# Patent Licensing, Competition Law and the draft Substantive Patent Law Treaty

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# Patent Licensing May Enhance the Development of New Technologies and Making Them Available to the Public

- Patent licensing may facilitate access by researchers to third-party technologies and facilitate experimentation with a view toward commercialization or public use;[1]
- Patent licensing may facilitate movement of new technologies from the research phase to the commercialization phase as small and medium enterprises out-license inventions to more highly capitalized enterprises;
- Patent licensing may provide a means for enterprises to negotiate the "patent thicket" so as to overcome obstacles to incremental innovation;
  - In areas such as standards-setting, sharing of patented technologies may be necessary to maintenance of competitive markets
- Patent licensing may facilitate joint research and development, accelerating technology development and spreading risk;
- Patent licensing may facilitate partitioning of R & D and production functions, allowing production at most efficient locations without corollary investments in R & D.

[1] Note that U.S. Supreme Court in *Merck v. Integra Lifesciences*, 125 S. Ct. 2372 (decided June 13, 2005), dramatically expanded scope of permissible non-infringing uses of patented pharmaceutical technologies during drug research and development phase, reducing need for licensing prior to market entry.

# Patent Licensing Is a Tool for the Transfer of Technology Between Developed and Developing Countries

- Positive welfare effects dependent on validity of underlying patent. Licensing and payment of royalties on technology otherwise in the public domain is unjustified social expense;
- "Securitization" of invention encourages sharing of information based on rent or royalty stream expectation;
- Forms of enterprise combination and licensing arrangements highly variable – parent-subsidiary, joint venture, independent entities, etc.
- Extent to which patent licensing generates improvement to local technology capacity is context specific
  - Patent licensing may take place in closely-guarded intracorporate setting which may limit local diffusion, or may take place in open setting (*e.g.*, to university research institution) which may encourage diffusion
  - Associated "know-how" licensing affects level of technology transfer
  - Restrictive licensing terms may substantially affect economic and social value of patent license to transferee country

# Patent licensing is subject to anticompetitive abuse

- "Patent pools" into which enterprises combine their technologies may be used to create prohibitive market entry barriers, facilitating cartelization of markets
- Restrictive third-party licensing terms (e.g., exclusive grantbacks) may be used to foreclose emergence of competitors
- Patent licensing terms can be used to leverage market power, such as through product tying arrangements and block licensing
- Patent licensing agreements may include terms generally disfavored in competition law, such as fixing of resale prices, restricting output and dividing territories among horizontal competitors
- No-challenge clauses in patent licenses encourage unearned surplus payments to holders of invalid patents
- Patent licensing agreements merit particular scrutiny in the context of licensors holding dominant position on the relevant market

# Control of Anticompetitive Patent Licensing Is a Generally Accepted Practice Among States

- The WTO TRIPS Agreement includes provisions which recognize that intellectual property rights may be abused, that authorize Members to regulate anticompetitive licensing practices and that encourage cooperation in enforcement (*e.g.*, Articles 8.2, 31(k)-(l), 40).[2] Concern with anticompetitive patent licensing is reflected in the original International Trade Organization Charter.
- Paris Convention recognizes abuse of patents as grounds for compulsory licensing (Article 5A(2))
- Developed country regulation specifically addresses anticompetitive patent licensing arrangements
  - *See, e.g.*, U.S. Department of Justice/Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (1995). Also, the Supreme Court has ruled that patent misuse is an equitable defense to the enforcement of patents (*e.g.*, in the case of certain product tying arrangements). *See also* U.S. Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (2003)

[2] *See* Frederick M. Abbott, *Are the Competition Rules in the WTO TRIPS Agreement Adequate?,* 7 J. Int'l Econ. L. 685 (2005 Oxford).

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- *See, e.g.,* European Commission Regulation No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements and Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (2004/C/101/02)
- *See, e.g.,* Fair Trade Commission of Japan (FTCJ), Antimonopoly Act Guidelines Concerning Joint Research and Development, 20 April 1993
- Developing countries address anticompetitive patent licensing through regulation and court decision
  - *See, e.g.,* Andean Community, Decision 291, Article 14
  - Abuse of patent is common grounds in developing country patent legislation for grant of compulsory license
  - As a general proposition, developing countries have a lower level of competition law enforcement capacity than the OECD countries. Competition law enforcement tends to be fact intensive, complex and expensive.

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- Proposals from leading experts on competition law for international antitrust regulation routinely address anticompetitive patent licensing practices, *see* International Antitrust Working Group (W. Fikentscher, *et al*.), Draft International Antitrust Code, at Article 6: Restraints in Connection with Intellectual Property Rights[3]
- Trend of regulation in OECD is to evaluate patent licensing restrictions under "rule of reason" approach and to limit inquiry where market share of parties is below defined threshold. Nonetheless, certain *per se* (or hardcore) prohibitions remain (*e.g.,* in EU, against exclusive grantbacks).
  - Specific doctrinal issues are continuously re-examined. For example, U.S. Supreme Court currently considering presumption of patent-based market power in context of tying arrangements (Illinois Tool Works v. Independent Ink, No. 04-1329)

[3] Reprinted in Public Policy and Global Technological Integration (eds. F. Abbott & D. Gerber 1997)(Kluwer), at Appendix 2. *See also,* Wolfgang Fikentscher, *The Draft International Antitrust Code (DIAC) in the context of international technological integration*, *id*. at 211.

## Current Regulatory Approach of OECD Competition Law Authorities Is Not Necessarily the Best Approach for Developing Countries which Tend to Have Lower Levels of Enforcement Capacity

- Developing countries may benefit from greater use of *per se* rules and other positive prohibitions such as characterized EU competition and technology law until 2004.[4]
  - Developing countries are more likely to be patented-technology importers than exporters
  - Developing country markets are generally more susceptible to market power concentration among dominant enterprises than developed country markets
  - Competition law risk assessment should account for these factors

[4] *See* elaboration in F. Abbott, *supra* note 2.

# Competition Regulation and the SPLT

- Rules regarding anticompetitive aspects of patent licensing are within the reasonable potential subject matter scope of a Substantive Patent Law Treaty. Such rules might take a positive form, prescribing certain types of conduct or establishing presumptions regarding certain types of conduct. Such rules might take a negative form, making clear that governments are permitted to regulate anticompetitive licensing practices notwithstanding positive obligations regarding the grant of patents. Such rules might include illustrative list of potentially anticompetitive licensing practices.

# Positive and Negative Rules

- The negotiating history of the GATT Uruguay Round and subsequent efforts within the WTO to establish mandatory positive competition rules suggest obstacles to that approach in the context of SPLT negotiations.
  - In TRIPS Agreement Art. 40, listing of anticompetitive licensing conditions is illustrative of subject matter that may be addressed, not prohibited as mandatory positive obligation.
  - WTO Trade and Competition Working Group manifested disagreement on limited set of positive rules, with differences between governments at all levels of development.
- Approaches to regulation of competition tend to vary over time within the same jurisdiction as industrial policy considerations shift. This may argue in favor of preserving regulatory flexibility.
- Industrial policy considerations of developed and developing countries with respect to application of competition law to patent licensing may differ. Developing countries at different stages of development may also maintain differing industrial policy interests.

# A Negative Approach Would Permit Maintenance of Regulatory Flexibility

- For example:

  "Nothing in this [SPLT] shall prevent or hinder a member state from prescribing or enforcing measures to address patent licensing conditions or practices determined to be anticompetitive. Such measures, which may be preventive and remedial, may be enforceable by private and government action, and may include civil damages and criminal penalties."

- Note that the foregoing does not address patent misuse in general because the subject matter of this presentation concerns patent licensing. However, it is reasonable to assume that additional negative provision should be included in SPLT to permit maintenance of regulatory flexibility regarding patent abuse in other contexts, such as abuse of patents by dominant enterprises.

# Combination Approach

- A combination approach might
  - negatively preserve regulatory flexibility, and
  - positively list potentially anticompetitive practices, along the lines of the WTO TRIPS Agreement
- An SPLT provision might also address enhanced enforcement cooperation and capacity-building