Developments In Antitrust Law That Impact Intellectual Property Licensing Transactions

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INTELLECTUAL property law has always been in tension with antitrust law. Intellectual property law protects monopolies; antitrust law disfavors them. Since the early years of the Sherman Act, the pendulum of antitrust law has swung back and forth between treating patentees leniently and disfavoring them. In the early years under the Sherman Act, a patent was essentially a “get out of jail free card” as far as the Sherman Act was concerned; patent licensees openly leveraged their rights to evade antitrust restrictions. Then courts overcorrected and began to treat all patent holders with suspicion. That suspicion lasted from 1912 to at least the 1960s. During those decades, the law presumed every patentee enjoys market power, rendering a whole laundry list of license uses per se illegal.

Now the pendulum has swung back in favor of owners of intellectual property. Today, antitrust laws have relaxed considerably. In fact, there is even some question as to whether classic patent tying arrangements are still actually (not just technically) per se illegal. Federal courts, the Department of Justice, and the Federal Trade Commission now take a gentler, more nuanced approach to determining whether any particular intellectual property license triggers antitrust concerns.

This paper will provide a brief history of the tension between antitrust law and intellectual property law. It will then discuss how courts today treat a variety of intellectual property licenses.

I. A Brief History

There have been three major periods in the development of the relationship between antitrust law and intellectual property law. In the first period, lasting for the first two decades following the
passage of the Sherman Act, patent holders who wanted to license their rights enjoyed virtual immunity from the antitrust laws. In Bement v. National Harrow Co., the Supreme Court stated “the general rule” of absolute freedom in the use or sale of rights under the patent laws of the United States. The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.\(^1\)

In short, patents were the Sherman Act’s kryptonite in those first two decades.

Or, to be more precise, it was not patents that allowed the dodge around the young Sherman Act, but rather, patent license pools that cleverly leverage patents and extend them beyond their original purpose of protecting the commendable ingenuity of the inventor. Licensed and pooled, patent rights could be alienated from inventors and collected by corporations whose purpose was to abuse market power. One commenter describes these early license pools as “unconditional shelter for collusion.”\(^2\)

The Supreme Court caught on, however, and it put teeth in the Sherman Act in 1912 with Standard Sanitary Manufacturing. Standard Sanitary broke up a patent pool that required licensees to fix resale prices and to deal only with jobbers that sold to licensed manufacturers. In a dramatic reversal of its previous attitude of total deference to patent licenses, the Standard Sanitary court described the licenses as having “evil consequences.”\(^3\) The Court continued to crimp patent poolers’ style with Morton Salt v. Suppiger Co., a patent misuse case, in 1942. Morton Salt involved a pool that required licensees of a canning invention to buy their unpatented salt from Morton Salt.\(^4\) The Supreme Court held that Morton Salt was attempting “to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.”\(^5\)

There is nothing shocking about Morton Salt itself; it makes sense that no one should be able to leverage his rights in new technology to restrict commerce in salt, the world’s most ancient and commonplace good. But what is surprising is that Morton Salt’s apparently common sense holding was later taken to mean that for antitrust purposes, market power\(^6\) is presumed from mere possession of a patent.\(^7\) In other words,

\(^1\) 186 U.S. 70, 91 (1902) (emphasis added).


\(^4\) 314 U.S. 488 (1942).

\(^5\) Id. at 492.


\(^7\) See, e.g., Int’l Salt Co. v. United States, 332 U.S. 392, 395-396 (1947); United States v. Loew’s, 371 U.S. 38, 46 (1962); Jefferson
under *Morton Salt* and its progeny, a penniless inventor toiling away nobly in his garage, who has never sold a thing in his life, was legally *presumed* to have market power the minute the government gives his patent a number. No doubt many a holder of a worthless patent only wished the law could work such capitalist magic as to render that presumption meritorious.

Over time, the pendulum had swung close to 180 degrees. Patent license pools went from being nearly always immune to antitrust law, to nearly always facing enhanced antitrust scrutiny:

By the late 1960s, the DOJ’s attitude toward patent licensing was hostile. The [DOJ] applied a presumption of market power to the grant of a patent, and therefore gave no consideration to the structural characteristics of the market in which patented products competed. Moreover, it afforded little weight to efficiency considerations of licensing restrictions.⁸

It is surprising to look back and realize that as recently as the 1960s, the DOJ could take such a crude position. After all, license pools can be used to thwart the Sherman Act, but they can also obviously benefit competition by allowing intellectual property to migrate to its highest use. Yet the DOJ seemed unaware of such fairly obvious efficiencies, and ultimately identified what have come to be known as the “Nine No-Nos.” The “Nine No-Nos” are nine license uses to be treated as *per se* violations of the antitrust laws.⁹ Predictably, the use of patent pools and cross licensing arrangements declined during this period.¹⁰

The judicial pendulum began to swing back in the 1980s, as “skepticism towards patent licensing provisions was quickly replaced by skepticism towards the doctrine of patent misuse.”¹¹ In a celebrated 1986 patent misuse case, the Federal Circuit overruled the presumption that a patent confers market power on its

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⁸ The Nine No-Nos were (i) requiring a licensee to buy unpatented materials from the licensor; (ii) requiring a licensee to assign to the patentee any patent which may be issued to the licensee after the license agreement is executed; (iii) attempting to restrict the purchaser of a patented product in the resale of that product; (iv) restricting the licensee’s freedom to deal in products or services not within the scope of the patent; (v) agreeing with the licensee that the licensor will not, without the licensee’s consent, grant further licenses to any other person; (vi) requiring the licensee to pay royalties, including total sales royalties, in an amount not reasonably related to the licensee’s sales of products covered by the patent; (viii) attempting to restrict a process patent licensee’s sales of products made by the patented process, and (ix) requiring a licensee to adhere to any specified or minimum price in its sale of licensed products. *See* Bruce B. Wilson, *Remarks to Michigan State Bar Antitrust Law Section and Patent Trademark and Copyright Law Section*, reprinted in *Trade Reg. Rep. (CCH)* ¶ 50,146 at 50,146 (Sept. 21, 1972).


¹⁰ Carlson, *supra* note 2, at 376.

holder in favor of a “rule of reason” analysis in Windsurfing Int’l, Inc. v. AMF, Inc.\textsuperscript{12} Under the rule of reason, nothing is presumed. Instead, the procompetitive benefits of a particular restraint are painstakingly balanced against its anticompetitive costs in a carefully defined market to determine whether the challenged practice unreasonably restrains trade.\textsuperscript{13} In 2006, the Supreme Court put the final judicial nail in the coffin of the presumption, dating back to Morton Salt, that a patent confers market power on its holder. The days of judicial hostility to patent licenses were officially over.\textsuperscript{14}

The legislative branch joined the pro-license bandwagon in 1988, when Congress passed the Patent Misuse Reform Act and formally eliminated the patent law presumption that a patent confers market power on its holder.\textsuperscript{15} In 1995, the Department of Justice and the Federal Trade Commission chimed in with the pro-license chorus, and issued new Antitrust Guidelines for Intellectual Property (“1995 Guidelines”). The 1995 Guidelines are just that—guidelines. They are intended to guide patent holders as to what they can and cannot do. The 1995 Guidelines are not controlling on any court. But the 1995 Guidelines are important for this discussion because they are the most elaborate, articulate, and explicit discussion of the reasoning for the death of the market power presumption.\textsuperscript{16} The 1995 Guidelines go further and propose a nuanced treatment of license uses.

The 1995 Guidelines extol the pro-competitive benefits of intellectual property licensing agreements and prescribe a cautious approach to antitrust scrutiny of intellectual property licenses generally.\textsuperscript{17} The 1995 Guidelines state that the “intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare.”\textsuperscript{18} Only a few practices, like naked price fixing and horizontal market divisions, are acknowledged as \textit{per se} illegal; the nine license practices that came to be known as the DOJ’s “Nine No-No’s” are not even mentioned as such.\textsuperscript{19} The death of the market power presumption changed the game. Following the promulgation of the 1995 Guidelines, intellectual property licensing arrangements, like patent pools and cross licensing agreements, have resurfaced in greater numbers.\textsuperscript{20}

II. Recent Developments

Recent developments in the relationship between antitrust law and intellectual property law should be viewed against this historical backdrop. Patent holders initially enjoyed virtual antitrust immunity. Later, courts

\begin{itemize}
\item \textsuperscript{12} Windsurfing Int’l, Inc. v. AMF, Inc., 782 F.2d 995, 1001-1002 (Fed. Cir. 1986). In \textit{Windsurfing}, a patent holder sued for infringement and the alleged infringer predictably countered that the patent was invalid and misused.
\item \textsuperscript{13} See, e.g., Phillip E. Areeda, \textit{Antitrust Law} § 1502 (1979).
\item \textsuperscript{14} Ill. Tool Works Inc. v. Ind. Ink, Inc., 126 S. Ct. 1281, 1284 (2006).
\item \textsuperscript{15} 35 U.S.C. § 271 (1988).
\item \textsuperscript{16} 1995 Guidelines, \textit{supra} note 6, § 2.2.
\item \textsuperscript{17} Id. §§ 2.3 and 3.
\item \textsuperscript{18} Id. § 1.0.
\item \textsuperscript{19} Id. § 3.4.
\item \textsuperscript{20} Carlson, \textit{supra} note 2, at 376.
\end{itemize}
presumed that a patent confers market power on its holder and intellectual property licensors were held *per se* liable for a laundry list of licensing practices. Today, courts and agencies no longer presume that a patent confers market power on its holder and almost always require an elaborate balancing of the procompetitive benefits and the anticompetitive costs of each licensing restriction.

The following is a discussion of how your clients can expect courts and the federal government to respond to six key intellectual property license uses. You will notice that the common theme among all six instances, however, is courts and the government treating patents if not with kid gloves, then at least with a lot more respect than had previously been the case.

**A. Unilateral Refusals to License**

When it comes to refusals to license, the leading cases both involve an original equipment manufacturer that refuses to sell patented parts or license copyrighted software to independent service organizations.21 “In *Kodak*, the Ninth Circuit held that ‘a reluctance to sell . . . patented or copyrighted parts was a presumptively legitimate business justification,’ but the presumption may also be rebutted by evidence of pretext.”22 “In contrast, the Federal Circuit in *CSU* declined to consider the ‘patentee’s subjective motivation’ for refusing to sell or license its patented products, in effect making the presumption of a legitimate business justification conclusive.”23 A footnote in *CSU* carves illegal tying, fraud on the USPTO, and sham litigation out of the presumption.24 Both decisions have been roundly criticized.25 The 2007 Report “conclude[s] that antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.”26

**B. Resale Price Maintenance**

When the 1995 Guidelines were promulgated, resale price maintenance remained *per se* illegal. It was thus *per se* illegal for a licensor of intellectual property to fix a licensee’s resale price of that product.27 In 1997, however, the Supreme Court decided *State Oil Co. v. Khan*, which removed vertical maximum price fixing from the *per se* illegal category.28 In 2007, the Supreme Court followed with *Leegin Creative Leather Products*, which removed vertical minimum price fixing from the *per se* illegal category.29 Court and agencies

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22 U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and*
now analyze all resale price maintenance license provisions under the rule of reason.

C. Tying, Bundling, and Package Licenses

A tying arrangement occurs when, through contractual or technological requirement, a seller conditions the sale or lease of one product or service on the customer’s agreement to take a second product or service.\(^{30}\)

Classic “contractual” patent tying occurs when the tying product (such as a mimeograph machine) is patented, the tied product is an unpatented commodity used as an input for the tying product (such as ink or paper), and the sale of the patented product is conditioned on the purchase of the unpatented product. A “technological tie” may be defined as one in which “the tying and tied products are bundled together physically or produced in such a way that they are compatible only with each other. The government’s tying claim against Microsoft involved both the contractual and technical bundling of the Internet Explorer web browser (the tied product) with its Windows operating system (the tying product).\(^{30}\)

Multiple intellectual property rights may themselves be combined into bundles or packages. Mandatory package licensing occurs when a patent owner refuses to license a particular patent unless a licensee accepts an entire package (or where the patent owner’s royalty scale has this effect). It also includes “block booking” of motion picture or television shows.\(^{31}\)

Since Illinois Tool, “in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”\(^{32}\)

Specifically, a plaintiff must prove “(1) two separate products or services are involved, (2) the sale or agreement to sell one is conditioned upon the purchase of the other, (3) the seller has sufficient economic power in the market for the tying product to enable it to restrain trade in the market for the tied product, and (4) a not insubstantial amount of interstate commerce in the tied product is affected.”\(^{33}\)

Tying remains *per se* illegal—technically. But when upon review of how courts actually address tying cases, one will find that the *per se* doctrine is not enforced. For example, the Federal Circuit refused to apply a *per se* rule to platform software in *United States v. Microsoft*.\(^{34}\) “The court reasoned that application of traditional *per se* analysis in the ‘pervasively innovative’ platform software industry risks condemning ties that may be welfare-enhancing and

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\(^{31}\) Id. at 107.

\(^{32}\) Ill. Tool, 126 S. Ct. at 1293.

\(^{33}\) *Antitrust Law Developments* at 179 & n.998 (citing cases).

\(^{34}\) *United States v. Microsoft*, 253 F.3d 34, 95-96 (D.C. Cir. 2001).
procompetitive.”

Even though tying is still supposed to be per se illegal, the Department of Justice and the Federal Trade Commission actually apply a rule of reason analysis in all tying cases. Similarly, some courts have considered business justifications for the tie. Other courts have required proof that the tie has anticompetitive effects. Per se illegal tying is essentially a dead doctrine, even though the Supreme Court has refused to come out and admit it.

D. Licensing Expired Patents

A license by which a patent licensor demands royalties beyond the life of his patents is per se patent misuse. This rule has been the subject of a great deal of scholarly criticism, but the Supreme Court refused to reconsider it as recently as 2003.

E. Collaboratively Set Standards

Several antitrust cases from 1960 to 1990 arose out of the context of collaboratively set industry standards. In Radiant Burners, Inc. v. Peoples Gas Light & Coke Co., for example, the Supreme Court held that a complaint alleging an agreement by the American Gas Association members to refuse to sell gas to customers using non-Association-certified products stated a claim for a per se antitrust violation. As a consequence, standard setting organizations (“SSOs”) became increasingly leery of even discussing intellectual property licensing. This reluctance sometimes meant that SSOs considered technologies that were competing for inclusion in a standard without knowing the royalty that would be charged after the standard was adopted.

In other cases, companies allegedly misled SSOs to believe that they had no intellectual property relevant to a proposed standard and then claimed excessive royalties for undisclosed patents related to the standard after the standard was implemented. In re Rambus is illustrative:

According to the Commission’s opinion, Rambus engaged in a course of conduct “calculated to mislead [SSO] members by fostering

36 Id.
38 See, e.g., Wells Real Estate, Inc. v. Greater Lowell Bd. of Realtors, 850 F.2d 803, 815 (1st Cir. 1988).
41 364 U.S. 656, 659-660 (1961); see Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 509-511 (1988) (producers and sellers of steel conduit packed a meeting with new members whose sole purpose was to vote against a proposal to allow use of plastic conduit); Am. Soc’y of Mech. Eng’rs v. Hydrolevel Corp., 456 U.S. 556, 574 (1982) (SSO liable for discouraging customers for purchasing one competitor’s water boiler safety device by inaccurately stating that it did not comply with the SSO’s safety code).
42 In re Dell, 121 F.T.C. 616, 616-618 (1996); In re Rambus, Inc., No. 9302 (F.T.C. 2002); In re Union Oil Co. of Cal., No. 9305 (F.T.C. 2003).
the belief that Rambus neither had, nor was seeking relevant patents that would be enforced” against products compliant with the SSO’s standards. The Commission found that Rambus’s course of conduct constituted deception under Section 5 of the FTC Act. The Commission further found that Rambus’s course of conduct contributed significantly to the SSO’s technology selections and that the SSO’s choice of standard contributed significantly to Rambus’s acquisition of monopoly power. According to the Commission, the switching costs that developed as manufacturers became increasingly committed to the standard locked the industry in and rendered Rambus’s market power durable. The Commission concluded that Rambus unlawfully monopolized the markets for four technologies incorporated into the SSO’s standards in violation of section 5 of the FTC Act.\(^{43}\)

In 2008, however, the D.C. Circuit reversed the Federal Trade Commission stating that the FTC had failed to establish the requisite anticompetitive effect.\(^{44}\)

The recent trend has been to limit antitrust liability for SSOs. In 2004, Congress enacted The Standards Development Organization Advancement Act.\(^{45}\) The Act provides that the rule of reason applies to SSOs that meet certain open-process standards while they are engaged in standard-setting activities and limits treble damages exposure.\(^{46}\) Similarly, the 2007 Report states that “a per se approach fails to recognize that negotiating licensing terms during the standard setting process may increase competition between technologies that are being considered for inclusion in the standard. In light of potential procompetitive benefits, the Agencies would generally expect to apply the rule of reason to evaluate conduct such as multilateral ex ante licensing negotiations or SSO requirements to disclose model licensing terms.”\(^{47}\)

F. Cross Licensing and Pooling

The DOJ/FTC wrote a report in 2007 that recognizes that intellectual property rights can – and even should – be shared. The 2007 Report states, “the patent rights necessary to commercialize a product are frequently controlled by multiple rights holders.”\(^{48}\) The 1995 Guidelines explain that cross licensing and patent pooling arrangements are simply agreements among those owners to license those rights to one another and third parties.\(^{49}\) They are “reciprocal agreements to share patent rights.”\(^{50}\) “According to the 1995 Guidelines, ‘[t]hese arrangements may provide pro-competitive benefits by integrating complementary technologies, reducing transactions costs, clearing

\(^{43}\) 2007 Report, *supra* note 22, at 44.

\(^{44}\) Rambus Inc. v. F.T.C., 522 F.3d 456, 464 (D.C. Cir. 2008).


\(^{46}\) *Id.*


\(^{49}\) 1995 Guidelines, *supra* note 6, § 5.5.

\(^{50}\) 2007 Report, *supra* note 22, at 84.
blocking positions, and avoiding costly infringement litigation.”  

The DOJ and FTC explicitly recognize that there is nothing per se pernicious about rights-sharing. Absent “price fixing, allocation of markets or customers, agreements to reduce output, and certain group boycotts,” any patent rights sharing licensing between parties in a horizontal relationship will be evaluated under the rule of reason.  

a. Cross Licenses

The most benign type of rights-sharing is generally the cross license. A cross license is where “firms holding overlapping patent rights mutually execute licenses to gain access to one another’s patented technology.”

This sort of arrangement is usually viewed as benign from an antitrust perspective because in a cross license situation, there is no one party that can single-handedly set prices or control output of the patented invention.

b. Pools

By contrast, “[p]atent pools are private contractual agreements whereby rival patentees transfer their rights into a common holding company for the purpose of jointly licensing their patent portfolios.” It is primarily the presence of that common holding company that distinguishes the pool from the cross license and triggers the antitrust concern, since the holding company can set prices and determine output of the invention or inventions covered by the pooled patents. Particularly where the pool members are in horizontal competition with each other, the holding company’s “joint marketing of pooled intellectual property rights with collective price setting or coordinated output restrictions” can be a breeding ground for collusion among pool members.

Another difference between pools and cross licenses is that cross licenses usually contemplate the participation of just two or perhaps a few patent holders; by contrast, the number of participants in a pool is potentially unlimited, and could include every patent holder in the market for the patented technology.

An example of a problematic pooling arrangement is one that requires members to grant low cost licenses to each other for future technology; such a pool may reduce incentives to innovate. The same is true of pools that preclude members from licensing their patents independently. Further, any “pool that includes patents for substitute technologies could lead to increased prices in the final goods market due to the absence of competition among those substitute technologies.”

i. Patent Pools: Substitute Patents

The 1995 Guidelines discuss the problem of pooled substitute patents with the following example: two leading

51 1995 Guidelines, supra note 6, § 5.5.
52 Id. at § 5.1.
53 Carlson, supra note 2, at 369.
54 Id. at 367.
55 1995 Guidelines, supra note 6, § 5.5.
56 2007 Report, supra note 22, at 58.
57 Id.
58 Id. at 68.
59 Id. at 67 (emphasis added).
manufacturers of a consumer electronic product hold patents covering alternative circuit designs for the product. The patents cover alternative designs, and they are not “blocking” patents; “each of the patents can be used without infringing a patent owned by the other firm.” Yet the two different technologies answer the same market demand. These are thus “substitute” technologies, in the sense that a company could substitute the use of one technology for another. The holders of patents claiming the substitute technologies are horizontal competitors as to that market.

In this example, the two circuit manufacturers assign their patents to a jointly-owned corporation, which will set royalties and license the technology to third parties. Patents covering the two substitute technologies have been “pooled” in this jointly-owned corporation. Absent legitimate “efficiency-enhancing integration,” that pool may actually be challenged under the per se rule prohibiting horizontal price fixing.

But under today’s nuanced treatment of shared patent licenses, even a pool of patent rights for substitute technologies may survive per se antitrust scrutiny. If the pool participants can show that legitimate efficiency-enhancing competitive benefits are present, then this pool may only trigger the rule of reason analysis, and may be found legal.

ii. Patent Pools: Blocking Patents

The antitrust treatment is yet more lenient where the patents that are pooled are so-called “blocking” patents. To understand why, assume largely the same hypothetical facts as above: two leading manufacturers of a consumer electronic product hold patents covering circuit designs for the product. They assign their patents to a third, jointly-owned corporation which will set royalties and license the technology to others. But in this hypothetical, assume the following key difference: now, the two patents assigned to the new corporation cover two circuit designs that cannot be characterized as alternative approaches to the same market demand, but rather are sufficiently similar that the use of either design could be grounds for a patent infringement suit by the holder of the patent for the other design. Here, the two circuit design patents are “blocking” patents, because each patent claims an invention whose use would infringe the other. These patents “block” the use of the technology by anyone—including either patent’s holder—absent a license or costly litigation invalidating one of the patents.

There is no horizontal competition here, at least as to the patented circuit designs, because remember, assuming both patents are valid, absent a license, no one can make, use, or sell that circuit. The absence of horizontal competition changes the antitrust analysis. The 1995 Guidelines explain that this blocking patent license pool, in contrast to the substitute patent license pool, will be

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60 1995 Guidelines, supra note 6, at § 5.1 ex.9.
61 Id.
62 Id.
63 Id.
64 Id. at § 5.5 ex.10.
65 Id.
66 Id.
analyzed under the rule of reason, and clearing the blocking position will be considered a competitive benefit. 67

III. Conclusion

The pendulum has swung in favor of intellectual property. Market power is no longer presumed from a patent. This means that the lion’s share of patent holders have substantially greater freedom to license them. Almost every license restriction will be tested under the rule of reason. Thus, many things that used to be automatic guarantees of trouble, like tying a patented product to an unpatented one, or entering a patent pooling agreement that sets royalties or determines output, may now be justified by efficiency-enhancing, pro-competitive benefits.

67 Id.