

# Berkeley Journal of International Law

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Volume 13 | Issue 1

Article 1

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1995

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### Recommended Citation

Howard W. Fogt Jr. and Ilene Knable Gotts, *The Antitrust and Technology Transfer Licensing Interface: A Comparative Analysis of Current Developments*, 13 INT'L TAX & BUS. LAW. 1 (1995).

Available at: <http://scholarship.law.berkeley.edu/bjil/vol13/iss1/1>

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# The Antitrust and Technology Transfer Licensing Interface: A Comparative Analysis of Current Developments†

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Current interest in the antitrust implications of arrangements involving intellectual property rights in the United States raises the prospect of increased and more restrictive standards of analysis for intellectual property transfers. Indeed, it appears that actions by the U.S. Federal Trade Commission ("FTC") and the Antitrust Division of the U.S. Department of Justice ("DOJ")—the two federal agencies charged with enforcement of the U.S. antitrust laws—signify increased activism by the federal enforcement agencies in intellectual property matters. Evidence of such activism includes (1) massive, extended investigations into the marketing and business practices of companies such as MicroSoft and Intel, which have extensive intellectual property rights and important national security resources, (2) challenges to proposed acquisitions including the transfer of pervasive intellectual property rights, and (3) more strident rhetoric in speeches and press statements by leading enforcement officials.<sup>1</sup>

While the underlying focus on market power remains the same in recent years, and while there has been no evidence of a return to the "incipiency" standards that triggered enforcement action in the 1960s and 1970s, one common thread in the "new" enforcement activity is skepticism whether market forces should be left free of government intervention. The concern is that companies, if left unchecked, will misuse the potential market power available under intel-

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† An earlier version of this article, focusing on the conflict under United States antitrust and intellectual property licensing laws, was published in Vol. 22, No. 1 of the *AIPLA Q.L.J.* (1994).

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1. For instance, Assistant Attorney General Anne K. Bingaman announced in January 1994 the formation of a special task force headed by Deputy Assistant Attorney General Richard Gilbert to consider the appropriate treatment of intellectual property in antitrust matters. The task force, published for comment in the federal register, on August 11, 1994, proposed Antitrust Guidelines for the Licensing and Acquisition of Intellectual Property.

lectual property laws to eliminate competition or extend market power beyond lawful limits. In certain of these investigations, the federal agencies have reconfigured or blocked the proposed transfer.

Companies undertaking intellectual property transfers should be ready to address the heightened concern of the federal government. We expect more aggressive, interventionist antitrust enforcement in the months and years ahead. In order to put this new risk into the proper context, this article will discuss: (1) the jurisdiction of federal enforcement agencies; (2) applicable antitrust principles and trends in antitrust enforcement activities; and (3) recent enforcement activities by both the FTC and DOJ that affect the exercise of intellectual property rights.

Despite the announced "tougher" enforcement standards and actions, one continues to believe that the standards by which intellectual property arrangements will be judged are more evolutionary than revolutionary in character. In comparing enforcement trends and procedures in other jurisdictions—the European Union (the "EU") for example—there is, at least in some generalized respects, a great deal of consensus—rather than divergence—about the proper antitrust standards to be applied to such arrangements.

## I.

### FEDERAL ANTITRUST JURISDICTION IS FAR-REACHING

#### A. *Pre-Acquisition Reporting and Related Investigations*

Both the FTC and DOJ have the power under federal antitrust laws to investigate anticompetitive conduct and to challenge such conduct in judicial or administrative proceedings. Because federal law requires parties to notify both the FTC and the DOJ of most proposed acquisitions or exclusive licensing arrangements exceeding certain size thresholds, the FTC and DOJ can investigate and challenge such proposed arrangements prior to consummation.<sup>2</sup> A full investigation by either agency can delay a proposed acquisition or licensing arrangement for several months and subject parties to hundreds of thousands of dollars in legal costs as well as the inconvenience of responding to extensive discovery requests. These costs escalate sharply when a foreign company is involved (directly or indirectly) in an acquisition since, as part of the investiga-

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2. The Hart-Scott-Rodino Antitrust Act of 1976, Pub. L. No. 94-435 (codified at 15 U.S.C. § 18a (1988)), and the regulations promulgated thereunder and codified at 16 C.F.R. § 801 *et seq.* (1993), impose certain pre-consummation reporting requirements and exempt from reporting discrete categories of transactions that would otherwise be reportable. The Act imposes set waiting periods to permit government review and imposes civil penalties for parties failing to comply with the Act. In the European Economic Community (the "EC"), there are regulatory systems to permit the Commission of the European Communities (the "EC Commission") to regulate restrictive practices. Generally, under Regulation 1962/17 of the restrictive arrangements (coming within Articles 85 and 86 of the Treaty of Rome) parties are required to notify the EC Commission of these arrangements unless they (1) have *de minimis* market effect, (2) come within the terms of a block exemption, or (3) constitute a "concertation" within the meaning of EC Council Regulation 4064/89 (the "EC Merger Control Regulation").

tion, the company may be required to provide English translations of all relevant documents. The federal enforcement agencies' interests in investigating and blocking a transaction are often influenced by complaints from competitors or customers who can help the agency to understand the relevant market while convincing the agency that the transaction is anticompetitive.<sup>3</sup> In reviewing transactions subject to pre-acquisition reporting, the enforcement agencies use their ability to block consummation as a powerful tool for coercing parties to modify proposed deals or to abandon them altogether.<sup>4</sup>

*B. Investigation of Unreported Transactions and Non-Merger Related Conduct*

The FTC and DOJ have authority to investigate unreported transactions and non-merger related conduct that may be anticompetitive in nature or effect. The two agencies can order companies suspected of anticompetitive conduct to provide information and documents relating to their operations and activities. In addition, the agencies can demand information and documents from competitors and customers of the targeted company.<sup>5</sup> The agencies can start an investigation either of their own initiative or as a result of a complaint by a third party (often a disgruntled competitor or customer). Under the respective rules of procedure of each agency, the provision of information by third parties in an investigation is not disclosed except in a civil litigation and, then, usually under seal of court.<sup>6</sup> Furthermore, at the completion of an investigation, the agency may institute a legal proceeding challenging conduct that the agency believes violated or continues to violate antitrust laws. The FTC may commence administrative or civil proceedings,<sup>7</sup> while the DOJ can institute criminal actions.<sup>8</sup>

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3. Under the Hart-Scott-Rodino Act, the identity of these complainants and the content of their complaints are not subject to disclosure via the Freedom of Information Act. See 15 U.S.C. § 18a(h) (1988).

In contrast, under EC Commission practice, at least with respect to cooperative joint ventures notified under Regulation No. 17, the complainants are not only identified, but the contents of their submissions (edited to remove confidential information) are given to the parties to the notification for comment.

4. Under the Hart-Scott-Rodino Act, either agency can bring a civil action in federal district court to enjoin the transaction. 15 U.S.C. § 18a (1988).

5. The Antitrust Civil Process Act, 15 U.S.C. §§ 1311-14 (1988), authorizes issuance of civil investigative demands ("CID") in connection with actual or prospective antitrust violations. Any willful withholding, misrepresentation, concealment or destruction of documentary material demanded by a CID is a criminal offense under 18 U.S.C. § 1505 (1988).

6. 16 C.F.R. § 4.10 (1993).

7. 15 U.S.C. § 45 (1988).

8. The DOJs may employ criminal antitrust enforcement for violations of the Sherman Act. 15 U.S.C. § 1, 2 (1988). The DOJ may also charge other substantive offenses arising from the conduct, such as conspiracy to defraud the government (18 U.S.C. § 371 (1988)), mail fraud (18 U.S.C. § 1343 (1988)), RICO (18 U.S.C. § 1961-1968 (1988)), and tax evasion (26 U.S.C. § 7215 (1988)).

## II.

INTERPLAY BETWEEN U.S. INTELLECTUAL PROPERTY ANTITRUST  
LAWS AND THE EVOLUTION OF FEDERAL  
ENFORCEMENT

A fundamental tension exists between antitrust laws and intellectual property laws, whether in the United States or abroad. The purpose of competition laws is to promote consumer welfare by preserving the free competitive market place and promoting vigorous market competition. Competition laws specifically prohibit conduct that results in or has the realistic probability of establishing monopolies, which restrain competition. In the United States, these antitrust laws stem, at least in part, from the Constitutional prohibition against restraints on interstate commerce. To accomplish these goals, the antitrust laws prohibit certain types of business conduct that are considered to restrain trade unreasonably. On the other hand, the U.S. Constitution specifically provides for the promotion of the "progress of science and useful arts,"<sup>9</sup> and the intellectual property laws grant inventors with a lawful "limited" monopoly for a prescribed number of years. The right conferred by the grant of a patent, for instance, is the power to exclude others from making, using or selling the invention during the patent term.<sup>10</sup> In many respects, the grant of a patent is analogous to a statutory or common law exemption from the antitrust laws. The function of this exemption is to provide proper incentives to inventors to disclose voluntarily the invention and how it works.<sup>11</sup>

This conflict between antitrust law proscriptions against restrictive practices and intellectual property rights to exclusivity has ebbed and flowed over time, often moving in cycles, depending to some extent upon the philosophies of the incumbent policy-makers. Nevertheless, federal antitrust agency enforcement treatment of intellectual property has shifted dramatically during the last thirty to forty years and has been characterized by a gradual movement away from prohibitionist *per se* rules to a more market-focused enforcement. To some extent, enforcement in the EU by the EC Commission has tended to appear, in gross, general terms, more rigid and structured. This appearance may be a function of the fact that most applicable law in the United States is judicially prescribed case law, while in the EU, it is more often administrative and regulatory in character.

Basically, prior to the now-evolving policies concerning intellectual property, there were three distinct periods in U.S. antitrust enforcement policy during

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9. U.S. Const. art. I, § 8, cl. 8; 35 U.S.C. § 154 (1988). Created in 1957, almost two hundred years after the United States, the EU's Treaty of Rome contains the same sort of tension. This tension will be explored below in the section on the EC.

10. See 35 U.S.C. § 101 (1988). See generally *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *GAF Corp. v. Eastman Kodak Co.*, 519 F. Supp. 1203 (S.D.N.Y. 1981); *Bendix Aviation Corp. v. Kury*, 88 F. Supp. 243 (S.D.N.Y. 1950).

11. See generally *Dawson Chem. Co. v. Rohm & Haas*, 448 U.S. 176 (1980) (stating that the policy of the patent laws is to establish and enforce exclusive rights to promote innovation and investment).

the twentieth century. The first period occurred roughly from 1914-1940, generally a period of benign antitrust enforcement. It was marked by a relative tolerance of restrictive practices, whether in the form of cartels or patent pools.<sup>12</sup> There was no substantial interest in the competitive consequences of licensing practices.<sup>13</sup> During the depression of the 1930s, the U.S. Government encouraged, through the National Industrial Recovery Act<sup>14</sup>, the formation of industry cartels and the U.S. Supreme Court in the *Appalachian Coal*<sup>15</sup> case sanctioned what would be called in European parlance a "crisis cartel"<sup>16</sup> for Eastern coal producers.

After the Second World War, antitrust enforcement attained much greater vigor, harkening back to the initial "trust-busting" days of the late 19th century under President Teddy Roosevelt. In the post World War II modernization and economic expansion environment, cartels were vigorously attacked and antitrust principles were applied, increasingly across the board, in a rigid and *per se* fashion.<sup>17</sup> This second, so-called "traditional" period (1945-1980) examined the conduct of holders of intellectual property rights suspiciously and severely restricted the lawful extension and application of those rights. Little or no concern was paid to the market relevance of their enforcement policies. The high point of the traditional period was the commencement of major investigations and civil actions challenging the licensing and marketing practices of companies and the adoption of the "Nine No-Nos" by the DOJ.<sup>18</sup>

During this period, the DOJ and the courts generally viewed certain patent licensing practices as *per se* illegal. These prohibited licensing restrictions, colloquially referred to as the "Nine No-Nos," were as follows:

- tying the purchase of unpatented materials to the grant of the license;
- requiring the licensee to assign back to the licensor subsequent patents;
- restricting the rights of the purchaser of the product in the resale of the product;
- restricting the licensee's ability to deal in products outside the scope of the patent;
- a licensor's agreement not to grant further licenses;
- mandatory package licenses;
- royalty provisions not reasonably related to the licensee's sales;
- restricting a licensee's use of a product made by a patented process;

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12. See, e.g., Standard Oil Co. v. United States, 283 U.S. 163, 170-71 (1931).

13. See, e.g., United States v. General Elec. Co., 272 U.S. 476 (1926).

14. Pub. L. No. 73-67, Ch. 90, 201.

15. Appalachian Coals, Inc. v. United States, 288 U.S. 344 (1933).

16. A "crisis cartel" is a course of concerted action by competitors that is sanctioned by a government because of severely depressed or unusual conditions. In the United States, the National Industrial Recovery Act provided, during the depression of the 1930s, an exemption from the declared unconstitutional antitrust laws, until the Act was declared unconstitutional on other grounds. Schechter Poultry Corp. v. United States, 295 U.S. 495 (1935).

17. See, e.g., International Salt Co. v. United States, 332 U.S. 392 (1947); United States v. Line Material Co., 333 U.S. 287, 305-15 (1948); Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969).

18. WILSON, U.S. DEPARTMENT OF JUSTICE, LAW ON LICENSING PRACTICE: MYTH OR REALITY? (January 21, 1973).

- minimum resale price provisions for the licensed products.<sup>19</sup>

As demonstrated by the Nine No-Nos, federal enforcement agents viewed licensing arrangements with great suspicion throughout the traditional time period. Patents during this period were assumed to be monopolies and the only way to minimize their anticompetitive effects was to construe the rights of the patentee as narrowly as possible. The monopoly granted under the patent law was not under any circumstances to be viewed as carte blanche in matters relating to the use of such rights.<sup>20</sup>

The third phase commenced in approximately 1980 and reached its peak during the Reagan and Bush Administrations. The shift in federal enforcement scrutiny began with the official DOJ abandonment of the Nine No-Nos in 1981.<sup>21</sup> During this period, while not returning in any sense to the laissez-faire enforcement attitudes prior to World War II, theories promoted by the Chicago School of Economics played a critical role in modernizing antitrust policy.<sup>22</sup> Both the DOJ and the courts became much more willing to evaluate licensing provisions under a rule of reason analysis and to permit those restrictions that, on balance, maximized legitimate economic benefits and promoted innovation.

The DOJ's treatment of licensing restraints during the 1980s reflected its overall treatment of vertical relationships.<sup>23</sup> Throughout the 1980s, federal antitrust officials expressed little concern about potential anticompetitive effects from vertical relationships.<sup>24</sup>

19. *Id.*; see Deputy Assistant Attorney General Burer Wilson, Remarks Before the Fourth New England Antitrust Conference, Patent and Know-how License Agreements; Field of Use, Territorial, Price and Quantity Restrictions (Nov. 6, 1970).

20. One of the best examples of the Federal agencies' enforcement perception was the judicial attitude in the United States toward the basic question of patent validity itself. During this period, there were constant judicial efforts to cut back the scope of the patent monopoly and to declare patents invalid. Indeed, at one point during this period, over two-thirds of the patents reviewed by U.S. Courts of Appeals were declared invalid and unenforceable. DOJ Deputy Assistant Attorney General Richard J. Gilbert, Antitrust Policy in High Technology Markets, Address Before the Association of American Law Schools (Jan. 7, 1994) at 10. For a view suggesting that antitrust enforcement was more balanced during this period see Stern, *Whatever Happened to the Nine No-No's*, ABA Sec. of Pat., Trademark and Copyright (Aug. 10, 1993).

21. See Rule, *The Administration's New Antitrust Analysis After the Nine No-No's*, 55 ANTITRUST L.J. 365 (1986); *Current Antitrust Views on Patent Licensing* (November 5, 1981), reprinted in Trade Reg. Rep. ¶ 50,434 (CCH). Some have referred to the third phase as the period of no "no-no's." See also Assistant Attorney General Anne K. Bingaman, *Report from the Antitrust Division*, Address Before the ABA Antitrust Section (April 8, 1994).

22. ROBERT H. BORK, *THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF* (Basic Books, Inc. 1978); RICHARD A. POSNER, *ANTITRUST LAW: AN ECONOMIC PERSPECTIVE* (The University of Chicago Press 1976).

23. A vertical relationship is one in which the agreement is not between actual or potential competitors in a market, but rather involves two parties who are in different, albeit interrelated, markets. A manufacturer and its wholesale customer, for instance, have a vertical arrangement.

24. Fundamental to this analysis is the Supreme Court decision in *Continental TV, Inc. v. GTE Sylvania*, 433 U.S. 36 (1977) *overruling* *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). In this decision, we can see the seeds of modern antitrust law with its emphasis on interbrand competition, its tolerance of non-price restrictions on intrabrand competition and its strong faith in the market as a regulator of first choice.

The release of the new International Guidelines by the DOJ in 1989 epitomized this more relaxed viewpoint.<sup>25</sup> The Guidelines delineate a four-part "rule of reason" test to determine the permissibility of licensing arrangements:

1. Does the license restrain competition between the licensor and licensees in a relevant market for technology, and, if so, is it likely that the agreement will create, enhance, or facilitate the exercise of market power?
2. Does the license expressly or implicitly restrain competition in any other market in which the licensor and licensee do or would compete in the absence of the license (*i.e.*, "spill-over effects")?
3. To the extent that there are vertical restraints in the license, (i) does the license result in anticompetitive exclusion beyond the exclusion provided by the intellectual property rights themselves; and (ii) does the license facilitate collusion?
4. Assuming that under the above three criteria there is a determination that the license creates a significant risk of anticompetitive effects, then the Department will consider whether the risks of anticompetitive effects are outweighed by pro-competitive efficiency benefits from the license and its restriction.<sup>26</sup>

During this "modern" period, very few matters involving intellectual property transfers were scrutinized by the federal enforcement agencies. The DOJ and courts alike appeared to believe that patents rarely, if ever, bestowed market power. Although many courts followed this shift in policy, some fairly recent decisions follow the older decisions that took a less lenient approach.<sup>27</sup>

We may now be witnessing a new "post-modern" era in the treatment of intellectual property transfers with the return of the Democratic Party to the White House. Assistant Attorney General Anne K. Bingaman recently indicated that the intellectual property section of the International Guidelines are being reviewed as part of the DOJ task force's efforts and that new Guidelines will be issued by the Department.<sup>28</sup> Ms. Bingaman further stated that:

The bedrock principle of our policy towards intellectual property is that we treat it as we treat any other form of tangible or intangible property. Intellectual property is not exempt from the application of the antitrust laws, or [sic] particularly suspect under them. While an owner of intellectual property is given certain rights to exclude competitors by intellectual property law, the right to exclude is bounded by the prohibitions of the Sherman and Clayton Act [sic], which can prohibit the

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25. 4 Trade Reg. Rep. (CCH) ¶ 13, 109.10 (1989).

26. In stark contrast with the generalized rule of reason approach to licensing analysis in the United States, the EC Commission has, as will be noted below, published detailed lists of practices that are permissible, possibly permissible, and impermissible for patents and know-how licensing. The EC Commission requires the registration or prescreening of licenses. While it is useful to compare these lists to the U.S. Nine No-No's, it is important as well to note that the EC Commission's black list prohibits eleven types of licensing restrictions. This patent licensing block exemption expires on June 30, 1995 and the EC Commission published, on June 30, 1994, a draft technology transfer licensing block exemption which would replace the expiring patent licensing block exemption. 1994 O.J. (C 178) 3. A detailed discussion is presented below.

27. See, e.g., *International Salt Co. v. United States*, 332 U.S. 398 (1947); *United States v. Line Material Co.*, 333 U.S. 287, 305-15 (1948); *Zenith Radio Corp. V. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

28. Assistant Attorney General Anne K. Bingaman, Report from the Antitrust Division, Address Before the Antitrust Section, American Bar Association (April 8, 1994).

owner from using its rights to suppress competition from alternative technologies.<sup>29</sup> This limiting of rights is no different than the case for any other property owner.<sup>29</sup>

We expect that achieving a new equilibrium between intellectual property and antitrust laws will be the focus of DOJ enforcement policy. The federal government is likely to investigate thoroughly those instances where it believes there may be an adverse effect from the arrangement and to craft the appropriate remedy. The application of this shift in policy will require experimentation and is likely to evolve over the next few years.

On August 11, 1994, the DOJ published for 60-day public comment the draft IP Guidelines.<sup>30</sup> These Guidelines expressly supersede the portions of the 1988 Guidelines concerning intellectual property. The new IP Guidelines cover all "innovation-related" issues relating to intellectual property (*e.g.*, those raised by patents, copyrights, and trade secrets), rather than product differentiation issues that arise for trademarks. The Guidelines do not distinguish in their treatment of the various forms of intellectual property for innovation-related issues.

Three general principles govern the Guidelines: (1) intellectual property is comparable to any other form of property, (2) there is no presumption that intellectual property creates market power, and (3) intellectual property licensing allows firms to combine complementary portions of production and is generally procompetitive.<sup>31</sup> The DOJ will presume that the grant of the intellectual property rights was correct and will not second-guess the Patent and Trademark Office ("PTO") regarding either the grant or the appropriate scope of the grant.<sup>32</sup>

The 1988 Guidelines abandoned the Nine No-Nos for an approach that, absent a showing of "sham," only prohibits a restraint if (1) there is a "significant risk" of anticompetitive effects in either the technology market or another market, and if (2) these anticompetitive effects are not outweighed by the procompetitive efficiency benefits from the license. The new IP Guidelines apply a two-part "integrative efficiencies test."<sup>33</sup> First, the DOJ will consider whether the restraint contributes to integrative efficiencies. Next, the DOJ will inquire whether the restraint ordinarily qualifies for *per se* treatment.<sup>34</sup> This question is similar to the one asked in horizontal arrangements between competitors (*e.g.*, a market division arrangement). If the answer to the first question is "no" and the answer to the second question is "yes," the restraint is *per se* illegal. If the answer to both questions is "yes," the DOJ will employ a "quick

29. *Id.* at 17.

30. 59 Fed. Reg. 41339 (Aug. 11, 1994).

31. *Id.* § 2.0.

32. Deputy Assistant Attorney General Richard Gilbert, Remarks Before the Leadership Conference of the ABA's Antitrust Section, Amelia Island, FL (August 18, 1994).

33. *Supra* note 33, § 3.4.

34. Depending on the type of conduct, a court will evaluate the merits of an antitrust claim either under a *per se* standard or a rule of reason approach. Certain conduct is, by definition, so pernicious that merely establishing that it occurred suffices for establishing a violation under the antitrust laws. In other words, this conduct is *per se* illegal. Most conducts, however, are not that clearly illegal. For such conducts, the courts will analyze them under a rule of reason approach that carefully balances the procompetitive and legitimate reasons for the conduct against the adverse anticompetitive effects to determine whether the conduct should be permitted.

look" approach to determine whether to condemn the restraint outright. In all other situations, a rule of reason analysis will be applied. According to the Department, the outcome under the 1988 Guidelines and the new IP Guidelines will not, in most cases, differ on the basis of this test.

Under the rule of reason analysis, the new IP Guidelines consider the arrangement's effect upon competition in three markets: (1) technology markets,<sup>35</sup> (2) goods markets, and (3) innovative markets.<sup>36</sup>

There is some debate regarding the existence and role of "innovation" markets and "technology" markets. First, the reported cases and the 1988 Guidelines do not appear to distinguish between technology and innovation. We are also unaware of any reported case that defines and analyzes the competitive effects in a separate market for innovation, or which treats Research and Development ("R & D") as a separate market.<sup>37</sup> Some economists and academics have argued for consideration of a so-called "R&D market" in merger cases; the impact of technology has frequently been a factor in gauging market conditions and competition.<sup>38</sup>

Case 6 of the 1988 Guidelines discussed a research and development joint venture. In this hypothetical case, the three largest producers of x-metal in the United States form a joint venture corporation with a British company to develop a process for producing x-metal from sources other than x-ore, which currently is the only source of x-metal. The new company will seek to obtain patents on any new process it develops and will grant the U.S. venture parties licenses to all patent rights and use of know-how in North America. In analyzing the hypothesized R&D market, the DOJ indicated that it would consider

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35. A technology market consists of the intellectual property that is licensed, transferred, or acquired and of the technologies that are close substitutes for it. The IP Guidelines recognize that in some cases, particularly those involving a product patent, there may be little to be gained by analyzing competitive effects in a separate technology market beyond that gained from analyzing effects in the associated goods market.

36. *Supra* note 33, § 3.2. Firms compete in research and development that may result in new or improved products or processes. If the capacity for research and development activity that likely will produce innovation in technology is scarce and can be associated with identifiable specialized assets or characteristics, then the DOJ will consider separately the impact of the conduct in question on competition in research and development among those firms in a so-called "innovation market." *Supra* note 33, § 3.2.3.

37. The closest reported precedent for focusing separately upon innovation occurred in *Federal Trade Comm'n v. PPG Indus., Inc.*, 628 F. Supp. 881 (D.D.C.), *aff'd in part and rev'd in part*, 798 F.2d 1500 (D.C. Cir. 1986). In this case, the FTC challenged PPG's proposed acquisition of Sewardlow, Inc. even though the product offerings were complementary rather than overlapping. The FTC alleged a number of product market definitions, including a market of high technology employed to produce aircraft transparencies. To some extent, the technology (or innovation) of such transparencies and the goods appear to have been interchangeable in this case since the technology used for each new aircraft model would then result in the production of the transparencies. The competition was for the award of the development contract. The D.C. Circuit affirmed the issuance of a preliminary injunction in the matter. At a bare minimum, this case suggests that the role of technology in a market is relevant to a merger analysis.

38. See, e.g., Yao and DeSanti, *Innovation Issues under Merger Guidelines*, 61 ANTITRUST L.J. 505 (1993); Jorde and Teele; *Competing Through Innovation: Implications for Market Definition*, 64 CHI.-KENT L. REV. 741 (1988).

both existing technologies and technologies under development. Citing the lack of geographic barriers to the free movement of information, the DOJ indicated that in most cases foreign R&D competitors would be significant participants in the R&D market, even if they could not directly sell products incorporating the technology in the United States. Therefore, unless the facts indicated otherwise, the 1988 Guidelines regarded all possible comparable R&D efforts in the market to be of equal competitive significance. Case 6 expressly states that an R&D market is unlikely to cause concern so long as there are at least four other comparable R&D efforts by firms or groups of firms in the market. Fewer R&D competitors, however, might also be acceptable. Even a joint venture that included a large portion — even all — of the competitors in an R&D market might be permissible, particularly if all their participation was “necessary” for successful R&D to occur.

The tone of the new IP Guidelines is different from the 1988 Guidelines when evaluating both technology and innovation markets. The IP Guidelines require an assessment of market shares in the relevant markets. To estimate shares for the participants, the Department generally will forecast market acceptance over a two-year period using the best available information.<sup>39</sup> Unlike the 1988 Guidelines, the new IP Guidelines will assess the competitive significance of each participant based on shares of those identifiable assets or characteristics upon which innovation depends, on shares of R&D expenditures, on shares of the related product, or on equal shares assigned to reflect the equal likelihood of innovation, depending on the facts of each case.<sup>40</sup> The DOJ will also take into account other factors, such as elimination of alternative research paths and efficiency benefits of the integration of complementary research and development programs. For technologies not yet commercialized, the two-year period will begin with commercial introduction.<sup>41</sup> In general, when indices of market power are not readily available and it appears that company technologies are all equally efficient, the DOJ will treat each participant in the technology market as having an equal market share.

Second, the technology market and innovation market analysis applies across the board to arrangements ranging from joint ventures and acquisitions to licensing arrangements.<sup>42</sup> The Guidelines focus upon direct adverse effects as well as spillover effects.

The Guidelines do recognize that in many cases, particularly those involving a product patent, there may be little to gain from analyzing competitive

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39. *Supra* note 32, § 3.2.1.

40. *Id.* § 3.2.3.

41. In certain industries where federal regulatory approvals are required, such as pharmaceuticals, applying this test will be extremely difficult and potentially problematic.

42. Intellectual property licensing between actual or potential competitors may, as with an outright acquisition of a competitor's operations, reduce or eliminate competition in the market(s) in which the parties compete. In addition, license restrictions may reduce competition in another market by foreclosing access to or raising the price of an important input.

effects in a separate technology market.<sup>43</sup> There also may be practical problems in gathering appropriate data to determine "prices" for the technology. For instance, how does one measure the value of royalty-free cross-licenses or package licenses? The IP Guidelines provide that "when complicating factors preclude delineating a relevant market in which the license technology competes, the Department may focus its attention on effects in the associated goods markets."<sup>44</sup>

For the separate innovation market analysis, the IP Guidelines start with the proposition that firms compete in R&D that may result in new or improved products or processes.<sup>45</sup> If the capacity in such R&D activity is scarce and can be associated with identifiable specialized assets or characteristics of specific firms, then it might be appropriate to consider separately competition in R&D among those firms in a separate innovation market. Alternatively, innovation may be used to assess the competitive effects of the agreement in the relevant goods and technology markets.

The IP Guidelines create an "antitrust safety zone," absent extraordinary circumstances, for restraints in a licensing arrangement when (1) the restraint is not the type that normally warrants condemnation under the *per se* rule; and (2) the licensor and licensee collectively account for no more than 20% of each relevant market affected by the restraint (*i.e.*, technology market(s), goods market(s), or innovative market(s)).<sup>46</sup> The safety zone applies regardless of the market concentration of the remainder of the market (*i.e.*, even if 80% of the market is controlled by one company, two small innovators may proceed with their arrangement). The safety zone does not apply to mergers or acquisitions. Arrangements falling outside the safety zone will be analyzed under the rule of reason.<sup>47</sup>

While it is unlikely that there will be a 180-degree return to the period of rigid *per se* rules and extreme hostility toward intellectual property rights, the recent developments discussed in Part IV of this article suggest that enforcement agencies once again are concerned with the market power created by intellectual property rights and that they desire to narrowly define the activities that can lawfully be undertaken pursuant to these rights. This is particularly true regard-

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43. *Supra* note 32, § 3.2.1.

44. *Id.*

45. *Id.*

46. *Id.* note 32, § 4.1. Of course, what the relevant market includes may not always be agreed upon by the parties and the government. The percentage of the market effected by the restraint is a function of the market's scope. As demonstrated by the case illustrations below, the government has at times delineated narrow markets. It will not always be clear from the outset whether the safety zone is applicable in a particular instance. While this paper has focused on U.S. licensing issues, it is interesting to note that the proposed U.S. guidelines are similar, in creating a safety zone, to the draft proposed technology block exemption recently issued by the EC Commission on June 30, 1994. *See* 1994 O.J. (C 178) 3.

47. A major and unresolved question in the EC Commission's draft proposed technology block exemption is when is the market share or market concentration test to be applied. Is it at the time the license is granted (apparently as intended in the latest EC Commission draft) or at any time thereafter? This can be major source of uncertainty which is discussed below.

ing licensing matters where the Clinton Administration is clearly more hostile to vertical restraints than its predecessors.<sup>48</sup> The current trend favors close scrutiny of license provisions and of the market power of holders of intellectual property to determine the permissibility of such provisions. Nevertheless, we see the changes as more evolutionary than revolutionary.

### III.

#### COMPETITION POLICY IN INTELLECTUAL PROPERTY LICENSING IN THE UNITED STATES

The Federal antitrust laws are set forth in several federal statutes, including the Sherman Act and the Clayton Act. Individual states also have similar statutes, which are not addressed in this article. The U.S. antitrust laws apply to conduct that has an effect on U.S. foreign and interstate commerce.<sup>49</sup> Sections 1 and 2 of the Sherman Act<sup>50</sup> constitute the primary federal antitrust provisions under which intellectual property transfers — including licensing and marketing arrangements and acquisitions — are evaluated by the federal enforcement agencies. Section 1 of the Sherman Act prohibits agreements between parties that restrain trade unreasonably. In contrast, Section 2 of the Sherman Act prohibits both monopolization and attempts to monopolize the market (*i.e.*, unilateral conduct) as well as conspiracies to do the same (*i.e.*, concerted activity).

Violations of the Sherman Act can result in both civil and criminal liability. The DOJ seeks criminal relief, including jail terms and fines, for egregious an-

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48. Assistant Attorney General Anne K. Bingaman, Antitrust Enforcement, Some Initial Thoughts and Actions, Address Before the Antitrust Section, American Bar Association (August 10, 1993).

49. Sherman Act Section 1 condemns contracts and conspiracies “in restraint of trade or commerce among the several states or with foreign nations.” Section 2 contains the same provision regarding trade or commerce among or with foreign nations. A restraint on interstate commerce is established for Sherman Act purposes by showing either that the activities in question are “in” or that they “affect” interstate commerce. The U.S. Supreme Court indicated in *Hospital Bldg. Co. v. Trustees of Rex Hosp.*, 425 U.S. 738, 743 (1976) (*quoting Gulf Oil Corp. v. Copp Paving Co.*, 419 U.S. 186, 195 (1974)) that the interstate commerce element of the Sherman Act is satisfied if the activity in question “substantially and adversely affects interstate commerce.” The Court further noted that it did not matter that the defendant did not intend to limit interstate commerce or that the effect on interstate commerce was indirect, so long as “interstate commerce . . . feels the pinch.” For international transactions, however, Congress acted in 1982 to limit the subject matter jurisdiction of the Sherman Act with the enactment of § 6a of the Sherman Act. 15 U.S.C. § 6a (1988).

50. 15 U.S.C. § 1, 2 (1988). The counterpart provisions in the EU are Articles 85 and 86 of the Treaty of Rome. Like their American counterparts, these antitrust laws are concerned, respectively, with restrictive concerted practices and abuse of dominant positions. Unlike these basic Sherman Act provisions, both Articles 85 and 86 rely almost exclusively upon a list of prohibited practices rather than upon a “rule of reason” in which the judiciary (as opposed to an administrative agency like the EC Commission) is to determine whether a particular business practice violates competitive norms.

ticompetitive conduct.<sup>51</sup> In civil actions, both the DOJ and FTC seek injunctive relief, and, where appropriate, damages.<sup>52</sup>

Section 7 of the Clayton Act<sup>53</sup> proscribes stock and assets acquisitions that may substantially lessen competition or create a monopoly. The grant of an exclusive license or transfer of a patent may be evaluated under Clayton Section 7 as "asset transfers."<sup>54</sup> Unlike Sherman Section 2, the Clayton Act seeks to address possible restraints upon competition at the "incipiency" stage.

Generally, antitrust laws fall into two categories: (1) prohibited conduct involving two or more companies (concerted conduct); and (2) prohibited conduct where only one company is involved (unilateral conduct).

#### A. Concerted Conduct

To determine whether an agreement unreasonably restricts competition under Sherman Section 1, courts use one of two methods of analysis — a "*per se*" rule or a "rule of reason." The court's decision of which method to employ often determines the outcome. Under the *per se* approach, proving the conduct is sufficient to establish the violation without examination of its context or consequences. Under this approach, the court will not consider any arguments or evidence that the particular agreement is pro-competitive. In contrast, the rule of reason approach typically requires a lengthy and complex inquiry into the relative competitive benefits and costs of a particular arrangement. The plaintiff bears a heavy burden to establish that a particular practice restrains trade unreasonably. Given these differences, the Fifth Circuit has aptly stated that "[t]he

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51. Violation of the Sherman Act is a felony for which a corporation may be fined up to \$10 million per violation and individuals sentenced to up to three years, or a maximum of \$350,000, or both. Furthermore, violators can be fined the greater of either the amount set by statute or double the gross amount gained from the violation or loss by the victim. *See* Antitrust Amendments Act of 1990, Pub. L. No. 101-588; Criminal Fines Improvements Act of 1987 § 6, Pub. L. No. 100-185, 101 Stat. 1279, 1289.

52. In the United States, private parties can seek injunctive relief and/or treble damages plus reasonable attorneys fees and costs. *See generally* 15 U.S.C. §§ 15, 16 (1988). No such right exists in the EU. Actual damages can be recovered in national courts for violations of Articles 85 and 86. *See* EC Commission Notice on the Application of Articles 85 and 86 in National Courts, 93 O.J. (C 39) 5. Moreover, unlike the so-called "American Rule," a defendant prevailing in most EC national courts can recover the costs of suit, including reasonable attorneys fees. Recent amendments to U.S. antitrust laws, such as the Export Trading Company Act of 1982, Pub. L. No. 97-290, and the June 10, 1993, National Cooperative Production Amendments of 1993, 107 Stat. 117, have modified the "American Rule" such that U.S. defendants in U.S. actions can recover actual litigation expenses in limited, narrow circumstances if they prevail on the merits.

53. 15 U.S.C. § 18 (1988). In 1989, the Council of the European Communities enacted, after a long struggle, a merger control regulation in which substantive and procedural steps for EC merger review were introduced for the first time in a systematic fashion. EC Commission Regulation 4064/89, O.J. 1990 (L257) 14. However, the applicable thresholds are extremely high (combined world assets of five billion ECU and EU turnover of 250 million ECU in the European Economic Community), and recent merger regulation efforts to lower them have not been successful. There is a large loophole that the EC Commission must fill.

54. *See, e.g.*, *Teletronics Proprietary, Ltd. v. Medtronics, Inc.*, 687 F. Supp. 832, 844 (S.D.N.Y. 1988).

*per se* rule is the trump card of antitrust law. When an antitrust plaintiff successfully plays it, he needs only tally his score.”<sup>55</sup>

Relatively few business practices are automatically accorded *per se* treatment. The *per se* rule flatly prohibits “agreements” whose nature and necessary effect are so plainly anticompetitive that no elaborate study of the industry is needed to establish legality.<sup>56</sup> To be “plainly anticompetitive,” the agreement must have a “pernicious effect on competition and lack of . . . any redeeming virtue.”<sup>57</sup> Such *per se* treatment is appropriate only in situations where the practice facially appears to be one that would always, or almost always, tend to restrict competition.

### B. Unilateral Conduct

The principles of Sherman Section 2 are unchanged when commingled with intellectual property law. Unilateral conduct is impermissible under Section 2 of the Sherman Act if market power is used to exclude or discourage competition. Market power provides the ability to raise prices without a significant loss of market share to competitors, who otherwise could respond to the increase in price with a corresponding increase in product output. By definition, monopolists usually have significant market position with respect to any given market. However, size or power alone does not violate the Sherman Act.<sup>58</sup> Indeed, it is permissible to acquire monopoly power through patents or through ability, initiative or efficiencies. It is only the use of such patents to maintain or extend the power inherent in the patent beyond the terms of the patent that raises concern.

There are several types of conduct that violate Section 2: (1) monopolization, (2) attempted monopolization, and (3) conspiracy to monopolize. These claims are similar because all three require threshold showings of market power and intent. While intellectual property rights can provide the holder with an advantage in the market place, the grant of such property rights does not automatically bestow market power.<sup>59</sup> Indeed, Section 2 is concerned with the unlawful attainment of market power.<sup>60</sup>

A monopolist is able to control prices or exclude competition.<sup>61</sup> There is no bright line between those market shares that constitute monopoly power and

55. United States v. Realty Multi-List, Inc., 629 F.2d 1351, 1362-63 (5th Cir. 1980).

56. Soc'y of Professional Eng'rs v. United States, 435 U.S. 679, 692 (1978).

57. Northern Pac. Ry. v. United States, 356 U.S. 1, 5 (1958).

58. There have been serious efforts to challenge this result. During the 1960s-1970s, there was legislation introduced in Congress by various self-styled populists to limit the purposely increasing concentration of economic power in the United States and to reverse this alleged trend toward concentration through forced divestiture of assets by large U.S. corporations.

59. See, e.g., Kobe, Inc. v. Dempsey Pump Co., 198 F.2d 416 (10th Cir. 1951), cert. denied, 344 U.S. 837 (1952) (patent monopoly is extremely rare); American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1366 (Fed. Cir. 1984), cert. denied, 469 U.S. 821 (1984); Schenck v. Nortron, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983); Loctite Corp. v. Ultraseal Ltd., 781 F.2d 861, 875-6 n.9 (Fed. Cir. 1985).

60. See generally United States v. Grinnell Corp., 384 U.S. 563 (1966). See *supra* note 33, § 2.2.

61. United States v. E.I. Dupont de Nemours & Co., 351 U.S. 377, 391 (1956).

those that do not. While market shares greater than 65% typically support a finding of market power, shares below 50% generally will not.<sup>62</sup> Similarly, Judge Learned Hand in an oft-cited case, *United States v. Aluminum Co. of America*, wrote that "it was doubtful whether 64% would be enough and certainly 33% was not."<sup>63</sup>

In an attempted monopolization claim, market shares not reaching the level required for actual monopolization may be sufficient to establish a "dangerous probability of success" in attaining a monopoly if other factors, such as barrier to entry or weak competition, exist.<sup>64</sup> For instance, market shares between 60 and 69% have consistently been considered sufficient,<sup>65</sup> most courts have found market shares of 50% adequate,<sup>66</sup> and shares as low as 35%-40% have been sufficient when coupled with other relevant market conditions. Other relevant factors include the relative size of competitors, competitors' performance, the degree of barriers to entry or expansion, pricing trends and practices, the homogeneity of the product, the extent of competition, and the stability of market shares over time.

Both monopolization and attempted monopolization claims require some evidence of wrongful intent. It is well established that a monopolist will not be penalized for obtaining or maintaining monopoly power "as a consequence of superior product, business accuracy or historic accident."<sup>67</sup> Rather, courts require evidence of a general unlawful purpose or intent to exercise that monopoly power.<sup>68</sup> Accordingly, a patentee is entitled to enjoy the market power the property itself may confer; however, using the rights conferred under the patent to

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62. See, e.g., *United States v. Grinnell Corp.*, 384 U.S. 563 (1966) (finding 87% share of fire and burglar alarm business clearly enough); *In re IBM Peripheral EDP Devices Antitrust Litig.*, 481 F. Supp. 965 (N.D. Cal. 1979), *aff'd*, 698 F.2d 1377 (9th Cir. 1983) (holding 77.1% share of disc market enough); *Heatransfer Corp. v. Volkswagenwerk A.G.*, 553 F.2d 964 (5th Cir. 1977), *cert. denied*, 434 U.S. 1087 (deciding that 71% and 76% market share of automobile air-conditioning industry was enough); *Moore v. Joseph H. Matthews & Co.*, 473 F.2d 328 (9th Cir. 1972) (providing that a 65%-70% share raises question of fact); *Hunt-Wesson Foods, Inc. v. Ragu Foods, Inc.*, 627 F.2d 919 (9th Cir., 1980), *cert. denied*, 450 U.S. 921 (1981) (finding that a market share of 65% was enough to support Sherman Act monopolization claim); *Transamerica Computer Co. v. IBM*, 698 F.2d 1377 (1983) (finding 57.4% of shipments of computer systems over a seven-year period did not indicate monopoly power); *Holleb & Co. v. Produce Terminal Cold Storage Co.*, 532 F.2d 29 (7th Cir. 1976) (holding no violation because it was not shown that the wholesaler had a dominant share exceeding 50% of the frozen food market).

63. 148 F.2d 416, 424 (2d Cir. 1945).

64. *Shopping Bag of Pueblo, Inc. v. Dillon Cos.*, 1986-1 Trade Cas. (CCH) ¶ 66,938, at 61,827 (10th Cir. 1986); *General Foods*, 96 F.T.C. 168 (1980); *Domed Stadium Hotel, Inc. v. Holiday Inns, Inc.*, 732 F.2d 480, 491 (5th Cir. 1984).

65. See, e.g., *Syufy Enters. v. American Multicinema, Inc.*, 793 F.2d 990 (9th Cir. 1986), *cert. denied*, 497 U.S. 1031 (1987); *Reazin v. Blue Cross and Blue Shield of Kansas, Inc.*, 663 F. Supp. 1360 (D. Kan. 1987), *aff'd* 899 F.2d 951 (1990), *cert. denied* 497 U.S. 1005 (1990).

66. *Tasty Baking Co. v. Ralston Purina, Inc.*, 653 F. Supp. 1250 (E.D. Pa. 1987).

67. *United States v. Grinnell Corp.*, 384 U.S. 563, 570 (1966); *United States v. E.I. Dupont de Nemours & Co.*, 118 F. Supp. 41, 214 (D. Del. 1953), *aff'd*, 351 U.S. 377 (1956).

68. *United States v. Griffith*, 334 U.S. 100, 107 (1948).

gain some additional competitive edge can result in liability under the Sherman Act as well as jeopardize the continuing validity of the underlying patent.<sup>69</sup>

The critical starting point for any Sherman Section 2 or Clayton Section 7 analysis is the definition of the relevant market affected by the patentee's conduct.<sup>70</sup> The relevant market is generally defined as "the area of affected competition."<sup>71</sup> Typically, the relevant product market is identified as the market containing those products reasonably interchangeable by consumers for the same purposes; the relevant geographic market is the geographic area in which trade of these products occurs (or is likely to occur).<sup>72</sup> Economic concepts, such as cross elasticities of demand and supply, are used to determine the relevant market.<sup>73</sup>

A patent provides the legal right to exclude others from making, using, or selling the product or process covered by the patent. Historically, courts characterized a patentee's power to exclude others from producing the claimed invention as a "monopoly." In the last decade, however, a number of lower court decisions<sup>74</sup> and the 1988 Guidelines<sup>75</sup> recognized that even a patent does not necessarily confer monopoly or market power in a relevant market. Therefore, the legality of any intellectual property related arrangement depends upon an assessment of the patent's exclusionary power in the relevant market. This, in turn, requires an assessment of market conditions and the extent to which there are economically feasible and functional substitutes for the patented product such that any attempts by the licensor and licensee to exercise market power would be defeated.<sup>76</sup>

Patent accumulation also raises questions under Section 2 of the Sherman Act and Section 7 of the Clayton Act. Although the accumulation of internally-developed patents is not, in and of itself, a violation of the antitrust laws, patent accumulation, under certain circumstances, may violate Section 2 of the Sherman Act and, where acquisitions are involved, Section 7 of the Clayton Act.

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69. See generally *supra* note 32, § 2.2. The patent code defines the parameters of patent misuse and provides as a remedy the inability to enforce the patent rights for so long as the misuse remains uncured. 35 U.S.C. § 271 (1988). See also *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942); *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957).

70. See, e.g., *E.I. DuPont de Nemours & Co.*, 351 U.S. at 391-93; *Berkey Photo Inc. v. Eastman Kodak Co.*, 603 F.2d 263, 268 (2d Cir. 1979), cert. denied, 444 U.S. 1093 (1980).

71. See generally ABA Antitrust Section, *ANTITRUST LAW DEVELOPMENTS* (Third) at 198.

72. See generally ABA Antitrust Section, *ANTITRUST LAW DEVELOPMENTS* (3d ed. 1992); *ANTITRUST LAW DEVELOPMENTS* (Second) at 110; *E.I. Dupont de Nemours & Co.*, 351 U.S. at 395.

73. See, e.g., *Fishman v. Estate of Wirtz*, 807 F.2d 520, 531 (7th Cir. 1986).

74. See, e.g., *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, 957 F.2d 1318 (6th Cir. 1992), vacated in part, *reaff'd in part*, 995 F.2d 1334 (1993); *Abbott Laboratories v. Brennan*, 952 F.2d 1346, 1354-55 (Fed. Cir. 1991), cert. denied, 60 U.S.L.W. 3858 (1982); *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986), accord *Jefferson Parish Hosp. v. Hyde*, 466 U.S. 2, 28 n.7 (1984) (O'Connor, J., concurring) ("a patent holder has no market power in any relevant sense if there are close substitutes for the patented product").

75. See *Wilson*, *supra* note 20.

76. See generally *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, *supra* note 77; *A.I. Root Co. v. Computer/Dynamics, Inc.*, *supra* note 77; But see *Grid Systems Corp. v. Texas Instruments Inc.*, 771 F. Supp. 1033 (N.D. Cal. 1991).

While the "mere accumulation of patents, no matter how many, is not in and of itself illegal,"<sup>77</sup> the transfer of a patent in the context of a broader monopolistic scheme may violate the antitrust laws.<sup>78</sup>

Under ordinary circumstances it is doubtful that a patent accumulation case based solely on internally-produced patents would succeed.<sup>79</sup> A case may arise, however, where there are a multitude of internally developed patents along with the purchase of several related patents.<sup>80</sup> It may be necessary to establish that the patent purchaser had market power (and that the relevant market existed) before the acquisitions took place. Moreover, certain acquisitions of patents by a company with monopoly power (or perhaps the potential of gaining monopoly power) may violate Sherman Section 2 and Clayton Section 7.<sup>81</sup>

In an attempted monopolization case, proof that the patents were bought as part of a scheme to acquire or maintain monopoly power may establish the specific intent criterion of a Section 2 claim.<sup>82</sup> However, specific intent is not established merely by showing that the defendant harmed its competitors through the introduction of innovations or procurement of patents.<sup>83</sup>

#### IV.

#### INTRODUCTION TO INTELLECTUAL PROPERTY LICENSING IN THE EUROPEAN ECONOMIC COMMUNITY: A COMPARISON WITH THE UNITED STATES

There are a number of treaties among sovereign European states under which each participating nation has granted some measure of its sovereignty to various interrelated, but distinct, international European organizations. Each is intended to achieve greater economic integration for the mutual benefit of the citizens of the countries involved. The first treaty was the European Coal and Steel Community ("ECSC") executed in 1952 to create a common market for coal and steel among the six participating members: Belgium, France, Ger-

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77. *Automatic Radio Mfg. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950).

78. *See United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963) (Sherman Section 1 violation from the use of transfer to facilitate commencement of infringement actions against Japanese competitors); *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 423-24 (10th Cir. 1951), *cert. denied*, 344 U.S. 837 (1952) (acquisition, nonuse, and enforcement of "every important patent" in the field to exclude competition violated Sherman § 2).

79. *See Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950) (*per curiam*); *United States v. United Shoe Mfg. Corp.*, 110 F. Supp. 295, 332 (D. Mass. 1953), *aff'd*, 347 U.S. 521 (1954); *Berkey Photo Inc. v. Eastman Kodak Co.*, 603 F.2d 263, 276 (2d Cir. 1979), 444 U.S. 1093 (1980); *cf. Alcoa*, (holding defendant to have monopolized, in part, by buying up unneeded capacity to make it more difficult or expensive for new entrants) and *Grinnell* (finding internal growth not a violation if due to "superior business acumen").

80. *SCM Corp. v. Xerox Corp.*, 463 F. Supp. 983, 1007 (D. Conn. 1978), *aff'd* 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982).

81. *Id.*

82. *See, e.g., Telex v. IBM*, 510 F.2d 894 (10th Cir. 1975), *cert. denied*, 422 U.S. 802 (1985).

83. Similarly, frivolous maintenance of infringement actions solely to harm competitors is unlawful. *See generally, Hardgards v. Ethicon*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980); *Kobe v. Dempsey*, 198 F.2d 416 (10th Cir. 1951), *cert. denied*, 344 U.S. 837 (1952); *Rex v. Haro*, 512 F.2d 993 (9th Cir. 1975).

many, Italy, Luxembourg and the Netherlands. It was followed in 1957 by the European Atomic Energy Community ("Euratom"). In the same year, the EC was established, pursuant to the Treaty of Rome.<sup>84</sup>

The EC Commission administers these three treaties. The original six EU members joined with subsequent countries—Denmark, Greece, Ireland, Portugal, Spain and the United Kingdom—to make up the twelve member states. The EU has embarked on an extremely ambitious agenda (through additional treaties and legislation (*e.g.* the Single European Act of 1985 and the Treaty of Maastricht)) to achieve not only economic integration, but also political, financial, social and cultural integration as well. The Treaty on European Union (the Maastricht Treaty) creating the EU, went into effect on November 1, 1993.

There are four basic EU institutions of importance for our analysis. The EC Commission performs crucial executive and administrative functions and is responsible for initiating legislative proposals with respect to the "Economic Community," the "Coal and Steel Community," and the "Atomic Energy Community." The European Parliament is a representative and deliberative body, which has an increasingly important consultative<sup>85</sup> and advisory role in many areas. The Council of the European Union (the "EU Council") acts through ministers from member states, as the Council for the various European Communities, and has the ultimate law-making responsibility. The Court of Justice of the European Communities ("ECJ") is the final judicial interpreter of the Treaty. The ECJ decides appeals from actions of the EC Commission, interprets the Treaty in cases pending before national courts and exercises original jurisdiction to consider disputes between member states.<sup>86</sup>

There are several Articles of the Treaty of Rome which are central to the discussion of intellectual property rights in the EU. The first two are Articles 30 and 59 of the Treaty, which guarantee the free movement of goods and services among the member states. Under Article 30, an EU member state has very limited authority to restrict the importation of a product manufactured in another member state. By contrast, under Article 36, this fundamental principle of the

84. See generally *supra* note 32, § 2.2. The patent code defines the parameters of patent misuse and provides as a remedy the inability to enforce the patent rights so long as the misuse remains uncurbed. 35 U.S.C. § 271 (1988); see also *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942); *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957).

85. The European Parliament has enhanced powers after the Maastricht Treaty in the legislative process and can, under circumstances beyond the scope of this paper, block, change or delay the enactment of legislation in the EU. For a discussion, see BNA, *Lobbying in the European Union*, 143 DAILY REP. FOR EXECUTIVE, SPEC. REP. (July 28, 1994).

86. Similar to the United States, the EU is a federation — an organization of limited and shared powers. That is, the member states, while retaining much of their national sovereignty and independence, have ceded to these EU governing institutions significant jurisdiction and authority over certain matters of common concern in order to achieve the shared objectives identified above. There is great debate in the EU on how these goals are to be carried out in a context of seeming conflicting jurisdictional claims of national sovereignty.

Common Market can be limited to protect industrial and commercial property.<sup>87</sup> Coupled with Article 222 of the Treaty, which states that the Treaty must respect the property rights created by the member states, Article 36 seems to give the owner of a patent in France, for example, the power to prevent the importation of products that would infringe on the French patent.<sup>88</sup> Apparently if the owner of the French patent had procured "counterpart" patents in other EU countries through the Munich convention process, then it could block interstate trade in the patented product. In other words, through its patent rights a patent holder could erect barriers to the free flow of goods from other member states on the ground that the product infringed the patent in the particular member state in question.

Such a result would conflict with the objectives of the creation of an open, common international market. The Treaty of Rome was intended to create an economic community in which EU consumers were to have the benefits of the widest possible choice of goods and services at the lowest price that competition could produce. The ECJ has interpreted the Treaty of Rome, as noted below, in a manner that has promoted the creation of a free-trade zone in which any restriction on trade flows must be strictly justified.<sup>89</sup> This potential economic "balkanization" is precisely what Articles 85 and 86 of the Rome Treaty were designed to address. Like the basic antitrust laws of the United States, the antitrust provisions of the Treaty of Rome proscribe, through Article 85, concerted activity having the effect of restraining trade among member states and, under Article 86, the abuse of a dominant position through which a firm can exercise market power.

As with other economic dispute resolutions, the resolution of conflicts involving intellectual property rights required that the ECJ and the EC Commission exercise their respective powers to ensure conformance with the overall objectives of the Treaty of Rome. First, the ECJ articulated a distinction be-

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87. The terms "industrial and commercial property" are not defined in the Treaty, *see*, BASIC COMMUNITY LAWS (3d ed. 1992), but are, of course, subject to construction and interpretation by the ECJ in light of the laws of member states of the EU.

88. While there has been much progress made in harmonizing intellectual property law in the EU, the member states continue to play a major role in these matters. First and foremost, there is no single EU patent that is valid in all member states, or in any member state. While the European Patent Convention, entered into force in 1978 (the "Munich Convention"), permits an applicant to take advantage of a single, centralized examination system for states participating in the convention, it does not provide for an "EU patent" at the end of the process. Rather, the centralized examination process typically results in numerous patents issued under the laws of the various member states and subject to their respective laws. Thus, in theory, a patent issued through the Munich Convention could be used to block shipments infringing goods from another EU member state, other than the country of issuance. While there is a draft European patent convention that would result in the issuance of a single EU patent (the "Luxembourg Convention"), it has not yet entered into effect. As a result, each member state continues to have the power to interject itself into the patent enforcement process. This conflicts with the notion of the free movement of goods and services.

89. *See Rewe v. Bundesmonopolverwalting für Branntewei* (1979) E.C.R. 649, 3 C.M.L.R. 444 (1979) (Cassis de Dijon). For a discussion of these issues, *see* Goebel, *The Interplay Between Intellectual Property Rights and the Free Movement of Goods in the European Community*, IV FORDHAM INTELL. PROP., MEDIA & ENT. L.J. 125 (1993).

tween the *existence* of certain property rights embodied in industrial property and the *exercise* of such property rights. In essence, the ECJ ruled that national intellectual property rights could not be exercised in a manner that would interfere with the free movement of goods and services.<sup>90</sup>

Furthermore, the ECJ developed the doctrine of “exhaustion” of nationally protected rights: the right of the owner of industrial property rights to restrict the marketing of products produced with such industrial property was exhausted after the first sale with the owner’s consent.<sup>91</sup> Thus, if a product made under a valid Dutch patent was sold into commerce by the owner of the patent or its licensee, then the product could be sold in any other member state. The ability of the patent holder to block its importation is *exhausted* after the first *lawful* sale of the product made pursuant to the patent. For example, the owner of the patent in the Netherlands could not, by securing a German patent and licensing another company under the German patent, empower the German licensee to block the sale of the product in Germany when it was imported by someone who had bought it from the Dutch patent owner or, more likely, from a Dutch licensee of the Dutch patent owner who lawfully manufactured the product in the Netherlands and sought to export it to Germany.<sup>92</sup>

The antitrust provisions of the Treaty of Rome played another central role in the interface between the principles of free movement of goods and the industrial property rights of exclusion given the owners of intellectual property in the EU. The EC Commission has the power under Article 85 to prohibit all agreements substantially restricting competition between member states, including agreements relating to intellectual property.<sup>93</sup> Under its power to proscribe restrictive practices, the EC Commission issued a basic procedural regulation. The regulation provides a notice mechanism for agreements, including licensing agreements. Upon notice of the agreement, the EC Commission determines either that the licensing agreement does not restrain trade between member states or, if it does, that it can qualify for an exemption.<sup>94</sup>

90. See, e.g., *Grundig/Costen*, 1966 E.C.R. 299 (1966); *Deutsche Grammophon*, 1971 E.C.R. 487 (1971).

91. *Id.*; *Centrafarm/Sterling Drug*, 1974 E.C.R. 1147 (1974).

92. This issue is more complex than it might appear at first reading. In fact, the ECJ has ruled that Art. 36 applies as an exception to the guarantee in Art. 30 of the free movement of goods where such exception to free movement (*i.e.*, import/ export trade between member states) is necessary to preserve “rights which constitute the *specific subject matter* of the property . . . *Centrafarm/Winthrop*, 1974 E.C.R. 1183, 1194 (1974). For a patent, the ECJ ruled that its specific subject matter is “the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by grant of license to third parties, as well as the right to oppose infringements.” *Centrafarm/Sterling Drug*, 1974 E.C.R. 1147, 1162 (1974).

93. Council of the European Communities, Regulation 17, 1962 O.J. (C 13) 204. For a discussion of the EC Commission’s powers, see KERSE, EEC ANTITRUST PROCEDURE (3d. ed. 1994).

94. As noted above, EC Council Regulation 1962/17 provides the basic framework through which the EC Commission conducts its operations. 1962 O.J. (C 13) 17. In very simple terms, Regulation 17 requires that all restrictive agreements be reported to the EC Commission in order to avoid a risk of being held void under Art. 85 (2). EEC Treaty Art. 85 (2). Pursuant to the notifica-

#### *A. Existing Regulation of Technology Licensing Arrangements*

In stark contrast with the generalized rule of reason approach to licensing analysis that evolved in the United States during the 1980s, the EC Commission has published detailed block exemptions containing lists of practices that are permissible, possibly permissible, and impermissible for patents and know-how licensing.<sup>95</sup> In essence, there are now EC "no-no's," in addition to EC "yes-yes's," and a few EC "maybe's." Unlike the United States, the antitrust procedures of the EC strongly favor the registration or prescreening of licenses, pursuant to Regulation 1962/17 (to ensure legality and enforceability), unless one of the block exemptions is applicable.

It is useful to compare the block exemptions of the EC Commission with the U.S. Nine No-No's and note that the EC Commission's black list prohibits eleven types of licensing restrictions. These patent licensing block exemptions were set to expire on December 31, 1994, but were recently extended to June 30, 1995).<sup>96</sup> As discussed below in detail, the EC Commission proposes to replace the separate patent and know-how block exemptions with a single "technology transfer licensing" regulation. It will be important to monitor developments as new guidelines are developed.

Both current block exemptions for patent licensing and know-how arrangements follow the usual pattern of EC Commission block exemptions in that they contain lists of restrictions that are always legal (the "White List") and that are always illegal (the "Black List").<sup>97</sup> For the first time in the patent licensing block exemption (and repeated in the know-how exemption), the EC Commission introduced an "opposition procedure" whereby a provision that is neither on the White or Black lists will be automatically exempted if the EU Commission decides not to challenge the provision within six months of notification. Thus, a "Gray List" was set forth.<sup>98</sup>

There is an infinite variety of provisions and restrictions that can be included in an intellectual property licensing agreement. Many are not controversial and raise no legal concerns. On the other hand, there are a number of common restrictions that have been the subject of extended analysis.

##### *1. Exclusive License Provisions*

An exclusive license provision may be permitted in the EEC, subject to several important qualifications. First, the licensing agreement may prevent the

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tion process, the EC Commission determines whether the notified agreement satisfies the antitrust standards of the EC Commission.

95. EC Commission Regulation (C2349) 84, 1984 O.J. (L 219) 15 (patent licensing agreement) and EC Commission Regulation 556/89, 1989 O.J. (L 61) 1 (know-how licensing agreements). Know-how is defined by Regulation 556/89 to mean "a body of technical information that is secret, substantial and identified in any appropriate form." Art. 1(7).

96. *Id.*

97. The White List for patent licenses is found in Art. 1 and the Black List is found in Arts. 3 and 5 of the patent licensing agreement *supra* note 98.

98. See Art. 4 of the Patent Licensing Block Exemption.

licensor and licensee from “exploiting” the licensed intellectual property in the territory of the other. The rationale for this absolute protection is that the essence of the licensed right includes the right to exploit the intellectual property. Such a right of exploitation includes the exclusive right to make, use or sell the subject matter of the patent.<sup>99</sup> Naturally, the licensor must have a parallel patent in the country where it seeks such exclusive protection.<sup>100</sup>

On the other hand, between or among licensees, there can be no absolute territorial protection. Instead, a licensee has only limited protection of five years from passive sales into its territory.<sup>101</sup> This limited period of protection provided in Paragraph 6 of Article 1 should be studied in the context of the block exemption for exclusive distribution agreements,<sup>102</sup> which normally requires, even if active sales are prohibited, some possibility of parallel imports. Thus, for example, the White List permits, as does the exclusive distribution block exemption, a provision in the license prohibiting the licensee from pursuing active sales in the territory of another licensee (including advertising in the territory, establishing a branch or maintaining a warehouse in the territory), so long as (after an initial five-year period) there is the possibility of parallel imports of the licensed product.<sup>103</sup>

## *2. Field-of-Use Restrictions*

Licensing arrangements sometimes restrict the use of the intellectual property licensed to a particular market application (product or geographic) even when there are other distinct fields in which it is useful. This type of limitation is commonly referred to as a “field of use” restriction. In Case 10 of the 1988 DOJ Guidelines, the Department of Justice discusses favorably the inclusion of a field-of-use restriction, particularly when there are competing technologies available by which to produce competing products. The 1988 Guidelines indicate that such provisions provide licensees with strong incentives to develop and market technology and can stimulate competition.

Such restrictions on the usage of a product are generally vertical (*i.e.*, between supplier and distributor) in nature. Given the general trend toward applying a rule of reason analysis to non-price vertical restraints, a U.S. court today

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99. In a patent license, such protection can extend, under the block exemption, for a period no longer than the life of the patent or the length of the license, whichever is shorter. In the case of know-how, there is generally a ten-year limitation, subject to the further qualification that the know-how remains secret, substantial and identified during this period. If the know-how is a part of a licensing arrangement that includes a patent as well and the know-how is essential for exploitation of the technology, the term can extend up to the expiration of the patent.

100. See Art. 1, paragraphs 4 and 5 of the block exemption.

101. See Art. 4 of the Patent Licensing Block Exemption.

102. EC Commission Regulation 83, 1983 O.J. (L 173) 1.

103. On the other hand, Art. 9 of the Patent Licensing Block Exemption, for example, states that the EC Commission can withdraw the benefits of the block exemption if a licensor does not have some right to terminate an exclusive license, if the licensee fails, “without legitimate reason . . . to exploit the patent or to do so adequately.” Further, the same result can occur, if a licensee, “without any objectively justified reason,” does not respond to passive sales possibilities.

would most likely not automatically condemn the imposition of a field-of-use restriction or even a purchasing license. Instead, a U.S. court today would weigh benefits against costs, balancing the degree to which the restriction impedes competition with the degree to which legitimate goals such as interbrand competition and innovation are advanced.<sup>104</sup>

On the other hand, in the EU, customer restrictions are prohibited in patent and know-how licenses.<sup>105</sup> Nevertheless, field of use restrictions are on the EU Gray List because of their potential for market division. Unlike in the United States, there is virtually never any explicit rule of reason balancing test in the EU that might validate vertical non-price restraints intended to promote inter-brand competition.

### *3. Territorial and Customer Restrictions*

In the United States, customer restriction provisions are generally legal. The only exception to this rule is in situations in which the restriction is part of an overall scheme to divide markets among competitors. Thus, to the extent that a licensor and licensee are in the same product market and provide cross-licensing arrangements which partition territories, the arrangement could run afoul of the antitrust laws. In addition, since the license covers unpatented know-how or product, territorial restrictions should be evaluated under a rule of reason approach. Furthermore, under the so-called "exhaustion doctrine," the patent right is exhausted by the first sale of the patented product.<sup>106</sup>

On the other hand, the EC antitrust rules on territorial and customer restrictions are much more stringent. As noted above,<sup>107</sup> territorial protection in exclusive licensing arrangements is only available in limited circumstances and, between licensees, for five years.<sup>108</sup> Similarly, customer restrictions are prohibited in the absence of an individual Article 85(3) decision on the basis of a ratified agreement. This view reflects the EC Commission's concern about market division arrangements that are thought to have the potential to restrict free trade between member states.

### *4. Tying Arrangements<sup>109</sup>*

Tying arrangements are on the Gray List for the EC Commission block exemption for patent licenses. The rule in the U.S. is similar to the rule which the EC Commission has adopted in its franchise block exemption regulation, EU

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104. See, e.g., *United States v. Studiengesellschaft Kohle, mbH*, 670 F.2d 1122 (D.C. Cir. 1981).

105. See *supra* note 97. Art. 3, paragraph 7 of the patent license block exemption and Art. 3, paragraph 6 of the Know-How Licensing Block exemption.

106. *United States v. Univis Lens Co.*, 316 U.S. 241, 249-50 (1942).

107. Patent Licensing Block Exemption, *supra*, note 102.

108. *Supra*, n. 106.

109. A tying arrangement is an agreement in which the buyer's purchase of one product (the "tying" product) is conditioned on the buyer's purchase of a second, distinct and unwanted product (the "tied" product). See *Eastman Kodak Co. v. Image Tech. Servs.*, 112 S.Ct. 2072, 2079 (1992).

Regulation No. 087/88, to protect trademarks. Tying arrangements are subject to review under Section 1 of the Sherman Act.<sup>110</sup> Such arrangements are *per se* illegal if it is established that: (1) two separate products or services are involved; (2) the sale or agreement to sell one product is conditioned on the purchase of another; and (3) the seller has sufficient economic power in the market for the tying product to enable it to restrain trade in the market for the tied product.<sup>111</sup> In intellectual property cases, the tying item typically is either a license under a patent owned by the licensor or a product made under a patent owned by or licensed to the tying seller.

On the other hand, many older U.S. cases and a few of the more modern cases presume that the licensor has market power whenever the tying product is a patent or copyright.<sup>112</sup> This presumption may be overcome, however, if the patentee can show that its intellectual property rights do not block competitors from freely producing competing products.<sup>113</sup> During the 1980s, several courts, and four Justices of the U.S. Supreme Court, questioned this presumption.<sup>114</sup> The critical issue in cases presuming market power tends to be the extent to which two separate products or services are involved, regardless of which approach is taken with market power.<sup>115</sup> For instance, in a series of electronics and computer related cases, the courts have grappled with the degree to which

110. A tying arrangement can also violate § 3 of the Clayton Act. 15 U.S.C. § 14.

111. *Eastman Kodak Co. v. Image Tech. Servs.*, *supra* note 111; *Northern Pac. Ry. v. United States*, 356 U.S. 1, 5-6 (1958). In addition, under 35 U.S.C. § 271(d)(5) (1988), a tying arrangement constitutes patent misuse and can result in the invalidation of the patent, to the extent that the patentee has market power in the tying items. The misuse doctrine is based on the belief that courts should not "aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse or thereafter until the effects of such misuse have been dissipated." *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957). Thus, patent misuse is similar to the equitable doctrine of "unclean hands." *Id.* A possible defense to tying patent misuse is that, under the patent code, a patent owner has the "right to control nonstaple goods that are capable only of infringing use in a patented invention." *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 200-202 (1980).

In *Keystone Retaining Wall Sys. v. Westrock, Inc.*, 1991-2 Trade Cas. (CCH) ¶69,677 (D. Ore. 1991), a manufacturer and distributor of competing retaining wall systems alleged that Keystone's conditioning the sale of licenses for the manufacture and sale of its retaining wall systems and components on licensees' commitment to buy pins only from approved sources was a *per se* illegal tie-in. The court rejected *per se* treatment because Keystone was found to lack a sufficient economic interest in the sale of pins.

112. *International Salt Co. v. United States*, 332 U.S. 392, 395-96 (1947); *See, e.g.*, *White Motor Co. v. United States*, 372 U.S. 253, 259 (1963); *United States v. Loew's Inc.*, 371 U.S. 38 (1962); *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1339-340 (7th Cir. 1984), *cert. denied*, 473 U.S. 908 (1986); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986); *Grid Systems Corp. v. Texas Instruments, Inc.*, 771 F. Supp. 1033, 1038 (N.D. Cal. 1991).

113. *In re Data Gen. Corp. Antitrust Litig.*, 490 F. Supp. 1089, 1112-13 (N.D. Cal. 1980).

114. *See, e.g., Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 37 n.7 (1984) (O'Connor concurring) ("a patent holder has no market power in any relevant sense if there are close substitutes for the patented product"); *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986).

115. Similarly, in franchise situations, courts differ regarding whether the franchisor's trademark can constitute a separate market. *Compare Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972) with *Principe v. McDonald's Corp.*, 631 F.2d 303, 309 (4th Cir. 1980), *cert. denied*, 451 U.S. 970 (1981).

the provision of (i) hardware maintenance services and computer related support services and (ii) equipment maintenance services and replacement parts are separate and distinct products.<sup>116</sup>

Similarly, there has been significant debate recently regarding whether the relevant market for services, software, or replacement parts should be limited to a particular brand.<sup>117</sup>

### 5. *Grantbacks*<sup>118</sup>

Similarly, patentees will sometimes premise the license upon the licensee agreeing either to assign to the patentee any improvement patents derived from the licensed patent or to license the subsequently developed patents to the patentee. These arrangements are referred to as "grantbacks." Grantbacks can be procompetitive in that they permit the patentee to license the technology without any risk that it will be foreclosed from the market. Furthermore, they can lead to innovation. EU patent licensing guidelines permit grantbacks so long as they are non-exclusive. Such arrangements in the United States are usually evaluated under the rule of reason approach.<sup>119</sup>

When combined with other restrictions, however, a grantback clause can be anticompetitive or improperly extend market power beyond that of the patent itself.<sup>120</sup>

The key factors considered in evaluating a grantback provision are: (1) whether the grantback is exclusive or nonexclusive, and if exclusive, whether the licensee retains the right to use the improvements, (2) whether the grantback precludes, permits or requires the licensor to grant sublicenses, (3) whether the grantback is limited in scope to the licensed patents or covers inventions which would not infringe the licensed patent, (4) the duration of the grantback, (5) whether the grantback is royalty-free, (6) the market power of the parties, (7) whether the parties are competitors, and (8) the effect of the grantback on the incentive for developmental research.<sup>121</sup> In the absence of anticompetitive in-

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116. See *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, 1993-2 Trade Cas. (CCH) ¶ 70,446 (6th Cir. 1993) (amending a previous opinion and holding that the tying product market alleged by the complaining firm that was unable to enter into hardware maintenance contracts with owner of related computers was not improper); *Service & Training Inc. v. Data Gen. Inc.*, 1992-1 Trade Cas. (CCH) ¶ 69,810 (4th Cir. 1990) (computer repair and software licenses are separate markets); *SystemCare Inc. v. Wang Lab.*, 787 F. Supp. 179 (D. Colo. 1992) (maintenance services and software support services).

117. In *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 112 S. Ct. 2072 (1992), the court concluded that service and parts could be defined in terms of Kodak brand equipment only. *Id.* at 2090. Kodak is an important case to consider when defining product markets today.

118. A grantback is a provision in a licensing agreement whereby a licensee is obligated to communicate to the licensor any improvements and to grant the licensor the right to use such improvements.

119. See, e.g., *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 648 (1947).

120. See *United States v. General Elec. Co.*, 82 F. Supp. 753 (D.N.J. 1949); *United States v. Imperial Chem. Indus., Ltd.*, 105 F. Supp. 215 (S.D.N.Y. 1952); *United States v. Associated Patents, Inc.*, 134 F. Supp. 74 (E.D. Mich. 1955), *aff'd per curiam*, 350 U.S. 960 (1956).

121. ABA Antitrust Section, *ABA ANTITRUST LAW DEVELOPMENTS* (Third) at 805.

tent or broader anticompetitive restriction, it is not likely that the grantback of a nonexclusive license will violate the antitrust laws.<sup>122</sup> Furthermore, even exclusive grantbacks have been upheld in the United States where there was no evidence that they deterred improvements.<sup>123</sup>

#### 6. *No-Challenge Clauses*<sup>124</sup>

No challenge clauses are blacklisted in the EU. Similarly, U.S. law prohibits the use of no-challenge clauses in intellectual property licensing arrangements.<sup>125</sup>

#### 7. *Restrictions on the Development/Sale of Competing Products*

Licensees in the EU can be required to use their best efforts to promote licensed technology.<sup>126</sup> Nevertheless, there is greater suspicion in the EU concerning such restrictions than in the United States. Indeed, in Case 10 of the DOJ 1988 Guidelines, the government discussed a hypothetical license that included a provision forbidding the licensee “from manufacturing and selling safety eyeglasses coated with any” material competing with that covered by the license. The Department noted that a provision precluding the use of competing technologies “may be used to give [the licensee] a strong incentive to develop and aggressively market [the licensor’s] technology.” The hypothetical assumes that the relevant market is not concentrated. In particular, the illustration involved an industry wherein the license would not be likely to exclude new technologies from entering the market. Although the license prohibited the licensee from manufacturing and selling competing products, there were many other manufacturers that presumably could market competing technologies. Moreover, there was no indication that entry into the manufacture and sale of such eyeglasses would be free of difficulty. Accordingly, the Department found that the potential efficiency benefits of the provision outweighed any possible limitations on the abilities of the licensee to use competing technologies.

#### B. *Proposed New Block Exemption for Technology: Licensing Arrangements*

As indicated above, Article 85 of the Treaty of Rome and Council Regulation No. 1962/17 provide for a system of notification of restrictive agreements through which such agreements may be validated. In order to avoid the necessity for notification of certain individual restrictive agreements, the EC Commission adopted a block exemption for certain patent licensing agreements ((EEC) No. 2349/84) and certain know-how licensing agreements ((EEC) No. 556/89).

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122. See, e.g., *International Nickel Co. v. Ford Motor Co.*, 166 F. Supp. 551, 565 (S.D.N.Y. 1958).

123. See, e.g., *Santa Fe-Pomeroy, Inc. v. P & Z Co.*, 569 F.2d 1084, 1101-02 (9th Cir. 1978), accord Case 11 of DOJ International Guides.

124. A no-challenge clause is a provision in a licensing agreement whereby the licensee is prohibiting the validity or secrecy of the licensed technology.

125. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

126. See, e.g., Recital 21 to the Patent Licensing Block Exemption.

These patent licensing and know-how licensing block exemption regulations are set to expire by their terms on December 31, 1994 and December 31, 1999, respectively.

In order to deal with the impending expiration of the patent licensing block exemption (No. 2439/84), and the problems in having two different block exemptions covering patent and know-how technology, which are often licensed together, the EC Commission published a draft regulation which provides a single, harmonized block exemption for patent licenses, know-how licenses and "mixed patent and know-how licensing arrangements."<sup>127</sup> On June 30, 1994, the EC Commission published for public comment in the *Official Journal of the European Communities* a preliminary draft Commission Regulation providing a block exemption for certain technology transfer agreements. In light of the controversy surrounding the draft block exemption, the EC Commission recently extended the term of the patent licensing block exemption until June 30, 1995. In late 1994 or early 1995 a hearing on the draft will be held to permit the EC Commission to hear further comments and, thereafter, consultations will be held with the member states. According to the EC official responsible for the draft, the commission expects to adopt the draft block exemption, with some minor amendments, in March, 1995.<sup>128</sup>

The draft regulation follows the typical structure of EC block exemptions in setting forth "white," "gray" and "black" lists of permissible, questionable and prohibited licensing practices.

While there remains much in common between the old block exemptions for patent and know-how licenses and this draft technology licensing exemption synthesis, there are several startling and controversial differences. Under the draft regulations, both exclusive licenses and export bans (*e.g.*, territorial protection of the licensees from competition by the licensor or other licensees) are radically restricted. Exclusive licenses can be automatically exempted under the draft regulation when (1) the licensee's share of the relevant market for the licensed product is less than 40% *and* (2) the relevant market in question is not "oligopolistic," (*i.e.*, one in which three or more companies in the market together hold a market share of more than 50% or one in which the top five firms collectively hold a market share of two-thirds).<sup>129</sup> To the same effect, the benefits of the block exemption are denied to technology transfer licenses containing export bans (and other restrictions designed to protect licensees from competition) when the licensee protected by such restrictions has a market share of more than 20%.<sup>130</sup>

Such provisions in the draft technology transfer regulation generate, to say the least, the potential for great uncertainty. How is the relevant market to be

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127. 1994 O.J. (C 178) 3.

128. Guttiero, *EC Technology Transfer Arrangements 1994*, FORDHAM INT'L ANTITRUST CORP. LAW INST., Oct. 28, 1994.

129. See *supra* note 129 at 9, art. 1(5).

130. *Id.* at 9, art. 7(6).

defined? When is it to be defined? For example, if the licensing arrangement does not exceed these safe-harbors at the outset, does the arrangement lose the protection of the block exemption (and thus risk being held void *ab initio* unless individually notified to the EC Commission) if during its term the licensee's share grows larger (perhaps as the result of its superior skill) and exceeds the market share limits? While the current draft says in a recital that this judgment is to be made "at the time the agreement is concluded," the terms of the regulation permit the construction that the EC Commission may construe the market share limits to be applied dynamically (*i.e.*, at any time during the license) despite the uncertainty and penalty for success that is involved. In any event, the recital does not resolve the question of when the judgment regarding the oligopolistic character is to be made.

A similar problem of uncertainty is created by the question of the length of exemption for the restrictions in a mixed patent/know-how license. In a pure patent license, the benefit of the restrictions would last for the entire life of the patent. In a pure know-how arrangement, the protection is limited to ten years.<sup>131</sup> Thus, in a mixed technology licensing arrangement, what is the length of time when the protections of the block exemption attach? According to the draft regulation, if the patent plays an "essential" role in the technology transferred, the arrangement is protected for the life of such patent.<sup>132</sup>

Having identified these areas of substantial uncertainty and controversy that require careful analysis, the draft regulation carries forward from the separate, current patent and know-how block exemptions many of the clear-cut white and black list provisions. In terms of the white list, a mixed patent/know-how licensing arrangement may:

1. require a licensee to use the licensor's trademark on the licensed product,
2. require a licensee to limit production of the licensed product to quantities required in manufacturing the licensee's own product, provided such quantities are determined by the licensee,
3. require a licensee not to disclose know-how during and after the arrangement,
4. require a licensee to provide the licensor with a non-exclusive grant back on improvements, and
5. require a licensee to abide by field-of-use restrictions.<sup>133</sup>

On the other hand, the draft regulation contains a black list that, for example, prohibits the following:

1. resale price restrictions,
2. restrictions on R&D,
3. restrictions on parallel imports where technology rights have been exhausted, and
4. restrictions within the same technological field of use on customers that may be served.<sup>134</sup>

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131. EC Commission Regulation 556/89, Art. I(2).

132. See Draft EC Commission Technology Transfer Block Exemption, *supra* note 126, Art. 5(4).

133. *Id.* at Art. 5.

134. *Id.* at Art. 3.

These examples are illustrative, and there are others that require study and examination.<sup>135</sup> For example, there are severe restrictions on patent pools and cross-licenses.<sup>136</sup>

While the draft block exemption is scheduled to go into effect, there are transition periods provided in the proposed regulation to deal with currently existing "pure" patent and know-how licenses. Article 85 (1) will not apply until June 30, 1995 to arrangements that currently meet the terms of the expiring patent block exemption. A similar transition period until December 31, 1999, is applicable to currently existing know-how arrangements.

The preliminary draft regulation provides a very useful insight into current EC Commission enforcement policy with respect to technology transfer arrangements. Its enforcement perspectives are controversial and reflect the deep-seated and long-standing concerns in the EU about barriers to free trade between member states and a skepticism much greater than in the United States about restrictions on intra-brand competition as a vehicle to promote interbrand competition. These concerns are, perhaps, inevitable in a regime that places so much emphasis on open borders between member states. In this sense, the block exemptions are much like the exemptions for exclusive distribution and purchasing arrangements in their insistence on opportunities for parallel imports into an otherwise exclusive territory.

### C. Role of Member States in the Regulatory Framework

As indicated above, the EU is a federal form of government, in some respects, like the United States. Some strong central governmental institutions exercise broad power throughout the common market created by the Treaty of Rome. The EC Commission has the power to ensure that the EU's broad commitment to movement of goods and services among member states is free from artificial trade barriers and anticompetitive restraints.<sup>137</sup>

Nevertheless, the member states retain important sovereign powers and maintain their respective national court systems that continue to have both criminal and civil jurisdiction. In particular, the national courts have the responsibility to protect the substantive rights conferred by the laws of the respective state on private parties.<sup>138</sup>

The ECJ has determined that the national courts must give *direct effect* to the provisions of the Treaty, where applicable in resolving private disputes.<sup>139</sup> Thus, both the central EU authorities (such as the EU Commission) and the national courts have concurrent powers to carry out many of the provisions of the Treaty of Rome, particularly the competition provisions in Articles 85 and

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135. The number of black list provisions has been reduced from eleven in the current 1994 patent licensing block exemption to six in the draft technology transfer regulation.

136. *Id.* at Art. 5.

137. For discussion, see BELLANY & CHILD, COMMON MARKET LAW OF COMPETITION (1993).

138. *Id.*

139. *Id.* at 10-001 *et seq.*

86 of the Treaty. As a result, there are many circumstances when a national court is confronted, in a dispute between two private parties, with the question of whether the right sought to be enforced is prohibited by a provision of the Treaty. As one might imagine, the ECJ held very early in the evolution of the EU that the European Community law is supreme and governs over any conflicting national law.<sup>140</sup>

In an effort to assist member states with the difficult task of applying European Community law in private disputes arising in their respective national courts, the EU Commission has issued a "Notice on Cooperation Between National Courts and the Commission in Applying Articles 85 and 86 of the EEC Treaty."<sup>141</sup> This Notice sets forth in detail the manner and extent to which national courts may look to the EU Commission for assistance in deciding private disputes. Taking industrial property rights as an example, the national courts must give effect to the provisions of an applicable block exemption. Thus, restrictive licensing provisions on the white or black lists must be given the legal significance previously determined by the EC Commission.<sup>142</sup> These difficult practical issues should be kept in mind when considering the substantive legal standards applicable to industrial property rights in the EU.

## V.

### RECENT DEVELOPMENTS AND POSSIBLE TRENDS IN UNITED STATES ENFORCEMENT POLICY

The first two years of the Clinton administration provide strong indications of invigorated antitrust enforcement, including close scrutiny and increased interest in intellectual property transfers and rights.<sup>143</sup> Some of this increased interest, however, actually commenced during the last several months of the Bush Administration. This section will highlight some of the investigations and actions taken by the FTC and DOJ both while conducting investigations and in the merger context.

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140. Walt Wilhelm v. Bundeskartekampf, 1969 E.C.R. 1 (1969).

141. 1993 O.J. No. (C 39) 6.

142. Much more difficult questions are presented by situations where a party has received a "comfort letter" from the EC Commission in lieu of an individual exemption decision that Article 85(3) is applicable. A further difficult problem arises when the national court is asked to decide on a matter currently pending before the EC Commission, for example, as a result of an individual notification. The EC Commission Notice, *supra* note 7, seeks to address these and other questions. For further discussion, see Bourgeois, *EC Competition Law and Member State Courts*, FORDHAM INT'L L.J. 331 (1994); Riley, *More Radicalism, Please: The Notice on Co-operation between National Courts and the Commission in Applying Articles 85 and 86 of the EEC Treaty*, 3 E.C.L.R. 91 (1993); Comment, *The Commission's Notice on Cooperation between National Courts and the Commission in applying Article 85 and 86 EEC*, 30 COMMON MARKET L. REV. 681 (1993).

143. The number of investigations and the increased activities on the pending investigations since the Clinton Administration took office suggest that the evolution toward close scrutiny of these matters during the Bush Administration has accelerated and will continue.

#### A. Investigations

##### 1. Pilkington Licensing Agreements Do Not Float by the DOJ

On May 26, 1994, the DOJ filed a complaint and proposed consent decree with Pilkington PLC ("Pilkington"), a British manufacturer and licensor of flat glass, and its U.S. subsidiary, Pilkington Holdings, Inc., modifying Pilkington's license agreements with U.S. companies.<sup>144</sup> This marked the third time that a federal antitrust enforcement agency reviewed and modified Pilkington's arrangements with its licensees on the basis of market allocation concerns.

In the late 1950s, Pilkington developed and patented the first commercially successful float process for manufacturing flat glass, obtaining over 1,000 patents worldwide and over 100 patents in the U.S. alone. In 1962, it licensed its technology to several other manufacturers located throughout certain regions of the world. The licenses delineated the production volumes, and in some cases the sale of glass, by these licensees to specific regions. Each of these licenses covered both patent rights and know-how.

In May 1989, Nippon Sheet Glass Company, Ltd. ("Nippon") and Pilkington PLC entered into a stock purchase agreement by which Nippon acquired a 20% interest in Libbey-Owens-Ford Co., a subsidiary of Pilkington. As part of the transactions, the parties made a float glass capacity agreement that, among other things, prohibited Nippon and Pilkington from building or acquiring capacity for the production or fabrication of float or other flat glass except through Libbey-Owens-Ford Co. for a period of five years.

The FTC investigated the 1989 transaction and found that the purpose and effect of the capacity agreement, if enforced, may have restrained competition unreasonably in the manufacture, sale, and fabrication of float glass in violation of Section 5 of the Federal Trade Commission Act.<sup>145</sup> In March 1990, the FTC entered into a consent agreement with the parties to modify the agreement to abrogate the prohibition from building or acquiring capacity.<sup>146</sup> The order also prohibited Nippon and Pilkington from entering into any agreement that had the purpose or effect of restraining competition by either limiting float glass manufacturing capacity in North America or restricting imports to North America. To ensure that there were no external, technology-related restrictions on Nippon's ability to manufacture float glass in North America, the order further provided that, upon Nippon's request, Pilkington would license to Nippon technology sufficient to enable Nippon to manufacture and sell float glass in North America and to export it to Japan. The payment terms of such a license agreement would

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144. United States v. Pilkington PLC, (D. Az. Civ. No. 94-345, filed May 25, 1994).

145. In an earlier proceeding, *In re Pilkington Bros. PLC*, No. 831-0014, the FTC entered into a consent agreement that caused Pilkington to divest certain assets in Ford Glass Limited and Vitro Plan S.A. in order to be able to keep the shares it had acquired in Libbey-Owens-Ford Company in 1982.

146. *In re Nippon Sheet Glass Co., Ltd.*, FTC Docket No. C3298 (consent entered July 26, 1990).

have to be at least as favorable to Nippon as an earlier license agreement between these companies (adjusted for inflation).

Commissioners Azcuenaga and Strenio concurred in the approval of the consent agreement but would have barred the entire transaction rather than merely modify the capacity agreement.<sup>147</sup> These two Commissioners were not alone in viewing the relief in the consent as inadequate. In November 1992, PPG Industries filed a private Sherman Act challenge to Pilkington's licensing practices in the Federal District Court of Arizona.<sup>148</sup> Furthermore, the DOJ reacted to the private action by commencing its own investigation, which culminated in the May 25, 1994 proposed consent decree.<sup>149</sup>

The DOJ's concerns regarding the Pilkington licenses related to provisions that: (1) restricted each licensee to a specified country or group of countries for the construction and operation of float glass plants corresponding to the territory in which the licensee previously manufactured float glass, (2) limited the use of the licensed technology to float glass production, (3) prohibited sublicensing, and (4) required grantbacks of all improvements.<sup>150</sup> These restrictions purportedly "discouraged competitor licensees from developing and using their innovations in float glass technology [by] geographically limiting the opportunities for economic exploitation of innovations."<sup>151</sup> Furthermore, the grantback provisions "disadvantaged competitors in creating and competitively marketing float glass technology that could be used free of Pilkington's licensing restrictions by eliminating or reducing economic incentives to innovate."<sup>152</sup>

The complaint indicates that by the end of 1982, Pilkington's principal U.S. patents had expired, but the license agreements continued nonetheless to impose the "territorial, use, and sublicense restrictions . . . until a licensed competitor could prove that all of Pilkington's float glass technology had become public knowledge."<sup>153</sup> Pilkington actively enforced its licenses, asserting that even after the patents had expired, its licensees continued to possess and use unpatented know-how that it was entitled to protect under the trade secrets laws. The DOJ disagreed with Pilkington's assertions, on the basis that "the remaining secret unpatented technology consisted largely of engineering solutions with no substantial value over other, equally efficacious engineering alternatives."<sup>154</sup> Instead, according to the DOJ, "Pilkington's license agreements provided a framework for a . . . worldwide cartel . . . for float glass technology and the design and construction of float glass plants."<sup>155</sup>

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147. *Id.*

148. PPG Indus., Inc. v. Pilkington PLC, Civ. No. 92-753-TUC-WDB (D. Az.).

149. United States v. Pilkington PLC, *supra* note 150.

150. Complaint ¶¶ 19-20.

151. *Id.* ¶ 23.

152. *Id.* ¶ 20-21.

153. *Id.* ¶ 23.

154. *Id.* ¶ 24.

155. *Id.* ¶ 25.

The proposed DOJ consent decree eliminates all territorial and use limitations in the Pilkington licenses with U.S. licensees to allow them to "manufacture on their own or sublicense any third party to do so anywhere in the world, free of charge, using the float technology disclosed and licensed to those licensees."<sup>156</sup> Furthermore, the consent provides similar rights to any other American individual or firm to use any float technology in its possession without liability to Pilkington. Finally, the judgment enjoins "certain conduct having the purpose or effect of restricting exports of float glass to the United States or limiting the use of float technology or manufacture of float glass in North America."<sup>157</sup>

The DOJ's announcement of the proposed consent decree emphasized the global nature of the arrangement, asserting that it had ended "a licensing stranglehold on glass manufacturing that kept American companies from designing and building glass-making plants overseas . . . [thereby] closing off foreign markets to U.S. companies and costing American jobs by strictly limiting the use of commercial float glass technology, only a portion of which it developed and patented more than 30 years ago." According to the Department, Pilkington's unpatented intellectual property simply was "of insufficient value to justify territorial allocations and other restraints of trade that limited the ability of U.S. firms to design, build, or operate float glass plants in other countries." The DOJ further boasted "that the consent will give American firms access to a market . . . that will be worth \$5 billion over the next six years."

The full extent of the DOJ's intentions in investigating and entering the consent decree with Pilkington is unclear and has created a great deal of uncertainty. A broad, and probably incorrect, reading of the Department's position would be that "*any* limitations on competition between a know-how licensor and its licensees will be suspect and difficult to justify when the know-how in question is deemed to be of that limited value."<sup>158</sup> Only time will tell whether the competitive impact of the Pilkington licenses in restricting U.S. competition was blown out of proportion by the DOJ and what its full implications for antitrust enforcement will be.<sup>159</sup>

## 2. DOJ Chips at MicroSoft's Practices

The latest chapter of the MicroSoft antitrust saga was written on July 15, 1994, when the company agreed to settle DOJ charges that it had "used unfair contracts that choked off competition and preserved its monopoly position."<sup>160</sup>

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156. Competitive Impact Statement at 15-16.

157. *Id.*

158. See Skitol, *DOJ's Pilkington Complaint and Settlement Contain Lessons For Technology Sharing in the Computer Industry*, Vol. 1, No. 2. COMPUTER INDUS. 7 (1994).

159. See Footnote 159 Case Brings Uncertain Results, 11 Prentice Hall DOJ Alert 8 (June 20, 1994) (quoting PPG attorney Tom Barr as stating that the government's consent decree would do nothing to resolve the PPG-Pilkington dispute). It is also unclear whether *Pilkington* signals a new era in enforcement activity against foreign firms limiting U.S. export opportunities, i.e., putting some action beyond the rhetoric of the deletion of footnote 159 of the 1989 Guidelines.

160. DOJ Press Release, p. 1 (July 16, 1994).

The proposed consent decree, filed with the U.S. District Court for the District of Columbia, prohibits MicroSoft from engaging in certain practices that the DOJ found to be objectionable. The settlement was the result of close coordination between the Department and the competition enforcement authorities of the EU, which had also been investigating MicroSoft since mid-1993 and had initiated an undertaking containing essentially the same terms.<sup>161</sup>

The DOJ's interest and investigation of MicroSoft began in late July, 1993 when it announced its intention to investigate the business practices of MicroSoft.<sup>162</sup> The DOJ decision followed both the widely publicized gridlock of the FTC Commission whether to sue MicroSoft as recommended by the staff on the basis of evidence gathered during the course of the FTC's 37-month investigation, as well as letters from U.S. Senators Metzenbaum and Hatch urging the DOJ to take over the investigation.<sup>163</sup>

The original FTC investigation, which began in 1990, involved complaints by the company's main rivals concerning MicroSoft's use of a variety of licensing provisions purportedly to dominate the software business. The disputed conduct concerns MicroSoft's principal product, MS-DOS®, which is the standard operating system software for almost all personal computers sold in the United States and is currently installed on approximately 90% of IBM-compatible personal computers worldwide. Applications software competitors have accused MicroSoft of using the popularity of its MS-DOS® software to force computer equipment manufacturers to purchase other MicroSoft products. Furthermore, these competing programming companies have alleged that MicroSoft has an unfair advantage when it develops new applications software because it knows in advance what changes will be made to MicroSoft's MS-DOS® and Windows®. Similarly, competing operations systems manufacturer Novell has alleged that (1) MicroSoft's blanket licensing practices coerce personal computer producers to load MS-DOS® on all of their units rather than Novell's competing operating system, DR-DOS®; and (2) MicroSoft intentionally designed its Windows products so that they could not be used with Novell's DR-DOS® system.<sup>164</sup>

The Department broadened the investigation's scope to include the nondisclosure agreements that MicroSoft required outsiders to sign when they received

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161. Assistant Attorney General Anne K. Bingaman indicated at the time the settlement was announced that "this unprecedented, historic cooperative action sends a powerful message to firms around the world that the antitrust authorities of the United States and the European Commission are prepared to move decisively and promptly to pool resources to attack multinational firms that violate the antitrust laws of the two jurisdictions." *Id.* at 2.

162. Stuart Taylor, Jr., *What To Do With the MicroSoft Monster*, THE AM. LAW., Nov. 1993, at 81.

163. Following the protracted and highly publicized investigation, the FTC staff strongly recommended that the agency sue MicroSoft for its conduct. However, in a vote at their July 1993 meeting, the FTC Commissioners remained evenly divided over what action to take against MicroSoft. *FTC Closes Antitrust Probe of MS; Antitrust Division Begins its Own Probe*, (hereinafter "FTC Closes Probe") Antitrust & Trade Reg. Rep., News & Comment, Aug. 26, 1993. Taylor, *supra* note 163, at 81.

164. See generally, Taylor, *supra* note 165.

pre-release copies of its software. In early July, 1994, the press reported that MicroSoft founder William Gates "paid a rare visit to Washington and met with, among others, Vice President Al Gore, then White House Chief of Staff Thomas McLarty and top economic adviser Robert Rubin."<sup>165</sup>

The complaint filed on July 15, 1994 by the DOJ specifically challenged three aspects of MicroSoft's conduct: (1) the use of the exclusionary per processor licenses described above; (2) the imposition of unreasonably long licenses, which purportedly bind manufacturers to purchase MicroSoft products beyond the lifetime of most operating system products, thereby foreclosing new entrants from gaining a sufficient toe-hold in the market; and (3) the introduction of overly restrictive nondisclosure agreements to unreasonably restrict the ability of independent software companies to work with developers of non-MicroSoft operating systems. For instance, MicroSoft sought nondisclosure agreements from companies participating in trial testing of the new version of Windows® that precluded the applications developers from working with MicroSoft's competitors for years.

Through these exclusionary practices, the Department charged:

MicroSoft has used its monopoly power, in effect, to levy a 'tax' on PC manufacturers who would otherwise like to offer an alternative system . . . As a result, the ability of rival operating systems to compete has been impeded, innovation has been slowed and consumer choices have been limited . . . MicroSoft has maintained the price of its operating systems while the price of other components has fallen dramatically.<sup>166</sup>

The settlement agreement seeks to end these practices and to rectify the effects of MicroSoft's past conduct. Specifically, it prohibits MicroSoft from: (1) entering into per processor licenses, (2) obligating licensees (*i.e.*, manufacturers of personal computers) to purchase any minimum number of MicroSoft's operating systems, (3) entering into any licenses with terms longer than one year (although licensees may renew for another year on the same terms), (4) requiring licensees to pay MicroSoft on a lump sum basis, (5) requiring licensees to purchase any other MicroSoft product as a condition for licensing a MicroSoft operating system, and (6) requiring developers of applications software to sign overly restrictive nondisclosure agreements. The settlement has a term of six and a half years.

### 3. *FTC Turns Off Power to Intel Investigation*

Following two years of investigation, the FTC notified Intel on July 14, 1993, that it was dropping its inquiry into Intel's business practices.<sup>167</sup> Intel is the dominant producer of microprocessors for IBM-compatible personal computers, accounting for approximately 85% of market sales. Competing chip makers, such as Advanced Micro Devices and Cyrix Corporation, complained to

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165. Viveca Novak, *Inquiry by U.S. Antitrust Division Into MicroSoft Is in Final Stages*, WALL ST. J., July 1, 1994 at B3.

166. DOJ Press Release, *supra* note 163, at 3.

167. Don Clark, *U.S. Ends Antitrust Probe of Intel Corp.*, S.F. CHRON., July 15, 1993, at B1.

the FTC that Intel threatened distributors carrying competing products with losing their supply of the much-desired Intel 486-series microprocessor chips and advanced "80386" chips.<sup>168</sup>

The July 14 letter to Intel from acting FTC Bureau Director Mary Lou Steptoe cautioned that while "no further action appears warranted at this time, [the closing of the investigation] is not to be construed as a determination that a violation may not have occurred . . . , and that the Commission reserves the right to take further action 'as the public interest may require.'"<sup>169</sup> Intel's victory came at a price, however. According to Intel's General Counsel, the FTC investigation cost Intel millions of dollars, as the company examined more than two million documents and supplied the FTC with more than 250,000 pages during the course of the investigation.<sup>170</sup>

#### 4. *FTC Activist Prescription Filled by PTO in Hoffman-LaRoche Reexamination*

The FTC took an activist role in connection with the Hoffman-LaRoche patent for alpha-interferon. Rather than resorting to litigation, in late 1993 the FTC referred the controversial biotech patent to the PTO, successfully lobbying the PTO to subject the patent to reexamination, which ultimately lead to its rejection by the examiner.<sup>171</sup>

The FTC's action followed a seven-year investigation of negotiations between Hoffmann-LaRoche and Schering-Plough that culminated in 1985 with extensive cross-licensing rights in the drug alpha-interferon. Although the details of the licensing arrangements were never disclosed, news articles indicated that they covered not only U.S. marketing rights but those for the world.<sup>172</sup> Contemporaneous press accounts also showed that the parties had agreed not to contest each other's patents, surely a red flag to FTC investigators.<sup>173</sup>

Fortified by the deposition transcripts from dozens of witnesses and the studies of numerous consultants, the FTC staff concluded that Hoffmann-LaRoche had obtained its patent improperly, and, hence, enjoyed an unjustified monopoly. In particular, the FTC found that the company's bad faith misrepresentations to the PTO constituted inequitable conduct in furtherance of a larger scheme to restrict entry into a perceived alpha-interferon market. The FTC sent the PTO Commissioner published abstracts from interferon researchers in the mid-to-late 1970s that described processes used in attempts to produce forms of the drug interferon. During the time these articles were published, Hoffman-LaRoche was conducting experiments into the production of the drug.

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168. Clark, *supra* note 168.

169. *Id.*

170. *Id.*

171. See generally, Office Action in Reexamination, file no. 90/002,881 (Date May 6, 1993).

172. Draft Reexamination Report (Patent and Trade Office ed., issued May 12, 1994).

173. See *supra* note 173.

The FTC memorandum presented evidence from four experts that the abstracts were homogenous and, therefore, non-patentable. The issues presented to the PTO were whether (1) the Hoffman-LaRoche researchers used published, public domain abstracts to create their own form of the drug and then patented the resulting drug by declaring that public information as their own; and (2) the abstracts described by Hoffman-LaRoche had been purified to homogeneity. The PTO responded by instituting a reexamination of the Hoffmann-LaRoche patent. At the conclusion of the 18-month reexamination proceeding, the PTO examiner rejected the patent. Hoffman-LaRoche had until mid-July to respond to the examiner's report. The examiner now may either confirm the report or reevaluate his conclusions.

As evidenced by this investigation, the heightened scrutiny and concern by the antitrust officials can have spillover effects into the underlying patent rights of the parties. Only time will tell whether the Hoffman-LaRoche situation is an aberration or the marking of a trend toward collaborative efforts by federal antitrust and patent officials.

##### *5. DOJ Debugs Johnson/Bayer License Agreement*

On August 4, 1994, the DOJ filed in the Northern District of Illinois a complaint and final judgment with S.C. Johnson and Son, Inc. ("Johnson") and Bayer A.G. ("Bayer")<sup>174</sup> modifying the terms of a 1988 Supply and License Agreement relating to Cyfluthrin®, a chemical used in household insecticides.<sup>175</sup> Under the terms of the original agreement, Bayer granted Johnson a nonexclusive license to use and exploit Cyfluthrin® and related technology in return for minimum royalties of \$52 million over the ten-year period. The agreement also provided Johnson the right of first refusal to any future active ingredients developed by Bayer for household insecticides. Johnson procures its active ingredients from other companies; Bayer is one of but a handful of companies in the world that researches and develops such active ingredients.<sup>176</sup>

Johnson is the manufacturer of the "Raid®" brand of household insecticide, which has been characterized as the leading brand in the United States, with reportedly a 40%-60% share of the U.S. household insecticide market.<sup>177</sup> Johnson's two next-largest competitors had sales of no more than 12% of the market.<sup>178</sup> Successful new entry into or expansion within the market is characterized as "difficult."<sup>179</sup> To be successful, a new entrant must demon-

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174. *United States v. S.C. Johnson & Son, Inc.*, 59 Fed. Reg. 43859 (1994).

175. Sniffen, *Justice Breaks Up Exclusive Licensing of Insecticide*, AP WASHINGTON DATELINE, Aug. 4, 1994.

176. *Id.*

177. *Id.* Household insecticides are "chemical products that are sold in a wide variety of forms (e.g., aerosols, baits, powders, and traps) for use by consumers to trap or kill ants, roaches, crickets, and other undesirable insects that invade and infest houses, apartments, and other dwellings." *U.S. v. S.C. Johnson & Son, Inc.*, 59 Fed. Reg. 43859 (1994).

178. *Id.* ¶ 7.

179. *Id.* ¶ 8.

strate that its insecticide has superior safety and efficacy — attributes of the active ingredient chosen.<sup>180</sup> Active ingredients must comply with state and federal governmental regulations for safety and efficacy prior to sale in the U.S., which purportedly often takes more than 3 years and costs over \$10 million to complete.<sup>181</sup>

The DOJ questioned whether the agreement was, in practice, an exclusive licensing agreement by virtue of the understandings of the parties and the minimum royalty payments. In addition, the Department believed that as a result of the arrangements the parties may have entered into a *de facto* market allocation for household insecticide products, thereby restricting competition in the \$450 million U.S. market for household insecticides. The Department contended that Johnson entered into the license agreement to persuade Bayer not to enter the U.S. market.<sup>182</sup> Bayer apparently had planned to enter with a new product line called "Laser," using the Cyfluthrin® active ingredient. The Department contends that by early 1988 Bayer had substantially completed its preparations to enter the U.S. household insecticides market and would have been successful in such entry.<sup>183</sup>

According to Assistant Attorney General Bingaman, "[t]his case demonstrates our determination to maintain competitive markets while simultaneously protecting intellectual property rights . . . The cozy arrangement that Bayer and Johnson maintained is unacceptable in a highly concentrated market such as the one for household insecticides."<sup>184</sup>

Under the consent decree, the parties are prohibited from entering into, carrying out, or operating under any exclusive license to make, use, or sell Cyfluthrin® in the United States for 10 years. The consent decree enjoins and restrains Johnson and Bayer for a period of 6 years from entering into any exclusive license between them for any active ingredient (defined as "any chemical compound or substance used or contemplated for use in the United States as a knock-down, debilitating, or killing agent in a household insecticide) without first giving the DOJ at least 90 days written notice, and if requested, additional time, to enable the DOJ to determine the competitive effect of the exclusive license, and to disapprove the license if it so decides. The proposed final judgment is subject to a 60-day public comment period.<sup>185</sup>

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180. *Id.*

181. *Id.*

182. *Id.* ¶ 13.

183. Competitive Impact Statement, 59 Fed. Reg. 43859 (1994).

184. *Id.* The Antitrust Procedures and Penalties Act, 15 U.S.C. § 16(b)-(h) (sometimes referred to as the "Tunney Act") applies to civil antitrust cases brought and settled by the United States. The Act requires that the DOJ have published in the Federal Register the proposed Final Judgment and Competitive Impact Statement at least 60 days prior to entry of the Final Judgment. After the expiration of the 60-day period, the Department will file with the Court the comments it receives, the government's response, and either a Motion for Entry of Final Judgment or a request to withdraw its consent to entry of the final judgment. At that time, the Court may enter the Final Judgment without a hearing, if the Court determines that the Final Judgment is in the public interest.

185. Sniffen, *supra* note 178.

### B. Mergers

#### 1. DOJ Given License to Format Commands for Ashton-Tate/Borland Transaction

On a much faster discovery schedule than the MicroSoft and Intel non-merger investigations, the federal enforcement agencies have investigated several recent mergers among computer software companies. The first of those mergers to receive significant scrutiny involved the Borland International, Inc., agreement to merge with Ashton-Tate Corporation in a stock exchange valued at \$440 million.<sup>186</sup> According to DOJ staff, by combining Borland's Paradox® product and Ashton-Tate's dBASE® software, the merged company would claim nearly 80% of the \$600 million market for relational database management system software utilized in personal computers. The combination would also place Borland among the top five producers of all personal computer software.

Both MicroSoft Corporation and Lotus Development Corp. reportedly informed the DOJ enforcement agents that entry into this market was extremely difficult, particularly given Borland's extensive intellectual property rights and active enforcement of these rights in court. Indeed, Lotus told the government that despite its name recognition and substantial knowledge of the field, it had not been able to create a marketable competitive database product even after three years of development. What little progress Lotus had made in entering the market had been thwarted by the parties' prosecution of claims of copyright infringement following the merger. MicroSoft similarly scrapped an attempt in the late 1980s to develop a competitive database, then code-named "Omega," and at the time of the announced transaction also faced difficulties with its newest database effort, known as "Cirrus."

The DOJ permitted the Ashton Tate/Borland merger only after the parties agreed never to assert any copyright infringement claims relating to the command names, menu items, menu command hierarchies, command languages, programming languages, and file structures used in and recognized by Ashton-Tate's dBASE® family of products. Moreover, Borland agreed to dismiss with prejudice its pending litigation against Lotus for copyright protection relating to the alleged infringement of Borland's Paradox® product menu command hierarchy.

#### 2. FTC Weeds out Unacceptable Parts of \$416M Monsanto/Ortho Acquisition

Earlier in 1993, the FTC alleged that a proposed acquisition by Monsanto of the Ortho Consumer Products Division of Chevron Corporation would substantially lessen competition in what the agency called the U.S. market for resi-

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186. While this investigation occurred during the Bush Administration, it is useful since it marks the first instance in recent history of DOJ scrutiny and intervention in an intellectual property transfer.

dential “non-selective” herbicides. To resolve the charge, Monsanto agreed to divest itself of Ortho’s inventory, formulations, and trademark associated with Kleen-up® herbicide, along with the intellectual property rights and other assets relating to an improved herbicide under development by Ortho.<sup>187</sup>

Monsanto’s Roundup®, the leading U.S. herbicide, has approximately 63% of the residential, non-selective herbicides market identified as the relevant one by the FTC. Monsanto also holds a patent to glyphosate, the active ingredient in both Kleen-up® and Roundup®.<sup>188</sup> Against this factual background, Monsanto argued that the deal with Chevron amounted to a “reacquisition” by Monsanto of its own patent rights in glyphosate, rather than an enlargement of patent power.<sup>189</sup>

The FTC rejected this argument, however, noting that “a significant commercial value is generally achieved only when a patented idea is combined with complementary assets — for example, productive capital, technology, a brand name, or a marketing and distribution network.”<sup>190</sup> Since Ortho’s glyphosate-containing product, with a different formulation and brand name, had achieved a distinctive status in relation to Monsanto’s Roundup®, the Commission took the position that the acquisition involved assets “whose value is significantly intertwined with that of the patented product” and that, when combined with the original assets, potentially provided market power.<sup>191</sup> Monsanto and Chevron therefore were unable to argue effectively that they were merely reinstating the *status quo* in place before Monsanto granted Ortho a license to make its herbicide.

### 3. *Intervention by Zealous FTC Staff Threatened Settlement of Lawsuit by Immunex/Hoechst*

In contrast to the tough stance it took on the Monsanto/Chevron agreement, the Commission refused to authorize a suit to block a restructuring of a controversial co-marketing agreement between Immunex Corporation, a frontline biotech company, and Hoechst AG, a German-based pharmaceutical giant.<sup>192</sup> Oddly enough, approval of the restructured arrangement, affecting the biopharmaceutical GM-CSF, was based on the Commission’s perception that the proposed deal involved a simple reacquisition by Immunex of rights in an UNDIFFERENTIATED product — the same argument the FTC rejected in the Monsanto/Chevron transaction.

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187. *Monsanto Agrees to Divest Kleenup to Resolve FTC's Competition Concerns*, Antitrust Trade & Reg. Rep., News & Comment, (BNA) (May 20, 1993).

188. *Id.*

189. *Concurring Statement of Commissioner Dennis A. Yao, In the Matter of Proposed Acquisition by Monsanto Co. of the Ortho Consumer Products Division of Chevron Chemical Co.*

190. *Id.*

191. *Id.*

192. *See generally, Commissioners' Deadlock Over Physician Self-referral Cases*, FTC WATCH Vol. No. 387, April 5, 1993.

Under the original agreement, a yeast-expressed variant of natural GM-CSF was to be marketed jointly in the U.S. by Immunex (Leukine) and by Hoechst (Prokine). But the co-marketing arrangement broke down when Immunex sued Hoechst, alleging that Hoechst had flooded Immunex's customer base with free GM-CSF to undermine Immunex's investment in GM-CSF and to intimidate Immunex in contract negotiations. To settle the litigation, the parties eventually decided to unravel the co-marketing arrangement altogether and to transfer to Immunex alone all rights in the GM-CSF variant.<sup>193</sup>

Based on its seven-month investigation, the FTC staff urged that the proposed return to an exclusive marketing arrangement would create a "merger to monopoly" of the U.S. "yeast GM-CSF market." In response, Immunex marshalled reams of hard evidence to show the Commissioners that a successful FTC challenge to what in essence was a "reacquisition" of license rights in a patented drug could have a "chilling effect" on innovation.<sup>194</sup>

Immunex argued that an FTC refusal to allow a dissolution of marketing arrangements that were no longer favored by the contracting parties, whose priorities or goals had diverged, would prompt companies to shy away from co-marketing agreements generally.<sup>195</sup> The FTC ultimately agreed with Immunex that such a trend would be detrimental to the innovation that co-marketing arrangements foster in the pharmaceutical sector.

While winning its battle against the FTC staff, Immunex paid dearly for the victory: many months of full-blown discovery and legal costs amounting to hundreds of thousands of dollars, not to mention a substantial delay in finalizing the settlement with Hoechst.

#### 4. *DOJ Finds ChipSoft Acquisitions Too Taxing*

On April 12, 1993, ChipSoft announced its intentions to acquire MECA Software Inc. for approximately \$58 million. ChipSoft, the leading publisher of consumer tax preparation software for personal computers in the United States, markets products under the brand names of TurboTax® and MacInTax®. MECA's TaxCut® software package is the second most popular program in the United States. Assisted in its analysis by a new and frustrated competitor which had been an unsuccessful suitor of MECA, the DOJ mounted an attack to the proposed MECA/ChipSoft merger which proved to be too taxing for the parties to defend in court.<sup>196</sup>

In its attack, the DOJ defined the market narrowly by excluding the dozens of producers of tax preparation software for professionals, such as accountants, and the non-computer alternatives available to consumers, such as H&R Block. Furthermore, it found that entry barriers were high. At least one recent new entry provided the DOJ staff with evidence of consumer and purchaser resist-

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193. *FTC Staff Blocking Cancer Drug Merger*, FTC WATCH Vol. No. 385, March 8, 1993.

194. See *supra* note 193.

195. *Id.*

196. *DOJ Faces Down Software Merger*, FTC WATCH No. 393, July 5, 1993.

ance to switching vendors due to the strong reliance on the accuracy of the program and the complexity and short life (*i.e.*, one tax season) of the software. At the conclusion of its investigation and rejection of a possible licensing of the MECA software to a competitor, the DOJ informed the parties it would seek to enjoin the transaction. Newly appointed DOJ Assistant Attorney General Anne Bingaman told the press that “[t]here was strong evidence that the merger would have substantially reduced competition and caused consumers to pay higher prices for popular and useful computer software.”<sup>197</sup> The parties promptly decided to abandon the transaction rather than face the costs of civil litigation.<sup>198</sup>

##### *5. Adobe-Aldus Merger Modified by FTC*

Adobe had developed the Postscript page description language, which has become the industry standard for communication between computers, graphical design software systems and printing devices. Aldus is perhaps best known for developing the concept of “desktop publishing” with introduction of its Pagemaker software for the Apple MacIntosh computer platform. Adobe recently developed the Acrobat software system, which has become a universal language for facilitating the distribution of electronic multimedia across computer networks and platforms.

Chuck Geschke, co-founder of Adobe, noted that the merger portends to give the companies the technology, name recognition and customer base to “take the information that printing and publishing industries have always produced and move into the process of not only creating it electronically but distributing it and finding it and managing it electronically.”<sup>199</sup>

In addition to the proclaimed synergies from the integration of Aldus’ desktop publishing software with Adobe’s multimedia description and distribution software, the two companies offer competing illustration, photo and video editing software.

The FTC viewed the merger as one that would have combined the only two competitors in the market, thereby resulting in a monopoly that would create huge barriers to entry to other software firms.<sup>200</sup> The FTC had issued a request for additional information and documents pursuant to the Hart-Scott-Rodino Act that reportedly focused upon the overlap between Adobe’s Illustrator and Aldus’ Freehand<sup>201</sup> illustration programs, currently the two dominant professional-

197. *Id.*

198. Peter H. Lewis, *Adobe and Aldus Plan a \$500 Million Merger*, N.Y. TIMES, March 16, 1994, at D3.

199. Willem Knibbe, *Adobe chief says integration is key to merger with Aldus; Interview with Chuck Geschke*, INFOWORLD, March 21, 1994, at 6.

200. See Yoder, *Merger of Adobe, Aldus Nears Approval by FTC; Terms Are Modified Slightly*, WALL ST. J., July 28, 1994, at B11.

201. Aldus licenses the code for its Freehand program from Altsys Corporation. Altsys has claimed in a lawsuit that the license agreement prevents Aldus from manufacturing, selling or distributing a competitive program to Freehand (as Illustrator clearly would be should the merger be consummated). Altsys is primarily concerned that a merged Adobe/Aldus would not use best efforts to continue the existence of Freehand, choosing instead to sway the Freehand installed base of cus-

quality illustration programs for the Apple MacIntosh. Though both programs also are available for the IBM-PC/Microsoft Windows platform, several other manufacturers, including Corel, Micrografx and Fractal Design, offer competitive illustration programs for IBM-compatibles.<sup>202</sup>

On July 27, 1994, the FTC announced that the parties had agreed to modify the transaction to address the agency's antitrust concerns.<sup>203</sup> The FTC indicated in its release that its action was "the first instance in which the FTC has challenged a merger between software firms." The proposed consent requires Aldus to relinquish its Freehand graphics software to Altsys, a competing licensee of graphics software, within six months of the merger. The settlement would also require Adobe and Aldus to get FTC approval before acquiring any stock in any company involved in professional illustration software for Apple Computers or acquiring any such software or software licenses if the price is \$2 million or more. The FTC's decision was 4-to-1, with Commissioner Owen dissenting because she did not think the merger would pose a competitive threat in what she called a "flyspeck" market.

#### *6. GM Allison Division/ZF Transmission Transaction Dies In the Clutches of the DOJ*

On November 16, 1993, the Department of Justice filed a suit to block the proposed \$525 million sale of the Allison Transmission Division of General Motors to ZF Friedrichshafen AG on antitrust grounds. The Allison division and ZF both produce medium and heavy automatic transmissions for the transportation industry.<sup>204</sup> In addition, according to the Antitrust Division, these two companies were the only two rivals worldwide for technological innovation in the design and production of automatic transmissions.

At the time the suit was announced, Assistant Attorney General Bingaman indicated:

this case is an example that merger enforcement in the 1990s will increasingly focus on the protection of competition in technology . . . [This transaction] would eliminate one of the world's most significant rivals for innovation . . . The Division's challenge to this transaction is also designed to maintain competition in transmission technology, allowing consumers to reap the benefits of better products and new and more innovative products.<sup>205</sup>

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tomers over to Illustrator. Altsys has asked that the license agreement be terminated and it be allowed to sell the highly recognized name Freehand (Altsys' trademark name for the code is Masterpiece) and code to any one of several interested third parties.

202. These companies have reportedly been interviewed by the FTC. See Deborah Gage, *FTC focuses on overlap in Aldus/Adobe merger plan*, COMPUTER RESELLER NEWS, May 30, 1994, at 3.

203. *Adobe/Aldus To Divest 'Freehand' Software Business Under Settlement with FTC*, FTC News, July 27, 1994.

204. *The Sidetracking of a GM Divestiture*, MERGERS AND ACQUISITIONS, Jan/Feb. 1994 at 17; *GM Cancels Sale Plans After Government Sues*, JOURNAL OF COMMERCE, November 19, 1993, A3; *Plan to Sell GM Division To Germans Dropped*, LOS ANGELES TIMES, Nov. 19, 1993, at 10-6.

205. *Justice Department Challenges Automatic Transmission Merger Plan*, 65 Antitr. & Trade Reg. Rep. (BNA) at 675 (Nov. 25, 1993).

Furthermore, according to the DOJ, the preservation of such innovation is important to all of ZF's and Allison's present and future customers in such areas as the development of new transmission products, improvement of existing products, and the development of more efficient production processes.

The parties responded to the lawsuit by the DOJ by abandoning the transaction. According to some press accounts, GM had not envisioned that it would have "any real problems getting approval."<sup>206</sup> Furthermore, these reports quote GM lawyers as stating that "GM did not know the Justice Department was concerned about innovation until Bingaman's complaint was on its way to the district court in Delaware."<sup>207</sup> Although ultimately GM might have prevailed in court, it was unwilling to expend the time and resources required to contest the government's challenge.

## VI. CONCLUSION

It is apparent from these case studies that increased attention has been placed on intellectual property transfers by the federal enforcement agencies of late and that this trend is likely to continue. Therefore, during all licensing and marketing negotiations, parties should pay careful attention to what changes future success may prompt in their arrangement. Companies should make effort at the outset to anticipate the dimensions of such changes and their antitrust implications. Doing so could save resources and the transaction from attack by federal regulators.

Given the increased scrutiny accorded business practices and transactions involving technology and intellectual property, companies are advised to consider the antitrust implications of their conduct and to adjust their conduct to minimize the risk of challenges. Furthermore, the time, cost, and inconvenience incident to a government investigation can be extremely burdensome. Given these costs, a company investigated by the federal enforcement agencies may pay a high price for such conduct even if it ultimately prevails on the merits. However, for competing companies adversely affected by the business practices or proposed transactions of stronger companies, such increased enforcement scrutiny may provide an opportunity to obtain redress at a significantly lower cost than private litigation.

Nevertheless, as evidenced in both the heightened government enforcement activity and rhetoric, there has been a shift in U.S. antitrust enforcement emphasis concerning intellectual property. However, there is nothing in the current policies of the enforcement agencies that presages a return to the strident anti-patent bias of the past. Rather, we see a continuing evolution in which intellectual property rights are judged on their merits, like any other form of property or capital asset, in the context of a properly defined relevant market in which a particular practice can be evaluated.

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206. *U.S. Antitrust Law Gets Energizing Tune-Up*, CHRIST. SCI. MON., Feb. 8, 1994, at 8.

207. *Id.*

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