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A Comparative Antitrust Analysis of Exclusivity Clauses in Patent Licenses Under Article 101 TFEU and Section 1 Sherman Antitrust Act

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Dedication

This paper is dedicated to Professor Dr. Josef Aicher and a gift of the Stanford-Vienna Transatlantic Technology Law Forum for his 65th birthday.

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Abstract

Technological innovation and transfers of the resulting intellectual property rights are indispensable to the economies of the European Union and the United States. Consequently, the antitrust treatment of IP licensing has recently gained increased significance. Currently, technology transfer is a fundamental incentive to innovation, enabling those who undertake major investments in research and development to achieve optimal financial gain from their goods and services. At the same time, however, these transactions are likely to raise antitrust issues and may involve enforcement agencies and judicial bodies in Europe and the United States. Indeed, EU and U.S. antitrust analysis of patent licensing practices has moved towards convergence since the 2004 introduction of Commission Regulation (EC) No 772/2004 on the application of Article 81(3) EC of the Treaty to categories of technology transfer agreements (Technology Transfer Block Exemption Regulation) and the Commission's accompanying Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (Technology Transfer Guidelines). Exclusivity clauses are frequently employed in patent licenses. A comparative legal analysis under the core antitrust prohibitions of Article 101 of the Treaty on the Functioning of the European Union and Section 1 Sherman Antitrust Act outlines the current similarities and remaining differences in perspectives on antitrust analysis across the Atlantic.

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I. Introduction

EU and U.S. antitrust analysis of licensing practices has moved towards convergence since the introduction of the Technology Transfer Block Exemption Regulation (TTBER) in 2004.[1] Inspired by the U.S., the previous legalistic block exemption regulation, with its notification system, was abandoned in the EU and replaced by a more economic approach based on self-assessment. This new approach is reflected in a revised TTBER and the Commission's accompanying Technology Transfer Guidelines.[2] A similar understanding, reflected in the antitrust law of both jurisdictions, is the acknowledgment of the generally pro-competitive nature of licensing. According to the Commission, such licensing reduces duplication of research and development and simultaneously strengthens the incentive for initial research and development.[3] In addition, it facilitates diffusion of intellectual property and generates product market competition.[4] Moreover, the Department of Justice (DOJ) and Federal Trade Commission (FTC), U.S. antitrust enforcement agencies, recognize in their jointly issued "Antitrust Guidelines for the Licensing of Intellectual Property"[5] that licensing allows undertakings to combine complementary factors of production and is generally pro-competitive.[6]

Patent licensing agreements can be drafted in two ways. On the one hand, they can be formed as non-exclusive licenses, thereby conveying the right not to be sued for infringement. On the other hand, the parties may include an exclusivity clause, which provides the right to exclude others from exploiting the patented invention in the field

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[1] Commission Regulation 772/2004 of 27 April 2004 on the Application of Article 81(3) of the Treaty to Categories of Technology Transfer Agreements, 2004 O.J. (L 123/11) (EC).
[2] Commission Notice, Guidelines on the Application of Article 81 of the EC Treaty to Technology Transfer Agreements, 2004 O.J. (C 101) 2 [hereinafter Technology Transfer Guidelines].
[3] Commission Regulation 772/2004, pmbl, 2004 O.J. (L 123/11) ¶ 5 (EC).
[4] *Id.*
[5] U.S. Dep't of Justice & F.T.C., *Antitrust Guidelines for the Licensing of Intellectual Property available at* http://www.justice.gov/atr/public/guidelines/0558.htm,Didd *reprinted in* 4 Trade Reg. Rep. (CCH) 13,132 (1995) [hereinafter *IP Guidelines*].
[6] *IP Guidelines*, *supra* note 5, § 2.0.

covered by the license.[7] Exclusivity is a frequent element of patent licenses, which raises the question of its legality and its effect on potential antitrust issues. This working paper outlines the antitrust analysis of exclusivity clauses in patent licenses under the core antitrust prohibitions of Article 101 of the Treaty on the Functioning of the European Union[8] and Section 1 of the Sherman Antitrust Act.[9]

II. Antitrust Issues with Exclusivity Clauses in Patent Licenses Under EU and U.S. Law

1. Exclusive patent licensing under Article 101 TFEU

Article 101 TFEU contains the general antitrust ban in EU law by prohibiting all 1) agreements between parties, 2) decisions by associations of undertakings, and 3) concerted practices, which may affect trade between Member States and which have, as their object or effect, the prevention, restriction or distortion of competition within the internal marketplace. Article 101(2) TFEU declares any agreements or decisions prohibited pursuant to Article 101 TFEU automatically void. Thus, Article 101 TFEU bars agreements that adversely affect trade between Member States by restricting competition. At the same time, it implements the free market policy of the EU, which aims to prevent alliances that may preclude entrance or viability of other market participants.[10]

According to Article 101(3), Article 101(1) TFEU can be declared inapplicable to agreements between parties that: 1) contribute to improving the production or distribution of products or to promoting technical or economic progress, 2) provide consumers with a

[7] David A. Balto & Andrew M. Wolman, *Intellectual Property and Antitrust: General Principles*, 43 IDEA 395, 409 (2003).
[8] Consolidated Version of the Treaty on the Functioning of the European Union, art. 101, 2008 O.J. (C 115) 47 [hereinafter TFEU].
[9] 15 U.S.C. § 1 (1890).
[10] Meg Buckley, *Licensing Intellectual Property: Competition and Definition of Abuse of a Dominant Position in the United States and the European Union*, 29 BROOK. J. INT'L L. 797, 810 (2004).

fair share of the resulting benefits, 3) do not impose restrictions that are not indispensable to the attainment of these objectives, and 4) do not afford such parties the possibility of eliminating competition in respect of a substantial part of the products concerned.[11] Hence, Article 101(3) TFEU provides conditions for an exemption to the general antitrust prohibition under Article 101(1) TFEU. These four cumulative requirements can be applied either individually to agreements or to categories of agreements through block exemption regulation. The TTBER is secondary EU legislation that is directly based off of Article 101(3) TFEU; it provides safe harbors by creating block exemptions to categories of technology transfer agreements – including, *inter alia*, patent licensing agreements[12] – from antitrust scrutiny that come within its scope.[13]

According to Article 2 TTBER, a patent licensing agreement must concern the production of contract products in order to be block exempted. In other words, the license must permit the licensee to exploit the licensed technology for the production of goods or services.[14] Hence, the licensed technology must either be used in the production process or incorporated into the product itself.

A further requirement of the TTBER is that certain market share thresholds must not be exceeded.[15] When the parties concerned are competitors, the block exemption regulation only applies if the combined market share of both parties to the agreement does not exceed 20% of the relevant technology and product markets. In the case of non-competitors, the save harbor presupposes individual market shares of 30% or less for each party.[16] The implementation of market share thresholds is motivated by the Commission's

[11] Technology Transfer Guidelines, *supra* note 2, ¶ 5.
[12] Commission Regulation 772/2004, art. 1, 2004 O.J. (L 123/11) ¶ 1(b) (EC).
[13] *Id*. art. 2.
[14] Technology Transfer Guidelines , *supra* note 2, ¶ 41.
[15] Commission Regulation 772/2004, art. 3, 2004 O.J. (L 123/11) (EC).
[16] *Id*.

economic-based approach that conditions allowing an exemption for an agreement on the assessment of its impact on the relevant market.[17] In addition, Article 4 TTBER contains two different lists of hardcore restrictions that depend on whether the parties are categorized as competitors. A violation of any individual restriction automatically renders the TTBER exemption inapplicable to the whole agreement.[18]

The Technology Transfer Guidelines explain the relatively short regulation and illustrate the Commission's evaluation of technology transfer agreements. The purpose of the Guidelines is not only to provide detailed guidance for the application of the TTBER, but also to explain the individual antitrust analysis of technology transfer agreements under Article 101 TFEU that fall outside the scope of the block exemption regulation.[19] Although the Technology Transfer Guidelines are not legally binding in theory, they often serve as a basis for analysis as it is very unlikely that the Commission will change its own principles in a prospective case. Thus, a *de facto* binding effect exists, because it is doubtful that the Commission, as the EU institution responsible for antitrust enforcement,[20] would randomly depart from its own guidance. Besides, the Guidelines refer – where appropriate and possible – to European case law; therefore, they also reflect the opinions of European courts.

Outside the scope of the block exemption regulation, the first step of antitrust analysis is to determine whether the agreement, or its restraints, trigger Article 101(1) TFEU. If so, the next step is to determine whether the conditions for individual exemption set forth in Article 101(3) TFEU are satisfied. Normally, agreements are only presumed to

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[17] Gosta Schindler, *Wagging the Dog? Reconsidering Antitrust-based Regulation of IP-Licensing*, 12 Marq. INTELL. PROP. L. REV. 49, 57 (2008).
[18] Commission Regulation 772/2004, pmbl, 2004 O.J. (L 123/11) ¶ 13 (EC).
[19] Technology Transfer Guidelines, *supra* note 2, ¶ 2.
[20] The Commission's task is to ensure the application of the Treaties, and of measures adopted by the institutions pursuant to them. *See* Consolidated Version of the Treaty on European Union, art. 17, 2010 O.J. (C 83) 15 [hereinafter TEU].

be prohibited under Article 101 TEFU when they contain hardcore restriction on competition.[21] Accordingly, the Commission emphasizes that, as long as they do not contain any hardcore restrictions on competition, there is no presumption of illegality of agreements that do not come within the scope of the block exemption regulation. In particular, there is no presumption that Article 101(1) TFEU applies merely because the market share thresholds are exceeded.[22]

Pursuant to European antitrust law, a patent licensing agreement is deemed to be exclusive if the licensee is the only one permitted to produce, on the basis of the licensed technology, within a given territory.[23] Thus, it grants protection from competition with other potential manufacturers of the licensed good within the licensed territory.[24] At the same time, the licensor is obliged not to produce the product itself or to license to others within the given territory, even if the given territory covers the entire world.[25] However, a licensor may also grant a sole license by simply agreeing not to license to third parties to produce within a given territory, while still retaining the right to exploit the technology itself.[26]

The amount of antitrust scrutiny attributed to exclusive licenses will usually depend on the competitive relationship of the parties. The Commission frequently divides exclusive licenses into two categories: agreements between competitors and agreements between non-competitors. This division into categories is not only reflected in the hardcore list of Article 4, but also in the Technology Transfer Guidelines. The Commission often differentiates its application of antitrust law depending on the competitive relationship of

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[21] Technology Transfer Guidelines, *supra* note 2, ¶ 37.
[22] *Id*. ¶¶ 37, 130.
[23] *Id*. ¶ 162.
[24] JOSEF DREXL, RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY AND COMPETITION LAW 124 (Edward Elgar Publishing, Inc., 2008).
[25] Technology Transfer Guidelines, *supra* note 2, ¶ 162.
[26] *Id*.

the parties. Thus, the first step in the antitrust analysis of exclusive patent licenses should be determining whether the parties are competitors.

In order to determine the competitive relationship between parties, the Commission suggests examining whether the parties would have been actual or potential competitors in the absence of the agreement.[27] If, absent the agreement, the parties would not have been actual or potential competitors in any relevant market affected by the agreement, then they are deemed to be non-competitors.[28] Competing parties, on the other hand, would have competed in the relevant technology market and/or the relevant product market absent the agreement.[29] In some cases, however, the parties become competitors as a result of the formation of the agreement. When this occurs, the Commission emphasizes that it will take into account the fact that the parties were non-competitors before finalizing the agreement.[30] The advantage, then, is the application of the more relaxed standards of agreements between non-competitors, such as the market share thresholds for the block exemption regulation and the list of hardcore restrictions of Article 4 TTBER.

A. Reciprocal exclusive patent licenses between competitors

Reciprocal exclusive licensing between competitors, where both parties grant each other licenses concerning competing technologies or technologies that can be used for the production of competing products, falls under Article 4(1)(c) TTBER, which identifies market allocation between competitors as a hardcore restriction.[31] As a result, such agreements do not qualify for block exemption and must be examined individually under

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[27] *Id*. ¶ 27.
[28] *Id*.
[29] Commission Regulation 772/2004, art. 1, 2004 O.J. (L 123/11) ¶ 1(j) (EC).
[30] Technology Transfer Guidelines, *supra* note 2, ¶ 31.
[31] Commission Regulation 772/2004, art. 4, 2004 O.J. (L 123/11) ¶ 1(c) (EC); *id*. art. 1(1)(c); Technology Transfer Guidelines, *supra* note 2, ¶ 163.

Article 101 TFEU. Article 101(1) TFEU differentiates between restrictions of competition by object and restrictions of competition by effect. The first category restricts competition by its very nature. It encompasses restrictions that, in light of the objectives pursued by the EU competition rules, have such a high potential for negative effects on competition that demonstration of any actual effects on the market are unnecessary to find a violation.[32] As all practices enumerated in the hardcore list of Article 4 TTBER constitute restrictions of competition by object, they are automatically captured by Article 101(1) TFEU.[33] The next step, then, is the assessment of a possible individual exemption in accordance with Article 101(3) TFEU. Since they typically do not provide efficiencies and do not grant consumers a fair share of the resulting benefits, hardcore restrictions on competition usually do not fulfill the four conditions of Article 101(3) TFEU. Market allocation harms competition over prices and may lead to higher prices being charged to the disadvantage of consumers. It also reduces dynamic competition; the incentive to invent new products decreases when a party does not fear that its rival will invest significantly in order to profit from new technologies. At the very least, the agreement will fail the indispensability test as there are clearly less restrictive means available than an allocation of the relevant market between the parties. Furthermore, agreements implementing market allocation schemes are reviewed with particular scrutiny as it is a core EU objective to create an EU-wide integrated internal market without frontiers.[34] Thus, one can be confident that reciprocal exclusive licenses between competitors are likely to be forbidden under EU antitrust law.

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[32] Technology Transfer Guidelines, *supra* note 2, ¶ 14; Case C-49/92, Commission v. Anic Partecipazioni, 1999 E.C.R. I-4125, ¶ 99.
[33] Technology Transfer Guidelines, *supra* note 2, ¶ 14.
[34] TEU, *supra* note 20, art. 3 ¶¶ 2-3.

B. Reciprocal sole patent licenses between competitors

Reciprocal sole licensing between competitors receives a more favorable antitrust treatment, because it is block exempted up to the combined market share threshold of 20% of the parties involved. Under such an agreement, the parties license to each other their respective competing technologies, or technologies that can be used for the production of competing products, and mutually commit not to license them to third parties, but they still retain the right to use their technology themselves.[35] The latter element will normally prevent market allocation, because both parties continue to be a competitive force with regard to their own technology.

Above the market share threshold, reciprocal sole licensing agreements are individually scrutinized under Article 101 TFEU, taking into consideration all aspects of the particular case. An antitrust analysis should involve considerations of: the nature of the agreement, the market position of the parties, the market position of competitors, the market position of buyers of the licensed products, entry barriers, maturity of the market and other factors.[36] Moreover, the Commission emphasizes that the importance of individual factors depends on the configuration of all relevant factors and may vary from case to case. For instance, a high market share of the parties is usually a good indicator of market power, but, when combined with low entry barriers, this fact may not always hold true. Consequently, firm rules on the importance of the individual factors cannot be established.[37] This perfectly demonstrates the flexible, more economic approach where antitrust assessment varies on a case-by-case basis. The other side of the coin is that such flexibility results in legal uncertainty and reduced predictability of antitrust enforcement.

[35] Commission Regulation 772/2004, art. 4, 2004 O.J. (L 123/11) ¶ 1(c)(iii) (EC); Technology Transfer Guidelines, *supra* note 2, ¶ 163.
[36] Technology Transfer Guidelines, *supra* note 2, ¶ 132.
[37] *Id*.

However, the Commission provides, as much as possible, guidance in its Technology Transfer Guidelines with respect to its enforcement practice in a prospective antitrust case. Naturally, it is impossible to capture all potential scenarios. Since this system currently established in the EU is based on self-assessment, antitrust counselors need to construe the different categories of licensing restraints in line with the general principles set forth in the Technology Transfer Guidelines by the Commission.

As an example, a reciprocal sole licensing agreement is likely to come within the scope of Article 101(1) TFEU when a party involved enjoys market power, because, in the absence thereof, it is unlikely that the license will have the effect of a restriction on competition. Consider a situation where the agreement does not profit from the block exemption regulation as the thresholds are slightly exceeded (e.g. Party A 10%, Party B 12%), and there are enough other market participants and no significant barriers to market entry. In this scenario, it is unlikely that the Commission will challenge the license. This example demonstrates exactly why there should not be any presumption that agreements exceeding the market share thresholds of the TTBER are automatically captured by Article 101(1) TFEU.[38]

Even if the parties have larger market shares and market power, strong arguments in favor of an individual exemption can be asserted. First, both parties can continue to use their patented technology and, in addition, also use the other party's intellectual property. Such use of each other's intellectual property can actually enhance competition and lead to a desirable combination of the assets of both parties. Hence, the first condition of Article 101(3) is likely to be fulfilled as the license provides pro-competitive efficiencies in the

[38] Commission Regulation 772/2004, pmbl, 2004 O.J. (L 123/11) ¶ 12 (EC).

form of cost efficiencies[39] or qualitative efficiencies.[40] In addition, these efficiencies are likely to be transferred to consumers, because they may profit from a wider variety of products based on the same technology or from positively modified, or even cheaper, products. A reciprocal sole licensing clause can be considered indispensable to attain the aforementioned pro-competitive efficiencies due to the lack of a less restrictive means to provide each party with the use of the other party's technology and, at the same time, induce them to undertake the necessary investment in the license. The reciprocal sole licensing constitutes a less restrictive form of cross-licensing than the reciprocal exclusive licensing. A non-exclusive license will not suffice in most cases. A strong argument for indispensability is, therefore, that the parties may refrain from licensing if the other party is able to grant licenses to other market participants. The fourth condition of Article 101(3) TFEU presupposes an analysis of remaining competitive pressures on the market and the impact of the agreement on such sources of competition.[41] Since both parties remain active and continue to produce based on the licensed technologies, there is no perceivable threat of an elimination of competition. This criterion will usually not be fulfilled unless competition no longer exists in a relevant market.[42]

However, critical situations identified by the Commission are instances where the parties have a significant degree of market power, because reciprocal sole licensing agreements may facilitate collusion by ensuring that the parties are the only sources of output in the market based on the licensed technologies.[43] In this scenario, if neither party is allowed to license to other parties, then it is unlikely that the agreement will produce

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[39] Commission Notice Guidelines on the Application of Article 81(3) of the Treaty, 2004 O.J. (C 101) 97 ¶ 64-65 [hereinafter Article 101(3) Guidelines].
[40] *Id*. ¶ 69-71.
[41] Technology Transfer Guidelines, *supra* note 2, ¶ 151.
[42] STEVEN D. ANDERMAN & JOHN KALLAUGHER, TECHNOLOGY TRANSFER AND THE NEW EU COMPETITION RULES § 3.38 (Oxford University Press, 2006).
[43] Technology Transfer Guidelines, *supra* note 2, ¶ 163.

pro-competitive efficiencies that will benefit consumers. On the contrary, the parties will be able to act independently and may control the market together, which could ultimately lead to unfavorable conditions for consumers in the form of higher prices or limited choices. Once again, antitrust counselors face the problem of legal uncertainty due to the more economic approach, because the Commission does not provide many clues as to what it considers to be a significant degree of market power. In all cases, a detailed market analysis must be the first step in an investigation. Due to the pro-competitive potential of reciprocal sole patent licenses, however, the Technology Transfer Guidelines[44] should be construed as requiring high market shares and other unfavorable market conditions for competitors (e.g. entry barriers) in order to find the conditions of Article 101(3) TFEU to be unfulfilled.

Antitrust issues may also arise when the package of technologies resulting from the cross-licenses creates a de facto industry standard to which third parties must have access in order to compete effectively in the market.[45] The result of such an agreement is the creation of a closed standard reserved for the parties[46] that causes substantial exclusionary effects.[47] The Commission will assess these arrangements in line with the principles applied to technology pools,[48] which are set forth separately in the Technology Transfer Guidelines.[49] Consequently, parties will usually be required to license to third parties the technologies supporting such a standard on fair, reasonable and non-discriminatory terms

[44] *Id*.
[45] *Id*. ¶ 167.
[46] *Id*.
[47] *Id*.
[48] *Id*.
[49] *Id*. ¶ 210-235.

as licensing to third parties constitutes the only possible means to avoid a negative impact on competition.[50]

C. Non-reciprocal exclusive patent licenses between competitors

Non-reciprocal exclusive licensing between competitors, where just one party grants the other a license or the parties license technologies to each other that do not compete and cannot be used for the production of competing products, are also block exempted up to the combined market share threshold of 20%.[51]

If the threshold is exceeded, then the Commission will analyze potential anti-competitive effects, starting with the scope of the exclusive license.[52] If worldwide, then the licensor is implied to have exited the market altogether. If the exclusivity is limited to a particular territory, such as a Member State, then the agreement only requires that the licensor abstains from producing goods and services in the territory in question.[53]

The analysis under Article 101(1) TFEU, with respect to the latter type of agreement, concerns the competitive significance of the licensor.[54] If the licensor's market position in the product market is already limited or if he lacks even the capacity to effectively exploit the technology in the licensee's territory, then the agreement is not likely to trigger Article 101(1) TFEU.[55] The reason for this conclusion is that such patent licenses do not restrict competition that would have existed in the absence of the agreement and, therefore, do not come within the scope of the proscription of Article 101(1) TFEU. As an example, suppose a licensor, such as a research institute or small research-based company,

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[50] *Id*.

[51] Commission Regulation 772/2004, art. 4, 2004 O.J. (L 123/11) ¶ 1(c)(ii) (EC); Technology Transfer Guidelines, *supra* note 2, ¶ 164.

[52] Technology Transfer Guidelines, *supra* note 2, ¶ 164.

[53] *Id*.

[54] *Id*.

[55] *Id*.

and licensee are competitors in the technology market. The licensor probably lacks the production and distribution assets to effectively market products that incorporate the licensed technology.[56] According to the Commission, such a scenario is unlikely to infringe Article 101(1) TFEU.[57]

Some authors consider exclusivity clauses as ancillary to the whole licensing agreement and, therefore, suggest that some forms do not trigger Article 101(1) TFEU at all.[58] The concept of ancillary restraints deals with any alleged restriction on competition that is directly related, necessary, and proportionate to the implementation of a main non-restrictive transaction.[59] Restrictions can be considered as ancillary when they are necessary to resolve hold-up problems on either side of the agreement. This means that a contractual protection for either party is necessary to ensure that the technology transfer takes place or that the technology transferred is actually used.[60] Consequently, restrictions in an agreement that do not have the object or effect of restricting competition and are directly related to and necessary for the implementation of the transaction in question also fall outside Article 101(1) TFEU.[61] The main argument in favor of this conclusion deals with the risks born by the licensee. The licensee takes the risk of investing capital in manufacturing premises and a distribution system, instead of engaging in its own R&D program.[62] In addition, licensing agreements often stipulate minimum royalty provisions or an upfront fee.[63] As a result, unless there is some protection against competition from the

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[56] *Id*.
[57] *Id*.
[58] STEVEN D. ANDERMAN & JOHN KALLAUGHER, TECHNOLOGY TRANSFER AND THE NEW EU COMPETITION RULES § 7.22 (Oxford University Press, 2006).
[59] Article 101(3) Guidelines, *supra* note 39, ¶ 29.
[60] STEVEN D. ANDERMAN & JOHN KALLAUGHER, TECHNOLOGY TRANSFER AND THE NEW EU COMPETITION RULES § 5.15 (Oxford University Press, 2006).
[61] Article 101(3) Guidelines, *supra* note 39, ¶ 29.
[62] STEVEN D. ANDERMAN & JOHN KALLAUGHER, TECHNOLOGY TRANSFER AND THE NEW EU COMPETITION RULES § 7.23 (Oxford University Press, 2006).
[63] *Id*.

licensor and other licensees in its territory, the licensee will have little incentive to take on the entrepreneurial burden of such risk.[64]

Despite the plausibility of this argument, it is questionable whether this position is compatible with the Commission's view on exclusivity clauses in patent licensing agreements in general. The only instance described in the Technology Transfer Guidelines in which Article 101(1) TFEU does not apply is the case of a licensor lacking market power, see *supra*.

Nevertheless, the same reasoning may be asserted in an individual antitrust assessment of an exclusive patent license where the parties enjoy market power together and, as a result, have the ability to restrict competition within the meaning of Article 101(1) TFEU. The aforesaid argument serves to undermine the indispensability condition under Article 101(3) TFEU. An exclusive patent licensing agreement may produce pro-competitive efficiencies where the licensee combines the licensor's technology with his own knowledge and assets, leading to improved products that are advantageous for consumers. Exclusivity can be indispensable when a license would not occur in its absence, because the licensee is not willing or able to make significant investments in the production process due to fears of competition from a very strong licensor or other licensees. However, this argument should only be invoked if the licensee has its own valuable assets that can combine with the licensor's to create a package that has significant benefits and could not be achieved otherwise. In these cases, the fourth condition of Article 101(3) TFEU will be particularly relevant, because an exclusivity clause can be problematic with regard to a prospective elimination of competition. Even though an exclusivity clause reduces intra-technology competition, this does not necessarily mean

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[64] *Id*.

that competition no longer exists in the relevant markets as long some degree of inter-technology competition, based on different technologies, continues to exist.

By contrast, if the licensor is the only party enjoying market power, then it is questionable whether the agreement infringes Article 101(1) TFEU at all. In fact, such a case can enhance inter-technology competition as a licensee with a smaller portion of market share, rather than the stronger licensor, is now exclusively allowed to produce. If it comes within the scope of Article 101(1) TFEU by reducing intra-technology competition, then it creates pro-competitive efficiencies as it leads to a dissemination of valuable technologies; as a result, consumers usually profit. The exclusive license may also be indispensable in cases where the licensee is not willing to undertake significant investments to adapt his production facilities in order to produce under the license due to fears of competition from the strong licensor, who can use the same technology without royalty burdens. As explained above, the fourth condition for exemption is also likely to be fulfilled in this situation.

The Commission will also consider, by application of the general principles of the antitrust assessment under Article 101 TFEU, the market position of the licensee. If the licensee has market power, then the agreement is likely to come within the scope of Article 101(1) TFEU when the licensor grants the licensee an exclusive license. However, if the licensee is in a better position to efficiently exploit the technology and more willing or better able to take the significant investments for the production process, then the agreement may provide pro-competitive efficiencies. As a result, consumers may also profit from the resulting newly developed products. However, the third condition might be problematic, especially with regard to the scope of the exclusive license. For instance, the parties may have to demonstrate that a worldwide scope was indispensable to attain certain efficiencies and a more limited scope of the license would not have sufficed to induce the licensee to invest in the patent license. The same arguments provided above may be asserted with regard to the fourth condition of Article 101(3) TFEU. Even though an exclusivity clause reduces intra-technology competition, this does not necessarily mean that competition no longer exists in the relevant markets so long as some degree of inter-technology competition, based on different technologies, continues to exist.

The situation will be more problematic in the case of a dominant licensee that gains access to a competing technology as the Commission expressly acknowledges that, apart from the hardcore restriction of reciprocal exclusive licenses between competitors explained above, these situations are much more likely to raise antitrust concerns.[65] According to the Commission, such agreements are likely to trigger Article 101(1) and are unlikely to fulfill the conditions of Article 101(3) TFEU.[66] Nevertheless, a necessary condition for a finding of antitrust liability is difficult entry into the technology market. Moreover, the licensed technology must constitute a real source of competition on the market. In such circumstances, an exclusive license may foreclose third party licensees and allow the licensee to preserve his market power.[67] Consequently, this paragraph should be construed to capture only extreme situations that involve a significant degree of market power. In these cases, exclusive patent licenses will not fulfill the conditions of Article 101(3) TFEU.

[65] Technology Transfer Guidelines, *supra* note 2, ¶ 166.
[66] *Id*.
[67] *Id*.

D. Exclusive patent licenses between non-competitors

Exclusive licensing between non-competitors is covered by the block exemption regulation, which applies – provided that all requirements enumerated in the TTBER are met – up to the individual market share thresholds of 30% for each party involved.

Agreements formed between non-competitors that cannot profit from the TTBER, because the conditions of its application are not met are – to the extent that they are caught by Article 101(1) – likely to fulfill the conditions of Article 101(3) TFEU.[68] The Commission's explanation for this effect is the fact that an exclusive license serves as a necessary inducement for the licensee to invest in the licensed technology and to bring the products to market in a timely manner.[69] Especially in cases where the licensee must undertake large investments to further develop the licensed technology, an intervention by competition authorities against the exclusivity would deprive the licensee of the fruits of his success after the licensee has made a commercial success of the licensed technology. Moreover, the licensee would be discouraged from developing the licensed technology; allowing the licensor to grant licenses to other parties would be detrimental to competition, the dissemination of technology and innovation in general.[70]

With regard to the second condition of Article 101(3) TFEU, one can presume that consumers will profit thereof as they will receive a share of these qualitative efficiencies in the form of better products or products with novel features. These benefits may be especially linked to synergies that result from the combination of the licensor's technology with the licensee's assets.[71] The patent licensing agreement may also be indispensable, because the licensee would not otherwise have access to the licensor's exclusive

[68] *Id*. ¶ 165.
[69] *Id*.
[70] *Id*.
[71] Article 101(3) Guidelines, *supra* note 39, ¶ 71.

intellectual property in the absence of the license. At the same time, there are no less restrictive means available that would provide the same pro-competitive efficiencies as the licensee may refuse to develop new products and invest significantly if he fears competition from the licensor who has no royalty burdens. According to the Commission, there is no threat with regard to the elimination of competition. Hence, the Commission will only intervene against exclusive licensing in agreements between non-competitors, irrespective of the territorial scope of the license in exceptional circumstances.[72]

A special licensing agreement form is exclusive licensing with absolute territorial protection. The ECJ drew the distinction between open exclusive licenses and exclusive licenses with absolute territorial protection[73] in *Nungesser v. Commission (Maize Seed)*.[74] The former does not protect the licensee from parallel importers.[75] Absolute territorial protection granted to a licensee, however, results in a separation of national markets, which is contrary to the creation of a single market and Article 101 TFEU.[76] The ECJ held in *Nungesser v. Commission* that the grant of a license for plant breeder's rights over hybrid maize seeds, under which the licensor agreed not to compete with the licensee in his territory or appoint other licensees within the territory, did not necessarily restrict competition within the meaning of Article 101(1) TFEU.[77] Thus, there is no presumption that open exclusive licenses come within the scope of the antitrust prohibition. The Court explicitly held that the application of the competition rules does not differ for plant

[72] Technology Transfer Guidelines, *supra* note 2, ¶ 165.
[73] JOSEF DREXL, RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY AND COMPETITION LAW 14 (Edward Elgar Publishing, Inc., 2008).
[74] Case 258/78, *Nungesser v. Commission*, 1982 E.C.R. 2015.
[75] JOSEF DREXL, RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY AND COMPETITION LAW 14 (Edward Elgar Publishing, Inc., 2008).
[76] *Id*.
[77] *See* Case 258/78, *Nungesser v. Commission*, 1982 E.C.R. 2015, ¶ 58 (This case concerned a licensing agreement between non-competitors.).

breeder's rights and IP rights.[78] Therefore, the principles of this decision are equally as important for antitrust cases involving patents and should be applied to such cases.

Moreover, a dominant licensee that gains access to a competing technology raises the same antitrust issues in agreements between non-competitors, as explained above in the context of licenses between competitors, because pursuant to the Technology Transfer Guidelines the Commission identifies these situations as potential antitrust violations without any distinction with regard to the competitive relationship between the parties.[79] Hence, the relevant provision in the Technology Transfer Guidelines should be construed to apply to all patent licensing agreements involving a dominant licensee. As mention above, parties will fall within the more relaxed market share thresholds applicable to agreements between non-competitors even if they become competitors as a result of the agreement. One presumes, then, that even if the parties were not competitors prior to the conclusion of the agreement, Article 101(1) is likely to be infringed if a dominant licensee gains access to a competing technology.[80] According to the Commission, such agreements are likely to be caught by Article 101(1) and are unlikely to fulfill the conditions of Article 101(3).[81] However, necessary conditions for a finding of antitrust liability are: 1) a difficult entry into the technology market, and 2) the licensed technology must constitute a real source of competition in the market. In such circumstances, an exclusive license may foreclose third party licensees and allow the licensee to preserve his market power.[82]

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[78] Case 258/78, *Nungesser v. Commission*, 1982 E.C.R. 2015, ¶ 35.
[79] Technology Transfer Guidelines, *supra* note 2, ¶ 166.
[80] *See, e.g.*, JOSEF DREXL, RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY AND COMPETITION LAW 125 (Edward Elgar Publishing, Inc., 2008).
[81] Technology Transfer Guidelines, *supra* note 2, ¶ 166.
[82] *Id*.

2. Exclusive patent licensing under Section 1 Sherman Antitrust Act

Section 1 Sherman Antitrust Act, the counterpart to Article 101 TFEU in U.S. antitrust law, provides: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal."[83] In the absence of statutory specificity the practical scope of the Sherman Act was developed by court decisions.[84]

Section 1 has a very broad wording. All commercial contracts restrain trade to a certain extent as they require the parties to act as agreed and keep them from acting contrary to their agreement.[85] If read literally, Section 1 would capture essentially all types of contracting activity; therefore, it was established in *Standard Oil Co. v. United States*[86] that only those restraints of trade that *unreasonably* restrict competition can cause an antitrust violation.[87]

The method developed by the Court to capture unreasonable restraints is the antitrust rule of reason, to which Section 1 claims are generally subjected[88] and which applies to the vast majority of licensing restraints.[89] In *Board of Trade of Chicago v. United States*,[90] a very important early precedent,[91] the Supreme Court described the rule of reason as a comprehensive analysis that considers "the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the

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[83] 15 U.S.C. § 1 (1890).

[84] ROGER D. BLAIR. & DAVID L. KASERMAN, ANTITRUST ECONOMICS 53 (Oxford University Press, 2d ed. 2009).

[85] DOUGLAS BRODER, U.S. ANTITRUST LAW AND ENFORCEMENT: A PRACTICE INTRODUCTION 35 (Oxford University Press, 2010).

[86] *Standard Oil Co. v. United States*, 221 U.S. 1, 58 (1911).

[87] SHARON K. SANDEEN, AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY DESKBOOK FOR THE BUSINESS LAWYER: A TRANSACTIONS-BASED GUIDE TO INTELLECTUAL PROPERTY LAW 254 (2d ed. 2009).

[88] *Bus. Elecs. Corp. v. Sharp Elecs. Corp.*, 485 U.S. 717, 726 (1988).

[89] Alden F. Abbott, *Intellectual Property Licensing and Antitrust Policy: A Comparative Perspective*, 34 LAW & POL'Y INT'L BUS. 801, 803 (2003).

[90] *Board of Trade of Chicago v. United States*, 246 U.S. 231 (1918).

[91] GARY MYERS, THE INTERSECTION OF ANTITRUST AND INTELLECTUAL PROPERTY 10 (Thomson 2007).

nature of the restraint and its effect, actual or probable, as well as the history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, and the purpose or end sought to be attained."[92]

According to the agencies' IP Guidelines, the rule of reason also constitutes the general approach to analyzing potential restraints in IP licensing agreements.[93] The Guidelines inquire as to whether a restraint is likely to have anticompetitive effects and, if so, whether the restraint is reasonably necessary to achieve pro-competitive benefits that outweigh those anti-competitive effects.[94] Consequently, this method stresses a very flexible case-specific consideration of possible efficiencies.[95] The rule of reason analysis involves "specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect."[96]

With regard to Section 1 Sherman Antitrust Act, courts have gradually divided unreasonable restraints into two categories: those deemed per se illegal and those found illegal after being tested against the rule of reason.[97] Per se forbidden practices are so inherently anti-competitive that they are found illegal, regardless of any possible justification.[98] An application of the per se rule is only appropriate where experience with a particular kind of restraint enables the court to predict with confidence that the rule of reason will condemn it.[99] Hence, only manifestly anti-competitive practices justify its application.[100]

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92 246 U.S. at 238.
93 *IP Guidelines*, supra note 5, §§ 3.4, 4.
94 *Id*.
95 Alden F. Abbott, *Intellectual Property Licensing and Antitrust Policy: A Comparative Perspective*, 34 LAW & POL'Y INT'L BUS. 801, 825 (2003).
96 *State Oil Co. v. Khan*, 522 U.S. 3, 10 (1997).
97 DOUGLAS BRODER, U.S. ANTITRUST LAW AND ENFORCEMENT: A PRACTICE INTRODUCTION 35-36 (Oxford University Press, 2010).
98 *Id*. at 46.
99 TU THANH NGUYEN, COMPETITION LAW, TECHNOLOGY TRANSFER AND THE TRIPS AGREEMENT: IMPLICATIONS FOR DEVELOPING COUNTRIES 69 (Edward Elgar Publishers, Inc., 2010); 522 U.S. at 10;

Like in the EU, an exclusive patent license gives the licensee the exclusive status of being the only party that receives a license grant from the licensor.[101] The agencies' IP Guidelines define exclusive licensing agreements by stating that exclusivity provisions in licensing agreements restrict the licensor's right to license to others and possibly also to use the technology itself.[102] The IP Guidelines do not expressly employ the term "sole licensing" for the first category; however, it can still be compared to sole licenses under the European definition. These licenses are also commonly referred to as licenses with partial or limited exclusivity under U.S. law.[103] The agencies' focus is on the actual practice and its effects, not on the formal terms of the arrangement. A license denominated as non-exclusive may nonetheless give rise to the same concerns posed by formal exclusivity.[104] A non-exclusive license may have the effect of exclusive licensing if it is structured in a way that impedes the licensor from licensing to others or from using the technology itself.[105]

A. Legality of exclusive patent licenses

Unlike in the EU, Section 261 of the Patent Act[106] specifically authorizes the patentee to grant or convey an exclusive right to use his patent throughout the United States or any specified region therein.[107] Courts have for a very long time acknowledged the patentee's

Leegin Creative Leather Products, Inc. v. PSKS, Inc., 551 U.S. 877, 886-887 (2007); *Arizona v. Maricopa County Med. Soc'y*, 457 U.S. 332, 344 (1982).

[100] *Continental TV v. GTE Sylvania*, 433 U.S. 36, 49-50 (1977).

[101] ROBERT W. GOMULKIEWICZ ET AL., LICENSING INTELLECTUAL PROPERTY: LAW AND APPLICATION 174 (Aspen Publishers, Inc. 2008).

[102] *IP Guidelines, supra* note 5, § 4.1.2.

[103] AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK 184 (2007); AMERICAN BAR ASSOCIATION, THE FEDERAL ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY: ORIGINS AND APPLICATIONS 103 (3d ed. 2010).

[104] *IP Guidelines, supra* note 5, § 4.1.2.

[105] *Id.*

[106] 35 U.S.C. § 261 (1994).

[107] AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK 184 (2007).

right to grant exclusive licenses.[108] Consequently, without additional aggravating circumstances, the formation of an exclusive patent license thus does not constitute a violation of U.S. antitrust law.[109] The rationale behind this assumption of legality is that exclusive licenses are usually no more of a threat to competition than the patent itself.[110] For instance, the court held in *United States v. Westinghouse Elec*. that the right to license a patent, exclusively or otherwise, or to refuse to license at all is "the untrammelled right" of the patentee.[111] This also includes the possibility of granting sole licenses, which have somewhat alleviated certain negative impacts on competition compared to pure exclusive licenses. For example, the court held in *Genentech, Inc. v. Eli Lilly & Co.*[112] that “the grant of an exclusive license is a lawful incident of the rights to exclude provided by the Patent Act.”[113]

B. Potential antitrust issues in horizontal exclusive licenses

An exclusive license may raise antitrust concerns only if the licensees themselves, or the licensor and its licensees, are in a horizontal relationship,[114] which presupposes that they

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[108] *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1819); *Zenith Radio Corp. v. Hazeltime Research, Inc*. 395 U.S. 100, 135-136 (1969).

[109] AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK 184 (2007); AMERICAN BAR ASSOCIATION, THE FEDERAL ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY: ORIGINS AND APPLICATIONS 103 (3d ed. 2010); ADAM LIBERMAN ET AL., INTERNATIONAL LICENSING AND TECHNOLOGY TRANSFER: PRACTICE AND THE LAW Ch. 6 [US] 25 (Kluwer Law International, March 2008); *Virtue v. Creamery Package Mfg. Co*., 227 U.S. 8, 37 (1913); *United States v. Studiengesellschaft Kohle*, 670 F.2d 1122, 1127 (D.C. Cir. 1981); *United States v. Westinghouse Elec*., 648 F.2d 642, 647 (9th Cir. 1981); *Cataphote Corporation v. DeSoto Chemical Coatings, Inc*., 450 F.2d 769, 774 (9th Cir. 1971).

[110] 670 F.2d at 1135.

[111] 648 F.2d at 647 (citing *Cataphote Corporation v. DeSoto Chemical Coatings, Inc*., 450 F.2d 769, 774 (9th Cir. 1971)).

[112] *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931 (Fed. Cir. 1993).

[113] 998 F.2d at 949.

[114] *IP Guidelines*, *supra* note 5, § 4.1.2.

would have been actual or likely potential competitors in a relevant market in the absence of the license.[115]

Yet, the grant of an exclusive license, even between competitors, may be nothing more than the valid exercise of a statutory right[116] unless there is further evidence of an anti-competitive conspiracy or there are other circumstances present that might support an antitrust claim.[117] Thus, an additional element of conduct is required. One example the agencies enumerate of exclusive licensing that may give rise to antitrust concerns is when there is cross-licensing by parties collectively possessing market power.[118] In such a case, the agencies suggest a rule of reason analysis.[119]

The rule of reason analysis usually takes into account that many potential licensees might be unwilling to undertake the expense necessary to develop and promote a product but for assurances against attempts by later licensees to exploit the early licensee's development and promotion. An exclusive license protects licensees against such "free rider" problems, and, consequently, serves the interests of both the patentee and the public by facilitating more rapid and widespread use of new inventions.[120]

In *Moraine Products v. ICI America, Inc.*, the court held that an exclusive licensing agreement between competitors is not per se forbidden under the antitrust laws and may be nothing more than the valid exercise of a statutory right unless there is further evidence of an anti-competitive conspiracy or of other circumstances that support an antitrust claim; in

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[115] *Id.* § 3.3.

[116] *Levi Case Co. v. ATS Prods.*, 788 F. Supp. 428, 431-432 (N.D. Cal. 1992); AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK 185 (2007).

[117] AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK 186 (2007); *Smith Int'l v. Kennametal, Inc.*, 621 F. Supp. 79, 89-90 (N.D. Ohio 1985); *E. Bement & Sons v. Nat'l Harrow Co.*, 186 U.S. 70, 94-95 (1902).

[118] *IP Guidelines, supra* note 5, § 4.1.2.

[119] *Id.* § 3.4.

[120] 670 F.2d at 1127.

such a case, the rule of reason should be applied.[121] An example of this kind of case would be an agreement where the licensor does not retain the right to use its intellectual property and the licensee may not grant sublicenses.[122] A rule of reason analysis would involve, *inter alia*, a study of the consequences of the resulting conduct on the affected market before imposition of antitrust sanctions.[123]

Other decisions, such as *Baxter Int'l, Inc. v. Abbott Labs,*[124] have also held that the antitrust legality of exclusive licenses requires an analysis in line with the rule of reason. This view is shared by the U.S. antitrust enforcement agencies.[125] In *Baxter International, Inc. v. Abbott Labs,* the court considered the exclusivity in a license as a lawful ancillary agreement designed to induce the licensee and its sublicensees to undertake the necessary investments to bring a new drug, an anesthetic called sevoflurane, to market.[126] However, the U.S. notion of ancillary restraints differs from the one prevailing in the EU. Over the years, U.S. courts have drawn distinctions between naked restraints that had no purpose except harming competition and agreements that were ancillary to a legitimate objective.[127] A restraint is ancillary if its objectively intended purpose, or likely effect, is lower prices or increased output as measured by quantity or quality.[128] Nevertheless, ancillary restraints are not automatically legal; they receive rule of reason treatment.[129]

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[121] AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK 186 (2007); *Moraine Prods. v. ICI Am.*, 538 F.2d 134, 143-145 (7th Cir. 1976) (rule of reason analysis of an exclusive license that precluded further licenses or sublicense without consent of all parties).

[122] 538 F.2d at 138-145; AMERICAN BAR ASSOCIATION, THE FEDERAL ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY: ORIGINS AND APPLICATIONS 103 (3d ed. 2010).

[123] 538 F.2d at 144.

[124] *Baxter Int'l, Inc. v. Abbott Labs,* 315 F. 3d 829 (7th Cir.).

[125] ADAM LIBERMAN ET AL, INTERNATIONAL LICENSING AND TECHNOLOGY TRANSFER: PRACTICE AND THE LAW Ch. 6 [US] 25 (Kluwer Law International, March 2008).

[126] 315 F. 3d at 833.

[127] *United States v. Addyston Pipe & Steel Co*., 85 Fed. 271, 281-282 (6th Cir. 1898); MICHAEL A. CARRIER, INNOVATION FOR THE 21ST CENTURY: HARNESSING THE POWER OF INTELLECTUAL PROPERTY AND ANTITRUST LAW 62 (Oxford University Press, 2009).

[128] HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY, § 30.3 (Aspen Publishers, supp., 2008).

[129] *Id*. (Note the difference in contrast to the notion of ancillary restraints in the EU explained above.).

Decisions in litigated cases that actually held exclusive licenses to be violations of the antitrust laws are rare.[130] In *United States v. Parker-Rust-Proof Co.,*[131] the court held that the acquisition by a rust-proofing company of an exclusive license of all the rust-proofing patents of a competitor, accompanied by the resolution of patent infringement litigation between the parties by entry of an agreed order permanently enjoining the licensor from engaging in its rust-proofing process, unlawfully restrained competition.[132] Moreover, the court held that the consideration paid for the exclusive license bore no direct relationship to the value of the rights acquired.[133] Consequently, the agreement could only have been intended to eliminate a substantial competitor.[134]

In *United States v. Singer Mfg. Co*., the Supreme Court held that exclusive licensing among and between competitors,[135] as part of an agreement to prevent Japanese competition, constituted a violation the Sherman Act.[136]

In *United States v. Crown Zellerbach Corp.*,[137] a horizontal territorial allocation agreement between two competitors that relied, in part, on an exclusive patent license was found to be a per se violation of the Sherman Act.[138] One of the competitors, American Linen Supply Company (ALSCO), granted Crown Zellerbach an exclusive license to use and distribute ALSCO's patented paper towel dispensers to customers located east of the Mississippi River, while reserving to itself the territory west of the Mississippi.[139] The

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[130] ADAM LIBERMAN ET AL, INTERNATIONAL LICENSING AND TECHNOLOGY TRANSFER: PRACTICE AND THE LAW 26 (Kluwer Law International, March 2008).
[131] *United States v. Parker-Rust-Proof Co.,* 61 F. Supp. 805 (E.D. Mich. 1945).
[132] *Id.* at 812-813; ADAM LIBERMAN ET AL, INTERNATIONAL LICENSING AND TECHNOLOGY TRANSFER: PRACTICE AND THE LAW 26 (Kluwer Law International, March 2008).
[133] *Id.*
[134] 61 F. Supp. at 813.
[135] *United States v. Singer Mfg. Co*., 374 U.S. 174, 194 (1963) (The exclusive licensing scheme involved two of Singer's competitors - Gegauf and Vigorelli, which were sole licensees.).
[136] 374 U.S. at 193-196.
[137] *United States v. Crown Zellerbach Corp.* 141 F. Supp. 118 (N.D. Ill. 1956).
[138] ADAM LIBERMAN ET AL, INTERNATIONAL LICENSING AND TECHNOLOGY TRANSFER: PRACTICE AND THE LAW Ch. 26 (Kluwer Law International, March 2008).
[139] *Id*.; 141 F. Supp. at 123-124.

arrangement also involved an exclusive dealing agreement that prohibited Crown Zellerbach from dealing in competitive products within its allocated territory.[140] The effect of the arrangement was to entirely eliminate Crown as a competitor in the west and to remove ALSCO as a competitor against Crown in sales to paper jobbers in the east.[141] On the basis of Section 261 of the Patent Act, the court held that a territorial protection granted under a license agreement was a valid exercise of ALSCO's patent rights.[142] However, the court also held that customer allocations are not immunized by patent law and, according to the controlling precedents, such allocations constituted a per se violation of the Sherman Act.[143] One must note, however, that this case involved a unique situation as the patent license was combined with exclusive dealing provisions, and it implemented a market allocation scheme.

III. Conclusion: A Comparison of EU and U.S. Antitrust Law

Both legal systems provide the possibility of entering into exclusive licensing agreements. In addition, both systems distinguish between exclusive licenses and sole licenses, recognizing that the latter are less likely to raise antitrust concerns. The Commission differentiates between various categories of exclusive patent licensing agreements by evaluating the competitive relationship of the parties or the reciprocal or non-reciprocal nature of the arrangement. This practice reflects the continental European tradition of code-based rules; it should be seen as an attempt to provide far-reaching guidance by capturing as many scenarios as possible.

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[140] ADAM LIBERMAN ET AL, INTERNATIONAL LICENSING AND TECHNOLOGY TRANSFER: PRACTICE AND THE LAW 26 (Kluwer Law International, March 2008); 141 F. Supp. 118.
[141] *Id.*
[142] 141 F. Supp. at 127.
[143] *Id.* at 128-129.

One can conclude that the legal situation in the U.S. accords exclusive licenses a more favorable treatment than in the EU. In the U.S., exclusive licenses are usually presumed to be legal. This presumption can be traced to the clear wording of Section 216 of the Patent Act, which considers grants of exclusive licenses to be a lawful exercise of the exclusive rights conferred under patent law. On the contrary, no comparable presumption of legality exists in the EU, where patent law is principally governed by national law.

The only agreements in the U.S. that may raise antitrust issues with respect to exclusive patent licenses are agreements where the parties involved interact in a horizontal relationship. Still, without additional aggravating circumstances, even exclusive licenses between competitors do not raise antitrust problems.

Under EU law, exclusive licenses between competitors, provided that they are not reciprocal, are block exempted from Article 101 TFEU. Above the thresholds, the agreements do not come within Article 101(1) TFEU if the licensor lacks market power. In such a case, the legal situation equals the one in the U.S.. Other scenarios may be individually exempted under Article 101(3) TFEU after a detailed analysis. Although the outcome may be the same in these cases, the antitrust situation in the EU is less favorable as the burden of proof rests on the parties to demonstrate that the four conditions for an individual exemption are fulfilled.

Moreover, the EU approach seems to be more strict by alleging that agreements involving a dominant licensee are unlikely to fulfill the conditions of Article 101(3) TFEU and are, therefore, likely to be forbidden under the general antitrust prohibition.

In the U.S., patent licenses will not be prohibited simply because they contain an exclusivity clause. Whenever other anti-competitive effects – apart from per se forbidden practices – are established in the U.S., the agencies and courts apply the rule of reason in the assessments. As a result, the final outcome varies on a case-by-case basis depending on the circumstances of the particular case. Hence, without additional aggravating circumstances, exclusive licenses will not be considered a violation of antitrust laws in the U.S. and are also likely to be upheld in the course of the rule of reason analysis.

However, when per se forbidden practices, such as customer or market allocation, are implemented through an exclusive licensing scheme, courts do not hesitate to find these agreements to be per se illegal under Section 1 of the Sherman Act. In the market allocation context, EU law postulates a similar treatment by denominating reciprocal exclusive licenses between competitors as hardcore restrictions. Unlike in the U.S., EU antitrust law does not acknowledge per se forbidden practices. Even though hardcore restrictions can be individually exempted under Article 101(3) TFEU in theory, this is unlikely in to occur in practice due to their great potential for competitive harm under EU antitrust law. Thus, a perceivable similarity between the two regimes is the prohibition of exclusive horizontal licenses that implement market allocation schemes.

Reciprocal sole licensing between competitors, by contrast, profits from the block exemption regulation and, when above the market share thresholds, is still likely to be individually exempted. However, Article 101(3) TFEU is unlikely to come into play for agreements that facilitate collusion by ensuring that the parties are the only sources of output in the market based on the licensed technology. It is questionable whether, under U.S. law, such an agreement would raise the same antitrust issues. Despite the general presumption of legality, potential anti-competitive effects may be subjected to a rule of reason analysis where the outcome will depend on the specific circumstances of the case.

Under U.S. law, pure vertical exclusive licenses do not raise antitrust issues and, therefore, are not challenged. This is a very good example of how the EU and U.S. diverge in approach to vertical agreements. Under EU law, exclusive licenses can also raise antitrust issues if they are formed between non-competitors. However, the ultimate result will be the same as the U.S. as exclusive licensing agreements between non-competitors profit from either the block exemption regulation or, if market share thresholds are exceeded, being able to fulfill the conditions of Article 101(3) TFEU. Nevertheless, it is clear that the legal situation in the EU accords a less favorable treatment than in the U.S., because these agreements are only lawful after a detailed assessment under Article 101(3) TFEU where the burden of proof rests on the parties that have employed such a provision. Moreover, in the case of a dominant licensee, the Commission clearly states that the agreement will most likely trigger the prohibition of Article 101(1) TFEU.

In sum, the basic notions across the Atlantic are clearly the same when it comes to an antitrust assessment of patent licenses in either the EU or the U.S.. Both legal systems consider patent licensing as potentially pro-competitive, and there is a general convergence of the practices that are most likely to raise antitrust issues in exclusive licenses. Remaining differences, especially in the assessment of vertical restraints, are linked to the comparison of two distinct legal bodies with different objectives: the EU as a supranational organization and the United States as a federal state. Both systems of antitrust law endorse economic considerations in the evaluation of anti-competitive effects. From a European perspective, where lawyers are used to a legalistic approach in the application of law, it seems difficult at times to predict the outcome in potential antitrust scenarios due to the fact that legal certainty was sacrificed in order to achieve justice in individual cases. It will still take time to get accustomed to this new economically-influenced approach to antitrust law; maybe lessons can be learned from the U.S. where this system has been functioning for well over one-hundred years.

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