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CONCERTED REFUSALS TO LICENSE INTELLECTUAL
PROPERTY RIGHTS

*Christina Bohannon and Herbert Hovenkamp**

The Federal Circuit recently issued a patent misuse decision that has implications for both innovation policy and antitrust law. Unilateral refusals to license intellectual property rights are virtually never antitrust violations, as is true of most unilateral refusals to deal.¹ The Patent Act provides that a unilateral refusal to license cannot constitute patent “misuse,”² which is a defense to an infringement suit based on the patentee’s anticompetitive acts, restraints on innovation, or improper sequestering of the public domain.³ Concerted refusals to deal are treated much more harshly under the antitrust laws⁴ because they can facilitate collusion⁵ or, in the case of technology, keep superior products or processes off the market.⁶

In its en banc *Princo* decision a divided Federal Circuit debated whether

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¹ *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908) (holding that patentee acting unilaterally has no duty to license acquired and unused patent). On unilateral refusals, see 3B PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* ¶¶ 770–74 (3d ed. 2007); on unilateral refusals to license IP rights, see HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST* §13.2 (2d ed. 2010); cf. *Am. Needle, Inc. v. Nat’l Football League*, 130 S. Ct. 2201, 2208 (2010) (distinguishing unilateral from concerted refusal to license trademark rights; antitrust liability for unilateral action is narrower and reachable only when it monopolizes).

² 35 U.S.C. § 271(d)(4) (2006).

³ On patent misuse, see Christina Bohannon, *IP Misuse as Foreclosure*, 96 IOWA L. REV. (forthcoming 2011), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1474407.6.

⁴ See 13 HERBERT HOVENKAMP, *ANTITRUST LAW* ¶¶ 2201–05 (2d ed. 2005); see also AREEDA & HOVENKAMP, *supra* note 1, ¶¶ 2220–23.

⁵ *E.g.*, *Associated Press v. United States*, 326 U.S. 1 (1945) (finding antitrust violation when an association of newspapers employed rules restricting sale of news to non-members and obstructing admission of rivals). While the Supreme Court did not separately analyze facilitation of collusion, it acknowledged the disciplining role of combination by affirming that it “provides extra-judicial tribunals for determination and punishment of violations.” *Id.* at 19.

⁶ *E.g.*, *Allied Tube, Inc. v. Indian Head, Inc.*, 486 U.S. 492 (1988) (finding antitrust violation when producers of steel conduit agree to exclude rival’s innovative PVC conduit).

Congress had protected *concerted* refusals to license from claims of patent misuse. The majority rejected the dissenter's argument that Congress had no such intent and then went on to hold that an alleged concerted refusal to license was not misuse.⁷ *Princo* involved a Sony/Philips joint venture to develop rewritable compact discs (CD-RWs). This process required working technology and also a "standard" that would ensure product compatibility for licensees building equipment.⁸ One technical problem was placing location information on the disc so that the stylus could find the right spot. Philips' solution was an analog method claimed by the Raaymakers patent, while Sony's was a digital method claimed by the Lagadec patent.⁹

Philips and Sony agreed to use the analog method because the Lagadec technology was quirky and unstable.¹⁰ However, one claim in the Lagadec patent arguably covered technology in the CD-RW standard¹¹, so the Lagadec patent was incorporated in the package license agreement as well.¹² Philips and Sony also allegedly agreed that they would not license the Lagadec patent for use by third parties.¹³ The Lagadec digital patent was unused, except to the extent that it was included in the standard CD-RW package to prevent it from blocking other patents in that package.¹⁴ If two patents block each other they must be licensed together or the licensee will not be able to use them.¹⁵

The Patent Misuse Reform Act provides that:

d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having ... (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale

⁷ *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1330 (Fed. Cir. 2010) (en banc).

⁸ *Id.* at 1322.

⁹ *Id.*

¹⁰ *Id.* at 1322, 1337.

¹¹ *Id.* at 1324.

¹² *Id.*

¹³ *Id.* at 1325, 1326, 1331.

¹⁴ *See id.* at 1324.

¹⁵ *See id.* at 1325; 10 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 1782 (3d ed., forthcoming 2011).

is conditioned.¹⁶

The dissent believed that subsection (4) protected only unilateral refusals to deal. The majority disagreed and, without explicitly applying the statute, concluded that the alleged concerted refusal to license could not be misuse.

In its *Illinois Tool Works (ITW)* decision, the Supreme Court heavily relied on section 271(d)(5) to conclude that, just as the Patent Act requires proof of tying market power in a tying case, antitrust should assess the same requirement.¹⁷ The Court noted that language similar to that found in the opening of this paragraph referred not merely to “misuse” but also to “illegal extension of the patent right,”¹⁸ a phrase that the Court associated with antitrust liability.¹⁹

Blanket legality for concerted refusals to license patents, and unused patents in particular, would have serious implications for competition and innovation. A concerted refusal to license a plant or other input can facilitate collusion by denying resources to rivals unless they can find other sources.²⁰ A concerted refusal to license an unused patent can go much further. Not only does it deny rivals that particular technology but it also prevents them from developing any technology independently that would infringe one or more of that patent’s claims. Someone wishing to develop a digital alternative to the analog technology licensed in the Sony/Philips package would have to invent around the Lagadec patent claims even though the technology claimed in that patent is not in use.

Further, this licensing rule would not distinguish between internally developed patents and those acquired from the outside. A group of firms employing a particular technology could purchase exclusive rights in patents developed by a nascent rival and agree not to assign them to anyone else, thus protecting their own technology from competitive entry.

The *Princo* majority and dissent debated whether Congress intended section 271(d)(4) to cover concerted as well as unilateral refusals, but the legislative history is very thin, producing only a debate over whether noncompetition agreements in patent licenses amounted to concerted refusals.²¹ They should have looked at the status of antitrust law on the issue, however, which made unilateral refusals to license virtually lawful per se while often condemning concerted

¹⁶ 35 U.S.C. § 261(d)(4), (5) (2006).

¹⁷ *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 31 (2006) (“The question . . . is whether the presumption of market power in a patented product should survive as a matter of antitrust law despite its demise in patent law.”).

¹⁸ *Id.* at 42.

¹⁹ *See id.* at 34 (associating this language with the Sherman Act, the Clayton Act, and the FTC Act).

²⁰ *See, e.g., Hartford Fire Ins. Co. v. California*, 509 U.S. 764 (1993) (finding that dominant insurers forced reinsurers to deny coverage to rivals); *E. States Retail Lumber Dealers’ Ass’n v. United States*, 234 U.S. 600 (1914) (finding that lumber retailers boycotted wholesalers who were integrating vertically into retailing).

²¹ *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1330 (Fed. Cir. 2010); *id.* at 1350–51 (Dyk, J., dissenting).

refusals to license IP rights.²²

Of course, not every concerted refusal to license should be unlawful per se. They are appropriately covered by the ancillary restraints doctrine. Naked agreements not to license are unlawful per se, while refusals reasonably necessary to further joint research or production would be unlawful only if market power and anticompetitive effects were proven.²³ By contrast, reading section 271(d) to authorize naked concerted refusals is likely to harm both competition and the incentive to innovate.

²² *E.g.*, *United States v. Krasnov*, 143 F. Supp. 184 (E.D. Pa. 1956), *aff'd per curiam*, 355 U.S. 5 (1957) (finding that cartel of upholstery manufacturers cross-licensed and refused to license to others; per se unlawful); *United States v. Nat'l Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

²³ On the rule of reason for ancillary concerted refusals to deal, see HOVENKAMP, *supra* note 4, at ¶¶ 2210–14.