian Head, Inc.*
  - *American Society of Mechanical Engineers v. Hydrolevel Corp.*
- Patent ambush
- SDO procedures

# EU Law

- 2004 Technology Transfer Block Exemption Regulation
- 2004 Technology Transfer Guidelines
- IMS Health



# Summary & Additional Considerations

- Business need important
- Who is affected & how
- Next generation products
- Non-US law
- Patent misuse



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