

**CONSTRAINTS TO FREEDOM OF CONTRACT  
IN PATENT LICENSING AGREEMENTS:  
A COMPARATIVE ANALYSIS OF  
THE US, EU AND UKRAINIAN SOLUTIONS**

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## **Abstract**

The thesis examines when, why and how the scope of freedom of parties to patent licensing agreements (in particular, those involving transfer of technology), including term-freedom and party-freedom, may be restricted by the provisions of competition law in the US, EU and Ukraine. In relation to the limitation of the term-freedom of the parties the thesis offers an overview and a comparative analysis of the current competition legislation and its practical application in the US, EU and Ukraine. With regard to the party-freedom restriction the thesis compares the approaches of the same jurisdictions to the assessment of the legality of refusal to license from the prospective of the competition law.

Based on the learned experience of the US and EU jurisdictions, the thesis suggests solutions for the improvement of the current Ukrainian legislation in the sphere of competition law with regard to patent technology transfer licensing agreements.

## INTRODUCTION

Freedom of contract is one of the main driving forces of economic development. This right ensures the possibility for market players to choose a business partner, to contract on the terms that are mutually agreed by the parties and are most favorable for them in order to achieve their business goals, as also to decide whether to contract at all. However, this right is not absolute and may be restricted in certain circumstances in order to ensure the balance of rights and interests, or to protect public policy.

One possible situation is the restriction of freedom of parties to the patent licensing agreement imposed by competition law. The main right given to the owner of the patent is to exclude others from its unauthorized use. Thus this right implies that the patent owner is in a position to decide whether to share his right and on what conditions. Hence it seems that the restriction of freedom of contract of patent owner with regard to his intellectual property [IP] right contradicts the essence of the protection of the right granted by IP law. However, limitations of this right may be imposed and are actually imposed by competition law. Its interference in the sphere of contract and intellectual property law is justified by public interests - the need to protect competition on the market and thus to ensure consumer welfare.

The purpose of this work is to draw a line between the scope of freedom of contract granted to parties to a patent licensing agreement and the limitations that may be imposed by competition law. This aim raises at once several questions as what are the constraints of competition law, when and why they may limit the freedom of parties, and what is the rationale behind them. The answers to these questions will be provided on the basis of the complex analysis of the experience of three jurisdictions – the United States [US], European Union [EU] and Ukraine. The obtained results will allow to learn from the experience of two developed and successful jurisdictions – the US and EU – in order to derive useful lessons for the less developed Ukrainian jurisdiction.

The research will be conducted by means of the descriptive method and method of comparative analysis based on a functional approach. The first one will give the possibility to

make an overview of the existent competition legislation in all three jurisdictions, while the second will assist in its analysis and assessment of its practical application. The functional approach is required to conduct in-depth research of the solutions proposed in each of the jurisdictions and to compare their efficiency and effectiveness disregarding the form of the solutions but looking to their substance. However, due to the broad scope of patent licensing agreements this thesis will cover only technology transfer agreements.

The thesis consists of three chapters. The first chapter will outline the scope of freedom of patent licensing contract, and will also provide an overview and comparison of competition law constraints that may limit this freedom. The second chapter will analyze the restrictions to freedom of contract outlined in the first chapter with regard to particular types of patent licensing agreements – cross-licensing and patent pool agreements, as also tying and bundling - that are of common usage by licensors and licensees in technology transfer agreements. While the first and the second chapters will be directed to describe the constraints imposed with regard to one aspect of freedom of contract – the term-freedom of parties, the third chapter will study the limitations of the other side – the right to decide whether to contract at all, namely, the right of the patent owner to refuse to license the patent. Each chapter will provide an analysis of the issue from the prospective of comparison of the rationale and approaches that operate in the three selected jurisdictions, and formulate possible suggestions and lessons for Ukraine. Finally, in the conclusion the approaches of the jurisdictions will be evaluated and specific suggestions will also be provided for Ukraine with regard to the raised problem.

# GENERAL OVERVIEW OF RESTRAINTS IN PATENT LICENSING AGREEMENTS THAT ARE PROHIBITED BY COMPETITION LAW OF THE US, EU, UKRAINE

## 1. *Patent licensing agreement. Scope of freedom*

The right “to conclude licensing contracts” is part of the bundle of rights conferred on a patent owner by Article 28 of the TRIPS Agreement<sup>1</sup>. According to the World Intellectual Property Organization [WIPO] “a patent licensing is a permission granted by the patent owner to another to use the patented invention on agreed terms and condition, while the patent owner continues to retain ownership of the patent”<sup>2</sup>. In order to legalize the transfer of the right to use the patent parties conclude the patent licensing agreement. Each and every patent licensing agreement is unique, however it is possible to identify a list of standard clauses that are commonly used: grant of rights, payment mechanism, rights and obligations of the parties, term of the contract, termination and post-termination conditions, warranties (of patent validity, ownership, etc.), indemnity, confidentiality, assignment (by licensee), and others<sup>3</sup>. The list contains suggested way of forming a licensing contract but parties are free to stipulate those terms that will reflect the purpose of their particular contract.

Freedom of contract is a general principle in contract law that is usually considered in two aspects, i.e., freedom to enter or refrain from entering the contract (“party-freedom”) and freedom of parties to determine the terms of the contract (“term-freedom”)<sup>4</sup>. However, contract freedom is not absolute and may be subject to certain restrictions.

Thus for example the Civil Code of Ukraine lists “substantial terms” that are obligatory in the licensing agreement which otherwise will be void. Among them are:

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<sup>1</sup> TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, THE LEGAL TEXTS: THE RESULTS OF THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS 320 (1999), 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994) [hereinafter TRIPS Agreement].

<sup>2</sup> Licensing and Technology Transfer, <http://www.wipo.int/patent-law/en/developments/licensing.html> (last visited March 23, 2015).

<sup>3</sup> Cory J. Furman, Drafting Intellectual Property License Agreements: Issues Overview (Winnipeg, Manitoba, 2010), <http://documents.jdsupra.com/a34ab85c-6f3d-4e5e-ab93-1672de75d0b2.pdf> (last visited March 25, 2015).

<sup>4</sup> Michael Trebilcock, *The Limits of Freedom of Contract and the Limits of Contract Theory* 22 JOURNAL OF LAW AND SOCIETY 259(1995), <http://www.jstor.org/stable/1410407> (last visited March 22, 2015).

type of the license, the field of the intellectual property object use (specific rights granted by the agreement, the methods of the mentioned object use, the area and the term of the rights granted, etc.), the amount, procedure and terms of paying the fee for the intellectual property use, as well as the other conditions that the parties consider appropriate to include into the agreement<sup>5</sup>.

A more detailed list of terms for a patent licensing agreement is envisaged in the Technology Transfer Law [TTL]<sup>6</sup>. According to this act, parties to a licensing agreement must agree on “substantial terms” - without which the agreement will be void - and other “necessary terms”<sup>7</sup>, required for the particular kind of technology transfer agreement<sup>8</sup>.

Another example of limitation of freedom of parties is the requirement as to the form of the contract or its registration. According to Ukrainian legislation, licensing agreements must be concluded in writing<sup>9</sup> in order to be valid, however registration of the agreement is not obligatory<sup>10</sup>.

Also legislators may impose other restrictions on the freedom of parties in licensing agreements in order to ensure competition on the market, promote development and innovation, to protect the weaker party and consumers, etc. Thus states-parties to the TRIPS Agreement agreed on the possibility to impose some restrictions on intellectual property rights that “have adverse effect on competition in the relevant market”<sup>11</sup>. The rationale behind it is the close connection between the spheres of IP and competition law. Such understanding is similar in both the EU and

<sup>5</sup> *Cyvilnyy Kodeks Ukrainy* [Civil Code] Art. 1109 (Ukr.) [hereinafter Civil Code], (translation provided by the author).

<sup>6</sup> *Zakon Ukrainy pro Derzhavne Regulyuvannya Diyalnosti u Sferi Transferu Tehnologiy* [The Law of Ukraine on the State Regulation of the Technology Transfer Activities], *Vidomosti Verkhovnoyi Rady Ukrainy* [The Official Journal of Verkhovna Rada], Sept. 14, 2006, No. 45, p. 434 (Ukr.) [hereinafter TTL].

<sup>7</sup> K.Y. Ivanova, *Договори про трансфер технологій: спірні питання (Technology transfer agreements: controversial issues)* Comparative-Analytic Law: Electronic Professional Scientific Edition at [http://dspace.nulau.edu.ua/bitstream/123456789/5221/1/Ivanova\\_126\\_129.pdf](http://dspace.nulau.edu.ua/bitstream/123456789/5221/1/Ivanova_126_129.pdf), p. 126. *See id.* at 127 (According to the legislation of Ukraine (Art. 20 of the TTL, Art. 1107 of the Civil Code) a technology transfer agreement may be concluded in different forms of agreements, including licensing agreement.).

<sup>8</sup> TTL, *supra* note 7, at Art. 19 (Ukr.).

<sup>9</sup> Civil Code, *supra* note 6, at Art. 1107 (Ukr.).

<sup>10</sup> *Id.* at Art. 1114 (Registration of the agreement may be made on the demand of either party).

<sup>11</sup> TRIPS Agreement, *supra* note 2, at Art. 40.

US. Thus the US Department of Justice and Federal Trade Commission looks on the antitrust and IP<sup>12</sup> law as “complementary bodies” that ensure innovation through protection of the competition on the market and promotion of new developments respectively<sup>13</sup>. The EU Commission evaluates the legislation in both fields of law as “necessary to promote innovation and ensure a competitive exploitation thereof”<sup>14</sup>. But to what extent the freedom of licensing contract is restricted by requirements of competition law? The answer for this question will be given further on the basis of the examples of three jurisdictions – the US, EU and Ukraine.

## 2. *The US Approach*

The main acts that regulate the question regarding the lawfulness of IP licensing agreements in the light of antitrust law in the US (federal level) are the Sherman Act, the Clayton Act, the Federal Trade Commission [FTC] Act and two reports issued by the US Department of Justice and FTC (“agencies”) - the Antitrust IP Guidelines<sup>15</sup> and IP Report 2007.<sup>16</sup>

Section 1 of the Sherman Act makes a general statement according to which “every contract... in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal”<sup>17</sup>. Later in *Standard Oil Co. of New Jersey v. US*<sup>18</sup> the Supreme Court narrowed the scope of contracts and other practices that can be recognized unlawful to those that only unreasonably restrain the competition in a trade<sup>19</sup>.

<sup>12</sup> Intellectual property [hereinafter IP].

<sup>13</sup> U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007) [hereinafter IP Report 2007], <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf> (last visited March 23, 2015).

<sup>14</sup> Communication from the Commission — Guidelines on the Application of Art. 101 of the Treaty on the Functioning of the European Union to Technology Transfer Agreements of March 28, 2014, § 7, 2014 O.J. (C 89) 3, 6 [hereinafter TTBER Guidelines].

<sup>15</sup> U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property (1995) [hereinafter Antitrust IP Guidelines], <http://www.justice.gov/atr/public/guidelines/0558.pdf> (last visited March 23, 2015).

<sup>16</sup> ABA SECTION OF ANTITRUST LAW, INTELLECTUAL PROPERTY AND ANTITRUST HANDBOOK (2007), p. 191-192.

<sup>17</sup> 15 U.S.C. § 1 (1890).

<sup>18</sup> *Standard Oil Co. of New Jersey v. United States*, 221 U.S. 1 (1910).

<sup>19</sup> Antitrust IP Guidelines, *supra* note 16, at p. 21 (The interpretation of the meaning of the reasonable restraint for each particular situation is provided in guidelines of agencies (Antitrust IP Guidelines and IP Report 2007) and also can be found in case law. Thus agencies state a restraint is reasonably necessary when there is no other practical (not



Agencies stipulate that IP licensing agreements may violate antitrust law if “they are likely to affect adversely the prices, quantities, qualities, or varieties of goods and services, either currently or potentially available”<sup>20</sup>. At the same, agencies recognize IP licensing contracts as “generally procompetitive”<sup>21</sup>. According to their belief, licensing contracts ease the integration of the licensed IP with other IP components that are required for a proper production process. Such integration helps to exploit IP effectively and economically, resulting in reduction of costs, appearance of new products and technologies, and an overall beneficial effect on consumer welfare. In a situation of dependency<sup>22</sup> a patent licensing agreement makes it possible to exploit and develop both inventions. Even the licensing agreement that contains restrictions may be procompetitive. Field-of-use or territorial exclusivity may promote the incentive of licensees’ to innovate and invest more in the development of the product, as well as increase licensors’ motivation to license.<sup>23</sup>

All these beneficial effects are assessed by agencies as substantial factors to analyze patent licensing agreements under the rule of reason, and only in exceptional cases, when the contract contains *per se* illegal restraints, the licensing agreement is recognized as the one that violates antitrust law. According to the rule of reason<sup>24</sup>, the assessment of particular limitations in the contract is made on the basis of the proportionality of the caused harm and benefits for the market that helps to specify whether the particular restraint is “reasonably necessary”<sup>25</sup>. The criteria of

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just theoretical) and significantly less restrictive option to gain procompetitive efficient benefits of a particular agreement.).

<sup>20</sup> *Id.* at p.7

<sup>21</sup> IP Report 2007, *supra* note 14, at p.4.

<sup>22</sup> This is the situation when the exploitation of one product (dependent) is dependent on the use of the other (usually earlier patented) product (dominant). In order to get the right to use the dominant item the owner of the dependent product must obtain the license.

<sup>23</sup> Antitrust IP Guidelines, *supra* note 16, at p. 5.

<sup>24</sup> The explanation of the rule of reason was provided by the Supreme Court in *Board of Trade of City of Chicago v. U.S.*, 246 U.S. 231, 238 (1918) (“The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained”).

<sup>25</sup> Antitrust IP Guidelines, *supra* note 16, at p. 16.

the harm depend on a type of the relations of the parties to the licensing agreement – whether they are competitors (horizontal agreements) or non-competitors (vertical agreements)<sup>26</sup>.

Agencies state that horizontal licensing agreements raise more anticompetitive concerns as they may harm competition on the market through price coordination, limitation of output, market power,<sup>27</sup> exploitation or imposing limits on the incentive to produce new products. However in vertical agreements agencies tend to look on their impact on the competition between licensor/licensee and their respective rivals.<sup>28</sup> The “efficiency-enhancing integration of economic activity<sup>29</sup>” is the main criteria applied by agencies for the assessment of licensing agreements under the rule of reason. In the absence of the integration the restriction is to be treated as *per se* violation of the antitrust law<sup>30</sup>.

The *per se* treatment applies when the agreement contains a restriction that does not require deep analysis to be evaluated as harmful for the competition on the market and thus makes the whole agreement automatically void.<sup>31</sup>

There are several *per se* unlawful restrictions: naked price-fixing, output restraints, market division and resale price maintenance in case of horizontal agreements and certain boycotts<sup>32</sup>. All other provisions in a patent licensing agreement that may cause harm to the competition fall under the treatment of the rule of reason.

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<sup>26</sup> *Id.* at p. 14 (Agencies indicate that most licensing agreements are mixed (contain features of both types) and tend to examine the agreement as horizontal if without it parties would have been treated as competitors (actual or potential)).

<sup>27</sup> *Id.* at p. 4 (“[T]he ability profitably to maintain prices above, or output below, competitive levels for a significant period of time”).

<sup>28</sup> *Id.* at p. 18.

<sup>29</sup> *Id.* at p. 16.

<sup>30</sup> *Id.* at p. 16.

<sup>31</sup> *Northern Pac. Ry. Co. v. U.S.*, 356 U.S. 1 (1958) (“[There] are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use”). See also *Arizona v. Maricopa County Medical Soc.* 457 U.S. 332, 351, (1982) (“Whatever economic justification particular price-fixing agreements may be thought to have, the law does not permit an inquiry into their reasonableness. They are all banned because of their actual or potential threat to the central nervous system of the economy”).

<sup>32</sup> Antitrust IP Guidelines, *supra* note 16, at p. 16. In the guidelines agencies do not limit the unlawfulness of the resale price maintenance (RPM) to horizontal agreements that may be explained by the date of the guidelines - 1995). However after the publication of the guidelines the approach to RPM has changed. For more detail see *infra* p. 11.

However, it is worth mentioning that the approach in division licensing agreements on *per se* illegal and the legality of which requires the rule of reason analysis has changed remarkably over time. With the adoption of the Sherman Act patent licensing agreements were not seen as those that violate antitrust law.<sup>33</sup> However, in 1970 the “nine no-no’s” list of *per se* violations in patent licensing agreements was introduced, which enumerated practices that were recognized as unlawful without a need to prove their antitrust impact<sup>34</sup>. In 2007 the previous approach was reverted, and it was recognized that “intellectual property licensing is generally procompetitive”<sup>35</sup>. According to the new policy, the assessment of practices stated in the “nine no-no’s” list has been changed as follows:

1. *Tying*<sup>36</sup> in a patent licensing means the sale of a patented product/technology on the condition that another product (patented/unpatented) will also be purchased.<sup>37</sup> The approach to the assessment of tying agreement is controversial, however it is agreed that in disputes involving patent tying, the market power of the dominant patent owner must be proved.<sup>38</sup>

2. *Grantback* is a clause in a licensing agreement according to which a licensee entitles the licensor to use the improvements made by the licensee to the licensed product/technology.<sup>39</sup> The assessment of the legality of this clause is made based on the rule of reason, as it is recognized that grantbacks can have both procompetitive (facilitation of bargaining, kind of payment to the licensor for a possibility to innovate the product) and negative (excess of market power of the

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<sup>33</sup> It can be proved by the position of the Supreme Court in *Bement v. National Harrow Co.*, 186 U.S. 70, 91 (1902) (“[T]he general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. The very object of these laws is monopoly... The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal”).

<sup>34</sup> Kenneth M. Frankel & Mark S. Zhai, *A Return to the DOJ's "Nine No-Nos"?* The AIPLA Antitrust News, <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=9324c489-94fe-4bb0-a499-8a8817794e44> (last visited March 22, 2015 ). The list was presented by Bruce Wilson, then-Deputy Assistant Attorney General of the DOJ's Antitrust Division).

<sup>35</sup> IP Report 2007, *supra* note 14, at p. 4.

<sup>36</sup> For more details see *supra* Chapter II.

<sup>37</sup> IP Report 2007, *supra* note 14, at p.103-107.

<sup>38</sup> Howard Ullman, *A Modern Look at the Nine 'No-Nos' of Patent Licensing Under U.S. Antitrust Law: The First Four 'No-Nos'* The Licensing Journal at <http://blogs.orricks.com/antitrust/2013/02/04/a-modern-look-at-the-nine-no-nos-of-patent-licensing-under-u-s-antitrust-law-the-first-four-no-nos/>. See also Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties* (1997), p. 287. For more details see *supra* Chapter II.

<sup>39</sup> Antitrust IP Guidelines, *supra* note 16, at p. 30.

licensee) effects.<sup>40</sup> The assessment of the agreement includes the analysis of the possible impact of the agreement without a grantback provision, market powers of the parties, level of the accessibility of the market and its effects on the incentive to innovate.<sup>41</sup> Non-exclusive grantbacks are usually procompetitive as the licensee is not prohibited to license his IP rights on the improvement to others.<sup>42</sup>

*3. Restriction of the rights of purchasers of patented products to further resale of the product.*

A patent licensing agreement that contains a non-price restriction imposed on a purchaser of the article (manufactured by the licensee with the use of the patented product) regarding the subsequent resale of the product does not violate antitrust law. However this restriction may be prohibited according to the doctrine of first sale<sup>43</sup>.

*4. Exclusive dealing* with regard to the patent licensing agreement consists in the limitation of the licensee's right to use the competing patented product/technology.<sup>44</sup> This constraint is assessed by agencies under the rule of reason. The main factors that are taken into account are whether the agreement motivates parties to develop and innovate the licensed item, and whether an exclusive dealing restriction forecloses the competition between concurring patented products.<sup>45</sup>

*5. Exclusive licensing* is a restriction of the right of a licensor to license to other licensees. In general according to the agencies' recommendations, an exclusive license does not cause any concerns in the aspect of antitrust law (being lawful), but it may violate antitrust laws if it is granted by a licensing agreement between competitors. In this case an agreement requires the analysis according to the rule of reason. At the same time, non-exclusive licenses are not considered as

<sup>40</sup> IP Report 2007, *supra* note p. 92-93

<sup>41</sup> *Id.* at p. 92-93, 99.

<sup>42</sup> Antitrust IP Guidelines, *supra* note 16, at p. 30.

<sup>43</sup> William D. Coston, "The Patent-Antitrust Interface: Are There Any No-No's Today", 2013, <http://www.venable.com/files/publication/fc1499d2-4dc6-441d-b24d-21a93f06769d/preview/publicationattachment/7896b76f-4d3e-44be-9089-24d70be3cea2/coston--the-patent-antitrust-interface.pdf> (last visited March 23, 2015).

<sup>44</sup> Antitrust IP Guidelines, *supra* note 16, at p. 27.

<sup>45</sup> *Id.* at p. 27.

restrictions even in horizontal contracts. The rationale behind this is the granting of a non-exclusive license does not change the competitive situation on the market and thus does not restrict the competition<sup>46</sup>.

6. *Mandatory package licensing*. Package licensing is “the licensing of multiple items of intellectual property in a single license or in a group of related licenses”<sup>47</sup>. Agencies state that it can have procompetitive effects so must be assessed by the rule of reason analysis in each individual case.<sup>48</sup>

7. *Broad royalty base* situation may appear when according to a licensing agreement the amount of royalties is tied not to the purchase of patented products but to other unpatented items. The main danger presented by such limitation is that a licensee may be indirectly forced (while he pays royalty that includes the price for the use of the unpatented products) to withhold from the use of substitutes of unpatented products. However each situation requires individual assessment.<sup>49</sup>

8. *Restriction of a licensee’s right to use the patented product manufactured by a patented process*. According to agencies, a mere division of the field-of-use or territory among licensees (vertical agreements) does not constitute the violation of the antitrust law. It is stated that such division may result in benefits as incentive for the licensor to license (if he leaves particular territory for his own sales) and incentive for the licensees to invest and develop the product if they are sure that their investments are protected. However, if the territorial or field-of-use division in vertical agreements is combined with price-fixing, market allocation or other prohibited *per se* illegal clause, such agreement will be void.<sup>50</sup> Otherwise the parties to the vertical agreement are free to include a field-of-use or territorial restriction in a patent licensing agreement.

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<sup>46</sup> *Id.* at p. 19.

<sup>47</sup> *Id.* at p. 27.

<sup>48</sup> *Id.* at p. 27.

<sup>49</sup> Ullman, A Modern Look at the Nine ‘No-Nos’ of Patent Licensing Under U.S. Antitrust Law: The First Four ‘No-Nos’. 2014 .

<sup>50</sup> Antitrust IP Guidelines, *supra* note 16, at p. 5-6. See also Richard M. Steuer, *Executive Summary of the Antitrust Laws*, FindLaw (March 26, 2008), <http://corporate.findlaw.com/business-operations/executive-summary-of-the-antitrust-laws.html>.

9. *Setting the minimal resale price.* As it was mentioned above, price-fixing among competitors is recognized by agencies as a *per se* violation of the competition. However, it must be added that in 2007 the Supreme Court changed the approach regarding price fixing in agreements among non-competitors. Thus in *Leegin Creative Leather Products Inc. v. PSKS Inc.* the Court stated that a setting the minimum resale price in vertical agreements is not *per se* illegal and must be analyzed on a case-by-case basis.<sup>51</sup>

Thus, the main approach that is applied by the authorities for the evaluation of patent licensing agreements from the prospective of antitrust law is evaluation of pro- and anticompetitive effects of the agreement in each individual case, while only few restrictions are recognized to be *per se* illegal. This means that the freedom of the parties to the patent licensing agreement to determine the terms of the contract can be restricted by the provisions of the antitrust law only in a limited number of situations.

Moreover, in order to ensure certainty and predictability for patent owners in exploitation of their rights and freedoms that may be restricted by competition law requirements, a so-called “safety zone”<sup>52</sup> is foreseen. The compliance with the conditions of the safety zone exempts IP licensing agreements from the analysis under competition law, while these agreements are treated as indisputably valid. The rationale behind marking of such an exception is “to provide some degree of certainty and thus to encourage”<sup>53</sup> IP owners to innovation and competition. Thus, as it

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<sup>51</sup> *Leegin Creative Leather Products Inc. v. PSKS Inc.*, 551 U.S. 877, 899 (2007). See Ullman, A Modern Look at the Nine ‘No-Nos’ of Patent Licensing Under U.S. Antitrust Law: The First Four ‘No-Nos’. 2014 (Although this case was not about the patented products experts believe that this approach will not be rejected in cases involving patent licensing agreements, however the courts in some states still incline to *per se* treatment). See also Jessica Delbaum, *IP and Antitrust*, GCR (May 28, 2014), <http://globalcompetitionreview.com/know-how/topics/80/jurisdictions/23/united-states/> (last visited on March 23, 2015). See also Antitrust IP Guidelines *supra* note 16, at p. 3 (Such conclusion is also justified by the approach of agencies in the analysis of the IP: “the agencies apply the same general antitrust principles to conduct involving intellectual property that they apply to any other form of tangible or intangible property”).

<sup>52</sup> Antitrust IP Guidelines *supra* note 16, at p. 22-23 (In order to fall under the exemption the restriction in the agreement must not be *per se* unlawful (e.g. price-fixing, market division) and the market shares of parties to the agreement must not exceed 20% on each market (goods/technology) that was significantly affected by the restraint. If the information about market shares is unavailable and it is necessary to conduct an inquiry of the effects of the agreement the safety zone will apply to patent licensing agreements if (1) the agreement does not contain *per se* restrictions and (2) there are at least four other independent technologies on the market that can be treated as substitutes for the product of the parties of the licensing agreement (to ensure the right of choice for the customers and to avoid unjustified price increase).

<sup>53</sup> *Id.* at. 22.

is well-mentioned by Langer, courts applied *per se* treatment for many years, and this guaranteed certainty and made antitrust cases simpler. However, the situation has changed and the doctrine has been narrowed by courts. For instance, vertical price fixing is not treated as *per se* violation anymore, while boycotts and tying can be recognized as *per se* violation only in particular cases. Thus courts favor the rule of reason approach, although it brings uncertainty and requires the case-by-case analysis<sup>54</sup>.

To summarize, some provisions of the agreement may negatively affect competition on the market, and this is why the analysis of their reasonable necessity with regard to the achievement of the beneficial purpose of the contract is required. If the need of a particular restraint is justified, it must be proved that its procompetitive beneficial impact outweighs its anticompetitive effects. If it can be shown the restraint and thus the contract are lawful. Moreover the analysis is not necessary for the agreements that fall under the so-called “safety zone”.

### 3. *The EU Approach*

The EU considers most IP licensing agreements as “procompetitive”, as licensing encourages development and innovation on the market. Moreover, if particular provision(s) of the licensing agreement have negative impact on competition but the benefits of the agreement are higher, such agreement is still recognized as procompetitive<sup>55</sup>.

In order to ensure the balance between the IP holders’ rights and the need to preserve fair competition in the market, patent licensing agreements are also regulated, amongst others, by Articles 101 and 102 of the Treaty on the Functioning of the European Union [TFEU]<sup>56</sup> and by the Technology Transfer Block Exempted Regulation [TTBER]<sup>57</sup>. The aim of the TFEU is to prohibit agreements that “may affect trade between Member States and which have as their object or effect

<sup>54</sup> H. LANGER, COMPETITION LAW OF THE UNITED STATES (Wolters Kluwer 2nd ed. 2014), p. 40, 42.

<sup>55</sup> TTBER Guidelines, *supra* note 15, at § 9.

<sup>56</sup> Consolidated Version of the Treaty on the Functioning of the European Union of October 26, 2012, 2012 O.J. (C 326), 47, [hereinafter TFEU].

<sup>57</sup> Commission Regulation (EU) No 316/2014 of 21 March 2014 on the Application of Art. 101(3) of the Treaty on the Functioning of the European Union to Categories of Technology Transfer Agreements, 2014 O.J. (L 93), 17, 17-23, [hereinafter TTBER].

the prevention, restriction or distortion of competition within the internal market”<sup>58</sup> and thus to ensure a high level of competition and development on the market. Any agreement that contains provisions regarding price fixing, control or limitation of output, market division, application of different conditions to similar transactions with other parties, tying is void under Article 101 (1) TFEU. However even such agreement may be recognized as valid under Article 101 (3) TFEU if it is proved that this agreement promotes innovation for the benefit of consumers and contains only restrictions that are necessary for this purpose and allow to preserve competition on the market<sup>59</sup>. Such approach is similar to the rule of reason applicable in US<sup>60</sup>.

The exemption granted by Article 101 (3) TFEU is of special importance for IP licensing agreements, the main purpose of which is to ensure development and innovation. The TTBER is seen by the Commission as a “safe harbour” for technology transfer agreements, including patent licensing<sup>61</sup>, as it contains a list of requirements the adherence to which presumably means fulfillment of the conditions stated in Article 101 (3) TFEU and thus non-applicability of Article 101 (1) TFEU.<sup>62</sup>

In order to fall under the exemption provided by the TTBER<sup>63</sup>, the purpose of the patent licensing agreement must be the production of products incorporating the patented invention or produced with the licensed patent invention. An agreement must also be bilateral (concluded between two undertakings), satisfy market-share thresholds (combined market shares of parties-competitors does not exceed 20%; individual market shares of non-competitors – 30%<sup>64</sup>) and must not contain hardcore and excluded<sup>65</sup> restrictions.<sup>66</sup> If these conditions, except the requirement of the absence of hardcore restrictions, are not fulfilled the agreement may still be treated as

<sup>58</sup> TFEU, *supra* note 57, at Art. 101 (1).

<sup>59</sup> *Id.* at Art. 101.

<sup>60</sup> *See supra* p. 6.

<sup>61</sup> TTBER Preamble, *supra* note 58, at § 4 (“[T]echnology transfer agreement concerns the licensing of technology rights”). *See also* TTBER Guidelines, *supra* note 15, § 44 (“[T]he concept of technology rights covers ... patents....”).

<sup>62</sup> TTBER Guidelines, *supra* note 15, at § 41.

<sup>63</sup> *Id.* at § 44 (“The TTBER only applies in Member States where the licensor holds relevant technology rights”).

<sup>64</sup> *See supra* note 53 for a comparison in the US there is no division on competitors and non-competitors for the market share threshold.

<sup>65</sup> For more details about hardcore and excluded restrictions *see infra* p.14-18.

<sup>66</sup> TTBER Preamble, *supra* note 58, at § 6-7, 10-11, 14-15.



“presumably legal” if there are four or more other substitutable technologies at similar prices on the market<sup>67</sup>.

At the same time, in order to comply with the requirements of competition law, parties are not allowed to include in the patent licensing agreement hardcore or excluded provisions.<sup>68</sup> The term-freedom of the parties also depends on the type of the agreement – vertical (between non-competitors) or horizontal (between competitors).

The TTBER stipulates the following list of hardcore restrictions inclusion of which in a horizontal licensing agreement will make it void.

1. *Price fixing* is prohibited as it constrains competition on the market. Any kind of price fixing in the contract between competitors - either direct (by stipulation of fixed, minimum, maximum or recommended prices or applying of price lists) or indirect (e.g. by the way of connection between the level of the price and the amount of royalties to be paid) - will be treated as a hardcore restriction.<sup>69</sup> The same approach is maintained in the US, where price fixing in horizontal licensing agreements is treated as *per se* violation<sup>70</sup>.

2. *Output restriction* means the inclusion of the clause that limits the amount of products to be produced and sold by the licensor (in non-reciprocal licensing)<sup>71</sup> or both licensees (in reciprocal licensing)<sup>72</sup>. The rationale behind the prohibition of such clause is to avoid the reduction of the

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<sup>67</sup> TTBER Guidelines, *supra* note 15, at § 156-157. *See also supra* note 53 (Exactly the same approach exists in the US).

<sup>68</sup> TTBER, *supra* note 58, at Art. 4, 5. *See also* TTBER Guidelines, *supra* note 15, at § 18; TTBER Preamble, *supra* note 58, at § 14, 15 (Hardcore restrictions usually do not satisfy all necessary requirements of art. 101 (3) TFEU to be valid that leads to the illegality of the whole agreement. On the contrary excluded provisions, being exempted from the application of the TTBER, do not make the whole agreement void.). *See also* TTBER Guidelines, *supra* note 15, at § 128 (The legality of the excluded provisions requires a case-by-case analysis).

<sup>69</sup> TTBER Guidelines, *supra* note 15, at § 102. *See also, supra* note 15, at § 102 (The rule also applies to the agreements where the sum of royalty depends on the sale price of all the products even when they do not contain the licensed technology, but e.g., the technology of a licensee. However this approach may be recognized as lawful if it is proven that the restriction “is indispensable for the pro-competitive licensing to occur”).

<sup>70</sup> *See supra* p. 7.

<sup>71</sup> TTBER Guidelines, *supra* note 15, at § 98 (Reciprocal agreements are agreements where parties license to each other competing technologies, while non-reciprocal agreements occur when only one of the parties license the technology or in case of a mutual licensing technologies are non-competing).

<sup>72</sup> *Id.* at § 103 (The imposing of limitations can be made by way of direct stipulation of certain restrictions in the agreement or through imposing additional or higher payments in case of output excess).

output in the market. Output restrictions are also recognized as *per se* violations of the US antitrust law<sup>73</sup>.

3. *Division of markets or customers* is also prohibited as a hardcore restriction. However there are several exceptions to the general rule, i.e. clauses that may be included into the agreement. (1) If the agreement is non-reciprocal the licensor may grant the licensee an exclusive license. To the contrary the reciprocal agreement, that provides the exclusive license, restricts competition and hence is prohibited.<sup>74</sup> Here may be observed a difference in approaches of the US and EU. Thus as it was stated earlier<sup>75</sup> the exclusive license in a horizontal reciprocal agreement, e.g., the cross-licensing, will be assessed under the rule of reason in the US (as it may violate competition on the market but still have procompetitive effects) but the same agreement in the EU contains a hardcore restriction and is void.<sup>76</sup> (2) The licensor (in a non-reciprocal licensing agreement) may limit the active sales of the licensee on the territory or to the customers that are reserved either to the licensor or another licensee (that is not a competitor with the licensor). The rationale behind is to encourage businesses to invest in the producing and the development of technologies by providing a certain level of protection on a particular territory. However, the agreement between licensees that is directed on the division of the market or customers will be void<sup>77</sup> as also will constitute a *per se* violation of the US antitrust law<sup>78</sup>. Also the licensor may (3) oblige the licensee to produce the patented product only for a particular group of customers (to provide the substitute) or (4) only for licensee's usage. In addition the Commission allows to narrow the scope of the license to a particular market or technical field-of-use if the constraint covers only the licensed technology<sup>79</sup>.

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<sup>73</sup> See *supra* p. 7.

<sup>74</sup> TTBER, *supra* note 58, at Art. 4.

<sup>75</sup> See *supra* p. 9.

<sup>76</sup> TTBER Guidelines, *supra* note 15, at § 105.

<sup>77</sup> TTBER Guidelines, *supra* note 15, at § 110.

<sup>78</sup> Delbaum, *supra* note 52.

<sup>79</sup> TTBER Guidelines, *supra* note 15, at § 113. Compare *id.* at § 113 (If it also imposes limitations on the technology rights of the licensee it will be a market sharing – thus prohibited as a hardcore restriction).

4. It is also forbidden for the parties to the licensing agreement to limit the right of the licensee *to exploit its own technologies or either party to conduct research or development*.<sup>80</sup>

Consequently, if the parties to the prospective licensing agreement may be considered as competitors on the market, in order to conclude a valid licensing agreement all the abovementioned restraints (imposed by the competition law on the freedom of parties to contract) must be taken into account.

Besides the hardcore restrictions in horizontal agreements the TTBER provides the following list of constraints which presence in a vertical agreement may result in its voidability.

1. *Resale price*. The indication of the minimum or fixed selling price (including direct and indirect ways) is a hardcore restriction.<sup>81</sup> However the situation is slightly different in the US, where, as was mentioned before<sup>82</sup>, price fixing in vertical agreements is subject to the rule of reason analysis (and not anymore a *per se* violation) even in a case of a minimum sale price setting

2. *Passive sales*<sup>83</sup>. The TTBER “protects” and promotes investments of the parties in the development of the technology through allowance of setting the territorial and customer restrictions for active sales<sup>84</sup>. On the contrary, a provision in the licensing agreement that imposes restraints for a licensee with regard to the passive sales is a constraint of the competition on the market and thus is prohibited as illegal<sup>85</sup>.

The TTBER also provides a set of exceptions that are not regarded as hardcore restrictions, and thus are allowed, among which there are reservation of a particular territory or group of

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<sup>80</sup> TTBER, *supra* note 58, at Art. 4 (1d). See TTBER Guidelines, *supra* note 15, § 115-116 (The rationale behind is that such restriction may decrease the incentive of the parties to invest in the development of the technology as also may reduce the competitiveness of the product of the licensee).

<sup>81</sup> TTBER Guidelines, *supra* note 15, at § 118. Compare *id.* at § 118 (Statement of the maximum or recommended price will not be treated as restriction of competition unless it is used as indirect mean of setting the fixed or minimum price).

<sup>82</sup> See *supra* p. 11.

<sup>83</sup> See The European Commission Notice Guidelines on Vertical Restraints of May 19, 2010, § 51, 2010, O.J. (C 130), 1, 13 (Passive selling means the sales take place due to the unsolicited requests of customer, while to the contrary active selling occurs because of the active approaching of the customers by the seller).

<sup>84</sup> TTBER Guidelines, *supra* note 15, at § 120.

<sup>85</sup> TTBER, *supra* note 58, at Art. 4 (2b). But see TTBER Guidelines, *supra* note 15, at § 126 (The right on passive sales of other licensees may lawfully be restricted (not more than two years) if “the restraints are objectively necessary for the protected licensee to penetrate a new market”).

customers for active/passive sales to the licensor, obligation of the licensee to produce the licensed product only as a component for its own product<sup>86</sup>, obligation of the licensee to produce the product only for a specific group of customers in order to provide the substitute), restriction to a licensee as a wholesaler to sell products to end users, obligation for a licensee not to sell products to unauthorized distributors in case of a selective distribution system. However, active or passive sales to end users cannot be prohibited or it will be treated as a hardcore restriction<sup>87</sup>. It is clear that the freedom of parties to a vertical licensing agreement is less restricted in comparison to agreements involving competitor.

Besides the hardcore restrictions the TTBER provides also the list of excluded restrictions – exclusive grantbacks, non-challenge clause and the constraint of the right to exploit the technology and carry research and development. These provisions require a case-by-case analysis in order to define whether the benefits of the agreement or the negative effects on competition prevail, and thus whether such terms will be treated as valid or void<sup>88</sup>.

*Exclusive grantback* has a high risk to be treated as anticompetitive as it may reduce the licensees' incentive to work on the development and improvement of the licensed product. The assessment of the procompetitiveness of the clause depends on many factors, e.g., equality of the parties' market positions, position of the technology, payment of the consideration in exchange of the grantback, and other elements that require a case-by case assessment. In contrast, non-exclusive grantbacks are protected by the TTBER and are valid<sup>89</sup>. A similar approach, yet not identical due to the treatment of non-exclusive clauses, is maintained in the US, where both exclusive and non-exclusive grantbacks are subject to the rule of reason analysis, however non-exclusive grantbacks are seen as more procompetitive.<sup>90</sup>

<sup>86</sup> But see TTBER *supra* note 58, at Art. 4 (2ii) (The licensee can not be prohibited from active/passive sales of the licensed products as spare parts for its product).

<sup>87</sup> *Id.* at Art. 4 (2).

<sup>88</sup> TTBER Preamble, *supra* note 58, at § 15. Compare with *Id.* § 14 (Hardcore restrictions lead to the voidability of the whole agreement).

<sup>89</sup> TTBER Guidelines, *supra* note 15, at § 130-131.

<sup>90</sup> See *supra* p. 91.

According to the non-challenge clause<sup>91</sup> a licensee is deprived from the possibility to challenge the validity of the licensor's patent. The rationale of the exclusion of the clause from the TTBER is that invalid intellectual property rights encumber innovation and thus must be removed, and while a licensee is in a better position to detect the problem it cannot be deprived from the possibility to claim it.<sup>92</sup>

The non-challenge clause may be prohibited as unlawful by Article 101 (1) TFEU if the licensed technology or product, covered by an invalid patent, is valuable and other participants on the market are deprived from its exploitation or can do it only in exchange of the royalty payment. However, if the patented products/technologies are technically old, not exploited by the licensee or are given for free it does not cause any anticompetitive concerns. That is why the impact and thus the legality of this clause requires a case-by-case analysis.<sup>93</sup> However, in case of exclusive licensing agreement licensor is allowed to terminate the agreement if the licensee challenges the validity of a patent.<sup>94</sup>

*The third excluded restriction* is applicable to vertical agreements and restricts the right of the licensee to exploit its own technology rights or the right of either party to do the research and development. The same restriction among competitors is treated as a hardcore restriction and is void, while similar clause in the agreement between non-competitors requires individual assessment<sup>95</sup>.

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<sup>91</sup> See ABA SECTION OF ANTITRUST LAW, ANTITRUST ISSUES IN INTERNATIONAL INTELLECTUAL PROPERTY LICENSING TRANSACTIONS (2012), p. 58) (In the US until 1969 (judgment in the case *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969)) was effective the licensee estoppel doctrine that prohibited the licensee to question the validity of the licensed patent. At the same time non-challenge clauses being unenforceable were not recognized anticompetitive by courts. The common approach today is the insertion of the termination clause in the agreement in case of the challenging of the licensed patent by the licensee.).

<sup>92</sup> TTBER Guidelines, *supra* note 15, at § 134.

<sup>93</sup> *Id.* at § 134

<sup>94</sup> TTBER, *supra* note 58, at Art. 5 (1b). See TTBER Guidelines, *supra* note 15, at § 139 (Such an approach is justified by the understanding of a certain level of dependency of the licensor from the licensee. For instance, if the size of royalties directly depends on the amount of the production manufactured with the licensed technology, the licensor should be entitled to terminate the exclusive licensing agreement if the licensee does not try to develop the production anymore and the licensor is deprived of receiving the income from the other source due to the exclusivity of the license.).

<sup>95</sup> *Id.* § 141.

Consequently the abovementioned hardcore and excluded restrictions are main limitations foreseen by the TTBER that may narrow the freedom of parties in defining the terms of a patent licensing agreement.

However, if the patent licensing agreement does not fulfill the requirements of the TTBER, it does not automatically mean that this agreement is void (unless it contains “hardcore restrictions”). In order to determine its validity the agreement must be analyzed on a case-by-case basis.<sup>96</sup>

The US and EU approaches to the assessment of the legality of IP licensing agreements from the prospective of competition law are very similar. The US *per se* violation has an equivalent of “hardcore restrictions” in the EU, while the rule of reason applied in the US conforms with the cases-by-case assessment of procompetitive and anticompetitive effects of a particular agreement on the market that is used in the EU. At the same time according to the EU approach the division of the agreements on those concluded between the competitors and those that are entered by non-competitors has a significant and determinative impact on the assessment of the procompetitiveness of licensing agreements.

#### ***4. Patent Licensing Agreement in Ukraine. Comparative Analysis with the US and EU Approaches***

Among the variety of rights conferred on a patent owner the Ukrainian legislation recognizes that a patent owner is entitled “The patent owner is entitled to give a permission (license) to use the invention (utility model) to any person by way of the conclusion of the license agreement”<sup>97</sup>.

<sup>96</sup> *Id.* at § 156. *See id.* at § 159-168 (In the TTBER Guidelines the Commission provides comments to several factors that require analysis among which are the nature of the agreement, market position of the parties, competitors, buyers, entry barriers and maturity of the market, as also names other circumstances. At the same time it is emphasized that all the factors must be assessed in combination with other factors that hence does not allow to provide comprehensive criteria for the analysis.).

<sup>97</sup> *Zakon Ukrainy pro Zahyst Prav na Vynahody ta Korysni Modeli* [The Law of Ukraine On Protection of the Rights on Inventions and Utility Models], *Vidomosti Verkhovnoyi Rady Ukrainy* [The Official Journal of Verkhovna Rada], 1994, No. 7, p. 32, Art. 28 [hereinafter Law on Inventions]. For the definition of a licensing agreement *see* also Civil Code, *supra* note 6, at Art. 1109.

According to the TTL, the technology transfer agreement<sup>98</sup> is “an agreement concluded in a written form between parties that own and/or that obtain fully or in part proprietary rights on technology or its components”<sup>99</sup>. Article 19 TTL stipulates substantial terms<sup>100</sup> that must be determined by the parties (otherwise the agreement will be void) and other terms compulsory for particular types of agreements<sup>101</sup>. A patent licensing agreement, in particular, has to include terms regarding the use of the license, territorial and field-of-use restrictions, procedure of the granting of sublicenses to third parties, conducting the works for technological improvement, assistance, insurance, compensation, contract expiration and termination of a patent licensing agreement<sup>102</sup>.

Besides the necessary provisions in technology transfer agreements the TTL establishes several “hardcore restrictions”. Thus according to Article 21<sup>103</sup> TTL it is forbidden to conclude technology transfer agreements (including patent licensing agreements) that:

1. *Set considerably higher payments than the price of the technology and its components*<sup>104</sup>.

The TTL does not provide any additional information what it is to be treated as “considerably higher”. However in the Decree no. 12 the Supreme Commercial Court indicates that the amount of the royalty may be defined based on the price that is common for a particular object of intellectual property in ordinary circumstances.<sup>105</sup> On the contrary, in the US and EU there are no

<sup>98</sup> See TTL *supra* note 7, at Art. 20 (Upon the transfer of the technology must be concluded agreements, defined by the Civil Code); see Civil Code, *supra* note 6, at Art. 20 (There are several agreements in the Civil Code - so called “agreements about the management of IP rights” - that fall within the definition of a technology transfer agreement, stated in the Art. 20 of the TTL: user permit (license) on object of IP; licensing agreement; agreement about creation on order and usage of IP; agreement on transfer of exclusive IP rights; others.); see also Ivanova, Договори про трансфер технологій: спірні питання (Technology transfer agreements: controversial issues). 2013, p. 126. Thus a technology transfer agreement can be concluded in the form of a licensing agreement. See TTL, *supra* note 7, at Art. 1 (Technology, among others, includes objects of intellectual property, in particular inventions.); see Law on Inventions, *supra* note 98, at Art. 1 (The ownership of the invention is certified by the patent). Consequently, a patent licensing agreement is a kind of the technology transfer agreement.

<sup>99</sup> TTL, *supra* note 7, at Art. 1.

<sup>100</sup> See *id.* Art. 19 (list of components of the technology, price of the technology, time, place and means of transfer of the technology, conditions of the transfer of necessary technical knowledge, payment mechanism, liability of the parties, dispute resolution). See also Civil Code, *supra* note 6, at Art. 1109 for the list of required substantial terms of a general licensing agreement.

<sup>101</sup> Ivanova, Договори про трансфер технологій: спірні питання (Technology transfer agreements: controversial issues). 2013, p. 128.

<sup>102</sup> TTL *supra* note 7, at Art. 19.

<sup>103</sup> Only limitations that are connected with competition law are discussed. See Art. 21 of the TTL for the whole list of prohibited terms.

<sup>104</sup> TTL, *supra* note 7, at Art. 21.

<sup>105</sup> Постанова Plenumu Vyschogo Gospodarskogo Sudu “Pro Deyaki Pytannya Praktyky Vyrishennya Sporiv, Powyazanyh iz Zahystom Prav Intellectual'noyi Vlasnosti” vid 17 zhovtnya 2012 r. No. 12 [The Decree of the

limitations for the amount of the royalty. In the EU parties are free to determine the sum and the way of payment of royalties and only in exceptional cases, e.g., sham licensing, royalties paid on products produced without the usage of the technology of the licensor, disproportionate running royalties in cross-licensing, may be foreseen certain prohibitions<sup>106</sup>. There is no limitation regarding the sum of the royalty in the US either, however the rule of reason assessment may be necessary in case of the “broad royalty base situation”<sup>107</sup>.

2. *Oblige the licensee to buy from the licensor unnecessary for the manufacturing raw materials, semi-manufactures, equipment*<sup>108</sup>. This limitation seems to be qualified as tying that will be considered more detailed in the Chapter II.

3. *Impose the obligation on the licensee to sell the manufactured (with the use of the patented technology) production mainly to the buyers, determined by the licensor, and to use the services of the personnel, determined by the licensor*<sup>109</sup>. This constraint resembles the allocation of customers’ restraint that is prohibited in the EU as hardcore restriction in horizontal agreements and in connection to the passive sales in vertical agreements.<sup>110</sup> The division of markets by customers between competitors is also illegal in the US, however in vertical agreements the assessment must be made under the rule of reason<sup>111</sup>. At the same time nor the EU neither the US prohibit to oblige the licensee to use the personnel determined by the licensor.

4. *Entitle the licensor to set the selling or re-export prices of the products.*<sup>112</sup> The EU and US approaches depend on the type of the agreement: in the horizontal agreement such clause is

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Plenum of the Superior Commercial Court On Certain Issues Regarding the Dispute Resolution Practice in Cases Concerning the Protection of Intellectual Property Rights of Oct. 17, 2012, No.12], Visnyk Gospodarskogo Sydohynstva [the Official Journal of Commercial Proceedings], 2012, No. 6, p. 57 [hereinafter Decree # 12]. See Zakon Ukrainy Pro Sudoustriy ta Status Suddiv [The Law of Ukraine On the Judicial System and the Status of Judges], July 07, 2010, Vidomosti Verkhovnoyi Rady [The Official Journal of the Verkhovna Rada], 2010, No. 41-42,43,44-45, p. 529, Art. 36 (part. 2, point 6) (The purpose of the decrees of the Plenum of the Superior Commercial Court is to ensure the correct and uniform application of the law by commercial courts. However the decrees are non-binding).

<sup>106</sup> TTBER Guidelines, *supra* note 15, at p. 184-188.

<sup>107</sup> See *supra* p. 10.

<sup>108</sup> TTL, *supra* note 7, at Art. 21.

<sup>109</sup> *Id.* at Art. 21.

<sup>110</sup> TTBER, *supra* note 58, at Art. 4.

<sup>111</sup> Steuer, *supra* note 51.

<sup>112</sup> The TTL, *supra* note 7, at Art. 21.



prohibited in both jurisdictions as illegal (price-fixing)<sup>113</sup>, however in vertical agreements in the US setting the minimum resale price is allowed, while in the EU the agreement with the indication of the minimum or fixed prices is void.<sup>114</sup> To the contrary no division between the horizontal and vertical agreements is foreseen in Ukraine.

5. *Set unjustified restrictions of output*<sup>115</sup>. Unfortunately Ukrainian legislator does not provide any clarifications on what amounts to “unjustified” restrictions. Yet, this limitation also exists and prohibited in the EU (as hardcore restriction) and in the US (as *per se* violation).<sup>116</sup>

6. *Set the restrictions that are contrary to the law with regard to the usage of proprietary IP rights on the technology.*<sup>117</sup>

7. *Prohibit the application of the equivalent or improved technologies and their components*<sup>118</sup>. This constraint requires the rule of reason assessment in the US<sup>119</sup> and in the EU will not be illegal up to the certain market share threshold.<sup>120</sup>

8. *Prohibit or restrict the export of the manufactured production*<sup>121</sup>. The constraint may be treated as a division of the market by territory. In the US such clause in the horizontal agreement is treated as *per se* violation, while in vertical agreements requires the rule of reason analysis<sup>122</sup>. In the EU this limitation will be treated as a hardcore restriction in reciprocal agreements between competitors and with regard to passive sales in vertical agreements.<sup>123</sup>

9. *Oblige to use the patented object of IP that is not applicable for technology utilization*<sup>124</sup>. This limitation is likely to be treated as tying<sup>125</sup>.

<sup>113</sup> TTBER, *supra* note 58, at Art. 4, Antitrust IP Guidelines, p. 25.

<sup>114</sup> See *supra* p. 11 (for the US), p. 16 (for the EU).

<sup>115</sup> TTL, *supra* note 7, at Art. 21.

<sup>116</sup> See *supra* p. 7 (for the US), p. 14 (for the EU).

<sup>117</sup> TTL, *supra* note 7, at Art. 21. For more details see *infra* p. 23.

<sup>118</sup> *Id.* at Art. 21.

<sup>119</sup> See *supra* p. 7.

<sup>120</sup> See TTBER Guidelines *supra* note 15, at § 226-227 (This limitation in the EU is known as a “non-compete obligation”. It will not be treated as a violation in a patent licensing agreement if the market share thresholds do not exceed 20% in horizontal agreements and 30% in vertical agreements. Otherwise if the obligation extends to the additional products/technologies of the licensee it may be treated as tying.).

<sup>121</sup> TTL, *supra* note 7, at Art. 21.

<sup>122</sup> See *supra* p. 7.

<sup>123</sup> TTBER, *supra* note 58, at Art. 4.

<sup>124</sup> TTL, *supra* note 7, at Art. 21.

<sup>125</sup> See *infra* Chapter II.

Therefore in order to conclude a valid patent licensing agreement parties to the contract must avoid the inclusion of the provisions mentioned above. However, although these restrictions form a part of the IP legislative act, their function is, among others, to protect competition on the market, which is the main goal of the competition law.

The main legislative act in the sphere of competition law that will be analyzed in this paper with regard to patent licensing in Ukraine is the Competition Law<sup>126</sup>, which to a great extent resembles Articles 101 and 102 TFEU. Article 6 of the Competition Law states the definition of “anticompetitive concerted actions”<sup>127</sup> and provides particular examples<sup>128</sup> of such actions. Five of them are the same as in Article 101 (1) TFEU<sup>129</sup> and the others are distortion of bids’ results, elimination of other participants on the market, unreasonable substantial restriction of competitiveness between rivals<sup>130</sup>.

At the same time, the Competition Law foresees an exemption for IP licensing agreements, according to which IP licensing agreements that restraints the economic activity of the licensee regarding the scope of granted rights, duration and territorial scope of the license, type of activity, field of use or the minimal output do not infringe Article 6 of the act.<sup>131</sup>

Moreover, the patent licensing agreement will not be treated as an “anticompetitive concerted action” if it falls under the “safe harbour” provided by the General Exempted Regulation<sup>132</sup>, which

<sup>126</sup> Zakon Ukrainy Pro Zahyst Ekonomichnoyi Konkurenciyi [The Law of Ukraine On Economic Competition Protection], Vidomosti Verkhovnoyi Rady [The Official Journal of the Verkhovna Rada], 2001, No. 12, p. 64 [hereinafter Competition Law].

<sup>127</sup> See Competition Law, *supra* note 127, at Art. 6 (“concerted actions which have resulted or may result in prevention, elimination or restriction of competition”); *id.* at Art 5 (“concerted actions shall mean conclusion of agreements in any form by undertakings,...”).

<sup>128</sup> *Id.* at Art. 6 (2) (provides non-exclusive list). See also *id.* at Art. 6 (3) (“[A]nticompetitive concerted actions shall also mean taking similar actions ... which has resulted in or may result in prevention, elimination or restriction of competition in case if the analysis of situation on the commodity market gives evidence that there no objective reasons for taking such actions”).

<sup>129</sup> OECD, *Country review: Ukraine* OECD Journal: Competition Law and Policy at <http://dx.doi.org/10.1787/clp-11-5kg9qgf28vg8> (last visited on March 23, 2015), p. 157 (“Price fixing, market division, restriction of outputs or inputs, discrimination between similarly situated parties and tying”).

<sup>130</sup> Competition Law, *supra* note 127, at Art. 6.

<sup>131</sup> *Id.* at Art. 9.

<sup>132</sup> Rozporyadzhennya Antimonopolnogo Komitetu Ukrainy “Pro Zatverdzhennya Typovyh Vymog do Uzgodzenykh Diy Subjectiv Gospodarjuvannya dlia Zagalnogo Zvilnennya vid Poperodnjogo Oderzhannya Dozvolu Organiv Antymonopolnogo Komitetu Ukrainy na Uzgodzeni Diyi Subjectiv Gospodaryuvannya” [The Regulation of the AMC on the Standard Requirements to Concerted Actions of Undertakings for their General Exemption from the

provides that a patent licensing agreement is allowed if the combined market share of the parties on the market does not exceed 5 %. However, if neither of the parties to the agreement have dominant position on the market, the rate of the allowed combined market share on the market may be higher, but should not exceed 15 % for the competitors and 20% for non-competitors<sup>133</sup>. The same is true if revenue and asset amount (“RAA”) in the preceding financial year did not exceed certain numbers.<sup>134</sup> Despite of that, the rate of market shares a horizontal patent licensing agreement will not be exempted under the regulation if it contains at least one of the following “hardcore restrictions”: price fixing, division of market or supply sources, output or input restrictions, bids’ distortion<sup>135</sup>.

If the agreement still falls under the definition of “anticompetitive concerted actions”, and is not exempted by Article 9 of the Competition Law or by the General Exemption Regulation, then in order to conclude the contract parties to the agreement must obtain the prior permission from the Antimonopoly Committee of Ukraine [AMC]<sup>136</sup>. However, in order to get the permission, parties must prove that this agreement has a beneficial impact on the market<sup>137</sup> and does not substantially restrict the competition on the market. Even if after the consideration of all the information received regarding the agreement the AMC prohibits the agreement as anticompetitive the Cabinet of Ministers of Ukraine<sup>138</sup> is nevertheless entitled to allow the conclusion of the agreement if certain conditions are fulfilled.<sup>139</sup>

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Requirement to Obtain Prior AMC Permission], of Feb. 12, 2002 No. 27-p, *Oficijnyy Visnyk Ukrainy* [Official Journal of Ukraine], 2002, No. 11, p. 279 [hereinafter General Exempted Regulation].

<sup>133</sup> Compare with TTBER, *supra* note 58, at Art. 3 (The EU TTBER provides higher rates of combined share markets - 20 % for competitors and 30% for non-competitors).

<sup>134</sup> General Exempted Regulation, *supra* note 133, at § 2(3) (EUR 12,000,000 (combined worldwide RAA of all parties to the agreement), EUR 1,000,000 (combined worldwide RAA of at least two parties to the agreement), EUR 1,000,000 (RAA in Ukraine of at least one party to the agreement)).

<sup>135</sup> General Exempted Regulation, *supra* note 133, at. § 2 (1-4).

<sup>136</sup> Competition Law, *supra* note 127, at Art. 10.

<sup>137</sup> *Id.* at Art. 10 (Promotes “technical, technological, economic development”, improvement of manufacturing, production export/import, rationalization, standardization, SME’s development).

<sup>138</sup> The Highest executive body of Ukraine.

<sup>139</sup> Competition Law, *supra* note 127, at. Art. 10 (2) (The conditions are: (1) the agreement does not present any threat to the market economy, (2) all the limitations included in the contract are necessary for its purpose and (3) “positive effect for public interests prevails over adverse consequences of competition restriction”). The approach is functionally similar to the rule of reason applicable in the US.

A kind of a parallel may be drawn between Article 10 of the Competition Law and Article 101 (3) TFEU, which provides an exemption from the application of Article 101 (1) TFEU. At the same time the Ukrainian clause sets more types of exempted concerted actions<sup>140</sup>, and provide more restrictions to their application<sup>141</sup>, but does not state anything about the benefit for the consumers<sup>142</sup>. These distinctions can be explained by the different stages of the economic development of the two systems and by the intent of the AMC to protect Ukrainian business, a phenomenon that is not experienced in the application of competition law<sup>143</sup>. Another difference is the existence of the right of the Cabinet of Ministers of Ukraine to overrule the prohibition of the particular agreement by the AMC<sup>144</sup>.

To sum up, Ukrainian technology transfer legislation sets a long list of requirements to patent licensing agreements, including obligatory substantial terms and prohibited terms that an agreement must not contain. Besides that, competition law imposes an additional set of requirements in order to ensure that an agreement does not harm competition on the market. Although the legislator has set a safe harbor in order to ensure some level of predictability and certainty for participants, in comparison to the EU and US the threshold is low. Moreover, in order to conclude a patent licensing agreement that may adversely affect the competition on the market, parties are required to obtain the permission from the AMC and to prove that it is beneficial for the market.

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<sup>140</sup> See TFEU, *supra* note 57, at Art. 101 (3) (There is only indication of production and distribution improvement and technical development.).

<sup>141</sup> *Id.* at Art. 101 (3) (The threat to a market economy is not mentioned).

<sup>142</sup> Compare with the Communication from the Commission Notice Guidelines on application of Art. 81 (3) of the Treaty of March 27, 2004, § 85, 2004, O.J. (C/101), 97, 110 (If the agreement restricts competition on the market it must “at least compensate consumers” or “the net effect of the agreement must at least be neutral from point of view of those consumers directly or likely affected by the agreement”).

<sup>143</sup> OECD, Country review: Ukraine. 2011, p. 158.

<sup>144</sup> *Id.* at 203 (The Organization of the Economic Cooperation and Development (“OECD”) in its report stated that however such practice is not foreseen by the EU legislation it does not constitute a “serious impairment of either of AMC’s autonomy or of the integrity of Ukraine’s competition law regime”, while the allowance by the Cabinet of Ministers of the rejected by the AMC agreement does not imply reconsideration of what is meant by “anticompetitive action” (that is the scope of the authority of AMC), but is made based on the justification of the priority of public policy objectives.).

Thus, if comparing the issue of freedom of contract and the constraints imposed by competition law, the level of the restriction among all three jurisdictions is the highest in Ukraine.

### ***5. Summarization of the Approaches of Three Jurisdictions to the Assessment of Patent Licensing Agreements from the Prospective of Competition Law***

As shown, the regulation of a patent licensing agreement in the context of competition law presents common features and certain differences in all the three jurisdictions..

The EU, US and Ukraine all recognize the tight connection between the IP sphere and the sphere of competition law. They all have the common goal to promote innovation, development of new technologies, but at the same time they aim at protecting competition on the market. However, due to the diversity in legal systems and approaches in the formation and application of the legislation and in the level of economic development, several differences can be found.

First of all, the clarity of the law that is applicable in each of the jurisdictions differs. From this point I would place them in the following order: the EU, USA, and Ukraine. The EU has the most detailed provisions due to availability of the field-specific Regulation, the Guidelines and case law. The US jurisdiction also provides guidelines regarding correlation of the IP and antitrust law, developed assembly of precedents but due to the appertaining to common law system does not have the evolved legislative act as it is in the EU. Ukraine has separate legislative acts in the sphere of IP law and competition law that were drafted based on the legislation of the EU, but does not provide any recommendations or interpretations regarding their application to issues involving IP. Moreover there are no reported decisions of the courts or antimonopoly authorities regarding possible infringes of competition law in the context of patent licensing agreements that raise the question regarding the efficiency of the enacted legislation.

Second, the level of restrictions imposed on the freedom of parties in forming the contracts in the sphere of patent licensing differs significantly. The three jurisdictions provide different “amount of trust” to parties in the question of assessment of correspondence of the agreement to

the requirements of competition legislation. In the US and EU “ex post” check is applied, meaning that parties individually examine the contract on the conformity with the legislation and antitrust authorities have the right to check whether the contract sticks to the law but only after the contract is concluded. Such approach is possible due to the existence of a detailed legislation and developed case law in these jurisdictions. In Ukraine if the agreement does not fall under “safe harbors” and may negatively affect competition on the market parties are obliged to obtain permission on signing the contract before its conclusion.

The next aspect to be emphasized is the approach to the definition and evaluation of the clauses as restrictions of competition law. All the three jurisdictions prohibit agreements that prevent, restrict or distort competition on the market however the difference is in the number of such limitations and their treatment: according to the rule of reason or *per se* violation analysis. The US define only several restrictions in patent licensing agreements that are treated as *per se* violations<sup>145</sup>, as also it is in the EU<sup>146</sup>. However in Ukraine the list is non-exclusive.

All the limitations that can restrict competition on the market but do not fall under the *per se* violations are analyzed according to the rule of reason in the US. The EU, due to the existence of the TTBER, provides specific exemptions for patent licensing agreements and only if the agreement includes limitations that are inconsistent with these requirements it will be assessed under the rule of reason. In Ukraine if the limitations in a patent licensing agreement may restrict the competition parties are obliged to obtain a permission on a conclusion of such agreement from antimonopoly authorities (in certain cases from the Cabinet of Ministers of Ukraine) that will evaluate it and make a conclusion on its legality.

It should be also mentioned that all the three jurisdictions provide “safe harbors” for patent licensing, i.e., a set of the conditions the compliance with which ensures the legality of the agreement.

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<sup>145</sup> See *supra* p. 7.

<sup>146</sup> See *supra* p. 14-16.

In light of such, it can be concluded that the US and EU give more freedom to parties to patent licensing agreements imposing constraints mainly only after the analysis of each and every contract based on the assessment of its benefits and possible anticompetitive effects on the market. Ukrainian legislation proclaims the same goals but still contains a lot of requirements to the content of the patent licensing agreement and does not provide parties with the efficient and detailed guidelines for the application of the existent legislation in both spheres of law.

## II. COMPETITION LAW CONSTRAINTS IN PARTICULAR TYPES OF LICENSING AGREEMENTS

The general scope of restrictions that must be taken into account by the parties who want to enter a valid patent licensing agreement that complies with the requirements of competition law<sup>147</sup> was outlined in Chapter I.

In this Chapter the attention will be devoted to particular types of agreements that are of great usage and importance<sup>148</sup> for IP owners but that at the same time may raise anticompetitive concerns. Consequently competition law, in order to ensure their beneficial impact on the competition and consumer welfare, imposes certain constraints, including freedom of parties to the contract to determine the content of the agreement.

These restrictions will be discussed in this Chapter, comparing the positions adopted by the US, EU and Ukraine.

### *1. Cross-licensing and patent pool agreements*

#### **1.1. The US and EU Assessment of the Agreements**

A cross-license is “an agreement between two or more patentees to exchange licenses for their mutual benefit and mutual use of the licensed products”<sup>149</sup>. The agreement establishing a patent pool is formed when “multiple patents from many patentees are packaged and then licensed to third parties by a new entity or one of the patent holders<sup>150</sup>”.

Parties that are interested in doing business in IP-intensive sectors such as the computer or electronic industry, involving a complicated use of overlapping patent rights, are the main subjects being interested in the conclusion of cross-licensing and patent pool agreements.<sup>151</sup> The explanation is that both agreements belong to the tools that are used in order to avoid patent thicket,

<sup>147</sup> In the US (§1 of the Sherman Act), EU (Art. 1 TFEU), Ukraine (Art. 6 of the Competition Law)

<sup>148</sup> Due to their main purpose – to facilitate innovation.

<sup>149</sup> Bryan A. Garner, *Black’s Law Dictionary* (West Group, 8th ed. 2004), p. 938.

<sup>150</sup> Richard Raysman, et al., *Intellectual property licensing: Forms and Analysis*, (2015), p. 6-24.2.

<sup>151</sup> IP Report 2007, *supra* note 14, at p. 59 n.8, p. 64 n.37.



i.e. “a dense web of overlapping intellectual property rights that a company must hack its way through in order to actually commercialize new technology”<sup>152</sup>, and in such a way to encourage the development of new ideas and manufacture of new products.

There are several reasons why parties decide to enter in such a kind of a contract. Hence, by the conclusion of a cross-license or patent pool agreement each of the parties obtains access to patent rights of another party that can be used for manufacturing its own products or to back up long-term investments for the development of new products.<sup>153</sup> In other words, these agreements facilitate the efficient producing of new developed products, by avoiding, among others, the time-consuming and expensive litigation procedures in cases of patent infringement.<sup>154</sup> Moreover portfolio cross-license and patent pool agreements allow parties to save money due to the possibility to license a big number of patents through the conclusion of a single agreement, with the consequent reduction of transaction costs, and due to the payment of a reduced amount of royalties, as the royalty price for set of licenses is lower than the cost of each of them separately<sup>155</sup>.

Although cross-licensing and pool agreements are found to be procompetitive due to the benefits mentioned above, under some circumstances they still can contain provisions that may cause harm for the competition on the market and thus to violate competition law<sup>156</sup>. It was well said by Shapiro that as cross-license and pool agreements are ways to settle disputes, and since nobody expects companies to settle on terms that are primarily in favor of consumers, these agreements may be anticompetitive<sup>157</sup>.

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<sup>152</sup> Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, in INNOVATION POLICY AND THE ECONOMY (Adam B. Jaffe, et al. eds., 2001), p. 120.

<sup>153</sup> IP Report 2007, *supra* note 14, at p.60.

<sup>154</sup> PATENT POOLS AND ANTITRUST – A COMPARATIVE ANALYSIS. pt. 1-18 (2014), WIPO Report, § 27 [hereinafter WIPO Report]. See also Raysman, et al., (2015), p. 6-24.2.

<sup>155</sup> IP Report 2007, *supra* note 14, at p.61. See also Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*. 2001, p. 123-124.

<sup>156</sup> Further the legality of cross-license and pooling agreements will be analysed under Sect. 1 of the US Sherman Act (as a contract that may restrict trade or commerce) and Art. 101 (1) TFEU as an agreement that may affect trade and have a negative impact on the competition).

<sup>157</sup> Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*. 2001, p. 142.

Different anticompetitive issues can arise with regard to these agreements. For instance, according to Shapiro the most common one is the setting of running royalties<sup>158</sup> in cross-licensing agreement, which may lead to the danger of price increase on the market<sup>159</sup>. However the EU Commission is of the view that although there is a chance that competitors may use these agreements to increase prices on the market, reciprocal running royalties are assessed as price fixing only if the agreement is sham, i.e. it does not have any procompetitive goal the licensing agreement has<sup>160</sup>. Another risk may occur when the agreement is drafted as to encompass future patents, while such provision may also reduce the incentive of the parties to innovate.<sup>161</sup>

At the same time, to ensure certainty and foreseeability for patent owners regarding the scope of freedom of contract in respect to a conclusion of cross-license or patent pool agreements, both jurisdictions have set “safe harbours”, including a list of conditions the adherence to which guarantees the legality of the agreement and its compliance with the requirements of the competition law<sup>162</sup>.

Pool agreements are treated as more risky than cross-licensing, since they involve a bigger number of participants. This may lead to the coordination of their actions, including anticompetitive behaviors<sup>163</sup>. The level of risk depends also on the content of the patent pool. In

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<sup>158</sup> Ivan Chaperot, *Financial Valuation Techniques in IP Licensing: Discounted Cash Flow Analysis and Real-Option Theory Demystified*, XLII LES NOUVELLES 621(2007), p. 621 (“Running royalties are the most common form of contingent compensation where the licensor seeks to tie the payment of royalties to the use of the licensed technology. The royalty stream ... consists of a series of payments, each payment depending linearly on the licensee's output of the licensed technology. The licensee's output can be expressed in dollar volume or number of units. For instance, a royalty clause can require the licensee to pay a royalty based on a percentage of the dollar volume of licensed products sold”).

<sup>159</sup> Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*. 2001, p.130.

<sup>160</sup> TTBER Guidelines, *supra* note 15, at § 100.

<sup>161</sup> Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*. 2001, p. 130.

<sup>162</sup> See for the EU *supra* p. 13, for the US *supra* note 53. See also TTBER Guidelines, *supra* note 15, at § 261 (The safe harbour provided by TTBER does not apply to pooling agreements while they are not covered by TTBER (TTBER, § 7, TTBER Guidelines, § 247). However there is a safe harbour set in TTBER Guidelines. Thus according in the EU a patent pool is competitive despite the parties' market position if (1) the participation in the patent pool is open; (2) pool consists only of complementary technologies; (3) according to the terms of the pool only necessary sharing of sensitive information is allowed; (4) non-exclusive licensing of the technologies to the pool; (5) the licensing is grounded on fair, reasonable and non-discriminatory (FRAND) terms; (6) pool ensures the right to challenge the validity of the patents in the pool; (7) pool ensures the right to develop competing technologies.).

<sup>163</sup> IP Report 2007, *supra* note 14, at p. 58.

this sense, the US agencies believe that pools that consist of complementary<sup>164</sup> patents are highly competitive as they reduce the prices on the market and, consequently, have a positive effect on the consumer welfare. On the contrary, pools with substitute patents are more likely to harm the market due to the absence of competition between interchangeable technologies, which may result in an increase in price of the end product<sup>165</sup>. The same approach is maintained in the EU, where substitutes in a pool are seen as factors that lead to higher royalties and thus prices on the market as also can result in price fixing among competitors.<sup>166</sup> By contrast, the complementary patents in the pool are believed to reduce transaction costs and the amount of royalties that positively impacts the market<sup>167</sup>. In application of this principle, the U.S. Federal Trade Commission [FTC] dissolved a patent pool created by two manufacturers<sup>168</sup> of lasers on the ground that the pool consisted of rival patents instead of essential or complementary<sup>169</sup>.

At the same time, the agencies claim that in order to avoid anticompetitive effects, substitutable patents must be excluded from the pool. In any case the presence of the substitutable patents in the pool must be objectively justified in order to be recognized procompetitive under the rule of reason analysis.<sup>170</sup> According to the approach of the EU, an agreement containing significant substitute technologies is deemed to be anticompetitive. The rationale is that it can result in a collective bundling and may promote price fixing, prohibited under Article 101 (1) TFEU. Moreover, the Commission finds that while there are no positive effects as saving of transaction costs, since in the absence of the pool licensees would not conclude two separate

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<sup>164</sup> See IP Report 2007, *supra* note 14, at p. 66 (Complementary patents cover different aspects of a technology and they are necessary to be used together for the process to work, while substitute patents cover competitive technologies and may infringe other patents.). See also TTBER Guidelines, *supra* note 15, at § 254 (According to the European Commission the licensees' demand usually is used to assess whether the technologies are complementary (licensees will want to obtain the license for the use of both technologies) or substitutable.).

<sup>165</sup> IP Report 2007, *supra* note 14, at p. 66.

<sup>166</sup> TTBER Guidelines, *supra* note 15, at §255, 253.

<sup>167</sup> *Id.* at § 253.

<sup>168</sup> Summit Technology Inc. and VISX Inc., docket No. 9286 (FTC Febr. 23, 1999), [https://www.ftc.gov/sites/default/files/documents/cases/1999/03/ftc.gov-d09286summit.do\\_.htm](https://www.ftc.gov/sites/default/files/documents/cases/1999/03/ftc.gov-d09286summit.do_.htm) (last visited March 23, 2015) (Summit Technology Inc. and VisX Inc. formed a patent pool which contained patents for manufacture and use of lasers. Companies were dividing the profits (fees) earned for each use of the laser.).

<sup>169</sup> Shapiro, Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting. 2001, p. 135-136.

<sup>170</sup> IP Report 2007, *supra* note 14, at p. 77-78.

licensing agreements to use alternative technologies, nor any incentive for the licensors to license independently, since the patent pool allows them to share market power, a pool with a significant part of substitutes cannot be exempted under Article 101 (3) TFEU, and thus is illegal.<sup>171</sup>

As an option to ensure “the procompetitive content” of the patent pool, both jurisdictions consider necessary to involve independent experts in its formation and operation. According to the EU opinion, the independent experts are able to exclude substitute and non-essential<sup>172</sup> patents, thus reducing possible anticompetitive effects<sup>173</sup>. The same approach was approved by the US Department of Justice after the analysis of the MPEG-2 Pool proposal<sup>174</sup> where the MPEG LA (pool licensing administrator) took the obligation to hire the independent patent expert to determine whether all the patents in a pool were essential<sup>175</sup>.

Another issue that can cause anticompetitive concerns is the granting of exclusive or non-exclusive license to the pool. In this aspect the approach in the US and EU are different. The US agencies underline that a patent pool agreement in both cases may be procompetitive, since an exclusive license may promote the investments and non-exclusive license may promote the competition between the pool and licensors that are outside it.<sup>176</sup> However, anticompetitive concerns may arise if the exclusivity of the licensing and the market power of the pool lead to the deprivation of other parties of the possibility to compete on the market.<sup>177</sup> Under these circumstances the license must be non-exclusive. However, in absence of the abovementioned

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<sup>171</sup> TTBER Guidelines, *supra* note 15, at § 255.

<sup>172</sup> See WIPO Report, *supra* note 155, at p. 5, § 14 (Essentiality can be assessed from the point of a compliance with technical standards or satisfying the consumer demand, but general view is that substitutes are non-essential). The US and EU approaches are the same: the essential technology is the complementary technology. See IP Report 2007, *supra* note 14, at p. 77 (The US approach: “... essentiality should guarantee that the patents in the pool are complements”); see also the TTBER Guidelines, *supra* note 15, at § 252 (The EU approach: “Technologies that are essential are by necessity also complements”).

<sup>173</sup> *Id.* at § 256.

<sup>174</sup> The EU Commission Press Release, IP/98/1155, Dec. 18, 1998, [http://europa.eu/rapid/press-release\\_IP-98-1155\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-98-1155_en.htm?locale=en) (last visited March 23, 2015) (The European Commission has also approved the MPEG-s proposal. The patent pool license (non-discriminatory and non-exclusive) was recognized as directed on the promotion of technical and economic progress, and thus procompetitive and consumer beneficial.).

<sup>175</sup> IP Report 2007, *supra* note 14, at p. 68-69.

<sup>176</sup> *Id.* at p. 79.

<sup>177</sup> *Id.* at p. 79-80; TTBER Guidelines, *supra* note 15, at § 269.

conditions, the license granted to the patent pool in the US may be exclusive and the agreement will be legal<sup>178</sup>.

In the EU the grant of an exclusive license in cross-licensing and patent pool agreements will be treated as market sharing, and thus prohibited as a hardcore restriction, which is the equivalent of a *per se* violation in the US.<sup>179</sup> The Commission emphasizes that when the package of technologies involved in the reciprocal exclusive licensing has formed an industry standard, the exclusive license prevents potential rivals of a possibility to be competitive on the market. In order to avoid this possible negative impact, the license in a cross-licensing agreement that sets an industry standard must be non-exclusive<sup>180</sup>.

In order to protect licensees and ensure the competition on the market, both jurisdictions agreed that the scope of the grant back clause in a patent pooling must be narrow. In order to be precompetitive, grants-backs should be limited only to the complementary developments of the patents that are already part of the pool, and must be non-exclusive, allowing licensees to use them and license the right to others<sup>181</sup>.

It is worth mentioning that the idea of a procompetitive patent pooling is very similar on both sides of the Atlantic. The patent pooling agreement will not violate competition law if the following conditions are observed: the pool consists of valid patents<sup>182</sup>; the pool includes only essential patents and the independent expert services to define the content of the pool are used;<sup>183</sup>

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<sup>178</sup> TTBER Guidelines *supra* note 15, at § 269.

<sup>179</sup> *Id.* at § 105. See also *supra* p. 6.

<sup>180</sup> *Id.* at § 196.

<sup>181</sup> For the US approach see IP Report 2007, *supra* note 14, at p. 81; for the EU approach see TTBER Guidelines, *supra* note 15, at § 271.

<sup>182</sup> See the criteria for the analysis defined by DoJ for the US approach: WIPO Report, *supra* note 155, at p.6 point (ii); see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 272.

<sup>183</sup> See the criteria for the analysis defined by DoJ for the US approach: WIPO Report, *supra* note 155, at p.6 point (iii) (although it is stated “technically essential”, but the common approach is that patents must be essential, that is complementary to the pool and essentiality (technical, economical, etc) must be defined in each particular case, see IP Report 2007, *supra* note 14, at p. 77; WIPO Report, *supra* note 155, at p. 7); see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 261 (b)).

the rate of royalties is reasonable;<sup>184</sup> the licenses granted to the pool are non-exclusive;<sup>185</sup> the pool grants the right to develop and use competing technologies;<sup>186</sup> the grant-back clause included in the pool agreement is limited in scope;<sup>187</sup> the pool grants the licensee an option to obtain the right to use a part or the whole package of patents;<sup>188</sup> the pool is open for other participants<sup>189</sup>; the pooling agreement allows only necessary access to the sensitive<sup>190</sup> information<sup>191</sup>.

Both the US agencies and the EU Commission admit that cross-licensing and patent pool agreements can decrease competition on the market in certain cases, but they can also be a useful tool that grants access to highly developed technologies covered by substantial number of patents<sup>192</sup>. This is the reason why both types of agreements require assessment under the rule of reason approach, with the analysis of the balance between its beneficial procompetitive and negative anticompetitive effects<sup>193</sup>.

If the agreement complies with all the requirements provided by the “safe zone” in the US and the “safe harbour” in the EU<sup>194</sup>, it is procompetitive and does not raise any questions in the aspect of competition law. However, if the cross-license or the patent pool agreement contains *per*

<sup>184</sup> See the criteria for the analysis defined by DoJ for the US approach: WIPO Report, *supra* note 155, at p.6 point (v); see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 269 (and not discriminatory), § 261 (e)).

<sup>185</sup> See the criteria defined by DoJ for the US approach: WIPO Report, *supra* note 155, at p.7 point (vi); see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 261 (d).

<sup>186</sup> See the criteria for the analysis defined by DoJ for the US approach: WIPO Report, *supra* note 155, at p.7 point (vii); see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 261 (g), 270.

<sup>187</sup> See the criteria for the analysis defined by DoJ for the US approach: WIPO Report, *supra* note 155, at p.7 point (viii); see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 271.

<sup>188</sup> See the criteria for the analysis defined by DoJ for the US approach: WIPO Report, *supra* note 155, at p.6 point (i); see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 264 (d).

<sup>189</sup> See the criteria for the analysis defined by DoJ and FTC for the US approach: IP Report 2007, *supra* note 14, at p. 72; see the Commission analysis for the EU approach: TTBER Guidelines, *supra* note 15, at § 261(a).

<sup>190</sup> See IP Report 2007, *supra* note 14, at p. 82 (Sensitive is the information about prices, output, marketing strategies of the competitors, etc.).

<sup>191</sup> See the criteria for the analysis defined by DoJ and FTC for the US approach: IP Report 2007, *supra* note 14, at p. 81-82; see also MPEG-2 Business Review Letter from J. I. Klein to G.R. Beeney dated 26 June 1997 (II Part B2) available at: <http://www.justice.gov/atr/public/busreview/215742.htm>, (last visited March 22, 2015); see TTBER Guidelines, *supra* note 15, at § 261 (c) (the Commission analysis for the EU approach).

<sup>192</sup> IP Report 2007, *supra* note 14, at p. 62-63.

<sup>193</sup> See Antitrust IP Guidelines, *supra* note 16, at p.28; TTBER Guidelines, *supra* note 15, at § 267 (d). In *Standard Oil Co. (Indiana) v. United States*, 283 U.S. 163, 175 (1931) [hereinafter *Standard Oil Indiana*] the Supreme Court stated that the cross-licensing, pooling patent agreements require the rule of reason analysis.

<sup>194</sup> See *supra* p. 13.

*se* illegal clauses or hardcore restrictions, such as price fixing, market division, output restrictions, it will be void.<sup>195</sup>

Consequently, unless cross-licensing and patent pool agreements contain *per se* unlawful restraints or hardcore, restrictions they are assessed under the rule of reason approach on both sides of Atlantic.

## 1.2. The Ukrainian Approach. Possible Suggestions

In Ukraine cross-licensing and patent pool agreements may be recognized as anticompetitive if they have had or are likely to have a negative impact on competition on the market, and there is no objective justification for such an impact<sup>196</sup>.

In order to prove the presence of such objective justification, parties are required to show that the agreement has a significant beneficial impact, as, for instance, technical, technological or economic development, or improvement of manufacturing capabilities<sup>197</sup>.

It can be stated, then, that the approach of the legislator resembles the way the analysis of these types of patent licensing agreements is made in the US and EU jurisdictions. However, contrary to the situation in these jurisdictions, in Ukraine there is no comprehensive guidelines, reported decisions<sup>198</sup> or any available information<sup>199</sup> on the examination of cross-licensing or patent pooling agreements by the AMC.

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<sup>195</sup> IP Report 2007, *supra* note 14, at p.63. See also *Standard Oil Indiana*, 283 U.S. at 175 (The Court found that cross licensing agreement as also the clause of the division of royalties in it may violate the Sherman Act “only when used to effect a monopoly, or to fix prices, or to impose otherwise unreasonable restraint upon interstate commerce”).

<sup>196</sup> Competition Law, *supra* note 127, at Art. 6 (“3. Anticompetitive concerted actions shall also mean taking similar actions (inactivity) by undertakings on the commodity market, which has resulted in or may result in prevention, elimination or restriction of competition in case if the analysis of situation on the commodity market gives evidence that there are no objective reasons for taking such actions (inactivity)”. Translation provided by WIPO [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=180798](http://www.wipo.int/wipolex/en/text.jsp?file_id=180798) (last visited March 26, 2015). The analysis of cross-license and patent pool agreements will be made under Art. 6 of Competition Law that prohibits anticompetitive concerted actions

<sup>197</sup> See *supra* note 140.

<sup>198</sup> This conclusion was made after the conducted examination of the website of AMCU (sections “Decisions and Recommendations”, “Competition”, <http://www.amc.gov.ua/amku/control/main/uk/index>) and the Unified State Registry of Court Decisions (<http://www.reyestr.court.gov.ua/>).

<sup>199</sup> Several e-mails were sent to the biggest law firms (specialized on competition and IP law) that confirmed the absence of the practical experience with regard to the issue.

Patent owners who intend to enter a cross-license or patent pooling agreement that does not raise concerns as to legality under Article 6 of the Competition Law must ensure that such agreement does not adversely affects competition on the market. If there is a negative impact or a probability of its occurrence, parties must prove that this agreement is objectively justified, as its benefits outweigh its anticompetitive effects.<sup>200</sup> In case of patent pooling agreements, taking into account the experience of the US and EU, this result can be achieved through compliance with several requirements. Among the most important ones, it is worth mentioning the inclusion of valid and complementary patents into the pool to ensure the competitiveness of the involved technologies, the setting of reasonable rate of royalties to avoid foreclosure on the market, the involvement of non-exclusive licensing in order to ensure the licensees' right to develop and use the competing technologies, and as also setting the limitations on the exchange of the sensitive information to prevent collusion.<sup>201</sup> Moreover cross-licensing and patent pool agreements may be covered by the "safe harbour" if all the required and necessary conditions are observed, thus being unquestionably valid.

Cross-licensing and patent pooling agreements are tools used to settle patent disputes and to avoid long-time and expensive litigation procedures.<sup>202</sup> Taking into consideration the aim of these agreements and their significant beneficial impact on the incentive to innovate and develop, they must be allowed and promoted in Ukraine. However, the realization of its positive and necessary impact may be achieved only by ensuring the existence of a clear regulation of the possible antitrust restrictions applicable to them. This will give patent owners an opportunity to conclude a cross-license or a patent pooling agreement safe in the awareness of their rights and obligations.

Meanwhile patent owners are free to conclude cross-licensing and patent pooling contracts on the terms that are agreed by the parties with consideration of the fact that such an agreement should not restrict, eliminate or prevent the competition on the market, and if it does it, it must be

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<sup>200</sup> Competition Law, *supra* note 127, at Art. 6.

<sup>201</sup> See *supra* p. 34.

<sup>202</sup> See *supra* p.30.



objectively justified by proving that the benefits of the agreement prevail over its anticompetitive effects. Otherwise there is a high probability that such a contract will be illegal according to Article 6 of the Competition Law.

## 2. *Tying and Bundling*

In the context of technology licensing, tying<sup>203</sup> takes place when the obtainment of a license for a particular technology (the tying product) is possible only upon the condition that the licensee also buys another product or technology (the tied product)<sup>204</sup>. Bundling occurs when the tying and the tied technology/product are sold only together as a bundle.<sup>205</sup>

### 2.1. The US and EU Assessment of the Agreements

Tying agreements are prohibited under Section 1 of the US Sherman Act if they unreasonably restraint trade<sup>206</sup>, while in the EU the explicit prohibition of tying agreements as anticompetitive is stipulated in Article 101 (1) TFEU<sup>207</sup>.

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<sup>203</sup> The most cited definition of tying is stated in *Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451, 461 (1992) (“a tying agreement is an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (the tied) product, or at least agrees that he will not purchase that product from any other supplier”). See IP Report 2007, *supra* note 14, at p. 107, n.33 (There are contractual patent tying and technological (technical) patent tying. Contractual patent tying is the agreement according to which the patented product (the tying product) may be purchased only with other unpatented product (the tied product). Technological tying means a physical bundle of two products (tying and tied products) that work properly only with each other.).

<sup>204</sup> TTBER Guidelines, *supra* note 15, at § 221.

<sup>205</sup> *Id.* at § 221. However there is a difference in the meaning of the terms “tying” and “bundling”, but they are treated similar from prospective of competition law in both – the US and EU – jurisdictions. That is why further the term “tying” will be applied to both types of the agreements.

<sup>206</sup> 15 U.S.C. §1. Further the lawfulness of the tying agreement under § 1 of the Sherman Act will be described. *For general information* see also 15 U.S.C. § 14 (Tying may be prohibited by § 3 of the Clayton Act if it “substantially lessen[s] competition or tend[s] to create a monopoly in any line of commerce”), *but see* ABA Section of Antitrust Law, Intellectual Property and Antitrust Handbook. 2007, p. 191-192, n.137 (Section 3 of Clayton Act does not apply to services and intangible property, and thus does not apply to patent tying agreement. Tying may be prohibited also by Section 5 of the FTC Act as unfair method of competition and tying also “may establish a basis for a Sherman Act Section 2 claim”); see also *Illinois Tool Works Inc. v. Independent Ink., Inc.*, 547 U.S. 28, 34 (2006) [hereinafter *Illinois Tool*] (tying may be prohibited under the patent misuse doctrine).

<sup>207</sup> TFEU *supra* note 57, at Art. 101 (1) (“The following shall be prohibited as incompatible with the internal market: all agreements between undertakings... 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 market, and in particular those which: ... (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts”). See also *id.* at 102 (d) (The tying may be prohibited also by Art. 102 TFEU as an abusive conduct). Within the scope of this paper tying will be discussed under Art. 101 TFEU.

The effects of tying agreements are assessed by US scholars differently<sup>208</sup>. The followers of the Leverage School argue that tying agreement is *per se* illegal, while the main purpose of it is to extend the monopoly power of the undertaking from the market of the tying product to the market of the tied product<sup>209</sup>. On the contrary, the adherents of Chicago School believe that tying is *per se* legal, since it is used by sellers in order to apply price discrimination.<sup>210</sup> The main point is that, unless price discrimination create restrictions to output, there is no violation of antitrust law<sup>211</sup>.

The approaches to the assessment of tying and bundling by US courts have been not consistent either. Earlier case law treated tying agreements as *per se* illegal. For instance in *Standard Oil*, one of the first tying cases, the Supreme Court stated that “tying arrangements serve hardly any purpose beyond the suppression of competition”<sup>212</sup>.

With time, although the *per se* treatment was still applied by courts, certain limitations and different opinions started to appear. In *Jefferson Parish* the Supreme Court emphasized that tying would be illegal if due to the market power of the seller over the tying product the buyers were forced to buy a tied product that they either did not want to purchase or could buy on different terms<sup>213</sup>. The Court also mentioned that such forcing must lead to anticompetitive consequences on the tied product market, i.e. to a foreclosure of “substantial amount of commerce”<sup>214</sup>.

In the same decision four judges expressed the opinion that tying agreements must be analyzed under the rule of reason approach, and should be condemned only if they caused harm either on the tying or the tied product markets<sup>215</sup>. The proposed test for the rule of reason was

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<sup>208</sup> CHRISTOPHER. R. LESLIE, ANTITRUST LAW AND INTELLECTUAL PROPERTY RIGHTS. CASES AND MATERIALS (Oxford University Press. 2011), p. 135-136.

<sup>209</sup> See also *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 498 (1969) (“They [tying agreements] deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products. For these reasons ‘tying agreements fare harshly under the laws forbidding restraints of trade’”).

<sup>210</sup> LESLIE, *Antitrust Law and Intellectual Property Rights. Cases and Materials*. 2011, p. 136 (Price discrimination means that “a seller charges a higher price to those consumers willing to pay more and a lower price to those consumers who value the product less”).

<sup>211</sup> *Id.* at p. 135-136.

<sup>212</sup> *Standard Oil Co. of California v. United States*, 337 U.S. 293, 305-306 (1949).

<sup>213</sup> *Jefferson Parish Hospital District No. 2, et. Al., Petitioners v. Edwin G. Hyde*, 466 U.S. 2, 12 (1984) [hereinafter *Jefferson Parish*].

<sup>214</sup> *Id.* at 16.

<sup>215</sup> *Id.* at. 34-35 (O’CONNOR, J., concurring).

almost the same as the *per se* test applied in the majority opinion, and suggested to analyze the minimum presence of three conditions: market power of the patent owner on the tying product market<sup>216</sup>, substantial threat of obtaining market power on the tied product market<sup>217</sup>, and economic basis for evaluation of products as separate<sup>218</sup>. The distinguishing factor was the requirement to assess the agreement as to the balance of anticompetitive<sup>219</sup> and beneficial<sup>220</sup> effects even if three conditions were satisfied. Consequently, it was stated that tying agreements should be recognized as an antitrust violation only if their negative impact prevailed over positive procompetitive effects.<sup>221</sup> Despite the proposed change, the majority decided that “it is far too late ... to question the proposition that certain tying agreements ... are unreasonable “*per se*”<sup>222</sup>.

The Supreme Court based his opinion on the presumption that patent confers market power to its owner<sup>223</sup>, and stated that patent tying is also unlawful *per se*: “the sale or lease of a patented item on condition that the buyer makes all his purchases of a separate tied product from the patentee is unlawful”<sup>224</sup>.

In *Eastman Kodak* it was stated that the tying agreement violates section 1 of the Sherman Act if “the seller has appreciable economic power in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market”<sup>225</sup>. For the analysis of

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<sup>216</sup> See *Jefferson Parish*, 466 U.S. at 37 (Absent of the market power on the tying product market cannot cause any negative effects on the tied product market and that is why only procompetitive).

<sup>217</sup> *Id.* at 38-39 (There will be no threat if the entry barriers are low, or there are a lot of stable competitors on the tied market).

<sup>218</sup> *Id.* at 39-40 (The court mentioned the consumer demand test (consumers must show the willingness to buy the tied product without the tying item). Also the court looked on the distinctiveness of the products from the point of use: the seller cannot acquire market power on the another market if the tied product can be used only together with the tying product; and if the products can be used separately but its sale as a package is economically justified, the products must not be evaluated as separate and the issue of the tying on the competitiveness must be stopped.).

<sup>219</sup> Puneet V. Kakkar, *Still Tied Up: Illinois Tool Works v. Independent Ink*, 22 BERKELEY TECH. L.J. 47(2007), p. 49-50, <http://scholarship.law.berkeley.edu/btlj/vol22/iss1/4> (last visited o March 23, 2015) (Tying agreements may limit the choice of the consumer (compel to buy the product he does not want or on the conditions he does not favour), impose entry barriers on the tied product market (thus the seller on the tied market may be forced to acquire the additional patent in order to compete with the tying were the tying product is patented).

<sup>220</sup> See *id.* at p. 49 (Patent tying agreement, for instance, may help for the new-comers on the market to become competitive through line forcing (licensees offers the full line of licensor’s products), to safe through joint production or to bring the new product to market easier).

<sup>221</sup> *Jefferson Parish*, 466 U.S. at 41-42.

<sup>222</sup> *Id.* at 9.

<sup>223</sup> The decision in the part of presumption of a market power in a patented product was abrogated only in 2006 by *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 126 S. Ct. 1281 (2006).

<sup>224</sup> *Jefferson Parish*, 466 U.S. at 16.

<sup>225</sup> *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 462 (1992) [hereinafter *Eastman Kodak*].

the tying agreement the Court applied the *per se* test<sup>226</sup> and focused on four specific elements: (1) whether the tying product (parts) and tied product (service) are two distinct products; (2) whether the sale of two products are tied; (3) whether the seller has an appreciable market power on the market of the tying product; (4) whether tying affects a substantial volume of the interstate commerce.<sup>227</sup>

The first requirement was satisfied based on the consumer demand test: if there is a separate demand for the tied and tying products, then the products are distinctive. The Court also found that the sales were tied, as the sale of parts (tying product) was conditioned upon the requirement to buy services (tied product) only from Kodak (seller), so the second requirement was present too. These two issues have proved the existence of a tying agreement.

For the analysis of the third requirement the Court referred to the definition of market power<sup>228</sup> and agreed with the respondents that Kodak had sufficient market power on the tying market (parts market) to force consumers - who were locked to the purchased expensive copiers due to the high switching costs - to buy unwanted product (service of the copiers) on the other, tied market<sup>229</sup>. As the fourth issue was not disputed by Kodak it was not analyzed by the Court<sup>230</sup>.

In *Fortner* the Supreme Court explained that the requirement of the affection of substantial amount of commerce in the tied product market is not dependent on the scope or share of the foreclosed market, but “normally the controlling consideration is simply whether a total amount of business, substantial enough in terms of dollar-volume so as not to be merely *de minimis*, is foreclosed to competitors by the tie”<sup>231</sup>.

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<sup>226</sup> See also *Jefferson Parish*, 466 U.S. at 12-18 (1984); *Technical Resource Serv. V. Dornier Med. Sys.*, 134 F. 3d 1458, 1464-1465 (11th Cir. 1998) (citing *Tic-X-Press, Inc. v. Omni Promotions Co.*, 815 F.2d 1407, 1414 (11th Cir. 1987)).

<sup>227</sup> *Eastman Kodak*, 504 U.S. at 462-479).

<sup>228</sup> *Id.* at 464 (“Market power is the power to force a purchaser to do something that he would not do in a competitive market” (quoting *Jefferson Parish Hospital District No. 2, et. Al., Petitioners v. Edwin G. Hyde*, 466 U.S. 2, 14, (1984))).

<sup>229</sup> *Eastman Kodak*, 504 U.S. at. 476-477.

<sup>230</sup> *Id.* at 462.

<sup>231</sup> *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, at 501(1969). In *United States v. Loew’s Inc.*, 371 U.S. 38, 49 (1962) \$60,000 was defined by the Supreme Court as “not insubstantial”.

In addition to the four abovementioned requirements some courts treat it as necessary also to demonstrate whether the tying agreement has business justification or anticompetitive effects<sup>232</sup>.

The approach to the assessment of tying agreements, in particular those involving IP rights, changed in 2001 in *United States v. Microsoft Corp*<sup>233</sup> but only with regard to specific tying agreements involving software platforms (technological tying). The Court of Appeal of District of Columbia stated in the decision that "... the rule of reason, rather than *per se* analysis, should govern the legality of tying agreements involving platform software products"<sup>234</sup>. The deviation of the *per se* rule by the Court was explained by the fact that the Supreme Court has never previously examined this type of tying cases and the application of the *per se* rule may deter welfare-enhancing innovation.<sup>235</sup>

The Court remanded the case to a lower court, but provided it with instructions for the analysis of the case under the rule of reason. According to the decision, in order to prove that the tying is anticompetitive, it must be shown that it caused actual restraint of competition on the tied product market (browser market) and that the anticompetitive effects of the tying prevailed over its benefits for the competition<sup>236</sup>. The Court also mentioned that the burden of proof of the harm to the competition is on the plaintiff.<sup>237</sup>

The great change with regard to the assessment of patent tying agreements occurred in *Illinois Tool*<sup>238</sup>, where the Supreme Court eliminated the presumption of market power in a patent, and stated that the latter must be proved in each and every particular case.<sup>239</sup> It was a great change, since before it every tying agreement where a tying product was patented was treated by courts as anticompetitive *per se* without any further inquiry into its procompetitive and beneficial

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<sup>232</sup> IP Report 2007, *supra* note 14, at p. 106.

<sup>233</sup> *US v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001) [hereinafter *Microsoft*] (Microsoft concluded licensing agreements according to which it tied the licensing of Windows 95 and 98 to the licensing of Internet Explorer browser without the option to remove the browser).

<sup>234</sup> *Id.* at 84.

<sup>235</sup> *Id.* at 89-90 ("Applying *per se* analysis to such an amalgamation creates undue risks of error and of deterring welfare-enhancing innovation.").

<sup>236</sup> *Id.* at 95.

<sup>237</sup> *Id.* at 95.

<sup>238</sup> *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006) [hereinafter *Illinois Tool*].

<sup>239</sup> *Illinois Tool*, 547 U.S. at 46.

effects. This decision has changed the approach. In order to prove that patent tying is illegal, the plaintiff is required to show that a patent owner has market power on the tying product market, and it causes actual harm on the tied product market.

The new approach introduced by the Supreme Court has given rise to a plethora of diverging opinions<sup>240</sup>. The opponents of the decision have expressed fear for the consumers who might be obliged to pay any price the patent owner sets, especially in cases when the tying product is a new technology desired by consumers<sup>241</sup>. Another concern was that the absence of a presumption means that patent tying agreements are less regulated by antitrust law, which may lead to the leverage of other markets<sup>242</sup>. On the contrary, most scholars supported the decision, arguing that the presumption of market power results in ignoring the benefits of a particular agreement and leads to results contrary to the goals of antitrust law, and that it was a right decision to abolish it.<sup>243</sup>

The understanding of the *Illinois Tool* decision is also controversial. While some authors believe that the decision only added the requirement to analyze the market power but left the *per se* presumption of tying agreements, others hold that tying may create anticompetitive concerns only in limited situations, as in cases of involvement of dominant firms or in the agreements between competitors.<sup>244</sup>

It should be mentioned that the name of the test – *per se* test - is confusing as *de facto* it is not the *per se* standard, which is applicable to the “true” *per se* violations, such as price fixing or market division. The essence of the *per se* rule is that the behavior in question is so obviously

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<sup>240</sup> *Id.* at. 42-43 (“while some such arrangements are still unlawful, such as those that are the product of true monopoly or a marketwide conspiracy [citation omitted] that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof”).

<sup>241</sup> Monique M. Sadarangani, *Patent Tying and Antitrust Regulation - Moving forward after Illinois Tool*, 13 J. HIGH TECH L. 613, p. 646.

<sup>242</sup> *Id.* at 644.

<sup>243</sup> Kathleen A. Dorton, *Intellectual Property Tying Arrangements: Has the Market Power Presumption Reached The End of Its Scope?*, 57 DEPAUL L. REV. 539(2008), p. 557.

<sup>244</sup> Rita Coco, *Patent Equals Market Power" Presumption in Tying Cases Overruled in the U.S.; Remarks from the European Experience* CASRIP Newsletter at <http://www.law.washington.edu/Casrip/Newsletter/default.aspx?year=2007&article=newsv14i2Coco>, (2007, Vol. 14, issue 2). See also Sadarangani, J. HIGH TECH L., p. 642 (stating, that the rule of reason must be applied, or tying of patented products should not be regulated at all and the absent of the presumption of market power is a positive step for the competition).

illegal that it is “needless and wasteful to conduct the usual judicial inquiry into the balance between the behaviour’s procompetitive benefits and its anticompetitive costs”<sup>245</sup>.

As it was well pointed by Justice O’CONNOR in Parish case (concurring opinion):

The “per se” doctrine in tying cases has thus always required an elaborate inquiry into the economic effects of the tying arrangement. As a result, tying doctrine incurs the costs of a rule of reason approach without achieving its benefits: the doctrine calls for the extensive and time-consuming economic analysis characteristic of the rule of reason, but then may be interpreted to prohibit agreements that economic analysis would show to be beneficial.<sup>246</sup>

A patent tying agreement is illegal, if the requirements of the four-pronged test mentioned above are observed. The application of the test requires a deep inquiry of the market power of the patent owner on one market and its impact on the other. Moreover according to some courts the assessment of patent tying agreements require also the proof of the anticompetitive effects of the agreement.<sup>247</sup> Therefore, the conclusion can be made that the assessment of tying agreements involving patented products has changed in the US and “because of the possibility for efficiencies, courts typically evaluate patent tying, bundling and package licensing arrangements under the rule of reason”<sup>248</sup> and not under the *per se* rule as it was in the past<sup>249</sup>.

The same analysis is supported by the US agencies that will challenge the tying if: (1) the seller has market power in the tying product market; (2) the tying agreement produces a negative impact on the tied market; (3) the negative anticompetitive impact of the agreement outbalances its beneficial effects.<sup>250</sup>

<sup>245</sup> *Eastman Kodak*, 504 U.S. 451, 486-487.

<sup>246</sup> *Jefferson Parish*, 466 U.S. 2, 34-35.

<sup>247</sup> See *supra* note 233.

<sup>248</sup> LAW, Antitrust Issues in International Intellectual Property Licensing Transactions. 2012, p. 47

<sup>249</sup> *Princo Corp. v. International Trade Com’n* 563 F.3d 1301, 1308 (Fed. Cir. 2009) (“Although tying in many of its varied forms has potential to inflict anticompetitive harms, in more recent times it has been recognized that tying also has potential to create substantial procompetitive efficiencies.”).

<sup>250</sup> *Id.* at p. 109-110.

In the EU tying is explicitly prohibited by Article 101 (1) TFEU<sup>251</sup>. At the same time patent tying agreements that comply with the requirements of the safe harbor<sup>252</sup> are unquestionably lawful and valid.<sup>253</sup> When the patent tying agreement falls outside the scope set by the safe harbor, and thus is not covered by the TTBER, a case-by-case analysis is required.<sup>254</sup>

The patent tying may be recognized anticompetitive if there is a significant degree of market power of the patent owner on the tying market and it produces negative anticompetitive impact - “appreciable foreclosure effect”<sup>255</sup> - on the market of the tied product. But even in this case, the assessment of beneficial and anticompetitive effects of agreements is necessary<sup>256</sup>. Only if anticompetitive effects outweigh the beneficial impact the agreement will be illegal. Otherwise if the market power on the tying product’s market is absent, the tying agreement is procompetitive<sup>257</sup>.

The Commission also states that it is necessary for the tying to occur that a tying and a tied products/technologies were distinct. For the examination of the presence of the requirement the same test as in the US – the separate consumer demand test - is applied<sup>258</sup>.

Consequently, the approaches of the jurisdictions on both sides of Atlantic to the assessment of patent tying under the rule of reason are similar. The main achievement is the common recognition that a patent does not necessarily confer market power on its owner and its presence must be proved on a case-by-case basis, taking into account the combination of all the factors. However, the US approach causes uncertainty, since the analysis of pro- and anticompetitive effects of the agreements as a whole is not seen by all the courts as a necessary requirement.

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<sup>251</sup> TFEU, *supra* note 57, at Art. 101 (e).

<sup>252</sup> *See supra* p. 13.

<sup>253</sup> TTBER Guidelines, *supra* note 15, at § 40.

<sup>254</sup> *Id.* at § 156.

<sup>255</sup> *Id.* at § 223.

<sup>256</sup> *Id.* at § 222. *See also id.* at § 224-225 (Such approach is applied by the Commission as it is recognized that tying may be efficient. Thus, for instance, in order to avoid a risk to be treated as anticompetitive the patent tying agreement may also be concluded with the purpose of compliance with standards or for more efficient exploitation of the technology.).

<sup>257</sup> *Id.* at § 223.

<sup>258</sup> *Id.* at § 221.



## 2.2. Ukraine: Present Position and Suggested Lessons

Several restrictions of freedom of contract are imposed on the parties to a patent licensing agreement by provisions of IP and competition law.

According to Article 21 TTL, it is prohibited to conclude a patent licensing agreement that obliges the licensee to purchase from the licensor, in addition to the required technology, raw materials, semi-manufactures, equipment and its parts that are not used for the manufacturing<sup>259</sup>. Another prohibition stipulated by the TTL is the conclusion of patent licensing agreement where the licensee is obliged to use the patented product that is not used in the exploitation of the technology.<sup>260</sup> The TTL strictly forbids patent tying agreements where the tied product (raw materials, semi-manufactures, equipment or the patented product) is not needed by the licensee who wants to acquire a right to exploit the licensor's technology either in itself or for manufacturing purposes. The rationale behind it is to protect the licensee who, due to the necessity in the licensor's technology, is dependent from the licensor who can abuse his "dominant" position as an owner of a patent.

Besides the constraints foreseen by the IP legislation, tying agreements may be prohibited by competition law. Article 6 of the Competition Law explicitly forbids tying agreements if they are anticompetitive.<sup>261</sup> In order to define whether it is anticompetitive or not, a tying agreement must be analyzed under the rule of reason standard.

This conclusion derives from the Article 6 (part 3), according to which the agreement that has led or may lead to the prevention, restriction or elimination of the competition on the market

<sup>259</sup> TTL, *supra* note 7, at Art. 21 (3). *See also supra* note 204 (This type of the tying agreement is similar to contractual tying in the US and EU).

<sup>260</sup> *Id.* at Art. 21 (10). This type resembles a technological tying in the US and EU (*See supra* note 204).

<sup>261</sup> Competition Law, *supra* note 127, at Art. 6 ("Concerted actions shall be considered as anticompetitive if they, in particular, relate to: ... (7) concluding agreements provided that other undertakings assume supplementary obligations, which according to their content or in terms of trade customs and other fair customs in entrepreneurial activities do not relate to the subject of these agreements..."). This provision completely reflects the Art. 101 (1e) TFEU. Tying agreements are also prohibited as abusive conduct by Art. 13 (3) of the Competition Law (that also resembles Art. 102 (d) TFEU), however this violation will not be analyzed within the scope of this paper.

is anticompetitive unless the conclusion of such an agreement was objectively justified<sup>262</sup>. In light of this provision, a tying agreement is deemed to be anticompetitive, and thus illegal, if the negative effects of its conclusion outweigh its positive procompetitive impact. However, due to the absence of any clarifications of AMC or court practice<sup>263</sup> with regard to the issue, there is no clear list of criteria that may be used as guidelines. For a suggested list of procompetitive effects that may be used as the objective justification to outbalance the probable negative impact of the tying agreement on the competition it is possible to refer to Article 10 of the Competition Law<sup>264</sup>.

If the patent tying agreement does not belong to tying agreements prohibited by the TTL but complies with the requirements of the “safe harbour”<sup>265</sup> the agreement will be valid and does not require additional analysis.

After the analysis of the approaches of the US and EU, the conclusion derives that the solutions with regard to tying agreements differ but mostly *pro forma* than substantially. This is due to the fact that the test applied in the US is called “*per se* test” while functionally it resembles the rule of reason standard recognized in the EU. At the same time it causes uncertainty as there is still court practice that assesses patent tying as *per se* illegal albeit the requirement to prove the presence of market power and its anticompetitive impact.<sup>266</sup>

At the same time there are also US courts that welcome the idea of change of the approaches to the assessment of tying agreements according to the rule of reason. A well-founded explanation for the necessity of this change was given in *Microsoft*<sup>267</sup> case.

The Court stated that the application of *per se* rule to the assessment of the legality of a tying agreement may “stunt valuable innovation”<sup>268</sup> that is why the rule of reason analysis is more

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<sup>262</sup> *Id.* at Art. 6 (“3. Anticompetitive concerted actions shall also mean taking similar actions (inactivity) by undertakings on the commodity market, which has resulted in or may result in prevention, elimination or restriction of competition in case if the analysis of situation on the commodity market gives evidence that there are no objective reasons for taking such actions (inactivity)”).

<sup>263</sup> The conducted research did not give any positive result with regard to the issue due to the absence of relevant reported court decisions and decisions of the AMC in the Unify State Registry of Court Decisions.

<sup>264</sup> For more detailed describing of the content of the provision see *supra* Chapter 1.

<sup>265</sup> See *supra* p. 24.

<sup>266</sup> For more details see *supra* Chapter II Subsection 2.1.

<sup>267</sup> *Microsoft*, 253 F.3d 34 (2001). For the brief overview of the facts of the case see *supra* note 234.

<sup>268</sup> *Id.* at 92.

effective. The Court supported its statement on two grounds: on one side, the consumer demand test<sup>269</sup> is a “poor proxy for net efficiency”<sup>270</sup>; on the other side, the *per se* rule is not capable of following the fast pace of technology development.

With regard to the first reason, the Court explained that while the *per se* rule assessment requires the application of the consumer demand test, in practice it results in the detriment to the innovator: the first innovator who decides to combine previously distinctive technologies bears a risk to be treated as the one who tied two separate products. On the contrary, under the rule of reason assessment the innovator is allowed to show that the benefits from tying prevail over the possible negative effects for the welfare of consumers. Moreover, the Court emphasized that undertakings without market power bundle technologies only to pursue efficiency<sup>271</sup>. Taking into consideration that Ukraine promotes the development of small and middle-sized business, this argument in favor of the rule of reason approach is of a special importance.

Another argument of the Court is that technology is developing so quickly that the proposed initially *per se* rule assessment test cannot take into account all the developments and their efficiencies, and thus may result in unjustified constraints to consumer welfare<sup>272</sup>. Although the Court warned that its contemplation was only referred to the tying where the tying product is a software that functions as a platform for other applications and the tied product is a complementary software, the Court mentioned that may be in the future the rule of reason assessment will encompass more types of tying cases<sup>273</sup>.

The necessity to assess tying agreements on a case-by-case basis arises from the fact that it may have both pro- and anticompetitive effects. Tying may be procompetitive as it leads to the reduction of costs of production and distribution, it guarantees quality of goods, and increase in

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<sup>269</sup> Used for the analysis of one of the elements of the *per se* test. For more details see *supra* p.41.

<sup>270</sup> *Microsoft* 253 F3d. at 92.

<sup>271</sup> *Id.* at 92.

<sup>272</sup> *Id.* at 93-94.

<sup>273</sup> *Id.* at 94.

the output<sup>274</sup>. All these effects are desirable for the economy of Ukraine, and for the IP market, particularly. In light of such, it would be advisable to perform the assessment of the legality of tying agreements involving intellectual property, especially technology tying/bundling agreements, according to the rule of reason standard on a case-by-case basis, in order to ensure that procompetitive agreements were not prohibited just because of the application of *per se* rule.

Tying agreements may also produce a negative impact, e.g. the leverage of the tied market by a patent owner, excluding the competition on the tied market or narrowing the choice of consumers<sup>275</sup>. Consequently, in order to avoid the occurrence of negative effects on the competition on the market and consumer welfare the issue of tying agreement, and in particular patent tying agreement, must be clearly regulated.

The approach followed by the Ukrainian competition law resembles the standard rule of reason applied in the EU and its functionally the same equivalent that exists in the US. In order to promote innovation and ensure development this general approach must also be effective for tying agreements that involve IP rights and patent, particularly. At the same time, to ensure certainty and predictability for patents owners in regard to the scope of their rights in concluding patent tying agreements that are guaranteed by contract law but restricted by competition law, the AMC should provide guidelines with clear criteria of practical application of the provisions of existent competition legislation to agreements that involve IP.

Meanwhile, in order to be protected from possible fines imposed by AMC for the conclusion of anticompetitive agreement or abusive conduct as a result of conclusion of a patent tying agreement, patent owners may apply to AMC for an advisory opinion regarding the compliance of the prospective agreement with the requirements of competition law<sup>276</sup>.

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<sup>274</sup> STEVEN ANDERMAN & SCHMIDT HEDVIG, *EU COMPETITION LAW AND INTELLECTUAL PROPERTY RIGHTS* (Oxford University Press 2nd ed. 2011), p. 130.

<sup>275</sup> *Id.* at p. 130.

<sup>276</sup> Competition Law, *supra* note 127, at Art. 14.

### III. REFUSAL TO LICENSE

The obligation to conclude a license agreement is one of the constraints of freedom of contract, as it not only restricts the right to choose the counterparty to the contract, but also the right to decide whether to enter the contract at all. However if refusal to license restricts requirements of the competition and intellectual property law a licensor may be obliged to enter the licensing agreement. When and under which conditions the imposition of constraints on the freedom of the patent licensor to contract is possible and whether it is possible at all will be discussed in details in this chapter.

#### 1. *The US Approach*

According to section 2 of the Sherman Act “every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony....”<sup>277</sup>.

In the US agencies, the Supreme Court and courts in circuits<sup>278</sup> recognize that a patent does not necessarily confer market power on its owner and even if there is a market power it does not necessarily imply an antitrust violation. The market power may lead to a violation only when it is combined with anticompetitive conduct<sup>279</sup>. Thus a refusal to license is recognized as “a rare exception to the ordinary rules of antitrust”<sup>280</sup>.

One of the doctrines developed by the US courts to define cases when a refusal to license may violate section 2 of the Sherman Act is the “essential facility doctrine”. The essence is that a

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<sup>277</sup> 15 U.S.C. § 2 (1890).

<sup>278</sup> See *SCM Corp. v. Xerox Corp.* 645 F2d. 1195, 1206 (2<sup>nd</sup> Cir. 1981) (“...in all cases where the injury is predicated upon a patent holder’s refusal to license, we hold that where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws”).

<sup>279</sup> IP Report 2007, *supra* note 14, at p.22.

<sup>280</sup> *Id.* at p. 27.

monopolist who owns a necessary facility that is required by its rivals is under an obligation to make the facility available to them under reasonable terms.<sup>281</sup>

The elements required for the liability under the essential facility doctrine were indicated in *MCI Communications v. AT&T*<sup>282</sup>. They are: “(1) control of the essential facility by a monopolist<sup>283</sup>; (2) a competitor's inability practically or reasonably to duplicate the essential facility;<sup>284</sup> (3) the denial of the use of the facility to a competitor;<sup>285</sup> and (4) the feasibility of providing the facility”<sup>286</sup>. There is also the fifth condition that was not expressly added by the Court to the list but was mentioned in the decision – the absence of the objective justification of the refusal.<sup>287</sup>

Although this approach is used by lower courts, the Supreme Court has reservations against its application<sup>288</sup>. The attitude of the Supreme Court is visible in *Verizon Communications Inc. v. Law of Offices of Curtis V. Trinko, LLP (Trinko)* case, where the Court stated: “we have never recognized such a doctrine...”<sup>289</sup>. Moreover, the Court narrowed the doctrine with regard to the

<sup>281</sup> Kung-Chung Liu, *Rationalising the Regime of Compulsory Patent Licensing by the Essential Facilities Doctrine*, 39 ICC INTERNATIONAL REVIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW 757(2008), p. 765.

<sup>282</sup> *MCI Communications v. AT&T*, 708 F.2d 1081 (7<sup>th</sup> Cir. 1983) [hereinafter *MCI Communications*] (According to the facts AT&T refused to provide the access to its telephone communications for MCI that precluded MCI from entering the market. In assessment the abusive conduct of AT&T the court applied the essential facility doctrine.).

<sup>283</sup> Csongor Istvan Nagy, *Refusal to Deal and the Doctrine of Essential Facilities in US and EU Competition Law: a Comparative Perspective and a Proposal for a Workable Analytical Framework*, 32 EUROPEAN LAW REVIEW 664(2007), p. 673 (stating that in addition, the access to the facility must be indispensable that precludes other undertakings from the competition. The indispensability of the facility must be assessed from the point of the competitive impact of the refusal.).

<sup>284</sup> *Id.* at p. 673 (A creation of the facility does not need to be impossible, the economical unreasonableness is enough. The rationale is that potential competitor must not be precluded from entering both markets: the one he initially wanted to work in and the one where the essential facility must be built.).

<sup>285</sup> *Id.* at p. 674 (The express and manifestly stated refusal is not required. But if the controller of the facility proposes the alternative it cannot be regarded as the refusal.).

<sup>286</sup> *MCI Communications*, 708 F.2d at 1132-1133. *See also Id.* at 1133 (The court stated that (1) “AT & T had complete control over the local distribution facilities that MCI required”, (2) these facilities were essential for MCI to provide services while they could not be duplicated by MC, (3) At&T and MCI were competitors and AT&T denied the access to the communications, (4) as the telephone communications are seen as natural monopoly “it would not be economically feasible for MCI to duplicate Bell's local distribution facilities (involving millions of miles of cable and line to individual homes and businesses)”.).

<sup>287</sup> *Id.* at 1133 (“No legitimate business or technical reason was shown for AT & T's denial of the requested interconnections. MCI was not requesting preferential access to the facilities that would justify a denial. [citation is omitted] Nor was MCI asking that AT & T in any way abandon its facilities. [citation is omitted] MCI produced sufficient evidence at trial for the jury to conclude that it was technically and economically feasible for AT & T to have provided the requested interconnections, and that AT & T's refusal to do so constituted an act of monopolization.”).

<sup>288</sup> Liu, ICC INTERNATIONAL REVIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW, (2008), p. 765.

<sup>289</sup> *Verizon Communications Inc. v. Law of Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004) [hereinafter *Trinko*].

indispensability requirement. The Court recognized a possibility to apply the doctrine only where the access to the facility is unavailable at all<sup>290</sup>: “essential facility claims should be denied where a state or federal agency has effective power to compel sharing and to regulate its scope and terms”<sup>291</sup>. Some scholars do not believe in the necessity of the doctrine either: according to their opinion, antitrust rules that oblige a licensor to share his property decrease the incentive to innovate that is harmful for the competition and consumer welfare.<sup>292</sup>

The other test for the determination of the illegality of a refusal to license is the leveraging test. It requires the examination of a dominant position of a patent owner on the market and the analysis of whether he “leverages his market power to a downstream or adjacent market in an anti-competitive manner”<sup>293</sup>.

Both – the leveraging doctrine and the essential facility doctrine - are directed to the prevention of the foreclosure of the secondary market when such foreclosure may be harmful for the existing and potential competition<sup>294</sup>. The opinions regarding the choice of the applicable test for the analysis of a refusal to license issue are divided: some authors<sup>295</sup> prefer the essential facility doctrine as it is more predictable, while others<sup>296</sup> believe that it protects competitors and not competition, and this is why they support the leveraging test.

In the *Kodak* case<sup>297</sup> the Court of Appeal for the Ninth Circuit stated that a monopolist may be liable for a refusal to deal under section 2 of the Sherman Act not only under an essential facility doctrine, but also when the purpose of the refuse is “to create or maintain a monopoly absent a

<sup>290</sup> *Trinko* 540 U.S. at 399, 411, 874, 881.

<sup>291</sup> *Id.* at 411, 881.

<sup>292</sup> Alden Abbott, *Abuse of Dominance by Patentees: A Pro-Innovation Perspective* at <http://www.heritage.org/research/commentary/2014/11/abuse-of-dominance-by-patentees> (last visited March 23, 2015).

<sup>293</sup> THORSTEN KASEBERG, *INTELLECTUAL PROPERTY, ANTITRUST AND CUMULATIVE INNOVATION IN THE EU AND THE US* (Hart Publishing 1st ed. 2012), p. 124. See also *Eastman Kodak*, 504 U.S. at 479, n.29 (“[T]he power gained through some natural and legal advantage such as patent, copyright, or business acumen can give rise to liability [under § 2 of the Sherman Act] if a seller exploits his dominant position in one market to expand his empire into the next”).

<sup>294</sup> *Id.* at p. 124-125.

<sup>295</sup> See also *id.* at p. 250 (“It is striking and regrettable that the US as the jurisdiction that has successfully “exported” the essential facilities doctrine to other antitrust jurisdictions has essentially abandoned the doctrine”).

<sup>296</sup> *Id.* at 124-125.

<sup>297</sup> *Image Technical Serv. Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9<sup>th</sup> Cir. 1997).

legitimate business justification”<sup>298</sup>. In respect to IP rights, the Court found that patents and copyright fall under the scope of a legitimate business justification<sup>299</sup>. However this decision has not given a practical help to technology companies due to the fact that Court of Appeal for the Ninth Circuit did not provide any clear test how to define under which conditions the refusal to license may still be recognized anticompetitive<sup>300</sup>.

In *Data General*<sup>301</sup> the Court of Appeal for the First Circuit in 1994 pointed out that a unilateral refusal to deal may constitute an exclusionary conduct in the meaning of the § 2 of the Sherman Act if it “harms competitive process”. However, the existence of a valid business justification, in particular, that results in “the enhancement of consumer welfare” exempts the refusal from antitrust violation treatment<sup>302</sup>. With regards to the patent licensing refusal, the Court, relying on previous case law, pointed that patent laws are treated as a limited exception to antitrust laws, and a lawfully acquired patent grants its holder the right for the refusal to license. The rationale behind it is that the “exposing patent activity to wider antitrust scrutiny would weaken the incentives underlying the patent system, thereby depriving consumers of beneficial products”<sup>303</sup>.

At the same time in *Kodak* the Court of Appeal for the Ninth Circuit found the refusal of Kodak to sell patented to its rivals spare parts of its machines to be anticompetitive<sup>304</sup> because of the fact that Kodak’s subjective motivation did not stem from the wish to protect its IP rights, and this circumstance constituted the evidence of “a pretextual business justification to mask anticompetitive conduct”<sup>305</sup>. Kodak’s argument that “the desire to best the competition does not

<sup>298</sup> *Image Technical Serv. Inc. v. Eastman Kodak Co.*, 125 F.3d at 1209.

<sup>299</sup> *Id.* at 1212 (“A monopolist’s [owner of the patent or copyright] desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers” (*Id.* at 1218). The Court also stated that the justification may be disapproved if it “does not legitimately promote competition or [when] the justification is pretextual”).

<sup>300</sup> Jennifer E. Gully, *Image of Technical Services, Inc. v. Eastman Kodak Co.*, 13 BERKELEY TECHNOLOGY LAW JOURNAL 339(1998), p. 353, Available at: <http://scholarship.law.berkeley.edu/btlj/vol13/iss1/22>), (last visited March 23, 2015).

<sup>301</sup> *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1<sup>st</sup> Cir. 1994).

<sup>302</sup> *Id.* at 1183.

<sup>303</sup> *Id.* at 1186.

<sup>304</sup> Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*. 2001, p. 133.

<sup>305</sup> *Image Technical Serv. Inc. v. Eastman Kodak Co.*, 125 F.3d at 1219.



prove pretext, nor does hostility to competitors”<sup>306</sup> was ignored by the Court, but was upheld by the Court of Appeal for the Federal Circuit in *In re Independent* <sup>307</sup>.

In *In re Independent* the Court found that the refusal to license the patent did not violate antitrust laws, regardless of the subjective motivation of the patent owner<sup>308</sup>. Besides that, the Court stated that although IP rights do not allow violating antitrust law, the patent owner must not be regarded as a “prohibited monopolist” just because of the possession of an exclusive right. The Court also found that the patent owner has a legitimate right to refuse the licensing. At the same time, there are certain limitations to this right as, for instance, illegal obtainment of the patent, sham litigation or fraud, when the refusal to license a patent will be *per se* illegal<sup>309</sup>.

Consequently, the agencies<sup>310</sup> and courts<sup>311</sup> in the US are of the opinion that unconditional and unilateral refusal to license is not a violation of antitrust laws, and patent owners are free in the right to decide whether to conclude a licensing agreement or not. Only exceptional cases - concerted refusals or leveraging - may cause concerns in regard to the violation of § 2 of the Sherman Act<sup>312</sup>.

## 2. The EU Solution

According to Article 102 TFEU, the abuse of a dominant position may constitute in a “limiting production, markets or technical development to the prejudice of the consumers”<sup>313</sup>. This provision seems to be relevant in the case of patent licensing agreements, as a refusal to license may lead to a reduction of the production on the market or to a prevention of the appearance of

<sup>306</sup> *Image Technical Serv. Inc. v. Eastman Kodak Co.*, 125 F.3d at 1219.

<sup>307</sup> *In re Independent Service Organizations Antitrust Litigation CSU, LLC v. Xerox Corp.*, 203 F.3d 1322 (Fed. Cir. 2000) [hereinafter *In re Independent*].

<sup>308</sup> *Id.* at 1327.

<sup>309</sup> *Id.* at 1325-1327.

<sup>310</sup> IP Report 2007, *supra* note 14, at p. 30.

<sup>311</sup> *Image Technical Serv. Inc. v. Eastman Kodak Co.*, 125 F.3d at 1216 (Although courts in different circuits may have some differences in the assessment of the issue “the courts do not generally view a monopolist’s unilateral refusal to license a patent as “exclusionary conduct”.”); *In re Independent*, 203 F.3d at 1326 (“There is no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent”. (citing *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1216, 44 USPQ2d 1065, 1079 (9th Cir.1997))).

<sup>312</sup> KASEBERG, *Intellectual Property, Antitrust and Cumulative Innovation in the EU and the US*. 2012, p. 250.

<sup>313</sup> TFEU, *supra* note 57, at Art. 102 (b).

new technological inventions. The aim of Article 102 TFEU is to ensure a balance between the freedom of the IP owner to decide whether to license or not her patent and the necessity to satisfy the consumers' demand of new products. This is also the main task of the Court of Justice during the interpretation and application of the rules of IP and competition law in corresponding cases.

In *AB Volvo v Erik Veng (UK) Ltd.* the Court of Justice of the European Union (CJEU) clarified the interpretation of Article 86 of the EC Treaty (102 TFEU). The Court stated that “a refusal to grant a license cannot in itself constitute an abuse of a dominant position”<sup>314</sup>, because the right of the patent owner to preclude others from using her IP right without her permission is “a very subject matter of his exclusive right”<sup>315</sup>. At the same time, the Court held that the exercise of an exclusive right by IP owner may constitute an abuse in exceptional circumstances<sup>316</sup>. However, the list of such exceptional circumstances was not exclusive, and did not provide a comprehensive guide for other cases.

Later, the *Magill* case<sup>317</sup> introduced a test to define whether the refusal to license by an IP owner in dominant position<sup>318</sup> constitutes an abuse. The Court upheld the position of the Court of First Instance and set the following requirements for such conduct to be abusive: (1) the refusal prevents the appearance of a new product for which there is a potential consumer demand<sup>319</sup>; (2)

<sup>314</sup> Case 238/87, *AB Volvo v. Erik Veng, (UK) Ltd.*, 1988 E.C.R. 6211, § 8 [hereinafter *Volvo v. Veng*].

<sup>315</sup> *Id.* at § 8.

<sup>316</sup> *Volvo v. Veng*, at § 9 (As an example of an abusive refusal of a car manufacturer the Court mentioned the following: “arbitrary refusal to supply spare parts to independent repairs, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation”).

<sup>317</sup> Joined cases C-241/91 P & C-242/91, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission of the European Communities*, 1995 E.C.R. I-00743 [hereinafter *Magill*]. *Id.* at § 1-8 (According to the facts *Magill TV Guide Ltd.* decided to publish a comprehensive weekly TV Guide but was prohibited by the injunction while such publication could violate copyrights of RTE and ITP (appellants) and BBC. RTE, ITP and BBC were publishing TV listings of the programmes broadcasting on their particular channels, while there was no comprehensive guide. *Magill* filed a complaint with the Commission claiming that the refusal to license was an abuse of dominant position. Commission confirmed that there was a breach of Art. 86 of the EEC (102 of the TFEU) and ordered RTE, ITP and BBC to grant licenses on reasonable royalties' demands. Appellants filed an appeal to the Court of First Instance (General Court) that dismissed the appeal. Then the appeal was submitted to the ECJ).

<sup>318</sup> *Id.* at § 47 (The ECJ first determined whether appellants hold a dominant position on the market. As the only source for getting the information about the programmes' broadcasting were corresponding channels the Court stated that appellants were in a dominant position.).

<sup>319</sup> *Id.* at § 52 (The ECJ pointed that there was no actual or potential substitute on the market for the comprehensive TV guide (so it was a new product)). See also *id.* at § 54 (The Court also mentioned *Volvo v Veng* case but stated that appellants by the refusal to grant the license prevented the possibility for a new product – comprehensive TV guide of *Magill* – to enter the market that was the abusive conduct.).

the refusal is not justified<sup>320</sup>; (3) the refusal results in the exclusion of all the competition on the secondary market. Regarding the last requirement, the Court explained that appellants eliminated all the competition on the secondary market while they refused to give the information that was “indispensable”<sup>321</sup> to compose a comprehensive television guideline, and that was within their exclusive access<sup>322</sup>. The test established in this case was defined in subsequent decisions and by scholars as the essential facilities doctrine<sup>323</sup>.

Nine years after the *Magill* case the same approach was still used in the *IMS Health* case<sup>324</sup>. The CJEU pointed out that the refusal to license IP rights may constitute an abuse of a dominant position only in “exceptional circumstances”. Thus the Court defined the same three-pronged test that was stipulated in the *Magill* case. However, in *IMS Health* the Court expressly added that “it is sufficient that three cumulative conditions be satisfied”<sup>325</sup> in order to qualify as abusive the

<sup>320</sup> Katarzyna Czapracka, *Striking the balance between antitrust and IP*, in INTELLECTUAL PROPERTY AND THE LIMITS OF ANTITRUST. A COMPARATIVE STUDY OF US AND EU APPROACHES. NEW HORIZONS IN COMPETITION LAW AND ECONOMICS SERIES (2009), p. 48 (The ECJ did not define the issue. The suggested interpretation is that the incentive of broadcasters to innovate would not be harmed by a compulsory license while their investments in preparation of listings were small, moreover TV listing were being spread for free).

<sup>321</sup> Liyang Hou, *The Essential Facilities Doctrine – What was Wrong in Microsoft?*, 43 IIC-INTERNATIONAL REVIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW 251(2012), p. 258 (The patented product placed on the primary market must be indispensable in the meaning that it must be objectively necessary for the potential licensee to conduct the business on the secondary market and there must be no other substitute for a [requested for licensing] patented product on the primary market).

<sup>322</sup> *Magill* at § 55-56 (The Court mentioned 3-prong test, integrating the requirements of indispensability and exclusion of the competition in one element). See also *id.* at , p. 260 (pointing that the requirement of elimination of the competition is strongly tied with the requirement of indispensability and even can be treated as its consequence. The author explains that the competition can not exist on the market where there is no substitute for the product required by a third party to act on the market and the owner of the only available product refuses to provide it.). But see case C-7/97, *Oscar Bronner GmbH & Co. v. Mediaprint Zeitungs und Zeitschriftenverlag GmbH & Co.*, 1998 E.C.R. I-7817, § 40 [hereinafter *Bronner*] (The ECJ referring to *Magill* case had stated four requirements (the indispensability as the separate one)).

<sup>323</sup> *Bronner*, at § 24.

<sup>324</sup> Case C-418/01, *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*, 2004 E.C.R. I-05039 [hereinafter *IMS Health*]. *Id.* at § 1-17 (According to the facts both IMS and NDC were companies that were selling marketing data to pharmaceutical laboratories. IMS had developed a 1860 bricks structure. The use of any other structure was rejected by laboratories as they were accustomed to the structure proposed by IMS. When NDS started to use another but similar structure to the one IMS had NDS received the court order with the prohibition to use it. Then NDS complained to the Commission stating that the refusal of IMS to grant the license was contrary to Art. 82 (102) of EC (TFEU) and constituted an abuse of a dominant position. The Commission obliged IMS to grant the license justifying it with the existence of “exceptional circumstances” – developed by IMS brick structure became the industry standard that means that the competition on the market for the companies that did not have access to it was impossible. However while the decision of the Commission was about the interim measures later it withdrew it. In order to decide whether IMS’s claim for injunction to prohibit NDS to use a brick structure was lawful the national court requested a preliminary ruling from ECJ.).

<sup>325</sup> *Id.* at § 38.

refusal of the IP right owner to provide access to a product/service that is indispensable for others to carry a business.

However, the test established in the two cases was changed by the Commission, and then adopted by the CJEU, in the *Microsoft* case<sup>326</sup>.

One of the aspects of the case was about the refusal of Microsoft to provide third parties with interoperability information that was assessed by the Commission and confirmed by the General Court to be an abusive conduct. The Commission stated that although undertakings have the right to choose their business partners, in certain cases the refusal of an undertaking in a dominant position may be prohibited as abusive unless it is justified<sup>327</sup>.

The Commission mentioned that it treats the refusal to provide interoperability information as the refusal to license IP rights, and the Microsoft's behavior involves "exceptional circumstances" to recognize it as abuse, but these circumstances are different than those established in *Magill* and *IMS Health* cases<sup>328</sup>. The Court upheld the point of the Commission and mentioned the next "exceptional circumstances" necessary to determine the conduct of Microsoft as abusive: (1) the indispensability of the refused product; (2) the refusal excludes "any effective competition on the neighboring market"<sup>329</sup>; (3) the prevention of a new product that has a potential consumer demand; (4) no objective justification for the refusal<sup>330</sup>.

In comparison with the test applied in *Magill* and *IMS Health*, the test set by the CJEU in *Microsoft* presents differences. The Court applied the same criteria of indispensability<sup>331</sup>, but changed the elimination of all the competition on the market to the elimination of the effective

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<sup>326</sup> Case T-201/04, *Microsoft v. Commission*, 2007 E.C.R. II-3601. *Id.* at § 1-7 [hereinafter *Microsoft v. Commission*] (Sun Microsystems and other competitors being the rivals of Microsoft requested Microsoft to provide interoperability information that was necessary for Sun Microsystems to ensure the interaction of its workgroup operating system with Windows PC operating system (that was a necessary condition under which consumers were ready to buy workgroup operating systems). Microsoft refused to provide the information and Sun Microsystems filed a complaint to the Commission claiming the violation of Art. 82 of the EC Treaty (102 of TFEU).).

<sup>327</sup> *Id.* at § 319.

<sup>328</sup> *Microsoft v. Commission*, at § 107, § 317.

<sup>329</sup> *Id.* at § 332.

<sup>330</sup> *Id.* at § 332-333.

<sup>331</sup> *Id.* at § 434-436 (The Court found that Microsoft has not proved that the disclosure of the interoperability information was not indispensable, while it has not showed that there are other effective methods or ways to provide interoperability between suppliers of operating systems.).

competition<sup>332</sup>. Hou provides the explanation of the last approach of the Court by stating that for the time of the Commission's decision the market share of Microsoft was 60%, meaning that there was a competition on the market, but as was stated by the court – not effective<sup>333</sup>.

With regard to the preventing the appearance of a new product requirement, the Court stated that it is satisfied but has changed the “new product” part to the “technical development”<sup>334</sup>. The Court also stated that the refusal to provide access to information had an indirect negative impact on consumers, since Microsoft impaired competition on the market through “acquiring a significant market share”<sup>335</sup> on the server operating systems market<sup>336</sup>.

Considering the last requirement, the Court found that IP rights in itself, together with the great value of the technology or its secrecy, do not constitute the objective justification. The Court also stated that the burden of proof is on the dominant undertaking and Microsoft did not prove that the refusal to provide the access to the interoperability information was objectively justified<sup>337</sup>.

It is worth to be mentioned that scholars have met the new test applied by the Court in *Microsoft* case with a lot of critics. The concerns arose mostly with regard to the new “technical development test” that was applied instead of a “new product” standard. It is believed that a setting of the new standard “may force IPR holders to support their direct competitors with their exclusive IPRs”<sup>338</sup>, while the initial standard ensured the existence of a separate (secondary) market that provided certain level of protection for the licensor on a primary market.

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<sup>332</sup> *Id.* at § 561-563 (The Court did not distinguish the “risk of elimination of competition” and “likely to eliminate competition” while the purpose of Art. 82 EC (now 102 TFEU) is to protect the competition on the market that still exists but not to wait till it is completely eliminated. The Court confirmed that the Commission correctly applied Art. 82 EC before elimination of the competition while otherwise it would be difficult to reverse on the system operating market. The Court also underlined that in order to define the refusal to provide the access to interoperability information abusive the elimination of all the competition on the market is not required, the important is the elimination of all the *effective* competition.).

<sup>333</sup> Hou, IIC-INTERNATIONAL REVIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW, (2012), p. 266-267.

<sup>334</sup> See TFEU, *supra* note 57, at Art. 102 2(b) (An abuse of a dominance position may be in “limiting production, markets or *technical development* to the prejudice of consumers...”).

<sup>335</sup> *Microsoft v. Commission*, at § 664.

<sup>336</sup> *Id.* at § 664-665.

<sup>337</sup> *Id.* at § 691-697.

<sup>338</sup> Hou, IIC-INTERNATIONAL REVIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW, (2012), p. 271.

The other argument expresses the worries that the new "technical development test" brings less predictable results in defining when the refusal to license may constitute an abusive conduct that is contrary to the guarantees provided by the "new product test". Moreover the technical development test leads to a higher level of intervention of antitrust legislation in the regulation of IP rights that at the end can decrease the incentive to innovate<sup>339</sup>.

At the same time the "new product" standard gives rise to questions too, as, for instance, how to define the new product, to what extent it must be new and whether it is possible to make small changes to the initial product in order to demand the grant of the license.<sup>340</sup> The application of a new product requirement also caused doubts in *IMS Health*. The expressed concern was that demanding potential licensees to demonstrate the need of the license for a new product is unfair if the situation on the market is similar to *IMS Health* - the consumers refuse to accept any other product but of the dominant licensor (in the case 1 860 brick structure became an industry standard)<sup>341</sup>.

Another concern addresses the content of the test as a whole. According to Lamping there is no need for the existence of both conditions - the elimination of the competition and prevention of the appearance of a new product - to recognize the refusal to license as an abusive conduct. In his point of view the refusal to license an indispensable IP right may be abusive if it prevents the appearance of a new product or when the licensor is trying to strengthen his power on another market by means of the refusal. In addition, he underlines that in *Magill* and *IMS Health* the

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<sup>339</sup> Czapracka, Striking the balance between antitrust and IP. 2009, p. 60.

<sup>340</sup> Oleh Furmanchuk, *Обставини неправомірності відмови від укладення ліцензійного договору з конкурентом за антимонопольним правом Європейського Союзу - запобігання появі нового товару та виключення конкуренції на вторинному ринку [Exceptional Circumstances of an Unlawful Refusal to License a Competitor under the EC Competition Law - Prevention of an Appearance of a New Product and Elimination of Competition in Secondary Market]*, 3 (34) COMPETITION BULLETIN OF ANTIMONOPOLY COMMITTEE OF UKRAINE 35(2009), p. 40.

<sup>341</sup> *Id.* at 40.

division of markets was “artificial”<sup>342</sup>, while in the *Microsoft* case the requirement of a new product did not matter at all as the Microsoft’s behavior was abusive independently of it<sup>343</sup>.

Lamping is also of the opinion that for the refuse to license to be abusive three conditions must be observed. First, if a patented product is indispensable on the market (including the absence of potential substitute) the refusal to license the product may contain an abuse. Second, the refusal harms consumer welfare because of the prevention of the improvement on the market (the Court indication was about the appearance of a new product) or the refusal leads to acquiring of the dominant position by the owner on the second market. Third, there is no objective justification for the refusal to contract<sup>344</sup>.

The test proposed by Lamping is stricter towards the licensor if compared to the requirements set by EU case law, as it makes less difficult to prove that the refusal to license an indispensable patent may be abusive.

Freedom of the licensor to decide whether to enter the contract is guaranteed in the EU. However, it may be restricted if the patented product is indispensable on the market and the refusal consists of an abuse of a dominant position. The EU accepts the intervention of antitrust law in the sphere of IP rights. This means that the recognition of the fact that the rights of IP owners, including the right of freedom of contract, may be restricted when the refusal results in a limitation of production or technical development or restriction of the competition on the market.

### **3. The Actual Status of the Issue in Ukraine and the Proposed Solutions**

Ukraine, contrary to the US and EU jurisdictions, has neither detailed provisions in competition legislation nor instructive and developed court practice or decisions that have established clear criteria for the analysis of the abuse of a dominant position in the sphere of IP

<sup>342</sup> *IMS Health* at § 44 (“... it is sufficient that a potential market or even hypothetical market can be identified” was stated by the Court of Justice in order to justify the existence of two markets in the case.).

<sup>343</sup> Matthias Lamping, *Refusal to License as an Abuse of Market Dominance: From Commercial Solvents to Microsoft* in COMPULSORY LICENSING: PRACTICAL EXPERIENCES AND WAYS FORWARD (MPI STUDIES ON INTELLECTUAL PROPERTY AND COMPETITION LAW) (Reto M. Hilty & Kung-Chung Liu eds., 2015), p. 129-134.

<sup>344</sup> *Id.* at p. 137.

rights from a competition law prospective<sup>345</sup>. The reason of such may lie either in the not effective work of abovementioned authorities that prefer not to provide any clarifications of the issue or the issue does not require the clarification at this point of time due to the absence of the relevant practice<sup>346</sup>.

The Ukrainian IP legislation was shaped much earlier than competition law due to the necessity to comply with international obligations<sup>347</sup>, while the antitrust legislation and the standards for its practical application are still in a stage of formation<sup>348</sup>. This is the reason why competition law does not provide a proper level of certainty and foreseeability to IP owners with regard to the possible restrictions that may be applied to their rights - including the right to decide whether to enter the licensing contract and to share IP rights or not - in order to comply with competition law. However, this issue is slightly described in the patent legislation.

Indeed, the Law on Inventions<sup>349</sup> includes a provision on compulsory licensing that can be used to draw a parallel with the essential facility doctrine developed in the US and later applied in the EU. According to Article 30 of the Law on Inventions, one of the cases<sup>350</sup> when the patent owner may be obliged to grant the license on the use of the invention or utility model is the case of dependency. Thus, when in order to exploit her invention a person needs to use a previously patented invention, she has the right to demand the granting of the license that is the equivalent of

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<sup>345</sup> Absence of the actual practical information and regulation of the issue is confirmed by the absence of the relevant information in the Unified registry of court decisions of Ukraine and on the website of the AMC. The summary of the decision of the AMC with regard to general refusal to contract (transfer of electric energy) is available on the site of the AMC <http://www.amc.gov.ua/amku/control/main/uk/publish/article/100250> (published October 14, 2010), but no information is reported with regard to refusal to license IP rights.

<sup>346</sup> For instance, no cases on the consideration of the courts or AMC with the claim that refusal to license violates certain provisions of the competition law. As one of the explanations it may be due to the absence of the developed and competitive IP market in Ukraine (that can be a reason why the issue in the aspect of competition law does not arise).

<sup>347</sup> Ukraine is a member of the WTO, and a signatory of the TRIPS Agreement and the Paris Convention.

<sup>348</sup> Sergiy Gluschenko, *Refusal to license IPRs under Ukrainian Competition Law*, THE UKRAINIAN JOURNAL OF BUSINESS LAW 20(2014), p. 20-21.

<sup>349</sup> Law on Inventions, *supra* note 98, at Art. 30.

<sup>350</sup> *Id.* at Art. 30 (The other two cases (1. nonexploitation or not sufficient exploitation of the invention (utility model) covered by the patent); 2. public interests) do not impose the obligation on the patent owner to grant the license (in the meaning that the patent owner still preserves the right not to enter the licensing contract), but in case of his refusal and observance of specific conditions the permission to use the invention (utility model) protected by the patent may be granted by the court (in first case) or by the Cabinet of Ministers of Ukraine (in the second case) without the authorization of the actual patent owner.).



the indispensability requirement in the US and EU.<sup>351</sup> The patent owner may be obliged to grant the license if the invention or utility model of the potential licensee is intended for other purpose or has “significant technical and economic advantages”<sup>352</sup> in comparison to the previously patented invention<sup>353</sup>. Here the line may be drawn with the new product element analysed in the US and EU.

The partial explanation, in particular, regarding the requirement of significant advantages was provided by the Superior Commercial Court of Ukraine in the case # 20/173<sup>354</sup>. The Court stated that “this condition [presence of significant technical and economic advantages] assists the prevention of the abuse by applicants who submit applications for minor inventions with the sole purpose to obtain the right to exploit the important invention due to compulsory licensing”<sup>355</sup>. So

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<sup>351</sup> *Id.* at Art. 30 (The license to use the invention must be provided within the scope that is necessary for the exploitation of the later patented invention.).

<sup>352</sup> *Id.* at Art. 3 (2).

<sup>353</sup> *Id.* at Art. 30. *But see* the TRIPS Agreement, *supra* note 2, at Art. 31 (1) (i) (The TRIPS Agreement does not require the other purpose stating that the second invention “shall involve an important technical advance of considerable economic significance” in comparison to the initial patented product.).

<sup>354</sup> Postanova Vyschogo Gospodarsjkogo Sudu Ukrainy [Ruling of the Superior Commercial Court], Case # 20/173, of 16 March 2010, <http://www.reyestr.court.gov.ua/Review/8349158> (last visited March 26, 2015) [hereinafter – “case # 20/173”] (<sup>354</sup>Ruling of the Superior Commercial Court, Case # 20/173, dated 16 March 2010 [hereinafter – “case # 20/173”] (According to the facts Nippon Soda Co., Ltd. (the owner of the patent of Ukraine on the invention # 27285) brought a suit with the claim (among others) to cancel the patent of Ukraine on the utility model # 22118 (owner “The Company “Ukravit”) based on two grounds set in Art. 33 of the Law on Inventions: 1. nonconformity of the utility model with the requirements of patentability; 2. the issue of the patent based on the submission of the application that infringes the rights of other persons.

The patent # 22118 that covered utility model [hereinafter Dependent Patent] was dependent (the utility model could not be used without the invention) on the patent # 27285 that covered the invention [hereinafter Dominant Patent]. The defendant was using the utility model without the permission (license) for the use of the invention obtained from the plaintiff. According to the claim of the plaintiff these actions were infringing his rights as patent owner that is why the Dependent Patent must be cancelled.

The Court stated that the first ground for the cancellation of the Dependent Patent, claimed by the plaintiff, was not satisfied as the utility model had both required elements to be patented – it was new and had industrial applicability. Then the Court considered the second ground, i.e. the issue of the patent that infringes rights of others. The Court stated that the defendant by way of using of the utility model without the authorization of the owner of the Dominant patent infringed his rights. At the same time according to Art. 30 of the Law on Inventions the owner of the dominant patent is obliged to grant the license to the owner of the dependent patent under certain conditions. These conditions are: the dependent invention (utility model) must have either other purpose or technical and economical advantages in comparison to the dominant patented product.

After the analysis of the facts of the case the Court stated that the requirements for the compulsory licensing were not met. First, the utility model was new, but was not used for the other purpose (the utility model and the invention were designed to be used for the identical purpose – the chemical protection of plants against plant pests). Second, the materials of the case did not contain any proofs of significant technical and economic advantages of the utility model. Consequently, the Court concluded that the patent for the utility model must be cancelled as it was issued with the infringement of the rights of other persons (i.e., the second ground claimed by the plaintiff was satisfied.).

<sup>355</sup> *See* case # 20/173, *supra* note 354. *See also* Decree # 12, *supra* note 106, at § 83-1.

as it is seen by this approach the initial patent owner is granted protection<sup>356</sup> in order to ensure that the restriction of the scope of his proprietary rights is possible only in limited cases, when the improvement of a new product that is dependent on the licensor's invention is significant.

The Court also mentioned that the fact that the utility model that was covered by the dependent patent in question is new does not grant the right for the use of the invention, covered by the dominant patent, since it does not belong to the legal grounds for the issue of the compulsory license<sup>357</sup>.

Except for the indispensability and the new product requirements, the Ukrainian patent legislation does not provide any further information, and this is because the issue of abusive refusal to license has to be regulated by competition law. At the same time neither the Competition Law nor the case law or any recommendations from the AMC clarify this issue with regard to the refusal to grant the license for the use of the intellectual property rights.<sup>358</sup>

In theory the possible test<sup>359</sup> for the treatment of the refusal to license the essential patented invention/utility model as abusive, prohibited by Article 13 of Competition Law, may consist of

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<sup>356</sup> See Law on Inventions, *supra* note 98, at Art. 30; TRIPS Agreement, *supra* note 2, at Art. 31 (The licensor is also protected by the option for cross-licensing (the possibility to obtain the license from the owner of the invention that was patented later). See Art. 31 of the TRIPS Agreement, *see also* Hanns Ullrich, *Mandatory Licensing Under Patent Law and Competition Law: Different Concerns, Complementary Rules*, in COMPULSORY LICENSING: PRACTICAL EXPERIENCES AND WAYS FORWARD (MPI STUDIES ON INTELLECTUAL PROPERTY AND COMPETITION LAW) (Reto M. Hilty & Kung-Chung Liu eds., 2015), p. 343 (And by the requirement to the assignment of the granted compulsory license by the licensee (the assignment of the license without the dependent patent is impossible while the aim of the license issue was to make possible the use of the dependent patent.).

<sup>357</sup> Case # 20/173, *supra* note 354. The comparison with the essential facility doctrine of the EU and its requirement of prevention of the appearance of a new product for which there is a consumer demand demonstrates two differences in approaches of the EU and Ukraine. First, the EU approach - as it was mentioned earlier - caused uncertainty, at least among scholars, regarding what shall be defined as a new product. On the contrary, the Ukrainian legislation sets two optional conditions for the award of compulsory licenses, such as the different purpose or significant technical and economic improvement. At the same time position of the Ukrainian courts requires detailed clarification. For instance, it seems to be unclear what is the exact meaning of the following statement of the Superior Commercial Court of Ukraine: "the question of significant technical and economic advantages is not a question of the fact, but the law, and its determination belongs to the jurisdiction of the court and not the court expert" (Case # 20/173, *supra* note 354, translation provided by the author). It raises the question according to which particular standards and criteria the presence of the advantages can be defined. Second difference is the absence of the consumer demand requirement in Ukraine with comparison to the EU. However, this can be explained by the fact that the provision at issue is a part of the IP legislation, which is intended to protect the IP owner's private interests and rights.

<sup>358</sup> See also Gluschenko, *THE UKRAINIAN JOURNAL OF BUSINESS LAW*, (2014), p. 20-21 (confirms the absence of public registry of the decisions of AMC or any other guidelines that may clarify the approach to the assessment and examination of the refusal to license IP rights).

<sup>359</sup> Made by combining the provisions of the existent legislation in competition law and IP law: Art. 12, 13 of the Competition law and Art. 30 of the Law on Inventions

the following elements: (1) the patent owner occupies a dominant position<sup>360</sup>; (2) refusal causes/may cause the prevention, elimination or restriction of the competition or is/may be detrimental to the interests of other undertakings or consumers that would not exist in case of a significant competition;<sup>361</sup> (3) indispensability of the patented invention (utility model)<sup>362</sup>; (4) refusal leads to the prevention of the appearance of a new<sup>363</sup> product. But it is only the theoretical test, while the application of the existent legislation without additional interpretation of the elements of the test by competent authorities leads to uncertainty and unpredictability for patent owners.

In order to define under which conditions the refusal to license should be found abusive, the application of the essential facility doctrine seems to be a good option, since it allows balancing the rights and interests of IP owners and interests of other innovators and consumers. As it was correctly observed, “the essential facility doctrine does not provide easy access to IPR-protected technologies; in fact, it embodies the most restrictive form in which a right of access might be affirmed, under the antitrust rationale.”<sup>364</sup> And this approach, in my opinion, is correct, while in order to increase the incentive to innovate, IP owners have to be sure that their rights may be restricted only in limited situations, and that the requirements of competition law may “override the free exercise of an IPR”<sup>365</sup> only in exceptional circumstances.

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<sup>360</sup> Competition Law, *supra* note 127, at Art. 13 (Undertaking will be in a dominant position if it does not have competitors on the market or the competition is insignificant; or its market share exceeds 35 % unless it proves that the competition on the market is significant; or its market share 35 % or less and there is no significant competition on the market, in particular, due to small market shares of the competitors.).

<sup>361</sup> *Id.* at Art. 13 (It can result, in particular, in restriction of output, markets, technical development to the prejudice of competitors, buyers, sellers or in significant restriction of competitiveness of other undertakings on the market without objective justification or in creation the barriers to enter the market.).

<sup>362</sup> The use of the dependent invention (utility) model without the license will infringe the right of the dominant patent owner.

<sup>363</sup> In the meaning that it has the different purpose or significant technical and economical advantages in comparison to the patented product (the granting of license for which was refused).

<sup>364</sup> Gustavo Ghidini, *The Bridge and the Groom. On the Intersection between Intellectual Property and Antitrust Law*, in *COMPETITION LAW AND INTELLECTUAL PROPERTY. A EUROPEAN PERSPECTIVE* (Giandomenico Caggiano, et al. eds., 2012), p. 37.

<sup>365</sup> ANDERMAN & HEDVIG, *EU Competition Law and Intellectual Property Rights*. 2011, p. 115.

As the practical application of competition law in the aspect of involvement of IP rights is not developed in Ukraine, it is useful to look at the experience of other developed jurisdictions, as the US and EU.

In the EU the interference of competition law in the regulation of IP rights is more applied as “the EU officers may require dominant firms to share their proprietary inputs”<sup>366</sup> in order to ensure the generation of further innovation. On the contrary, in the US “judges generally reject the intrusion of considerations of promoting welfare into business relationships”<sup>367</sup>.

One of the purposes pursued by Ukraine in the sphere of IP law is to create and maintain operative and competitive IP market. In order to achieve this goal, legislators must provide clear and substantial legislation that guarantees the balance between the rights of the dominant IP owners, thus promoting innovation, development and incentive to invent, and the rights of other dependent IP owners, in order to give them the possibility to invent and not to be stopped by unjustified abusive conduct of dominant IP owners. The guarantee of the balance will consequently ensure consumer welfare.

However, when the freedom allowed by private spheres of law such as contract law and IP law cannot guarantee that innovation and competition will be not harmed, the intervention of competition law in the regulation of private interests is required.<sup>368</sup> At the same time the application of the US approach to the refusal to license that guarantees more freedom and provides higher level of self-regulation for the IP market allowing interference of the authorities only in exceptional cases may lead to the blocking of the undeveloped Ukrainian IP market by dominant patent owners. That is why it is advisable for Ukraine to apply the interpretation of the essential facility doctrine developed by the EU, since the provisions of Article 13 of the Competition Law resembles Article 102 TFEU. Yet at the same the main and necessary task is to provide the

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<sup>366</sup> MARIATERESA MAGGIOLINO, *INTELLECTUAL PROPERTY AND ANTITRUST. A COMPARATIVE ECONOMIC ANALYSIS OF US AND EU LAW* (Edward Elgar. 2011), p. 177.

<sup>367</sup> *Id.* at p. 177.

<sup>368</sup> *Id.* at p. 210.

clarification of the exact criteria for the analysis of the refusal to license IP rights in order to ensure predictability and certainty for IP owners.

In light of this, the protection of freedom of contract of IP owners to choose the counterparty and to decide whether to contract at all must be a general rule. Due to the essence of IP rights, there must not be a presumption of the illegality of the refusal to license. At the same time, under certain exceptional circumstances the rights of IP owners not to enter into a licensing agreement should be restricted. As an option Ukraine may apply the experience and guidelines developed in the EU, since the absence of the well-defined and clear list<sup>369</sup> of such exceptional circumstances causes difficulties for patent owners in realizing their rights including the right to choose to enter the licensing contract or not.

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<sup>369</sup> with regard to the limited amount of information that deals with the issue of the refusal to license (in particular, the absence of the clear prohibitions) in Ukraine the conclusion can be made that the patent owner's right to freedom of contract is protected and guaranteed. He is free to decide whether to grant the license for the use of his patented product or not. The only clearly defined exception to this general approach is foreseen by the patent law. *See* Law on Inventions, *supra* note 98, at Art. 30 (The freedom of the patent owner to contract may be restricted when the refusal to license makes impossible for the potential licensee to exploit his later patented invention and when that invention has the different purpose or significant technical and economic advantage in comparison to the product of the licensor.).

## CONCLUSION

As it was demonstrated in the thesis, patent licensing agreements involving transfer of technology are recognized as procompetitive in all the three selected jurisdictions. Freedom of parties to determine the terms of the prospective agreement may be restricted by the requirements set by competition law only in exceptional cases, when the agreement negatively impacts competition on the market and thus is harmful for consumer welfare.

The findings of this research proved that the regulation of the issue is comprehensive in both the US and EU jurisdictions due to the existence of special guidelines that encompass the requirements of both IP and competition law, and thus ensure certainty and predictability in its application by patent owners. In contrast, Ukraine, while having legislative acts that regulate the issue in question, nevertheless does not provide any recommendations or clarifications with regard to the practical application of the existent legislation. Since this may cause uncertainty and thus prevent innovation and discourage patent owners from entering licensing contracts, this thesis recommends to adopt guidelines, in particular regarding the constraints of competition law imposed on licensing contracts involving IP rights. As a basis for the prospective guidelines, it was proposed to use the EU TTBER Guidelines, since competition legislation of Ukraine resembles the EU TFEU.

For the assessment of the procompetitiveness of the agreement, all the three jurisdictions apply functionally the same approach: the rule of reason in the US is in fact equivalent to the balance of pro- and anticompetitive effects in the EU and the proof of objective justification in Ukraine.

In Ukraine, parties that intend to enter a technology transfer licensing agreement are, in comparison to other jurisdictions, more restricted in their term-freedom. A patent licensing agreement is overburdened with constraints of its content imposed by competition and IP law that require a due account of provisions both necessary for the validity of the contract and those that are prohibited being illegal.

As it was demonstrated, in order to ensure predictability and certainty for patent owners, and thus to provide the wider scope of the protection of the right of freedom of contract, all the three jurisdictions provide for “safe harbours”, in the form of lists of requirements the adherence to which guarantees the validity of the contract. In this regard the threshold that ensures the freedom of contract with aspect to safe harbors is the lowest in Ukraine.

After the analysis of particular types of patent licensing agreements, in particular, cross-licensing and patent pools, the result showed that these agreements are seen in the US and EU as procompetitive, but with the imposition of several restrictions to their content. In Ukraine these agreements are not addressed specifically by the legislator, but according to the general competition law they are recognized as procompetitive if they do not negatively affect the competition on the market and if they do, it is showed that they are objectively justified. At the same time, due to the absence of guidelines with respect to the practical assessment of these agreements, in the second chapter, based on the experience of the US and EU, it was proposed the test that may be adopted by the Ukrainian legislator. The purpose of it is to ensure predictability for patent owners willing to enter such types of licensing contracts as cross-licensing or patent pools.

With regard to patent tying agreements the approaches of the US and EU have terminological differences. However, they are functionally similar and require an assessment under the rule of reason. In Ukraine, as it was shown, tying agreements are assessed in the same way – they are enforceable if their conclusion is objectively justified. Based on the analysis of the US case law, it was proved that for Ukraine is highly advisable to adhere to the existent approach of assessment of general tying agreements with regard to the analysis of patent tying agreements, in particular.

In relation to the constraints imposed on freedom of the patent licensor not to contract, it was shown that both the US and EU a refusal to license may be prohibited in only in exceptional circumstances. In the US they are concerted refusal or leveraging, and in the EU the assessment is made under the essential facility doctrine, which was also initially developed in the US but was

then rejected by the Supreme Court. The relevant Ukrainian legislation was also analyzed, however the provisions regarding this issue are interspersed between patent and competition laws. The paper concluded that it is highly advisable to adopt guidelines with regard to IP licensing in order to ensure predictability and certainty in the application of current legislation. It was proposed to apply the concepts provided in the EU, since the current Ukrainian legislation resembles its approach. It was also concluded that the main achievement of the two developed jurisdictions that unquestionably requires recognition by the Ukrainian legislator is the rejection of the presumption that a patent necessarily confers market power on its owner.

Freedom of contract is a driving force of the economic development especially in the technological sphere. Consequently all three jurisdictions guarantee the protection of this right to parties of patent technology transfer licensing agreements. However being not absolute freedom of contract may be limited under exceptional circumstances. This paper provided the complex analysis of the restrictions of this right concerning patent licensing agreements by competition law of the US, EU and Ukraine. At the same time, for comprehensive understanding of the scope of freedom of parties to the patent licensing agreement in the three selected jurisdictions, the application of the restrictions, foreseen by other spheres of law, requires further research.



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