Antitrust Treatment of Intellectual Property Transactions: Economic Analysis and Recent Developments
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I. INTRODUCTION

Antitrust issues are an important consideration for intellectual property owners in domestic and international transactions. Antitrust issues can arise in numerous transactions involving intellectual property (IP) rights, from refusals to license, exclusive licenses, royalty provisions, field of use restrictions, territorial and customer limitations, exclusive dealing, tying arrangements, restrictions affecting research and development, non-challenge provisions, cross-licenses, and patent pools, among other arrangements. Over the past three decades antitrust jurisprudence has undergone significant changes in the United States, Europe, and the rest of the world. Central themes of this evolution are the application of economic analysis and greater reliance on case by case evaluations rather than inflexible \textit{per se} rules of prohibition. This paper briefly reviews how several major jurisdictions apply the economics-based antitrust framework to transactions involving IPRs.

While the intellectual property laws provide incentives for innovation and its dissemination and commercialization by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression, the antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.\textsuperscript{4} It is well recognized today that patent licensing is an efficient way of disseminating technology, thus sparking innovation (often enabling follow-on patents and technological improvements), while also allowing for specialization in manufacture (mass production) and distribution. Thus, the more enlightened modern antitrust assessment of patent licensing restrictions generally takes into account these procompetitive efficiency-enhancing features when assessing particular restrictions, weighing them on a case-by-case basis against their anticompetitive potential. This was not always the case. Indeed, prior to the 1980s, United States antitrust enforcers viewed restrictions in licensing agreements as inherently suspect under the antitrust law. The Justice Department’s decision in the early 1980s to rescind the statement on the “nine no-nos of licensing” reflected the infusion of new economic thinking (particularly Chicago School and transactions cost economics) into U.S. antitrust enforcement.\textsuperscript{5} Although other major jurisdictions did not follow suit at first, the rigid antitrust formalism that had restricted IP licensing eventually led to more enlightened views first in the U.S., then around the world.

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II. ANTITRUST-IP PRINCIPLES IN THE UNITED STATES

A. Antitrust Treatment of Intellectual Property: Historical Development

Since the enactment of the Sherman Antitrust Act in 1890, the legal treatment of licensing practices based on patent rights has oscillated between absolute freedom in licensing and significant limitations. In the early 1900’s the patent laws were considered to give “absolute freedom in the use or sale of rights.” However, in the ensuing decades, the courts recognized limitations on the extent of a patent owner’s rights in licensing. In United States v. Line Material Co., the Supreme Court emphasized that the inventors must stay within the statutory exclusive rights. The Court pointed out that, “[a]s long as the inventors kept within their statutory exclusive rights, they were not engaging in unreasonable restraints of trade violating the Sherman act.” The Court adopted a narrow interpretation of patent law rights in favor of the antitrust laws. The Court noted in Sears, Roebuck & Co. v. Stiffel Co., that, “[o]nce the patent issues, it is strictly construed, it cannot be used to secure any monopoly beyond that contained in the patent, the patentee’s control over the product when it leaves his hands is sharply limited, and the patent monopoly may not be used in disregard of the antitrust laws.” 376 U.S. 225, 230 (1964).

The Court’s jurisprudence defined certain types of conduct to be per se violations of the antitrust laws. In Mercoid Corp. v. Mid-Continent Inv. Co., the Court held that tying arrangements involving patents always constituted antitrust violations. The Court stated that, “[w]hen the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts. The contract is not saved by anything in the patent laws because it relates to the invention.” 320 U.S. 661, 666 (1944). In United States v. Arnold Schwinn & Co. the Court held that vertical territorial restrictions were per se unlawful. 388 U.S. 365, 379 (1967). The Antitrust Division of the Department of Justice distilled the per se unlawful forms of conduct into what later came to be known as the “Nine No-Nos” of licensing.

B. Antitrust in the United States

1. Nine No-Nos

The “Nine No-Nos” were a list of licensing practices that the Antitrust Division of the Department of Justice considered anticompetitive. The chief proponent of the Nine No-No list, Deputy Assistant Attorney General Bruce Wilson, declared that they are restraints which in virtually all cases are going to lead to antitrust trouble because of their adverse effect upon competition. The Nine No-Nos consisted of the following:

(1) Royalties not reasonably related to sales of the patented products;

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(2) Restraints on licensees' commerce outside the scope of the patent (tie-outs);
(3) Requiring the licensee to purchase unpatented materials from the licensor (tie-ins);
(4) Mandatory package licensing;
(5) Requiring the licensee to assign to the patentee patents that may be issued to the licensee after the licensing arrangement is executed (exclusive grantbacks);
(6) Licensee veto power over grants of further licenses;
(7) Restraints on sales of unpatented products made with a patented process;
(8) Post-sale restraints on resale; and
(9) Setting minimum prices on resale of the patent products.\textsuperscript{11}

The Nine No-No's focused on attempts by patent holders to expand their patent monopolies to unpatented supplies, to gain control over improvements of their innovations, to determine prices for resale of their patented products, or to engage in market allocations. However, only a few of the cases filed by the Antitrust Division's Intellectual Property Section addressed any of the nine practices. Most of these cases were litigated under a rule of reason rather than per se illegality.\textsuperscript{12} While the list served as a watch list, the rule of reason analysis was used during litigation.

2. Rule of Reason Approach

The Antitrust Division’s "Antitrust Enforcement Guidelines for International Operations" (issued in 1988 and slightly revised in 1995)\textsuperscript{13} adopted a "rule-of-reason" approach to patent licensing that allowed for a balancing of the pro-competitive effects of licensing against possible anticompetitive effects in related markets. The Guidelines’ rule-of-reason framework set out a three part test: “(1) What harm to competition results or may result from the collaborators' activities? (2) What is the object they are trying to achieve and is it a legitimate and significant one? That is, what are the nature and magnitude of the "redeeming virtues" of the challenged collaboration? (3) Are there other and better ways by which the collaborators can achieve their legitimate objectives with fewer harms to competition? That is, are there "less restrictive alternatives" to the challenged restraint?”\textsuperscript{14} The adoption of the rule-of-reason analysis was followed by the landmark 1995 joint Justice Department-FTC Guidelines (Antitrust-IP Guidelines) that set forth an economic-based framework for antitrust analysis of IP Licensing.\textsuperscript{15}

C. Antitrust-Antitrust-IP Guidelines

The 1995 joint Justice Department-FTC Guidelines set forth an economics-based framework for the antitrust analysis of IP Licensing.

\textsuperscript{11} Id. at 285-289.
\textsuperscript{12} Id. at 285-288.
\textsuperscript{14} (P. Areeda, The "Rule of Reason" in Antitrust Analysis: General Issues (Federal Judicial Center 1981)).
The Antitrust-Antitrust-IP Guidelines recognized that the intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare. The Antitrust-IP Guidelines embody three important general principles:

1. For the purpose of antitrust analysis, the Department of Justice and Federal Trade Commission (Agencies) regard intellectual property as being essentially comparable to any other form of property.
2. The Agencies do not presume that intellectual property creates market power in the antitrust context.
3. The Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive.16

D. Consideration of intellectual property as comparable to any other form of property

The Antitrust-IP Guidelines characterized IP as being essentially comparable to any other form of property. While intellectual property may differ in some respects from other forms of property, the same general approach can be used in antitrust analysis while taking the different characteristics into account. In short, the Guidelines recognized that the governing antitrust principles are the same. The IP owner's rights to exclude are similar to the rights of owners of other forms of private property, and the IP is neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.

E. Market Power

The Antitrust-IP Guidelines stated that it will not be assumed that an intellectual property right conveys market power. While intellectual property rights give owners the right to exclude others from practicing the protected rights, not all such rights give rise to market power. Market power is "the power to control market prices or exclude competition."17 In Jefferson Parish the Supreme Court stated that "as an economic matter, market power exists whenever prices can be raised above the levels that would be charged in a competitive market."18 The Court in Jefferson Parish further stated that market power is the power "to force a purchaser to do something that he would not do in a competitive market."19

The Antitrust-IP Guidelines recognized that market power does not impose on the intellectual property owner an obligation to license the use of that property to others. However, market power could be used to harm competition through unreasonable conduct. Determination of whether a party had market power is crucial in antitrust cases involving intellectual property rights. In Independent Ink the Supreme Court concluded that, "the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee.” In turn, the Court held that “in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”20 In the antitrust context, tying refers to an instance when a seller conditions its sale of

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16 Id.
18 Id.
a patented product (the "tying" product) on the purchase of a second product (the "tied" product). Tying is a significant concern in bundled products where some of the products are covered by patents and the others include non-patented products. However, under Independent Ink, tying arrangements will only run afoul of antitrust laws if the defendant has market power in the tying product. Market power is also an important consideration in cases involving resale price maintenance agreements. In Leegin Creative Leather Products, the Supreme Court noted that “a dominant manufacturer or retailer can abuse resale price maintenance for anticompetitive purposes may not be a serious concern unless the relevant entity has market power.” As such, market power is an important factor to consider when a company that has significant dominance in any industry enters into licensing agreements.

F. Beneficial Economic Effects of IP Licensing

The Antitrust-IP Guidelines recognized that IP licensing, cross-licensing, or otherwise transferring intellectual property can have many procompetitive effects. The Antitrust-IP Guidelines state that IP transactions in general can lead to more efficient exploitation of the intellectual property, benefiting consumers through the reduction of costs and the introduction of new products. Such transactions can increase the value of intellectual property to consumers and to the developers of the technology. Furthermore, the increased exploitation of IP rights through licensing can lead to increased incentives for research and development. The Supreme Court has included the beneficial economic effects of IP licensing under rule of reason analysis. “In determining the lawfulness of particular practices, courts often apply a ‘rule of reason.’ They examine both a practice's likely anticompetitive effects and its beneficial business justifications.”

The Antitrust-IP Report subsequently issued by the Department of Justice and Federal Trade Commission further considered the efficiencies and anticompetitive effects involving common licensing practices including licensing efficiencies, non-assertion clauses, grant-backs, and reach-through licensing agreements. The Antitrust-IP Report concluded that these licensing practices can provide great efficiencies to the contracting parties that would ultimately benefit consumers; however, each licensing practice has the potential to stymie innovation and weaken competition among firms. The procompetitive benefits and anticompetitive effects are not always clear and may differ case by case. As such, the analysis is difficult and needs to be made on a case by case basis.

G. Antitrust Treatment of Common IP Licensing Practices in the United States

1. Refusal to License

The IP Antitrust Report state that “there are circumstances in which imposing conditions for a license may be anticompetitive, and that view is consistent with a long line of antitrust

24 Id. at 909.
26 Id. at 102.
cases.” However, “antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.”

2. Exclusive Licenses

Antitrust concerns from exclusive licenses are only likely to arise when the transaction is between parties that are in a horizontal relationship. Exclusive licenses may come under scrutiny if the licensor and licensee are actual or potential competitors and the license creates or enhances the exercise of market power.


A patentee may charge any amount of royalty as long as the royalty is related to the licensee’s use of the intellectual property. Furthermore, the royalty rates may vary between licensees and such discriminatory royalty rates are not considered anticompetitive. However, royalties on products that are not covered by a patent can be considered anticompetitive. Collection of royalties beyond the life of the patent can also give rise to antitrust claims. Royalties can be based on patented as well as unpatented products as long as such arrangement is based on convenience rather than the use of patent as leverage.

4. Price Restrictions

Downstream price restrictions on products by patent licensors are generally considered unlawful. However, there are two narrow exceptions to this rule. If the patent holder also manufactures and sells the product and the price will necessarily affect the price at which the patent owner can sell its own goods a price restriction may be permissible. Retail price maintenance agreements can also be permissible if there is a significant amount of procompetitive effect.

5. Field of Use and Territorial Restrictions

Generally, field of use and territorial restrictions do not raise antitrust concerns. The antitrust concerns are raised when the field of use restriction goes beyond the scope of the patent.

6. Tying Arrangements

The courts and the Antitrust Agencies have adopted the rule of reason analysis in evaluating tying arrangements. Under Independent Ink, tying arrangements will only run afoul of antitrust laws if the defendant has market power in the tying product. Technological tying where two or more patented products are integrated into a new product is also analyzed under the

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27 Id. at 32.
29 Id. at 35-38.
31 Antitrust Licensing Handbook, supra note 28, at 41.
rule of reason analysis where the benefits of the integration is compared to the anticompetitive effects.35

III. ANTITRUST PRINCIPLES: INTERNATIONAL ASPECTS

A. Overview

Modern day competition law across the globe is generally accepted to have had its foundation in the United States, more specifically, by way of the Sherman Act of 1890 and the Clayton Act of 1914.36 Generally, the notion is that a patentee is conferred exclusive rights to claimed subject matter by being granted a patent.37 Based on that notion, patentees are generally free to voluntary choose whether to grant a license to a licensee to make, use, or sell the claimed subject matter, while at the same time retaining ownership of the patent. In the usual course of business, a patentee can come to an agreement with a licensee by negotiating the terms and conditions of the license. That agreement often serves not only as a source of income for the patentee, but also as a transfer of rights to the claimed technology to others who might contribute to the development of the technology concerned.

B. European Union

1. History

On March 25, 1957, six European countries38 signed the Treaty of Rome39, which officially formed the European Economic Community, often called the Common Market,40 which subsequently became the European Union (the “EU,” whose executive administrative body is the European Commission, or “EC”). Articles 85 and 86, the major antitrust provisions of the 1957 version of Treaty of Rome, were renumbered as Articles 81 (subsequently renumbered and referred to henceforth as Article 101)41 and 82 (subsequently renumbered and referred to henceforth as Article 102)42 in the year 2000. Articles 101 and 102 of European Treaty of Rome are generally analogous to sections 1 and 2 of the U.S. Sherman Act.43 Specifically, Article 101 of the Treaty of Rome is similar to Section 1 of the Sherman Act in that Article 101 makes illegal all agreements or concerted practices which prevent, restrict or distort

36 Canada and the United States were the first two jurisdictions to enact modern antitrust statutes, with other jurisdictions following later. For a pictorial representation of the spread of antitrust laws worldwide over time (and a concise summary of IP-antitrust issues), see http://www.ftc.gov/oia/speeches/120621antitrustdinakallay.pdf.
38 The six European countries consisted of the following countries Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. http://en.wikipedia.org/wiki/Treaty_of_Rome
40 Around the year 2000, the Common Market consisted of fifteen member countries, additionally including the countries of Austria, Denmark, Finland, Greece, Ireland, Portugal, Spain, Sweden and the United Kingdom. http://en.wikipedia.org/wiki/Treaty_of_Rome.
41 Article 81 was renumbered once again as Article 101 of the Treaty of the Functioning of the European Union, and it is available at http://en.wikipedia.org/wiki/Article_81.
42 Article 82 was renumbered once again as Article 102 of the Treaty of the Functioning of the European Union, and it is available at http://en.wikipedia.org/wiki/Article_82.
competition in the common market. Likewise, Article 102 is similar to Section 2 of the Sherman Act in that Article 82 declares illegal abuses of a dominant (or, monopoly) position in the common market. Since it deals with anticompetitive agreements, Article 101 is particularly relevant to the licensing of intellectual property, and will be discussed in further detail below. (Licensing practices involving a dominant firm may also implicate Article 102.)

Initially, one of the major differences between licensing in Europe and the United States was that in Europe potentially-anticompetitive license agreements had to be brought to the attention of the EC through a notification process, and then given “negative clearance” (or, exemptions) by the EC’s antitrust authorities. But, in 1962, the EU adopted Regulation 17/62, providing a detailed procedure for notifying the EC of potentially-anticompetitive license agreements. Three years later, in 1965, the EU adopted Regulation 19/65, empowering the EC to adopt block exemption regulations intended to exempt individual categories of agreements from the notification process, with the purpose of decreasing the number of agreements that had to be brought to the attention of the EC for individual clearance.

Through its authority to determine regulations pertaining to block exemptions, the EC adopted Regulation 2349/84, a regulation aimed at dealing with patent license agreements, with an effective date of January 1, 1985 and an intended-applicability date of December 31, 1994. Using that authority, the EEC later adopted Regulation 556/89, called the “Block Exemption Regulation on Know-How Licenses,” a regulation aimed at dealing with “mixed” patent and know-how licenses, with an effective date of April 1, 1989 and an intended-applicability date of December 31, 1999. Despite the fact that the intended-applicability dates of those two regulations had not yet been reached, on April 1, 1996, the EC adopted Regulation EC No. 240/96, a regulation aimed at dealing with both patent license agreements and “mixed” patent and know-how licenses, with the general idea that a grant of an exemption for certain types of clauses should be provided if other specified provisions were not already present.

2. Technology Transfer Block Exemption Regulation

Around the year 2004, it was commonly believed that submitting licenses to the EEC had become unnecessarily burdensome. Thus, the submission of licenses to the EC was eliminated, and, on April 27, 2004, the EC adopted Regulation (EC) TTBER No. 772/2004, called the Technology Transfer Block Exemption Regulation, a regulation covering not only patent and know-how licensing agreements, but also computer software agreements and agreements concerning mixtures of other intellectual property rights. The TTBER had an effective date of May 1, 2004 and its intended final date of applicability is April 30, 2014.

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44 Melvin F. Jager, LICENSING LAW HANDBOOK, § 7:11 (2009-2010 Ed.).
45 Id.
46 Id.
48 Article 1.1(i) of the 2004 Regulation defines “know-how” as a package of non-patented practical information, resulting from experience and testing, which is (i) secret, that is to say, not generally known or easily accessible; (ii) substantial, that is to say, significant and useful for the production of the contract products; and (iii) identified, that is to say, described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfills the criteria of secrecy and substantiality.
49 Article 1.1(g) of the 2004 Regulation defines “intellectual property rights” to include patents, know-how, copyrights and neighboring rights. The term “patents” is defined in Article 1.1(h) to include patents, applications, utility models, applications
As a result of the 2004 TTBER, technology transfer license agreements are no longer under a presumption that they are in conflict with Article 101(1) of the Treaty of Rome. Instead, a new procedure dealing with technology transfer agreements was implemented, allowing an injured party or a Member State to file an action to determine if a particular license agreement, in whole or in part, should be exempted from the protection of the TTBER and considered an illegal contract in restraint of trade. Accordingly, for each technology transfer license agreement, it must now be determined whether Article 101(1) of the Treaty of Rome applies, and the burden is on the complaining party to prove that the restriction should be declared illegal.

On February 20, 2013, the EC published drafts of proposed new versions of the EU Technology Transfer Block Exemption Regulation (“EU Regulation”) and Guidelines, setting out proposed revisions to the EU antitrust rules on technology transfer agreements. After holding a public hearing on the operation of the current system, the European Commission published a set of proposed revisions to the existing rules, which are scheduled to expire on April 30, 2014.

a. Determining Compliance with TTBER

To determine whether a technology transfer agreement falls under the protection of TTBER, the first step is to check the market share criteria that apply to the parties to the agreement. If the market share thresholds in Article 3 of TTBER are not exceeded, the exemption provided in Article 2 applies to the agreement. Even if the criteria are met, however, it must still be determined whether the hard core provisions of Article 4 are present. If the hard core restrictions cannot be avoided, then the TTBER is not applicable, and the agreement is in violation of Article 101(1) of the Treaty.

If the market threshold criteria are met, and there are no hard core restrictions, the exclusion of Article 2 of the TTBER is applicable. If unenforceable excluded restrictions per Article 5 still exist, that will not negatively impact whether the TTBER apply. If a party proceeds with trying to enforce those provisions, the provisions will be reviewed individually as to whether they would, if applied, would cause the agreement to violate Article 101(1) of the Treaty.

If the agreement is not covered by the TTBER, there is no presumption that the agreement violates Article 101(1), in which case, a rule-of-reason approach is required, where the parties should review the restrictions in the agreement under the rule of reason analysis discussed in further detail in Section II.B.2 above. Then, if either the EC or a national competition authority in one of the EU member states raises objections, the rule of reason for the registration of utility models, designs, topographies of semiconductors, certificates for protection of medical or other products and plant breeder’s certificates.

51 Since the TTBER is set to expire on April 30, 2014, the EC has started an initial public consultation on the review of the EU competition regulation applicable to technology transfer agreements in order to decide what regime will apply after that date. As such, the initial public consultation has requested that all stakeholders, including citizens, public authorities, organizations, the business community, industry associations, consumer interest association with direct experience of applying the current rules on technology transfer agreements, submit comments and engage in the process of determining whether the current TTBER, including the Guidelines, should be modified and/or replaced. See Frequently Asked Questions on an Initial Public Consultation on the Review of the EU Competition Regulation Applicable to Technology Transfer Agreements, available at http://ec.europa.eu/competition/consultations/2012_technology_transfer/faq_en.pdf.

52 The deadline for submitting comments is May 17, 2013.
approach is applied by the EC or courts to the agreement. A party to the agreement, or a third party, could request such a review by the Commission and the courts.


The 2004 Regulation includes an “opposition” provision, providing that if an agreement generally falls within a broad category for which a block exemption exists, but contains a clause that does not fall squarely within the types of clauses set out in the exemption and does not contain any of the clauses found on the “black” or “hard core” list, the agreement may be deemed to be covered by the exemption if (1) it is properly notified to the EC and (2) there is no adverse action taken by the EC within a designated period, starting from the submission date. The list of “hard core” licensing restrictions is included in Article 4 and Recital 13 of the 2004 Regulation. If a license agreement includes at least one of the hard-core restrictions, the benefit of the regulations in exempting the agreement from being illegal under Article 101(1) of the Treaty of Rome are not available, even if the safe harbor market thresholds are met.

Recitals 13 and 14 related to Hard Core Restrictions are set forth in Article 4. Recital 13 states that the regulations should not exempt agreements that contain restrictions which are not indispensable to the improvement of production of distribution efficiencies. Severely anticompetitive restraints such as price fixing should be excluded from the benefit of an exemption regardless of the market shares of the parties concerned. The entire agreement with such hard core restrictions is excluded from the benefit of the block exemptions.


Discussed in Recital 14, exclusive grant-back provisions for severable improvements are excluded from the block exemptions to protect incentives to innovate. Accordingly, a clause dealing with improvements and grant-backs is not appropriate for a nonexclusive license that basically provides the licensee with a covenant not to sue under the licensed patents or technology. A nonexclusive licensee faces potential competition in the licensed products as well as in any related improvements from the licensor or other nonexclusive licensees. A request by the licensor to have a nonexclusive licensee convey or grant-back rights to improvements created by the licensee would be met with strong resistance. It would be a rare case where a nonexclusive licensee would agree to grant back to the licensor all improvements, which then could be used by the licensor and potentially all other licensees.

As explained above, the US antitrust laws and the Department of Justice are concerned with the anti-competitive effect of the grant backs of improvements in exclusive technology licenses. Similarly, the European antitrust laws and the EC are also concerned with exclusive grant-backs or assignments to the licensor of severable improvements of the technology being licensed. The EC’s position on grant-backs is discussed in further detail in Article 5(1)(a) and 5(1)(b). An improvement is severable if it can be exploited without infringing upon the licensed technology. An obligation to grant the licensor an exclusive license to severable improvements of the licensed technology or to assign such improvements to the licensor is likely to reduce the licensee’s incentive to innovate since it hinders the licensee in exploiting his improvements.

53 Licensing Law Handbook, Melvin F. Jager, Chapter 10, Section 5.
54 Id.
55 Id.
including by way of licensing to third parties. This is the case both where the severable improvements concern the same application as the licensed technology and where the licensee develops new applications of the licensed technology.

4. Market Power

Describing the general public benefits to licensing, Recital 5 of the 2004 TTBER states that technology transfer agreements, concerning the licensing of technology, will usually improve economic efficiency and be pro-competitive as they can reduce duplication of research and development, strengthen the incentive for the initial research and development, spur incremental innovation, facilitate diffusion, and generate product market competition. Recital 6 of the TTBER states that whether such efficiency-enhancing and pro-competitive effects will likely outweigh any anticompetitive effects due to restrictions contained in technology transfer agreements depends on the degree of market power of the parties concerned and on the extent to which those parties face competition from parties owning substitute technologies or parties producing substitute products.


As stated above, a patent owner is generally entitled to license his patent in all fields of use or in limited areas. Under a field-of-use restriction, the license is either limited to one or more technical fields of application or one or more product markets. In Europe, field of use restrictions are block exempted and certain customer restrictions are hardcore restrictions under Articles 4(1)(c) and 4(2)(b) of the TTBER. But the two categories of restraints should be distinguished. A customer restriction presupposes that specific customer groups are identified and that the parties are restricted in selling to such identified groups. The fact that a technical field of use restriction may correspond to certain groups of customers within a product market does not imply that the restraint is to be classified as a customer restriction. Still, the field of use must be defined objectively by reference to identified and meaningful technical characteristics of the licensed product.

C. China

Following the EU model, China’s Antimonopoly Law, one of three statutes of general application to protecting competition, includes three broad categories of rules: (1) rules prohibiting restrictive agreements and abuse of a dominant market position; (2) rules controlling large mergers and acquisitions activities and preventing mergers which restrict competition; and (3) rules prohibiting the abuse of administrative power that leads to restrictions of competition. China’s Antimonopoly Law applies to all “undertakings,” defined to include any natural or legal person, irrespective of whether the undertakings are privately or State owned, with the exclusion of agriculture and activities of rural economic organizations.

57 The other two statutes are the Price Law of 1998 and the Anti-Unfair Competition Law of 1993.
58 See AML, supra note 56, Chapters II and III.
59 See AML, Chapter IV.
60 See AML, Chapter V.
China’s Antimonopoly Law has a broad geographical scope – if conduct eliminates or restricts competition within the territory of the People’s Republic of China (excluding Hong Kong, Macau, and Taiwan), it can amount to an infringement under the Antimonopoly Law, even if that conduct actually took place outside the territory of the People’s Republic of China. Accordingly, “undertakings” with sales or other commercial activities making decisions on pricing and commercial terms in China must act in accordance with the Antimonopoly Law, even if they do not have a formal presence in mainland China.

There are three enforcement agencies in China: (1) the Price Supervision and Antimonopoly Bureau of the National Development and Reform Commission (“NDRC”) – enforcing conduct rules and prohibiting abuse of administrative power in price-related matters; (2) the Antimonopoly and Unfair Competition Enforcement Bureau of the State Administration for Industry and Commerce (“SAIC”) – enforcing conduct rules and prohibiting abuse of administrative power in non-price-related matters; and (3) the Antimonopoly Bureau of the Ministry of Commerce 61 (“MOFCOM”) – enforcing merger control rules. While MOFCOM’s jurisdiction is clear, the lines of demarcation between SAIC’s and NDRC’s jurisdictions are less clear.

Subject to certain exemptions, Articles 13 and 14 of the Antimonopoly Law prohibit “monopoly agreements,” defined to include any agreement, decision or concerted practice that eliminates or restricts competition. These monopoly agreements are prohibited, regardless of whether the restrictive agreement is “horizontal” (between competitors) or “vertical” (between a supplier and a customer). Because the Law applies to formal agreements, informal agreements or concerted practices (understandings), sanctions can be imposed, even where the agreement has not yet been implemented. Chinese enforcement agencies have also issued implementing regulations, providing additional guidance.62

An illustrative list of agreements constituting prohibited “horizontal agreements,” involving undertakings active at the same level of trade and competition with one another, is provided in Article 13 of China’s Competition Law. The list includes: agreements fixing prices; agreements limiting supply; agreements dividing (downstream) sales markets or (upstream) raw materials procurement markets; agreements limiting the purchase or development of new technology or equipment; agreements involving joint boycotting practices; and agreements including a “catch-all” provision (other monopoly agreements as determined by the relevant antimonopoly enforcement authority).63 Similarly, an illustrative list of agreements constituting prohibited “vertical agreements,” involving undertakings active at different levels of the supply chain, is provided in Article 14 of China’s Competition Law. The list includes: agreements fixing resale prices; agreements fixing minimum resale prices; and agreements including a “catch-all” provision. Unlike the treatment of horizontal agreements, the treatment of vertical agreements in the implementing regulations released by the enforcement agencies is quite limited.

Article 15 of China’s Antimonopoly Law provides an “exemption regime” for exempting monopoly agreements with certain specific redeeming benefits from the list of prohibited agreements. Certain conditions need to be fulfilled for a monopoly agreement to benefit from

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63 See AML, Article 13.
such an exemption. Quite often, those conditions depend upon the type of benefit that results from the agreement.

Article 17 of China’s Antimonopoly Law identified six types of abusive conduct that dominant undertakings are prohibited from engaging in, including: (1) selling or buying goods at unfairly high or low prices; (2) selling goods at a price below cost without valid reasons; (3) refusing to trade with another party without valid reasons; (4) restricting another party to a transaction to dealing exclusively with it, or only with designated undertakings, without valid reasons; (5) tying products without a valid reason, or imposing other unreasonable condition of trade; and (6) applying different prices or transaction terms to equivalent trading parties without valid reasons.

D. India

Since obtaining independence in 1947, and up until about 1991, India adopted and followed command-and-control laws, which were implemented in the form of the Monopolies and Restrictive Trade Practices Act. This Act was aimed at preventing concentration of economic power, controlling monopolies and prohibiting monopolistic, restrictive, and unfair trade practice. Dr. S. Chakravarthy, MRTP Act Metamorphoses Into Competition Act, www.cuts-international.org/doc01.doc, last visited Feb. 10, 2013. Although this Act governed restrictive agreements, its enforceability was rather weak because the regime under which the Act was administered was rather cumbersome -- agreements had to be “registered;” mergers were not reviewed; the government had no power to impose fines (but, yet, it continued to conduct lengthy investigations). In 1991, widespread reforms were undertaken. In 2002, India passed the Competition Act, 2002, No. 12 of 2003. Key amendments to India’s 2002 Competition Act were passed in 2007. Those amendments include catching domestic or foreign deals by way of a mandatory merger control regime; prohibiting anti-competitive agreements and abuse of dominance; specifying broad powers of investigation; and imposing serious penalties. On May 20, 2009, India’s anti-competitive agreements and abuse of dominance rules came into force, and on June 1, 2011, India’s merger control regime came into force.

The government body responsible for enforcing India’s competition laws and preventing activities that have an adverse effect on competition is the Competition Commission of India (“CCI”). The CCI imposed its first fine for anti-competitive practices in 2011. Since then, the CCI has issued significant fines for abuses of dominance.

E. Russia

On December 18, 2006, Russia enacted the Fourth Part of the Civil Code, No. 230-FZ, to deal with the granting of intellectual property rights. Since Russia is a party to international conventions, the procedure for licensing and transferring of intellectual property rights is subject to restrictions stipulated not only by Russian law, but also by the international conventions to which Russia is a signatory. Pursuant to Russia’s Federal Law on Protection of Competition,
No. 135-FZ, (“Russia’s Competition Law”), amended on July 26, 2006, the Federal Antimonopoly Service of Russia (FAS) and its territorial divisions were granted the authority to determine the anticompetitive effect of the licensing and transferring of intellectual property rights.67 Also, Russia’s Competition Law is supplemented by special laws pertaining to particular economic sectors.

Russia’s Competition Law prohibits unfair competition and the sale, exchange, or any other way of introducing goods into the commodity market, if the results of that activity, or equivalent means of individualization of a legal entity, products, works and services, were used illegally. Per Article 28 of Russia’s Competition Law, a transaction or a group of related transactions on the transfer of rights to non-material assets must be cleared by the FAS, if the value of such assets exceeds twenty percent of the book value of the fixed production assets and non-material assets of the undertaking disposing of or transferring the non-material assets.

Russia’s latest amendments pertaining to exemptions from competition law, the so-called “third antimonopoly package,” came into force on January 6 and 7, 2012. The package included new rules aimed at streamlining Russia’s anti-monopoly legislation by integrating substantial changes in the Competition Law.

F. Japan

In recent years, especially around the turn of the 21st Century, Japan revamped its competition rules pertaining to licensing in an effort to move away from the approach taken by the EU and move closer to the approach taken by the U.S. antitrust agencies. In late 1997, Japan proceeded with abolishing its system which required notice of international licenses, in favor of a system with no notice rules at all.

On July 30, 1999, the Japanese Fair Trade Commission (“JFTC”) issued new technology guidelines, called the Guidelines for Patent and Know-How Licensing Agreements under the Antimonopoly Act.68 The 1999 Guidelines have been described by commentators as being more closely aligned with the guidelines issued by the United States’ Federal Trade Commission and Antitrust Division in 1995 than with the group exemptions issued by the European Union. The 1999 Guidelines treat price or resale price restrictions on licenses as almost always objectionable and, unlike the U.S. Guidelines, condemn maximum and minimum price clauses. In addition, the 1999 Guidelines condemn not only restrictions on research by the licensee (an issue that has appeared in both the U.S. and the E.U. guidelines), but also exclusive grant-back clauses on improvements (a position that is stricter than that in the U.S. or the E.U.). The 1999 Guidelines focus on issues such as licensing by dominant syndicates or dominant firms; pooling of patents to achieve market allocation (which is unacceptable and, thus, subject to compulsory licensing as an antimonopoly remedy); and patent tying or package licensing by a market dominating firm (which will likely be deemed illegal).

Even though Japan may have moved in a direction closer to that taken by the U.S. antitrust agencies, the Japanese system still differs from the U.S. system and, according to some commentators, that variance “may simply be based on a misunderstanding of U.S. precedent or

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67 The FAS has administrative investigation powers, whereas the Ministry of Internal Affairs of the Russian Federation (“MIA”) has criminal investigation powers. For additional information on the MIA, see www.mvd.ru.
inability to handle it in the same way in the context of the [Japanese] system” or “the motivating force appears to be a greater concern with fairness than with competition theory as such.”

G. Korea

On December 31, 1980, the Monopoly Regulation and Fair Trade Act (“Korea’s Fair Trade Act”)\(^\text{70}\)\(^\text{70}\), the main antitrust legislation in Korea, was passed. Korea’s Fair Trade Act extends not only to antitrust and competition, but fair trade, consumer protection, and deregulation. Since its enactment in 1980, the Korea’s Fair Trade Act has been amended on numerous occasions, most recently in 2008. The agency in charge of enforcing Korea’s Fair Trade Act is the Korea Fair Trade Commission, established in 1981 as an independent, quasi-judicial organ. On February 1, 2012, the Korea Fair Trade Commission published a new set of intellectual property guidelines\(^\text{71}\), addressing the Commission’s efforts to promote competition in the technology industry and clarify gray areas in potentially-anticompetitive uses of intellectual property rights.\(^\text{72}\) It should be noted that the guidelines are not legally binding, and the Commission will still have to prove any breach of competition law.\(^\text{73}\)

Even though it is generally believed that “Korean competition law resembles that of the European Union rather than that of the United States,”\(^\text{74}\)\(^\text{74}\) Korean competition law includes a number of peculiarities, particularly relating to merger control, that must be noted in order to fully understand Korea’s antitrust policies. In the 1950s Korea’s economy was quite weak, having suffered from nearly forty years of Japanese colonial rule and having further been damaged by the Korean War. In 1962, Park Chung Hee’s administration developed a five-year plan, introducing initiatives for transforming Korea’s economy. As such, in the early 1960’s, the Korean government created the “chaebols,” a distinctive, industrial conglomerate entity, to aid with the development of a modern industrial economy that could compete globally. The “chaebols” emerged to be quite powerful, prominent and influential in the development of antitrust policies in Korea, resulting in a number of entities with holdings in a number of different sectors that cross-subsidized activities from one sector to another. Although some commentators note that the creation of the “chaebols” was successful in transforming the nature of the Korean economy, other commentators stress that the “pattern of industrialization led by chaebols accelerated the monopolistic and oligopolistic concentration of capital and economically profitable activities in the hands of a limited number of conglomerates.”\(^\text{75}\)

H. Conclusion

In conclusion, the U.S. and to a large extent Europe have adopted an economics-based approach to the antitrust treatment of IP licensing. Such an approach stimulates technology transfer and broad licensing, which supports “patent peace” and faster rates of innovation. Hopefully Russia and major Asian jurisdictions are moving in that direction as well; further
detailed elaboration of their approaches to the IP-antitrust interface may be expected over time. To the extent that convergence toward an economically enlightened approach to antitrust-IP licensing is achieved (perhaps eventually with the help of the International Competition Network), enlightened licensing policies will spur competition on the merits, rather than in the courtroom, and consumers and producers alike will benefit.

76 See http://www.internationalcompetitionnetwork.org/.