

## Wagging The Dog? Reconsidering Antitrust-Based Regulation of IP-Licensing

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# WAGGING THE DOG?

## RECONSIDERING ANTITRUST-BASED REGULATION OF IP-LICENSING

GÖSTA SCHINDLER\*

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## INTRODUCTION

This Article aims to add another piece to a so far still puzzling picture at the interface of intellectual property and antitrust laws. While past and current discussions mostly revolve around the notion that only one—either Antitrust or IP laws—can prevail, the author favors a differentiated understanding.

This Article compares how IP licensing is scrutinized by antitrust regimes in the European Union (EU) and the United States. The result of that comparison leads to the conclusion that any attempted resolution of the IP-Antitrust “dilemma” will remain inadequate as long as it is “antitrust-based,” that is, regulated by antitrust laws or guidelines designed by antitrust-agencies. Unlike by other current approaches, the overall validity of substantive antitrust concerns regarding IP licensing is not called into question, however. It is the *institutional setup* in which the antitrust policies regarding IP exploitation are designed and enforced that is proposed to be in need of change. The author argues that antitrust concerns can and should be accounted for through proper construction and application of the IP laws themselves.

The proposed “IP-based” approach to IP licensing is claimed to be beneficial in at least two respects: it maintains the dogmatic clarity of the IP laws while preserving the bargain underlying the grant of intellectual property rights. Furthermore, this Article suggests that an “IP-based” regulation of licensing activities will—despite initially increased costs—in the long run be more cost efficient than current approaches and therefore also be economically preferable.

Intellectual Property Rights (IPRs)<sup>1</sup> confer exclusive rights to their owner. This exclusivity of IPRs is often described as providing “monopoly-power,” which, were it true, would stand in opposition to antitrust legislation aiming at the control or even breakup of monopolies and at the promotion of competition. It has been shown more than once, however, that this view on IPRs is based on a misconception of the term “monopoly.”<sup>2</sup>

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1. For purposes of this Article “IPRs” refer to patents, copyrights, trade secrets, and know-how.

2. See Willard K. Tom & Joshua A. Newberg, *Antitrust and Intellectual Property: From Separate Spheres to Unified Field*, 66 ANTITRUST L.J. 167, 189 (1997); see also *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933); Tracy R. Lewis & Dennis A. Yao, *Some Reflections on the Antitrust Treatment of Intellectual Property*, 63 ANTITRUST L.J. 603, 608 (1995).

Nevertheless, questions traditionally dealt with in antitrust laws frequently arise when IPRs are exploited, especially by licensing. It is almost inherent in license agreements that the licensor imposes restrictions, for instance, as to the territory in which the licensee may use the IPR. Such restrictions in general trade (e.g. sales or distribution contracts) have always been under antitrust scrutiny. It appears logical, therefore, that IPR-licensing agreements containing such exclusivity restrictions should be subject to antitrust control as well. The perception of the interplay between IP and antitrust has changed over the years. It has rarely been called into question, however, that the legality of IP-licensing terms should be analyzed under antitrust laws. It further went unchallenged that the specialized agencies dealing with antitrust violations took on the task to review IP licenses.

In 1995, the U.S. Department of Justice and the Federal Trade Commission (“the Agencies”) issued the *Antitrust Guidelines for the Licensing of Intellectual Property* (“Antitrust Guidelines”). These Guidelines state the general enforcement policy of the Agencies concerning IP licensing.<sup>3</sup> Thereby the Agencies manifested their claim to scrutinize IP-licensing agreements. In the same spirit, the Commission of the European Union (“the Commission”) in 2004 issued a renewed “block exemption” regulation for certain technology-transfer agreements (“TTBER”).<sup>4</sup> This regulation renders Article 81(1) of the Treaty establishing the European Community<sup>5</sup> (“ECT”) inapplicable on certain kinds of IPR-licensing agreements.<sup>6</sup> The mere fact that certain IP licenses are regulated in regard to Article 81(1) ECT establishes that the EU—like the United States—regards IPR licensing as an antitrust issue.

However, court decisions in the United States as well as in Europe give reason to question this general assumption of the Agencies’ supervisory power over IP licenses. In *Lasercomb America, Inc. v. Reynolds*,<sup>7</sup> the court found that the analysis to prove copyright misuse is

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3. US DEPT. OF JUSTICE & FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 1 (1995) [hereinafter Antitrust Guidelines].

4. Commission Regulation 772/2004 on the Application of Article 81(3) of the Treaty to Categories of Technology Transfer Agreements, 2004 O.J. (L 127) 11 (EC) [hereinafter TTBER]. This regulation replaced Regulation 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 031) (EC) [hereinafter TTBER 240/96].

5. Consolidated Version of the Treaty Establishing the European Community, Dec. 29, 2006, 2006 O.J. (C 321) 37 [hereinafter ECT].

6. TTBER, *supra* note 4.

7. 911 F.2d 970 (4th Cir. 1990).

“*similar to but separate* from the analysis necessary to a finding of an antitrust violation.”<sup>8</sup> This judgment could be read to suggest that although IPR licensing might touch on both antitrust and IP-law issues, the respective statutory regimes have a distinct realm of applicability. Once it has been determined which body of law prevails, only *its* distinctive tests must be employed. With this reading, the Agencies might not be the authorities to issue *general* guidelines on the treatment or evaluation of IP licenses. In *Illinois Tool Works Inc. v. Independent Ink, Inc.*,<sup>9</sup> the Supreme Court ruled that an IPR<sup>10</sup> does not of itself confer market power.<sup>11</sup> Thereby it ruled out the “monopoly-presumption” long held. As a consequence, arguably, the Agencies now have to demonstrate a restraint of trade<sup>12</sup> to justify antitrust scrutiny of IPR-licensing agreements.<sup>13</sup>

The European Court of Justice (“ECJ”) has also established that the ownership of an IPR does not confer market power and that conduct that falls within the scope of an IPR—and this generally includes licensing—can never be reviewed in relation to antitrust laws.<sup>14</sup> Thus, in both major IPR-producing jurisdictions, IP licensing is under the general scrutiny of the antitrust authorities despite the fact that, in both jurisdictions, courts have issued judgments suggesting that such a general antitrust scrutiny of IPR licenses might be misplaced.

The interface of IPRs and antitrust laws as it appears in the context of license agreements should therefore be revisited. It needs to be clarified if the Commission’s and the Agencies’ approaches are valid or if they unduly scrutinize legitimate practices of IPR owners. The following analysis introduces the TTBER and the Antitrust Guidelines and compares the legal status of both sets of rules including their scope and basic principles. This comparison will first show if and to what extent the antitrust views on IPR exploitation vary between Europe and the United States. Secondly, it will serve as a starting point for an

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8. *Id.* at 979 (emphasis added).

9. 547 U.S. 28 (2006).

10. In this case a patent.

11. 547 U.S. at 45.

12. See 15 U.S.C. § 1 (2000). The exact meaning seems to be unclear; “restraint of trade” is often used as an umbrella term covering different types of anticompetitive behavior. For details, see PHILIPP E. AREEDA & HERBERT HOVENCAMP, ANTITRUST LAW, AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION 93-99 (2d ed. 2000).

13. Unless, of course, the parties are engaged in plainly anticompetitive behavior, for instance, the division of markets.

14. See cases C-241/91 P and C-242/91 P, *Radio Telefis Eireann v. Commission*, 1995 E.C.R. ¶ 48.

analysis of the merits of the Agencies' and the Commission's general approach. It will be analyzed to what extent this approach is coherent with intellectual property law legislation.<sup>15</sup> It will be suggested that the "external" antitrust perspective on IPR licensing agreements is legally questionable and unnecessary. To remedy some of the perceived disadvantages identified in the current approach, a new, IP-driven approach to the analysis of IP licenses will be suggested. This approach attempts to step away from the "isolated" application of the antitrust system and suggests an integrated regulatory system based on the specialized IP agencies and courts.

### I. TTBER AND ANTITRUST GUIDELINES

The TTBER and the Antitrust Guidelines both evaluate and limit IPR licensing from the antitrust perspective, i.e., guided by antitrust concerns and objectives. Apart from this similarity, by their very nature (regulation vs. guideline) and due to the different jurisdictions they emerge from, the TTBER and the Antitrust Guidelines form two distinct approaches to deal with the interface of antitrust laws and IPRs.

#### *A. Articles 81(1) and (3) ECT and Block Exemption Regulations*

To understand the different approaches, and especially the TTBER, one first has to consider the legal environment of the TTBER.

Article 81(1) ECT prohibits all agreements between undertakings that may affect trade between member states and which have as their object or effect the prevention, restriction, or distortion of competition within the common market. According to Article 81(3) ECT, an agreement is exempt from the prohibition of Article 81(1) ECT if it is beneficial for consumers. To benefit consumers, the agreement must contribute to the improvement of production or distribution of goods or promote technical or economic progress.

Prior to May 1, 2004, exemptions according to Article 81(3) ECT required an evaluation and a subsequent formal decision by the Commission. This procedure was criticized for giving the Commission a monopoly on decisions about the antitrust relevance of agreements while producing enormous administrative costs.<sup>16</sup> To reduce these costs and provide legal certainty for undertakings, the Council of the

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15. Obviously, no full comparative analysis is possible. It is the underlying, generalized basis of IP laws that is compared.

16. Council Regulation 1/2003, 2003 O.J. (L 1) 1, Recital 3 [hereinafter Council Regulation 1/2003].

European Union passed Regulation 19/65/EEC.<sup>17</sup> In accordance with this regulation, the Commission could and did issue “block exemption regulations,” exempting *categories* of practices that are considered to normally be consistent with Article 81(1) ECT.<sup>18</sup>

Regulation (EC) 1/2003, which took effect May 1, 2004, brought about fundamental changes. According to its Article 1(2), agreements that fall within the scope of Article 81(3) ECT are now *automatically* legal without prior evaluation by the Commission. This change necessarily affected the block exemption regulations issued by the Commission.<sup>19</sup> Prior to Regulation (EC) 1/2003, undertakings had to apply for exemption by the Commission even if they believed their agreement to be “block exempted.”<sup>20</sup> Now, the possibility to obtain a formal exemption is unavailable. Unlike in the United States, there is furthermore no option to obtain an (non-binding) informal evaluation of the validity of a license agreement.<sup>21</sup> According to the new legislative approach they are unnecessary anyway.

The flipside of this new approach is that the undertakings bear a heavy burden of legal uncertainty. They have to determine and evaluate all factors relevant for the analysis of Article 81(3) ECT as well as the factors concerning the applicability of a block exemption. Should the determination by the undertakings differ from a subsequent evaluation by the Commission (for example, in the course of antitrust litigation), the agreement will be declared void due to a violation of Article 81(1) ECT.

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17. Council Regulation 19/65/EEC, 1965-1966 O.J. SPEC. ED. (36) 1 [hereinafter Council Regulation 19/65/EEC].

18. See, e.g., Commission Regulation 1475/95 On the Application of Article 85(3) of the Treaty of Certain Categories of Motor Vehicle Distribution and Service Agreements, 1995 O.J. (L 145) 1; Commission Regulation 2790/1999, On the Application of Article 81(3) of the Treaty to Categories of Agreements and Concerted Practices, 1999 O.J. (L 336).

19. Josef Drexl, *Die neue Gruppenfreistellungsverordnung für Technologietransfervereinbarungen im Spannungsfeld von Ökonomisierung und Rechtssicherheit*, GRUR INT. 716, 719 (2004) (legitimately questions if after Regulation 1/2003 the block exemption regulations are still necessary, as all agreements within the scope of Article 81(3) ECT are automatically exempt).

20. In practice most undertakings, instead of applying for such exemption, relied on the informal, but much faster, “comfort-letters” by which the Commission acknowledged that, by the facts presented, it would not object to the agreement. See KNUT W. LANGE, HANDBUCH ZUM DEUTSCHEN UND EUROPÄISCHEN KARTELLRECHT, 192 (2001).

21. For the United States, see 28 C.F.R. § 50.6 (2006), 16 C.F.R. §§ 1.1-1.4 (2007). In the EU the availability of comfort letters is unclear. Compare VALENTINE KORAH, INTELLECTUAL PROPERTY RIGHTS AND THE EC COMPETITION RULES 26 (2006) (implying a general availability of comfort letters), with Johannes Zöttl, *Das neue EG-Kartellrecht für Technologietransferverträge*, WRP 33, 46 (2005) (F.R.G.) (arguing against the availability).



*B. The New TTBER*

Within this new general framework, on May 1, 2004, the new TTBER came into effect.<sup>22</sup> It replaced the previous block exemption from 1996 and introduced the Commission's "more economic," i.e., economic-based approach, to IPR licensing.<sup>23</sup> The TTBER is based on three different assumptions. First, the Commission is of the opinion that intellectual property laws and competition laws share the basic objective of promoting consumer welfare and an efficient allocation of resources.<sup>24</sup> Second, the IPR owner must not be unduly restricted in the exploitation of his IPRs so as to allow him to recover sufficient monetary gain including recovery of sunk costs.<sup>25</sup> Third, there is no presumption that IPR licensing as such gives rise to competition law concerns.<sup>26</sup> To the contrary, "[t]echnology transfer agreements can give rise to economic efficiencies that outweigh the negative impact of restrictions that might be indispensable to the attainment of such efficiencies."<sup>27</sup>

According to Article 2(1) TTBER, only technology transfer agreements between *two* undertakings can be block exempted. Multi-party agreements fall outside the scope of the TTBER.<sup>28</sup> Furthermore, a technology-transfer agreement must concern the production of "contract products"—that is, goods or services which are produced with or incorporate the licensed technology.<sup>29</sup> If the main purpose of an agreement is not the production and distribution of a contract product, the agreement falls outside the scope of the TTBER.<sup>30</sup>

The TTBER only covers license agreements concerning patents, know-how, mixed patent/know-how agreements, design rights, and

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22. In conjunction with the TTBER, the Commission issued the Commission Notice C/2004, 2004 O.J. (C101/2) Guidelines on the Application of Article 81 of the EC Treaty to technology transfer agreements [hereinafter "Commission Guidelines"]. Its purpose is "to provide guidance on the application of the TTBER." *See id.* at I.7.

23. *See* TTBER, *supra* note 4, Recital 4 (the influence of economics to European laws on antitrust); *see* Drexler, *supra* note 19, at 717.

24. Commission Guidelines, *supra* note 22, ¶ 7.

25. *Id.* ¶ at 8.

26. *See id.* at ¶ 35.

27. Commission Guidelines, *supra* note 22, ¶ 35.

28. Under Council Regulation 19/65 EEC, *supra* note 17, at 35. The Commission is not empowered to block exempt technology transfer agreements concluded between more than two undertakings. *Id.*

29. *See* TTBER, *supra* note 4, art. 1 lit. f.; Commission Guidelines, *supra* note 22, ¶ 41.

30. Commission Guidelines, *supra* note 22, ¶¶ 41, 45.

software.<sup>31</sup> Agreements merely relating to trademark or copyright licensing (except for software) are not covered by the TTBER.<sup>32</sup>

Within this framework the new TTBER provides a “safe harbor” in which licensing agreements will not be challenged for antitrust reasons. This safety zone exists upon two conditions: first, it requires certain market-share thresholds not to be exceeded by the contracting parties; second, the agreement must not include any of the so called “hardcore restrictions” exhaustively listed in Article 4 TTBER. If one of these requirements is not met, the entire agreement lies outside of the safe harbor and is subject to individual assessment under Article 81(1), (3) ECT.<sup>33</sup> Even worse, the inclusion of a hardcore restriction will in most cases render the entire agreement void.<sup>34</sup>

Article 5 TTBER finally contains so-called “excluded restrictions.” Agreements containing those clauses will not be void in their entirety. Only the specific term will require individual assessment in light of Article 81(1), (3) ECT.<sup>35</sup>

### 1. Market-Share Thresholds

The Commission believes that an agreement’s impact on the market is insignificant if the parties have no substantial market power.<sup>36</sup> A collective market share up to twenty percent if the contracting parties are competitors and thirty percent if they are not competitors is regarded as insubstantial market power.<sup>37</sup> The inclusion of market-share thresholds is motivated by the Commission’s “economic-based approach” that bases the exemption of an agreement on the assessment of its impact on the relevant market.<sup>38</sup> The relevant market for purposes of the TTBER is determined according to the rules set forth in the market-definition guidelines.<sup>39</sup> The TTBER therefore follows the demand-market principle: goods or services that are substitutable from

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31. TTBER, *supra* note 4, art. 1(1)(b).

32. Commission Guidelines, *supra* note 22, ¶ 50.

33. Just because an agreement does not fall within the scope of the TTBER does not, on the other hand, allow for the presumption that it constitutes an antitrust violation according to Article 81(1) ECT. See TTBER, *supra* note 4, Recital 12.

34. See TTBER, *supra* note 4, art. 4(1), (2); Commission Guidelines, *supra* note 22, ¶ 75.

35. Commission Guidelines, *supra* note 22, ¶ 107.

36. TTBER, *supra* note 4, Recitals 4, 10, and 11.

37. *Id.*

38. *Id.* TTBER, *supra* note 4 at Recital 4.

39. Commission Notice 97/C, 1997 O.J. (C372) 5. See Commission Guidelines, *supra* note 22, ¶ 19.

the consumer's perspective as to their quality, usability, and price, constitute the relevant market.<sup>40</sup> The same test applies for technology markets.

## 2. Hardcore Restrictions—Article 4 TTBER

Technology-transfer agreements must not include any of the so-called “hardcore” restrictions exhaustively listed in Article 4 TTBER in order to qualify for block exemption.<sup>41</sup> The agreement of any of these terms will render the entire transfer agreement void unless it qualifies for individual exemption under Article 81(3) ECT. The Commission has made clear, however, that in its opinion, a hardcore restriction will only in exceptional circumstances be in line with the requirements of Article 81(3) ECT.<sup>42</sup>

Article 4 TTBER differentiates between hardcore restrictions in agreements between competing undertakings<sup>43</sup> and such between not competing undertakings.<sup>44</sup> In addition, Article 4(1) TTBER further distinguishes between reciprocal and non-reciprocal agreements. As reciprocal agreements between competing undertakings pose a substantial threat to competition, these agreements face the highest level of antitrust scrutiny.<sup>45</sup> The Commission treats non-reciprocal agreements more gently.<sup>46</sup> It considers those terms to oftentimes be in line with the objective of IPRs. They can protect legitimate interests of the parties even if they are competitors.<sup>47</sup>

Article 4(1) TTBER prohibits competing undertakings from agreeing on fixed resale prices,<sup>48</sup> output restrictions,<sup>49</sup> allocation of markets or customers,<sup>50</sup> and the restriction of use of licensee's own technology.<sup>51</sup> The prohibited allocation of markets or customers

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40. See, e.g., AREEDA, *supra* note 12, IIA, § 530a.

41. The former TTBER 240/96 contained a “black list” of forbidden clauses and a “white list” of those terms generally acceptable. Thus, some commentators have also labeled Article 4 TTBER “black listed” provision to stress the new approach the Commission takes with this TTBER, one should refrain, however, from using the old terminology.

42. *Id.* Commission Guidelines, *supra* note 22, ¶¶ 18, 75.

43. TTBER, *supra* note 4, art. 4(1).

44. *Id.* at art. 4(2).

45. See *id.* at ¶ 78.

46. *Id.* at ¶ 83.

47. See *id.* at ¶ 83.

48. TTBER, *supra* note 4, art. 4(1) lit. a.

49. *Id.* at art. 4(1) lit. b.

50. *Id.* at art. 4(1) lit. c.

51. *Id.* at art. 4(1) lit. d.

contains seven exceptions that mirror some of the typical problems arising at the interface of antitrust laws and IPRs.

According to Article 4(1)(c)(i) TTBER, field-of-use restrictions do not form a hardcore restriction and are exempted within the market share threshold of twenty percent according to Article 2 TTBER.<sup>52</sup> Articles 4(1)(c)(ii) and (iii) TTBER exempt certain exclusive and sole licenses.<sup>53</sup> Reciprocal exclusive licenses are always prohibited; non-reciprocal exclusive licenses are exempted within the market-share threshold of twenty percent. Sole licenses are always exempted irrespective of their nature as reciprocal or non-reciprocal licenses. Furthermore, sales restrictions, captive use, and second source limitations can be exempted.<sup>54</sup>

Article 4(2) TTBER lists price restrictions, territorial restrictions on the licensee, and restrictions on active or passive sales to end-users by a licensee who sells by retail, as prohibited agreements between non-competing undertakings.<sup>55</sup> The territorial restrictions are not absolute, however, but include a number of exceptions. Broadly speaking, passive sales into territories or to customer groups exclusive to the licensor do not form a hardcore violation.<sup>56</sup> Furthermore, the limitation to production for the licensee's own use, including distribution as spare parts, is consistent with EU competition law.<sup>57</sup> Sales provisions aimed at the protection of certain distributive systems are exempted by virtue of Articles 4(2)(b)(iv), (v), and (vi).<sup>58</sup>

### 3. Excluded restrictions—Article 5 TTBER

The Commission excludes certain provisions from the block exemption. These provisions are potentially harmful to competition, although there is no presumption of anti-competitiveness.<sup>59</sup> The terms may or may not infringe Article 81(1) ECT. If they do, they are invalid and unenforceable. The difference between these and the “hardcore

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52. See Commission Guidelines, *supra* note 22, ¶ 90; Volker Schumacher & Christoph Schmid, *Die neue Gruppenfreistellungsverordnung für Technologietransfer-Vereinbarungen*, GRUR 1, 8 (2006).

53. TTBER, *supra* note 4, art. 4(1)(c)(i)-(iii); see Commission Guidelines, *supra* note 25, ¶¶ 87, 89.

54. TTBER, *supra* note 4, art. 4(1)(c)(iv)-(vii).

55. *Id.* at art. 4(2)(a)-(c).

56. *Id.* at art. 4(2)(b)(i)-(ii).

57. *Id.* at art. 4(2)(b)(iii).

58. *Id.* at art. 4(2)(b)(iv)-(vi).

59. Commission Guidelines, *supra* note 22, ¶ 107.

restrictions” in Article 4 TTBER is that an excluded provision will not “infect” the entire agreement. The respective clause is invalid; the remainder of the contract will stay in force. Again, the assessment of whether an excluded term is coherent with Article 81(1) ECT lies with the undertakings.<sup>60</sup>

Article 5(1) TTBER is concerned with grant-back clauses and non-challenge-provisions,<sup>61</sup> while Article 5(2) TTBER prohibits terms that inhibit a licensee from exploiting his own technology or limit his ability to do research and development.<sup>62</sup> According to Articles 5(1)(a) and (b) TTBER, the licensee must not be obliged to either grant an exclusive license or to even transfer severable improvements (as defined in Article 1(1)(n) TTBER) to the licensor or any third party designated by him.<sup>63</sup> This stems from the presumption that the licensee will have no incentive to invest in improving the technology if he cannot himself exploit such improvements.<sup>64</sup> Any such clause is therefore seen to directly inhibit innovation. While this is the general assumption, one must not forget that any of the excluded provisions are subject to individual assessment under Articles 81(1) and (3) ECT.<sup>65</sup> Therefore, other factors may exist in the individual case that render such a clause permissible. One of these “positive” criteria is consideration.<sup>66</sup> The payment of consideration as such will not go so far as to create the presumption that an exclusive grant-back clause does not violate Article 81(1) ECT.<sup>67</sup> However, the Commission rightly acknowledges that with the prospect of adequate remuneration, a licensor might very well be willing to further the licensed technology and thus promote innovation.<sup>68</sup>

Besides possible payments, the general market position of the licensor can determine permissibility of a grant-back clause.<sup>69</sup> The stronger the licensor’s position in the market, the more important the

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60. *Id.*

61. TTBER, *supra* note 4, art. 5(1)(a)-(c).

62. *Id.* at art. 5(2).

63. *Id.* at art. 5(1)(a)-(b).

64. *See* Commission Guidelines, *supra* note 22, ¶ 109.

65. *See* ECT, *supra* note 5.

66. Commission Guidelines, *supra* note 22, ¶ 110.

67. *See id.*

68. *Id.* While consideration is irrelevant in the regulation itself, its mention in the Guidelines nevertheless forms a clear turnaround in the Commission’s attitude. *Cf.* KORAH, *supra* note 23 at 69. In *Velcro SA v. Aplix SA*, the Commission ignored a provision for paying reasonable compensation for grant-back of improvements. Case 410/85, 4C MLR 157 (1985).

69. Commission Guidelines, *supra* note 22, ¶ 110.

licensee's potential for innovation becomes.<sup>70</sup> If the licensor is in a strong market position, exclusive grant-back clauses may therefore harmfully limit competition.<sup>71</sup>

Article 5(1)(c) TTBER is concerned with non-challenge provisions.<sup>72</sup> The parties are not precluded from agreeing on a termination right in case the licensee challenges the IPR's validity.<sup>73</sup> The licensor shall not be forced to maintain a contractual relationship with a party aiming to destroy the basis of their contract.<sup>74</sup> On the other hand, the Commission does not allow an undertaking to draw competitive advantages from invalid IPRs.<sup>75</sup> A licensee must therefore be able to act as any uninvolved third party and be able to eliminate unjustified IPR-induced protection from the market.<sup>76</sup>

Article 5(2) TTBER prohibits terms that inhibit a licensee from exploiting its own technology or limit his ability to do research and development.<sup>77</sup> Thus, this provision ensures that a licensee can freely use and develop his own technology. As opposed to Article 4(1)(d) TTBER, which contains the same provision, Article 5(2) is aimed at non-competing undertakings.<sup>78</sup> As can be seen from the categorization as an "excluded provision," the Commission feels less strongly about such limitations between non-competing undertakings.<sup>79</sup> Nevertheless, they are not exempted.

#### 4. Analysis

The TTBER is subject to different substantive and institutional points of critique.

##### *a. Substantive Issues*

The reliance on market share thresholds has been widely criticized as early as in the drafting stages of the TTBER<sup>80</sup> while it has been

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70. *Id.*

71. *Id.*

72. TTBER, *supra* note 4, art. 5(1)(c).

73. *See id.*

74. *Id.*

75. *Id.*

76. Commission Guidelines, *supra* note 22, ¶ 112.

77. TTBER, *supra* note 4, art. 5(2).

78. *Id.* at arts. 4(1)(d), 5(2).

79. *See also* KORAH, *supra* note 21, at 70.

80. *See* Competition Law of Licensing Agreements Working Group, The Max Planck Institute for Intellectual Property, Competition and Tax Law, Commentary, On the Draft

simultaneously acknowledged that as of today no better approach is at hand.<sup>81</sup> Nonetheless, the problem remains that a new product or technology may create a new market. The IPR owner thereby would hold a market share of 100 percent, which from the very start would exclude him from the benefits of the TTBER if he chose to license his IPR. Furthermore, while for “normal” products the market share is already difficult to determine,<sup>82</sup> this is even more so with regard to technology or other subject matter of IPRs. From the outside, it will hardly be possible to determine the different parts or details of a new technology and, even less so, its substitutability with others’ or one’s own technologies. Thus, mere inability to determine the market share might already pose an insurmountable hurdle for IPR owners to benefit from the TTBER.

Within the scope of the TTBER, the antitrust view on IP licensing leads to hardly understandable results. For instance, according to Article 4(1)(c)(i) TTBER, field-of-use restrictions between competitors do not form a hardcore restriction and, thus, are exempted within the market-share threshold of 20 percent according to Article 2 TTBER.<sup>83</sup> The *argumentum e contrario* then would be that beyond that market share a field-of-use clause could or would form a restriction subject to antitrust scrutiny.<sup>84</sup> It is questionable, however, if a field-of-use restriction even is a restraint of competition that needs exemption according to Article 81(3) ECT. In the preceding regulation, (EC) 240/96, the Commission expressly held the opinion that field-of-use restrictions were “generally not restrictive of competition.”<sup>85</sup> Nevertheless, the *argumentum e contrario* set out above suggests that the Commission has changed its view.

Such change of opinion might give rise to the objection of undue interference with national legislation. According to the national laws, IPRs confer upon their owner exclusive rights, which include the right to

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Commission Regulation on the Application of Article 81(3) of the Treaty to Categories of Technology Transfer Agreements, and on the Draft Guidelines on the Application of Article 81 of the EC Treaty to Technology Transfer Agreements, [http://ec.europa.eu/comm/competition/antitrust/technology\\_transfer\\_2/max\\_planck\\_en.pdf](http://ec.europa.eu/comm/competition/antitrust/technology_transfer_2/max_planck_en.pdf)

81. See *id.* at ¶ 5.

82. See, e.g., Richard Gilbert, *Converging Doctrines? US and EU Antitrust Policy for the Licensing of Intellectual Property*, Competition Policy Center, Paper CPC04-044, 11 (2004), <http://repositories.cdlib.org/iber/cpc/CPC04-044> (Oct. 20, 2007).

83. TTBER, *supra* note 4, arts. 2, 4(1)(c)(i).

84. Although this need not necessarily result in invalidity, the mere subjectivity to antitrust-scrutiny is—at least from a libertarian point of view—burdensome.

85. TTBER 240/96, *supra* note 4, arts. 2(1), (8) and Recital 22.

grant exclusive or non-exclusive licenses. Both types of licenses can limit the licensee to a specified form or field of use. Any violation of a lawful limitation is subject to injunctive relief by the licensor.<sup>86</sup> If now with the suggested *argumentum e contrario* the Commission would scrutinize field-of-use clauses in licensing agreements, it would arguably second guess national legislation.

It is furthermore troublesome that the Commission will exempt licenses that include “hardcore restrictions” only in exceptional circumstances. This static view neglects that most technology licensing is pro-competitive and can generate efficiencies, promote innovation, and benefit consumers—an assessment presumably shared by the Commission.<sup>87</sup>

#### *b. Institutional Issues*

From an institutional point of view, the Commission’s antitrust approach to IP licensing is problematic in two respects. First, the TTBER provides for a shift of the burden of proof that is contrary to IP laws. Generally, under IP laws, the challenging party (i.e., a frustrated contracting party/licensee or third party) carries the burden of proof to establish invalidity, unenforceability, or other improper conduct.<sup>88</sup> Under the TTBER, the Commission puts the heavy burden of proof required by Article 81(3) ECT on the party alleging *legality* of the agreement.<sup>89</sup>

The IPR owner now has to prove the legality of the planned measure.<sup>90</sup> This includes an analysis of the relevant markets and the market shares of all market participants in the relevant market. The difficulties to define the relevant markets and market shares, especially in the IP context, have been described above. A shift in the burden of proof might deter an IP owner from licensing his rights. The shift, therefore, potentially stifles licensing and the dissemination of technology, thus defeating the purpose of the TTBER. On a broader

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86. See 35 U.S.C. § 283 (2000); Patentgesetz [German Patent Act] § 15(2) (1998).

87. See Commission Guidelines, *supra* note 22, ¶ 7.

88. Although “misuse” would be an example, this label was avoided as it might not fit all European IP-law regimes.

89. See KORAH, *supra* note 21, at 171.

90. The opposite situation is possible, too, however. The IPR owner might want to end a license agreement and could challenge its compliance with Article 81 ECT. In that case it might be beneficial that the licensee carries the burden of proof. As this situation does not reflect the IPR owner’s will to exploit his right but rather to retain it, it is not further considered.



legislative level, it is also questionable if this shift in the burden of proof is reconcilable with national IP legislation or introduces a *de facto* legislative change of national laws inconsistent with the division of powers in the EU.

Secondly, the burden of proof seems to affect costs for the IPR owner. Pre-exploitation assessment of legality now includes an in-depth market analysis as well as a rather detailed analysis of the contract's implications on these markets. If IP laws mandated the first part of this analysis (i.e., market analysis) at all, it would not have to be as detailed. The additional costs resulting from this expanded analysis limit the revenues that the IPR owner can reap from his right. Depending on the field of technology, costs might even "eat up" the attainable licensing fees. Again, the Commission's approach potentially counteracts national IP legislation in effectively limiting the reward an IP owner can obtain.

## 5. Conclusion

In sum, it appears that the Commission did not find a proper balance of interests. Its antitrust-based approach appears to be static, neglecting important pro-competitive aspects of IP licensing. It also potentially interferes with national IP legislation by shifting the burden to prove validity of a license agreement to the IP owner.

### *C. U.S. Antitrust Guidelines*

The 1995 Antitrust Guidelines provide a general framework of antitrust concerns that could be raised by IP-license agreements. To fully understand the importance of the Guidelines one must bear in mind their development and the prior attitude in the United States towards IPR licensing.

#### 1. Antitrust Challenges to IP Licensing Prior to 1995

Despite the general impact the Sherman Act of 1890<sup>91</sup> had on corporations, it did not initially affect the holders of IPRs in their licensing activities.<sup>92</sup> It was believed that IPRs, as "private property," entitled their holders to almost unfettered discretion.<sup>93</sup> This discretion extended to licensing and licensing restraints in particular.<sup>94</sup>

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91. 15 U.S.C. §§ 1-7 (2000).

92. Tom & Newberg, *supra* note 2, at 168-69.

93. *Id.*

94. *Id.*

If challenged, licensing restraints typically fell within the “freedom of contract.”<sup>95</sup> This view is clearly expressed by the Supreme Court in *Bement and Sons v. National Harrow Co.*,<sup>96</sup> where it stated that “the general rule is absolute freedom . . . . [A]ny conditions which are not in their very nature illegal with regard to this kind of property . . . will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.”<sup>97</sup> Thus, at this very early age, IPRs were actually upheld to a level of almost sacrosanct existence.

Beginning in 1913, however, the Supreme Court subjected IPRs to the “general law,”<sup>98</sup> including the “positive prohibitions” of the Sherman Act.<sup>99</sup> This new interpretation observed a tension between antitrust laws and IPRs. This tension was based on the presumption that IPRs confer upon their holders a “monopoly,” while the Sherman Act aims to break up monopolistic structures and their anticompetitive effects.<sup>100</sup> But, as it was the perceived purpose of the grant, the patent “monopoly” was seen as “lawful.”<sup>101</sup> Any conduct permitted by this lawful monopoly was therefore within a sphere of law that was strictly separate from antitrust. With this “separate spheres” theory, the monopoly power of the holder of an IPR was limited only in a formalistic sense by the “metes and bounds” of the respective IPR.<sup>102</sup> Once the IP holder overstepped these boundaries, he subjected himself to antitrust scrutiny, however.

Paradigmatic of this period were the “Nine No No’s” established by the Antitrust Division of the Department of Justice in 1970. Those were nine intellectual property licensing practices—oftentimes derived from prior case law—that were “out of bounds” and would therefore attract the scrutiny of the Agencies.<sup>103</sup> Although they have never clearly been labeled as *per se* violations of antitrust laws, those practices were described to lead “in virtually all cases . . . to antitrust trouble because

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95. *Id.* at 169.

96. 186 U.S. 70 (1902).

97. *Id.* at 91.

98. *Motion Picture Patent Co. v. Universal Film Mfg., Co.*, 243 U.S. 502, 513 (1917).

99. *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 49 (1913).

100. Tom & Newberg, *supra* note 2, at 170-71.

101. *Id.* at 171.

102. *Id.*

103. *Id.*

of their adverse effect upon competition.”<sup>104</sup> The “No No’s” were as follows:

1. tying of unpatented supplies,
2. mandatory grantbacks,
3. post-sale restrictions on resale,
4. tie-outs,
5. licensee veto power over licensor’s grant of further licenses,
6. mandatory package licensing,
7. compulsory payment of royalties in amounts not reasonably related to sales of the patented product,
8. restrictions on sales of unpatented products made by a patented process, and
9. specifying prices chargeable on resale of licensed products.<sup>105</sup>

A series of subsequent federal court decisions, legislative changes, and changes in antitrust analysis<sup>106</sup> called the basis of the “separate spheres” theory and the validity of the “No No’s” into question. The Supreme Court judgments in *Continental T.V., Inc. v. GTE Sylvania, Inc.*<sup>107</sup> and *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*<sup>108</sup> may be highlighted as a turning point.<sup>109</sup> In its judgments, the Supreme Court analyzed the substance, i.e., the *actual effects* the challenged clauses had on competition. It furthermore expanded the scope of the rule of reason.<sup>110</sup>

## 2. 1995 U.S. Antitrust Guidelines

The 1995 Antitrust Guidelines are highly influenced by this Supreme Court’s new approach to antitrust analysis, which is especially evident in the three presumptions the guidelines are based on: (1) Intellectual Property is essentially comparable to any other kind of property; (2)

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104. *Id.* at 179.

105. *Id.* at 179-80.

106. *See id.* at 189.

107. 433 U.S. 36 (1977) (involving a territorial restraint in a franchise agreement challenged to constitute a per se violation of Section 1 Sherman Act).

108. 441 U.S. 1 (1979) (involving a blanket license that allegedly amounted to per se unlawful price fixing).

109. Tom & Newberg, *supra* note 2, at 189-91.

110. *Id.* at 194. The rule of reason is explained *infra* Part I.C.2.a.

IPRs do not create market power in the antitrust context,<sup>111</sup> and (3) licensing is generally pro-competitive.<sup>112</sup> The Agencies expressly state that IPRs and antitrust laws “share the common purpose of promoting innovation and enhancing consumer welfare.”<sup>113</sup>

The Antitrust Guidelines address licensing of copyrights, patents, trade secrets and know-how.<sup>114</sup> Trademark licenses are excluded from its scope.<sup>115</sup> The Agencies believe that, as with other property, certain types of conduct with respect to IPRs may have anticompetitive effects. Thus, they apply general antitrust principles to IPR-licensing agreements. Agreements concerning IPRs are, therefore, neither free from antitrust scrutiny nor particularly suspect under antitrust laws.<sup>116</sup>

The Agencies express their concern that IPR licensing might facilitate market division or harm competition for the development of new goods and services. Furthermore, they point out that license agreements could foreclose access to a market, raise prices, or, through coordinated practice, reduce output for a certain product.<sup>117</sup>

In their evaluation of IPR licenses, the Agencies consider the license’s impact on goods markets, technology markets,<sup>118</sup> and innovation markets.<sup>119</sup> The Agencies stress that they will analyze agreements based on their anticompetitive effects, not their formalities.<sup>120</sup> Assessment of the lawfulness is based on the “classic” standards in antitrust law: the *rule of reason* and the *per se rule*.<sup>121</sup> To determine which test is applicable under the circumstances, the Agencies assess whether the restraint in question can be expected to

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111. While in 1995 this was not more than the opinion of law of two federal agencies, this view has since been affirmed by the U.S. Supreme Court, which held in *Illinois Tool Works v. Indep. Ink, Inc.*, 547 U.S. 28 (2006), that a patent does not necessarily confer market power.

112. Antitrust Guidelines, *supra* note 3, § 2.0, at 2.

113. *Id.* § 1.0, at 2.

114. *Id.* § 1.0, at 1.

115. *Id.* § 1.0, at n.1.

116. *See id.* § 2.1, at 3.

117. Antitrust Guidelines, *supra* note 3, § 3.1, at 7.

118. Technology markets consist of the intellectual property that is licensed and its close substitutes. *Id.* § 3.2.2, at 8.

119. Innovation markets become relevant where arrangements concern research and development and the (not yet existing) product cannot be assigned to a certain goods market. *Id.* § 3.2.3, at 10-11.

120. *Id.* § 3.1, at 7.

121. The *per se rule* will not further be explained. According to this rule certain clauses are presumed to be anticompetitive regardless of the circumstances. Thus, they are always prohibited and void without further analysis.

contribute to an “efficiency-enhancing integration of economic activity,”<sup>122</sup> that is, whether the respective term helps the parties to produce goods or render services more efficiently.

*a. The Rule of Reason*

According to the Agencies, the “vast majority” of agreements will be evaluated under the rule of reason standard.<sup>123</sup> This test inquires into the *likelihood* of anticompetitive effects of an agreement.<sup>124</sup> If a restraint is found to likely cause anticompetitive effects, it is further asked if this restraint is reasonably necessary to achieve pro-competitive benefits that outweigh the restriction of competition.<sup>125</sup> Even where a term is found to be obviously anticompetitive, the rule of reason may still apply if the overall effect of the clause is efficiency enhancing.<sup>126</sup>

Generally, the rule of reason analysis requires a comprehensive market inquiry.<sup>127</sup> Nevertheless, the Agencies reserve the freedom to truncate this test where a restraint has no likely anticompetitive effect (in which case the clause will be evaluated as reasonable) and where a restraint facially appears to always or almost always cause anticompetitive results without equally enhancing efficiency (in which case the clause will be treated under the *per se* rule).

*b. Differentiation between Horizontal and Vertical Relationships of Licensing Parties*

In the assessment of typical threats to competition arising from license agreements, the Agencies differentiate between contracting parties in a horizontal relationship (i.e., competitors) and parties in a vertical relationship (i.e., non-competing undertakings).<sup>128</sup>

Licensing agreements between competitors might often lead to or even aim at the following: coordinated pricing, output restrictions, acquisition or maintenance of market power, and retarding or restricting the development of new or improved goods or processes.<sup>129</sup> Agreements between parties in a vertical relationship may, especially in connection

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122. Antitrust Guidelines, *supra* note 3, § 3.4, at 16.

123. *Id.*

124. *Id.*

125. *See* Fed. Trade Comm’n v. Ind. Fed’n of Dentists, 476 U.S. 447 (1985).

126. *Broad. Music*, 441 U.S. at 16-24.

127. Antitrust Guidelines, *supra* note 3, at 16.

128. *Id.* § 3.3, at 13.

129. *Id.* § 4.1.1, at 18.

with IPR licenses, often provide complementaries, and thus further innovation and competition.<sup>130</sup> On the other hand, they may also affect competition in *horizontal* relationships either on the level of the licensor or on the licensee's level. The threats include foreclosure of access, increased costs for inputs, coordination or increase of prices, or restriction of output.<sup>131</sup>

For both kinds of agreements, the Agencies acknowledge that the actual competitive effect is dependent on the structure of the relevant market.<sup>132</sup> Therefore, the difficulty to enter the market, the degree of concentration in the market, and the responsiveness of supply and demand to changes in price may affect the analysis.<sup>133</sup> Moreover, in assessing a license term the Agencies also consider its duration<sup>134</sup> and the proportion of the markets the restraint affects.<sup>135</sup> The antitrust evaluation of certain restraints may vary where a net of similar restraints is set up in a market. While such nets of similar restraints may be common and pro-competitive in one industry, they may well be anticompetitive in another market.<sup>136</sup>

*c. Licensing Arrangements Involving Exclusivity*

The Agencies identify exclusive licenses and exclusive dealing provisions as agreements especially susceptible to raising antitrust concerns.<sup>137</sup>

Exclusive licenses restrict the right of the licensor to license to others and possibly also to use the technology himself. They pose a threat to competition where the parties are in a horizontal relationship.<sup>138</sup> Examples of such clauses that are examined under the rule of reason analysis are cross licensing by parties collectively possessing market power and grant-backs.<sup>139</sup>

“Exclusive dealing” describes clauses that limit a licensee in licensing, selling, distributing, or using technology that competes with

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130. See Tom & Newberg, *supra* note 2, at 203.

131. Antitrust Guidelines, *supra* note 3, § 4.1.1, at 18-19.

132. *Id.* § 4.1.1, at 18.

133. *Id.* (by employing these criteria the Agencies rely on the U.S. DEPT. OF JUSTICE & FED. TRADE COMM'N, 1992 HORIZONTAL MERGER GUIDELINES §§ 1.5, at 3.)

134. Antitrust Guidelines, *supra* note 3, § 4.1.1, at 19.

135. *Id.* § 4.1.1, at 18.

136. *Id.* § 4.1.1, at 19.

137. *Id.* § 4.1.1, at 19-20.

138. *Id.* § 4.1.2, at 19.

139. *Id.*

the licensed technology.<sup>140</sup> These terms may negatively impact competition as they can foreclose market access or increase costs and reduce output. On the other hand, they may (pro-competitively) encourage a licensee to invest in research and development to further the licensed technology or specialized applications thereto.<sup>141</sup>

The Agencies point out that some of the just-named principles and considerations are similar to those applied for evaluation of vertical restraints outside the licensing context.<sup>142</sup> They stress, however, that in the IP-licensing context the outcome of these considerations may vary, as the risks to IPRs may justify some restrictions that are inadmissible in another context.<sup>143</sup>

*d. Efficiencies and Justifications*

If restrictions in an IP license agreement, after consideration of the relevant market factors as described above, are unlikely to negatively influence the market, the Agencies will not challenge the clause.<sup>144</sup> If they find anticompetitive potential, however, they will balance these anticompetitive effects with possible pro-competitive effects derived from the restriction. If the restriction is after all “reasonably necessary” to achieve pro-competitive efficiencies, it will remain intact.<sup>145</sup>

The anti- and pro-competitive effects are reciprocal: the more efficiency-enhancing a clause is, the more restrictions on competition may be bearable. Conversely, even terms that significantly restrict competition in a certain market may be acceptable upon proof of the necessity of such clause due to the specifics of the relevant market or industry.<sup>146</sup>

As the Agencies take a practical, effects-based approach in their evaluation, the context of the agreement is of vital importance. Thus, proportionality becomes an issue as well. The objective of a certain restriction might generally be pro-competitive; if there are less restrictive means, however, by which the same results could be achieved, the provision will be challenged. The Agencies stress that only “realistic alternatives” will be taken into account, not theoretically

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140. *Id.* (emphasis omitted).

141. Antitrust Guidelines, *supra* note 3, § 4.1.2, at 20.

142. *Id.*

143. *Id.*

144. *Id.* § 4.2, at 21.

145. *Id.*

146. *Id.*

less restrictive clauses that are inapplicable in the business situation faced by the parties.<sup>147</sup>

Proportionality considerations can be influenced by limited durations of a certain restriction.<sup>148</sup> An anticompetitive restraint may be important and justified for a limited period of time to protect interests of the licensor, for example. Although the Agencies acknowledge that they will refrain from drawing fine distinctions on the question of duration, they will focus on durations that “clearly exceed[] the period needed to achieve the procompetitive efficiency.”<sup>149</sup>

*e. Antitrust “Safety Zone”*

Following the general idea that licensing of IPRs can promote innovation and is generally pro-competitive, the Agencies want to provide “some certainty” as to cases that do not face antitrust concerns.<sup>150</sup> To that end, the Agencies provide “safety zones.”<sup>151</sup> Within these zones, an agreement will not be challenged by the Agencies for antitrust reasons. The *argumentum e contrario* does not work, however. The mere fact that an agreement falls outside the scope of a safety zone does not imply its unlawfulness.<sup>152</sup> It then is merely subject to antitrust scrutiny according to the rules set out above.<sup>153</sup>

The “safety zones” provide for the following: In the absence of “extraordinary circumstances,” the Agencies will not challenge an agreement if “(1) the restraint is not facially anticompetitive and (2) the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly affected by the restraint.”<sup>154</sup> For the calculation of the market share, only the goods markets will be determinative unless in the specific instance technology markets are so important that without reference to them the effects of the licensing arrangements would be inadequately addressed.<sup>155</sup>

If mainly technology markets or innovation markets are concerned, the second element of the test is changed and substituted by a “four-plus” test. If there are four or more independently controlled

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147. Antitrust Guidelines, *supra* note 3, § 4.2, at 21.

148. *Id.* § 4.2, at 22.

149. *Id.*

150. *Id.* § 4.3, at 22.

151. *Id.*

152. *Id.* § 4.3, at 23.

153. *See id.* *See also supra* Part I.C.2.a.

154. Antitrust Guidelines, *supra* note 3, § 4.3, at 22.

155. *Id.* § 4.3, at 23.



technologies in addition to the technologies controlled by the parties, and those technologies are substitutable for the licensed technology at comparable costs, licensing restraints affecting a technology market will not be challenged.<sup>156</sup>

### 3. Analysis

Having outlined the rule of reason approach as set forth in the Antitrust Guidelines, it still is unclear exactly how clauses are evaluated. The test does not propose elements that undertakings could employ to narrow down the probable evaluation by the agencies. It does not even clarify when the rule of reason standard is applied.

Naked price fixing for instance, is, according to the Agencies, a facially anticompetitive restraint.<sup>157</sup> Generally, such clause would be unlawful *per se*. The Agencies suggest, however, that this is only the case where there is no efficiency-enhancing integration of economic activity.<sup>158</sup> If, however, the opposite holds true, that is, an overall pro-competitive effect remains, the rule of reason analysis will be applied.<sup>159</sup> As naked price fixing is facially anticompetitive, however, the Agencies will also truncate the rule of reason test and, therefore, not “intensively” inquire into efficiency-enhancing factors or analyze the particular industry but, rather, directly challenge the clause.<sup>160</sup>

Thus, the only clear evaluation is in the extremes. Clearly anticompetitive restraints are challenged under the *per se* rule; clearly pro-competitive restraints will not be challenged according to the (truncated) rule of reason. The majority of clauses will not be that easily categorized, however. Thus, for the majority of clauses, the discretion of the Agencies remains such as to leave the undertakings with almost no legal certainty.

The safety zones introduced in the Guidelines are of little help. The discretion the Agencies allow themselves by disregarding the safety zones in undefined “extraordinary circumstances” is but one issue.

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156. With regards to innovation markets the test applies as follows: if four or more independently controlled entities, in addition to the parties to the licensing arrangement, possess the required specialized assets or characteristics and the incentive to engage in research and development that is a close substitute of the research and development activities of the parties to the agreement, an agreement affecting innovation markets will not be challenged in absence of any facially anticompetitive restraints. *See id.* at 23.

157. *See* Antitrust Guidelines, *supra* note 3, § 3.4, at 16.

158. *See id.*

159. *See id.*

160. *See id.*

Even in the absence of extraordinary circumstances, the safety zones are subject to the problems of market-share analysis set out above.<sup>161</sup> Regarding the “four-plus” test in innovation markets, this becomes especially obvious. Research and development is kept secret for the most part. Besides the difficulty of identifying possible other research facilities (as new and small ones might be set up rather inconspicuously), undertakings will also have to determine the substitutability of the technologies including cost and (hypothetical market-) price assessments.

These hurdles are so high that it appears likely most undertakings planning an IP-license agreement will follow the Agencies’ suggestion and ask for a preliminary evaluation. While on the one hand this “service” of the Agencies might be applauded, it could also be critically judged: by this means the Agencies develop the degree of monopolistic decision power and control that in the EU has led to the current legislation. The possibility of subsequent review by the courts offers limited consolation. The Agencies’ opinion will carry major weight for most undertakings and might have a deterrent effect in the decision whether to ask for judicial review. This weight of first opinion might also “spill over” into the courts, thus furthering an antitrust bias in IP-license evaluation.<sup>162</sup>

The preliminary review furthermore runs up costs not only for the administration but also for the undertakings which might have to comply with additional standards, calculate waiting time, and possibly further negotiations both with the Agencies and with each other. Additional costs occur in the case of subsequent judicial review. These costs and especially the time factor might have stifling effects on innovation the Agencies have not accounted for.

#### *D. Comparison*

A comparison of the TTBER and the Antitrust Guidelines is possible on different levels. First, the focus will be the formal setup of both bodies of rules. Then, a look is cast on the TTBER’s and Antitrust Guidelines’ content. Lastly, again on a more formal level, the broader institutional context from which both documents emerge will be revisited.

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161. Compare *infra* Part I.B.4.a.

162. See also William Kovacic, *Competition Policy and Intellectual Property: Redefining the Role of Competition Agencies*, ANTITRUST, PATENTS AND COPYRIGHT, EU AND US PERSPECTIVES 1, 4 (Francois Lévêque & Howard Shelanski eds., 2005).

### 1. Formal Setup and Binding Force

The TTBER and the Antitrust Guidelines both approach IPR licensing as an antitrust problem. They cover the same subject matter—patents, copyrights, know-how, and trade secrets.<sup>163</sup> Apart from that, both sets of rules at first glance seem to be worlds apart.

The first difference is, of course, that the TTBER is *secondary legislation* of the EU. As such, it is binding for member states and takes direct effect on undertakings as well. If, for instance, undertakings in their license agreement fixed resale prices, the entire agreement would *de jure* be void. On the other hand, the Commission is bound as well. It cannot charge undertakings for antitrust violations if they act in accordance with the TTBER. The Antitrust Guidelines, on the other hand, describe only a likely outcome of an evaluation. The Agencies are in no way bound.<sup>164</sup> Nevertheless, it is not perceivable why the Agencies or the courts would randomly depart from the Guidelines in their evaluations of license agreements. Unless the Agencies had previously announced a change of policy, an undertaking's good faith reliance on and compliance with the Antitrust Guidelines would therefore probably result in judicial protection of their settled expectations.<sup>165</sup> Thus, a *de facto* binding effect of the Antitrust Guidelines exists. Therefore, the level of legal certainty or "binding force" is, after all, not that different.<sup>166</sup>

A difference appears to exist in the legal "mechanism" by which the respective goals are achieved. From the outset, the Antitrust Guidelines do not attempt to give certainty, but rather provide a framework for analysis that will be employed equally, though possibly filled differently, by the Agencies and undertakings. The TTBER, on the other hand, provides clear-cut rules that should not allow for different interpretations by the Commission and undertakings.

The difference in mechanism seems to stem from the political and jurisdictional backgrounds. The need in the EU to unify the application and understanding of antitrust laws does not allow for discretion on the

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163. Differences do exist because of the different national subject matter of the IPRs in the EU and different categorizations of, for example, patentable or copyrightable subject matter.

164. See Antitrust Guidelines, *supra* note 3, § 1.0, at 1 and n.2.

165. For details on the argument of protected "settled expectations," see, e.g., Christopher D. Pixley, *Finding Middle Ground on Federal Retroactive Regulatory Lawmaking*, 27 CAP. U. L. REV. 255 (1999).

166. A practical difference does exist, however: it is more difficult to claim protected settled expectations than to prove adherence to a statute—here, the TTBER.

side of the member states' authorities. A comprehensive set of binding, harmonized rules was needed. Furthermore, the objectives of EU and U.S. antitrust laws are not identical. The EU's antitrust laws prohibit agreements that limit trade between member states and promote both intra-technology as well as inter-technology competition. The U.S. antitrust laws, on the other hand, apply to interstate commerce without the specific objective to promote it.<sup>167</sup>

A more practical political reason for these differences is the Commission's belief that administrative costs would be drastically reduced by introducing the principle of *de jure exceptions* to technology-transfer agreements.<sup>168</sup> In this context, it is surprising that the Agencies do not share this cost concern and explicitly stress the availability of individual business review letters, pursuant to 28 C.F.R. § 50.6, by the Department of Justice and Advisory Opinions of the Federal Trade Commission pursuant to 16 C.F.R. §§ 1.1-1.4.<sup>169</sup>

In sum, the existing formal differences of the TTBER and the Antitrust Guidelines seem to be the result of administrative and political necessities. Despite those differences, both sets of rules provide for legal certainty of some degree—a superficial view of “binding” TTBER and “non-binding” Antitrust Guidelines falls short of the application in reality.

## 2. Content

The content of both the TTBER and the Antitrust Guidelines set the boundaries in which IPR exploitation is regarded to comply with antitrust legislation. The U.S. and the European assessments are not fundamentally different.

Underlying the TTBER and Antitrust Guidelines is the notion that technology licensing, that is, the proliferation of intellectual property, is generally pro-competitive.<sup>170</sup> A shared general antitrust concern is that agreements between competing undertakings (undertakings in a horizontal relationship) are more likely to harm competition, thus

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167. See Gilbert, *supra* note 82, at 13.

168. See Council Regulation 19/65/EEC, *supra* note 17.

169. 16 C.F.R. §§ 1.1-1.4 (2007); see Antitrust Guidelines, *supra* note 3, § 1.0, at 1 and n.2.

170. Antitrust Guidelines, *supra* note 3, § 2.0, at 2; TTBER, *supra* note 4, at Recital 5.

justifying harsher scrutiny, than agreements between non-competitors (undertakings in a vertical relationship).<sup>171</sup>

As to specific clauses, obviously a detailed comparison must remain incomplete as not all clauses explicitly named in the TTBER are also discussed in the Antitrust Guidelines. Under both sets of rules, the “classical” antitrust violations—price-fixing, market-division and allocation of markets, and output restraints—are strictly forbidden. The concerns about exclusive licenses in their various forms, grant-back-clauses, and the like, are also mutual.

### 3. Institutional Context

The treatment of licensing agreements in the TTBER and the Antitrust Guidelines is somewhat ambivalent from the very beginning. Both the Agencies and the Commission are administrative bodies charged with the regulation of general fields of trade, commerce, and competition. With this focus, their evaluation of license contracts is necessarily driven by equally general economic and antitrust considerations. IP interests might not be recognized, or at least might be less recognized. While bias might be inherent in the work of any specialized agency dealing with an “interface-issue,”<sup>172</sup> it appears especially problematic in the IP-Antitrust interface. IP laws sensitively balance public and private interests and already include economic considerations. To blindly put antitrust considerations over IP laws overemphasizes certain parts of the economic side of the scale (i.e. the impact on competition) while neglecting others (e.g., economic “waste” such as duplicative inventions)<sup>173</sup> thus leading to an imbalance in the underlying IP system. An imbalanced body of law, however, is prone to allegations that it lacks justification.

### *E. Conclusion*

With the new TTBER, antitrust evaluation of IP licensing in the EU has made a substantial step towards the U.S. approach. In many respects TTBER and Antitrust Guidelines are consistent. Some of the

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171. See generally Antitrust Guidelines, *supra* note 3, § 4.1.1, at 18; TTBER, *supra* note 4, art. 4 (1), (2); see Gilbert, *supra* note 82, at 3.

172. See generally, Rochelle Cooper Dreyfuss, *The Federal Circuit: A Continuing Experiment in Specialization*, 54 CASE W. RES. L. REV. 769 (2004) (for discussion on bias of specialized agencies).

173. See Robin Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, *passim* (2003).

remaining differences do not necessarily come from different substantive evaluations but from the legal background and framework, i.e., the respective antitrust laws.<sup>174</sup>

The question remains if the approach taken by the United States and the EU is sensible. Regulation of IP licenses based on antitrust considerations might be flawed for two reasons. First, it might block the view on legitimate interests of IPR owners, and second, it might fall short of a proper confinement of IP rights. It has been suggested above that an antitrust-driven evaluation might also unbalance the IP system, which could call into question its justification at large. Therefore, it seems necessary to explore alternative ways of IP-license analysis. To this end, the following Part II introduces an IP-driven approach to the licensing of IPRs.

## II. IP APPROACH TO IPR LICENSING

It appears that two problems in the context of IP licensing arise that, although they each pose problems in and of themselves, are closely intertwined. One question is if, from an IP perspective, the *substance* of the Antitrust Guidelines or the TTBER have merit. To that extent, some open questions, e.g., in the context of field-of-use clauses have been identified. Generally, the presumptions of possible anticompetitive effects resulting from the clauses dealt with in the TTBER and Antitrust Guidelines shall not be challenged further, however. It shall be presumed—backed by the almost identical content of both bodies of rules—that the clauses identified by the Agencies and the Commission are all or almost all likely to be economically detrimental.

It is a second question then that needs to be answered: Are these substantive issues dealt with appropriately? The antitrust concepts might in some cases—especially where the IPR owner is also a major market power in the meaning of the antitrust laws—provide for good guidance. However, it has been found before that a general analogy from antitrust rules, such as the rule of reason, is misplaced in IP licensing cases.<sup>175</sup> The underlying problem is that antitrust laws are employed to tackle specific issues they are not able to address. The grant of IPRs and their exploitation are so closely connected that the interference with one of these parts will necessarily affect the other.

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174. See Gilbert, *supra* note 82, at 13.

175. See *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990).

Thus, when antitrust laws regulate IPR exploitation, they may easily interfere with the substantive grant of the IPR.

The antitrust laws, although fit to evaluate general trade agreements, were not designed to address these intricate problems of IPRs and, therefore, lack the tools to adequately solve them.<sup>176</sup> If indeed, as the Agencies and the Commission themselves state, most licensing agreements will be in line with antitrust laws,<sup>177</sup> it seems questionable that, nevertheless, antitrust rules are provided for the residual amount of agreements. Instead, the problem could be regulated from “within” the IP laws and by the specialized agencies (for example, the Patent and Trademark Offices) and courts that usually deal with IPRs.

The current approach entails the danger of unduly limiting or redefining the grant of IPRs through the “back door.” Without express alteration of the laws, IPR exploitation is limited by subjecting it to antitrust scrutiny. The prominent approach is also susceptible to changes in antitrust laws or policies, as well as the changes that might occur in IP legislation. This “double sensitivity” is troublesome. Instead of trying to apply antitrust standards, one should ask whether the measures provided by the intellectual property laws as well as generally applicable rules of law suffice to find doctrinally coherent and yet practical solutions. Although IP laws are no self-contained regime, they are, however, *leges speciales* when it comes to the rights and duties of the IPR owner.<sup>178</sup> They are to be considered prior to all other rules of law when IPRs, their substance, or the scope of rights they confer are determined. If indeed IP laws provided for sufficient means of regulation, additional, or “extra-IP,” mechanisms would be misplaced. Thus, the question arises whether the concerns raised by the antitrust agencies regarding license agreements can be answered by the IP laws themselves.

The answer to this question is determinative for the institutional question it implies: if antitrust concerns can be adequately accounted for in the interpretation of IP laws, what is the appropriate forum to deal with these issues? Are the courts and specialized IP agencies

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176. See Ramsey Hanna, *Misusing Antitrust: The Search for Functional Copyright Misuse Standards*, 46 STAN. L. REV. 401, 445 (1994).

177. See Antitrust Guidelines, *supra* note 3, § 4.3, at 23; TTBER, *supra* note 4, at Recitals 5, 12.

178. See HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, *IP AND ANTITRUST, AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* §1.3b, 1-14 (2002). “[I]t bears recognizing that patents and other intellectual property rights limit the reach of the antitrust laws.” *Id.*

equally or better capable of dealing with the very special antitrust issues so as to ensure the concerns are addressed properly? And even if all these questions are answered in the affirmative, it still has to be answered why the derivation from the present approach would be desirable.

*A. Adequate Recognition of Antitrust Concerns in IP Law Interpretation*

Antitrust laws aim to protect free competition, which is supposed to lead to a maximum variety of goods and services available to the public at the lowest possible price.<sup>179</sup> To determine if these public interest considerations are already acknowledged or can be acknowledged in IPR analysis, relevant general rules and principles of law are to be taken into account.<sup>180</sup> But not only the underlying justifications of the intellectual property law regimes, also the *property* aspect of IPRs can be analyzed for its impact on the interpretation of IP laws.

1. Acknowledgement of Public Interests in IP Laws.

IPRs are granted to promote the sciences and useful arts for the overall benefit of the public.<sup>181</sup> The general notion of “public interest,” therefore, already lies at the heart of all IP laws and forms a common basis for both antitrust and IP laws. To meet the objective of overall public benefit, IP laws set up a system that carefully balances the (economic) incentives granted to the IPR owner with the potential economic harm that is inherent in the exclusivity of the rights conferred, e.g., economic “waste” created by duplicative inventive activity or overproliferation of IPRs.<sup>182</sup> These potential economic harms are “balanced off” with the statutory limitations of IPRs,<sup>183</sup> namely the limitations of the duration and the scope of the rights IP laws grant. Through these statutory limitations, it is ensured that the maximum amount of expressions and inventions are available in the public domain as soon as possible without questioning the basic justification of IPRs.

In addition to these “statutory” public interest considerations, U.S. courts have created the *misuse* doctrine as an additional mechanism to

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179. See, e.g., HOVENKAMP, *supra* note 178 § 1.3, at 1-12, citing WARD BOWMAN, JR., PATENT AND ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL (1973).

180. The applicability of general rules of law has also been acknowledged by the U.S. Supreme Court as early as 1917. See *Motion Picture Patents*, 243 U.S. at 513.

181. See *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

182. See *Feldman*, *supra* note 173, at 431.

183. See *id.* at 436.



police abuses of IPRs.<sup>184</sup> Frischmann and Moylan have identified and labeled three different functions of this doctrine.<sup>185</sup> In its corrective function, the misuse doctrine can fill legislative gaps that cannot otherwise be filled by statutory interpretation.<sup>186</sup> This corrective function focuses on the *internal* coherence of IP laws<sup>187</sup> and provides boundaries for the exercise of IPRs in that it prohibits the expansion of these rights beyond their lawful scope.<sup>188</sup> The misuse doctrine also serves a coordinating function, which aims to reconcile *inter-statutory* relationships, i.e., the relation between different IP statutes or IP statutes and other bodies of law as the antitrust laws.<sup>189</sup> The misuse doctrine provides courts with a dynamic tool to develop rules at the interface of otherwise static statutes. In this function the misuse doctrine can prevent IPRs from being utilized to undermine competition.<sup>190</sup> Lastly, the misuse doctrine serves as a safeguard mechanism to maintain the balance of interests and preserve the public policies underlying the statutory schemes.<sup>191</sup> This safeguarding function is therefore concerned with the integrity of the IP system as such.<sup>192</sup>

Through its corrective means, the misuse doctrine can address public policy considerations in the IP laws themselves, e.g., acknowledge newly discovered (competitive or economic) harms or newly discovered interests of IPR owners and rebalance the IP system. The coordinating function allows the direct introduction of antitrust concerns in an IP analysis. In conjunction with the statutory limitations of IPRs, IP laws therefore provide measures to deal with the interface of IPRs and antitrust issues. If those means were fully and adequately employed,<sup>193</sup>

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184. HOVENKAMP, *supra* note 178 § 3.1, 3-12.

185. Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 872 (2000).

186. *Id.* at 872-73.

187. *Id.* at 874.

188. HOVENKAMP, *supra* note 178, § 3.2a, 3-6.

189. Frischmann & Moylan, *supra* note 185, at 875 et seq.

190. *See* HOVENKAMP, *supra* note 178, § 3.2a, at 3-7.

191. Frischmann & Moylan, *supra* note 185, at 877.

192. *See* HOVENKAMP, *supra* note 178, § 3.2c, 3-8.

193. It has to be kept in mind that “misuse” is usually seen as an affirmative defense. *See, e.g.*, Thomas F. Cotter, *The Procompetitive Interest in Intellectual Property Law*, 48 WM. & MARY L. REV. 483, 523 (2006) (which would limit its use to very specific applications); *see* Tom W. Bell, *Codifying Copyright’s Misuse Defense*, 2007 UTAH L. REV. 573. The point here is, however, that the underlying rationales are generally available.

an external antitrust-specific approach to IP licensing would seem unnecessary.<sup>194</sup>

## 2. Public Interest Considerations Through “Property” Notion of IPRs

The misuse doctrine is very specific to the U.S. jurisdiction, which, in this context, would leave the EU perspective on the treatment of IP licenses under antitrust laws unaltered.<sup>195</sup> In addition, even in the United States the misuse doctrine is only partially settled and partly still contested.<sup>196</sup> Therefore, the availability of a more universal alternative approach to introduce public interest considerations into IPR analysis should be examined. Such an approach could be found in the contention that intellectual property is essentially equal to any other form of property.<sup>197</sup>

On this underlying presumption, the following hypothesis can be based: If the grant of (tangible) property rights is subject to public interest considerations, and tangible and intellectual property are essentially equal, IPRs must be subject to public interest considerations as well. If then, through this property notion, the public interests protected by antitrust laws can be acknowledged in the interpretation of IP laws, an “external” antitrust-driven approach would be superfluous.

Property is inherently relational. It is embedded in the social relations among individuals on the one hand and the individual’s or property owner’s relation to the state as grantor and protector of property on the other hand.<sup>198</sup> This “relationality” and the allocative effects of private property<sup>199</sup> render it subject to restrictions. On a constitutional level, European Constitutions as well as the U.S. Constitution provide for a restriction in the form of provisions allowing for expropriation.<sup>200</sup> This restriction on property can generally only be

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194. The adequate recognition is directly tied to the institutional question, i.e., if the IP agencies and courts are an adequate or even better forum for such decisions. *See infra* Part II.C.

195. Although similar results could be achieved in the EU via general civil law doctrines. *See, e.g.*, for Germany, C. CIV. [*Bürgerliches Gesetzbuch*] § 242, generally prohibiting the misuse of rights.

196. *See* Frischmann & Moylan, *supra* note 185, at 867-68.

197. *See* Michael A. Carrier, *Cabining Intellectual Property through a Property Paradigm*, 54 DUKE L.J. 1, 10 (2004) and *passim*; Antitrust Guidelines, *supra* note 4, § 2.0, at 2.

198. *See* Madhavi Sunder, *IP<sup>3</sup>*, 59 STAN. L. REV. 257, 283-85 (2006).

199. *See* GREGORY ALEXANDER, *THE GLOBAL DEBATE OVER CONSTITUTIONAL PROPERTY* 5 (2006).

200. *Id.* at 6.

justified by a public need and is conditioned on compensation.<sup>201</sup> This limitation to property is—although based on public policy considerations—only relevant in relation to the state as a mediator of public interests, however. Private parties can generally not trigger expropriation measures to their benefit.<sup>202</sup> Therefore, expropriation for purposes of this Article can only serve as one example of the limitations of property rights without particular regard to antitrust-specific public interest limitations.

It is the sub-constitutional limitations, therefore, that must be examined. The use of tangible property, although undisputedly an absolute right conferring the power to exclude,<sup>203</sup> is firstly subject to the conflicting rights of others. It is part of the aforementioned “relationality” of property that the exercise of property rights may not interfere with or violate proprietary positions of third parties.<sup>204</sup> Easements, servitudes, or the laws of nuisance are general examples of legal limitations of property rights induced by social or public policy considerations.<sup>205</sup>

On a more concrete note, courts have considered social obligations to limit the use of property in the so-called “rent cases.” It was held that the quasi-monopolistic position of the landlords, which gave them power over their tenants, e.g., to increase rents at will, was to be limited.<sup>206</sup> The Supreme Court has stated that as “space . . . is necessarily monopolized in comparatively few hands,” public interest justified “some degree of public control.”<sup>207</sup> If no public control was

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201. *Id.* at 6-7.

202. Although companies have sometimes indirectly triggered expropriations by threatening to move their operations, for example, if they did not get additional land to expand their businesses. Authorities were then inclined to expropriate, claiming that the creation of new jobs, increase in tax revenues, etc., through the respective business was a legitimate public use, justifying the taking. This practice has been upheld by courts. *See, e.g., Kelo v. City of New London*, 545 U.S. 469, 477 (2005).

203. *See, e.g., PruneYard Shopping Ctr. v. Robins*, 447 U.S. 74, 82 (1979); *Kaiser Aetna v. United States*, 444 U.S. 164, 179-80 (1979).

204. *See Mugler v. Kansas*, 123 U.S. 623, 665 (1887). “[A]ll property in this country is held under the implied obligation that the owner’s use of it shall not be injurious to the community.” *Id.* (citations omitted).

205. *See Carrier, supra* note 197.

206. *See generally Block v. Hirsh*, 256 U.S. 135, 155-57 (1921).

207. *Id.*

imposed, the right holder could not only use, but also freely abuse, his power to the detriment of those dependent on him.<sup>208</sup>

IP-licensing cases provide for a situation comparable to the rent cases. While a certain good—the intellectual property—is monopolized, the potential demand is numerous, thus giving the IP owner seemingly unlimited power over the demanders. Thus, a certain degree of public control, i.e., the consideration of public interests to limit the exercise of IPRs, is justified.<sup>209</sup>

The public interests antitrust laws aim to protect—the greatest possible variety of goods and services for the lowest possible price—can therefore be factored in a genuine IPR analysis. It seems that from this perspective, recourse to antitrust law seems both unnecessary and methodologically questionable.<sup>210</sup>

### B. Testing the Assumptions

It has been suggested that IP laws provide for different “internal” means to protect the public against excessive use or exploitation by the IP owner. First, the misuse doctrine was introduced to provide a “door” through which antitrust concerns could enter IP law analysis. Where misuse doctrines are unavailable or not clearly applicable, the “property” notion inherent in IP, especially the “social function” of property has been suggested to allow for another possibility to take antitrust concerns into account.

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208. The situation concerning IPRs might be slightly different, as IPRs are generally not crucial to survive (as is living space). However, in case of key patents or interface patents, the detriment of the licensee is comparable.

209. See also *Block*, 256 U.S. at 157 (McKenna, J., dissenting) (acknowledging the application of the Court’s reasoning to all forms of property). “If the public interest may be concerned, as in the statute under review, with the control of any form of property, it can be concerned with the control of all forms of property.” *Id.* See also *Lasercomb*, 911 F.2d at 976. “We are of the view, . . . that . . . copyright and patent law serve parallel public interests,” and “[t]he need...to protect its investment does not outweigh the public’s right under our system to expect competition and the benefits which flow therefrom.” *Id.* at 976-78; *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1974) (stating that copyrights “must ultimately serve the cause of promoting broad public availability . . . for the general public good.”).

210. This view stands in diametrical contrast to the Agencies’ analysis. See *Antitrust Guidelines*, *supra* note 3, at 3. That is not to say that intellectual property is in all respects the same as any other form of property. Intellectual property has important characteristics, such as ease of misappropriation, that distinguish it from many other forms of property. These characteristics can be taken into account by standard antitrust analysis, however, and do not require the application of fundamentally different principles. *Id.*

The question now is how this alternative IP-driven approach addresses the concerns expressed in the TTBER and the Antitrust Guidelines.

1. Example 1—Same Results (Price Fixing)

Both TTBER and the Antitrust Guidelines strictly prohibit price fixing as a hardcore restriction and *per se* violation of antitrust laws.<sup>211</sup> From an IP-law perspective, forcing the licensee to charge his customers a certain price, i.e., fixing prices on the resale level of the licensed IP or the product produced with the IP, is beyond the scope of the IPR grant as well. While it is the IPR owner's choice to license the IPR at whatever price he wishes, his monetary interests are satisfied upon licensing. There is no right embedded in the IPR to control the further marketing or sales. Thus neither TTBER nor the Antitrust Guidelines would be needed to eliminate such licensing terms. The same result would be achieved by interpretation of the relevant IP laws, in this case even without further use of the misuse doctrine.

2. Example 2—Different Results (Use of Licensee's Technology)

Article 5(2) TTBER forbids restrictions on the licensee to exploit his own technology where the parties are non-competitors.<sup>212</sup> Since the EU's antitrust law is also concerned with intra-technology competition, this rule seems sensible from the antitrust perspective. Where a licensee has enough know-how in the respective industry as well as the relevant assets to further innovation, he is a (potential) source of innovation and thus competition in the market, which the licensor must not block. The Agencies, on the other hand, would not render such restriction invalid, as they do not require an undertaking to create competition in its own field.<sup>213</sup>

If one reads the IP laws as conclusive and *per se* balanced, following the IP approach, such licensing terms could not be enforced. While IPRs confer *inter alia* the rights to use, to exclude, and to protect against abuse of the IPR by third parties, taking influence on licensees' businesses is beyond the legal power the IPR grants. The protection of the IPR does not require any further control over the licensee's activities.

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211. TTBER, *supra* note 4, art. (2)(a), 4(1)(a); Antitrust Guidelines, *supra* note 4, § 5.3.

212. TTBER, *supra* note 4, art. 5(2).

213. See Antitrust Guidelines, *supra* note 3, § 3.1, at 7.

This time, therefore, a mutual IP approach—although in line with EU antitrust laws—alters the U.S. antitrust approach. As it is more restrictive than the current approach, the Agencies are unlikely to enforce it. The courts could nevertheless hear a case and could find the license agreement unenforceable because of undue expansion of the IPR's scope. On the other hand, they would be able to take into account the specific interests of U.S. antitrust laws and hold that such restriction of the licensee does not run counter to antitrust principles or public policies and thus does not amount to misuse within the meaning of the respective statutes.

### *C. Implications of the IP Approach*

The established antitrust-based regulation of IP licenses has produced workable results. Nevertheless, this Article so far suggests that there might be a better solution—the reform or adaptation of the IP Agencies' and courts' work.<sup>214</sup> This Section points at some implications of the presumed better solution—the “IP Approach.”

#### 1. General Benefits

Example 2 has shown one possible benefit of the proposed approach: strict application leads to results that are coherent with the scope of IPRs while also satisfying the stricter of two antitrust regimens. It allows enough flexibility, however, to take into account a lower standard of antitrust control that in this case allowed for an “overreaching” exploitation of the IPR. The new approach suggests other benefits, too. From a doctrinal point of view, it seems beneficial to solve issues that are provoked by the exercise of IPRs, i.e., licensing, with the tools provided by the IP laws. Thereby it is ensured that in dealing with the complicated interface issues the IP interests are properly construed and acknowledged as well as confined.

#### 2. Institutional Implications

It has been argued above and elsewhere that any solution of the “interface-dilemma” must reach beyond the mere balancing of economic interests inherent in antitrust cases.<sup>215</sup> It is important to acknowledge and further the balance of interests Congress or the other legislative bodies have made in passing the IP laws, while adapting IP

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214. See also Kovacic, *supra* note 162, at 4.

215. See Feldman, *supra* note 173, at 400.

laws (and their application) to today's realities. The antitrust agencies—despite their statements in the Antitrust Guidelines and the TTBER—are neither particularly experienced in “IP-thinking” nor do they have a genuine interest in preserving the IPR system.<sup>216</sup> They alone are not fit to perform such adaptation. If IPR interpretation in the field of licensing is left to them, soon a mere economic-driven approach will be likely to appear. Due to their highly specialized expertise, they are prone to overlook genuine IP issues they are not familiar with.<sup>217</sup>

IP licensing occurs in quickly changing technological environments. To understand the technologies a constant update in knowledge is necessary. The economic considerations driving antitrust/anticompetition policies in comparison are rather static. The IP Agencies (e.g., the PTOs), by their everyday work, are exposed to the latest changes in the industries and therefore, “automatically” kept up to date. For the Antitrust Agencies, on the other hand, timely and costly constant knowledge updates would be necessary to enable them to make sensible and informed decisions. Without such knowledge updates, however, the recognition of the IPR owners' and the public's interests in the application of IP laws is threatened.<sup>218</sup>

It is due to these dynamics (static economic policy developments vs. fast-changing technologies) that the institutions dealing with IPRs right now—the PTOs, national agencies in Europe, and the courts—seem to be better suited to govern the licensing of IPRs. They have the expertise in IP law without being particularly biased either towards antitrust concerns or towards IPRs.<sup>219</sup> They are, on the other hand, far from oblivious to overreaching exploitation of IPRs. They are used to dealing with cases of misuse or other unlawful IPR exercise. It is easier for them to acknowledge or stress certain competition concerns in the analyses they are used to performing than it is to instruct an antitrust agency and have it obey the intricacies of IP laws. Thus, it appears that the IP Agencies and courts are best equipped to calibrate the IP system to account for antitrust concerns that licensing activities might raise.<sup>220</sup>

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216. *Id.* at 401. *See also* Kovacic, *supra* note 162, at 1.

217. *Id.* at 1.

218. *See* Feldman, *supra* note 173, *passim*.

219. *See* Dreyfuss, *supra* note 172, at 770 (describing how initial concerns about a pro-tenant bias of the Court of Appeals for the Federal Circuit abated. There is no conceivable reason why this should be different for other specialized IP agencies or courts.).

220. *See generally* Joseph Scott Miller, *Patent Ships Sail an Antitrust Sea*, 30 *SEATTLE U. L. REV.* 395, 402 (2007).

### 3. Costs

The new suggestion further seems to be more cost efficient. In the current system, the parties to a licensing agreement as well as the Agencies incur costs through the administrative review proceedings and possibly additional litigation. In the proposed setting, only costs from litigation occur. As these costs are borne by parties, this seems to be a natural limitation on the number of suits brought. This self-restraint entails positive effects for competition and economy in general: while anticompetitive licensing may still occur, insignificant restraints will go untried as the parties are not willing to bear the costs and risks of a lawsuit. Major restraints will be tried, however. By this “natural selection,” the specialized agencies and the courts are made aware of the actual challenges to IP laws and can sensibly react. While serving as an indicator of the nuisances in IP laws, the public bears lesser costs due to reduced government activity.

The suggested approach does bear costs, as well. The incorporation of antitrust analysis in the IP Agencies’ and courts’ procedures and analyses is possible only if those bodies’ economic expertise is strengthened. This entails education, hiring new staff, and possibly structural changes that produce costs.<sup>221</sup> These costs, for the most part, seem to be one-time costs, however. Once changes are implemented only very limited further “time-to-time” training will be needed to educate officials about the latest relevant economic ideas. As has been pointed out above, economic theories are less likely to change, so that related educational expenses do not seem to present a major concern.

#### *D. Conclusion*

The hypothesis that antitrust concerns in the context of IPR licensing could adequately be addressed by the IP laws themselves without recourse to antitrust mechanism raised the question which institutional implications such an approach might have. It has been suggested that an institutional change away from the antitrust agencies to the specialized IP agencies and courts is needed. While this suggestion entails costs, it was argued that in the long term, regulation of IP licensing through the IP agencies and courts would be both cheaper as well as preferable from a doctrinal point of view.

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221. See Dreyfuss, *supra* note 172, at 792.



SUMMARY AND FINAL REMARKS

This Article did not attempt to provide a comprehensive analysis of all possible licensing terms in all possible settings of undertakings and markets. By examining the Antitrust Guidelines and the TTBER, it showed different things, however. First, that two major jurisdictions share mutual antitrust concerns in the context of IPR licensing. Second, both jurisdictions tackle the perceived problem through their specialized antitrust mechanisms and agencies.

This perception and approach has been criticized. While the substantive concerns as present in the TTBER and Antitrust Guidelines purposely remained basically unchallenged, the institutional setting has been questioned. It has been suggested that the issues (if correctly or not) identified are better dealt with by agencies and courts specialized in dealing with IPRs. It has been shown that the concerns underlying and driving antitrust policy can be accounted for under regular IP analysis. Thus, for doctrinal and cost-efficiency reasons, it was argued that the evaluation of IPR licensing agreements should be transferred to a different forum—the specialized IP Agencies and courts.

A question not dealt with in this Article is the implementation of the suggestions set forth. It seems possible, however, in the United States to revoke the Antitrust Guidelines and, as the case may be, establish new procedural rules. In the EU, the TTBER could also be revoked or simply not renewed once it expires.<sup>222</sup> To the extent that the TTBER has led to adaptations of national antitrust laws, these adaptations possibly need to be changed.

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222. TTBER, *supra* note 4, art. 11, (stating that the regulation is limited in time and expires April 30, 2014).