



# Analyzing IP Licensing Arrangements

**National Judicial Academy  
National Conference for Newly Elevated High Court Justices**

24–25 January, 2015

Bhopal, India

**Samuel Weinstein  
Attorney**

**Legal Policy Section, Antitrust Division, U.S. Department of Justice**

The views expressed herein do not purport to represent those of the U.S. Department of Justice

# Common IP Licensing Issues

---

- ▶ Refusals to License
- ▶ Tying/Bundling
- ▶ Exclusive Dealing

# Refusals to License

# Refusals to License

---

Generally...

- ▶ U.S. antitrust law allows a firm to choose with whom it will do business and for a firm unilaterally to refuse to deal with another firm. *United States v. Colgate* (1919).
- ▶ U.S. IP law grants exclusive rights to patent and copyright owners for a limited period of time.
  - to promote incentives to innovate
  - in exchange for public disclosure
  - to facilitate investments necessary to commercialize intellectual property

# Refusals to License

---

However...

- ▶ “Intellectual property rights do not confer a privilege to violate the antitrust laws.” *U.S. v. Microsoft Corp.* (D.C. Cir. 2001)

# Types of Refusals to License

- ▶ Unilateral and unconditional
  - IP owner refuses to license or will license only at a price licensees deem too high
  
- ▶ Conditional
  - License only subject to conditions
    - Conditions accepted creating an agreement
      - no longer a refusal to license
  
- ▶ Concerted
  - Joint refusal to license IP rights

# Unilateral Refusal to License

- ▶ Liability unlikely for unilateral, unconditional refusals to license an IP right.
  - Monopolization?
    - Apply market power screen
    - Static (short-term) anticompetitive effects
    - Procompetitive dynamic (long-term) efficiencies
- ▶ U.S. agencies have stated that liability for unilateral, unconditional refusals to license patents “will not play a meaningful part in the interface between patent rights and antitrust protections.”

# Conditional Refusal to License

- ▶ Agreement in restraint of trade?
- ▶ Apply standard antitrust analysis to conditions imposed by the licensor (e.g., tying, exclusive dealing)
  - Apply initial market power screen
  - Would there be competition between the parties in the absence of a license?
  - Procompetitive justifications?



# Concerted Refusals to License

- ▶ Group boycott under Sherman Act § 1?
  - Apply initial market power screen
  - Have the excluded firm's costs been raised or access to the market reduced resulting in harm to consumers?
  - Procompetitive justifications?

# Hypothetical Case

---

- ▶ Company A and Company B each develops and patents a process for manufacturing a new chemical called SuperChem.
- ▶ Company A will use process A to manufacture SuperChem.
- ▶ Company B will use process B to manufacture SuperChem.
- ▶ Both companies agree they will not license anyone else to use their patents.
- ▶ Company A refuses to license Company C to use process A.
- ▶ Two weeks later, Company B refuses to license Company C to use process B.

# Remedies

---

- ▶ Compulsory licensing is a complex remedy that is rarely used and difficult to administer.
  - terms must be determined and enforced
- ▶ Scope should be limited to that which is necessary to remedy the competitive harm.

# Tying / Bundling

# Tying and Bundling: Definitions

- ▶ Tying: Seller conditions sale of one product or service on customer buying a second product or service (through technology or contract).
  - “Contractual tying”: Patented tying good and unpatented tied good (e.g., purchase of patented copy machine requires purchase of unpatented ink or paper).
  - “Technological tie”: Products integrated physically or produced to be compatible only with each other (e.g., copy machine can use only manufacturer’s ink cartridge).

# Tying and Bundling: Definitions

- ▶ Bundling: Seller offers a number of products or services in a package.
  - Multiple IP rights may be combined into bundles or packages (e.g., copyrighted music, programs).
  - Bundling also may involve a discount on the second product if it is purchased together with the first product.
- ▶ Tying and bundling practices are very common in the economy; terms are sometimes used interchangeably.

# Tying: Efficiencies

---

- ▶ Key potential efficiencies include:
  - Creates economies of scale and scope.
  - Lowers costs (e.g., economies of joint sales);
  - Provides quality assurance and protects company's reputation (e.g., warranty repairs);
  - Promotes the sale of a new product.
  - Allows company to offer an improved technology.
  - Responds to consumer preferences.

# Tying: Efficiencies -- New Technologies

---

- ▶ Courts' recognition of tying's efficiencies supports case-by-case weighing of efficiencies and harm.
- ▶ In its 2001 *Microsoft* decision, the Court of Appeals applied "rule of reason" to platform software IP tying.
  - Court reasoned application of per se rule would risk condemning welfare-positive ties.
  - Scholarly commentators generally support applying rule of reason to all IP ties.



# Potential Anticompetitive Harm

---

- ▶ Leverage Market Power
  - Under certain conditions, tying can enable company with monopoly power over one product to gain market power over a second, tied product, by reducing demand for rival's product.
  - If there are scale economies in tied product, competitors may exit, possibly resulting in higher prices and less product variety. (Whinston, 1990).

# Potential Anticompetitive Harm

---

- ▶ Creating Barriers to Entry
  - Tying can make entry more difficult, or encourage exit, because a competitor may have to offer both products.
  - Tying used to preserve insecure market in tying product (“monopoly maintenance”) (Carlton & Waldman, 2002).
- ▶ However, documented instances of anticompetitive tying appear rare (Salinger, 2006).

# Legal Analysis by U.S. Agencies

- ▶ FTC and Department of Justice: “Rule of reason” approach to IP tying and bundling.
- ▶ Agencies consider both anticompetitive effects and efficiencies of IP tie.
- ▶ Agencies evaluate package license that constitutes tying under same principles.

# Legal Analysis by U.S. Agencies

## ▶ Requirements for tying:

- Two separate products (products may be patents or copyrights).
- The two products are tied together.
- Substantial market power over the tying product.
- Harm to competition.
  - Forecloses a substantial amount of competition in tied-product market.
- Efficiencies do not outweigh harm to competition (Rule of Reason).

# Legal Analysis by U.S. Agencies

---

- ▶ Is there harm to competition?
  - If consumer would not have purchased tied product from another seller, then there probably is no harm to competition.
  - Did tying prevent consumers from buying the tied product from a different seller?
  - What is the effect on competition resulting from consumers purchasing from the tying company rather than competitors?
    - Do competitors exit because they cannot obtain scale economies in tied good?

# Legal Analysis by U.S. Agencies

- ▶ What are the justifications for the tie?
  - Do companies obtain economies of scale or scope?
  - Do companies improve quality?
  - Does tying the products create an improved, new product that is innovative or has technical benefits?
  - Does the tie reflect consumer preferences?
  
- ▶ Is the tie required to obtain these benefits?

# Legal Analysis by U.S. Agencies

---

▶ Final balancing:

- Does the tying foreclose so much of the tied market that not enough business remains to support a competitive number of efficient rivals?
  - If the amount of business being foreclosed is relatively small, tying should not be considered unlawful.
  - If there are not scale economies in the tied market then even small rivals should be able to be as efficient as the company engaged in tying.
- If there are efficiencies, can they be achieved without the tie?
- Do the benefits of the tie outweigh the harms to competition?

# Conclusions

---

- ▶ IP tying and bundling potentially offer substantial pro-consumer efficiencies and transaction cost reductions.
- ▶ U.S. agencies believe that IP tying and bundling should be evaluated on a case-by-case basis, with condemnation reserved only for cases where anticompetitive effects can be shown to outweigh procompetitive efficiencies.



# Exclusive Licensing and Exclusive Dealing Arrangements

# Definitions

---

- ▶ **Exclusive Licensing:**
  - Grant of license which restricts right of licensor to license others and possibly to use the technology itself.
- ▶ **Exclusive Dealing:**
  - License prevents licensee from licensing, selling, distributing, or using competing technologies

# Exclusive Licensing

- ▶ Right to grant exclusive licenses long recognized by U.S. courts.
- ▶ Patent Act expressly allows exclusive licenses.
- ▶ Without additional conduct, exclusive licensing not an antitrust violation, even if licensor agrees not to practice patent.

# Exclusive Dealing

---

- ▶ Could be an antitrust problem in a vertical context if arrangement forecloses access to necessary inputs or facilitates price coordination.
- ▶ Agencies weigh procompetitive benefits of arrangement (e.g., helping promote and develop technology) vs. potential foreclosure.

# Exclusive Dealing

---

- ▶ Courts evaluating exclusive dealing arrangements consider:
  - Degree of foreclosure
  - Purpose of restraint
  - Duration
  - Entry

# Hypothetical Case: IP Guidelines Ex. 8

---

- ▶ NewCo invents a new flat panel display technology but does not have the capability to bring flat panel display wall calendars to market.
- ▶ NewCo grants BigCo an exclusive license to sell wall calendars embodying NewCo's technology.
- ▶ BigCo does not currently sell, and is not developing (or likely to develop), a calendar that would compete with a flat panel display version and does not control rights to another digital display technology.

## Hypothetical Case: IP Guidelines Ex. 8 (cont'd)

---

- ▶ Several firms offer competing wall calendars with competing displays, BigCo accounts for only a small proportion of the outlets for distribution of digital display products, and entry into the manufacture and distribution of digital display products is relatively easy.
- ▶ Demand for the new flat panel technology is uncertain and successful market penetration will require considerable promotional effort.
- ▶ The license contains an exclusive dealing restriction that prevents BigCo from selling products that compete with the product embodying the licensed technology.