

# ALERT



May 2007

## Department of Justice and Federal Trade Commission Issue Report on Antitrust Enforcement Relating to Intellectual Property Rights

For the past five years, the Antitrust Division of the U.S. Department of Justice and the U.S. Federal Trade Commission (the “Agencies”) have been conducting hearings to develop a better understanding of issues surrounding the application of antitrust law to conduct involving intellectual property rights. During the course of these hearings, the Agencies heard from more than 300 panelists — including business people, academics and lawyers — and received more than 100 written submissions. In April 2007, the Agencies issued a 210-page report synthesizing views expressed during the hearings and, in certain instances, drawing conclusions regarding the proper way to analyze certain activities involving intellectual property rights. The full report, entitled *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, is available at [www.usdoj.gov/atr/public/hearings/ip/222655.pdf](http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf) (the “Report”).

The following summarizes the conclusions reached by the Agencies in the Report on certain issues:

**I. Issue:** Do patent holders have an unfettered right to unilaterally refuse to license their patents?

The Agencies’ conclusions:

- ♦ “Section 271(d)(4) of the Patent Act does not create antitrust immunity for unilateral refusals to license patents.” Report at 6.
- ♦ “Statements in Supreme Court jurisprudence support the traditional understanding that the unilateral right to refuse to grant a patent license is a core part of the patent grant.” *Id.*
- ♦ “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. Antitrust liability for refusals to license competitors would compel firms to reach out and affirmatively assist their rivals, a result that is ‘in some tension with the underlying purpose of antitrust law.’<sup>1</sup> Moreover, liability would restrict the patent holder’s ability to exercise a core part of the patent - the right to exclude.” *Id.*
- ♦ “Conditional refusals to license that cause competitive harm are subject to antitrust liability.” *Id.*

**II. Issue:** How do the Agencies reconcile antitrust concerns with the desire of some standard-setting organizations (“SSOs”) to require their participants to (i) disclose intellectual property rights that may be infringed by a standard; and (ii) engage in *ex ante* licensing discussions in which participants commit to licensing terms before the SSO creates the standard?

The Agencies’ conclusions:

- ♦ “*Ex ante* consideration of licensing terms by SSO participants can be procompetitive.” Report at 7.
- ♦ “Joint *ex ante* consideration of licensing terms by SSO participants is unlikely to constitute a *per se* antitrust violation. The Agencies will usually apply the rule of reason when evaluating joint activities that mitigate hold up by allowing potential licensees of the standard to negotiate licensing terms with IP holders. Such *ex ante* negotiations of licensing terms are most likely to be reasonable when the adoption of a standard will create or enhance market power for a patent holder.” *Id.* at 7-8.
- ♦ “An intellectual property owner’s unilateral announcement of price terms, without more, does not violate section 2 of the Sherman Act.” *Id.* at 8.
- ♦ “Bilateral *ex ante* negotiations about licensing terms that take place between an individual SSO member and an individual intellectual property holder outside the auspices of the SSO are unlikely (without more) to require any special antitrust scrutiny because intellectual property rights holders are merely negotiating individual terms with individual buyers.” *Id.*
- ♦ “The Agencies take no position as to whether SSOs should engage in joint *ex ante* discussion of licensing terms.” *Id.*

**III. Issue:** How do the Agencies determine whether portfolio cross licenses and patent pools violate the antitrust laws?

The Agencies’ conclusions:

- ♦ “The Agencies will continue to evaluate the competitive effects of cross licenses and patent pools under the framework of the Antitrust-IP Guidelines. Given the cognizable benefits and potential anticompetitive effects associated with both of these licensing practices, the Agencies typically will analyze both types of agreements under the rule of reason.” Report at 9.

- ♦ “Combining complementary patents within a pool is generally procompetitive.” *Id.*
- ♦ “Including substitute patents in a pool does not make the pool presumptively anticompetitive; competitive effects will be ascertained on a case-by-case basis.” *Id.*
- ♦ “The competitive significance of a pool’s licensing terms will be analyzed on a case-by-case basis considering both their procompetitive benefits and anticompetitive effects.” *Id.*
- ♦ “The Agencies will not generally assess the reasonableness of royalties set by a pool. The focus of the Agencies’ analysis is on the pool’s formation and whether its structure would likely enable pool participants to impair competition.” *Id.*

**IV. Issue:** What standards will the Agencies apply to evaluate whether non-assertion clauses, grantbacks, and “reach-through” royalty agreements<sup>2</sup> violate the antitrust laws?

The Agencies’ conclusions:

- ♦ “The Agencies will continue to apply the flexible rule of reason analysis of the Antitrust-IP Guidelines to assess intellectual property licensing agreements, including non-assertion clauses, grantbacks, and reach-through royalty agreements.” Report at 10.

**V. Issue:** How do the Agencies evaluate claims of unlawful tying, such as (i) a contractual tie between a patented product and an unpatented commodity, (ii) a technological tie between two products that are designed to be compatible only with each other, or (iii) a tie between intellectual property rights, such as may occur in package licensing or block-booking?

The Agencies’ conclusions:

- ♦ “The Antitrust-IP Guidelines will continue to guide the Agencies’ analysis of intellectual property tying and bundling. Pursuant to the Antitrust-IP Guidelines, the Agencies consider both the anticompetitive effects and the efficiencies attributable to a tie, and would be likely to challenge a tying arrangement if: ‘(1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.’<sup>3</sup> If a package license constitutes tying,<sup>4</sup> the Agencies will evaluate it pursuant to the same

principles they use to analyze other tying arrangements.” Report at 11-12.

**VI. Issue:** How do the Agencies evaluate practices that may extend the reach of a patent beyond the expiration of the patent right, such as (i) collecting royalties after the patent has expired; (ii) using exclusive contracts that deprive current or potential rivals of a supply source or customers; or (iii) bundling trade secrets with patents?

The Agencies’ conclusions:

- ♦ According to the Agencies’ report, “panelists identified the fundamental question for assessing competitive harm that may result from such practices to be whether the patent holder is exercising market power arising from the patent beyond its statutory term to prevent expansion by those already in the market or to deter the entry of substitute products or processes into the market.” Report at 12.

- ♦ “The starting point for evaluating practices that extend beyond a patent’s expiration is analyzing whether the patent in question confers market power.” *Id.*
- ♦ “Standard antitrust analysis applies to practices that have the potential to extend the market power conferred by a patent beyond its expiration.” *Id.*
- ♦ “Collecting royalties beyond a patent’s statutory term can be efficient. Although there are limitations on a patent owner’s ability to collect royalties beyond a patent’s statutory term,<sup>5</sup> that practice may permit licensees to pay lower royalty rates over a longer period of time, which reduces the deadweight loss associated with a patent monopoly and allows the patent holder to recover the full value of the patent, thereby preserving innovation incentives.” *Id.*

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1. *Verizon Commun. Inc. v. Law Offices of Curtis V. Trinko*, 540 U.S. 398, 407-08 (2004) (setting forth three sources of that tension).
  2. The Report explains that “[r]each-through licensing agreements grant the owner of a patent on an upstream research tool the right to receive consideration based on sales or usage of a subsequent downstream product created with that tool. For example, a reach-through licensing agreement might allow a pharmaceutical company to use a patented research tool to identify components of what becomes a marketable drug without paying royalties to the tool owner before commercialization of the product. Rather, the research tool owner would opt to ‘reach through’ and receive a royalty based on a percentage of the drug’s future sales.” Report at 93-94.
  3. ANTITRUST-IP GUIDELINES § 5.3 (footnotes omitted).
  4. The Antitrust-IP Guidelines describe package licensing as “the licensing of multiple items of intellectual property in a single license or in a group of related licenses,” which “may be a form of tying arrangement if the licensing of one product is conditioned upon the acceptance of a license for another, separate product.” *Id.*
  5. *See Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

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