

CHAPTER 4

VARIATIONS ON INTELLECTUAL PROPERTY LICENSING PRACTICES

I. INTRODUCTION

For over a decade, the Agencies have relied on the Antitrust Guidelines for the Licensing of Intellectual Property (“Antitrust-IP Guidelines”) to aid in their analysis of complex licensing practices.¹ Recognizing that intellectual property (“IP”) rights are critical to a well-functioning market economy, the Agencies crystalized some fundamental principles regarding the intersection of IP and antitrust law and policy in the Antitrust-IP Guidelines. These principles include recognizing that: (1) an IP right does not necessarily create market power;² (2) agreements involving IP can be analyzed using the same antitrust rules applied to agreements involving any other property;³ and (3) IP licensing is generally procompetitive.⁴ The vast majority of licensing restraints “can be

expected to contribute to an efficiency-enhancing integration of economic activity,” by, for example, “facilitat[ing] the combination of the licensor’s intellectual property with [other] complementary factors of production.”⁵ The Agencies therefore will evaluate such

¹ U.S. DEP’T OF JUSTICE & FEDERAL TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132, *available at* <http://www.usdoj.gov/atr/public/guidelines/0558.pdf> [hereinafter ANTITRUST-IP GUIDELINES].

² *Id.* § 2.2.

³ *Id.* § 2.1.

⁴ *Id.* § 2.0.

⁵ *Id.* § 3.4. Recognizing that intellectual property licensing is generally procompetitive, many foreign jurisdictions have followed the United States’ lead in creating transparency in this area by adopting their own intellectual property guidelines. *E.g.*, COMPETITION BUREAU, GOV’T OF CAN., INTELLECTUAL PROPERTY ENFORCEMENT GUIDELINES (2000), *available at* <http://www.strategis.ic.gc.ca/pics/ct/ipege.pdf>; Guidelines on the Application of Article 81 of the EC Treaty to Technology Transfer Agreements (EC), 2004 O.J. (C 101) 2, *available at* http://www.europa.eu.int/eur-lex/pri/en/oj/dat/2004/c_101/c_10120040427en00020042.pdf; JAPAN FAIR TRADE COMM’N, GUIDELINES FOR PATENT AND KNOW-HOW LICENSING AGREEMENTS UNDER THE ANTIMONOPOLY ACT (1999), *available at* <http://www.jftc.go.jp/e-page/legislation/ama/patentandknow-how.pdf>; KOREA FAIR TRADE COMM’N, GUIDELINES OF REVIEWING UNDUE EXERCISE OF INTELLECTUAL PROPERTY RIGHTS (2000), *available at* http://ftc.go.kr/data/hwp/irp_guidelines.doc; COMPETITION COMM’N OF SING., GUIDELINES ON THE TREATMENT OF INTELLECTUAL PROPERTY RIGHTS (2005), *available at* <http://www.ccs.gov.sg/NR/rdonlyres/A67B68FC-D66F-415B-9DF1-5A97FC6855A9/6714/CCSGuidelineonIPR20051228websitefinal2.pdf>; TAIWAN FAIR TRADE COMM’N, RULES FOR REVIEW OF TECHNOLOGY LICENSING ARRANGEMENT CASES, *available at* <http://www.globalcompetitionforum.org/regions/asia/Taipei/Technology%20Licensing.pdf>.

agreements pursuant to the rule of reason.⁶

During the Agencies' Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy, panelists discussed several licensing practices that have the potential to promote licensing efficiencies, including non-assertion clauses,⁷ grantbacks,⁸ and reach-through licensing agreements.⁹ They considered when these practices might be procompetitive, under what circumstances they might be anticompetitive, and whether the Antitrust-IP Guidelines provide adequate guidance for evaluating the antitrust implications of these arrangements.¹⁰ The

panelists generally agreed that the basic principles set forth in the Antitrust-IP Guidelines are preferable to bright line, *per se* rules that affirmatively approve or condemn a specific licensing practice without regard to the circumstances in which it is being employed.¹¹ Moreover, panelists agreed that, although theories of anticompetitive licensing practices may exist, identifying such scenarios in practice requires a highly fact-specific, case-by-case analysis. Consequently, applying simple rules to broad classes of behavior can risk great inefficiency.¹² To avoid this risk, the Agencies will continue to use the flexible rule of reason to assess the competitive significance of the licensing arrangements discussed in this Chapter, evaluating a particular agreement's ability to harm or enhance competition in the factual circumstances in which it arises.¹³

II. NON-ASSERTION CLAUSES

According to panelists, non-assertion clauses typically provide that a contracting party will not assert patents or other IP rights against the other contracting party, even if that party were to engage in an infringing use.¹⁴ Panelists said that such clauses are entered into for a variety of reasons, but that, as a practical matter, non-assertion clauses serve one of the same functions as a license or cross license, i.e., they permit

⁶ ANTITRUST-IP GUIDELINES § 3.4.

⁷ See *infra* Part II.

⁸ See *infra* Part III.

⁹ See *infra* Part IV.

¹⁰ The panelists discussing these topics included: Michelle Burtis, Director, LECCG, Inc.; Joseph Farrell, Professor of Economics and Chair of the Competition Policy Center, University of California, Berkeley; Jeffery Fromm, Former Senior Managing Counsel, Hewlett-Packard Company; Michael McFalls, Partner, Jones Day Reavis & Pogue; Barbara M. McGarey, Deputy Associate General Counsel, National Institutes of Health; Janusz A. Ordovery, Department of Economics, New York University; Charles F. (Rick) Rule, Partner, Fried, Frank, Harris, Shriver & Jacobson; Carl Shapiro, Transamerica Professor of Business Strategy, Haas School of Business, University of California, Berkeley. The panel was moderated by Gail Levine, then-Deputy Assistant General Counsel for Policy Studies, Federal Trade Commission; Frances Marshall, Special Counsel for Intellectual Property, U.S. Department of Justice; Sarah Mathias, then-Attorney, Policy Studies, Federal Trade Commission; and David L. Scheffman, then-Director, Bureau of Economics, Federal Trade Commission. Nov. 6, 2002 Hr'g Tr., Relationships Among Competitors and Incentives to Compete: Cross-Licensing of Patent Portfolios, Grantbacks, Reach-Through Royalties, and Non-Assertion Clauses (Afternoon Session), <http://www.ftc.gov/opp/>

intellect/021106ftctrans.pdf [hereinafter Nov. 6 Tr.].

¹¹ E.g., Nov. 6 Tr. at 146-47 (Rule); see also *id.* at 185-86 (Shapiro).

¹² See, e.g., *id.* at 145 (Ordovery).

¹³ See ANTITRUST-IP GUIDELINES § 3.4.

¹⁴ Nov. 6 Tr. at 121-22 (McFalls).

the contracting parties to avoid costly litigation over the use of an IP right.¹⁵ A non-assertion clause is “a convenient way for people to be able to effectively give comfort to somebody they would otherwise license,” one panelist explained.¹⁶ In this respect, panelists stated, non-assertion clauses are similar to nonexclusive, royalty-free licenses that allow the parties to allocate risk and to avoid litigation by contract.¹⁷ Panelists observed that non-assertion clauses can appear in multilateral or bilateral agreements, and they can cover existing or potential future patents, or both.¹⁸ Pure non-assertion clauses that do not transfer a right to use the patent, do not, by themselves, provide for the transfer of know-how, something that frequently accompanies the affirmative licensing of patent rights.¹⁹

¹⁵ *Id.* at 121 (McFalls) (“[I]nstead of giving somebody an affirmative grant . . . [you] say, within this field, just as with a license, I’m not going to [sue] you on patents that I have today.”); *see also id.* at 127-28 (Rule).

¹⁶ *Id.* at 121 (McFalls).

¹⁷ *Id.*; *id.* at 125 (Farrell) (stating that a non-assertion clause is essentially “royalty-free permission to use one another’s IP”).

¹⁸ Nov. 6 Tr. at 122-23 (Fromm); *id.* at 127-28 (Rule). Non-assertion agreements may also encompass different categories of IP rights. For example, a non-assertion agreement may permit use of one type of IP (e.g., patents) in return for use of a different type of intellectual property (e.g., copyright). *Id.* at 123 (Fromm).

¹⁹ *Cf.* David J. Teece, Peter Grindley & Edward Sherry, *Understanding the Licensing Option*, in *MANAGING INTELLECTUAL CAPITAL* 135, 135-38 (2000) (discussing when know-how is typically transferred between firms).

A. Efficiencies of Non-Assertion Clauses

Panelists stated that non-assertion clauses may create efficiencies akin to those created by patent licenses.²⁰ For example, one panelist said that non-assertion clauses tend to reduce transaction costs because they “guarantee to the licensor . . . that any intellectual property issue that exists at [the time of the license negotiation] will be surfaced by the licensee.”²¹ Indeed, according to this panelist, the licensee typically will benefit by, in effect, “charging” the licensor for the value of the right it is giving up—a right to assert a hidden blocking patent, for example.²² This panelist reported that non-assertion agreements also can facilitate the sharing of information, because a licensor who is unafraid of the eventual developments of blocking patents is more likely to “provide information and details that otherwise might be used by the licensee to develop a blocking patent position.”²³ The panelist asserted that such exchanges of information are procompetitive because both parties to the non-assertion agreement avoid hidden blocking patents.²⁴ Finally, the panelist saw an

²⁰ One panelist stated that a licensor may negotiate a non-assertion clause in lieu of a grantback to prevent its licensee from asserting a hidden blocking position after the product has become successful. Nov. 6 Tr. at 127-28 (Rule). This panelist explained that non-assertion clauses can cover both existing and future portfolios, whereas a grantback generally is limited to future technology. *Id.* at 127 (Rule).

²¹ *Id.* at 128 (Rule).

²² *Id.*

²³ *Id.* at 129 (Rule).

²⁴ *Id.*

additional potential benefit if a non-assertion clause can eliminate patent hold up for the licensor's other licensees because the clause applies to the licensor *and* to "those who license from the licensor."²⁵

B. Competitive Concerns Regarding Non-Assertion Clauses

Panelists expressed concern over the use of broad non-assertion clauses, such as those that are unlimited in scope or duration, or are more extensive than a license. Some panelists noted that such clauses raise competitive concerns because, by limiting the ability of licensees to collect rents on their own IP, they may discourage independent innovation.²⁶ Another concern is that a

²⁵ Nov. 6 Tr. at 129 (Rule). One panelist also noted that non-assertion clauses may be used in lieu of a license to avoid breaching an exclusive licensing obligation in another contract or to provide a means of avoiding the application of a "Most Favored Nation" ("MFN") clause in another licensing agreement. *Id.* at 121 (McFalls). Another panelist reported that courts have not accepted attempts to label grantbacks as non-assertion clauses so as to avoid having to comply with a MFN clause. *Id.* at 123 (Fromm).

²⁶ *Id.* at 136 (Fromm) ("[A broad non-assertion clause] can't help but be a disincentive to the licensee, the grantor of the non-assert, to further innovate because essentially what [it has] done is [it has] eliminated the patent thicket, that's for sure."); *see also id.* at 137-38 (Rule) ("[Y]ou can certainly abuse a non-assert if it's way too broad and it's unconnected to the underlying licensed technology."); *id.* at 143 (Fromm) (stating that the proper focus is on whether the non-assertion clause is "significantly more extensive" than the scope of a license). According to panelists, although a patent thicket has the potential to impede innovation when access to certain inputs necessary for production is difficult, the elimination of a patent thicket altogether can slow innovation when no firm has the incentive to innovate by designing around an infringing patent. *See, e.g.,* Frederick J. Telecky, Jr., *Statement* (Feb. 28, 2002 Hr'g R.) at 3 ("Without the

broad non-assertion agreement between the only two participants in a market may help to maintain an illegitimate duopoly or monopoly if the participants agree not to challenge each other's questionable patents.²⁷

Invalid patents impair competition,²⁸ and as a matter of patent policy, challenges to their validity are encouraged.²⁹ As the Solicitor General recently urged, "[w]hile patent licensing in general should be encouraged because it allows the efficient exploitation of technology and promotes competition and innovation, public policy strongly

need to design around, simple inertia and practicalities such as the necessity of qualifying a new product with customers can be a barrier to innovation."), <http://www.ftc.gov/opp/intellect/020228telecky.pdf>.

²⁷ *See* R. Hewitt Pate, Acting Assistant Attorney Gen., U.S. Dep't of Justice, Antitrust and Intellectual Property, Address Before the American Intellectual Property Law Association 2003 Mid-Winter Institute 9 (Jan. 24, 2003) ("[P]otential concerns may arise with agreements among IPR holders not to challenge one another's IPR claims through either innovation or litigation . . ."), *available at* <http://www.usdoj.gov/atr/public/speeches/200701.pdf>.

²⁸ FEDERAL TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, Executive Summary, at 5 (2003), *available at* <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> [hereinafter FTC Innovation Report].

²⁹ *See Lear v. Adkins*, 395 U.S. 653, 674 (1969) ("[E]nforcing [a] contractual provision [that would require a licensee to continue to pay royalties during the time it is challenging the patent's validity in courts] would undermine the strong federal policy favoring the full and free use of ideas in the public domain."); *see also MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 777 (2007) ("We hold that [a licensee is] not required, insofar as Article III is concerned, to break or terminate its 1997 license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed.").

favors ridding the economy of invalid patents, which impede efficient licensing, hinder competition, and undermine incentives for innovation.”³⁰ Public policy also concomitantly favors the swift resolution of patent litigation on terms not harmful to competition.³¹

III. GRANTBACKS

A grantback is “an arrangement under which a licensee agrees to extend to the licensor of intellectual property the right to use the licensee’s improvements to the licensed technology.”³² Panelists said that a grantback is similar to a non-assertion clause in that it provides the freedom to use a particular intellectual property right, but it encompasses only

future improvements.³³ Panelists noted that the two arrangements are often negotiated in the same way,³⁴ and that their economic effects are virtually identical.³⁵

According to panelists, the scope, terms, and duration of grantbacks vary.³⁶ One panelist stated that a grantback may give exclusive rights to use future improvements solely to the licensor, leaving none to the licensee,³⁷ or it may allow both parties to share those rights to the exclusion of others.³⁸ Conversely, panelists noted, a grantback may be nonexclusive, thus allowing one or both contracting parties to license to others the right on the improvement.³⁹ Grantbacks may be limited by geographic scope or territory or by field of use, a panelist explained.⁴⁰ According to one panelist, grantbacks “may not be related to the initial IP licensed.”⁴¹ For example, a research tool patent license may grant back to the licensor the rights to make a drug created with the use of the research tool patent, even though the patent

³⁰ Brief for the United States as Amicus Curiae Supporting Petitioner at 23-24, *MedImmune*, 127 S. Ct. 764 (No. 05-608) (internal citations omitted), available at <http://www.usdoj.gov/osg/briefs/2005/3mer/1ami/2005-0608.mer.ami.pdf>.

³¹ ANTITRUST-IP GUIDELINES § 5.5 (“Settlements involving the cross-licensing of intellectual property rights can be an efficient means to avoid litigation, and in general, courts favor such settlements.”); Brief for the United States as Amicus Curiae at 17, *Andrx Pharms. Inc. v. Kroger Co.*, 543 U.S. 939 (2004) (No. 03-779) (recognizing that settlements that end litigation may “facilitate innovation and investment in the patented technology by eliminating litigation risks and providing certainty over patent rights”) (internal quotations omitted), *denying cert. to In re Cardizem CD Antitrust Litig.*, 332 F.3d 896 (2003), available at <http://www.usdoj.gov/osg/briefs/2004/2pet/6invt/2003-0779.pet.ami.inv.pdf>; *cf. id.* at 8 (“Although ‘public policy wisely encourages settlements’ of legal disputes, *McDermott, Inc. v. AmClyde*, 511 U.S. 202, 215 (1994), it does not follow that all settlements are in the public interest.”).

³² ANTITRUST-IP GUIDELINES § 5.6; *see also supra* Chapter 3, *Antitrust Analysis of Portfolio Cross-Licensing Agreements and Patent Pools* Part III.D.3 (noting that patent pools may include grantbacks to access newly developed, essential IP).

³³ *See* Nov. 6 Tr. at 119, 121-22 (McFalls); *id.* at 120, 124 (Fromm).

³⁴ *Id.* at 123-24 (Fromm).

³⁵ *Id.* at 124 (Fromm) (referring to nonexclusive agreements); *id.* at 124-25 (Shapiro); *see also* discussion of non-assertion clauses *supra* Part II.

³⁶ *See* Nov. 6 Tr. at 118-19 (McFalls); *id.* at 120 (Fromm).

³⁷ *Id.* at 118 (McFalls).

³⁸ *Id.* at 118-19 (McFalls).

³⁹ *Id.* at 119 (McFalls); *see also id.* at 120 (Fromm) (stating that grantbacks, at least as to improvements, are “reasonably pervasive” in the computer industry).

⁴⁰ Nov. 6 Tr. at 118 (McFalls).

⁴¹ *Id.* at 117-18 (McFalls).

claiming the drug would not infringe the research tool patent.⁴² One panelist explained that like many other licensing arrangements, grantbacks may or may not be royalty-free.⁴³

A. Efficiencies of Grantbacks

The Agencies already have noted that grantbacks, particularly those that are nonexclusive, can offer efficiencies to licensees and licensors.⁴⁴ A grantback can facilitate downstream licensing because it provides a good way to value the licensed intellectual property, one panelist asserted, stating that a grantback is “a useful way for the original licensor to get some value later on [when an] initial contract may be hard to write.”⁴⁵ Moreover, a nonexclusive grantback can “serve as [an] alternative[] to higher royalty rates where the nature and value of future improvements is uncertain.”⁴⁶ The Agencies recognize that a grantback can foster the sharing of risk and “reward the licensor for making possible further

⁴² See Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698, 699 (1998); Jane Nielsen, *Reach-Through Rights in Biomedical Patent Licensing: A Comparative Analysis of Their Anticompetitive Reach*, 32 FED. L. REV. 169, 170-71, 176 (2004); see also *infra* Part IV (discussing reach-through licensing agreements).

⁴³ Nov. 6 Tr. at 118 (McFalls).

⁴⁴ ANTITRUST-IP GUIDELINES § 5.6; see also 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW §§ 25.2 to -.4, at 25-2 to -10 (2002) [hereinafter 1 HOVENKAMP ET AL., IP AND ANTITRUST].

⁴⁵ Nov. 6 Tr. at 133 (Ordovery).

⁴⁶ 1 HOVENKAMP ET AL., IP AND ANTITRUST § 25.2, at 25-2 (“Nonexclusive grantback clauses are virtually always competitive.”).

innovation based on or informed by the licensed technology.”⁴⁷ Panelists stated that, like a non-assertion clause, a grantback can also facilitate bargaining⁴⁸ and encourage information exchange by eliminating a licensor’s concern that a licensee will assert a blocking patent position in the future.⁴⁹

B. Competitive Concerns Associated with Grantbacks

Panelists stated that the primary anticompetitive concern presented by grantbacks is their potential for adverse effects on innovation.⁵⁰ Some have expressed concern that an exclusive grantback that allows only the original licensor to reap the rewards of any follow-on invention can deter innovation

⁴⁷ ANTITRUST-IP GUIDELINES § 5.6.

⁴⁸ According to one panelist, grantbacks in the biomedical field aid in valuing a research tool, for example, by granting back an option to a license on the end product. Nov. 6 Tr. at 151-52 (McGarey).

⁴⁹ See, e.g., *id.* at 128-29 (Rule) (stating that the same efficiencies are associated with non-assertion clauses).

⁵⁰ *Id.* at 135 (Farrell); see also *id.* at 133-34 (Ordovery). The anticompetitive concerns associated with the use of grantbacks within a patent pool are discussed in Chapter 3, *Antitrust Analysis of Portfolio Cross-Licensing Agreements and Patent Pools*, and are essentially the same as those noted here. Broad grantback clauses that, for example, “cover entirely unrelated technology, [cover] future as well as present patents, [or] cover non-essential as well as essential patents,” may deter innovation and should, according to panelists, engender antitrust scrutiny. M. Howard Morse, *Cross-Licensing and Patent Pools* (Apr. 17, 2002 Hr’g R.) at 14, <http://www.ftc.gov/opp/intellect/020417mhowardmorse.pdf>; see Apr. 17 Tr., *Patent Pools and Cross-Licensing: When Do They Promote or Harm Competition?* at 204-05 (Morse) (recognizing that Department of Justice business review letters had approved grantback provisions that were structured so as not to impede innovation), <http://www.ftc.gov/opp/intellect/020417trans.pdf>.

because the licensee will receive none of the benefits from any future improvements it might make.⁵¹ One panelist stated that, as in the case of a non-assertion clause, the disincentive to innovate increases if the grantback provision “is larger in scope than the forward-going license or longer in duration than the . . . license [for which the grantback is conveyed].”⁵² Some have argued that grantbacks also have the potential to extend improperly a patentee’s market power because “numerous improvements made by different licensees all come back to the original patentee. The patentee can then use all the improvements, not merely to obtain control of the affected technology during the life of the original patent, but often for a subsequent time as well.”⁵³

These potential concerns, however, must be measured against the “but for” world; that is, the Agencies must consider the amount of innovation that might have occurred in the absence of the licensing restraint.⁵⁴ As noted earlier, grantback provisions can make follow-on innovation possible. Without the security of a grantback provision, a licensor may be hesitant to share its intellectual property with others, fearing that it might

be prevented from accessing and benefitting from follow-on improvements to its own technology.⁵⁵

IV. REACH-THROUGH LICENSING AGREEMENTS

Reach-through licensing agreements grant the owner of a patent on an upstream research tool⁵⁶ the right to receive consideration based on sales or usage of a subsequent downstream product created with that tool.⁵⁷ For example, a reach-through licensing agreement might allow a pharmaceutical company to use a patented research tool to identify components of what becomes a marketable drug without paying royalties to the tool owner before commercialization of the product.⁵⁸

⁵¹ 1 HOVENKAMP ET AL., IP AND ANTITRUST § 25.3, at 25-6 to -7.

⁵² Nov. 6 Tr. at 120 (Fromm); *see also id.* at 137 (Fromm) (“[T]here ought to be heightened scrutiny whenever there is . . . a significant difference in the grantback or the non-assertion provisions in the forward-going licenses.”).

⁵³ 1 HOVENKAMP ET AL., IP AND ANTITRUST § 25.3, at 25-7; *see also* John H. Barton, *Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation*, 65 ANTITRUST L.J. 449, 461-62 (1997).

⁵⁴ *See* ANTITRUST-IP GUIDELINES §§ 3.1, 3.3.

⁵⁵ *See* ANTITRUST-IP GUIDELINES § 5.6; *supra* Part III.A; *see also* Nov. 6 Tr. at 128-29 (Rule) (discussing how grantbacks and non-assertion clauses can promote cooperation and information exchange between licensor and licensee).

⁵⁶ Patented research tools, which have primarily arisen in the pharmaceutical and biotechnology fields, are technologies “used to find, refine, or otherwise design and identify a potential product.” FTC INNOVATION REPORT ch. 3, at III(D)(1)(c); *see also* Nov. 6 Tr. at 159 (McGarey) (“[I]n the context of reach-through [licensing agreements] . . . we’re talking about broad enabling tools that are not destined to be products themselves . . .”).

⁵⁷ FTC INNOVATION REPORT ch. 3, at III(E)(1). Although a research tool is used to develop a new product, the sale or use of the new product generally will not infringe the claims of the research tool patent. *See* Feb. 26, 2002 Hr’g Tr., Business Perspectives on Patents: Biotech and Pharmaceuticals (Afternoon Session) at 260 (Blackburn) (“[A research tool] is not a patent that covers the final product that is the subject of ongoing manufacture and sale.”), <http://www.ftc.gov/opp/intellect/020226trans.pdf> [hereinafter Feb. 26 Tr.].

⁵⁸ Heller & Eisenberg, 280 SCIENCE at 699; *see also* Janice M. Mueller, No “Dilettante Affair”: Rethinking the Experimental Use Exception to Patent Infringement for

Rather, the research tool owner would opt to “reach through” and receive a royalty based on a percentage of the drug’s future sales.⁵⁹ This arrangement can be particularly valuable to the contracting parties in cases in which the creator of the downstream product has only limited ability to pay or borrow funds to cover up-front licensing costs.⁶⁰ Reach-through licensing agreements may also include the ability to use future patented inventions, including the option to license the final product created using an upstream research tool.⁶¹

A. Efficiencies of Reach-Through Licensing Agreements

According to panelists, reach-through licensing agreements can create efficiencies when they promote the dissemination of an upstream research tool, by, for example, creating a way to value the research tool or establish a reasonable royalty.⁶² Some have reported

that the initial fee for use of a patented research tool may be difficult to determine when there is no “commercial product in existence” and “the research tool owner and the tool user may have very different views about the proper economic valuation of the tool.”⁶³ Panelists said that by allowing the research tool patent owner to accrue royalties on sales of downstream discoveries in lieu of up-front royalties, the parties are better able to assess the value of the research tool by taking into account the value of the product developed using the research tool.⁶⁴ Reach-through licensing agreements also permit the research tool owner and follow-on researchers to share innovation risks, with the research tool owner gambling that his tool will lead to the development of a commercially viable

Biomedical Research Tools, 76 WASH. L. REV. 1, 16 (2001); Nielsen, 32 FED. L. REV. at 171.

⁵⁹ Heller & Eisenberg, 280 SCIENCE at 699.

⁶⁰ See Mueller, 76 WASH. L. REV. at 16.

⁶¹ Heller & Eisenberg, 280 SCIENCE at 699; Nielsen, 32 FED. L. REV. at 171; see also Nov. 6 Tr. at 151-52 (McGarey) (stating a reach-through licensing agreement may take the form of a grantback of an option to exclusively license the downstream innovation).

⁶² Nov. 6 Tr. at 155 (Burtis) (“[If] whatever is commercialized never has a market, then the person who has bought the tool ends up paying a very little amount for the tool.”); *id.* at 171 (Rule) (suggesting the Agencies should not be concerned with reach-through license agreements because the agreements “essentially captur[e] the value created by intellectual property” and allow for a broader dissemination of the technology); see also Nielsen, 32 FED. L. REV. at 171 (“Reach-through rights allow patent holders to license and reali[z]e value on their inventions even

when that value is speculative. In this respect, they encourage the dissemination of patented inventions and are likely to have a positive effect on innovation.”); Mueller, 76 WASH. L. REV. at 59 (“[Reach-through license agreements are] an expedient method of measuring the value of the use of the research tool rather than an unlawful leverage of the patent right.”); Nov. 6 Tr. at 151-52 (McGarey) (acknowledging that a reach-through arrangement is a way to value the technology).

⁶³ Mueller, 76 WASH. L. REV. at 16.

⁶⁴ See Nov. 6 Tr. at 154-56 (Burtis) (“[P]eople [like] reach-through agreements because . . . [they are] a way to efficiently price”); Feb. 26 Tr. at 279 (Blackburn) (“I think that really reduces to a price negotiation, how much does the tool owner profit from the successful development of a product. So that allocation of risk I think is taken care of in the pricing.”); see also Nielsen, 32 FED. L. REV. at 176 (“If an upstream invention is subsequently determined to be a foundational research tool, setting a value on it too early would deprive the patent holder of valuable income, and allow the licensee to reali[z]e a windfall gain. Reach-through rights allow the patent holder to defer decisions about the value of research tools and technologies.”).

product.⁶⁵ In this way, reach-through licenses may facilitate an efficient allocation of risk when there is uncertainty regarding the value of the licensed technology.

B. Competitive Concerns About Reach-Through Licensing Agreements

Panelists were primarily concerned that reach-through licensing agreements could impair innovation in downstream markets⁶⁶ because of “royalty stacking” by multiple research tool owners.⁶⁷

⁶⁵ See, e.g., Feb. 26 Tr. at 275 (Blackburn) (“Reach-through royalties are a way to lower the up-front costs for the smaller firms and to have a risk-sharing arrangement basically with the tool owner . . .”). *But see id.* at 278 (Oehler) (questioning whether “risk is truly shared” when a tool may prove valuable in early stages of research and development but the end product fails in clinical trials).

⁶⁶ See, e.g., Nov. 6 Tr. at 153 (McGarey) (arguing that reach-through agreements can result in a “pile-up” of royalties that impair innovation); July 10, 2002 Hr’g Tr., Trends in Federal Circuit Jurisprudence (Morning Session) at 56-57 (Scherer) (stating that numerous upstream patents can impede downstream innovation by, among other things, attempting to collect royalties individually), <http://www.ftc.gov/opp/intellect/020710trans.pdf>; Oct. 30, 2002 Hr’g Tr., Competition, Economic, and Business Perspectives on Substantive Patent Law Issues: Non-Obviousness and Other Patentability Criteria at 175 (Stoner) (asserting that when an upstream patent manages the downstream flow of innovations it could lead to less downstream commercialization), <http://www.ftc.gov/opp/intellect/021030trans.pdf> [hereinafter Oct. 30 Tr.].

⁶⁷ See Mueller, 76 WASH. L. REV. at 7 (“Innovation is impeded by the ‘royalty stacking’ problem imposed by the numerous upstream patents that must be practiced in order to make the new downstream product.”); ORGANISATION FOR ECON. CO-OPERATION & DEV., GENETIC INVENTIONS, INTELLECTUAL PROPERTY RIGHTS AND LICENSING PRACTICES: EVIDENCE AND POLICIES 63 (2002) [hereinafter GENETIC INVENTIONS] (“The concerns evoked about reach-through royalties are that they increase royalty stacking, as multiple tests and assays are needed when developing a

Royalty stacking occurs when royalties are owed to multiple licensors. As one panelist noted, when “one company comes in and asks for five percent, another company comes in and asks for five percent, . . . all of a sudden you’re . . . giving away a hundred and twenty percent, three hundred percent of your revenues to various patents.”⁶⁸ Although no rational firm would knowingly agree to give up all its profits, some have expressed concern that the cumulative royalties of all upstream holders have the potential to stifle follow-on innovation if they reach a level at which commercialization of the improvement is no longer profitable from a business perspective.⁶⁹ Thus, some fear royalty stacking may result in a “tragedy of the anticommons” whereby “people under use scarce resources because too many owners can block each other.”⁷⁰ At the Hearing, the Deputy Associate General Counsel of the National Institutes of Health (“NIH”) explained that NIH adopted a policy discouraging the use of reach-through royalty agreements

medicinal product[;] that they make project management more complex and the relationship to all collaborators more delicate[;] and that they are costly to negotiate.”).

⁶⁸ Feb. 27, 2002 Hr’g Tr., Business Perspectives on Patents: Software and the Internet (Morning Session) at 415 (Kohn) (noting the high transaction costs stemming from proliferating patents), <http://www.ftc.gov/opp/intellect/020227trans.pdf>.

⁶⁹ See, e.g., GENETIC INVENTIONS at 61-62 (describing the large number of license agreements pharmaceutical companies must enter).

⁷⁰ Heller & Eisenberg, 280 SCIENCE at 698; *see also* Feb. 26 Tr. at 310-11 (Kirschner) (explaining the potential for an anticommons problem in the biotechnology industry due to the proliferation of reach-through royalty agreements); FTC INNOVATION REPORT ch. 3, at III(D)(4)(a).

because they may impose restrictions on the IP developed using the tool, as well as create multiple royalty obligations associated with downstream discoveries.⁷¹

Some have argued that reach-through licensing does not allow a patentee to capture excessive royalties and does not pose a concrete harm to innovation. As one panelist explained: “If the licensor . . . is about to propose a royalty that’s going to kill the product they’re not going to make any money. And most of the players in this field are sophisticated enough to understand that.”⁷² In any event, the inefficiencies associated with royalty stacking can occur even without the use of reach-through licensing agreements.⁷³ Thus, some

panelists opined that reach-through licensing agreements raise no real competitive concerns unless licensors adversely affect innovation by prohibiting entry or exploitation of the upstream research tool or downstream products.⁷⁴ In addition, another panelist reported that extensive interviews of people in the biomedical industry demonstrated that the “anticommons” had not developed.⁷⁵

Panelists also suggested that reach-through agreements could reduce incentives to challenge a potentially invalid patent or the scope of protection claimed by the patent “by specifying that payments continue even if the patent were to be found invalid or the product [is] non-infringing.”⁷⁶ Other panelists asserted that the collection of royalties on a patent that is beyond its statutory term or scope could amount to an antitrust violation or patent misuse.⁷⁷ These

⁷¹ Nov. 6 Tr. at 152-53, 158 (McGarey) (discussing the problems reach-through agreements pose for the NIH); see also Principles and Guidelines for Recipients of NIH Research Grants and Contracts on Obtaining and Disseminating Biomedical Research Resources, 64 Fed. Reg. 72,090, 72,091 (Dec. 23, 1999), available at <http://ott.od.nih.gov/pdfs/64FR72090.pdf>; Mueller, 76 WASH. L. REV. at 7-8, 16 (discussing NIH’s position). To foster access to protected research tools, for which a license on reasonable terms cannot be freely negotiated, the National Research Council of the National Academies recommends that federal research-sponsoring agencies assume liability for patent infringement arising from the use of a protected research tool by including an “authorization and consent” clause in research funding instruments. COMM. ON INTELLECTUAL PROP. RIGHTS IN THE KNOWLEDGE-BASED ECON., NAT’L ACADS., A PATENT SYSTEM FOR THE 21ST CENTURY 115-17 (Stephen A. Merrill et al. eds., 2004).

⁷² Feb. 26 Tr. at 315 (Blackburn) (“[Most research tool owners are] fairly sophisticated and know that [they will] kill the goose if the stack is too high.”).

⁷³ If numerous complementary patents are necessary to create a new innovation and these patents are valued independently by multiple licensors, then the total royalties paid generally will be greater than they would be if all patents were controlled by a single licensor. See, e.g., Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard*

Setting, in 1 INNOVATION POLICY AND THE ECONOMY 121, 122-23 (Adam B. Jaffe et al. eds., 2000). In economics, this problem is known as “double marginalization” and can be mitigated with the use of a patent pool. See *supra* Chapter 3, *Antitrust Analysis of Portfolio Cross-Licensing Agreements and Patent Pools* Part III.D.1.b.

⁷⁴ See Nov. 6 Tr. at 169 (Ordovery); *id.* at 171-72 (Rule); *id.* at 169-70 (McGarey) (“[NIH] certainly [does not] like reach through [licensing agreements] . . . but I don’t think I can say that it’s anticompetitive or it’s something that the Federal Trade Commission or the Department of Justice needs to look at because . . . it’s something that the marketplace takes care of, perhaps, very painfully.”).

⁷⁵ See Oct. 30 Tr. at 149 (Cohen).

⁷⁶ Nov. 6 Tr. at 172-73 (Farrell).

⁷⁷ Feb. 26 Tr. at 269-70 (Earp) (stating that collecting royalties on noninfringing downstream products raises antitrust and misuse issues); Nov. 6 Tr. at 153 (McGarey) (“[A] patent owner is trying to get, by contract, what they could not get through their patent rights, because typically . . . the tool is not going to show up in the final product. And so, it’s a way for a

panelists suggested that the patent misuse doctrine or antitrust law would not allow a “licensing company [to demand] royalties on the sale of a product that is not covered by [its] patent”⁷⁸ or to extend royalty payments beyond the enforceable life of the patent on the underlying research tool.⁷⁹ Other panelists disagreed. From an economics perspective, “spreading out royalties over a larger [base] and a lower rate could be better,” one panelist opined, because that would suggest the licensee negotiated a lower rate.⁸⁰ From a legal perspective, another panelist remarked, reach-through royalties can be a mechanism for

patent owner to really extend rights that the patent system has not really given them.”). *See generally infra* Chapter 6, *Competitive Issues Regarding Practices That Extend the Market Power Conferred by a Patent Beyond Its Statutory Term*.

⁷⁸ Feb. 26 Tr. at 270 (Earp) (citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (“[C]onditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent does amount to patent misuse.”)); *see also* Nov. 6 Tr. at 157 (Fromm) (advocating for heightened scrutiny of a reach-through agreement when a patentee receives royalties on an unpatented item).

⁷⁹ Nov. 6 Tr. at 163 (Fromm); *see also* *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964) (“[A] patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*.”).

⁸⁰ Nov. 6 Tr. at 162-63 (Shapiro); *cf. Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (“The duration of the patent fixes the limit of the patentee’s power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time.”), *cert. denied*, 537 U.S. 1109 (2003); *see also* Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No’s Meet the Nineties*, 1997 BROOKINGS PAPERS ON ECON. ACTIVITY, MICROECONOMICS 283, 322 (permitting royalties to be paid over a longer period can reduce the deadweight loss from the patent monopoly); *infra* Chapter 6, *Competitive Issues Regarding Practices That Extend the Market Power Conferred by a Patent Beyond Its Statutory Term* Part I.

metering, which antitrust law has generally treated favorably because it “tends to disseminate technology [often more broadly] than a single price.”⁸¹ Indeed, in 2002 one federal trial court found no patent misuse when a reach-through licensing agreement provided for royalties based on products not covered by the patent and allowed for the collection of royalties beyond the term of the patent, because the agreement was structured for the convenience of the parties and was valued based on the patent’s actual term.⁸²

V. PERSPECTIVES ON ANTITRUST ANALYSIS OF LICENSING PRACTICES

Panelists debated several analytical approaches for evaluating competitive concerns raised by the licensing practices discussed in this Chapter, particularly with respect to non-assertion clauses and grantbacks. One panelist, for example, advocated an assessment of likely competitive effects in both the relevant product and innovation markets.⁸³

⁸¹ Nov. 6 Tr. at 171 (Rule); *see also* Mueller, 76 WASH. L. REV. at 62 (“A reach-through license agreement merely time-shifts the royalty payments to the period when they are most accurately indicating the research tool’s true value to the user.”).

⁸² *Bayer AG v. Housey Pharms., Inc.*, 228 F. Supp. 2d 467, 471-72 (D. Del. 2002). *But see* Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 448 (2003) (“Patent misuse rules based on whether the agreement is voluntary fail to recognize that an agreement may be in the interests of both parties and yet be adverse to the interests of the patent system as a whole.”) (footnote omitted).

⁸³ Nov. 6 Tr. at 139 (McFalls) (“[T]he focus . . . has to return to what’s the actual effect going to be on the grantor of a non-assert’s incentive to innovate, and are they an important innovator in the product market in which that entry could occur, and are you

Although other participants agreed that such an analysis would be desirable, they questioned whether it would always be practical.⁸⁴ Another panelist proposed the use of a market power screen, asking “do the firms entering into this agreement jointly have market power?”⁸⁵ Consideration of market structure, market power, and complementarities can, according to the panelist, lead to a correct assessment of parties’ incentives for efficient rather than anticompetitive conduct or vice-versa.⁸⁶

Panelists suggested that market power is not always easy to determine, however.⁸⁷ One participant therefore advocated applying the ancillary restraints doctrine to assess a potentially anticompetitive provision as “a heuristic kind of approach” that “establishes certain rules that are administrable and somewhat easy to understand and apply at the time you’re doing an agreement.”⁸⁸ Another panelist found the doctrine to be unhelpful in some cases, when there are no restrictions on the use of the technology, as is the case for a mutual or one-way non-assertion agreement.⁸⁹ Other panelists desired more definite

going to lose product differentiation or value to consumers at the end of this long road.”).

⁸⁴ *Id.* at 140 (Farrell); *id.* at 141-42 (Rule); *id.* at 142-43 (Fromm).

⁸⁵ *Id.* at 131 (Farrell).

⁸⁶ *Id.* at 132 (Farrell).

⁸⁷ Nov. 6 Tr. at 136 (Fromm) (stating market power is difficult to measure); *see also id.* at 134-35 (Ordovery) (focusing on the question of appropriate markets in which to measure market power).

⁸⁸ *Id.* at 141 (Rule).

⁸⁹ *Id.* at 138 (McFalls).

guidance, such as specific factors to consider when structuring a licensing agreement or practices that raise “red flags” or provide “green lights.”⁹⁰ Using a grantback as an example, one panelist proposed several shortcuts, inquiring whether the grantback is “beyond the duration of the license” or “relating to products that are only marginally related to the initial licensed technology” or if it is exclusive.⁹¹ This panelist conceded, however, that defining such shortcuts would be difficult because “at this stage [we are] still looking for answers.”⁹² Another panelist asserted that fixed rules are not the best answer, pointing to the abandonment of the “Nine No-Nos” by the Department of Justice.⁹³

⁹⁰ *Id.* at 145 (Ordovery); *see also id.* at 143 (Fromm) (“[I]s the grantback or . . . non-assert provision significantly more extensive than the forward-going [license].”); Jeffrey Fromm, *Patent Pools and Cross-Licensing* (Apr. 17, 2002 Hr’g R.) at 8-9 (proposing a rule of presumptive legality for portfolio cross licenses which could be overcome in certain circumstances), <http://www.ftc.gov/opp/intellect/020417jefferyfromm.pdf>.

⁹¹ Nov. 6 Tr. at 145 (Ordovery).

⁹² *Id.*

⁹³ *Id.* at 147 (Rule); *see also* Bruce B. Wilson, Deputy Assistant Attorney Gen., U.S. Dep’t of Justice, Patent and Know-How License Agreements: Field of Use, Territorial, Price and Quantity Restrictions, Remarks Before the Fourth New England Antitrust Conference (Nov. 6, 1970), *reprinted in* ANTITRUST PRIMER: PATENTS, FRANCHISING, TREBLE DAMAGE SUITS 11 (describing the patent licensing practices covered by the Nine No-Nos); Abbott B. Lipsky, Jr., Deputy Assistant Attorney Gen., U.S. Dep’t of Justice, Current Antitrust Division Views on Patent Licensing Practices, Remarks Before the American Bar Association Antitrust Section (Nov. 5, 1981), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,129 (abandoning application of the Nine No-Nos).

VI. THE AGENCIES' COMPETITIVE CONCERNS AND ANALYSES

The Agencies generally agree with the panelists' conclusions that fixed antitrust rules in intellectual property licensing are often difficult to articulate⁹⁴ and are not necessarily desirable.⁹⁵ To evaluate whether a particular restraint is likely to have anticompetitive effects pursuant to the rule of reason, the Agencies ask whether the restraint is likely to diminish competition in a properly defined market "among entities that would have been actual or likely potential competitors" in the absence of that restraint.⁹⁶ Pursuant to a rule of reason analysis, the Agencies consider the anticompetitive concerns and the efficiencies of the particular arrangement.⁹⁷ In general, the Agencies expect that non-assertion agreements, grantbacks, and reach-through licenses either will not raise any competitive concerns or that the efficiencies of these types of agreements will be sufficient to alleviate competitive concerns. Several

factors will be particularly relevant to the Agencies' examination of these licensing practices, including (1) whether the patent holder possesses market power in the relevant market, (2) whether the practice encourages unlawful coordination among competitors, (3) whether the practice inhibits entry of other firms through the licensing regime's exclusivity or exclusion, and (4) whether the practice reduces the incentive to innovate in the future.⁹⁸

As a threshold matter, the Agencies do "not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner" because intellectual property rights are not necessarily associated with market power.⁹⁹ A patent, for example,

may create a monopoly – just as an auto manufacturer *may* own all of the auto production facilities – but property and monopoly usually differ. That a patent covers an "entire" idea or product no more implies monopoly than the fact that USX Corporation owns the "entire" South Works in Chicago. Frequently, indeed almost always, different patented goods and processes compete with each other

⁹⁴ See Nov. 6 Tr. at 145 (Ordovery).

⁹⁵ *Id.* at 147, 187 (Rule); see also *id.* at 185 (Shapiro).

⁹⁶ See ANTITRUST-IP GUIDELINES § 3.1 & n.14 ("A firm will be treated as a likely potential competitor if there is evidence that entry by that firm is reasonably probable in the absence of the licensing agreement."); U.S. DEP'T OF JUSTICE & FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR COLLABORATIONS AMONG COMPETITORS § 3.1 (2000), reprinted in 4 Trade Reg. Rep. (CCH) ¶ 13,161 ("Under the rule of reason, the central question is whether the relevant agreement likely harms competition by increasing the ability or incentive profitably to raise price above or reduce output, quality, service, or innovation below what likely would prevail in the absence of the relevant agreement."), available at <http://www.ftc.gov/os/2000/04/ftcdojguidelines.pdf>.

⁹⁷ ANTITRUST-IP GUIDELINES § 3.4.

⁹⁸ See *id.* § 3.2.3 (considering future innovation); *id.* § 4.1.2 (discussing licensing arrangements involving exclusivity); *id.* § 5.5 (considering portfolio cross licenses and patent-pooling arrangements); *id.* § 5.6 (discussing grantbacks). See generally *id.* § 3.1.

⁹⁹ *Id.* § 2.2; see also *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1293 (2006) ("Congress, the antitrust enforcement agencies, and most economists have all reached the same conclusion that a patent does not necessarily confer market power upon the patentee.").

and with unpatented goods and processes.¹⁰⁰

For this reason, “the antitrust agencies determine whether a patent owner possesses market power by applying the same analysis that they apply to any other valuable asset, which requires the consideration of possible substitutes that might allow consumers to turn to other suppliers of a similar product or process.”¹⁰¹ Consistent with this approach, in *Illinois Tool*, the U.S. Supreme Court recently held that market power cannot be presumed based on the existence of a patent.¹⁰² Equally important is the notion that, “[i]f a patent or other form of intellectual property does confer market power, that market power does not by itself offend the antitrust laws.”¹⁰³ Market power that is “solely ‘a consequence of . . . superior product, business acumen, or historic accident’” does not create competition concerns.¹⁰⁴ Efficiently exploiting the market power that might be associated with an intellectual property right is likely reasonable conduct under the Agencies’ framework, provided that

market power is legitimately obtained and maintained.¹⁰⁵

Although efficient exploitation of the market power associated with an intellectual property right is likely reasonable and procompetitive activity, the licensing of intellectual property rights can involve coordination, especially if a license includes restrictions on the use of the intellectual property rights. Coordination between or among intellectual property holders on one aspect of competition may provide a means or opportunity for coordination on other aspects of competition, such as downstream price or output.¹⁰⁶ Sometimes competitive concerns arise not from the underlying arrangement itself, but rather from attendant restrictions that may facilitate coordination on price or other competitive variables.¹⁰⁷

In addition, exclusivity could raise competitive concerns if, for example, firms agreed to limit their granting of non-assertion clauses to each other,

¹⁰⁰ Frank H. Easterbrook, *Intellectual Property is Still Property*, 13 HARV. J.L. & PUB. POL’Y 108, 109 (1990).

¹⁰¹ Brief for the United States as Amicus Curiae Supporting Petitioners at 13-14, *Ill. Tool*, 126 S. Ct. 1281 (No. 04-1329), available at <http://www.usdoj.gov/osg/briefs/2005/3mer/1ami/2004-1329.mer.ami.pdf>; ANTITRUST-IP GUIDELINES §§ 2.1, 2.2. The existence of substitute inputs for the patented input that could be used as a work-around when producing the final product may also be relevant to the Agencies’ analysis.

¹⁰² *Ill. Tool*, 126 S. Ct. at 1293.

¹⁰³ ANTITRUST-IP GUIDELINES § 2.2.

¹⁰⁴ *Id.* (citing *United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966)).

¹⁰⁵ See *id.* §§ 2.2, 3.4.

¹⁰⁶ See *id.* § 5.5 (“Collective price or output restraints in pooling arrangements, such as the joint marketing of pooled intellectual property rights with collective price setting or coordinated output restrictions, may be deemed unlawful if they do not contribute to an efficiency-enhancing integration of economic activity among the participants.”); *supra* Chapter 3, *Antitrust Analysis of Portfolio Cross-Licensing Agreements and Patent Pools* Part III.D.5.

¹⁰⁷ See ANTITRUST-IP GUIDELINES § 5.5; Nov. 6 Tr. at 116-17 (Rule) (“[P]otentially the big issue is—and this really goes to consumers in many ways—are the restrictions that come along with the cross-licensing and the pooling [agreements] . . . [I]t is something that . . . lawyers, when they look at these problems, are particularly concerned about as opposed to the question of whether to enter into that agreement, *per se.*”).

precluding other competitors from receiving such protection from infringement suits by the parties to the agreement. An exclusive reach-through licensing agreement might also raise competitive concerns if it has a substantial impact on the ability of other competitors to innovate.¹⁰⁸ Of course, the Agencies recognize that exclusivity can have desirable effects on competition and innovation, by, for example, encouraging investment in the research, development, and marketing of a product created with the licensed technology.¹⁰⁹ Thus, when analyzing a particular license requiring exclusivity, the Agencies weigh such efficiencies against any anticompetitive effects.¹¹⁰

Finally, certain licensing practices could impede innovation. If a license includes restrictions on patents that have yet to be issued or filed, competitive concerns could arise about the arrangement's likely effect on future innovation. Scholars have expressed concern about grantbacks that require the licensee to assign all rights to improvements to the grantor, thereby potentially reducing the licensee's incentives to improve the patented technology.¹¹¹ Non-assertion clauses that are the functional equivalent of broadly worded grantbacks could raise similar concerns.

In contrast, the Agencies may find that a situation such as the "royalty stacking" generated by multiple reach-through licensing agreements does not raise antitrust concerns even when it might impede innovation. In some cases, licenses on multiple patents, each requiring payment of a royalty, are legitimately required to innovate, develop, or commercialize a new product. However, assuming no anticompetitive conduct and that the patents at issue are legitimate, the mere fact that the cumulative cost of the licenses might impede innovation is not an antitrust issue. In this context, the antitrust laws permit a single IP holder with a desirable intellectual property asset to extract as much return as the market will bear for the use of that property.¹¹²

Moreover, according to panelists, it is often not clear that the cost of royalties arising from reach-through licensing agreements will be excessive, such that it impedes innovation or otherwise causes competitive harm. The royalty that an upstream firm may charge for use of a patented research tool will be

¹⁰⁸ Sections 4.1.2 and 5.4 of the ANTITRUST-IP GUIDELINES outline the analysis relevant to both exclusivity and exclusion in the context of the types of arrangements discussed in this Chapter.

¹⁰⁹ ANTITRUST-IP GUIDELINES § 2.3.

¹¹⁰ *Id.* §§ 3.4, 4.1.2.

¹¹¹ See *supra* notes 50-53 and accompanying text.

¹¹² See, e.g., R. Hewitt Pate, Assistant Attorney Gen., U.S. Dep't of Justice, Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust, Address Before the 2005 EU Competition Workshop 8-9 (June 3, 2005), available at <http://www.usdoj.gov/atr/public/speeches/209359.pdf>; Gerald F. Masoudi, Deputy Assistant Attorney Gen., U.S. Dep't of Justice, Intellectual Property and Competition: Four Principles for Encouraging Innovation, Address Before the Digital Americas 2006 Meeting 7-8 (April 11, 2006), available at <http://www.usdoj.gov/atr/public/speeches/215645.pdf>; *Schor v. Abbott Labs.*, 457 F.3d 608, 610 (7th Cir. 2006) (Easterbrook, J.) ("[Absent some exclusionary practice,] [t]he price of [a patented product] cannot violate the Sherman Act: a patent holder is entitled to charge whatever the traffic will bear."); see also ANTITRUST-IP GUIDELINES § 2.2.

limited by the downstream firm's willingness to pay. That willingness will reflect the value of the patent to the downstream firm, and includes considerations such as the probability that the patent would be found invalid or unenforceable, as well as the difficulty of detecting infringement. The Agencies' rule of reason analysis, applied to particular facts, may well indicate that anticompetitive harm would not arise from a reach-through licensing agreement,¹¹³ in which case the Agencies would not challenge the agreement.¹¹⁴

VII. CONCLUSION

Panelists generally agreed that the various licensing practices discussed in this Chapter can provide great efficiencies to the contracting parties that would ultimately benefit consumers, but also that each licensing practice has the potential to stymie innovation and weaken competition among firms. These countervailing effects complicate an antitrust analysis, especially because procompetitive benefits and anticompetitive effects can be difficult to unravel, and may or may not be present in any individual case. Indeed, the competitive effects of certain licensing practices are not obvious – an example is the reach-through license, where the harm may not be apparent simply by examining the four corners of the agreement. Most panelists recognized that the Agencies are not in a position immediately to decipher possible procompetitive benefits and

anticompetitive effects or to provide fixed rules that work efficiently in every case. Although “red flags” and “green lights” may be easy to apply, many panelists found them considerably less desirable than the Agencies' current approach based on principled economics.¹¹⁵

The Agencies will continue to apply the flexible framework set forth in the Antitrust-IP Guidelines and to evaluate each licensing practice individually with particular focus on whether it “harms competition among entities that would have been actual or likely potential competitors in a relevant market in the absence of the license.”¹¹⁶ The Agencies will analyze the agreements discussed in this Chapter pursuant to the rule of reason.¹¹⁷

¹¹³ See *supra* Part IV.

¹¹⁴ ANTITRUST-IP GUIDELINES § 4.2.

¹¹⁵ See, e.g., Nov. 6 Tr. at 147, 187 (Rule); *id.* at 185 (Shapiro).

¹¹⁶ ANTITRUST-IP GUIDELINES § 3.1; see also *id.* §§ 3.3, 3.4.

¹¹⁷ *Id.* § 3.4. However, the Agencies may challenge a license restraint under the *per se* rule if “there is no efficiency-enhancing integration of economic activity and if the type of restraint is one that has been accorded *per se* treatment . . .” *Id.*; see also *id.* § 3.4 ex.7 (explaining that the Agencies may challenge a licensing agreement under the *per se* rule when it is “a sham intended to cloak [the] true nature” of the arrangement).