Licensing Law Library

# 1983 Licensing Law Handbook

Edited by Brian G. Brunsvold

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Prepared under the auspices of the United Nations Economic Commission for Europe

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# *Preface*

*1983 Licensing Law Handbook* is the fifth volume in a projected annual series. In 1979, it was felt that a periodic collection of recent articles dealing with current developments and problems in the law and business of licensing would be of benefit to licensing professionals. The result was the publication of *1979 Licensing Law Handbook.*

Like the predecessor volumes, *1983 Licensing Law Handbook* succinctly alerts readers to new directions, their implications, and provides suggestions as to how practitioners and licensing professionals can cope with the wide stream of new developments in the law and business of licensing. *1983 Licensing Law Handbook* has been designed so that it may be conveniently carried in a briefcase, or circulated among professionals in an office. Litigators will find it a handy means of verifying points in the courtroom.

All articles which appear in this collection are previously unpublished and authored for inclusion in *1983 Licensing Law Handbook.* The following topics are highlighted: Product licensing; recent developments at the patent licensing/antitrust interface; developing markets abroad through technology transfer abroad during an economic slowdown; antitrust issues relating to research joint ventures, cross-licenses, and patent interchange agreements; licensing and reexamination; process licensing; licensing in the EEC; licensing computer programs.

It is anticipated that a new handbook will be published annually to provide, in time, a library of current developments in the licensing law field. This volume should be retained as a reference source.

The Publisher

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# Recent Developments at the Patent Licensing/Antitrust Interface

BRIAN G. BRUNSVOLD AND JOHN F. HORNICK

## § 1.01 Intellectual Bases for the Recent Developments

### [1] Introduction

For many years U.S. patent licensing practitioners have been forced to work within the confines of a patent system that has been viewed with some hostility by both the federal courts and the Antitrust Division of the U.S. Department of Justice. The courts consistently issued rulings that narrowed the exploitation options available to a patent owner, and the Antitrust Division promulgated a list of nine patent licensing restrictions which it considered to be per se violations of the U.S. antitrust laws.

Recently, however, a shift has occurred in judicial and administrative attitudes toward both the patent system and the relationship between that system and the antitrust laws. Several pro-patent decisions by the courts and a general renouncement by the Antitrust Division of its list of the nine per se illegal restrictions (commonly known as the nine no-no's of patent licensing) evidence this general pro-patent shift by the arbiters of antitrust legality.

In extremely oversimplified terms, the changes wrought by the courts in U.S. antitrust enforcement case law amount to a general relaxation of antitrust hostility toward nonprice vertical patent licensing restrictions. This change in judicial attitude toward patents and the exclusive legal rights embodied therein, and toward patent licensing (which is discussed in greater detail, *infra*), re-

sults from a more sophisticated analysis of economics, competition, the benefits of technology to society, and the consequent need to look closely at complex modern business situations involving patents. The courts' current approach is to rely upon analysis of economic and competitive effects rather than upon rigid rules which may actually work contrary to the policy considerations that the patent and antitrust laws are designed to promote.

A general relaxation of the Antitrust Division's hostility toward vertical patent licensing restrictions also has occurred, although horizontal patent licensing restrictions generally remain exposed to rigid rules of per se illegality. Developments in the field of economics began to affect the application of the antitrust laws in the late 1970s. Thus, the economic theories now being promoted by the Antitrust Division have been known in intellectual circles for years. However, the campaign for the U.S. Presidential election of 1980 brought many of these ideas to the forefront. The development of the current attitude of the Antitrust Division toward the patent/antitrust interface is discussed at length in § 1.01[3], *infra.*

Although recent changes in antitrust enforcement law and policy by the courts and the Antitrust Division, respectively, are favorable to the patent licensing practitioner, these changes create legal uncertainty. The positions of the Antitrust Division seem unstable at first glance because of the politically dependent nature of the Division's leadership. Consequently, this article will focus not only on the current state of the antitrust laws as they relate to patent licensing, but will also attempt to assess the stability of the current antitrust enforcement attitudes of the federal courts and the Antitrust Division. This article presents and examines thoroughly the development and intellectual basis of current judicial and Antitrust Division attitudes toward patents and patent licensing, and the interrelationships between patent licensing, the U.S. Antitrust Laws, and the doctrine of patent misuse.

## [2] Per se antitrust violations: nine no-no's of patent licensing

### [a] Per se violations defined

The classic statement of the principle and rationale of per se illegality is found in *Northern Pacific Railway Co. v. United States,* 356 U.S. 1 (1958). There the U.S. Supreme Court firmly established a category of Sherman § 1 antitrust violations which, because of their "pernicious effect on competition and lack of any redeeming virtue, are conclusively presumed to be unreasonable," and therefore are deemed to be "illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use." *Id.* at 5.

The Court justified creation of the category of per se unreasonable practices on the grounds that per se treatment:

> not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable—an inquiry so often wholly fruitless when undertaken.

*Id.*

At the root of the decision was an effort to further "the policy unequivocally laid down by the Act," that is, the policy of promoting and preserving free and unfettered competition. *Id.* at 4. Thus, since the Court was of the opinion that some practices—such as the nonpatent tying arrangement with which it was concerned—"inevitably" curb competition and automatically "deny competitors free access to the market for the tied product," it condemned tying arrangements as per se antitrust violations. *Id.* at 6.

Other practices had been declared to be unreasonable per se prior to the decision in *Northern Pacific,* but it was in *Northern Pacific* that the U.S. Supreme Court first clearly delineated the category of per se unreasonable practices. Thus, *Northern Pacific* is the leading case propounding the per se principle.