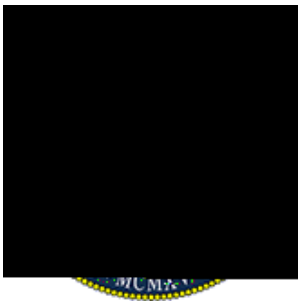

Antitrust Guidelines for the Licensing of Intellectual Property

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and the
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copyright does not preclude others from independently creating similar expression. Trade secret protection applies to information whose economic value depends on its not being generally known.[10] Trade secret protection is conditioned upon efforts to maintain secrecy and has no fixed term. As with copyright protection, trade secret protection does not preclude independent creation by others.

The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare.[11] The intellectual property laws provide incentives for innovation and its dissemination and commercialization by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression. In the absence of intellectual property rights, imitators could more rapidly exploit the efforts of innovators and investors without providing compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers. The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.

2 General Principles

2.0 These Guidelines embody three general principles: (a) for the purpose of antitrust antdn, Td(6(n)2.2(s)-1.3( )1

The Agencies recognize that the licensing of intellectual property is often global. Consideration of whether the U.S. antitrust laws apply to such intellectual property-related conduct and whether international comity or the involvement of a foreign government counsels against investigation or enforcement may be necessary.[14] When the Agencies determine that a sufficient nexus to the United States exists to apply the antitrust laws and that considerations of international comity and foreign government involvement do not preclude investigation or enforcement, the principles of antitrust analysis described in these Guidelines apply equally to all licensing arrangements.

2.2 Intellectual Property and Market Power

Market power is the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time.[15] The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual pro

maintained that power, the owner could still engage in anticompetitive conduct in connection with such property.

2.3 Procompetitive Benefits of Licensing

Intellectual property typically is one component among many in a production process and derives value from its combination with complementary factors. Complementary factors of production include manufacturing and distribution facilities, workforces, and other items of intellectual property. The owner of intellectual property has to arrange for its combination with other necessary factors to realize its commercial value. Often, the owner finds it most efficient to contract with others for these factors, to sell rights to the intellectual property, or to enter into a joint venture arrangement for the development of the intellectual property, rather than supplying these complementary factors itself.

Licensing, cross-licensing, or otherwise transferring intellectual property (hereinafter "licensing") can facilitate integration of the licensed property with complementary factors of production. This integration can lead to more efficient exploitation of the intellectual property, benefiting consumers throughturomog6(r)-18(s)-4.37d( )10.( )]TJ(f)2.70.7(m)1.iL(f)2.7(S5.2(6)-2.8 m1)13.tg-1.5(,(t)- 8(l)1f th)3

property and to develop additional applications for the licensed property. The restrictions may do so, for example, by protecting the licensee against free riding on the licensee's investments by other licensees or by the licensor. They may also increase the licensor's incentive to license, for example, by protecting the licensor from competition in the licensor's own technology in a market niche that it prefers to keep to itself. These benefits of licensing restrictions apply to patent, copyright, and trade secret licenses, and to know-how agreements.

Example 1[19]

Situation: ComputerCo develops a new, copyrighted software program for inventory management. The program has wide application in the health field. ComputerCo licenses the program in an arrangement that imposes both field of use and territorial limitations. Some of ComputerCo's licenses permit use only in hospitals; others permit use only in group medical

or price-fixing for any product or service supplied by the licensees.[21] If the license agreements contained any such provision, the Agency evaluating the arrangement would analyze its likely competitive effects as described in parts 3-5 of these Guidelines.

In this hypothetical, there are no such provisions and thus the licensing arrangement does not appear likely to harm competition among entities that would have been actual or potential competitors if ComputerCo had chosen not to license the software program. The arrangeone8l7(e)-6(6(i)-eif601

harms competition among entities that would have been actual or potential competitors[27] in a relevant market in the absence of the license (entities in a “horizontal relationship”). A restraint in a licensing arrangement may harm such competition, for example, if it facilitates market division or price-fixing. In addition, license restrictions with respect to one market may harm such competition in another market by antico

final or intermediate goods made using the intellectual property, or it may have effects upstream, in markets for goods that are used as inputs, along with the intellectual property, to the production of other goods. In general, for goods markets affected by a licensing arrangement, the Agencies will approach the delineation of relevant market and the measurement of market share as in sections 4 and 5 of the U.S. Department of Justice and Federal Trade Commission Horizontal Merger Guidelines.[31]

3.2.2 Technology Markets

Technology markets consist of the intellectual property that is licensed (the "licensed technology") and its close substitutes—that is, the technologies or goods that are close enough substitutes to constrain significantly the exercise of market power with respect to the intellectual property that is licensed.[32] When rights to intellectual property are marketed separately from the products in which they are used,[33] the Agencies may analyze the competitive effects of a licensing arrangement in a technology market.[34]

Example 2

Situation: Firms Alpha and Beta independently develop different patented process technologies to manufacture the same off-patent drug for the treatment of a particular disease. Before the firms use their technologies internally or license them to third parties, they announce plans jointly to manufacture the drug, and to assign their manufacturing processes to the new manufacturing venture. Many firms are capable of using and have the incentive to use the

[31] U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, HORIZONTAL MERGER GUIDELINES (2010),

licensed technologies to manufacture and distribute the drug; thus, the market for drug manufacturing and distribution is competitive.

Discussion: To evaluate the competitive effects and delineate a relevant market, the Agencies will identify a technology's close substitutes. The Agencies will, if the data permit, ide

and goods[42] that significantly constrain the exercise of market power with respect to the relevant research and development, for example by limiting the ability and incentive of a hypothetical monopolist to reduce the pace of research and development. The Agencies will delineate a research and development market only when the capabilities to engage in the relevant research and development can be associated with specialized assets or characteristics of specific firms.

In assessing the competitive significance of current and potential participants in a research and development market, the Agencies will take into account all relevant evidence0 Tw -30.32nt evd dsssrl-216.1(.3(e

Discussion: The Agency would analyze the proposed research and development joint venture using an analysis similar to that applied to other joint ventures.[43]

In this case, the Agency would assess whether the joint venture is likely to have anticompetitive effects. The Agency would seek to identify any other entities that would be actual or potential competitors with the joint venture in a relevant market. This would include those firms that have the capability and incentive to undertake research and development closely substitutable for the research and development proposed to be undertaken by the joint venture, taking into account such firms' existing technologies and technologies under development, R&D facilities, and other relevant assets and business circumstances. Firms possessing such capabilities and incentives would be included in a research and development market even if they are not competitors in relevant markets for related goods, such as the plastics currently produced by the parties to the joint venture, although competitors in existing goods markets may often also compete in related research and development markets.

The Agency would consider the degree of concentration in the relevant research and development market and laths gE(s)12.eh-1.5(&)-3.8(D)5.3lse3(m)7.5(en)5.3(1b)7.5e3(m)719(o)-3.61ndf50.6(15

consider efficiency justifications for the venture, such as the potential for combining complementary R&D assets in such a way as to make successful innovation more likely, or to bring it about sooner, or to achieve cost reductions in research and development.

restraint under the rule of reason is to inquire whether the restraint is likely to have anticompetitive effects and, if so, whether the restraint is reasonably necessary to achieve procompetitive benefits that outweigh those anticompetitive effects.[45]

In some cases, however, courts have concluded that a restraint's "nature and necessary effect are so plainly anticompetitive" that it should be treated as unlawful per se, without an elaborate inquiry into the restraint's likely competitive effect.[46] Among the restraints that have been held per se unlawful are naked price-fixing, output restraints, and market division among horizontal competitors, as well as certain group boycotts.

To determine whether a particular restraint in a licensing arrangement is given per se or rule of reason treatment, the Agencies will assess whether the restraint in question can be expected to contribute to an efficiency-enhancing integration of economic activity.[47] In general, licensing arrangements promote such integration because they facilitate the combination of the licensor's intellectual property with complementary factors of production owned by the licensee.

looking to the circumstances, details, and logic of a restraint."[50] If the Agencies conclude that a restraint has no likely anticompetitive effects, they will treat it as reasonable, without an elaborate analysis of market power or the justifications for the restraint. Similarly, if a restraint facially appears to be of a kind that would always or almost always tend to reduce output or increase prices, and the restraint is not reasonably related to efficiencies, the Agencies will likely challenge the restraint without an elaborate analysis of particular industry circumstances.[51]

Example 6

Situation: Gamma, which manufactures Product X using its patented process, offers a license for its process technology to every other manufacturer of Product X, each of which competes worldwide with Gamma in the manufacture and sale of X. The process technology does not

arrangement does not involve a useful transfer of technology, and thus it is unlikely that the restraint on sales outside the designated territories contributes to an efficiency-enhancing integration of economic activity. Consequently, the evaluating Agency would be likely to challenge the arrangement under the per se rule as a horizontal territorial market allocation scheme and to view the intellectual property aspects of the arrangement as a sham intended to cloak its true nature.

If the licensing arrangement could be expected to contribute to an efficiency-enhancing integration of economic activity, as might be the case if the licensed technology were an advance over existing processes and used by the licensees, the Agency would analyze the arrangement under the rule of reason applying the analytical framework described in this

the difficulty of entry into, and the responsiveness of supply and demand to changes in price in the relevant markets.[52]

When the licensor and licensees are in a vertical relationship, the Agencies will analyze whether the licensing arrangement may harm competition among entities in a horizontal relationship at either the level of the licensor or the licensees, or possibly in another relevant market. Harm to competition from a restraint may occur if it anticompetitively forecloses access to, or increases competitors' costs of obtaining, important inputs, or facilitates coordination to raise price or restrict output. The risk of anticompetitively foreclosing access or increasing competitors' costs is related to the proportion of the markets affected by the licensing restraint; other characteristics of the relevant markets, such as concentration, difficulty of entry, and the responsiveness of supply and demand to changes in price in r(a)-3.3i-0.004 Tc 5.2(s)1r9e9(i)-a2 iB4.6( )1 i(60.6E(2

the technology itself. Generally, such exclusive licenses may raise antitrust concerns only if there is a horizontal relationship among licensors, or among licensees, or between the licensor and its licensee(s). Examples of arrangements involving exclusive licensing that may give rise to antitrust concerns include cross-licensing by competitors that collectively possess market power, grantbacks, and acquisitions of intellectual property rights.[53]

A non-exclusive license of intellectual property that does not contain any restraints on the competitive conduct of the licensor or the licensee generally does not present antitrust concerns. That principle holds true even if the parties to the license are in a horizontal relationship, because the non-exclusive license normally does not diminish competition that would occur in its absence.

A second form of exclusivity, exclusive dealing, arises when a license prevents or restrains the licensee from licensing, selling, distributing, or using competing technologies.[54] Exclusivity may be achieved by an explicit exclusive dealing term in the license or by other provisions such as compensation terms or other economic incentives. Such restraints may anticompetitively foreclose access to, or increase competitors' costs of obtaining, important inputs, or facilitate coordination to raise price or reduce output. But they also may have procompetitive effects. For example, a licensing arrangement that prevents the licensee from dealing in other technologies may encourage the licensee to develop and market the licensed technology or specialized applications of that technology.[55] The Agencies will take into account such procompetitive effects in evaluating the reasonableness of the arrangement.[56]

The antitrust principles that apply to a licensor's grant of various forms of exclusivity to and among its licensees are similar to those that apply to comparable vertical restraints outside the licensing context, such as exclusive territories and exclusive dealing. However, the fact that intellectual property may in some cases be misappropriated more easily than other forms of property may justify the use of some restrictions that might be anticompetitive in other contexts.

As noted earlier, the Agencies will focus on the actual practice and its effects, not on the formal terms of the arrangement. A license denominated as non-exclusive (either in the sense of

[53] *See* sections 5.5, 5.6, and 5.7.
[54] *See* section 5.4.
[55] *See, e.g.*, Example 7.
[56] *See* section 4.2.

exclusive licensing or in the sense of exclusive dealing) may nonetheless give rise to the same concerns posed by formal exclusivity. A non-exclusive license may have the effect of exclusive licensing if it is structured so that the licensor is unlikely to license others or to practice the technology itself. A license that does not explicitly require exclusive dealing may have the effect of exclusive dealing if it is structured to increase significantly a licensee's cost when it uses competing technologies. However, a licensing arrangement will not automatically raise these concerns merely because a party chooses to deal with a single licensor or licensee, or confines its activity to a single field of use or location, or because only a single licensee has chosen to take a license.

Example 7

Situation: NewCo, the inventor and manufacturer of a new flat panel display technology, lacking the capability to bring a flat panel display product to market, grants BigCo an exclusive license to sell a product embodying NewCo's technology. BigCo does not currently sell, and is not developing (or likely to develop), a product that would compete with the product embodying the new technology and does not control rights to another display technology. Several firms offer competing displays, BigCo accounts for only a small proportion of the outlets for distribution of display products, and entry into the manufacture and distribution of display products is relatively easy. Demand for the new technology is uncertain and successful market penetration will require considerable promotional effort. The license contains an exclusive dealing restriction preventing BigCo from selling products that compete with the product embodying the licensed technology.

Discussion: This example illustrates both types of exclusivity in a licensing arrangement. The license is exclusive in that it limits the ability of the licensor to grant other licenses. In addition, the license has an exclusive dealing component in that it restricts the licensee from selling competing products.

The inventor of the display technology and its licensee are in a vertical relationship and are not actual or potential competitors in the manufacture or sale of display products or in the sale or development of technology. Hence, the grant of an exclusive license does not affect competition between the licensor and the licensee. The exclusive license may promote competition in the

new product in the face of uncertain demand by rewarding BigCo for its efforts if they lead to large sales. Although the license bars the licensee from selling competing products, this exclusive dealing aspect is unlikely in this example to harm competition by anticompetitively foreclosing access, raising competitors' costs of inputs, or facilitating anticompetitive pricing because the relevant product market is unconcentrated, the exclusive dealing restraint affects only a small proportion of the outlets for distribution of display products, and entry is easy. On these facts, the evaluating Agency would be unlikely to challenge the arrangement.

4.2 Efficiencies and Justifications

If the Agencies conclude, upon an evaluation of the market factors described in section 4.1, that a restraint in a licensing arrangement is unlikely to have an anticompetitive effect, they will not challenge the restraint. If the Agencies conclude that the restraint has, or is likely to have, an anticompetitive effect, they will consider whether the restraint is reasonably necessary to achieve procompetitive efficiencies. If the restraint is reasonably necessary, the Agencies will balance the procompetitive efficiencies and the anticompetitive effects to determine the probable net effect on competition in each relevant market.

The Agencies' comparison of anticompetitive harms and procompetitive efficiencies is necessarily a qualitative one. The risk of anticompetitive effects in a particular case may be insignificant compared to the expected efficiencies, or vice versa. As the expected anticompetitive effects in a particular licensing arrangement increase, the Agencies will require evidence establishing a greater level of expected efficiencies.

The existence of practical and significantly less restrictive alternatives is relevant to a determination of whether a restraint is reasonably necessary. If it is clear that the parties could have achieved similar efficiencies by means that are significantly less restrictive, then the Agencies will not give weight to the parties' efficiency claim. In making this assessment, however, the Agencies will not engage in a search for a theoretically least restrictive alternative that is not realistic in the practical prospective business situation faced by the parties.

When a restraint has, or is likely to have, an anticompetitive effect, the duration of that restraint can be an important factor in determining whether it is reasonably necessary to achieve the putative procompetitive efficiency. The effective duration of a restraint may depend on a number of factors, including the option of the affected party to terminate the arrangement

restraint is not facially anticompetitive and (2) there are four or more independently controlled technologies in addition to the technologies controlled by the parties to the licensing

in the safety zone is based on

Agencies will analyze vertical price restrictions in licensing agreements on a case-by-case basis, evaluating the competitive benefits and harms from such agreements.[65] Agreements constituting a horizontal cartel will be considered per se illegal.[66]

5.3 Tying Arrangements

A "tying," "tie-in," or "tied sale" arrangement has been defined as "an agreement by a party to sell one product . . . on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that [tied] product from any other supplier."[67] Conditioning the ability of a licensee to license one or more items of intellectual property on the licensee's purchase of another item of intellectual property or a good or a service has been held in some cases to constitute illegal tying.[68] Although tying arrangements may result in anticompetitive effects, such arrangements can also result in significant efficiencies a(63g)-1h6(63g)-1h2.3(rc)-2(l

Pooling arrangements generally need not be open to all who would like to join. However, exclusion from cross-licensing and pooling arrangements among parties that collectively possess market power may, under some circumstances, harm competition.[78] In general, exclusion from a

market.[84] In addition, the Agencies will consider the extent to which grantback provisions in the relevant markets generally increase licensors' incentives to innovate in the first place.

5.7 Acquisition of Intellectual Property Rights

Certain transfers of intellectual property rights are most appropriately analyzed by applying the principles and standards used to analyze mergers, particularly those in the 2010 Horizontal Merger Guidelines. The Agencies will apply a merger analysis to an outright sale by an intellectual property owner of all of its rights to that intellectual property and to a transaction in which a person obtains through grant, sale, or other transfer an exclusive license for intellectual property (i.e., a license that precludes all other persons, including the licensor, from using the licensed intellectual property).[85] Such transactions may be assessed under section 7 of the Clayton Act, sections 1 and 2 of the Sherman Act, and section 5 of the Federal Trade Commission Act. [86]

Example 10

Situation: Omega develops a new, patented pharmaceutical for the treatment of a particular disease. The only drug on the market approved for the treatment of this disease is sold by Delta. Omega's patented drug has almost completed regulatory approval by the Food and Drug Administration. Omega has invested considerable sums in product development and market testing, and initial results show that Omega's drug would be a significant competitor to Delta's. However, rather than enter the market as a direct competitor of Delta, Omega licenses to Delta the right to manufacture and sell Omega's patented drug. The license agreement with Delta is nominally nonexclusive. However, Omega has rejected all requests by other firms to obtain a license to manufacture and sell Omega's patented drug, despite offers by those firms of terms that are reasonable in relation to those in Delta's license.

Discussion:

firms for licenses to manufacture and sell Omega's patented drug. The facts of this example indicate that Omega, or Omega's licensee, would be a potential competitor of Delta in the absence of the licensing arrangement, and thus the firms are in a horizontal relationship in the relevant goods market that includes drugs for the treatment of this particular disease. The evaluating Agency would apply a merger analysis to this transaction, since it involves an acquisition of a potential competitor.

6 Invalid or Unenforceable Intellectual Property Rights

The Agencies may challenge the enforcement of invalid intellectual property rights as antitrust violations. Enforcement or attempted enforcement of a patent obtained by fraud on the Patent and Trademark Office may violate section 2 of the Sherman Act or section 5 of the Federal Trade Commission Act, if all the elements otherwise necessary to establish a charge are proved.[87]

the Federal Trade Commission Act.[89] In addition, sham litigation to enforce intellectual property rights may also constitute an element of a violation of the Sherman Act.[90]

[89] *See Am. Cyanamid Co.*, 72 F.T.C. at 684.
[90] *See* Prof