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POST EXPIRATION ROYALTIES: What Standard Should be Followed?

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Plan

Introduction

Overview of the economics of IP

Situation under EU competition law

Situation in the US

Synthesis

Proposal

Economics of IP

- Information is worth 0 if disclosed ∞ if secret
- Information non-excludable & non-rival
- Patent creates exclusive right, trades of static inefficiencies against dynamic efficiencies
- Issue is to strike the right balance

Economics of IP (2)

- Too broad patent larger deadweight loss
- Duration less damaging to society
- Depends on the market
- In relation to cumulative inventions duration damaging
- Overall 20 years is a too long maximum

ISSUE

- Contractually extending the duration of IP rights may not be in the best interest of society
- Extends the duration of static inefficiencies and negative impact on dynamic efficiencies

Post expiration royalties obligations under EC Competition

- TTBER does not directly deal with the issue
- Restrictions on the licensee's ability to exploit its own technology or to carry out R&D 4(1)(d), 5(2)
- Non-challenge clause 5(1)(c)
- TTGuidelines imply that post expiration royalties are unlawful

Post expiration royalties obligations under EC Competition

« *In such a situation restrictions on the licensee's use of his own technology or on research and development are normally considered to be restrictive of competition and not to satisfy the conditions of Article 81(3). For instance, an obligation on the licensee to pay royalties not only on the basis of products it produces with the licensed technology but also on the basis of products it produces with its own technology will generally limit the ability of the licensee to exploit its own technology and thus be excluded from the scope of the block exemption »*

Post expiration royalties obligations under US Antitrust?

- 1964 Brulotte v. Thys case
 - « *a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se* »
- Reasoning based on the Constitution and the purpose of patent law
- Then other circumstances considered, (difference from sale, no assignment or removal)

Post expiration royalties obligations under US Antitrust?

- Based on patent misuse doctrine, not antitrust
- Seems close to the economics of IP
- Because of analogy to tying, per se holding of Brulotte criticised (Chicago school)
- Gap between patent and misuse bridged over time (last Independent Ink)

Discussion

- Two very different approaches (change in the US, interpretation in the EU)
- Issues are the standard of illegality and the underlying theory
- One cannot generally admit or generally prohibit post expiration royalties
- Workable standard
- EC rationale closer to the reality of R&D.
Preserving the competitive pressure for innovation

Proposal

- Presumption that post expiration royalties unlawful
- Not rebuttable in relation to sectors where dynamic efficiencies depend on duration (cumulative innovation)
- Can be rebutted if competitive product existed at time of execution