

January 15, 2021

DOJ Favorably Reviews University Patent Pool

Novel, Non-SEP Patent Pool Formed by 15 Leading Research Universities, Advised by Sullivan & Cromwell, Receives Favorable Business Review from DOJ

SUMMARY

On January 13, 2021, the Antitrust Division of the U.S. Department of Justice (“Division”) issued a favorable business review letter to the University Technology Licensing Program (“UTLP”)—a patent pool formed by 15 leading research universities in the United States to license patents in multiple physical science technologies, starting with (i) autonomous vehicles, (ii) connectivity / Internet of Things, and (iii) large-scale data analysis (*i.e.*, “Big Data”).¹ The letter marks the Division’s first review of a patent pool that was not limited to Standard Essential Patents (“SEPs”). In its analysis, the Division considered potential competition issues newly raised by a non-SEP pool, and favorably reviewed the mechanisms that UTLP put in place to mitigate potential concerns. The Division also recognized that any competition concerns presented by the UTLP structure were outweighed by the pro-competitive goals that the program serves and the potential benefit to the public, including increased investment in research by leading universities to support innovation and their faculty.

BACKGROUND

Since 1997, the Division has issued several favorable business review letters to SEP patent pools. In that context, patent owners exclusively license SEPs to an administrator that offers a single pool-wide license to the market. The Division’s historical review of SEP pools relied heavily on the fact that an SEP, by definition, has no competitive substitutes because each SEP is necessary to practice the standard (*e.g.*, a 4G or 5G wireless connectivity standard), and a licensee using the standard must license all SEPs.

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UTLP presented a fundamentally different structure, which offers non-SEP complementary patents that likely will be useful to a technology implementer that is hoping to develop an innovative new product or service (e.g., a commercially available autonomous vehicle).

BUSINESS REVIEW LETTER

In the Division's January 13, 2021 business review letter, the Division explained that "UTLP's structure differs from prior [SEP] pools in that it is not formed around an industry standard."² Additionally, the Division explained that UTLP's structure differed from precedent because in SEP pools "the licensors committed to license the pools non-exclusively," but UTLP members contribute patents to UTLP via an exclusive license.³

Even though the use of an exclusive license diverged from past practice, the Division found that it was appropriate in the context of UTLP. For SEP pools, non-exclusive licenses are viewed favorably because non-exclusivity permits individual licensors to license independently from the SEP pool, where the SEP pool offers only a pool-wide license (*i.e.*, there is no option to license individual patents or subsets of patents).⁴ The Division recognized, however, that an exclusive license was necessary in the case of UTLP to serve its public interest goals. UTLP's efforts to establish a market for university intellectual property would be vulnerable to free-riding if a member could use the infrastructure of UTLP to connect with licensees but then bypass UTLP when it came time to license the technology.⁵ Because of this risk, the Division explained that exclusive licensing "can be procompetitive when the arrangement is necessary to prevent free-riding on innovation."⁶

The Division also considered innovative features of UTLP that reduce the anticompetitive effects that might arise when patents are pooled together. The Division indicated that "menu" licensing—which would allow a licensee to select certain individual patents or subsets of patents for a license—mitigated "tying" concerns because a company "does not have to commit to licensing 'more technology than they need.'"⁷ Similarly, the Division found that UTLP's novel "safety valves" provided additional comfort because—although UTLP was designed to exclude competitive substitute patents—if competitive substitutes were inadvertently included in UTLP's portfolios, UTLP contractually would have no ability to leverage licensing of combined substitutes. If patents are shown to be substitutes, a licensee "may license both patents but it will only pay for one," or alternatively seek to license each substitute patent in a competitive process.⁸ Through these mechanisms, the Division found that UTLP "disincentivize[d] the inclusion of substitutes," and implemented sufficient safeguards to keep substitute patents out of the UTLP.⁹ The Division's favorable review of this first-of-its-kind contractual solution to potential competition issues presents a solution to be considered in other contexts.

The Division's conclusion was summarized as follows:

UTLP has the potential to commercialize university inventions that may not otherwise have been licensed or implemented. Taking into account

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this significant benefit to UTLP's potential licensors, sublicensees, and the public, and considering the technologies at issue, UTLP's current scale and scope, the efficiencies associated with the program, and potential harms, the Department concludes that UTLP is unlikely to harm competition.¹⁰

IMPLICATIONS

The Division's favorable review of UTLP provides several interesting insights.

First, the Division endorsed a view that infringement of intellectual property rights presents a public interest problem, especially when free-riding means that research institutions, including institutions funded by taxpayer resources, will not be fairly compensated for their commercially valuable innovations.

Second, the Division endorsed a view that a benefit produced by collective action to solve a public interest problem may outweigh competition concerns (which may arise at least based on a theoretical analysis).

Third, the Division demonstrated flexibility in analyzing non-traditional patent pool structures, and was receptive to novel contractual safeguards that would ensure that even theoretical competition issues would unlikely become a reality.

Although the Division expressly limited its decision to the University context, and to the three technology areas identified by UTLP (*i.e.*, autonomous vehicles, Internet of Things, and Big Data), the nuanced analysis that the Division employed may signal receptivity to non-traditional methods of licensing that make it possible to bring intellectual property to market in order to serve the public interest.

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ENDNOTES

- 1 UTLP and its member universities were represented by Sullivan & Cromwell LLP. The 15 members of UTLP are expected to be Brown University; California Institute of Technology; Columbia University; Cornell University; Harvard University; Northwestern University; Princeton University; State University of New York at Binghamton; University of California, Berkeley; University of California, Los Angeles; University of Illinois; University of Michigan; University of Pennsylvania; University of Southern California; and Yale University.
- 2 Response to UTLP's Request for Business Review Letter, Michael F. Murray, Acting Principal Deputy Ass't Att'y Gen., Antitrust Div., U.S. Dep't of Justice at 5 (Jan. 13, 2021), <https://www.justice.gov/atr/page/file/1352961/download>.
- 3 *Id.* at 7.
- 4 *Id.* ("The Department has viewed non-exclusive licensing that allows licensors to offer a bilateral license outside the pool as procompetitive because it allows licensors to compete with the pool license.").
- 5 *Id.* at 8–9.
- 6 *Id.* at 8.
- 7 *Id.* at 12.
- 8 *Id.* at 11.
- 9 *Id.* at 11–12.
- 10 *Id.* at 1.

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