LICENSING ASPECTS OF THE ANTITRUST
GUIDE FOR INTERNATIONAL OPERATIONS
ABA 1978 ANNUAL MEETING
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INTERNATIONAL LICENSING MUST BE TESTED BY SAME ANTITRUST CRITERIA AS OTHER INTERNATIONAL TRANSACTIONS.

A. CERTAIN ACTIONS ARE ILLEGAL PER SE.

B. MOST LICENSING SITUATIONS WILL BE TESTED AGAINST "RULE OF REASON".

1. IS RESTRICTION ANCILLARY TO A LAWFUL MAIN PURPOSE OF AGREEMENT?

2. IS SCOPE OR DURATION OF RESTRICTION GREATHER THAN NECESSARY TO ACHIEVE THE LAWFUL MAIN PURPOSE?

3. IS RESTRICTION OTHERWISE REASONABLE?

MAJOR EXCEPTION.

A. ACTS DONE BY A SINGLE ENTITY MAY NOT RUN AFOUL OF ANTITRUST LAWS.

1. NO CONSPIRACY.

2. THUS A PARENT CORPORATION MAY ALLOCATE TERRITORIES, SET PRICES, ETC. FOR SUBSIDIARIES <u>IT FULLY CONTROLS</u>.

A. CONTROLS IF OWNS MAJORITY OF VOTING STOCK.

B. MAY CONTROL WITH MINORITY OF VOTING STOCK.

I. GOVERNMENT MAY MAKE INQUIRY OF FACTS.

3. THUS WHAT IS BAD MAY NOT BE BAD PER SE, BUT IS BAD ONLY IF AS A RESULT OF A CONSPIRACY.

4. LICENSES BETWEEN PARENT AND CONTROLLED SUBSIDIARIES ARE NOT WITHIN U.S. ANTITRUST LAWS. <u>CASE A</u>

B. HOWEVER, IN UNCTAD CODE OF CONDUCT DISCUSSIONS, LDC WANT CODE TO COVER LICENSE AGREEMENTS BETWEEN PARENT AND SUBSIDIARIES.

1. U.S. IS RESISTING AND DOESN'T WANT CODE TO COVER PARENT-SUB LICENSE AGREEMENTS.

I. CASE D - JOINT RESEARCH.

A. FACTS.

1. U.S. PRODUCER OF X-METAL ESTABLISHES 50-50 BRITISH JOINT VENTURE WITH BRITISH PRODUCER OF X-METAL TO MAKE X-METAL FROM DIFFERENT ORE.

2. U.S. COMPANY GETS EXCLUSIVE LICENSE TO PARENT RIGHTS AND KNOW-HOW IN NORTH AMERICA.

3. BRITISH COMPANY GETS EXCLUSIVE LICENSE IN U.K., EEC, BRITISH COMMONWEALTH, EXCEPT CANADA.

B. GUIDE COMMENTS.

1. UNLIKELY WILL GET PRODUCT PATENT AS ARE TRYING TO MAKE KNOWN METAL BY DIFFERENT PROCESS.

2. AS WILL ONLY GET PROCESS PATENTS, AND THUS PATENTS CANNOT BE USED TO TERRITORIALLY DIVIDE MARKETS, DEAL IS PROBABLY OK.

C. ACTUALLY MAY BE PATENTS ISSUING WITH CLAIMS ON PRODUCTS EVEN THOUGH RESEARCH IS DIRECTED TO NEW PROCESS.

1. IF NO PRODUCT PATENTS, THEN DEAL IS OK RE ANTITRUST.

2. IF PRODUCT PATENTS, THEN DEAL IS BAD RE ANTITRUST.

3. COMPANIES ARE BETTER OFF WITHOUT A PATENT THAN THEY ARE WITH A PATENT.

D. THUS MAY DEPEND ON ABILITY OF PATENT ATTORNEY TO GET PRODUCT CLAIMS IN CERTAIN COUNTRIES.

E. IF PARTIES GOT EXCLUSIVE PROCESS LICENSES AND NON-EXCLUSIVE PRODUCT LICENSES, WOULD AGREEMENT BE APPROVED?

IV. CASE E - MANUFACTURING JOINT VENTURE AND KNOW-HOW LICENSE.

A. FACTS.

1. U.S. COMPANY AND JAPANESE COMPANY FORM JAPANESE JOINT VENTURE TO USE U.S. COMPANY'S KNOW-HOW TO MANUFACTURE TRANSISTORS.

2. JAPANESE COMPANY OR JOINT VENTURE WILL NOT EXPORT TRANSISTORS INTO THE U.S.

3. JAPANESE COMPANY DOES NOT PRESENTLY MAKE TRANSISTORS.

B. GUIDE COMMENTS.

1. JOINT VENTURE PER SE IS PROBABLY OK.

2. JOINT VENTURE DOES NOT ELIMINATE DIRECT COMPETITION.

3. HOWEVER, OPEN-ENDED RESTRAINT ON JAPANESE COMPANY OR JOINT VENTURE SELLING TRANSISTORS IN U.S. WOULD BE CHALLENGED.

a. IS JAPANESE COMPANY A POTENTIAL COMPETITOR?

b. IS JAPANESE COMPANY CAPABLE OF DEVELOPING THE PRODUCT AND ENTERING U.S. MARKET?

c. RESTRAINT PERIOD MIGHT BE OK IF LIMITED TO PERIOD IT WOULD TAKE JAPANESE COMPANY TO DEVELOP KNOW-HOW ITSELF (REVERSE ENGINEERING PERIOD).

d. HOWEVER, IF JAPANESE COMPANY WERE MAJORITY-CONTROLLED SUBSIDIARY OF U.S. COMPANY, WOULD BE OK. THUS, ACT PER SE IS NOT BAD, BUT CONSPIRACY TO DO ACT IS BAD.

C. REVERSE ENGINEERING AND CAPABILITY TESTS ARE ARTIFICIAL AND NOT REAL LIFE TESTS.

1. EVERY COMPANY HAS TO PICK NEW PRODUCTS VERY SELECTIVELY.

2. MOST PROPOSED PROJECTS ARE NOT SELECTED.

3. MANY THAT ARE DO NOT SUCCEED.

4. MOST LARGE COMPANIES CAN DO ANY SINGLE PROJECT BUT NONE CAN DO ALL.

5. SELECTION OF PROJECTS IS BASED ON A NUMBER OF FACTORS, SOME OBJECTIVE AND SOME SUBJECTIVE.

6. WHAT WOULD COMPANY ACTUALLY DO IS WHAT COUNTS, NOT WHAT COMPANY HAS CAPABILITY OF DOING.

7. ITEK - HAS CAPABILITY TO ENTER EYEGLASS BUSINESS IN GHANA.

8. ITEK - METAL PRINTING PLATE BUSINESS HAS CAPABILITY BUT WAS NOT SUCCESSFUL. LACK OF MANAGEMENT SUPPORT INITIALLY AND FINALLY CHANGE OF TOP MANAGEMENT.

9. SUCCESSFUL ENTRY INTO PHOTOTYPESETTER BUSINESS. DECISION MADE BY FORMER MANAGERS.

V. CASE F - KNOW-HOW LICENSE.

A. FACTS.

1. A SMALL U.S. COMPANY, WHICH DOES LITTLE EXPORTING, GRANTS A 20 YEAR KNOW-HOW LICENSE TO A GERMAN COMPANY.

2. THE GERMAN COMPANY IS A MAJOR MANUFACTURER WHICH DOES NOT MAKE THE PRODUCT INVOLVED AT PRESENT BUT WHICH IS CAPABLE OF DEVELOPING ITS OWN TECHNOLOGY AND IS CAPABLE OF INVADING THE U.S. MARKET ONCE IT ACQUIRES TECHNOLOGY EITHER BY ITSELF OR FROM THE U.S. COMPANY.

3. THE U.S. COMPANY IS ALSO NEGOTIATING A SIMILAR AGREEMENT WITH A LARGE JAPANESE MANUFACTURER.

   a. THE JAPANESE LICENSEE INSISTS THAT THE GERMAN LICENSEE BE BARRED FROM SELLING LICENSED PRODUCTS IN JAPAN, AUSTRALIA AND EAST ASIA.

4. THE GERMAN COMPANY AGREES:

   a. IT WILL NOT COMPETE IN THE U.S. FOR 20 YEARS IN ANY PRODUCT ON WHICH THE KNOW-HOW IS USED;

   b. THAT IT WILL PURCHASE AND USE ONLY THE U.S. COMPANIES UNPATENTED COMPONENTS IN EXECUTING THE PROCESS; AND,

   c. IT WILL USE THE U.S. COMPANY'S TRADEMARK ON ALL GOODS MANUFACTURED UNDER THE LICENSE.

B. GUIDE COMMENT.

1. THE LICENSE AGREEMENT IS ILLEGAL.

2. THE 20 YEAR PERIOD IS TOO LONG TO EXCLUDE THE GERMAN COMPANY FROM THE U.S. MARKET.

   A. IF THE TIME PERIOD WERE REASONABLE, TERRITORIAL RESTRICTIONS WOULD BE OKAY.

   B. A REASONABLE PERIOD OF TIME WOULD BE THE TIME NECESSARY FOR REVERSE ENGINEERING OF THE TECHNOLOGY, UNLESS THE PARTIES COULD JUSTIFY IT AS NECESSARY TO THE TECHNOLOGY SHARING AGREEMENT.

3. REQUIRING THE GERMAN COMPANY TO BUY COMPONENTS ONLY FROM THE U.S. COMPANY IS BAD.

   A. "ASSUMING THIS LICENSE IS SUFFICIENTLY VALUABLE TO CONFER MONOPOLY POWER, IT IS A TIE-IN AND WOULD BE ILLEGAL PER SE...IF PRACTICED IN THE DOMESTIC MARKET".

   B. HOWEVER, THERE WOULD BE NO U.S. ANTITRUST LIABILITY IF THE U.S. COMPANY REQUIRED THE GERMAN LICENSEES TO PROCURE COMPONENTS FROM U.S. SOURCES IN GENERAL.

   C. EVEN IF A TIE-IN PROVISION WAS APPROPRIATE FOR A SHORT TIME IT MIGHT BE CHALLENGED IF IT EXTENDED BEYOND THE EQUIVALENT OF THE "REVERSE-ENGINEERING" PERIOD.

4. THE REQUIREMENT TO USE THE U.S. COMPANY'S TRADEMARK ON ALL GOODS MADE UNDER THE LICENSED PROCESS IS NOT INHERENTLY ILLEGAL, BUT IT MAY BECOME AN ANTITRUST VIOLATION WHERE IT HAS THE PURPOSE OF EFFECT OF TERRITORIAL ALLOCATION.

   A. AFTER THE 20 YEAR PERIOD, THE GERMAN COMPANY WOULD LOSE ANY "PROPERTY RIGHT" IN THE TRADEMARK AND "THE GERMAN TRADEMARK REVERTS TO" THE U.S. COMPANY.

C. BLAIR COMMENTS.

1. PREVIOUS COMMENTS ON THE "REVERSE-ENGINEERING" SITUATION ARE PERTINENT HERE ALSO.

2. WITH RESPECT TO THE COMPONENT BUYING REQUIREMENT:

a. THE GUIDE ASSUMES "THIS LICENSE IS SUFFICIENTLY VALUABLE TO CONFER MONOPOLY POWER". IT IS QUITE UNUSUAL THAT KNOW-HOW WOULD BE SUFFICIENTLY VALUABLE TO CONFER MONOPOLY POWER, PARTICULARLY IF ALL THE COMPONENTS TO PRACTICE THE KNOW-HOW COULD BE SUPPLIED BY OTHER U.S. SOURCES, AS SUGGESTED BY THE GUIDE.

b. IF COMPONENTS WERE PATENTED, IMPLICATION IS THAT CLAUSE WOULD BE OK.

3. QUERY - WOULD THE CLAUSE PROVIDING THE GERMAN COMPANY WOULD USE THE TRADEMARK BE A PROBLEM IF THE USE BY THE GERMAN COMPANY WAS VOLUNTARY AND WAS PERMITTED TO USE ITS OWN MARK IF IT SO DESIRES? POSSIBLY AN ADDITIONAL ROYALTY COULD BE CHARGED WHEN THE MARK WAS ACTUALLY USED. USUALLY, LICENSEES TAKE A LICENSE UNDER A TRADEMARK BECAUSE THEY WANT TO USE IT, NOT BECAUSE THEY ARE REQUIRED TO USE IT.

VI. CASE G - TYING OF LICENSED TECHNOLOGY.

A. FACTS.

1. A MAJOR U.S. COMPANY LICENSES A LOCAL COMPANY IN A DEVELOPING COUNTRY TO MANUFACTURE PRODUCTS UNDER ITS PATENTS AND KNOW-HOW.

2. THE LICENSEE IS REQUIRED TO:

a. BUY UNPATENTED PRODUCTS NEEDED TO MANUFACTURE EXCLUSIVELY FROM THE U.S. LICENSOR AND

b. TO ACQUIRE A LICENSE UNDER OTHER PATENTS WHICH IT DOES NOT WANT.

3. THE REASON FOR THE TWO RESTRICTIONS IS BECAUSE ROYALTY RATES ARE SUBJECT TO GOVERNMENT APPROVAL AND ARE NOTORIOUSLY LOW. THERE ARE OTHER CENTRAL BANK CURRENCY RESTRICTIONS WHICH OFTEN LIMIT THE BASIS FOR TRANSMITTING THE ROYALTIES ABROAD.

B. GUIDE COMMENTS.

1. RESTRICTION 2a. ABOVE IS AN ANTITRUST VIOLATION IF THERE ARE OTHER U.S. MANUFACTURERS WHO MIGHT SUPPLY THE COMPONENT.

2. THE U.S. COMPANY'S ATTEMPT TO INCREASE ITS EFFECTIVE RATE OF RETURN ON THE PATENT LICENSE DOES NOT JUSTIFY A VIOLATION OF THE U.S. ANTITRUST LAW.

3. U.S. COMPANY COULD REQUIRE PURCHASE OF THE COMPONENTS FROM U.S. SOURCES.

4. WHILE THE SECOND RESTRICTION (2B) ON PACKAGE LICENSING IS ILLEGAL PER SE IN THIS COUNTRY, IT WOULD NOT BE OBJECTIONABLE IN THIS PARTICULAR CASE BECAUSE IT WOULD NOT HAVE AN EFFECT ON U.S. COMMERCE.

C. BLAIR COMMENTS.

1. IF THE COMPONENTS NECESSARY TO MANUFACTURE THE PRODUCT UNDER THE LICENSE WERE PATENTED IN THE U.S., OR POSSIBLY THE OTHER COUNTRY INVOLVED, WOULD THE RESTRICTION THEN BE LEGITIMATE?

2. GUIDE SAYS ARE U.S. EXPORTS POSSIBLE? IF THEY ARE NOT, NO EFFECTIVE EXCLUSION EXISTS. IF THEY ARE PATENTED, THEN THE EXCLUSION IS PERMISSIBLE.

VII. CASE H - LICENSING A STATE-OWNED ENTERPRISE.

A. FACTS.

1. A U.S. COMPANY LICENSES UNPATENTED TECHNOLOGY TO MAKE A CHEMICAL COMPOUND TO A FOREIGN GOVERNMENT-CONTROLLED COMPANY WITH A PROHIBITION AGAINST EXPORT OF THE COMPOUND INTO THE U.S. OR OTHER WESTERN HEMISPHERE COUNTRY.

B. GUIDE COMMENTS.

1. PERMANENT PROHIBITION AGAINST EXPORT IS PROBABLY ILLEGAL WITH RESPECT TO THE U.S.

2. THE PROHIBITION ON EXPORT TO OTHER WESTERN HEMISPHERE COUNTRIES DOES NOT DIRECTLY EFFECT U.S. COMMERCE AND THEREFORE, RAISES NO OBJECTION UNDER U.S. ANTITRUST LAWS.

3. IF THE U.S. COMPANY HAD PATENTS, THE PATENTS MIGHT BE USED TO EXCLUDE THE PRODUCT FROM THE U.S. MARKET AND THUS, THE LICENSE WOULD NOT NEED THIS TYPE OF RESTRICTION.

4. THE LICENSE COULD INCLUDE A RESTRICTION LIMITED IN DURATION TO THE REVERSE ENGINEERING PERIOD OR SOME OTHER JUSTIFIABLE PERIOD.

VIII. CASE I - EXCLUSIVE GRANT-BACK LICENSING.

A. FACTS.

1. A U.S. COMPANY HAS LICENSED THREE ORGANIZATIONS TO PRACTICE UNDER CERTAIN PATENTS AND KNOW-HOW IN THREE DIFFERENT COUNTRIES AS FOLLOWS:

a. 85% OWNED SUBSIDIARY;

b. A 30% OWNED SUBSIDIARY;

c. NON-RELATED COMPANY.

2. ALL THE LICENSE AGREEMENTS REQUIRE THE LICENSEE TO GRANT BACK TITLE OR AN EXCLUSIVE LICENSE ON ANY NEW PATENTS OR KNOW-HOW "RELATED TO THE LICENSED TECHNOLOGY RIGHTS".

B. GUIDE COMMENTS.

1. EXCLUSIVE GRANT-BACK IS OKAY IN MAJORITY-CONTROLLED SUBSIDIARY.

2. IF THE 30% OWNED COMPANY IS EFFECTIVELY CONTROLLED, THE EXCLUSIVE GRANT-BACK ARRANGEMENT WOULD BE OKAY. IF NOT EFFECTIVELY CONTROLLED, THE LICENSE MAY BE BAD.

3. LICENSE TO UNRELATED COMPANY IS BAD BECAUSE TOO BROAD IN "RELATED TO" THE LICENSE TECHNOLOGY.

a. IF EXCLUSIVE GRANT-BACK WERE LIMITED ONLY TO NEWLY DEVELOPED IMPROVEMENT PATENTS AND THE EXCLUSIVE RIGHT DOES NOT EXTEND BEYOND THE INITIAL PATENT, IT MIGHT BE ALRIGHT.

4. A NON-EXCLUSIVE GRANT-BACK WOULD BE OKAY.

IX. GENERAL COMMENTS.

A. THE GUIDE IS HELPFUL IN THE LICENSING FIELD BECAUSE THERE ARE SPECIFIC COMMENTS AND EXAMPLES THAT EXPRESS THE OPINION OF THE DEPARTMENT OF JUSTICE.

B. THE GUIDE IS NOT LAW BUT IS MERELY DEPARTMENT OF JUSTICE OPINION.

C. OFTEN THE DEPARTMENT OF JUSTICE IS SURPRISED AT THE RECOMMENDATION THAT LAWYERS MAKE TO THEIR CLIENTS IN ANTITRUST MATTERS WHICH THEY FEEL ARE MORE CONSERVATIVE THAN NECESSARY.

1. LAWYERS ARE OFTEN CONSERVATIVE BECAUSE EVEN IF AN AGREEMENT IS ACCEPTABLE WHEN NEGOTIATED, IT MAY BE CHALLENGED LATER ON AND BE REGARDED AS INVALID AS AB INITIO BECAUSE OF LATER COURT OPINION.

2. YEARS AGO NEARLY EVERY LICENSE AGREEMENT HAD A LICENSEE ESTOPPEL CLAUSE. SINCE LEAR V. ATKINS THESE CLAUSES ARE NOT USED.

3. THERE WAS NO CHANGE IN THE STATUTORY LAW BUT THE SUPREME COURT CHANGED THE CONTENT OF THE LAW AND THE WAY LICENSE AGREEMENTS WERE NEGOTIATED.

D. THE VAST MAJORITY OF CHANGES IN THE CASE LAW OF LICENSING, AS IN OTHER AREAS OF THE LAW, ARE NOT DUE TO ACTIONS OF THE DEPARTMENT OF JUSTICE BUT ARE DUE TO LAWYERS FOR THE PREVAILINY PARTY CONVINCING A COURT THAT THE LAW SHOULD BE AS THE COURT GENERALLY DECIDES.

1. THIS WAS TRUE IN LEAR V. ATKINS AND WILL ALSO BE TRUE IN FUTURE "CHANGES".