

# Unilateral Refusals to License IP: *Xerox* and the Right to Exclude

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DOJ/FTC Hearings • Washington D.C. • May 1, 2002

*The Strategic Use of Licensing: Is There Cause for  
Concern About Unilateral Refusals to Deal?*

# Unilateral refusals to deal vs. dealing on conditions

- *Xerox* holding probably limited to unilateral refusals to deal, but not clear:
  - tying: it isn't unilateral
  - what about other conditions in a license?
    - exclusive dealing (especially “tie-out” provisions)
    - non-compensatory discount structures
    - grantbacks (especially exclusive or de facto exclusive)

# *Townshend v. Rockwell Int'l Corp.*

- Suit alleging infringement of patents related to 56k modem technology
- Counterclaim against plaintiff and another counter-defendant alleging agreement to condition availability of licenses on . . .
  - cross-license
  - other forms of reciprocal dealing

# *Townshend v. Rockwell Int'l Corp.*

“Because a patent owner has the legal right to refuse to license his or her patent on any terms, *the existence of a predicate condition to a license agreement cannot state an antitrust violation.*”

# *Townshend v. Rockwell Int'l Corp.*

- Lesser-included rights rationale
  - unilateral vs. dealing on conditions
  - can we separate the two reliably?
    - what about when conditions are not written down in a license?
    - is “selective licensing” properly deemed unilateral? (*Intergraph v. Intel*)
- Counterclaim alleged an *agreement!*

# Antitrust Immunity for Unilateral Refusals to Deal in IP?

- The right to exclude is the essence of the patent grant
- The right to exclude is also the central right in other forms of property
  - *yet other forms of property are subject to refusal to deal law . . .*

# Is Intellectual Property Just Property?

*IP Guidelines:* “[F]or the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property.”

- *but the “right to exclude” incident to other forms of property does not include the right to monopolize*

# The Scope of the Right to Exclude

- Why might “right to exclude” incident to IP be special?
  - It’s the only right: exclusion of competitors is “the very essence of the right conferred by the patent.” *Continental Paper Bag* (1908)
  - Incenting innovation: more on this later . . .

# But . . .

- The right to exclude others is “one of the most essential sticks in the bundle of rights that are commonly characterized as property.” *Kaiser Aetna v. United States* (1979)
  - tangible property “bundle” vs. IP stick
    - Really? Heirs, assigns. Right to parcel out access.
  - the question is the length of the stick: is the right to exclude *complete*? Or *qualified*?

# No Guidance From the Sup. Ct.

- “The patent laws . . . are *in pari materia* with the antitrust laws and modify them *pro tanto*.”  
*Simpson v. Union Oil* (1964)
  - **English translation:** “The patent laws . . . relate to similar subject matter as the antitrust laws and modify those laws to that extent.”
  - Laws *in pari materia* should be harmonized, to extent possible
- The Supreme Court has done nothing more than pose the question

# The 1988 Patent Act Amendments

No patent owner otherwise entitled to relief for infringement . . . shall be denied relief or deemed guilty of *misuse or illegal extension of the patent right* by reason of having done one or more of the following: . . . refused to license or use any rights to the patent . . . .

35 U.S.C. § 271(d)(4)

# The 1988 Patent Act Amendments

- Statute does not purport to apply to antitrust liability
- Antitrust exemptions disfavored
- “Illegal extension” sounds like misuse:
  - defined as “broadening the physical or temporal scope of the patent grant with anticompetitive effect.” *Virginia Panel Corp. v. MAC Panel Co.* (Fed. Cir. 1997)

# The Section 2 Test

- Monopoly power, *and* sacrifice of profit available through exercise of monopoly power in order to exclude competition
  - ***Aspen Skiing***: exclusion of rivals “on some basis other than efficiency”
  - **Judge Bork**: not profit maximizing *except for resulting reduction in competition*
  - **Ordover/Willig**: sacrifice of profits that a monopolist could have earned *but for* exclusion of rivals

# The Section 2 Test

- **Narrow**
  - monopoly power in a relevant market
  - $\Pi$  must prove profit sacrifice
- **Remedies -- order to deal at what price?**
  - no proscription against monopoly profits
  - “fair” = non-discriminatory?
  - concern to protect efficient price discrimination
  - similar transactions may provide appropriate price
  - likelihood of bargaining: delay remedy?

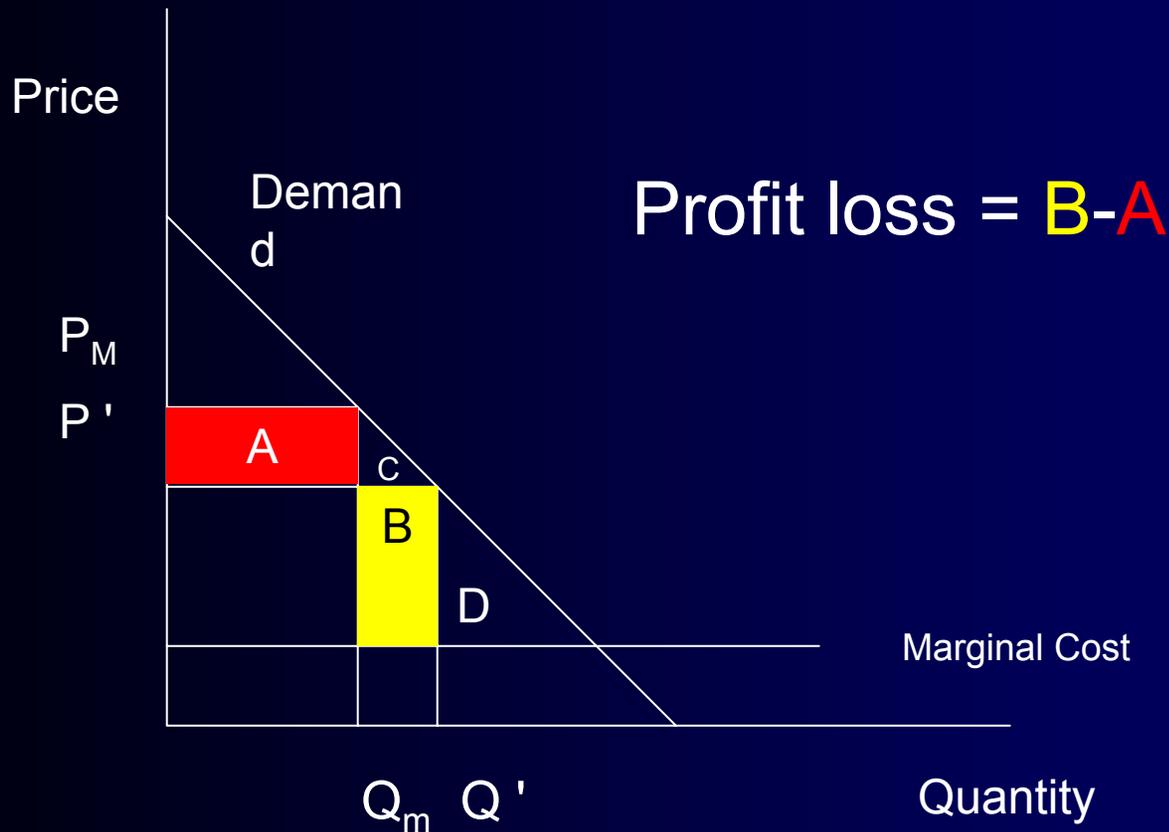
# Innovation and the Right to Exclude

- More exclusion = more innovation?
  - What about incentive for follow-on technologies?
  - Hold-up problem
  - “Small” IP rights controlling large markets
- Innovators sufficiently sensitive that (marginal) refusal to deal liability will have effect on incentive?

# The Unexpected Benefits of Delay and Uncertainty

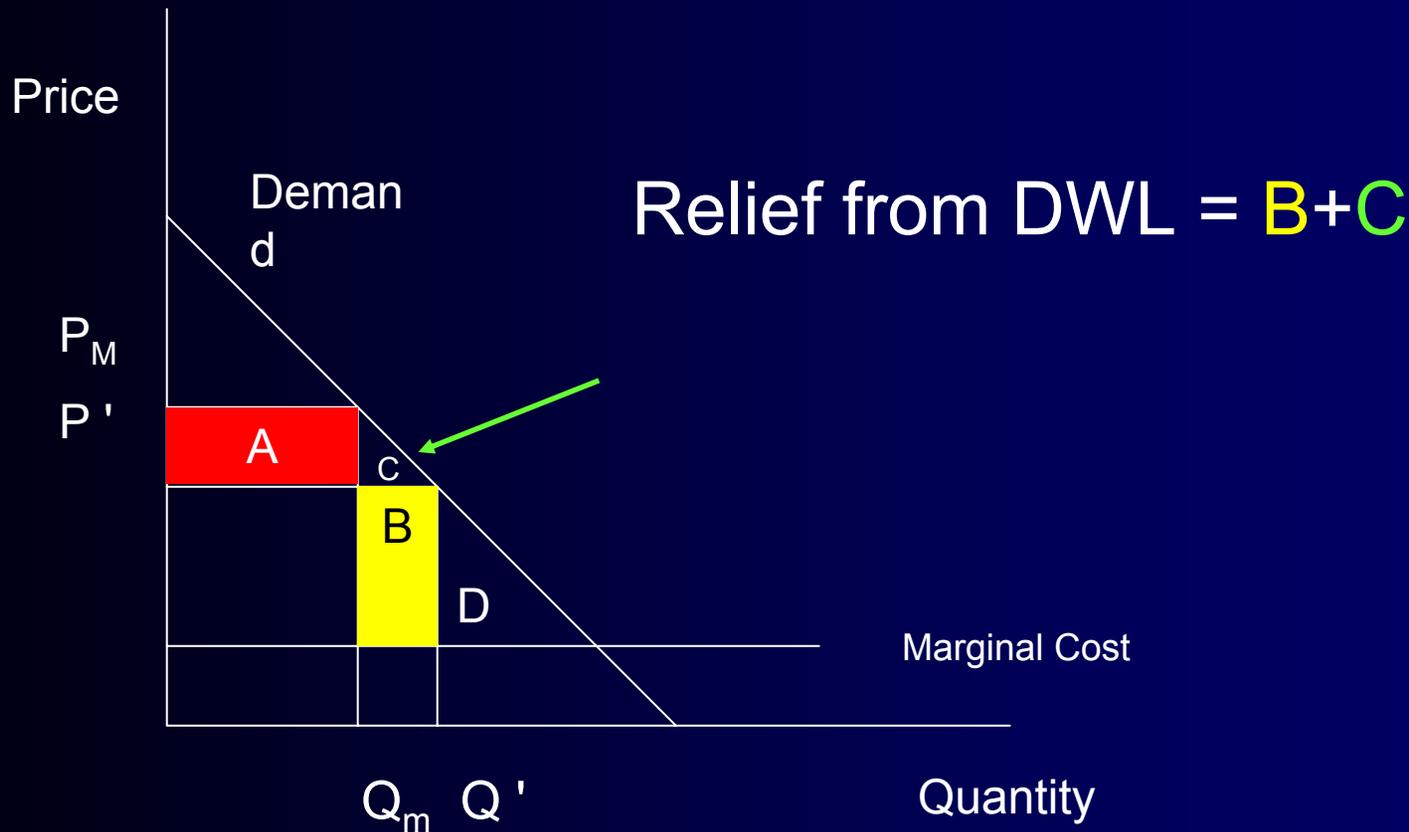
- The “stationarity intuition” Ayres & Klemperer (1999)
  - Small restrictions on the right to exclude will reduce the patentholder’s profit somewhat, but will reduce deadweight loss by a much greater amount.
  - Refusal to deal liability: is it a candidate?

# The Unexpected Benefits of Delay and Uncertainty



Source: Ayres & Klemperer (1999)

# The Unexpected Benefits of Delay and Uncertainty



Source: Ayres & Klemperer (1999)

# Conclusion

- Argument that IP “right to exclude” definitionally rules out refusal to deal claims based on a contestable assumption re: scope of right.
- Refusal to deal liability may increase social welfare: favorable ratio decreased DWL/patentholder profit.
  - Remedies: continuing concern
  - Problem with remedies not materially different from general refusal to deal context