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I. Introduction

Cooperative agreements between companies are becoming an increasingly attractive means of developing and commercializing intellectual property. This is particularly true in high-technology industries because the costs and risks of all stages of producing and marketing a product entail unique concerns.[1] While many of the risks inherent in high-technology businesses can be reduced by forming joint ventures,[2] at least one added risk is encountered: the risk of violating antitrust laws. Currently, legislators, economists, and legal scholars debate the chilling effect that federal antitrust laws may have on a company's decision of whether to form a joint venture.[3]

Antitrust policies have been in a state of flux for the last fifteen

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1. *See, e.g.*, Jorde & Teece, *Antitrust and International Competitiveness: Acceptable Cooperation Among Competitors in the Face of Growing International Competition*, 58 ANTITRUST L.J. 529, 530-40 (1989).

2. There are a variety of ways to define a "joint venture." For purposes of this discussion, I have adopted the description provided in Brodley, *Joint Ventures and Antitrust Policy*, 95 HARV. L. REV. 1521 (1982). There, the author characterizes a joint venture as:

> [A]n integration of operations between two or more separate firms, in which the following conditions are present: (1) the enterprise is under the joint control of the parent firms, which are not under related control; (2) each parent makes a substantial contribution to the joint enterprise; (3) the enterprise exists as a business entity separate from its parents; and (4) the joint venture creates significant new enterprise capability in terms of new productive capacity, new technology, a new product, or entry into a new market. (citations omitted)

Id. at 1526.

Cooperative arrangements other than formal joint ventures would share many of these same antitrust concerns. In Porter & Fuller, *Coalitions and Global Strategy*, in COMPETITION IN GLOBAL INDUSTRIES 315 (M. Porter ed. 1986), the authors prefer the use of the term "coalition" to describe "formal, long-term alliances between firms that link aspects of their businesses but fall short of a merger. They include joint ventures, licensing agreements, supply agreements, marketing agreements, and a variety of other arrangements."

"Intellectual property joint ventures" are those cooperative arrangements in which companies are developing or commercializing technology which is subject to protection under intellectual property law. Probably the most common examples are research and development or high technology production joint ventures.

3. *See, e.g.*, Blechman, *Use of Joint Ventures to Foster U.S. Competitiveness in International Markets*, 53 ANTITRUST L.J. 65, 66 (1984) (arguing that the cost of litigation alone would be enough to prevent business executives from pursuing research joint ventures); Starling, *Trade Deficit and Legislative Surplus: The New Joint Venture Legislation*, 58 ANTITRUST L.J. 671, 684 (1989) (arguing that proposed legislation may "be more relevant to the perceptions of business planners than to antitrust realities"); *American Stock Exchange Conference Speaker*, Fed. News Serv. (Fed. Info. Sys. Corp.) (Commerce & Trade Section, Oct. 15, 1990) (comments of Attorney General Dick Thornburgh supporting passage of joint production venture legislation); *CBO Finds Problems With Easing Law for Large Joint Production Ventures*, Antitrust & Trade Reg. Rep. (BNA) Vol. 59, No. 1477, at 174 (Aug. 2, 1990) (Congressional Budget Office study discusses both sides of issue); *Scholars, Industry Witnesses Dispute Need For Joint Venture Legislation*, Antitrust & Trade Reg. Rep. (BNA) Vol. 59, No. 1475, at 72 (July 19, 1990) (academicians and industry representatives debate need for additional legislation); *Antitrust Limit Voted By House*, N.Y. Times, June 6, 1990, D, at col. 6 (late ed.) (broad support for proposed joint production venture legislation).

years. For example, between 1975 and 1981, the Department of Justice completely reversed its position regarding the *per se* illegality of many patent licensing practices. What were once considered to be *per se* violations are now treated under rule of reason analyses.[4] In the 1970s and 1980s, the courts also displayed a trend toward using a rule of reason analysis in cases involving joint ventures whenever there might be a chance of procompetitive benefits.[5]

Congressional actions have also had an impact. In 1984, Congress passed the National Cooperative Research Act[6] (NCRA), which essentially codified the rule of reason approach with respect to research and development joint ventures. Additionally, several bills proposed during recent sessions of Congress have suggested that rule of reason analysis also be applied to production efforts.[7] Recently, one of those bills was passed by the House of Representatives.[8] H.R. 4611 requires that rule of reason analysis be applied to joint ventures. However, distribution, marketing and sales joint ventures are still exposed to full antitrust liability.[9]

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4. *Compare Law on Licensing Practices: Myth or Reality?*, Pat. Trademark & Copyright J. (BNA) No. 213, at A-9, 10 (Jan. 30, 1975) (comments of then Deputy Assistant Attorney General Bruce Wilson announcing the Department of Justice's "Nine No-No's of Patent Licensing," licensing acts which the Department of Justice would consider to be *per se* illegal) *with* Lipsky, *Current Antitrust Division Views on Patent Licensing Practices*, 50 ANTITRUST L.J. 515 (1981) (comments of then Deputy Assistant Attorney General Abbot B. Lipsky, Jr. individually burying each of the "nine no-no's"). It has been suggested that "Mr. Lipsky . . . came close to transforming the Nine No-No's into the Nine Yes-Yes's." Ewing, *Technology Transfers Under U.S. Antitrust Law: A Private View*, 1982 FORDHAM CORP. L. INST. 13, 25 (1982).

5. *See, e.g.*, Northwest Wholesale Stationers, Inc. v. Pacific Stationery & Printing Co., 472 U.S. 284 (1985) (member's expulsion from buying cooperative not a boycott where reason for expulsion was failure of member to follow rules necessary to maintain effective functioning of cooperative); Broadcast Music, Inc. v. Columbia Broadcasting Sys., 441 U.S. 1 (1979) (alleged price-fixing characterized as a marketing arrangement reasonably necessary to effectuate rights of members); Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977) (vertical restrictions may have procompetitive effects).

6. 15 U.S.C. §§ 4301-4305 (1984).

7. *See, e.g.*, S. 1006, 101st Cong., 1st Sess., 135 CONG. REC. S5395-96 (daily ed. May 16, 1989) (statement by Mr. Leahy) (a straightforward extension of the NCRA to include joint "manufacturing and processing of equipment and materials"); H.R. 2264, 101st Cong., 1st Sess., 135 CONG. REC. H1812 (daily ed. May 10, 1989) (amending the NCRA by striking the term "joint research and development venture" each place it appears and inserting in lieu thereof "joint research, development, or production venture"); S. 952, 101st Cong., 1st Sess., 13 CONG. REC. S5039-40 (daily ed. May 9, 1989) (designed to provide protection specifically for joint ventures involved in the research, design, development or manufacture of HDTV technology); H.R. 1025, 101st Cong., 1st Sess., 135 CONG. REC. H277 (daily ed. Feb. 21, 1989) (statement of Mr. Edwards) (an amendment to the NCRA with regard to joint ventures entered into for the purpose of producing, marketing or distributing a product, process, or service); H.R. 1024, 101st Cong., 1st Sess., 135 CONG. REC. E425-26 (daily ed. Feb. 21, 1989) (statement of Mr. Boucher) (extending the NCRA to include production joint ventures following a formal certification process); H.R. 423, 101st Cong., 1st Sess., 135 CONG. REC. E4 (daily ed. Jan. 3, 1989) (statement of Mr. Wyden) (notification providing limited damages and rule of reason standards and defining its coverage of "flexible manufacturing networks" to include joint production, marketing and distribution efforts).

8. H.R. 4611, 101st Cong., 2d Sess., 136 CONG. REC. H3099 (daily ed. Jun. 5, 1990) (statement of Mr. Brooks).

9. *Id.* at H3103 (comments of Rep. Moorhead). *See also infra* notes 84-89 and accompanying text.

These legislative measures are intended to encourage the formation of socially beneficial joint ventures. However, the guarantee of rule of reason analysis may be of little solace to potential joint venturers so long as the courts, with their limited business savvy, are given free reign to determine what is "reasonable." Until legislation is enacted which better defines the acceptable structure and behavior of a joint venture, one must carefully consider the treatment that a challenged effort might receive under a court's rule of reason analysis. This note first reviews the approach historically applied by the courts in rule of reason analyses. It then addresses the social, commercial and legislative considerations which uniquely affect rule of reason analysis for an intellectual property joint venture.

II. Analysis By the Courts

Section 1 of the Sherman Act[10] provides that every contract, combination or conspiracy in restraint of trade is illegal.[11] As is apparent from this broad language, courts were given little direction as to the enforcement guidelines to be applied. Therefore, in the early stages of antitrust jurisprudence courts developed two general approaches when evaluating an alleged violation: *per se* and rule of reason.[12] A practice is a *per se* violation of the antitrust laws if the agreement or act is of such an anticompetitive nature that it is inconceivable that there could be any offsetting procompetitive benefits. If, however, a plausible argument can be made that there are also social benefits to be gained from the anticompetitive practice, then the courts are expected to apply rule of reason analysis.

The rule of reason approach has been stated in many different ways. The Supreme Court, however, has settled on one general test: "whether the challenged contracts or acts 'were unreasonably restrictive of competitive conditions.' "[13] Obviously, this test is only marginally more helpful than the phrasing of the Sherman Act itself. Nevertheless, be-

10. 15 U.S.C. § 1 (1988).

11. *Id.*

12. *See, e.g.*, Chicago Bd. of Trade v. United States, 246 U.S. 231, 238 (1918); United States v. Addyston Pipe & Steel Co., 85 F. 271 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899).

13. National Soc'y of Prof. Eng'rs v. United States, 435 U.S. 679, 690 (1978) (quoting Standard Oil Co. of N.J. v. United States, 221 U.S. 1, 65 (1911)). *See also* F.T.C. v. Indiana Fed'n of Dentists, 476 U.S. 447, 458 (1986) (quoting Chicago Bd. of Trade v. United States, 246 U.S. 231, 238 (1918) ("[w]hether 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")); National Collegiate Athletic Ass'n v. Board of Regents of the Univ. of Oklahoma, 468 U.S. 85, 104 (1984) ("[T]he essential inquiry . . . [is] whether or not the challenged restraint enhances competition. Under the Sherman Act, the criterion to be used in judging the validity of a restraint on trade is its impact on competition."); Broadcast Music, Inc. v. Columbia Broadcasting Sys., 441 U.S. 1, 26 (1979) (Stevens, J., dissenting) (whether "the challenged policy [has] a significant adverse impact on competition"); Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36, 49 (1977) ("Under this rule, the factfinder weighs all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition.").

cause courts have applied this standard in enough cases, it is possible to distinguish acceptable practices from those which are unacceptable.

In essence, the Supreme Court standard is a balancing test which weighs the relevant anticompetitive and procompetitive elements of a challenged activity. Factors on the anticompetitive side include refusals to compete,[14] withholding information needed to make cost-based buying decisions,[15] concerted limitations of service to customers,[16] reduction of output,[17] price fixing,[18] boycotts,[19] and restrictions beyond those necessary to meet the acceptable goals.[20]

The most frequently cited procompetitive factors generally involve the creation of various efficiencies in the marketplace.[21] As a practical matter, these factors can be broken down into two types of considerations, both of which have played key roles in rule of reason analyses. First is the *motive* behind the challenged agreement or act. Second is the *scope* of the employed mechanism. For example, if a defendant can show that its motive for entering into the challenged activity was predicated on a desire to achieve some socially beneficial outcome, and that the means employed are only those which are necessary, then the likelihood is much greater that the defendant will prevail under a rule of reason analysis.[22]

The definition of a "beneficial outcome" is in itself a balancing act. It must therefore be kept in mind that even if the motive and scope are proper, if the challenged practice will produce a clearly egregious result, an antitrust violation will most likely be found.

The manner in which a court will evaluate a given joint venture under a rule of reason analysis is far from predictable. However, preventive measures can be taken. Prior to entering into a joint venture agreement, the parties should give adequate consideration to the scope of the agreement and their motives in forming the joint venture. This practice should place the venture in the best possible light if it is ever faced with antitrust charges. Therefore, in order to characterize the required level of social benefit and the nature of unreasonably excessive means, it is necessary to take a closer look at the rationale used by the courts.

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14. *See, e.g.*, F.T.C. v. Indiana Fed'n of Dentists, 476 U.S. 447, 459 (1986).

15. *See, e.g.*, *National Soc'y of Prof. Eng'rs*, 435 U.S. at 692-93.

16. *See, e.g.*, *Indiana Fed'n of Dentists*, 476 U.S. at 447.

17. *See, e.g.*, *National Collegiate Athletic Ass'n*, 468 U.S. at 117.

18. *See id.* at 107.

19. *See, e.g.*, Northwest Wholesale Stationers, Inc. v. Pacific Stationery & Printing Co., 472 U.S. 284, 290 (1985).

20. *See, e.g.*, *National Collegiate Athletic Ass'n*, 468 U.S. at 119.

21. *See, e.g.*, F.T.C. v. Indiana Fed'n of Dentists, 476 U.S. 447, 459 (1986); Broadcast Music, Inc. v. Columbia Broadcasting Sys., 441 U.S. 1, 20-23 (1978).

22. It is persuasively argued that in the absence of demonstrated market power, a joint venture would not be capable of yielding anticompetitive effects sufficient to violate antitrust laws. While never specifically applied as such by the Supreme Court, there is a growing body of circuit court authority which would add a market power threshold issue to this two-part analysis. For a thorough analysis of this issue, see Jorde & Teece, *Innovation, Cooperation and Antitrust*, 4 HIGH TECH. L.J. 1, 41-46 (1989).

A. *Motive and Scope in Supreme Court Analyses*

In *United States v. Penn-Olin Chemical Co.*,[23] the Court was asked to consider whether a joint venture agreement between two chemical companies violated section 7 of the Clayton Act.[24] At issue was the probability of whether the joint venture would result in a substantial lessening of competition. The Court recognized the commercial realities of the 1940s and 1950s which led to the growth of joint ventures as viable business entities.

> [The] economic significance [of joint ventures] has grown tremendously in the last score years, having been spurred on by the need for speed and size in fashioning a war machine during the early forties. Postwar use of . . . joint projects led to the spawning of thousands of such ventures in an effort to perform the commercial tasks confronting an expanding economy.[25]

The Court cautioned, however, that "[t]he joint venture, like the 'merger and the conglomeration,' often creates anticompetitive dangers."[26] Finding no proof of "[s]pecific intent to use Penn-Olin as a vehicle to eliminate competition,"[27] the Court remanded the case to the trial court for an assessment of the possibility of a substantial lessening of competition.

The Court's allusion in *Penn-Olin* to the importance of motive in rule of reason analysis became more significant fourteen years later in the next major Court statement addressing the issue. In *National Society of Professional Engineers v. United States*,[28] the Court's analysis of motive demonstrated that even seemingly legitimate business incentives may not avoid antitrust liability if the incentive could also be reasonably interpreted as being anticompetitive by design. At issue was a canon of ethics promulgated by the National Society of Professional Engineers (NSPE). The canon required, in part, that "[t]he Engineer will not compete unfairly with another engineer by attempting to obtain employment

23. 378 U.S. 158 (1964).
24. 15 U.S.C. § 18 (1988).
25. *Penn-Olin*, 378 U.S. at 169.
26. *Id.*
27. The Court suggested the following criteria for a trial court to use when assessing the probability of a substantial lessening of competition:

> [T]he number and power of the competitors in the relevant market; the background of their growth; the power of the joint venturers; the relationship of their lines of commerce; the competition existing between them and the power of each in dealing with the competitors of the other; the setting in which the joint venture was created; *the reasons and necessities for its existence*; the joint venture's line of commerce and the relationship thereof or that of its parents; the adaptability of its line of commerce to noncompetitive practices; the potential power of the joint venture in the relevant market; an appraisal of what the competition in the relevant market would have been if one of the joint venturers had entered it alone instead of through Penn-Olin; the effect, in the event of this occurrence, of the other joint venturer's potential competition; and such other factors as might indicate potential risk to competition in the relevant market.

Id. at 177 (emphasis added). On remand, the trial court dismissed the complaint without reaching an analysis of whether the joint venture might result in a lessening of competition. United States v. Penn-Olin Chem. Co., 246 F. Supp. 917 (D. Del. 1965).
28. 435 U.S. 679 (1978).

or advancement or professional engagements by competitive bidding . . . ."[29] The purpose of the canon was to encourage competition between engineering firms solely on the basis of technical qualifications, thereby providing the public with the highest possible quality of services. According to the NSPE, the quality of engineering services would inevitably suffer as a result of attempting to achieve the lowest possible price. Because many of these services had a direct impact on public health, safety and welfare, the cost savings would be offset by the possibility of devastating results.[30]

In its majority opinion, the Court strayed from a consideration of the legitimacy of the canon. Instead, the Court focused on the increased burden placed on the purchaser who wishes to make price comparisons.[31] The Court characterized the NSPE canon as "an absolute ban on competitive bidding"[32] and as "doing away with competition"[33] despite the retention of some price-based competition[34] and the availability of quality-based competition. Even though the NSPE advanced an ostensibly legitimate claim of interest in public safety, the Court found that the NSPE canon had the intended *purpose* of maintaining price levels.[35]

Justice Blackmun, in his concurrence, offered a *scope*-based rationale for finding a Sherman Act violation, suggesting that the NSPE's rule was "grossly overbroad."[36] Perhaps recognizing the Court's limited ability to evaluate the commercial realities of practicing a given profession, he warned that "there may be ethical rules which have a more than *de minimis* anticompetitive effect and yet are important in a profession's proper ordering."[37]

A challenged agreement involving intellectual property came before

29. *Id.* at 683 n.3 (quoting section 11 of the Society's Code of Ethics, adopted in July, 1964).

30. *Id.* at 685. The author, having worked for many years as an international engineering consultant, has had first-hand experience with the legitimate value of such a canon. It is not uncommon for purchasers of engineering services to base decisions solely on price. Many engineering services possess inherent public safety aspects. Therefore, a decision based solely on cost could result in serious adverse consequences. To avoid this, many *purchasers* require decisions to be based on qualifications rather than cost. Purchasers often require a two-part bidding process. The first decision, as to which firm will be selected, is based on a comparison of the bidding firms' qualifications. Only after making this choice does the purchaser open the cost proposal to determine whether it can afford the selected firm. The Court was aware that even the federal government, as well as foreign governments, has used this method for selecting engineers. *Id.* at 694 nn.20-21.

31. *Id.* at 695.

32. *Id.* at 692.

33. *Id.* at 696.

34. Even under the canon's guidelines, the NSPE had to be aware that purchasers of engineering services generally do a considerable amount of informal reputation-based "price-shopping" prior to asking for bids. A firm's reputation for over-pricing services would quickly lead to a lack of requests for bids. Nothing in the canon prevents a firm from charging less for its services. It simply is prevented from making this information available at the outset of the bidding process.

35. 435 U.S. at 693 (emphasis added).

36. *Id.* at 699 (Blackmun, J., concurring).

37. *Id.* at 700.

the Court in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*[38] To facilitate the marketing of massive quantities of copyright-protected music, two organizations, Broadcast Music, Inc. (BMI) and the American Society of Composers, Authors and Publishers (ASCAP), were formed. BMI and ASCAP made the copyright music available to subscribers by offering a "blanket license" whereby a subscriber paid for the right to use *all* of the material controlled by that organization. Thus, an owner of copyrighted music who joined one of these organizations could be relieved of the impossible task of monitoring the widespread use of his materials. Columbia Broadcasting System (CBS) complained that this blanket license amounted to "illegal price fixing, an unlawful tying arrangement, a concerted refusal to deal, and a misuse of copyrights."[39]

The Court was concerned primarily with whether the arrangement was a *per se* violation of the Sherman Act. However, in making this determination, it applied a sort of "mini-rule of reason" analysis to the facts. The Court held that if the marketing arrangement is reasonably necessary to protect the rights of individual owners under the copyright laws, there is no violation of the Sherman Act.[40] The Court remanded the case to the Second Circuit, which found that because "the blanket license has no anti-competitive effect at all,"[41] there was no need to reach the question of whether the arrangement was an unreasonable restraint on trade.

In his dissent, Justice Stevens argued that the Court should have avoided the remand by making its own rule of reason inquiry.[42] Having established that the practice had an anticompetitive effect,[43] he suggested that "[t]he current state of the market cannot be explained on the ground that it could not operate competitively, or that issuance of more limited—and thus less restrictive—licenses by ASCAP is not feasible."[44] Justice Stevens' suggestion that music-performing rights could be negotiated on a different basis[45] reflects a concern others have expressed about the use of less restrictive alternatives in a rule of reason analysis.[46] Specifically, there is almost always a possibility, especially in hindsight, of creating an equally effective, less restrictive arrangement.

The fact that the ASCAP and BMI arrangements involved intellectual property rights also was of concern to Justice Stevens. Recognizing the fact that antitrust rule of reason analysis requires close scrutiny of

38. 441 U.S. 1 (1979).

39. *Id.* at 6.

40. *Id.* at 19.

41. Columbia Broadcasting Sys. v. ASCAP, 620 F.2d 930, 934 (2d Cir. 1980).

42. *Broadcast Music, Inc.*, 441 U.S. at 26 (Stevens, J., dissenting).

43. *Id.* at 29-33.

44. *Id.* at 33.

45. *Id.*

46. Jorde & Teece, *supra* note 22, at 48 ("The problem with this form of analysis is that it can become a 'trump card' in the hands of lawyers and economists who argue that the benefits of a cooperative arrangement could have been achieved with less restraint on trade.").

"great aggregations of economic power,"[47] he noted that the privileges conferred by patents and copyrights should be strictly limited to the scope of the statutory grant.[48]

Four years later, the Court again addressed the issue of motive and scope in *National Collegiate Athletic Association v. Board of Regents of the University of Oklahoma*.[49] This case involved an analysis of the National Collegiate Athletic Association (NCAA) plan for televising its members' football games. The NCAA was concerned that the growth of television coverage might reduce attendance at the live events. In order to eliminate this problem, the NCAA implemented a plan which restricted the total number of football games which could be televised, as well as the number of games which an individual member team could agree to televise each year. Several of the teams filed for an injunction when the NCAA tried to prevent them from forming a separate organization within the NCAA for negotiating television contracts.

After determining that a rule of reason analysis was appropriate, the Court stated that the anticompetitive behavior of the complaining teams "place[d] upon petitioner a heavy burden of establishing an affirmative defense which competitively justifies this apparent deviation from the operations of a free market."[50] In attempting to establish this defense, the NCAA put forth several justifications for its actions, including improved marketing of broadcast rights,[51] protecting live attendance,[52] and maintaining a competitive balance among teams.[53]

The Court dealt with each of these claimed motives separately. It first held that the record did not support the claimed procompetitive marketing effects of the cooperative joint venture.[54] Because the NCAA had apparently inferred that procompetitive behavior naturally followed from the formation of joint ventures, the Court was quick to point out that "joint ventures have no immunity from the antitrust laws . . . ."[55] It went on to note, however, that "a joint selling arrangement may 'mak[e] possible a new product by reaping otherwise unattainable efficiencies.' "[56]

The NCAA's second claim, that the plan was intended to protect live attendance, was also met with a hostile response from the Court. Although initially the plan probably *was* conceived to protect gate attendance, the Court agreed with the lower court's finding that the plan had since "evolved in a manner inconsistent with its original design."[57]

47. *Broadcast Music, Inc.*, 441 U.S. at 37 (Stevens, J., dissenting).
48. *Id.*
49. 468 U.S. 85 (1984).
50. *Id.* at 113.
51. *Id.*
52. *Id.* at 115.
53. *Id.* at 117.
54. *Id.* at 115.
55. *Id.* at 113.
56. *Id.* (quoting Arizona v. Maricopa County Medical Soc'y, 457 U.S. 332, 365 (1982)(Powell, J., dissenting)).
57. *Id.* at 116.

A short excerpt from the opinion indicates that the Court had no intention of accepting this justification for the plan:

> The NCAA's argument that its television plan is necessary to protect live attendance is not based on a desire to maintain the integrity of college football as a distinct and attractive product, but rather on a fear that the product will not prove sufficiently attractive to draw live attendance when faced with competition from televised games. At bottom, the NCAA's position is that ticket sales for most college games are unable to compete in a free market. The television plan protects ticket sales by limiting output—just as any monopolist increases revenues by reducing output.[58]

The Court dealt with the NCAA's final argument, that the plan would help maintain a competitive balance among the teams, by finding that the rule was too broad. Although noting that some cooperation is necessary to preserve the competitive nature of college sports, the Court found that restraints on football telecasts simply did not "fit into the same mold."[59] In fact, it was clear that other regulations promulgated by the NCAA were not only more effective in achieving the desired goal, they were also "clearly sufficient."[60]

The issue of improper motive was central to finding a violation of section 1 of the Sherman Act in *Federal Trade Commission v. Indiana Federation of Dentists*.[61] In this case, the Indiana Federation of Dentists (Federation) had initiated a policy whereby members were asked to refuse to provide insurance companies with copies of patients' dental X-rays. Insurance companies had been using these records to verify the necessity of the dental services which were being provided.

The Federation claimed that the motivation behind instituting this policy was that "the provision of X-rays might lead the insurers to make inaccurate determinations of the proper level of care and thus injure the health of the insured patients . . . ."[62] The FTC, however, had provided the Court with the text of a presentation made to dentists by a founder of the Federation. Excerpts revealed that the true "motives underlying the dentists' resistance to the provision of X-rays for use by insurers"[63] were of a less honorable and more pecuniary nature.[64]

Obviously, a court's analysis[65] of the commercial justification of any

58. *Id.* at 116-17 (footnotes omitted).

59. *Id.* at 117.

60. *Id.* at 119.

61. 476 U.S. 447 (1986).

62. *Id.* at 452.

63. *Id.* at 450 n.1.

64. Included in the presentation were statements such as "We are fighting an economic war where the very survival of our profession is at stake" and "The name of the game is money. The government and labor are determined to reduce the cost of the dental health dollar at the expense of the dentist." *Id.*

65. The lower courts have generally adhered to the decision-making procedures of the Supreme Court. Motive and scope considerations are perhaps even more prevalent in these courts, where it is often easier to determine the legitimacy and necessity of claimed justifications. *See, e.g.*, Reazin v. Blue Cross and Blue Shield of Kansas, 899 F.2d 951, 965

proffered motives is colored by a certain amount of bias with respect to what it believes is *really* taking place.[66] Because all contracts have some anticompetitive characteristics[67] they contain within themselves the necessary ammunition to refute an argument for procompetitive characteristics. The Court used this ammunition in *Indiana Federation of Dentists*. Once it established the lack of a legitimate motive, the Court continued through a full-blown rule of reason analysis, easily finding fault with any claimed justifications for the policy.

III. SOCIAL, COMMERCIAL AND LEGISLATIVE CONSIDERATIONS IN INTELLECTUAL PROPERTY JOINT VENTURES

The commercial realities faced by companies developing intellectual property raise considerations which have yet to be addressed by the courts using rule of reason analyses. The relative freedom and flexibility of the small entrepreneur provides an effective environment for the conception of innovative technology. The costs and infrastructure required to bring this technology to the marketplace, however, demand the resources of large multinational corporations.[68] In addition to looking to small entrepreneurs for innovative ideas, large corporations may also need to look to each other for the cross-pollination necessary to successfully develop and commercialize intellectual property.

The literature is replete with discussions of the social and commercial justifications for forming joint ventures regarding the development and commercialization of intellectual property.[69] Although the *motives*

(10th Cir. 1990) ("[D]efendant's conduct was undertaken with the intent and effect of preventing providers from contracting with other insurance companies. At issue in this case is not a pristine 'agreement. . . .' " (quoting Reazin v. Blue Cross, 663 F. Supp. 1360, 1412 (D. Kan. 1987))); Wilk v. American Medical Ass'n, 895 F.2d 352, 361 (7th Cir. 1990) ("Getting needed information to the market is a fine goal, but the district court found that the AMA was not motivated solely by altruistic concerns. Indeed, the court found that the AMA intended to 'destroy a competitor' . . . . "); Goodman v. Acme Markets, Inc., Civil Action No. 88-6447 (E. D. Pa. April 21, 1989) (1989 U.S. Dist. LEXIS 4260) ("These are reasonable limitations calculated to insure the competitiveness of Acme's store."); Verson Wilkins Ltd. v. Allied Prod. Corp., 723 F. Supp. 1 (N.D. Ill. 1989) ("A court must first determine . . . the legitimate reasons behind the restraint [in order] to survive the rule of reason.").

66. A legitimate motive will not necessarily preclude a finding of illegality, but it should put the defendant's case in the best possible light. In Chicago Bd. of Trade v. United States, the Court explained that "a good intention will [not] save an otherwise objectionable regulation or the reverse; but . . . knowledge of intent may help the court to interpret the facts and to predict consequences." 246 U.S. 231, 238 (1918).

67. *See, e.g.*, Business Elec. Corp. v. Sharp Elec. Corp., 485 U.S. 717 (1988) (recognizing that only *unreasonable* restraints of trade are prohibited by the Sherman Act); National Soc'y of Prof. Eng'rs v. United States, 435 U.S. 679, 687-88 (1978) ("restraint is the very essence of every contract"); Chicago Bd. of Trade v. United States, 246 U.S. 231, 238 (1918) ("Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence.").

68. Porter & Fuller, *supra* note 2, at 331.

69. *See, e.g.*, Brodley, *supra* note 2; First, *Structural Antitrust Rules and International Competition: The Case of Distressed Industries*, 62 N.Y.U.L. REV. 1054 (1987); Grossman & Shapiro, *Research Joint Ventures: An Antitrust Analysis*, 2 J.L. ECON. & ORG. 315 (1986); Jorde & Teece, *supra* note 1; Rill, *Antitrust and International Competitiveness in the 1990s*, 58 ANTITRUST L.J. 583 (1989); Weston & Ornstein, *Efficiency Considerations in Joint Ventures*, 53 ANTITRUST L.J. 85 (1984); *see generally* R. HALL, THE INTERNATIONAL JOINT VENTURE (1984).

behind the formation of these joint ventures are usually legitimate, the structure of the arrangement can result in unexpected social costs which in turn can lead to increased antitrust exposure. When examining how a court might perceive the motives behind a joint venture, or the scope necessitated by the commercial realities of the market, potential venturers need to consider a wide range of factors, including procompetitive benefits and anticompetitive social harms.

Among the most commonly cited procompetitive justifications for forming joint ventures are: the resulting integrative efficiencies, shared risk, greater access to capital, use of complementary technology or research techniques, overcoming entry barriers to domestic or international markets, acquiring new managerial capabilities, and reduction of waste resulting from duplicated research.[70] Balanced against these are potential social costs which include the shaping of competition,[71] the possibility of diminished actual or potential competition in the relevant market, collusion, and the elimination of a "patent race" among rivals resulting in reduced innovative activity (rather than merely eliminating waste).[72]

A company's decision of whether to enter into a joint venture will be greatly impacted by the *type* of venture which will be formed. Currently, the law guarantees rule of reason analysis only for research and development joint ventures.[73] Thus, the decision whether to limit the joint venture to research and development, or to extend it to also include production, can lead to significantly different antitrust considerations. The legislation which guaranteed rule of reason analysis for research and development joint ventures was adopted in 1984 when Congress passed the National Cooperative Research Act (NCRA).[74]

The NCRA was designed to protect research and development joint ventures from the full force of the antitrust laws by guaranteeing rule of reason analysis. It is relatively easy for a joint venture to qualify under the NCRA. Within ninety days of entering into a written agreement to form such a joint venture, any party to that joint venture needs only to file a brief notification with the Department of Justice. This notice, published in the Federal Register, must disclose the parties to the joint venture agreement and state the nature and objectives of the joint venture.[75]

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70. *See* Abbott, *Joint Production Ventures: The Case for Antitrust Reform*, 58 ANTITRUST L.J. 715, 716-19 (1989) (supporting shared risk and duplicated research waste); Porter & Fuller, *supra* note 68, at 322-327 (supporting shared risk, greater access to capital, use of complementary technology, and overcoming entry barriers); S. Radtke & A. Ponikvar, COOPERATIVE RESEARCH AND DEVELOPMENT 12-13 (American Mgt. Assoc. Management Briefing 1984); Weston & Ornstein, *supra* note 69, at 85 (supports overcoming entry barriers, and acquiring new managerial capabilities).

71. Porter & Fuller, *supra* note 2, at 325 ("coalitions can influence who a firm competes with and the basis of competition.") This has been framed in terms of facilitating collusion.

72. Abbott, *supra* note 70, at 719-22.

73. 15 U.S.C. §§ 4301-4305 (1988).

74. *Id.*

75. *See id.* § 4305.

By virtue of filing this notice, the joint venture is assured of a rule of reason analysis in any future antitrust action.[76] Additionally, if antitrust liability is ever found, the joint venture's damages will be limited to actual damages, without the possibility of treble damages, which are normally awarded in antitrust cases.[77] Under the NCRA, however, it is still possible for the joint venture to be held liable for attorneys' fees and costs. By showing that a claim was frivolous or without foundation, though, a prevailing defendant may be able to recover its attorneys' fees and costs.[78]

Even though qualification under the NCRA is quite simple, in the six years between the passage of the NCRA and 1990, only an estimated 150 joint ventures were formed.[79] Ostensibly because of the limited nature of the NCRA, the filings have been primarily for joint ventures which have relatively minor competitive importance.[80] This low number of filings suggests that research and development joint ventures structured for more commercially important efforts are willing to forego the potential protection of the NCRA in exchange for the maintenance of greater secrecy. It may also be that in some cases, joint venturers perceive no advantage to being guaranteed a rule of reason analysis.

Under the current form of the NCRA, this protection is only afforded to research and production joint ventures. The NCRA's rule of reason guarantee does *not* apply to joint ventures involved in the manufacturing, marketing or sales of the fruits of this technology.[81] Thomas M. Jorde and David J. Teece provide a compelling argument for extending the protection of the NCRA to include within its scope these other types of joint ventures.[82] Jorde and Teece base their argument on the premise that innovation is a simultaneous process, requiring constant feedback between the laboratory and the field. At the same time, successful commercialization of technology requires several cycles of testing a product in the marketplace and then returning to the lab for incremental improvements. Therefore, it does not appear reasonable to grant reduced antitrust exposure to part of this process, but not to the remainder. Under a rule of reason analysis, the need for this "simultaneous view of innovation"[83] provides a strong argument for the legitimacy of the motive and the necessity of the scope of a joint venture involved in downstream activities.

76. *See id.* § 4302.

77. *See id.* § 4303(a).

78. *See id.* § 4304.

79. *See* 136 CONG. REC. H3099 (daily ed. Jun. 5, 1990) (comments of Rep. Brooks).

80. Jorde & Teece, *supra* note 1, at 547 n.56.

81. Production and marketing of the intellectual property itself *is* allowed, however. 15 U.S.C. § 4301(b)(2) ("the term 'joint research and development venture' excludes [activities involving joint production or marketing] other than the production or marketing of proprietary information developed through such venture, such as patents and trade secrets . . . .").

82. Jorde & Teece, *supra* note 1, at 534-36 (more fully described in Teece, *Interoraganizational Requirements of the Innovation Process*, 10 MANAGERIAL & DECISION ECON. 35 (1989)).

83. *Id.* at 534.

This is not to say forward progress has not been made. There is proposed joint production venture legislation in H.R. 4611,[84] which takes the next step by including production operations in rule of reason analysis. While this legislation still excludes marketing, distribution and sales ventures[85] from rule of reason protection, it does set forth additional qualifications which reflect the growing concern about American companies' ability to compete in the international arena. For example, a production joint venture registering under this program can have no more than thirty percent of its ownership controlled by foreign entities.[86] Furthermore, H.R. 4611 also requires the joint venture to locate all facilities within the United States.[87] Finally, in a limited move toward clarifying rule of reason standards, this legislation specifies that "[f]or the purpose of determining a properly defined, relevant market, the worldwide capacity of suppliers to provide a product, process, or service shall be considered to the extent appropriate in the circumstances."[88]

If some version of H.R. 4611 becomes law, lobbying for further modifications to the NCRA is likely. Already, commentators have suggested improvements beyond a mere extension of rule of reason analysis to production. Suggestions have included elimination of the award of attorneys' fees,[89] clarification of the standards by which a rule of reason analysis will be applied,[90] creation of a "safe harbor" for smaller companies,[91] and reduction (or elimination) of damages as a remedy.[92]

Finally, consideration must be given to the fact that there are really two levels of antitrust concerns faced by companies contemplating the formation of a joint venture to develop intellectual property. The first concern is that which we have been discussing—cooperative arrangements between competitors. The second concern is the manner in which such a joint venture might use the intellectual property it has de-

84. H.R. 4611, 101st Cong., 2d Sess., 136 CONG. REC. H3099 (daily ed. Jun. 5, 1990) (statement of Mr. Brooks).

85. *See supra* note 9.

86. 136 CONG. REC. H3099, H3100 (daily ed. Jun. 5, 1990) (reference to modification in § 7(a) of the NCRA).

87. *Id.* Note that at H3099 (Sec. 3 Application of Amendments), a clarification was added so as not to interfere with the Free-Trade Agreement Between the United States and Canada.

88. *Id.* at H3100 (reference to modification in § 3 of the NCRA).

89. Abbott, *supra* note 70, at 732.

90. *Id.* The author suggests that these standards follow the guidelines in U.S. DEPARTMENT OF JUSTICE, ANTITRUST ENFORCEMENT GUIDELINES FOR INTERNATIONAL OPERATIONS 15-19 (1988) so that "[I]ntellectual property licensing restrictions will not be deemed illegal unless: (1) such restrictions facilitate collusion in markets not embodying the intellectual property; or (2) such restrictions go beyond the appropriation of returns on the intellectual property." Abbott, *supra* note 70, at 732 n.45. *See also* W. HOLMES, INTELLECTUAL PROPERTY AND ANTITRUST LAW (Release No. 6, Sept., 1986) at 13-6.

91. *See* Jorde & Teece, *supra* note 1, at 550 (suggesting no antitrust liability for joint ventures involving less than twenty-five percent of the relevant market). *But see* Abbott, *supra* note 70, at 731-32 (arguing that a market share specific safe harbor would result in arbitrary line drawing).

92. *See, e.g.*, Jorde & Teece, *supra* note 1, at 550. A version of this suggestion has been incorporated in the proposed National Cooperative Innovation and Commercialization Act of 1989, H.R. 1024, 101st Cong., 1st Sess., 135 CONG. REC. E425 (daily ed. Feb. 21, 1989) (remarks of Mr. Boucher).

veloped. Analysis of the antitrust concerns for each will necessarily be separate, so it is imperative to give both areas sufficient consideration as to the underlying motive for, and the resulting scope of, the arrangement.

Concerns about the use of intellectual property by a joint venture go to the previously mentioned "nine no-no's" of patent licensing.[93] These are licensing acts which the Department of Justice considers illegal *per se*. Fortunately, courts generally recognize the possibility that there may also be procompetitive benefits for most intellectual property antitrust concerns.[94] Thus, courts will apply rule of reason analyses in situations where procompetitive characteristics are present. Although courts vary in the level of scrutiny and the specifics of the tests they use,[95] the motive and scope considerations will generally be the same.

With respect to the intellectual property itself, the balancing tests are developing favorably toward commercially reasonable cooperative uses. This is as a result of the general trend toward strengthening intellectual property rights for American companies. While the courts have made steady progress in this direction, Congress has also climbed on the bandwagon. Since 1983 Congress has passed more than a dozen laws in support of intellectual property.[96] Even though this may not make intellectual property "the 'darling' of Congress,"[97] it *does* show that Congress is prepared to take the steps necessary to enable American companies to protect effectively these important rights.

IV. CONCLUSION

There is widespread agreement that current rule of reason analyses by the courts are unpredictable.[98] This is especially true in the case of intellectual property joint ventures. To believe otherwise would be to take a naive and unnecessary risk. Because even if the government is satisfied that a joint venture poses no antitrust violations, there is still the threat of a private suit.[99] As a result of a private suit, a venture's fate

93. *Supra* note 4.

94. *See, e.g.*, Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 446 U.S. 2 (1984) (reaffirming the rule of reason standards for patent tying established in Dawson Chem. Co. v. Rohm and Haas Co., 448 U.S. 176 (1980)); Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977) (territorial restrictions); Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) (grant-backs); A.I. Root Co. v. Computer Dynamics, Inc., 806 F.2d 673 (6th Cir. 1986) (requiring proof beyond mere copyright ownership to establish the existence of market power); Duplan Corp. v. Deering Milliken, Inc., 594 F.2d 979 (4th Cir. 1979), *cert. denied*, 444 U.S. 1015 (1980) (court looks at limited scope of grant-back).

95. *See, e.g.*, FTC v. Indiana Fed'n of Dentists, 476 U.S. 447 (1986) (exclusive dealing, tie-outs); Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 137-38 (1969) (package Licensing); United States v. United States Gypsum Co., 333 U.S. 364 (1948) (patent pooling); United States v. Line Material Co., 333 U.S. 287 (1948) (price-fixing).

96. *The Battle Raging Over 'Intellectual Property*,' BUS. WK., May 22, 1989, at 78.

97. Schapiro, *The Role of Intellectual Property Protection and International Competitiveness*, 58 ANTITRUST L.J. 569, 574 (1989).

98. *See, e.g.*, Jorde & Teece, *supra* note 22 at 40 & n.100 (1989).

99. The Department of Justice, in its publications, ANTITRUST ENFORCEMENT GUIDELINES FOR INTERNATIONAL OPERATIONS (1988) and ANTITRUST GUIDE CONCERNING RESEARCH JOINT VENTURES (1980), has made it clear that it intends to apply rule of reason

could be decided by a judge who has been forced to assume the role of a businessman for the purpose of evaluating commercial reasonableness. While Congress is moving to better define rule of reason, there remains much progress to be made.

Until rule of reason standards are codified, joint venturers will have to rely on the analyses of the courts, which are marginally restricted at best. Potential joint venturers would be wise, therefore, to pay close attention to the motive and scope factors when structuring their agreements, as these clearly play an important practical role in judicial decisions. Consider the words of Judge (later Chief Justice) Taft in *United States v. Addyston Pipe & Steel Co.*,[100] in which he considers how to determine whether a contract between two parties unreasonably restrains competition:

> [T]he contract must be one in which there is a main purpose, to which the covenant in restraint of trade is merely ancillary .... The main purpose of the contract suggests the measure of protection needed, and furnishes a sufficiently uniform standard by which the validity of such restraints may be judicially determined .... [I]f the restraint exceeds the necessity presented by the main purpose of the contract, it is void .... In such a case [where the sole object is to restrain competition] there is no measure of what is necessary to the protection of either party, except the vague and varying opinion of judges as to how much, on principles of political economy, men ought to be allowed to restrain competition.[101]

Perhaps not so much has changed in the last one hundred years.

James Ball

standards to joint ventures (other than those obviously a sham) before even deciding to file suit. Private party plaintiffs might not be so understanding, however. A private party could be any individual, corporation, or state Attorney General as *parens patriae* on behalf of citizens. *See, e.g.*, Chrysler Corp. v. General Motors Corp., 589 F. Supp. 1182 (D.D.C.), 596 F. Supp. 416 (D.D.C. 1984). In the early 1980s, General Motors and Toyota entered into discussions concerning a joint venture to produce certain small cars in the United States. Prior to the time the joint venture obtained a final consent decree, but following conditional approval by the FTC, Chrysler filed a private action attempting to enjoin the joint venture. After about a year and a half, the case was settled. Weinbaum, *Production Joint Ventures: The GM-Toyota Experience*, 58 ANTITRUST L.J. 709, 711 (1989). *But see* Cargill, Inc. v. Monfort of Colo., Inc., 479 U.S. 104 (1986) (standing denied where court finds private plaintiff (competitor) might be helped, not damaged, by challenged merger); Illinois Brick Co. v. Illinois, 431 U.S. 720 (1977) (indirect purchaser barred from suit).

100. 85 F. 271 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899).

101. *Id.* at 282-83.