

# Attention to anti-trust concerns



The intersection of licensing and anti-trust law is as relevant today as it was forty years ago. Back then, courts and legal commentators were suspicious that licensing could be used as a means to engage in anti-competitive commercial activities, and now it's used to pre-empt unlawful restraints of trade.

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Intellectual property and licensing lawyers in the United States have had to pay particular attention to anti-trust issues since the 1970s. At that time, licensing was an emerging field. As a result, the US Department of Justice compiled a list of prohibited acts for IP Licensing, including restricting the licensee's ability to deal in products outside the patent, royalty provisions not reasonably related to licensee's sales, etc.

Over time, attitudes towards intellectual property, in general, and licensing, in particular, have shifted. Today, licensing is generally accepted and the licensing industry has grown to become an important component of worldwide commerce. Indeed, an annual study by the International Licensing Industry Merchandiser's Association reports that in the year 2009 licensors generated more than \$ 5 billion in royalty income in the United States alone.

## LEGAL LANDSCAPE EVOLVED

The legal landscape for anti-trust and licensing has evolved to a point where licensing is now generally accepted so long as the relationship does not result in any type of anti-competitive activity. In 1995, the U.S. Department of Justice issued "Anti-trust Guidelines for the Licensing of Intellectual Property." The Department of Justice lauded the merits of intellectual property and stated that "the intellectual property laws and the anti-trust laws share the common purpose of promoting innovation and enhancing consumer welfare." In particular, the "intellectual property laws provide incentives for innovation and its dissemination and commercialisation by establishing enforceable property rights for the creators of new and useful products, more efficient processes and original works of expression." The Department of Justice "recognised that intellectual property allows firms to combine complementary factors of production and is generally precompetitive." At the same time, the Department of Justice also highlighted areas of intellectual property licensing that would still give rise to

anti-trust concerns, such as tying the license to the purchase of goods not covered by the agreement, dividing markets among firms that would have competed using different technologies; and, of course, any aspect of price-fixing.

## AMERICAN NEEDLE, INC VS. NATIONAL FOOTBALL LEAGUE

The permissive modern legal landscape for anti-trust and licensing makes the US Supreme Court's decision in the case of American Needle, Inc. vs. National Football League, et al. all the more interesting and important from a licensing perspective, particularly with respect to the level of scrutiny afforded to exclusive licensees. The National Football League is comprised of 32 different teams, and each team has its own name, colour, and logo, and owns all related intellectual property rights. Yet, the league acts with one voice with respect to licensing through its NFL Properties entity. Beginning in 1963, NFL Properties granted non-exclusive licenses to many different vendors, including American Needle, to produce and sell apparel bearing the insignias of NFL teams. In 2000, NFL Properties changed the nature of its licensing relationships and instead decided to grant an exclusive apparel license to Reebok for ten years. Thereafter, American Needle sued the NFL, claiming that by granting exclusive licenses through a single entity it violated Section 1 of the Sherman Antitrust Act, which prohibits unlawful restraints of trade.

The NFL vigorously defended the suit and claimed that it was incapable of conspiring to commit an anti-trust violation because it acted as a single entity for



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licensing purposes. All of the major professional and college sports leagues in the United States submitted briefs in support of the NFL. At the end of the day, the Supreme Court sided with American Needle in a unanimous 9-0 decision. The Court did not find that the NFL actually committed an anti-trust violation. Rather, the Court rejected the NFL's argument that granting an exclusive license via a single entity was immune from anti-trust concerns. The Court found that the NFL essentially is comprised of 32 separate and distinct corporations, and that their interest in licensing trademarks is not necessarily aligned. The Court sent the case back to a lower court to decide whether the NFL's licensing action violated the "Rule of Reason," a doctrine dating back almost 100 years that prohibits unreasonable restraints of trade. A jury will likely decide the underlying case at some point next year.

## LESSONS LEARNT

What are the lessons from American Needle? American Needle was perhaps the most important decision related to sports licensing ever decided by an American court. The case has broad implications with respect to how licensing deals will be structured in the future between professional and college sports teams and manufacturers. More fundamentally, the lesson is that licensing practitioners should never ignore anti-trust concerns, particularly when an exclusive license is an issue. An analysis of whether the exclusive license could conceivably violate anti-trust law should always be considered.

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