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Antitrust Law and IP Misuse Pertinent to IP Acquisition and Enforcement

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Law Suits with Antitrust Ramifications

- IP Infringement (Antitrust Counterclaim and/or IP Misuse).
- Federal Civil Antitrust Action.
- Federal Criminal Antitrust Action.
- State Civil Antitrust Action.
- State Criminal Antitrust Action.
- Private Civil Antitrust Action.

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The Antitrust Laws

- Sole Goal: To maximize consumer benefit.
- Antitrust Statutes are Succinct.
- Antitrust Law is largely judge-made.
- Antitrust aspects of IP-related activities are almost entirely controlled by two statutes:
 - Sherman Act, Section 1.
 - Sherman Act, Section 2.

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Sherman Act, Section 1

“Every contract, combination, in the form of trust or otherwise, or conspiracy, in **[unreasonable]** restraint of trade or commerce among the several states, or with foreign nations, is declared to be illegal.”

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Scope of Section 1

- Requires multiplicity of actors.
- Reaches horizontal and vertical conduct.
- “Unreasonable” restraints of interstate commerce.
 - per se.
 - “rule of reason.”

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Sherman Act, Section 2

“Every person who shall monopolize, or attempt to monopolize, or combine . . . to monopolize any part of [interstate commerce] shall be deemed guilty of a felony. . . .”

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Scope of Section 2

- Reaches both multilateral and unilateral conduct.
- Monopolization: possession of monopoly power, plus willful acquisition or maintenance thereof.
- Monopoly power: the power to control price or exclude competition.

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A Diversion: Clayton Act, Section 7

- It is unlawful to have a stock or asset acquisition where “the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.”
- DOJ and FTC regard an exclusive license as an asset transfer.

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The Role of Relevant Market

- Relevant market provides the background against which the conduct in question is to be measured.
- Relevant market has both a product and geographic aspect.
- Example: United States vs. DuPont.
 - Cellophane vs. Flexible Packaging Materials

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Private Right of Action

- Clayton Act, Section 4: A person injured by reason of a violation of the antitrust laws shall receive threefold the damages by him sustained.
- Judgment in government AT suit is prima facie evidence of liability in private action.
- Standing requirements.
- The injury must be the type of injury the antitrust laws were designed to prohibit.

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Patent Misuse

- Originated in the 1930s as a relatively balanced defense to a patent infringement suit.
- Focused on “abuse” of the patent, and using it in a manner “outside the scope” of the patent grant.

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Patent Misuse (continued)

- Ambit gradually enlarged, and by the 1960s and 1970s was a powerful doctrine:
 - Conduct need not be directed at defendant.
 - No injury need by shown – to anyone.

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Patent Misuse (continued)

- Since late 1970s, has diminished radically in scope.
 - Creation of CAFC, 1982.
 - Amendment to 35 USC sec. 271, 1988.
 - Turnaround at DOJ ATD, late 1970s.

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Patent Misuse Today

- The rule against royalties for post-expiration practice stands (subject to Independent Ink).
- Otherwise, defendant must show injury to competition.
- Patent misuse is rarely found today.

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Copyright Misuse

- Originated in 1990 in Lasercomb (CA4) as defense to CR infringement suit.
- Grew in importance as Patent misuse doctrine diminished.
- Virtually all cases involve software.

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Copyright Misuse (continued)

- Most courts accept this defense.
- Major difference among courts: whether an antitrust violation must be shown in order to claim the defense.

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Underlying Rationale of the Intellectual Property Laws

“The Congress shall have Power . . . to promote the Progress of Science and useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”

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The Mechanism

- Granting “islands of exclusivity” in the form of IP, in return for contributions to the public weal, stimulates the creation of both technology and copyrightable works.
- Four primary types of IP:
 - Patents
 - Copyrights.
 - Trade Secrets.
 - Trademarks.

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Patents

- Owner may exclude others (including independent inventors) from making, using, selling, etc.
- Encourages investment in technology.
- Absent such protection, “free riding” would deter investment in technology development.
- Technology advances have traditionally played an important role in the U.S. economy.

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Copyright

- Subsists in original works of authorship fixed in tangible medium of expression.
- Protects expression only.
- Does not protect idea, procedure, process, method of operation, or discovery.
- Protects against unauthorized reproduction, distribution or modification.
- Encourages investment.

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Trade Secrets

- Trade Secrets comprise information that has economic value because it is not known generally to others.
- Trade Secret protection extends to unauthorized acquisition, disclosure, or use.
- Trade Secret laws stimulate investment.

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The Issue

The task of legislatures and courts charged with determining the interface between antitrust and IP is to answer this question:

- How should the law best accommodate both the desire for competitive markets, and the incentives for progress offered by islands of exclusivity?

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Potential Concerns from Internal Acquisition of IP

- Only Section 2 of the Sherman Act applies.
- In general, not much concern where the owner has created the technology itself.
- Nevertheless, a monopolist who kept developing pertinent technology primarily to block competitive products might be in violation.

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Acquisition of IP by Purchase

- Sherman Act Sections 1 and 2, and Clayton Act Section 7 apply.
- Straightforward Section 7 analysis with regard to establishment of relevant market and determination of the effect of the acquisition.

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IP Pools

- Covers numerous types of arrangements where IP owners combine their IP.
- Typically found in the patent area.
- Variables: number of participants; breadth; relationship among types of technology of each participant; extension to future technology; requirement of royalties; degree of exclusivity; portion of relevant market included; restrictions on price; territory; or customers; ability to license outside pool.

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Pools (con't)

- General pro-competitive benefits, plus fact that pool may be an efficient way of resolving legal conflicts.
- Potential anticompetitive effects:
 - with inclusion of future technology, reduction in incentive to develop.
 - restrictions on conduct of pool members may be anticompetitive (may increase prices, or decrease output).

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Pools (con't)

- restrictions on unrelated technology in pool can produce anti-competitive effects
- when two different types of technology are included, the pool can diminish competition between them, as restrictions may impair competition in markets for the products or services using the pooled technology.

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Other Potential Licensing Concerns

- Royalty-related concerns:
 - “exorbitant” royalties.
 - royalties for practicing inventions beyond expiration of patents.
 - licensing at different royalties.

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Potential Licensing Concerns (con't)

- Price restrictions.
- Quantity restrictions.
- Grant back clauses.
- Territorial Restrictions.
- Field of Use restrictions.

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Tie-in Arrangements

- **“Tie-in”**: conditioning the sale of a desired product on the purchase of an undesired product.
- **Four elements**:
 - existence of two products (or services);
 - conditioning sale of one on purchase of the other;
 - seller possession of appreciable economic power in desired product; and
 - effect on substantial volume of commerce in undesired product.
- **Inconsistency**: per se, or rule of reason?

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Tie-in Arrangements (con't)

- Where desired product is patent or copyright, courts have presumed existence of sufficient market power.
- This presumption was undermined by economic reality and also by 35 U.S.C. Section 271(d) (1988):
 - No misuse where patentee conditions patent license, or sale of patented product, on acquisition of license rights in another patent, or purchase of separate product, unless owner has market power in relevant market for patent or patented product on which license or sale is conditioned.

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Tie-In (continued)

- Uncertainty whether section 271(d) applied to AT suits, or was limited to misuse.
- US Supreme Court clarified this in Illinois Tool v. Independent Ink (2006): IP does not give rise to presumption of market power.

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Tie-in Arrangements (con't)

- Mandatory package licensing.
- Test: is the package an “economically viable alternative”?
- Cases suggest that once you get beyond three or four patents, a portfolio rate is appropriate.

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DOJ/FTC Antitrust Licensing Guidelines

- Released in 1995 by the two federal AT agencies.
- Guidelines embody three general principles:
 - Intellectual Property is to be treated as property;
 - No presumption of market power;
 - Licensing permits combination of complementary factors of production and is generally procompetitive.

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Guidelines (con't)

- Field of use, territorial, and other limitations may be procompetitive by permitting efficient exploitation of IP.
- Antitrust concerns arise where licensing harms competition among entities that would have been actual or likely competitors in a relevant market in the absence of the license.

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Guidelines (con't)

- Licensing also raises concerns where it is likely adversely to affect prices, quantities, qualities, or varieties of goods/services.
- Rule of reason test: if the restraint has anticompetitive effect, is it reasonably necessary to achieve procompetitive benefits that outweigh the anticompetitive effect?

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Guidelines (con't)

- An antitrust “safety zone” is useful.
- Guidelines view restraints as lawful if:
 - restraint is not facially anticompetitive; and
 - licensor and licensees collectively account for not more than 20% of each relevant market affected.

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Conclusion

- IP had somewhat of an upper hand in the 1930s, but by the 1960s Antitrust had become dominant.
- In the '60s & '70s judges generally evinced a strong dislike of IP – especially Patents.
- By the late '70s the pendulum began swinging back, and today IP is dominant once more.
- What does this mean to you as you negotiate and draft license agreements?
 - Look ahead.

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