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Antitrust Liability and Unilateral Refusals to License Intellectual Property

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The antitrust laws generally provide that a firm has no duty to deal with or to aid its competitors. This long-established principle applies equally to intellectual property, which the courts treat the same when applying the antitrust laws. A unilateral refusal to deal occurs in the IP context when a patent owner independently decides not to license its patent to another firm – often called a unilateral refusal to license. Although one circuit has ruled to the contrary, the majority of the federal courts and the antitrust agencies generally find unilateral refusals to license lawful, absent a rare exception and/or other anticompetitive conduct.

Unilateral Refusals to License IP Are Generally Not Anticompetitive

The Supreme Court recognized as early as 1908 that a patent holder has no duty to license its IP and that it is not unreasonable or necessarily anticompetitive for a patent owner to refuse to do so. Even in the case where a firm possesses “monopoly power” or “market power” in a specific industry, there is still no requirement for a patent holder to license its IP to others. Therefore, for a unilateral refusal to license to merit scrutiny under Section 2 of the Sherman Act, a court must find that the refusal is actually a form of anticompetitive conduct that resulted in monopolization.

Outside of the IP context, courts predominantly find that a refusal to deal is not anticompetitive. In Verizon Commn’s v. Trinko, the Supreme Court recognized that, “as a general matter, the Sherman Act does not restrict the long recognized right of [a] trade or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal.” Although the court noted that “under certain circumstances, a refusal to cooperate with rivals can constitute anticompetitive conduct and violate §2,” it advised courts to exercise extreme caution in finding such exceptions.

Within the IP context, the Supreme Court has not definitively ruled that a unilateral refusal can never violate the antitrust laws. However, given that refusals to deal rarely merit antitrust scrutiny coupled with the fact that a patent owner has no specific duty to license its IP, federal courts have been extremely reluctant to condemn refusals to license. Moreover, several circuit courts have gone so far as to hold that “no liability exists under Section 2 of the Sherman Act on the part of one who has lawfully acquired the patent, and subsequently unilaterally refuse[d] to license the patent.” The antitrust agencies treat refusals to license consistently with the courts, even publicly stating that “liability for mere unconditional unilateral refusals to license will not play a meaningful part in the interface between patent rights and antitrust protections.”

Although Uncommon, One Circuit Has Condemned a Unilateral Refusal to License

At least one circuit has found a firm liable under Section 2 for a unilateral refusal to license. In Image Technical Services, Inc. v. Eastman Kodak Co., the Ninth Circuit upheld a jury finding that a firm with monopoly power violated Section 2 when it refused to sell patented (and unpatented) parts to independent service organizations (“ISOs”). The ISOs argued that by refusing to sell replacement parts, Kodak was using its monopoly power in photocopier and micrographic equipment to leverage a monopoly in the related market of equipment servicing. The Ninth Circuit created a rebuttable presumption in Kodak that a patent holder’s refusal to grant a license was lawful. However, while the court acknowledged on one hand that a “reluctance to sell . . . patented or copyrighted parts was a presumptively legitimate business justification,” it countered that this “presumption may also be rebutted by evidence of pretext.”
The Ninth Circuit ultimately found antitrust liability in this situation when it concluded that the patents played no role in Kodak's refusal to license, therefore rebutting the valid business justification.13

The Ninth Circuit's rebuttable presumption test for unilateral refusals to license has been considered controversial and even criticized for its consideration of a firm's subjective intent.14 First, prior to Kodak, there had been "no reported case in which a court ha[d] imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright."15 Second, several circuits had definitively held (and continue to hold) that a unilateral refusal to license cannot, in fact, violate Section 2.16 Third, the Federal Circuit disagreed with this subjective motivation test in In re Independent Service Organizations Antitrust Litigation (CSU) when examining a staunchly similar set of facts.17

In CSU, the Federal Circuit found a unilateral refusal to license to be per se legal, explaining that a patent holder's subjective motivation was irrelevant.18 The Federal Circuit reiterated that the patent holder had no duty to license its IP to others and thus did not violate the antitrust laws by refusing to do so.19 Furthermore, the Federal Circuit acknowledged that a patent holder's refusal to license "may have an anticompetitive effect," but that the court was not concerned "so long as that anticompetitive effect is not extended beyond the statutory patent grant."20 Other federal circuits have similarly rejected the Ninth Circuit's rebuttable presumption test for unilateral refusals to license.21

Conclusion

› A patent holder generally has no duty or obligation under either antitrust or patent law to license its IP to others.
› While the Supreme Court has not definitively ruled on it, the majority of federal courts have found that a company's unilateral refusal to license its patents does not violate Section 2 of the Sherman Act.
› Although at least one federal circuit held that a refusal to sell a patented product constituted monopolization, it appears unlikely that most courts would do so absent exceptional circumstances or other anticompetitive conduct.

Endnotes


Unilateral refusals to license are governed by Section 2 of the Sherman Act and can be distinguished from “concerted refusals to license,” which are often deemed anticompetitive under Section 1. See Herbert Hovenkamp, Mark D. Janis, & Mark A. Lemley, Unilateral Refusals to License, 2 J. Competition L. & Econ. 1, 34 (2006).

Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 429 (1908). The Supreme Court reinforced this view in 1945 noting that a patent owner “has no obligation either to use it or to grant its use to others. Hartford-Empire Co. v. United States, 323 U.S. 386, 432-33, clarified, 324 U.S. 570 (1945).

Monopoly power is generally defined as whether a party has “the power to control prices or exclude competition” in a relevant market. United States v. E.I. DuPont de Nemours & Co., 351 U.S. 377, 398 (1956).

Antitrust-IP Guidelines, supra note 2, at § 2.2.

540 U.S. at 411 (quoting United States v. Colgate & Co., 250 U.S. 300, 307 (1919)).

Id. at 408.

Id. (“We have been very cautious in recognizing such exceptions, because of the uncertain virtue of forced sharing and the difficulty of identifying and remediying anticompetitive conduct by a single firm.”).


Dep't of Justice & Fed. Trade Comm’n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition 30 (April 2007) [hereinafter Antitrust-IP Report]. Notably, a rare exception exists inside and outside of the patent context. In 1985, the Supreme Court affirmed a district court's finding that a firm violated Section 2 in Aspen Skiing Co. v. Aspen Highlands Skiing Corp. when it refused to deal with a firm with which it previously
had a profitable relationship. 472 U.S. 585, 601-05 (1985). In Trinko, the Court essentially limited Aspen Skiing to its facts in which the firm terminated “a voluntary (and thus presumably profitable) course of dealing . . . to for sake short-term profits to achieve an anticompetitive end.” 540 U.S. at 407-08. While the Court found these circumstances to be “at or near the outer boundary of [section] 2 liability,” id. at 409, the antitrust agencies have noted that a violation could occur “when a patent owner refuse[d] to continue to license under circumstances paralleling those presented in Aspen.” Antitrust-IP Report, supra note 11, at 28.

125 F.3d 1195, 1219 (9th Cir. 1997).

Id. at 1200.

Id. at 1219.

Id.

Kodak, 125 F.3d at 1219.

Antitrust-IP Report, supra note 11, at 30, fn. 109 (“[T]he Kodak decision has been criticized, even by those who would prefer to depart from those cases indicating that the mere refusal to license does not support antitrust liability.”).

Kodak, 125 F.3d at 1216.

See, e.g., Miller, 830 F.2d at 609.

203 F.3d 1322 (Fed. Cir. 2000).

203 F.3d at 1327.

Id. at 1328.

Id. at 1327-28.

See, e.g., Schor v. Abbott Labs, 457 F.3d 608, 613 (7th Cir. 2006) (“[W]e think it better to join the Federal Circuit in saying that Image Technical just got it wrong.”).