



# DEPARTMENT OF JUSTICE

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## **US and EU Approaches to the Antitrust Analysis of Intellectual Property Licensing: Observations from the Enforcement Perspective**

**Remarks by**

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## **I. INTRODUCTION**

Thank you, Tom. Let me say it is a special pleasure to be on this panel with you, my soon-to-be colleague. I wanted to congratulate you on your appointment, and say how excited I am, as is everyone else at the Division, to work with you soon and have the benefit of your experience and know-how in this area.

Good afternoon. It is a pleasure for me to be here with this distinguished panel to compare US and EU approaches to the antitrust analysis of intellectual property licensing agreements and the underlying policy principles behind our enforcement efforts. The interplay of US, EU, and other international licensing regimes is a significant focus of the Justice Department, as it should be, because the ability of firms to license intellectual property rights internationally is one of the cornerstones in the foundation of a strong global economy.

In today's world, whether firms are creators or consumers, intellectual property rights are crucial to performance. Intellectual property rights, whether copyrights, patents, or another legal form, are increasingly crucial to all sectors of the economy and continue to fulfill Thomas Jefferson's prophecy of providing the "fuel to the fire of ingenuity." Also, through significant and important efforts of US negotiators and rights holders all over the globe, we now live in an era in which the benefits of intellectual property rights are recognized throughout the world and the protection of such rights, once the intellectual property is created in any one country or region, is often made global through a crucial patchwork of bilateral and multilateral agreements. These agreements, such as the Patent Cooperation Treaty<sup>1</sup>, the Berne Convention on Copyrights<sup>2</sup>,

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<sup>1</sup> Patent Cooperation Treaty, With Regulations, January 24, 1978. 28 U.S.T. 7645, T.I.A.S. No. 8733.

<sup>2</sup> Berne Convention for the Protection of Literary and Artistic Works, Jul. 24, 1971, 25 U.S.T. 1341, T.I.A.S. 7868.

the Trademark Law Treaty<sup>3</sup>, or the Trade Related Aspects of Intellectual Property Agreement of the WTO<sup>4</sup>, just to mention a few, have played an important role in creating rights and obligations that in effect globalize in a non-discriminatory manner the protections for intellectual property.

It is important to recognize that intellectual property-based exports – whether copyrighted music, movies or software, or patent-protected goods such as pharmaceuticals or electronic products – are this country's number one export and as such their creation and protection is critical to a vibrant economy. As firms manufacture and market their products globally, licensing of the intellectual property rights they hold or need often proceeds on a global scale, and differences among nations' licensing rules have the potential to disrupt cross-border commerce. As a result, the US has an important and justified interest in the choices other jurisdictions make about how their antitrust authorities will analyze the restrictions that appear in intellectual property licensing agreements.

In our view, antitrust law and policy should be careful not to constrain the legitimate exercise of intellectual property rights. We need to ensure that the application of antitrust laws does not illegitimately stifle innovation and creation by condemning pro-competitive activities that would maximize incentives for investments or efficiency-maximizing business arrangements. Moreover, the application of our antitrust laws should limit as much as possible the unnecessary uncertainties for innovators and creators in their ability to exploit their

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<sup>3</sup> Trademark Law Treaty, Oct. 27, 1994, 2037 U.N.T.S. 35 (United Nations Treaty Series), 34 Indus. Prop. L. & Treaties 3-010, 001 (Jan. 1995).

<sup>4</sup> General Agreement on Tariffs and Trade - Multilateral Trade Negotiations (The Uruguay Round): Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, 33 I.L.M. 81 (1994).

intellectual property rights, as that would also have the effect of reducing the incentives for innovation. Only when the holders of intellectual property rights go beyond the legitimate exercise of these rights should antitrust law be used to constrain their activities, and only then in a manner that is based on sound economic policies. The challenge, of course, which allows meetings like this one today to take place, lies in distinguishing the legitimate exercise of IP rights from conduct that goes too far in constraining competition. But as we venture down that road, we must continue to be guided by the principle the unanimous U.S. Supreme Court recently noted in the *Trinko* case, that “[t]o safeguard the incentive to innovate, the possession of monopoly power will not be found unlawful unless it is accompanied by an element of anticompetitive *conduct*.”<sup>5</sup>

Today, I do not wish to repeat some of our enforcement policies set out in our IP Guidelines, but thought it would be useful to offer a few observations from the US enforcement perspective about some of the key similarities and differences between the US and EU approaches to the antitrust analysis of IP licensing.

## **II. Comparison of the US and EU Licensing Regimes**

As you know, the US adopted the Antitrust Guidelines for the Licensing of Intellectual Property in 1995, taking a systematic economic effects-based approach to evaluating intellectual property licensing agreements.<sup>6</sup> One year later, the European Commission adopted its current Technology Transfer Block Exemption ("TTBE"), which focuses more heavily on a structural

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<sup>5</sup> *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, \_\_ U.S. \_\_, 124 S. Ct. 872, 879 (2004).

<sup>6</sup> U.S. Dep’t of Justice & Federal Trade Comm’n, Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995), at <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm>.

approach to examining technology licensing agreements.<sup>7</sup> In its recent work revising the TTBE<sup>8</sup> and in drafting a new document, the Technology Licensing Guidelines,<sup>9</sup> the Commission has moved away from that structural approach, embracing an economic effects-based model. Consequently, we are pleased that the adoption of the revised TTBE and issuance of the Guidelines will move the EU and the US significantly toward further convergence in our antitrust analysis of intellectual property licensing agreements. This is a welcomed development for the global economy we live in today, and we commend Commissioner Monti and the European Commission for their efforts in this area.

#### **A. Similarities**

The TTBE, as a regulation, will have the force of law. The Guidelines will only have persuasive influence. But the Guidelines are ambitious. They provide examples and analysis, in many cases at a level of detail beyond that found in the US Guidelines. These explanations will undoubtedly be helpful to those who must interpret them: business executives, the Commission, and, under the EU's upcoming modernization plan, national enforcement authorities and courts. It seems likely that, over time, the depth and breadth of the licensing issues discussed in the Guidelines will ultimately make it the more important document as compared to the new TTBE.

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<sup>7</sup> Commission Regulation (EC) No. 240/96 of 31 January 1996 on the application of Article 85 (3) of the Treaty to certain categories of technology transfer agreements, 1996 O.J. (L 31) 2, at <http://europa.eu.int>.

<sup>8</sup> Commission Regulation (EC) No.../2004 of [...] on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, at [http://europa.eu.int/comm/competition/antitrust/legislation/licensing\\_arrangements/en.pdf](http://europa.eu.int/comm/competition/antitrust/legislation/licensing_arrangements/en.pdf).

<sup>9</sup> Commission Notice, Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, at [http://europa.eu.int/comm/competition/antitrust/legislation/licensing\\_arrangements/guidelines\\_en.pdf](http://europa.eu.int/comm/competition/antitrust/legislation/licensing_arrangements/guidelines_en.pdf).

There are substantial similarities between the US Guidelines and the EU's TTBE and Guidelines. Both approaches create safe-harbors and both identify naked price fixing, output restraints, and market division among horizontal competitors as per se unlawful or hardcore restrictions. Both weigh the procompetitive benefits and the anticompetitive effects when evaluating most licensing restrictions. And under both regimes, responsibility for assessing the legality of contractual agreements will rest in the first instance with the licensing parties themselves.

We have heard there is concern among some firms worried about losing the familiar certainty possible under the current notification regime. Although adjusting to a new mode of analysis will no doubt be disconcerting at times, we are hopeful that firms will quickly learn to predict whether an agreement is likely to raise competitive concerns, particularly in light of the detailed analysis provided in the draft EU Guidelines.

## **B. Differences**

Now, for some of the differences between the US and EU approaches. The most obvious difference concerns the breadth of detailed guidance on specific licensing practices. The EU approach, as I have mentioned, is very detailed, which probably reflects the traditions of a code-based system of law. The US approach continues to be one of setting forth broader policy statements with fewer details, which reflects our tradition of developing specific precedent through a common-law, case-based system. The result is that the US Guidelines and the EU's TTBE and Guidelines do not look much alike, and it can be difficult to try to chart exactly how their provisions correlate with each other. But this difference really goes to presentation, not substance.

As to substance, there are several key differences.

First, the EU seems more concerned than the US about characterizing parties as either competitors or non-competitors, with different substantive rules depending upon how the parties are classified. The US Guidelines focus more on the nature of the license terms and whether the relationship between the parties is vertical or horizontal. When the relationship is horizontal, the US enforcement agencies tend to focus on assessing the competitive harm that may arise. Not wanting to deter efficient innovation efforts, US enforcement agencies focus less on vertical restrictions that enable the ability of licensors to maximize profits by more fully exploiting their intellectual property. The US Guidelines' approach uses a "but for" counterfactual analysis for all licensing restraints that asks whether competition under the licensing agreement would be less than which would occur in the absence of any licensing agreement at all.

The EU, by contrast, seems more concerned about the potential restrictive effects of vertical, i.e., intra-technology, licensing restrictions than are US enforcement authorities (notwithstanding a per se rule against resale minimum price maintenance). Although the EU Guidelines apply the same "but for" analysis for horizontal, inter-technology, licensing restrictions, analysis of vertical, intra-technology restrictions under the Guidelines essentially asks whether licensing terms that are more competitive would likely be entered into if *particular* restrictive provisions were prohibited. This more focused "but for the particular restriction" analysis of intra-technology licensing restrictions is similar to the EU's analysis of intra-brand restrictions. In our view, requiring that each restriction in the agreement be separately justified will fail to take into consideration that agreements are usually negotiated as a whole. Therefore, acceptance of the "less restrictive" alternative by the parties at the time of the agreement could

well have resulted in a different agreement, one with higher royalty rates or other more onerous terms and conditions, or it could have resulted in a decision not to license at all.

With respect to patent pooling agreements, the EU's discussion of technology pools is much more comprehensive than that found in section 5.5 of the US Guidelines—the section that specifically addresses pooling arrangements. The US has also addressed many of these issues through Department of Justice business review letters issued in the late 1990s,<sup>10</sup> but it is difficult to use these letters to make a direct comparison between the EU and US approaches. That is because the Department's business review letters state the Department's enforcement intentions based largely on the parties' description of the relevant facts, because the activity at issue has yet to occur, and because parties desiring a favorable review often incorporate safeguards designed to keep anticompetitive concerns to an absolute minimum. As a result, it is not necessarily the case that a patent pool would violate the antitrust laws if it failed to implement each and every one of the safeguards adopted by the parties requesting the business review letter. For example, some of our pooling business review letters have relied on assurances that the proposed patent pools contain only complementary patents.<sup>11</sup> But participants at the DOJ-FTC Antitrust-IP Hearings suggested that, at least in selected cases, including multiple substitute technologies in pools may decrease transaction costs and increase the pool's efficiency, at least in circumstances

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<sup>10</sup> Letter from Joel I. Klein, Acting Assistant Attorney General, U.S. Dep't of Justice, to Garrard R. Beeney, Esq. (June 26, 1997), *at* <http://www.usdoj.gov/atr/public/busreview/1170.htm>; Letter from Joel I. Klein, Assistant Attorney General, U.S. Dep't of Justice, to Garrard R. Beeney, Esq. (Dec. 16, 1998), *at* <http://www.usdoj.gov/atr/public/busreview/2121.htm>; Letter from Joel I. Klein, Assistant Attorney General, U.S. Dep't of Justice, to Carey R. Ramos, Esq. (June 10, 1999), *at* <http://www.usdoj.gov/atr/public/busreview/2485.htm> [hereinafter 6C DVD Business Review Letter].

<sup>11</sup> *E.g.*, 6C DVD Business Review Letter at 9-10.



when licensees complying with the standard must infringe one of the substitute technologies in order to produce or create the downstream product.<sup>12</sup> That rationale, which might be taken seriously by the Department of Justice in an enforcement action, does not appear to be permitted under the EU Guidelines.

The US and EU may also differ somewhat over antitrust liability for unilateral and unconditional refusals to license intellectual property. In the past, the European Commission has found an abuse of dominance for refusals to license copyrights under certain "exceptional circumstances."<sup>13</sup> In the US, decisions from the federal courts of appeals appear to have taken very different approaches to the question whether such refusals to license should result in antitrust liability. I am, of course, referring to the *Image Technical Services, Inc. v. Eastman Kodak* ("Kodak")<sup>14</sup> and *In re Independent Service Organizations Antitrust Litigation* ("CSU")<sup>15</sup> decisions. At the DOJ-FTC Antitrust-IP Hearings, panelists criticized both decisions but did not reach a consensus on the appropriate analysis. Most panelists agreed, however, that imposing a duty to license a patent should be a rare occurrence. It was also recognized that, in the US, the owner of a patent has the statutory right under the Patent Act to exclude others from making, using, selling, or offering for sale an invention and that unilateral refusals to deal generally do not violate the antitrust laws. We also recognize that the potential remedy upon a finding of

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<sup>12</sup> E.g., Garrard R. Beeney, *Pro-competitive Aspects of Intellectual Property Pools: A Proposal for Safe Harbor Provisions* (Apr. 17, 2002 Hr'g R.) at 5, at <http://www.ftc.gov/opp/intellect/020417garrardbeeney.pdf>.

<sup>13</sup> E.g., Joined Cases C-241/91 P & C-242/91 P, *Radio Telefis Eireann v. Commission*, 1995 E.C.R. I-743 ("Magill").

<sup>14</sup> 125 F.3d 1195 (9th Cir. 1997).

<sup>15</sup> 203 F.3d 1322 (Fed. Cir. 2000).

antitrust liability for a unilateral refusal to license— requiring the patent owner to license the invention—is problematic because it is a regulatory remedy that can be extraordinarily difficult to administer. As the Supreme Court recently noted in *Trinko*, “[e]nforced sharing ... requires antitrust courts to act as central planners, identifying the proper price, quantity, and other terms of dealing—a role for which they are ill-suited.”<sup>16</sup> And even more importantly, the Court’s next sentence that “[m]oreover, compelling negotiation between competitors may facilitate the supreme evil of antitrust: collusion.”<sup>17</sup>

#### **IV. Conclusion**

Despite some real differences between the US and EU approaches, some of which may be unavoidable because of market integration pressures in the EU, the economic scholarship and policy embodied in the draft revised TTBE and draft Guidelines represent a significant step towards convergence. Indeed, the similarities between our approaches have never been greater. We look forward to working with our colleagues in the EU, and I should say other countries, to deepen our understanding of the underlying economic theories of competitive harm. In this way, we may continue to refine our abilities to distinguish between procompetitive licensing restrictions— those that facilitate the combination of intellectual property with complementary factors of production, promote the development of technologies in blocking relationships, and provide incentives to create and innovate and also develop and exploit the licensed intellectual property rights—and anticompetitive licensing restraints that adversely affect the prices and quantities of goods and services produced by the parties to the intellectual property license – or

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<sup>16</sup> *Trinko*, 124 S. Ct. at 879.

<sup>17</sup> *Id.*

worse yet, diminish the incentives for firms to invest in research and development of new and improved technologies or creative works for the benefit of consumers.