CHAPTER 1

THE STRATEGIC USE OF LICENSING: UNILATERAL REFUSALS TO LICENSE PATENTS

I. INTRODUCTION

The appropriate application of the antitrust laws to unilateral refusals to license patents is the subject of much debate. Differing resolutions of that debate at this particular intersection of antitrust and patent law may explain divergent decisions from the courts of appeals. In *Image Technical Services, Inc. v. Eastman Kodak Co.* ("*Kodak*"),[1] the United States Court of Appeals for the Ninth Circuit affirmed Sherman Act liability relating to a unilateral refusal to license intellectual property. Yet in *In re Independent Service Organizations Antitrust Litigation* (*CSU*),[2] the United States Court of Appeals for the Federal Circuit affirmed summary judgment for a defendant under similar circumstances.

As a part of the Hearings, attorneys and economists explored the circumstances, if any, under which courts should impose antitrust liability for a refusal to license patents.[3] Panelists critiqued the *Kodak* and *CSU* decisions; discussed the likely economic effects of permitting, and prohibiting, antitrust liability for unilateral refusals to license patents; and debated the proper legal

[1] 125 F.3d 1195 (9th Cir. 1997).

[2] 203 F.3d 1322 (Fed. Cir. 2000).

[3] The May 1, 2002 Hearing panelists included: Ashish Arora, Visiting Associate Professor of Economics, Stanford University, Associate Professor of Economics and Public Policy, Carnegie Mellon University; Jonathan I. Gleklen, Partner, Arnold & Porter; Paul F. Kirsch, Partner, Townsend and Townsend and Crew LLP; Benjamin Klein, Professor of Economics, University of California, Los Angeles; Jeffrey K. MacKie-Mason, Arthur W. Burks Professor of Information and Computer Science, Professor of Economics and Public Policy, University of Michigan; A. Douglas Melamed, Partner, Wilmer, Cutler & Pickering; Carl Shapiro, Transamerica Professor of Business Strategy, Haas School of Business; Director and Professor of Economics, Institute of Business and Economic Research, University of California, Berkeley; Christopher J. Sprigman, Counsel, King & Spalding; Mark D. Whitener, Antitrust and General Counsel, General Electric; John Shepard Wiley, Jr., Professor of Law, University of California, Los Angeles. This session was moderated by then-Deputy Assistant Attorney General R. Hewitt Pate, Antitrust Division, U.S. Department of Justice; Pam Cole, Attorney, Antitrust Division, U.S. Department of Justice; Suzanne Majewski, Economist, Antitrust Division, U.S. Department of Justice; Gail Levine, then-Deputy Assistant General Counsel for Policy Studies, Federal Trade Commission; and C. Edward Polk, Jr., then-Associate Solicitor, U.S. Patent and Trademark Office. May 1, 2002 Hr'g Tr., The Strategic Use of Licensing: Is There Cause for Concern About Unilateral Refusals to Deal? at 2-3, http://www.ftc.gov/opp/intellect/020501xscript.pdf [hereinafter May 1 Tr.].

analysis of unilateral refusals to license.

II. THE *KODAK* AND *CSU* DECISIONS

Panelists indicated that neither *Kodak* nor *CSU* provides sufficient guidance on potential antitrust liability for unilateral refusals to license patents. Moreover, the divergence in approaches taken by the two decisions makes it difficult to determine the contours of potential liability for refusals to license patents and thereby creates uncertainty for licensors and licensees.

A. The Basic Facts and Holdings of the Cases

The panelists framed the debate about imposing antitrust liability for unilateral refusals to license patents around the *Kodak* and *CSU* opinions, which raise many of the key issues. Plaintiffs in both cases were independent service organizations ("ISOs") that sued original equipment manufacturers ("OEMs"), alleging the OEMs violated section 2 of the Sherman Act by refusing to sell patented parts and to license patented and copyrighted software.[4] Plaintiffs' theory in both cases was that section 2 was violated because the defendants each had a monopoly in a relevant parts market and, by refusing to supply parts to the ISOs, they were extending their monopolies into the servicing of their equipment.

In *Kodak*, the Ninth Circuit held that a "reluctance to sell . . . patented or copyrighted parts was a presumptively legitimate business justification," but the "presumption may also be rebutted by evidence of pretext."[5] The court also held that there was sufficient evidence of pretext because the defendant refused to sell both patented and unpatented parts and was not even thinking about its patent rights when it did so.[6]

In contrast, the Federal Circuit in *CSU* declined to consider the "patentee's subjective motivation for refusing to sell or license its patented products," in effect making the presumption of a legitimate business justification conclusive.[7] In much discussed dictum, the court added that a "patent holder may enforce the statutory right to exclude others . . . free from liability under the antitrust laws" in

[4] In *Kodak*, the defendant's refusal to deal did not distinguish among parts on the basis of patent rights. The *Kodak* court found that the defendant had monopoly power in an "all parts" market, including many parts not protected by patent rights. *Kodak*, 125 F.3d at 1219-20. In *CSU*, plaintiffs likewise alleged refusals to deal extending to items not protected by patent rights. The district court initially granted summary judgment for the defendant for the refusal to license patented parts, while explicitly reserving judgment on the refusal to sell unpatented parts. *In re Indep. Serv. Orgs. Antitrust Litig.*, 964 F. Supp. 1479, 1490 & n.8 (D. Kan. 1997). Before the case went to the Federal Circuit, plaintiffs conceded that they could not prove antitrust injury only from the refusal to sell unpatented parts, so the court granted summary judgment on all antitrust claims. Order, *In re Indep. Serv. Orgs. Antitrust Litig.*, No. MDL-1021 (D. Kan. Jan. 8, 1999). Consequently, the only issue before the Federal Circuit was whether the unilateral refusal to sell or license patented parts could violate the antitrust laws.

[5] *Kodak*, 125 F.3d at 1219.

[6] *Id.* at 1219-20.

[7] *CSU*, 203 F.3d at 1327; May 1 Tr. at 19-26 (Gleklen); Jonathan I. Gleklen, *Antitrust Liability for Unilateral Refusals to License Intellectual Property:* Xerox *and Its Critics* (May 1, 2002 Hr'g R.) at 2-4, http://www.ftc.gov/opp/intellect/020501gleklen.pdf [hereinafter Gleklen Submission].

the "absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation."[8]

B. Panelist Views on *Kodak*

Panelists almost uniformly found problematic *Kodak*'s subjective intent standard. One panelist found it "fundamentally flawed" because it would permit a refusal to deal motivated by a desire to protect return on research and development ("R&D") investment but prohibit a refusal to deal motivated by the practically indistinguishable desire to maximize profit by excluding competition.[9] This panelist also argued, and others agreed, that there is no limiting principle to the subjective motivation inquiry.[10] Another panelist argued that *Kodak*'s focus on subjective motivation is out of step with modern antitrust analysis's focus on objective economic aspects of conduct, rather than on motive.[11] Yet another noted the practical problems associated with an intent-based test: "From a counseling standpoint, the Ninth Circuit's distinction between legitimate and 'pretextual' assertions of patent rights is both unworkable in practice and very difficult to explain to business people who want to know how to ensure that their activities are lawful."[12] And one panelist asserted that the subjective motivation standard would dramatically increase the costs of enforcing intellectual property rights, because intellectual property holders facing refusal to license claims would not be able to win motions to dismiss.[13]

One panelist suggested reading the *Kodak* decision to reject Kodak's proffered business justification as feeble and belated.[14] *Kodak*'s staunchest defender on the panel noted that other predatory conduct is often associated with refusals to license.[15] He argued that the *Kodak* rule, augmented by a detailed analysis of the market, is better than that in *CSU*, because the *Kodak* rule does not immunize patentees from antitrust liability when they act anticompetitively; rather, it balances the patent owner's interests in getting a return on innovation and the public interest in competition. Moreover, he asserted, refusal to license claims would not wreak havoc in the business world because it is difficult to prove market power and anticompetitive intent.[16]

---

[8] 203 F.3d at 1327.

[9] May 1 Tr. at 152-53 (Shapiro).

[10] *Id.* at 152-54 (Shapiro); *see also id.* at 181-82 (MacKie-Mason); *id.* at 223-24, 228-31 (Whitener).

[11] A. Douglas Melamed & Ali M. Stoeppelwerth, *The* CSU *Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 GEO. MASON L. REV. 407, 426-27 (2002); *see also* May 1 Tr. at 246-47 (Melamed) (proposing objective test for analyzing refusals to deal that examines whether conduct made "economic sense" but for its tendency to exclude a rival).

[12] Mark D. Whitener, *Statement* (May 1, 2002 Hr'g R.) at 6, http://www.ftc.gov/opp/intellect/020501whitener.pdf [hereinafter Whitener Submission].

[13] *See* May 1 Tr. at 38 (Gleklen).

[14] *Id.* at 201-02 (Sprigman).

[15] Paul F. Kirsch, *Refusals to License IP – The Perspective of the Private Plaintiff* (May 1, 2002 Hr'g R.) (slides) at 3, http://www.ftc.gov/opp/intellect/020501kirsch.pdf [hereinafter Kirsch Presentation].

[16] May 1 Tr. at 134-35, 137, 200-01 (Kirsch); *see also* Kirsch Presentation at 7.

As noted above, some have read *Kodak* as giving undue weight to defendant-patentees' subjective intent. To be sure, reliance on a defendant's subjective intent to determine whether a refusal to license violates antitrust law establishes a framework that is difficult to administer.[17] Some commentators state that finding a firm's motive or intent through employees' statements is "both impossible and meaningless, for the documentary evidence of every large firm will almost always provide ample examples suggesting both kinds of intent," i.e., the intent to protect intellectual property rights and the intent to create or maintain a monopoly.[18] Such a situation would be untenable, and the Agencies do not believe the Ninth Circuit should be read to have reached this result. Accordingly, the Agencies' "focus is upon the effect of [the] conduct, not upon the intent behind it."[19] "[K]nowledge of intent may help [courts] to interpret facts and to predict consequences."[20]

C. Panelist Views on *CSU*

Two panelists interpreted *CSU* to stand for the proposition that a refusal to license is the exercise of the statutory right to exclude others from making, using, or selling a patented invention and therefore cannot be deemed exclusionary conduct.[21] Nevertheless, these panelists were uneasy about the Federal Circuit's opinion.[22] They interpreted the dictum quoted above[23] to identify three exceptions to the purported general right of a patent owner unilaterally to refuse to license—illegal tying, fraud on the Patent and Trademark Office, and sham litigation.[24] One panelist criticized these exceptions as providing insufficient guidance because they identify potential sources of antitrust liability that are unrelated to unconditional, unilateral refusals to license.[25]

Another panelist argued that *CSU*'s holding could protect anticompetitive refusals to deal, citing a hypothetical

[17] *See, e.g.*, May 1 Tr. at 152 (Shapiro); *id.* at 181 (MacKie-Mason); *id.* at 229-30 (Whitener); R. Hewitt Pate, Acting Assistant Attorney Gen., U.S. Dep't of Justice, Antitrust and Intellectual Property, Remarks at the American Intellectual Property Law Association 2003 Mid-Winter Institute 14 (Jan. 24, 2003) (criticizing the Ninth Circuit's decision to permit subjective inquiry into the intellectual property holder's motivations for refusing to deal), *available at* http://www.usdoj.gov/atr/ public/ speeches/200701.pdf. *But see* May 1 Tr. at 133-35 (Kirsch) (endorsing Ninth Circuit's intent test).

[18] 3 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 709b2, at 222 (2d ed. 2002).

[19] *United States v. Microsoft Corp.*, 253 F.3d 34, 59 (D.C. Cir. 2001) (en banc); *see also* R. Hewitt Pate, *Refusals to Deal and Intellectual Property Rights*, 10 GEO. MASON L. REV. 429, 440 (2002); Michelle M. Burtis & Bruce H. Kobayashi, *Why an Original Can Be Better than a Copy: Intellectual Property, the Antitrust Refusal to Deal, and* ISO Antitrust Litigation, 9 SUPREME CT. ECON. REV. 143, 166 (2001) (noting the relevance of a patent holder's intent in certain refusal to deal cases involving patented and unpatented parts).

[20] *Chi. Bd. of Trade v. United States*, 246 U.S. 231, 238 (1918).

[21] May 1 Tr. at 29-30 (Gleklen); *id.* at 231-35 (Whitener).

[22] *Id.* at 25-26 (Gleklen); Gleklen Submission at 8-9, 15; Whitener Submission at 7-9 & n.14.

[23] *Supra* note 8 and accompanying text.

[24] May 1 Tr. at 25-26 (Gleklen); *see id.* at 232 (Whitener); *CSU*, 203 F.3d at 1327 n.7.

[25] *See* May 1 Tr. at 25-27 (Gleklen); Gleklen Submission at 8-9.

based on AT&T's attempt to prevent MCI from connecting to its network in the 1970s. He argued that, had AT&T patented an interface necessary for its competitors to interconnect with its network, AT&T might not have been obliged to open its network under *CSU*.[26] In this panelist's view, *CSU* is inconsistent with the trend of antitrust laws' "move[] away from the rigidities of formalism . . . in favor of a fact-based analysis that applies rigorous economic principles to distinguish anticompetitive from procompetitive conduct."[27]

A panelist also expressed concern that *CSU* might be applied too broadly, allowing a patent holder to attach conditions to a license on the theory that doing so was less restrictive than not licensing at all.[28] A source of such concerns was *Townshend v. Rockwell International Corp.*, a patent infringement case involving the technology for the 56K modem.[29] In assessing the defendant's antitrust counterclaim, the court reasoned that "[b]ecause a patent owner has the legal right to refuse to license his or her patent on any terms, the existence of a predicate condition to a license agreement cannot state an antitrust violation."[30] Concerns about such a lesser-included rights rationale were expressed by many panelists, including some who thought it appropriate to grant antitrust immunity to unconditional refusals to license.[31] Panelists also argued that conditional refusals to license deserve antitrust scrutiny because they can create anticompetitive incentives that cannot be created through unconditional refusals to license.[32] Consequently, they argued, the *CSU* decision combined with such a lesser-included rights analysis could effectively extend antitrust immunity to all manner of restrictions, such as exclusive dealing, cross-licensing requirements, exclusive grantbacks, tying, selective licensing, or even price-fixing—clearly an undesirable result.[33]

D. Ambiguity as to the Scope of the Patent Grant

The *Kodak* and *CSU* opinions recognized that the application of antitrust law to unilateral refusals to license sometimes requires a determination of the scope of those intellectual property rights. As the Ninth Circuit put it, "the right of exclusion [does not] protect an attempt to extend a lawful monopoly beyond the grant of a patent."[34]

[26] May 1 Tr. at 248-52 (Melamed); *see also* Melamed & Stoeppelwerth, 10 GEO. MASON L. REV. at 424.

[27] Melamed & Stoeppelwerth, 10 GEO. MASON L. REV. at 425; *see also* May 1 Tr. at 252 (Melamed).

[28] May 1 Tr. at 45 (Sprigman).

[29] 2000-1 Trade Cas. (CCH) ¶ 72,890, 2000 WL 433505 (N.D. Cal. 2000).

[30] *Id.* ¶ 72,890, at 87,634, 2000 WL 433505, at *8.

[31] May 1 Tr. at 66-67 (Gleklen) (identifying price fixing as beyond the statutory grant); *see also id.* at 232-34 (Whitener) (acknowledging that conduct other than "pure" unilateral, unconditional refusals to deal should not be treated as categorically legal).

[32] *Id.* at 155 (Shapiro); *see also id.* at 204 (MacKie-Mason) (asserting that distinguishing between conditional and unconditional refusals is not always easy).

[33] *See id.* at 154-57 (Shapiro); *id.* at 45 (Sprigman); *see also* 3 AREEDA & HOVENKAMP, ANTITRUST LAW ¶ 709c, at 232-34 (identifying price-fixing, market division, exclusive dealing, and reciprocity as categories of suspect conditional refusals).

[34] *Kodak*, 125 F.3d at 1216; *see also CSU*, 203 F.3d at 1327. *But see* Melamed & Stoeppelwerth, 10 GEO.

The *Kodak* and *CSU* courts agreed that the scope of the patent grant is not coterminous with the bounds of the relevant market, so the right to exclude may permit a patent holder to maintain a monopoly over not just the market for the patented parts but possibly also over closely related markets.[35] Neither court, however, defined the scope of the patent grant.[36] This omission led some panelists to speculate about the appropriate definition.

One panelist suggested that "outside the statutory patent grant" may mean that the refusal to license has innovation effects that would prevent competition after the patent has expired.[37] Another suggested that so long as there is only a refusal to allow others to make, use, offer to sell, or sell something within the claims of the patent, the patentee acts within the statutory grant.[38] A third panelist asserted that formal definitions are not particularly illuminating and that the phrase should mean nothing more than that the patent owner can exploit whatever power is lawfully obtained through the intellectual property laws so long as the owner does not sacrifice profits for the strategic objective of gaining more than the lawfully obtained power.[39] Another panelist responded that to make this determination someone would have to decide how much return firms should be able to get on their intellectual property, but economics provides no basis for doing so.[40]

III. POLICY ISSUES RELATING TO UNILATERAL REFUSALS TO LICENSE

Panelists at the Hearing frequently addressed four basic policy issues relating to antitrust liability in the context of the licensing of patents: Should antitrust law accord special treatment to patents, or is conventional antitrust analysis sufficiently sensitive to the issues raised by patents? Should a patent holder be

---

MASON L. REV. at 425-26 (arguing that there are "a number of problems" with using the scope of the patent grant to define a safe harbor for unilateral refusals to license, e.g., making it difficult to define a market involving a patented product and its components, creating incentives to avoid otherwise efficient vertical integration, and being inconsistent with the contributory infringement patent doctrine).

35 *Kodak*, 125 F.3d at 1217 ("Parts and service here have been proven separate markets in the antitrust context, but this does not resolve the question [of] whether the service market falls reasonably within the patent . . . grant for the purpose of determining the extent of the exclusive rights conveyed.") (internal quotation marks omitted); *CSU*, 203 F.3d at 1327 ("[A] patent may confer the right to exclude competition altogether in more than one antitrust market."); *id.* at 1328 ("We answer the threshold question of whether Xerox's refusal to sell its patented parts exceeds the scope of the patent grant in the negative."); *see also* May 1 Tr. at 179 (MacKie-Mason) ("[T]here is no really good reason to believe the patent scope is the same as the relevant antitrust market."); Pate, 10 GEO. MASON L. REV. at 441 ("A patent holder can lawfully acquire more than one economic monopoly by exercising the exclusionary power of a single patent, and should not be found liable for exercising its unilateral right to refuse to license or use its invention in the markets where he holds these monopolies. There is no unlawful extension of monopoly power when a patent holder merely exercises its rights inherent in the patent grant.").

36 *See* May 1 Tr. at 25 (Gleklen) ("The Federal Circuit's decision focuses on whether [intellectual property] was used to obtain monopoly power outside the statutory grant without actually saying . . . what is the statutory grant."); *Kodak*, 125 F.3d at 1217 (discussing, but not defining, the concept of patent scope).

37 May 1 Tr. at 65 (Sprigman).

38 *Id.* at 66 (Gleklen).

39 *Id.* at 69-70 (Melamed).

40 *Id.* at 180 (MacKie-Mason).

presumed to possess market power? Is compulsory licensing a workable remedy for a unilateral refusal to license patents? And would prohibiting unilateral refusals to license have a significant ill effect on incentives to invest in innovation? Panelists also offered some new perspectives on the possible competitive effects of unilateral refusals to license.

A. Should Antitrust Law Accord Special Treatment to Patents?

Most panelists concluded that the antitrust laws should be applied in the same manner to intellectual and other property.[41] One panelist noted that the essence of a patent is the right to exclude competitors, which he believed distinguishes patents from other property.[42] Others countered that the right to exclude is an essential part of all forms of property.[43] As one panelist explained, "all forms of [commercial] property . . . involve some investment to create or protect the property . . . with the hope of some financial return that has to be based in some significant part on the ability to exclude others."[44] In this panelist's view there is no economic reason to treat intellectual property differently from other forms of property.[45]

Courts have recognized that patents, similar to other property rights, have limits, and these limits are "narrowly and strictly confined to the precise terms of the grant."[46] Courts have also held that certain types of conduct involving patent rights can result in antitrust liability. For example, attempting to enforce a patent obtained through fraud on the Patent and Trademark Office may constitute monopolization in violation of section 2 of the Sherman Act,[47] and the demonstration of an objectively baseless assertion of infringement can overcome a *Noerr* defense.[48] Patent licensing terms may constitute tying or price fixing in violation of section 1 of the Sherman Act.[49]

---

[41] "The Agencies apply the same general antitrust principles to conduct involving intellectual property that they apply to conduct involving any other form of tangible or intangible property." U.S. DEP'T OF JUSTICE & FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 2.1 (1995), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132, *available at* http://www.usdoj.gov/atr/public/guidelines/0558.pdf [hereinafter ANTITRUST-IP GUIDELINES]. Special characteristics of intellectual property, "such as ease of misappropriation" can "distinguish it from many other forms of property" and "can be taken into account by standard antitrust analysis." *Id.*

[42] *See* May 1 Tr. at 30 (Gleklen).

[43] *E.g.*, *id.* at 47 (Sprigman).

[44] *Id.* at 143-44 (Shapiro).

[45] *Id.* at 143-46 (Shapiro).

[46] *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1944).

[47] *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-80 (1965).

[48] *See Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993) (construing *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961)).

[49] *See United States v. Line Material Co.*, 333 U.S. 287, 308-15 (1948) (price fixing); *Int'l Salt Co. v. United States*, 332 U.S. 392, 395-96 (1947) (tying); *United States v. Masonite Corp.*, 316 U.S. 265, 274-80 (1942) (price fixing); *United States v. Univis Lens Co.*, 316 U.S. 241, 250-54 (1942) (price fixing); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 452-59 (1940) (price fixing).

B. Should Market Power Be Presumed with Patents?

With respect to many violations of the antitrust laws, the possession of market or monopoly power is an element of the offense. When analyzing the defendant OEMs' refusals to license their patents, neither *Kodak* nor *CSU* presumed the defendants had market power on the basis of the patents.[50] Similarly, the Agencies have stated that, when analyzing agreements to license, they do not presume that a patent owner has market power.[51] And the U.S. Supreme Court recently agreed.[52] Although a patent gives the patent owner the right to exclude others from making, using, or selling a particular product or process, the existence of close substitutes for the product or process may prevent the patent owner from exercising market power. As the Solicitor General recently explained: "[T]he Patent and Trademark Office has issued scores of patents for items such as bottle openers, toothbrushes, and paper clips. It would be implausible to presume that the owner of such a patent possesses market power merely by virtue of the patent."[53]

If a patent *does* result in market power, that alone does not necessarily create a violation. The Supreme Court has made clear that "[t]he mere possession of monopoly power, and the concomitant charging of monopoly prices," is not unlawful "unless it is accompanied by an element of anticompetitive conduct."[54]

C. If an Antitrust Violation Were Found, Would There Be Workable Remedies for Unconditional, Unilateral Refusals to License Patents?

If a unilateral refusal to license patents were found to violate the antitrust laws, one appropriate remedy likely would entail compulsory licensing. Some panelists argued that the courts and Agencies are not well-equipped to determine appropriate licensing terms and conditions and, as a result, compulsory licensing would be problematic.[55] Another panelist noted

[50] *CSU*, 203 F.3d at 1325 ("A patent alone does not demonstrate market power."); *see also Kodak*, 125 F.3d at 1202-08, 1219 (stating that Kodak possessed monopoly power in "all parts" market).

[51] ANTITRUST-IP GUIDELINES § 2.2.

[52] *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1284 (2006) ("[T]he mere fact that a tying product is patented does not support [a market power] presumption.").

[53] Brief for the United States as Amicus Curiae Supporting Petitioners at 12, *Ill. Tool Works Inc.*, 126 S. Ct. 1281 (No. 04-1329) (citation omitted), *available at* http://www.usdoj.gov/osg/briefs/2005/3mer/1ami/2004-1329.mer.ami.pdf.

[54] *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 407 (2004); *see also Blue Cross & Blue Shield United v. Marshfield Clinic*, 65 F.3d 1406, 1413 (7th Cir. 1995) (Posner, C.J.) ("[A lawful monopolist may] charge any price that it wants, for the antitrust laws are not a price-control statute or a public-utility or common-carrier rate-regulation statute.") (citations omitted); *Kartell v. Blue Shield of Mass., Inc.*, 749 F.2d 922, 927 (1st Cir. 1984) (Breyer, J.) ("[E]ven a monopolist is free to exploit whatever market power it may possess when that exploitation takes the form of charging uncompetitive prices.").

[55] May 1 Tr. at 146-47 (Shapiro); Whitener Submission at 10; *see also* May 1 Tr. at 149 (Shapiro) (urging the Agencies not to impose a regulatory scheme through the antitrust laws in lieu of dealing with the underlying issue of reforming the patent system, if the patents at issue are perceived to be "bad patents"). A licensor's moral or ethical objections to licensing a specific potential licensee would add to the difficulties of determining appropriate compensation for a compulsory license.

that compulsory licensing might not work because transfer of some technologies requires not only a patent license, but also the transfer of related know-how, and it may be difficult for courts to enforce a requirement that this know-how be transferred.[56] Moreover, if compulsory licensing is a generally available remedy for unconditional, unilateral refusals to license patents, this panelist argued, firms may shift their strategies away from filing patents and toward reliance on trade secrets. Such an outcome would be unfortunate, he said, because patents enable more effective disclosure of knowledge and therefore make licensing easier.[57]

Some panelists thought these concerns were overstated and that courts, which set licensing rates in other contexts (such as infringement suits), could do so in this context as well or, alternatively, could send the parties back to the bargaining table.[58] In response, other panelists objected to this analogy, arguing that trying to calculate a forward-looking price is more difficult than what courts currently do—i.e., make the plaintiff whole for past actions.[59] One panelist noted that markets for voluntary licensing typically arise when intellectual property rights are well defined, and that when these markets for technology exist, courts could observe a market price of the technology for the purpose of compulsory licensing.[60]

Most panelists appeared to take for granted that court-ordered licensing would occur at royalty rates far less than those a monopolist would charge. The Supreme Court has made clear, however, that—consistent with the view of the Agencies—the mere possession of lawful monopoly power, and the concomitant charging of monopoly prices, is not only lawful, it is an important element of the free-market system.[61]

D. What Would Be the Effect of Liability for Refusals to License Patents on Incentives to Innovate?

Some participants argued that innovation is reduced by the risk of compulsory licensing at royalties far below monopoly levels, royalties which may not be sufficient to cover the research and development expenses that led to the patented invention.[62] By contrast, those who favored liability for some refusals to license patents were not convinced that antitrust liability would have a negative

---

[56] May 1 Tr. at 101 (Arora); *see also id.* at 125 (Shapiro).

[57] *Id.* at 102 (Arora).

[58] *Id.* at 184-85 (Sprigman); *id.* at 55 (Sprigman) (suggesting the imposition of the same rates as those for similarly situated licensees); *id.* at 187 (Melamed) (explaining that precision is not terribly important when converting a property rule into a liability rule).

[59] May 1 Tr. at 188 (Gleklen); *see also id.* at 189 (Whitener).

[60] *See id.* at 94-102 (Arora); Ashish Arora, *Refusal to License: A Transaction Approach* (May 1, 2002 Hr'g R.) (slides) at 3, http://www.ftc.gov/opp/intellect/020501arora.pdf.

[61] *Trinko*, 540 U.S. at 407.

[62] May 1 Tr. at 228 (Whitener); *see also* Carl Shapiro, *Competition Policy and Innovation* 13 (Organisation for Econ. Co-operation and Dev., STI Working Paper No. 2002/11, 2002) (submitted as part of the May 1, 2002 Hr'g R.), *available at* http://www.ftc.gov/opp/intellect/020501carlshapiro.pdf [hereinafter Shapiro Submission].

effect on innovation[63] or were skeptical of society's ability to determine the appropriate balance between innovation and exclusion. One panelist asked "whether innovation incentives are sufficiently sensitive at the kinds of margins we're talking about of narrow refusal to deal liability [such] that we can *reliably* say across industries that there is going to be any significant incentive diminution at all."[64]

E. Competitive Effects of Refusals to License Patents

Two panelists argued that apparent refusals to license intellectual property may really be attempts to license it at high prices and to engage in price discrimination.[65] They observed that price discrimination can be good for consumers, allowing markets or consumers to be served that otherwise would not have been.[66] Therefore, they contended, imposing antitrust liability for a refusal to license may prevent socially beneficial price discrimination.[67]

Another panelist responded to the argument that only "one monopoly rent" can be extracted by pointing out that an intellectual property monopolist may have difficulty exploiting its monopoly unless it restricts competition downstream by making a credible commitment to restrict or refuse licenses.[68] Without such commitments, he suggested, the potential licensees would know that the intellectual property owner would have the incentive to sell additional licenses and thus continue to create competition, and erode profits, in the downstream market. Knowing this, potential licensees would be willing to pay less for a license and invest less in the licensed invention. This panelist observed that, if the intellectual property holder is able credibly to commit to selling a limited number of licenses, and thus to limiting competition in the downstream market, each potential licensee will be willing to pay more for a license.[69] The licensee also may be willing to invest more in the licensed invention as a result of the intellectual property holder's restriction on the number of licenses sold.[70] The intellectual property holder maximizes its return by choosing its licensing terms optimally,[71] and "the upstream monopolist in practice will find it difficult to fully exploit its market power without some form of exclusion."[72]

---

[63] May 1 Tr. at 136-37 (Kirsch); Kirsch Presentation at 9.

[64] May 1 Tr. at 56-57 (Sprigman) (emphasis added).

[65] *Id.* at 80-81 (Wiley); *id.* at 81-94 (Klein).

[66] *Id.* at 89-90 (Klein); *see also id.* at 81 (Wiley).

[67] *See* Benjamin Klein & John Shepard Wiley Jr., *Competitive Price Discrimination as an Antitrust Justification for Intellectual Property Refusals to Deal*, 70 ANTITRUST L.J. 599, 640-42 (2003).

[68] May 22 Hr'g Tr., Refusals to License and Compulsory Licensing in the European Union, Canada, and Australia (Morning Session) at 33-37 (Rey), http://www.ftc.gov/opp/intellect/020522trans.pdf.

[69] *Id.* at 36-37 (Rey).

[70] *See also* ANTITRUST-IP GUIDELINES § 2.3 (recognizing that licensing arrangements involving exclusivity can encourage licensees to invest in the products embodying the licensed IP and to engage in follow-on innovation).

[71] *See* May 22 Tr. at 34, 36-38 (Rey); Patrick Rey & Jean Tirole, *A Primer on Foreclosure* (May 22 Hr'g R.) at 7-8, http://www.ftc.gov/opp/intellect/020522reydoc.pdf.

[72] May 22 Tr. at 32 (Rey).

The panelist argued that the ability to exploit an intellectual property bottleneck may generate important incentives to innovate and cautioned that regulating the exploitation of intellectual property amounts to regulating the return on R&D investment and is a very difficult economic exercise.[73]

IV. LEGAL ANALYSIS OF UNILATERAL REFUSALS TO LICENSE PATENTS

Imposing antitrust liability for unilateral refusals to deal raises a variety of legal issues. A threshold question is whether a 1988 amendment to the Patent Act impliedly created an immunity when it restricted misuse defenses to infringement claims. More fundamental is the question of how the basic statutory right to exclude relates to unilateral refusal to deal claims and to other antitrust claims involving patent licensing.

A. Does Section 271(d)(4) of Title 35 of the U.S. Code Create an Immunity for Unilateral Refusals to License Patents?

Panelists extensively discussed the import of section 271(d)(4) of Title 35 of the U.S. Code, added by a 1988 amendment to the Patent Act, which provides that "[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . refused to license or use any rights to the patent . . . ."[74] One panelist argued that the 1988 amendment granted antitrust immunity for refusals to license patents.[75] Other panelists concluded that the amendment on its face does not apply to antitrust claims.[76] In *Illinois Tool Works Inc. v. Independent Ink, Inc.*, for example, the Supreme Court stated that "the 1988 amendment does not expressly refer to the antitrust laws."[77] Under this view, the provision does not govern whether antitrust claims challenging the patentee's refusal to license are viable.

Proponents of a broader reading of section 271(d)(4) sometimes note that the provision refers to both "misuse" and "illegal extension of the patent right." To

[73] *See id.* at 41-42 (Rey) (stating it is prudent to be "more tolerant" when a bottleneck "is the result of innovation" as opposed to economies of scale or historical accident).

[74] 35 U.S.C. § 271(d) (2000).

[75] May 1 Tr. at 33-35 (Gleklen); Jonathan I. Gleklen, *Unilateral Refusals to License IP* (May 1, 2002 Hr'g R.) (slides) at 11, http://www.ftc.gov/opp/intellect/020501gleklenppt.pdf.

[76] May 1 Tr. at 51-52 (Sprigman); Melamed & Stoeppelwerth, 10 GEO. MASON L. REV. at 410-12.

[77] 126 S. Ct. at 1290-91; *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1019 (7th Cir. 2002) (Posner, C.J.) (construing language of section 271(d) to govern only actions based on infringement); *Kodak*, 125 F.3d at 1214 n.7 ("[The provision at best] indicate[s] congressional intent to protect the core patent right of exclusion."); *see also* Brief for the United States as Amicus Curiae at 12 n.6, *CSU*, 531 U.S. 1143 (2001) (No. 00-62) ("On its face [section 271(d)] does not address antitrust liability for monopolization or attempted monopolization by refusal to deal."), *denying cert. to* 203 F.3d 1322, *available at* http://www.usdoj.gov/osg/briefs/2000/2pet/6invit/2000-0062.pet.ami.inv.pdf. *But cf. CSU*, 203 F.3d at 1326 (citing section 271(d) as support for a "patentee's right to exclude"); *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362 (Fed. Cir. 1999) (citing section 271(d)(4)).

save the latter phrase from being "surplusage," they read that language to "refer to unlawfulness other than misuse, and the obvious extension is to antitrust violations."[78] But Congress might have used the phrases "illegal extension of the patent right" and "misuse" to describe different aspects of the doctrine of patent misuse.[79] This would be consistent with the notion that, had Congress intended to refer to antitrust violations or claims, it could have done so explicitly.[80] Moreover, courts have held that section 271(d)(4)'s companion provision, section 271(d)(5), does not immunize patentees from antitrust liability for the conduct it governs—conditioning a license, or sale of a patented product, on the purchase of some other product or the taking of some other license[81]—and it would seem anomalous to read the phrase "illegal extension of the patent right" to immunize patentees from antitrust liability for their refusals to license, but not for such conditioning of licenses.

Others who read section 271(d)(4) to grant antitrust immunity contend that it would "make[] little sense to preclude an infringer from asserting a misuse defense based on a patent holder's refusal to deal while simultaneously allowing the infringer to recover treble damages under the antitrust laws for the very same conduct."[82] But nothing precludes a reading of the statute to permit treble damages but not the rather different consequences of a misuse holding (i.e., barring enforcement of the patent against anyone until the misuse is purged).

The Agencies weigh these opposing arguments against the backdrop of the well-established principle that immunity from antitrust laws is both exceptional and disfavored.[83] Absent

[78] 3 AREEDA & HOVENKAMP, ANTITRUST LAW ¶ 709c, at 234 n.71; *see also* May 1 Tr. at 34-35 (Gleklen); *CSU*, 203 F.3d at 1326 (emphasizing the phrase "illegal extension of the patent right" in section 271(d) in arguing that the provision supports "patentee's right to exclude"); Sharon Brawner McCullen, *The Federal Circuit and Ninth Circuit Face-Off: Does a Patent Holder Violate the Sherman Act by Unilaterally Excluding Others from a Patented Invention in More than One Relevant Market?*, 74 TEMP. L. REV. 469, 494 & n.254 (2001) ("The Supreme Court has repeatedly used the language of whether the patent holder's actions have 'expanded' or 'enlarge[d]' the patent grant to analyze allegations of antitrust violations.").

[79] "The reference to 'illegal extension of the patent right' as well as 'misuse' recognizes the differing formulations of activity deemed to be 'misuse' and that misuse is often characterized as illegal extension of the patent right." S. REP. No. 100-492, at 19 (1988). (No committee report on the 1988 amendment exists. The cited report describes an earlier bill containing the "illegal extension" language now appearing in section 271(d)(4)). *See also USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 510-12 (7th Cir. 1982) (discussing how the patent misuse doctrine could go beyond the specific practices thought to extend the patent right).

[80] *Cf. Scheiber*, 293 F.3d at 1019-21 (construing another provision of section 271(d) in light of this principle).

[81] *See, e.g., id.* at 1019-20 (finding section 271(d)(5) inapplicable because the provision "merely limits defenses to infringement suits"); *Grid Sys. Corp. v. Tex. Instruments Inc.*, 771 F. Supp. 1033, 1037 n.2 (N.D. Cal. 1991) (rejecting argument that section 271(d)(5) affects antitrust claims, noting that the provision "relates only to the defense of patent misuse as a defense to an infringement claim").

[82] *In re Indep. Serv. Orgs. Antitrust Litig.*, 989 F. Supp. 1131, 1136 (D. Kan. 1997); *see also* May 1 Tr. at 35 (Gleklen); Peter M. Boyle, Penelope M. Lister & J. Clayton Everett, Jr., *Antitrust Law at the Federal Circuit: Red Light or Green Light at the IP-Antitrust Intersection?*, 69 ANTITRUST L.J. 739, 749 (2001).

[83] *Oversight of Enforcement of the Antitrust Laws Before the Subcomm. on Antitrust, Business Rights, and Competition of the S. Comm. on the Judiciary*, 107th Cong. 134 (2002) (statement of the Federal Trade Commission), *available at*

"clear, express Congressional intent to immunize conduct or . . . repugnancy between some other body of law and antitrust," a finding of immunity is unwarranted.[84] The United States Court of Appeals for the First Circuit, rejecting antitrust immunity for copyright holders' refusals to license, noted that "the Sherman Act does not explicitly exempt [the protection of original works of authorship] from antitrust scrutiny and courts should be wary of creating implied exemptions."[85] The Agencies approach the interpretation of section 271(d)(4) with the same wariness. Nothing in section 271(d)(4) expressly addresses whether a unilateral and unconditional refusal to license could give rise to antitrust liability.[86] The section can perhaps be said to shed some light on Congress's view of the nature of the patent right. But the Agencies do not read the statute to create antitrust *immunity* for such refusals to license.

B. When Do Refusals to License Patents Violate the Antitrust Laws?

As a threshold matter, antitrust liability for refusal to assist competitors—whether by licensing patents or otherwise—is a rare exception to the ordinary rules of antitrust. As expressed in *United States v. Colgate & Co.*, the Sherman Act generally "does not restrict the long recognized right of [a] trader or manufacturer engaged in an entirely private business, freely to exercise [its] own independent discretion as to parties with whom [it] will deal."[87] Although this right to refuse to deal is not unqualified,[88] the Supreme Court stated in *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP* that it has "been very cautious in recognizing such exceptions, because of the uncertain virtue of forced sharing and the difficulty of identifying and remedying anticompetitive conduct by a single firm."[89]

The *Trinko* Court articulated three reasons why requiring firms to "share the source of their advantage" with rivals is "in some tension with the underlying purpose of antitrust law."[90] First, compelling firms to share "may lessen the incentive for the monopolist, the rival, or both to invest in . . . economically

http://a257.g.akamaitech.net/7/257/2422/03jul2003 1230/www.access.gpo.gov/congress/senate/pdf/10 7hrg/87867.pdf; May 1 Tr. at 237 (Melamed); *see also Square D Co. v. Niagara Frontier Tariff Bureau, Inc.*, 476 U.S. 409, 421 (1986) ("[E]xemptions from the antitrust laws are strictly construed and strongly disfavored.").

[84] May 1 Tr. at 238 (Melamed).

[85] *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1185 (1st Cir. 1994).

[86] *Cf. Ill. Tool*, 126 S. Ct. at 1290 (recognizing that "[35 U.S.C. § 271(d)(5)] does not expressly refer to the antitrust laws").

[87] 250 U.S. 300, 307 (1919).

[88] *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 601 (1985).

[89] 540 U.S. at 408 (concluding that Verizon's alleged failure to provide adequate assistance to its rivals did not state an antitrust claim). The case involved a regulatory scheme that required incumbent local telephone companies to give certain forms of access to their networks to competitors. *Id.* at 401, 412-13. In reaching its decision, the Court stated that it had "never recognized [the essential facilities] doctrine" created by lower courts and had no need to decide the issue in this case. *Id.* at 411.

[90] *Id.* at 407-08; *see also id.* at 399 ("Traditional antitrust principles do not justify adding [*Trinko*] to the few existing exceptions from the proposition that there is no duty to aid competitors.").

beneficial facilities."[91] Second, "[e]nforced sharing also requires antitrust courts to act as central planners, identifying the proper price, quantity, and other terms of dealing—a role for which they are ill-suited."[92] Finally, "compelling negotiation between competitors may facilitate the supreme evil of antitrust: collusion."[93] Indeed, imposing liability for such refusals arguably would go beyond requiring firms to refrain from anticompetitive conduct that harms rivals and would instead compel firms to reach out and affirmatively assist their rivals.

The *Trinko* Court's description of *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*[94] as being "at or near the outer boundary of [section] 2 liability"[95] confirms that unilateral refusals to deal are rarely anticompetitive, whether or not they involve patents.[96] This suggests that *Aspen Skiing* will not support liability for unilateral refusals to license patents to rivals, except, perhaps, when a patent owner refuses to continue to license under circumstances paralleling those presented in *Aspen*.[97]

---

[91] *Id.* at 407-08.

[92] *Id.* at 408.

[93] *Id.*

[94] 472 U.S. 585 (1985). The facts of *Aspen* are described in *Trinko*, 540 U.S. at 408-09 ("The Aspen ski area consisted of four mountain areas. The defendant, who owned three of those areas, and the plaintiff, who owned the fourth, had cooperated for years in the issuance of a joint, multiple-day, all-area ski ticket. After repeatedly demanding an increased share of the proceeds, the defendant canceled the joint ticket. The plaintiff, concerned that skiers would bypass its mountain without some joint offering, tried a variety of increasingly desperate measures to re-create the joint ticket, even to the point of in effect offering to buy the defendant's tickets at retail price. The defendant refused even that. We upheld a jury verdict for the plaintiff, reasoning that '[t]he jury may well have concluded that [the defendant] elected to forgo these short-run benefits because it was more interested in reducing competition . . . over the long run by harming its smaller competitor.' *Aspen Skiing* is at or near the outer boundary of [section] 2 liability.") (citations omitted).

[95] *Trinko*, 540 U.S. at 409.

[96] *See* Brief for the United States and the Federal Trade Commission as Amici Curiae Supporting Petitioner at 15, *Trinko*, 540 U.S. 398 (No. 02-682) (noting that section 2 of the Sherman Act is violated only by conduct properly considered "exclusionary or predatory," and proposing that, when "the plaintiff asserts that the defendant was under a duty *to assist a rival*, . . . conduct is not exclusionary or predatory *unless* it would make no economic sense for the defendant but for its tendency to eliminate or lessen competition"), *available at* http://www.usdoj.gov/atr/cases/f201000/201048.pdf. In *Trinko*, the Supreme Court did not adopt a specific standard, but it stressed the very facts in *Aspen Skiing* that suggest a section 2 violation under the Agencies' proposed standard. *Trinko*, 540 U.S. at 409 ("The unilateral termination of a voluntary (*and thus presumably profitable*) course of dealing suggested a willingness to forsake short-term profits to achieve an anticompetitive end. Similarly, the defendant's unwillingness to renew the ticket *even if compensated at retail price* revealed a distinctly anticompetitive bent.") (citation omitted).

[97] One panelist articulated possible reasons for imposing a duty to continue to license: (1) the licensing arrangement has been shown to be feasible, (2) there is an existing template for the terms and conditions of the license, and (3) licensees have relied on the expectation of such dealing. May 1 Tr. at 158 (Shapiro) (listing arguments for (and against) imposing liability for a refusal to license intellectual property in the context of a historical course of dealing). That same panelist, however, along with others, raised several arguments against imposing liability for terminating a prior course of conduct. Some noted that relying on a prior course of conduct might unfairly punish licensors who legitimately desire to change their licensing practices. *Id.* at 117-18 (Whitener); *id.* at 118-20 (Gleklen); *see also id.* at 158-60 (Shapiro). In addition, one panelist noted that there can be countervailing legitimate reasons to refuse to license, e.g., protecting a trade secret. Melamed & Stoeppelwerth, 10 GEO. MASON L. REV. at 420. Furthermore, as one panelist mentioned, rather than counting on broad antitrust protection, which might have adverse effects on competition by significantly constraining the dealings of the patent holder, third

A central question is whether "the few existing exceptions [to] the proposition that there is no duty to aid competitors"[98] should include an antitrust limitation on unilateral, unconditional refusals to offer a patent license to a competitor. Some panelists favored a categorical exemption from antitrust liability for unilateral, unconditional refusals to license.[99] One panelist noted that the essence of a patent is the right to exclude competitors, which he believed distinguishes patents from other property.[100] Other panelists favored allowing liability for unilateral, unconditional refusals to license under narrow circumstances, with such refusals assessed on a case-specific, fact-intensive basis, without safe harbors.[101] Panelists who favored antitrust liability for unilateral refusals to license suggested a liability rule based on *Aspen Skiing*,[102] or broad antitrust principles for identifying anticompetitive conduct.[103]

The owner of a patent has the statutory "right to exclude others from making, using, offering for sale, or selling the invention."[104] That right has been described as "the essence" of a patent grant,[105] and a line of Supreme Court and courts of appeals cases extending back a century suggests that exercising that right by refusing to license a patent, without more, would not violate the antitrust laws.[106] None of the Supreme Court cases

---

parties should seek explicit commitments before making investments in reliance on a continuing duty to deal. May 1 Tr. at 157-59 (Shapiro).

98 *Trinko*, 540 U.S. at 411.

99 May 1 Tr. at 41-42 (Gleklen); *id.* at 233-35 (Whitener); Whitener Submission at 14-15.

100 *See* May 1 Tr. at 30 (Gleklen). *But see supra* Part III.A.

101 Melamed & Stoeppelwerth, 10 GEO. MASON L. REV. at 423-27; May 1 Tr. at 134-35, 200 (Kirsch); *id.* at 163, 168, 172-73 (MacKie-Mason); *id.* at 242 (Melamed); *id.* at 59, 202, 206-07 (Sprigman).

102 May 1 Tr. at 51 (Sprigman).

103 Melamed & Stoeppelwerth, 10 GEO. MASON L. REV. at 419 ("[A]nticompetitive conduct is conduct that serves no legitimate purpose, or is itself unprofitable, and is undertaken in order to exclude or weaken competitors in anticipation of increased market power and resulting supracompetitive recoupment."); May 1 Tr. at 242-46 (Melamed); *id.* at 121-22 (Sprigman). Another panelist questioned how the concept of recoupment would apply when the conduct at issue is a decision not to give up patented property, asking: "Is it recoupment if I make more money in servicing equipment because I didn't sell my patented parts to ISOs?" *Id.* at 208-09 (Whitener).

104 35 U.S.C. § 154(a)(1) (2000).

105 *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("[T]he essence of a patent grant is the right to exclude others from profiting by the patented invention."); *cf. eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006) ("[T]he creation of a right is distinct from the provision of remedies for violations of that right.").

106 *Hartford-Empire Co. v. United States*, 323 U.S. 386, 432 (1945) ("A patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others."); *Mercoid*, 320 U.S. at 666 ("The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly . . . ."); *United States v. United Shoe Mach. Co. of N.J.*, 247 U.S. 32, 57 (1918) ("[A patent's] strength is in the restraint, the right to exclude others from the use of the invention . . . . Its exertion within the field . . . is not an offense against the Anti-Trust Act."); *Bement v. Nat'l Harrow Co.*, 186 U.S. 70, 90 (1902) ("[A patentee's] title is exclusive, and so clearly within the constitutional provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it." (quoting *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 295 (6th Cir. 1896))); *see also Intergraph*, 195 F.3d at 1362 ("[T]he antitrust laws do not negate the patentee's right to exclude others from patent property."); *Data Gen. Corp.*, 36 F.3d at 1186 ("[In the context of a unilateral refusal to license copyrights,] [t]he courts appear to have partly settled an analogous conflict between the patent laws and the antitrust laws, treating the former as creating an

squarely holds that the unilateral refusal to license a patent could never violate the antitrust laws, or that the antitrust laws should be applied in a different manner to intellectual and other property,[107] but the strong statements in these cases are indicative of the traditional understanding that the unilateral right to decline the grant of a license is a core part of the patent grant. Prior to *Kodak*, no reported federal antitrust decision had imposed liability for the refusal to license a patent.[108] Even in the controversial *Kodak* case itself, the outcome might be explained as a result of Kodak's refusal to sell thousands of unpatented parts.[109]

Taking all of the relevant factors together—including the fact that no case supported this type of antitrust liability before *Kodak*, and the silence of section 271(d)(4) on the issue, the Agencies conclude that liability for mere unconditional, unilateral refusals to license will not play a meaningful part in the interface between patent rights and antitrust protections. Of course, there are numerous imaginable scenarios that involve conduct that goes beyond a mere refusal to license a patent and could give rise to antitrust liability.[110] In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,[111] the Supreme Court

---

implied limited exception to the latter."); *Miller Insituform, Inc. v. Insituform of N. Am., Inc.*, 830 F.2d 606, 609 (6th Cir. 1987) ("A patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the monopoly power he lawfully acquired by refusing to license the patent to others."); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) ("The right to license [a] patent, exclusively or otherwise, or to refuse to license at all, is 'the untrammeled right' of the patentee."); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1204 (2d Cir. 1981) ("Where a patent holder . . . merely exercises his 'right to exclude others from making, using, or selling the invention' by refusing unilaterally to license his patent . . . such conduct is expressly permitted by the patent laws."(quoting 35 U.S.C. § 154)) (citation omitted); *id.* at 1206 ("[W]here a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws."). The most widely quoted dictum may be that of *Simpson v. Union Oil Co. of Cal.*, which indicated that "[t]he patent laws which give a [temporary] monopoly on 'making, using, or selling the invention' are *in pari materia* with the antitrust laws and modify them *pro tanto*." 377 U.S. 13, 24 (1964). The apparent meaning of this statement is that the patent laws effectively modify the antitrust laws to the extent, and only to the extent, of precluding liability for the mere exclusion of others from making, using, or selling the patented invention.

[107] *See supra* notes 46-49 and accompanying text.

[108] *See* Herbert Hovenkamp, Mark D. Janis, & Mark A. Lemley, *Unilateral Refusals to License*, 2 J. COMPETITION L. & ECON. 1, 42 (2006) ("Courts are properly extremely reluctant to find liability on the basis of a company's unilateral refusal to deal, even if that company is a monopolist. That reluctance is even stronger when a refusal to license intellectual property rights is at stake, because the ability to exclude others from using the right is at the heart of IP policy.").

[109] Although *Kodak* might be read to suggest that the Ninth Circuit was consciously departing from the line of cases indicating that the refusal to license a patent would not violate the antitrust laws, that interpretation may be mistaken. Technically, the *Kodak* court addressed whether it was harmless error for the district court's instructions to the jury to have given no weight to Kodak's patents on sixty-five of the thousands of parts at issue. 125 F.3d at 1214, 1218-20. In light of the court's remarks concerning the plaintiffs' claimed "all parts" market, *id.* at 1220, it is not clear that *Kodak* is properly described as imposing antitrust liability for a refusal to license patents. Moreover, as noted above, the *Kodak* decision has been criticized, even by those who would prefer to depart from those cases indicating that the mere refusal to license does not support antitrust liability. *See supra* Part II.B.

[110] *See, e.g.*, *Cont'l Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 698-99 (1962) (stating that a jury must be allowed to consider evidence of alleged collusive conduct by defendants, including concerted refusal to deal).

[111] 243 U.S. 502 (1917).

rejected the theory that "since the patentee may withhold his patent altogether from public use he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it."[112] The Court explained that the "defect in this thinking springs from the substituting of inference and argument for the language of the statute and from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract which, however, are subject to the rules of general [law] as distinguished from those of the patent law."[113] Conduct going beyond a mere refusal thus may merit scrutiny under the antitrust laws.[114] As noted above, the terms of a license agreement are subject to section 1 of the Sherman Act, which "reaches unreasonable restraints of trade effected by a 'contract, combination . . . or conspiracy.'"[115]

V. CONCLUSION

Whether, and if so when, to impose antitrust liability for unconditional, unilateral refusals to license patents has been a subject of much debate among antitrust and patent law practitioners and policymakers. At the Hearing, panelists offered widely differing views on the relevant economic, policy, and legal issues. Some panelists favored antitrust liability for unilateral, unconditional refusals to license under narrow circumstances, with such refusals assessed on a case-specific, fact-intensive basis, without formalistic rules or safe harbors.[116] Others favored a categorical exemption from antitrust liability for unilateral, unconditional refusals to license.[117] Panelists agreed that conditional refusals to license could cause competitive harm and should not be immune from antitrust liability. Panelists also agreed that the judicial decisions do not provide satisfactory guidance. All but one panelist found the subjective

[112] *Id.* at 514.

[113] *Id.*

[114] Hovenkamp et al., 2 J. COMPETITION L. & ECON. at 37-38 ("The maker of a product is generally free to decide to whom it will sell, and to terminate its buyers at will, but this right does not include the right to impose certain types of conditions on those buyers—notably, but not exclusively, tying arrangements and resale price restrictions.") (footnote omitted).

[115] *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 768 (1984) (quoting section 1 of the Sherman Act). The applicability of section 1 to agreements related to patents was made clear by *Motion Picture Patents*, 243 U.S. at 514. Moreover, no provision of the Patent Act on its face grants patentees untrammeled rights to do as they wish with patented inventions. The basic right of patentees is the right to exclude others from making, using, offering to sell, or selling the patented invention. This is not a right of the patentee to make, use, offer to sell, or sell the patented invention. Whether and on what terms the patentee may make, use, offer to sell, or sell are governed by other bodies of law. Moreover, practices designed to create legal rights to exclude extending beyond the invention described by the patent claims, or beyond the temporal limits of the patent—i.e., practices that seek to extend the legal monopoly granted in the patent—are disfavored in patent law and are fully subject to the antitrust laws. *See infra* Chapter 4, *Variations on Intellectual Property Licensing Practices*; *infra* Chapter 6, *Competitive Issues Regarding Practices That Extend the Market Power Conferred by a Patent Beyond Its Statutory Term*.

[116] May 1 Tr. at 134-35, 200-01 (Kirsch); *id.* at 163, 168, 172-73 (MacKie-Mason); *id.* at 242 (Melamed); *id.* at 59, 202, 206-08 (Sprigman).

[117] *Id.* at 41-42 (Gleklen); *id.* at 233-36 (Whitener); Whitener Submission at 14-15.

motivation test for refusals to license articulated in *Kodak* to be unsound and unworkable, and panelists agreed that the *CSU* decision is difficult to parse and so broadly drafted that it creates uncertainty.

The panel discussion provided the Agencies with significant guidance on many of the concerns associated with potential liability for refusals to license. The Supreme Court in *Trinko* has since provided important guidance on the fundamental principles underlying claimed duties to assist competitors. The Agencies agree with the panel 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 cases. The Agencies also conclude that 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.