TRADEMARK and ANTITRUST LAW

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Role of Antitrust

• To ensure that certain business practices or transactions do not cause *consumer harm*.

• Reflects public policy that competition benefits consumers by ensuring:
  – lower prices
  – increased output
  – incentive to innovate

• Protects competition not competitors
Key Antitrust Statutes

- Sherman Act Section 1
- Sherman Act Section 2
- Clayton Act Section 7
- FTC Act Section 5
Antitrust Standards

- *Per se* standard -- Practice is anticompetitive on its face; anticompetitive effects are *presumed*.

- Rule of Reason -- Must prove anticompetitive effects with *detailed economic analysis*.
**Sherman Act § 1 -- Types of Claims**

*Per Se Offenses*

- Horizontal Price Fixing
- Market Allocation Schemes
- Vertical Resale Price Maintenance
- Hybrid Per Se Categories (requires some showing of market effects)
  - Some Group Boycotts
  - Some Tying Arrangements
**Sherman Act § 1 -- Types of Claims**

**Rule of Reason Offenses**

- Maximum resale price maintenance
- Vertical Non-Price Restraints
  - Exclusive Territories
  - Exclusive Dealing
- Most Vertical Restraints are now analyzed under the rule of reason
**Sherman Act § 2 - Monopolization**

- A monopoly in and of itself is not illegal.
- Acquiring monopoly power by being better is lawful.
- Acquiring or maintaining monopoly power via exclusionary means is illegal.
- Attempting to acquire monopoly power via exclusionary means is illegal.
Sherman Act § 2 -- Types of Claims

- What is Monopoly power?
  - Power to control price in a relevant market
  - Power to reduce output in a relevant market
  - Power to exclude rivals in a relevant market

- What is exclusionary or anticompetitive conduct?
  - Conduct that makes no business sense other than its ability to acquire or maintain market power
**Sherman Act § 2 -- Types of Claims**

- Acquiring or maintaining monopoly power by exclusionary means
- Attempt to monopolize
  - Specific intent to monopolize
  - overt acts
  - dangerous probability of monopolization
- Conspiracy to monopolize
- Monopoly leveraging -- virtually dead, but alive in the Second and Sixth Circuits
**Clayton Act § 7**

- Prohibits mergers that create or enhance or facilitate the exercise of market power in a relevant market.
  - Forward looking analysis -- incipiency standard

- Merger cannot “substantially lessen competition” in a relevant market.
  - Trademarks are “assets” within meaning of Section 7
DOJ/FTC GUIDELINES

• 1995 DOJ/FTC Guidelines for the Licensing of Intellectual Property
  – IP should be treated like other forms of property under the antitrust laws
  – IP rights do not necessarily create market power in a relevant antitrust market
  – licensing is generally pro-competitive
**Sherman Act § 2 - Obtaining a Trademark**

- When Can Obtaining a Trademark Violate Section 2?
  - When fraudulently registered
  - Impropriety defined by Trademark Law
  - Other elements of Section 2 violation must be present
Trademark Acquisitions

• When can acquiring a trademark violate the antitrust laws?
  – IP acquisitions can violate Section 2 of the Sherman Act and Section 7 of the Clayton Act
  – Must show monopolization or dangerous probability of monopolization for Section 2 claim
  – Must show threatened substantial lessening of competition for Section 7 claim
Sherman Act § 2: Enforcing IP Rights

• When can a firm violate the antitrust laws by attempting to enforce its IP rights?
  – If enforcement is a “sham” it can violate Section 2 of the Sherman Act
  – If “sham” enforcement is done collectively it can violate Section 1 of the Sherman Act
Sherman Act § 2: Enforcing IP Rights

• Basic Rule for Sham Litigation: *Professional Real Estate Investors*
  
  – “suit must be objectively baseless … no reasonable litigant could realistically expect success on the merits” and
  
  – Suit must conceal an attempt to harm rivals
Sherman Act § 2: Enforcing IP Rights

• When wrongful
  – action based on fraudulently obtained IP rights
  – action based on valid IP rights that are known to be unenforceable
  – action based on valid IP rights where infringement plaintiff knew there was no infringement
  – action based on clearly incorrect legal theory
  – virtually all successful antitrust cases for improper enforcement of IP rights arise in context of patents
    • enforcing trademark rights usually is lawful
Sherman Act § 2: Enforcing IP Rights

• Does the immunity conferred by *Professional Real Estate Investors* extend to certain pre and post-litigation conduct?
  – Threats to enforce IP: Yes
  – Publication of infringement in the marketplace: Probably Yes
  – Threats and publication where litigation is never initiated: Maybe Not.
  – Settlements: Open question, probably not
**Sherman Act § 2: Refusals to Deal**

- Can the owner of a lawfully-acquired trademark ever violate Section 2 of the Sherman Act by refusing to license?
  - Most authorities say no
  - FTC may use Section 5 of the FTC Act to fill the “gap”
**Sherman Act § 2: Refusals to Deal**

- Recent Case Law & Enforcement Activity
  - *Data General (1st Cir.)* - lawful copyright creates rebuttable presumption that refusal was lawful
  - *Image Technical (9th Cir.)* - followed Data General, found the presumption rebutted
  - *Intel*
  - *Xerox* - refusal to license immune from antitrust, with three exceptions
    - Walker Process claim (ie. IP right was fraudulently obtained)
    - sham litigation
    - illegal tying
**Sherman Act § 2: Refusals to Deal**

- Problems with Xerox
  - rule might immunize refusals to sell products that might include trademark
  - rule might immunize refusals to sell/license when the IP covers a small component of a larger product
  - rule might prevent courts from determining whether refusal to deal was part of a conspiracy
  - 3 exceptions do not cover the scenarios where a refusal to deal was done with the purpose and effect of harming competition
**Sherman Act § 1**

- Greater tolerance for restraints involving IP
  - Most IP restraints have an ancillary character
  - Licenses are vertical restraints
- Trademark licenses can impose controls to protect the goodwill or the quality of the mark
Sherman Act § 1

- Key Question: Does the license have a horizontal aspect?
  - Would the parties to the agreement have been actual or likely potential competitors in the absence of the license
  - If license is purely vertical
    - IP creates no additional complications for defendants
    - IP often provides compelling justifications
    - tying claims may be a concern
Sherman Act § 1: Licenses Affecting Price

- Price of the license does not raise antitrust concerns
- What if license requires the licensee to sell at prices set by licensor?
  - May be permissible in limited circumstance if price restraint is necessary to protect the quality or goodwill of the trademark
Sherman Act § 1: Trademark Licenses Affecting Price

• When restraints on price may be permitted
  – licensor promotes licensee’s trademarked product and incorporates a resale price in promotional campaign
  – Trademark itself dictates the price
  – Royalty, in effect, imposes a minimum price

• Outside of these limited exceptions price fixing is prohibited in trademark context
**Sherman Act § 1: Market Allocation Agreements**

- Licenses that divide markets among licensees can be per se unlawful
- Applies to product, customer or territorial divisions
- Such licenses may be permissible if reasonably related to maintaining quality control or goodwill of the trademark
**Sherman Act § 1: Quantity & Field of Use Restrictions**

The following restrictions are usually upheld if reasonably related to maintaining quality control or goodwill of trademark:

- Field of Use and Customer Restrictions
- Restrictions on use of trademark to specified percentage of total sales
- Specifications on the trademarked goods
Sherman Act § 1: Exclusive Dealing

• Can licensor condition its license or sale of trademark on agreement not to purchase competing goods?
  – Yes, if sufficient percentage of market is available to competitors
  – Yes, if exclusive is easily terminated
  – Yes, if efficiencies outweigh possible harm to competition
Sherman Act § 1: Tying

• Background
  – Early Sup. Ct. cases held that market power can be presumed from intellectual property rights
  – Courts increasingly examine facts to determine whether IP rights confer economic (market) power
  – Licensor’s general ability to impose restrictions on use of trademark does not extend to tying
  – Most courts currently refuse to infer market power from trademark
**Sherman Act § 1: Tying**

- In trademark tying cases key question is whether distinct products element is satisfied

- Product origin trademarks and the underlying product are single products, and thus, cannot be challenged as illegal tying arrangements

- Business format franchise systems may be tying arrangements that raise antitrust issues
**Sherman Act § 1: Tying**

• Anti-competitive Effects in Tied Product Market
  – Supreme Court decisions suggest that de minimus foreclosure of commerce is sufficient
  – lower courts are mixed, many Circuits now require anti-competitive effects in tied product market
  – IP Guidelines require an adverse effect on competition
  – efficiency justifications with trademark tying arrangements may be available
    • maintaining product standards