Chapter 3

ANTITRUST CONCERNS IN LICENSING

§ 8 ANTITRUST IMPLICATIONS

Whenever intellectual property is licensed, antitrust implications of the license must be considered. A detailed examination of antitrust concerns in licensing would exceed the scope of this work. For those who wish to pursue this topic in more detail, the *Antitrust Guidelines for the Licensing of Intellectual Property*, issued by the U.S. Department of Justice and the Federal Trade Commission, is an excellent place to start. The guidelines are available at http://www.usdoj.gov/atr/public/guidelines/0558.htm.

As explained in the *Antitrust Guidelines*, the enforcement policy of the U.S. Department of Justice and the Federal Trade Commission (referred to collectively as "the agencies") affects the "licensing of intellectual property protected by patent, and trade secret law, and of know-how." *Antitrust Guidelines for the Licensing of Intellectual Property* para. 1.0.

The key competitive issue that is reviewed by the agencies is whether the licensing arrangement "harms competition among entities that would have been actual or likely competitors in the absence of the arrangement." *Antitrust Guidelines for the Licensing of Intellectual Property* para. 2.3.

In most cases, possible restraints in intellectual property licensing arrangements are evaluated under the "rule of reason." The agencies' general approach in analyzing a licensing restraint is likely to have anticompetitive effects and, if so, it must be determined whether the restraint "is reasonably necessary to achieve precompetitive benefits that outweigh those anticompetitive effects." *Antitrust Guidelines for the Licensing of Intellectual Property* para. 3.4.

Generally, license agreements that are executed in good faith and not designed simply to restrict competition constitute a valid defense against a claim of a violation of antitrust rules. For example, in the case of a license of a trade secret, "it is well established that an agreement which purports to license trade secrets, but in reality, is no more than a sham, or device designed to restrict competition, may violate the antitrust laws." *CVD, Inc. v. Raytheon Co.,* 769 F.2d 842, 851 (1st Cir. 1985).

In order to prove a contract or combination in restraint of trade in violation of Section 1 of the Sherman Act, the plaintiff must prove that the defendant had market power in the relevant market and the specific intent to restrain competition. To succeed in an attempted monopolization claim under Section 2 of the Sherman Act, the plaintiff must prove that the defendant had the specific intent to monopolize the relevant market and a dangerous probability of success. As other courts have noted, a specific intent to monopolize or restrain competition can often be inferred from a finding of bad faith. *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1293 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985).

In addition to the foregoing, when asserting that a license is based on an invalid intellectual property, the plaintiff must prove the invalidity of the intellectual property asserted by the defendant. For example, if a patent asserts rights from a letters patent, plaintiff must prove that the patent is invalid. See *CVD, Inc. v. Raytheon Co.,* 769 F.2d at 849 (citations omitted) (citing *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965)), where

> the Supreme Court held that the enforcement of a patent obtained by fraud may constitute monopolization or attempted monopolization in violation of section 2 of the Sherman Act, provided the other elements of a monopolization claim are established. In evaluating actions brought under this theory, courts have protected the federal interests in patent law enforcement and the free access to the courts by requiring, in addition to the other necessary elements of an antitrust claim, "clear and convincing evidence" of fraud in asserting or pursuing patent infringement claims.

In the case of trade secrets, the plaintiff must, in addition to the elements recited above, show, "by clear and convincing evidence, that the defendant asserted trade secrets with the knowledge that no trade secrets existed." *CVD, Inc. v. Raytheon Co.,* 769 F.2d at 851.

§ 9 LICENSING PRACTICES

The following list presents practices common to licensing agreements, and defines some terms of art that often may be found in the language of a license:

- **Horizontal Restraints**: Although not per se forbidden, agreements that affect parties in a horizontal relationship can be seen as restrictive and therefore forbidden.
- **Resale Price Maintenance**: Resale price maintenance can be found illegal if a licensor seeks to fix a licensee's resale price of a licensed product.
- **Tying Arrangements**: A licensor is generally prohibited from conditioning the sale of one product on the purchase of another product. Likewise, it may also be seen as a violation if the sale of a product is conditioned on the nonpurchase of another's product.
- **Exclusive Dealings**: Licenses that prevent the licensee from selling, distributing, or using competing technologies are generally forbidden.
- **Cross-Licensing and Pooling Arrangements**: These agreements can be forbidden to the extent that they seek to impose collective price setting or to coordinate output.
- **Grantbacks**: Grantbacks are generally permissible. However, when the grantback adversely affects competition, the grantbacks may substantially reduce the licensee's incentives to engage in research and development and thereby limit rivalry in innovation markets. In these cases, they are forbidden.
- **Acquisition of Intellectual Property Rights**: In some instances, the mere acquisition of intellectual property through grant, sale, or other transfer of an exclusive right may give rise to an assessment of the acquisition under Section 7 of the Clayton Act, Sections 1 and 2 of the Sherman Act, and Section 5 of the Federal Trade Commission Act. If an acquisition gives rise to a concern, the acquisition should be reviewed under the principles of the 1992 Horizontal Merger Guidelines.