

INTRODUCTION

Over the past several decades, antitrust enforcers and the courts have come to recognize that intellectual property laws and antitrust laws share the same fundamental goals of enhancing consumer welfare and promoting innovation. This recognition signaled a significant shift from the view that prevailed earlier in the twentieth century, when the goals of antitrust and intellectual property law were viewed as incompatible: intellectual property law's grant of exclusivity was seen as creating monopolies that were in tension with antitrust law's attack on monopoly power. Such generalizations are relegated to the past. Modern understanding of these two disciplines is that intellectual property and antitrust laws work in tandem to bring new and better technologies, products, and services to consumers at lower prices.

Intellectual property laws create exclusive rights that provide incentives for innovation by "establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression."¹ These property

rights promote innovation by allowing intellectual property owners to prevent others from appropriating much of the value derived from their inventions or original expressions. These rights also can facilitate the commercialization of these inventions or expressions and encourage public disclosure, thereby enabling others to learn from the protected property.

Antitrust laws, in turn, ensure that new proprietary technologies, products, and services are bought, sold, traded, and licensed in a competitive environment. In today's dynamic marketplace, new technological improvements are constantly replacing those that came before, as competitors are driven to improve their existing products or introduce new products in order to maintain their market share. Antitrust laws foster competition by prohibiting anticompetitive mergers, collusion, and exclusionary uses of monopoly power. Yet, it is well understood that exercise of monopoly power, including the charging of monopoly prices, through the exercise of a lawfully gained monopoly position will not run afoul of the antitrust laws.²

¹ U.S. DEP'T OF JUSTICE & FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 1 (1995), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132, *available at*

<http://www.usdoj.gov/atr/public/guidelines/0558.pdf>[hereinafter ANTITRUST-IP GUIDELINES].

² *Verizon Commc'ns Inc. v. Law Offices of Curtis V.*

The same principle applies to monopoly power that is based on intellectual property rights. As Judge Posner has explained, “It is not a violation of [the antitrust] laws to acquire a monopoly by lawful means, and those means include innovations protected from competition by the intellectual property laws.”³

Although some intellectual property rights may create monopolies, intellectual property rights do not necessarily (and indeed only rarely) create monopolies because consumers may be able to substitute other technologies or products for the protected technologies or products. Therefore, antitrust doctrine does not presume the existence of market power from the mere presence of an intellectual property right.⁴

Consequently, antitrust and intellectual property are properly perceived as complementary bodies of law that work together to bring innovation to consumers: antitrust laws protect robust competition in the marketplace, while intellectual property laws protect the ability to earn a return on the investments necessary to innovate. Both spur competition among rivals to be the first to enter the marketplace with a desirable technology, product, or service.

Trinko, LLP, 540 U.S. 398, 407 (2004).

³ Richard A. Posner, *Antitrust in the New Economy*, 68 ANTITRUST L.J. 925, 930-31 (2001).

⁴ *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1284 (2006) (“[T]he mere fact that a tying product is patented does not support [a market power] presumption.”); ANTITRUST-IP GUIDELINES § 2.2 (“The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.”).

Although there is broad consensus that the basic goals of antitrust and intellectual property law are aligned, difficult questions can arise when antitrust law is applied to specific activities involving intellectual property rights that do create market power. That may happen when, for instance, a standard of manufacture for an entire industry or the only treatment for a particular disease incorporates patented technology, or when the research and development (“R&D”), invention, manufacture, or distribution of a product or process without good substitutes involves the licensing of protected technology. The Antitrust Division of the U.S. Department of Justice and the U.S. Federal Trade Commission (the “Agencies”) frequently address complex antitrust questions related to conduct involving the exercise of intellectual property rights in enforcement actions, reports, testimony, reviews of proposed business conduct, and *amicus curiae* or “friend of the court” briefs filed in the federal courts of appeals and the Supreme Court. In doing so, the Agencies must apply antitrust principles to identify illegal collusive or exclusionary conduct while at the same time supporting the incentives to innovate created by intellectual property rights. Condemning efficient activity involving intellectual property rights could undermine that incentive to innovate, and thus slow the engine that drives much economic growth in the United States. However, failure to challenge illegal collusive or exclusionary conduct, involving intellectual property as well as other forms of property, can have substantial negative consequences for consumers.

Recognizing that both robust competition and intellectual property rights are crucial to a well-functioning market economy, the Agencies conducted a series of Hearings, beginning in February 2002, designed to develop a better understanding of the questions that arise when antitrust law is applied to conduct involving intellectual property rights and to examine the Agencies' approach toward analyzing such conduct. The Hearings, entitled "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy," assembled business people from large and small firms, academics, and legal practitioners. During the Hearings, the Agencies heard a wide range of views from more than 300 panelists and received more than 100 written comments.⁵ In conjunction with the Hearings, the Agencies also reviewed the scholarly literature addressing issues on the cutting edge of legal doctrine and economic theory, concerning how best to reward innovation while encouraging competition.⁶ This Report synthesizes many of the views expressed during the Hearings, in the written submissions, and in the literature, and draws conclusions where appropriate on the proper analysis for evaluating certain activities involving intellectual property rights, as well as the key considerations that should inform the

⁵ Hearings information and materials can be accessed on the Agencies' websites. DOJ/Antitrust, *Competition and Intellectual Property Law in the Knowledge-Based Economy*, <http://www.usdoj.gov/atr/hearing.htm>; Federal Trade Commission, *Competition and Intellectual Property Law in the Knowledge-Based Economy*, <http://www.ftc.gov/opp/intellect>.

⁶ For a complete list of the scholarly literature cited by the Agencies, see Appendix G.

Agencies' analysis.⁷

Many of these key considerations are found within the framework of the Antitrust Guidelines for the Licensing of Intellectual Property ("Antitrust-IP Guidelines"). The Agencies' review of intellectual property and antitrust law and policy illustrates that the Antitrust-IP Guidelines remain an integral part of the Agencies' analysis of intellectual property and antitrust issues. For over a decade, the Agencies have relied on the sound principles of these guidelines to aid their analysis of complex licensing agreements. Those principles will continue to guide the Agencies as they consider new and challenging antitrust questions that involve intellectual property rights.

The general principles articulated in section 2 of these Guidelines provide a solid foundation for this analysis. First, the Guidelines state that agreements involving intellectual property can be analyzed using the same antitrust rules applied to agreements involving any other property.⁸ During the Hearings, former Deputy Assistant Attorney General Richard J. Gilbert explained that

⁷ In October 2003, the FTC issued a report, based on a portion of the Hearings record, which made a series of recommendations for reform of the patent system designed to maintain a proper balance between competition and intellectual property policies. FEDERAL TRADE COMM'N, *TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY* Executive Summary, at I-V (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

⁸ ANTITRUST-IP GUIDELINES § 2.1 ("The Agencies apply the same general antitrust principles to conduct involving intellectual property that they apply to conduct involving any other form of tangible or intangible property.").

“[w]hat this mean[s is] not that intellectual property is the same as other forms of property. It clearly is not the same. . . . [B]ut in terms of how to analyze intellectual property issues, the same [antitrust] principles apply.”⁹ Second, the Guidelines state that an intellectual property right does not necessarily create market power. Rather, the Agencies determine whether substitutes for the protected technology or product prevent the intellectual property right holder from exercising market power.¹⁰ Third, the Guidelines state that intellectual property licensing is generally procompetitive because it allows firms to combine intellectual property rights with other complementary factors of production such as manufacturing and production facilities and workforces.¹¹

As the Antitrust-IP Guidelines suggest, many of the difficult questions that the Agencies encounter in the application of antitrust principles to intellectual property stem from differences between the characteristics of intellectual property and other forms of property. Intellectual property is more easily misappropriated than many other forms of property in that it is often easier

to copy and may be used without interfering with the ability of others also to use it. The fixed costs of creating intellectual property can be high, while the marginal costs of using intellectual property are often low. Moreover, the boundaries of intellectual property rights are often uncertain and difficult to define, so that neither the intellectual property holder nor competitors know the precise extent of protection afforded by the intellectual property right without a decision from a court or binding arbiter. The value of intellectual property typically depends more on its combination with other factors of production, such as manufacturing and distribution facilities, workforces, or complementary intellectual property, than does tangible property. Finally, the duration of some, but not all, intellectual property rights is limited.¹² The application of antitrust law to intellectual property requires careful attention to these differences.

This Report discusses how these principles are applied to particular activities involving intellectual property rights. The first two chapters of this Report focus on certain methods that an

⁹ Feb. 6, 2002 Hr’g Tr., Welcome and Overview of Hearings at 85 (Gilbert), <http://www.ftc.gov/opp/intellect/020206ftc.pdf> [hereinafter Feb. 6 Tr.]. For example, the Agencies analyze acquisitions of intellectual property pursuant to the Horizontal Merger Guidelines, examining whether the acquisitions are likely to substantially lessen competition. U.S. DEP’T OF JUSTICE & FEDERAL TRADE COMM’N, HORIZONTAL MERGER GUIDELINES (1992, rev. ed. 1997), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,104, *available at* <http://www.usdoj.gov/atr/public/guidelines/hmg.pdf>.

¹⁰ ANTITRUST-IP GUIDELINES § 2.1.

¹¹ *Id.* § 2.3.

¹² Patents are valid for a term of twenty years from the date on which the application for the patent was filed. 35 U.S.C. § 154(a)(2) (2000). Most copyrights are valid for the life of the author plus seventy years or ninety-five years after the work is first published if the creator is a corporation. 17 U.S.C. § 302(a), (c) (2000). Trade secrets enjoy perpetual protection provided the secret information is not disclosed. 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.05[1], at 1-197 (2005). Trademarks are protected as long as the mark continues to indicate a specific source or quality and is not abandoned by the owner. 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 6.8, at 6-11 to -12 (4th ed. 2005).

individual holder of intellectual property rights might employ to maximize the benefits it receives from its intellectual property. Chapter 1 addresses the antitrust consequences for a patent holder that unilaterally and unconditionally refuses to license its patent. Chapter 2 addresses collaboratively set standards and “hold up,” or the ability of an intellectual property holder to extract more favorable licensing terms after a standard is set.

The remaining chapters of this Report focus directly on intellectual property licensing practices. Chapter 3 addresses patent pools and cross-licensing arrangements and analyzes licensing structures used to lower the risk that patent-pooling agreements will cause competitive harm. Chapter 4 considers the procompetitive and anticompetitive effects of specific types of restrictions in intellectual property licenses, including non-assertion clauses, grantbacks, and reach-through royalty agreements. The antitrust consequences of tying and bundling of intellectual property rights are assessed in Chapter 5. Finally, in Chapter 6, the Report addresses the competitive significance of restrictions that attempt to extend the temporal reach of patents. The Agencies’ conclusions regarding these topics are summarized in this introduction.

CHAPTER 1: THE STRATEGIC USE OF LICENSING: UNILATERAL REFUSALS TO LICENSE PATENTS

Although intellectual property law and antitrust law are complementary, two divergent appellate decisions, *Image Technical Services, Inc. v. Eastman Kodak Co. (“Kodak”)*¹³ and *In re Independent Service Organizations Antitrust Litigation (CSU)*,¹⁴ illustrate the potential for conflict regarding unilateral refusals to license patents. Panelists explored the circumstances, if any, under which courts should impose antitrust liability for a refusal to license a patent. Panelists agreed that neither *Kodak* nor *CSU* provide sufficient guidance on potential antitrust liability for a refusal to license. Most panelists rejected the approach of the U.S. Court of Appeals for the Ninth Circuit in *Kodak*, which impracticably focused on the subjective intent of the patent holder that had refused to license its patent. As one panelist noted, *Kodak* presents a standard that is out of step with the modern focus of antitrust analysis, which is on objective economic evidence. Panelists also criticized the decision of the U.S. Court of Appeals for the Federal Circuit in *CSU*, which, in dictum, narrowly construed the circumstances in which antitrust liability can arise for a refusal to license. These circumstances – illegal tying, fraud on the U.S. Patent and Trademark Office, and sham litigation – provided little guidance, according to panelists, because they are independent bases for antitrust liability.

¹³ 125 F.3d 1195 (9th Cir. 1997).

¹⁴ 203 F.3d 1322 (Fed. Cir. 2000).

Other panelists feared the *CSU* decision would be interpreted broadly to encompass conduct beyond the unilateral refusal to license, to instances in which the patentee attaches conditions to a license.

Most panelists concluded, consistent with the Antitrust-IP Guidelines, that antitrust laws should be applied in the same manner to intellectual property as they are to other property. Panelists offered differing views on other issues, however, such as whether challenging refusals to license would have significant chilling effects on innovation, the possible competitive effects of refusals to license, and whether compulsory licensing is a workable remedy for an antitrust violation. Although some panelists favored the possibility of antitrust liability for refusals to license in narrow circumstances, others favored a categorical exemption from antitrust liability for unilateral, unconditional refusals to license. Panelists agreed that conditional refusals to license, which have the potential to cause competitive harm, can and should be treated as an antitrust violation in appropriate circumstances.

The Agencies' Conclusions:

- **Section 271(d)(4) of the Patent Act does not create antitrust immunity for unilateral refusals to license patents.**
- **Statements in Supreme Court jurisprudence support the unilateral right to refuse to grant a patent license is a core part of the patent grant.**
- **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.”¹⁵ Moreover, liability would restrict the patent holder’s ability to exercise a core part of the patent – the right to exclude.**
- **Conditional refusals to license that cause competitive harm are subject to antitrust liability.**

CHAPTER 2: COMPETITION CONCERNS WHEN PATENTS ARE INCORPORATED INTO COLLABORATIVELY SET STANDARDS

Industry standards are widely acknowledged to be one of the engines of the modern economy. Standards can make products less costly for firms to produce and more valuable to consumers. They can increase innovation, efficiency, and consumer choice; foster public health and safety; and serve as a “fundamental building block for international trade.”¹⁶ Standards make networks, such as the Internet and telecommunications, more

¹⁵ *Trinko*, 540 U.S. at 407-08 (setting forth three sources of that tension).

¹⁶ Amy A. Marasco, *Standards-Setting Practices: Competition, Innovation and Consumer Welfare* (Apr. 18, 2002 Hr’g R.) at 3-4, <http://www.ftc.gov/opp/intellect/020418marasco.pdf>.

valuable to consumers by allowing products to interoperate.

Businesses can collaborate to establish industry standards by working through standard-setting organizations (“SSOs”). During the standard-setting process, SSO members often jointly evaluate and choose between substitute technologies. This process can raise antitrust concerns, and indeed, some collaborative standard-setting activities have been challenged under the antitrust laws. Unique antitrust issues arise when the standards adopted involve, as they frequently do, intellectual property rights. If a technology lacks effective substitutes because an SSO chose to include it in a standard, and the costs associated with switching to an alternative standard are high, the owner of patents on that technology may be able to hold up firms wishing to implement the standard by setting higher royalties and less favorable licensing terms than it could have done before the standard was set.

To mitigate the potential for hold up, many SSOs have required participants to disclose the existence of intellectual property rights that may be infringed by a standard and to commit to licensing on reasonable and nondiscriminatory (“RAND”) terms. Panelists agreed that intellectual property disclosure rules can help avoid hold up by informing SSO members early about relevant intellectual property rights that may be asserted by those participating in the standard-setting process. Those rules can be successful in preventing hold up, however, only if participants comply. At the Hearings, panelists also noted the potential costs

associated with disclosure requirements, including slowing the adoption of a standard and deterring wide-spread participation in the SSO.

Some SSOs and SSO members would like to further mitigate the potential for hold up by requiring patent owners to commit to licensing terms before the SSO will select the patented technology as part of a standard. Panelists addressed how *ex ante* licensing discussions could alleviate hold up. There was general consensus among panelists that a more transparent process for setting licensing terms would be desirable, but many expressed concern that such discussions could increase the risk of an antitrust challenge. Further, the increased administrative costs and delays associated with that transparency led many panelists to disfavor including *ex ante* discussions in the standard-setting process for practical reasons that were independent of antitrust concerns.

The Agencies’ Conclusions:

- ***Ex ante* consideration of licensing terms by SSO participants can be procompetitive.**
- **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.

- **An intellectual property owner's unilateral announcement of licensing terms does not violate section 1 of the Sherman Act.**
- **An intellectual property owner's unilateral announcement of price terms, without more, does not violate section 2 of the Sherman Act.**
- **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.**
- **The Agencies take no position as to whether SSOs should engage in joint *ex ante* discussion of licensing terms.**

CHAPTER 3: ANTITRUST ANALYSIS OF PORTFOLIO CROSS-LICENSING AGREEMENTS AND PATENT POOLS

In many industries, the patent rights necessary to commercialize a product are frequently controlled by multiple rights holders. This fragmentation of rights can increase the costs of bringing products to market due to the transaction costs of negotiating multiple licenses, and greater

cumulative royalty payments. Portfolio cross licenses and patent pools can help solve the problems created by these overlapping patent rights, or patent thickets, by removing the need for patent-by-patent licensing, thus reducing transaction costs for licensees. In addition, patent-pooling agreements may mitigate royalty stacking and hold-up problems that can occur when multiple patent holders individually demand royalties from a licensee. At the same time, portfolio cross licenses and patent pools preserve the financial incentives for inventors to commercialize their existing innovations and undertake new, potentially patentable R&D.

Although both cross-licensing and patent-pooling agreements have the potential to generate significant efficiencies, they also may generate anticompetitive effects if the arrangements result in price fixing, coordinated output restrictions among competitors, or foreclosure of innovation. For instance, horizontal coordination among the pool's licensors could lead to a reduction in price competition between technologies or downstream products. Moreover,

a pooling arrangement that requires members to grant licenses to each other for current and future technology at minimal cost may reduce the incentives of its members to engage in research and development because members of the pool have to share their successful research and development and each of the members can free ride on the

accomplishments of other pool members.¹⁷

Pooling agreements typically warrant greater antitrust scrutiny than do cross-licensing agreements due to the collective pricing of pooled patents, greater possibilities for collusion, and generally a larger number of market participants.

Hearing panelists discussed several topics, including the similarities and differences between pooling and cross-licensing agreements, the potential procompetitive benefits and anticompetitive effects of pools and cross licenses, and the safeguards that have been proposed through the Department's business review procedures to help ensure that patent pools do not harm competition. Panelists generally agreed that the Agencies' existing guidance in this area has been instructive and helpful.

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.**
- **Combining complementary patents within a pool is generally procompetitive.**

- **Including substitute patents in a pool does not make the pool presumptively anticompetitive; competitive effects will be ascertained on a case-by-case basis.**
- **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.**
- **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.**

CHAPTER 4: VARIATIONS ON INTELLECTUAL PROPERTY LICENSING PRACTICES

Because the Agencies recognize that most business transactions involving the use, distribution, transfer, or exchange of intellectual property rights are procompetitive, they most commonly evaluate the competitive impact of such transactions under the rule of reason. For restraints in intellectual property licenses, this approach means inquiring "whether the restraint is likely to have anticompetitive effects, and, if so, whether the restraint is reasonably necessary to achieve procompetitive benefits that outweigh those anticompetitive effects."¹⁸ The analysis of a particular licensing restraint inquires

¹⁷ ANTITRUST-IP GUIDELINES § 5.5.

¹⁸ *Id.* § 3.4.

whether the restraint “harms competition among entities that would have been actual or likely potential competitors” in the absence of the license.¹⁹ Restraints that encourage licensees to develop and market the licensed technology or that reduce the transaction costs of licensing the technology are more likely to be found reasonable. When assessing licensing restraints, the Agencies will not search for unrealistic least restrictive alternatives for the restraint.²⁰ The Agencies will, however, treat as unlawful *per se* those restraints that courts have found plainly anticompetitive, such as price fixing and market division among horizontal competitors, because they always, or almost always, tend to raise prices or reduce output.²¹

Hearings panelists discussed several specific licensing practices that are analyzed using the framework of the Antitrust-IP Guidelines: non-assertion clauses, grantbacks, and reach-through royalty agreements. Panelists considered when these practices might be procompetitive, under what circumstances they might be anticompetitive, and whether the Antitrust-IP Guidelines provide adequate guidance for evaluating the antitrust implications of these arrangements. Panelists generally agreed that the basic principles set forth in the Antitrust-IP Guidelines are preferable to bright line, *per se* rules that affirmatively approve or condemn a specific licensing practice without regard to the circumstances in

which these rules are applied.

The Agencies’ Conclusion:

- **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.**

CHAPTER 5: ANTITRUST ISSUES IN THE TYING AND BUNDLING OF INTELLECTUAL PROPERTY RIGHTS

A tying arrangement occurs when, through a contractual or technological requirement, a seller conditions the sale or lease of one product or service on the customer’s agreement to take a second product or service. A “requirements tie-in” sale occurs when a seller requires customers who purchase one product from the seller (e.g., a printer) also to make all their purchases of another product from the seller (e.g., ink cartridges). Such tying allows the seller to, for example, charge customers different amounts depending on their product usage. A bundled sale typically refers to a sale in which the products are sold only in fixed proportions (e.g., one pair of shoes and one pair of shoe laces, or a newspaper, which can be viewed as a bundle of sections, some of which may not be read at all by individual customers).

Intellectual property bundling can take various forms and labels, depending

¹⁹ *Id.* § 3.1.

²⁰ *Id.* § 4.2.

²¹ *Id.* § 3.4.

on whether the product linked to the intellectual property also embodies intellectual property, whether one price or separate prices are charged, and whether the linkage is accomplished contractually or technologically. Classic “contractual” patent tying occurs when the tying product is patented (such as a mimeograph machine), the tied product is a commodity used as an input for the tying product (such as ink or paper), and the sale of the patented product is conditioned on the purchase of the unpatented product. A “technological tie” may be defined as one in which “the tying and tied products are bundled together physically or produced in such a way that they are compatible only with each other.”²² Multiple intellectual property rights may themselves be combined into bundles or licensed in packages, such as the “block booking” of motion pictures or television shows.

Economic theory can identify both procompetitive and anticompetitive effects when two or more products are tied or bundled together and at least one of these products involves intellectual property rights. In spite of this, under current antitrust case law, tying arrangements, including those involving intellectual property, continue to be *per se* illegal if the seller has market power in the tying product and certain other conditions are met.²³ However, the application of the *per se* rule to tying has

evolved to incorporate a market analysis.²⁴

One Hearing panel discussed how the Agencies and the courts could best analyze IP tying and bundling, both to reach the right answers in particular cases and to give private parties a reasonable ability to predict how their licensing practices will be treated under the antitrust laws. Several panelists recognized the efficiencies potentially associated with the tying and bundling of intellectual property rights and panelists were generally in favor of a more flexible application of the antitrust laws to intellectual property tying and bundling.

The Agencies’ Conclusion:

- **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**

²² 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 21.5b2, at 21-104 (2002). An example would be a razor and razor blade cartridge.

²³ *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 9 (1984); *Ill. Tool*, 126 S. Ct. at 1284.

²⁴ *Nat’l Collegiate Athletic Ass’n v. Bd. of Regents of the Univ. of Okla.*, 468 U.S. 85, 104 n.26 (1984) (“[W]hile the Court has spoken of a ‘*per se*’ rule against tying arrangements, it has also recognized that tying may have procompetitive justifications that make it inappropriate to condemn without considerable market analysis.”).

anticompetitive effects.”²⁵ If a package license constitutes tying,²⁶ the Agencies will evaluate it pursuant to the same principles they use to analyze other tying arrangements.

CHAPTER 6: COMPETITIVE ISSUES REGARDING PRACTICES THAT EXTEND THE MARKET POWER CONFERRED BY A PATENT BEYOND ITS STATUTORY TERM

A portion of the Hearings focused on the competitive impact of practices that firms may use to extend the reach of a patent beyond the expiration of a patent’s statutory term, such as collecting royalties beyond the statutory term, the use of exclusive contracts that deprive rivals or potential entrants of a source of supply or access to customers, or bundling trade secrets with patents. Of course, these efforts do not have the potential to cause competitive concern unless the patent in question is associated with market power, i.e., when the patent holder can profitably “maintain prices above, or output below, competitive levels for a significant period of time.”²⁷ Moreover, although some of these practices may have the *potential* to extend the ability to exercise the market power conferred by a patent, many

²⁵ ANTITRUST-IP GUIDELINES § 5.3 (footnotes omitted).

²⁶ 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.*

²⁷ *Id.* § 2.2.

practices do not actually do so, and as panelists observed, they may, in fact, offer efficiencies. Accordingly, 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.

The Agencies’ Conclusions:

- **The starting point for evaluating practices that extend beyond a patent’s expiration is analyzing whether the patent in question confers market power.**
- **Standard antitrust analysis applies to practices that have the potential to extend the market power conferred by a patent beyond its expiration.**
- **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,²⁸ 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.**

²⁸ See *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

Holding the Hearings and developing this Report has improved the understanding of the Agencies regarding issues at the intersection of antitrust and intellectual property law. Listening to the differing perspectives of the panelists, and reviewing the submissions and the literature, has helped hone the Agencies' analysis of compelling issues at the intellectual property-antitrust interface that will continue to arise as we move further into the twenty-first century. The Hearings confirmed that the rigorous economic analysis introduced into competition law in the 1980s, which the Agencies continue to apply today, is robust enough to tackle unexplored questions that lie ahead. This analysis focuses on preserving incentives for creativity and innovation, and avoids applying intellectual property-specific rules that may undermine creativity and innovation. The Hearings further confirmed the continuing vitality of the principles espoused in the Antitrust-IP Guidelines in guiding the Agencies' consideration of challenging antitrust questions in this area. The Agencies will continue to identify those circumstances under which it may be necessary for the Agencies to intervene in order to prevent practices that are harmful to competition or innovation. Using our improved understanding of intellectual property, the Agencies better can ensure that intellectual property and antitrust laws continue to achieve their common goals of "encouraging innovation, industry and competition."²⁹

²⁹ See *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990); Feb. 6 Tr. at 11-12 (James).