

**THE PATENT AND THE PENDULUM:
THE OSCILLATING INTERFACE
BETWEEN ANTITRUST AND PATENT LAW**

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I. Introduction

Since Congress passed the Sherman Act in 1890, the interface between antitrust and patent law has swayed back and forth under the changing influences of the American political and economic climate. Politically speaking, forces from all three branches of government have “pushed” the pendulum of the antitrust/patent interface toward one doctrine or the other.

In a November 15, 2001 speech to this Section, Federal Trade Commission Chairman Timothy J. Muris announced that the FTC and Department of Justice would jointly conduct hearings on “Competition and Intellectual Property Law and Policy in the Knowledge-based Economy” (“FTC/DOJ Hearings”).¹

The mere decision to conduct the FTC/DOJ Hearings indicates that antitrust regulators believe that the antitrust/patent interface needs readjustment. As such, the FTC/DOJ Hearings symbolize the latest “push” of the pendulum—this time by the executive branch.

In his speech to this Section, Chairman Muris stated that five developments in patent and antitrust law contributed to his decision to hold the FTC/DOJ Hearings.² Nestled in the fourth development identified by Chairman Muris is perhaps the straw that broke the camel’s back—the Federal Circuit’s recent jurisdictional and choice-of-law holdings in *CSU v. Xerox* and *Nobelpharma AB v. Implant Innovations*. Those holdings have been criticized as upsetting the delicate balance between antitrust and patent law. However, the authors believe that the holdings of *CSU* and *Nobelpharma* are not so Earth-shattering and not so bad.

Before discussing the FTC/DOJ Hearings, this paper will review *CSU v. Xerox* and some of the major themes that have sculpted the present-day antitrust/patent interface.

II. Historical Background of the Antitrust/Patent Interface

A. Background: Early Developments Relating to the Antitrust/Patent Interface

Congress unintentionally created a fault line between antitrust and patent law when it passed the Sherman Act (exactly 100 years after passing the Patent Act of 1790). The fault line

¹ Timothy J. Muris, “Competition and Intellectual Property Policy: The Way Ahead,” Remarks Before the American Bar Association, Antitrust Section Fall Forum (Washington, DC, November 15, 2001) *available at* <<http://www.ftc.gov/speeches/muris/intellectual.htm>>. There are 17 days of hearings (occurring from February 6 to May 23, 2002). *See* <<http://www.ftc.gov/opp/intellect/index.htm>>.

² *Id.* *See also* Part III *infra*.

did not immediately appear, however, because early court opinions generally recognized patents as a safe harbor from antitrust scrutiny.³

Despite this slow start, the pendulum started swinging away from patent law in the 1930s and 1940s as court opinions began sculpting the doctrine of patent misuse.⁴ In *Morton Salt v. G.S. Suppiger*, for example, the Supreme Court held that “the use of [a patent] to suppress competition in the sale of an *unpatented* article may deprive the patentee of the aid of a court of equity to restrain an alleged infringement by one who is a competitor.”⁵

By the end of the 1940s, patent misuse had become a mainstream legal doctrine and patentees no longer enjoyed sweeping protections from antitrust scrutiny.⁶ During this time, many judges strongly disfavored patents and the notion of intellectual property. Indeed, Justice Jackson stated in 1949 that “the only valid patent is one which this Court has not been able to get its hands on.”⁷ The expansion of the patent misuse doctrine continued into the 1950s and beyond.⁸

It is widely believed that the force of antitrust law over patent law reached its zenith in the 1970s. In a November 15, 2001, speech before the American Bar Association Antitrust Section Fall Forum, Federal Trade Commission Chairman Timothy J. Muris acknowledged that the 1970s “saw the infamous ‘Nine No-Nos,’ which many of us argued lacked both a sound economic foundation and a sufficient appreciation of the incentives for innovation that intellectual property and intellectual property licensing can provide.”⁹

³ See, e.g., *Strait v. Harrow*, 51 F. 819 (N.D.N.Y. 1892).

⁴ See, e.g., *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 (1931); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942); *Mercoide Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944); *Transparent-Wrap Mach. Corp. v. Stokes & Smith*, 329 U.S. 637 (1947), *reh’g denied*, 330 U.S. 854 (1947). For a more thorough analysis on patent misuse cases until the late 1950s, see Donald W. Banner, “The Doctrine of Patent Misuse and Its Application to the Vendor-Patent Owner,” (1958).

⁵ *Morton Salt*, 314 U.S. at 493-94 (emphasis added).

⁶ *United States Gypsum v. National Gypsum*, 352 U.S. 457, 465 (1957) (“[I]t is now, of course, familiar law that the courts will not aid a patent owner who has misused his patents The rule is an extension of the equitable doctrine of ‘unclean hands’ to the patent field.”), *reh’g denied*, 353 U.S. 932 (1957).

⁷ *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949) (Jackson, J., dissenting).

⁸ “‘The outer reach of the misuse doctrine has not yet been fully defined.’ With these disquieting words, the report of the Attorney General’s National Committee to Study the Anti-Trust Laws (March 31, 1955) characterizes the status of the law with regard to certain activities of patent owners vis-à-vis the enforceability of those patents.” Donald W. Banner, “The Doctrine of Patent Misuse and Its Application to the Vendor-Patent Owner,” (1958).

⁹ Timothy J. Muris, “Competition and Intellectual Property Policy: The Way Ahead,” Remarks Before the American Bar Association, Antitrust Section Fall Forum (Washington, DC, November 15, 2001) available at <http://www.ftc.gov/speeches/muris/intellectual.htm>.

By contrast, the 1980s witnessed the arrival of the Reagan administration, whose “Chicago-School” economic policies generally viewed patents as wealth-creators and antitrust law as a hindrance to free competition.¹⁰ Moreover, several key events in the 1980s led to an expanded role for patents and thus pushed the pendulum back again:¹¹

- The creation of the Court of Appeals for the Federal Circuit (to create a uniform body of patent law and discourage forum-shopping)
- The introduction of patent reform measures such as reexamination (to restore faith in the patent system)
- The broadening of patentable subject matter to include new technologies (such as biotechnology)¹²
- The expansion of the U.S. Patent & Trademark Office (i.e., budget increases and increasing its status in the U.S. government)
- The passage of the Bayh-Dole Act (to encourage patenting by universities and small entities)¹³

B. Congress Pushes the Pendulum: Section 271(d)(4)

Also during the 1980s, Congress passed legislation specifically designed to reshape the patent/antitrust interface in favor of patents.¹⁴ In large part, Congress did so to override judicial decisions concluding that market power (for purposes of the antitrust analysis) may be presumed from otherwise lawful intellectual property monopolies.

For example, in *Digidyne v. Data General*, Data General manufactured and sold a popular software operating system.¹⁵ However, the licensing agreement for the copyrighted operating system limited its use to computers having Data General’s microprocessor.¹⁶ Ultimately, the Ninth Circuit concluded that Data General’s marketing strategy was a *per se*

¹⁰ Yoshitake Kihara, “U.S. Pro-Patent Policy: A Review of the Last 20 Years,” CASRIP Newsletter, Winter 2000.

¹¹ *Id.*

¹² *See, e.g., Diamond v. Chakrabarty*, 447 U.S. 303 (1980). For an economic justification for interpreting patentable subject matter broadly in view of antitrust law, *see* Erik S. Maurer, “An Economic justification for a Broad Interpretation of Patentable Subject Matter,” 95 Nw. U. L. Rev. 1057 (2001).

¹³ The Bayh-Dole Act “allows universities, small businesses, and nonprofit organizations to patent the results of their research and license them to the private sector subject to government march-in rights. Prior to Bayh-Dole, rights to those inventions were either assigned to the Federal funding agency or dedicated to the public through publication of research results. The Act has resulted in an increased number of patents issued to universities.” J. Thomas McCarthy, “McCarthy’s Desk Encyclopedia of Intellectual Property” at 36 (2d Ed. 1995).

¹⁴ Patent Misuse Reform Act of 1998, Pub. L. No. 100-73, 102 Stat. 4674 (H.R. 4972).

¹⁵ *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1344 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985).

¹⁶ *Id.*

unlawful tying arrangement.¹⁷ In doing so, the Ninth Circuit stated that the existence of substitutes for the copyrighted software was irrelevant to the issue of whether sufficient economic power existed for an illegal tie-in:

If a seller's product is distinctive, not available from other sources, and sufficiently attractive to some buyers to enable the seller by tying arrangements to foreclose a part of the market for a tied product, the adverse impact on competition in the tied product is not diminished by the fact that other sellers may be selling products similar to the tying product.¹⁸

The legislative history to S. 438, which contained statutory language identical to that which Congress ultimately passed to define the interface between antitrust and patent law, notes that this "decision can . . . be interpreted to mean that the existence of a copyright automatically leads to a presumption of economic power."¹⁹ Another case raised similar concerns. In *Jefferson Parish Hospital v. Hyde*, the Supreme Court noted in dicta that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power."²⁰

The Supreme Court denied *certiorari* in *Data General*. In dissenting to the denial, Justice White aptly noted that

at stake is more than the resolution of this single controversy or even the clarification of what may seem at times to be a collection of arcane legal distinctions. In the highly competitive, multibillion dollar a year computer industry, bundling of software and hardware, or of operating systems and central processing units, is somewhat common, and any differentiated product is especially attractive to some buyers. The reach of the decision in this case is potentially enormous²¹

As stated above, Congress sought to override these and other judicial decisions relating to the presumption of market power. After hearings were conducted, several bills were drafted.²² Ultimately, Public Law 100-73 added subsections (4) and (5) to 35 U.S.C. § 271(d):

No patent owner otherwise entitled to relief for infringement or contributory infringement shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:

* * *

¹⁷ *Id.* at 1344.

¹⁸ *Id.* at 1345.

¹⁹ S. Rep. 100-492 at 3 (1988).

²⁰ *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 16 (1984).

²¹ 473 U.S. 908, 909 (1985).

²² *See, e.g.*, S. 1841, 98th Cong. (1984); S. 438, 100th Cong. (1987); S. 634, 100th Cong. (1987); S. 1200, 100th Cong. (1988), H.B. 4972, 100th Cong. (1988).

(4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.²³

C. The Federal Circuit Pushes the Pendulum: *CSU v. Xerox* and *Nobelpharma v. Implant Innovations*

The Federal Circuit's recent decisions in *CSU v. Xerox* and *Nobelpharma v. Implant Innovations* have perhaps done more than anything else to trigger the latest avalanche of interest in the antitrust/patent interface.²⁴

CSU v. Xerox involved a refusal to deal on patented and copyrighted parts. In that case, Xerox refused to sell parts for some of its copiers to independent service organizations ("ISOs") unless they were also end-users of Xerox copiers.²⁵ Over time, Xerox tightened enforcement of this policy and expanded it to include more copiers.²⁶ As a result, the ISOs were forced to obtain parts from alternative sources, including customers, cannibalized copiers, other ISOs, and a European Xerox affiliate.²⁷

In 1994, Xerox settled a class-action antitrust lawsuit brought by ISOs.²⁸ As part of the settlement, Xerox agreed to suspend its restrictive parts policy for 6.5 years and to license its diagnostic software for 4.5 years.²⁹ CSU opted out of the settlement and sued Xerox.³⁰ CSU alleged that "Xerox violated the Sherman Act by setting the prices on its patented parts much

²³ Patent Misuse Reform Act of 1998, Pub. L. No. 100-73, 102 Stat. 4674 (H.R. 4972). An earlier Senate version, S. 1200, accorded even more deference to patents and would have instead stated that "[n]o patent owner otherwise entitled to relief for infringement or contributory infringement shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his or her licensing practices or actions or inactions relating to his or her patent, unless such practices or actions or inactions, in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws." S. Rep. 100-83 at 23 (1987) (emphasis added).

²⁴ *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998); *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000), cert. denied sub nom., *CSU, L.L.C. v. Xerox Corp.*, ___ U.S. ___, 121 S.Ct. 1077 (2001).

²⁵ *CSU*, 203 F.3d at 1326.

²⁶ *See id.*

²⁷ *Id.* Ultimately, Xerox forced its majority-owned European affiliate, Rank Xerox, to stop selling parts to the ISOs. *See id.*

²⁸ *See id.*

²⁹ *See id.*

³⁰ *See id.*

higher for ISOs than for end-users to force ISOs to raise their prices.”³¹ As a result, CSU alleged, ISOs would be eliminated “as competitors in the relevant service markets for high speed copiers and printers.”³²

Xerox counterclaimed for patent and copyright infringement.³³ Moreover, Xerox argued that CSU’s antitrust claims relied on “injury solely caused by Xerox’s lawful refusal to sell or license patented parts and copyrighted software.”³⁴ Xerox also argued that CSU “could not assert a patent or copyright misuse defense to Xerox’s infringement counterclaims based on Xerox’s refusal to deal.”³⁵

The district court granted summary judgment to Xerox dismissing CSU’s antitrust claims.³⁶ In doing so, the district court held that “if a patent or copyright is lawfully acquired, the patent or copyright holder’s unilateral refusal to sell or license its patented invention or copyrighted expression is not unlawful exclusionary conduct under the antitrust laws, even if the refusal to deal impacts competition in more than one market.”³⁷ The district court also held that the patentee’s and/or copyright holder’s intent in refusing to deal (or otherwise committing exclusionary acts) is irrelevant to the antitrust analysis.³⁸

On appeal, the Federal Circuit reviewed whether the district court erred in granting Xerox’s motion for summary judgment on CSU’s antitrust claims.³⁹ In reviewing the motion, the Federal Circuit modified the jurisdictional and choice-of-law facets of the antitrust/patent interface. This move has raised considerable controversy.⁴⁰

In modifying the jurisdictional and choice-of-law facets of the antitrust/patent interface in *CSU*, the Federal Circuit relied on *Nobelpharma v. Implant Innovations*. In *Nobelpharma*, which involved an antitrust counterclaim brought in a patent infringement suit, the Federal Circuit (sitting *en banc*) changed its precedent:

[W]e hereby change our precedent and hold that whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law. This

31 *Id.*

32 *Id.*

33 *See id.*

34 *Id.*

35 *Id.*

36 *Id.*

37 *Id.*

38 *See id.*

39 *See id.* at 1324-25.

40 *See, e.g.,* “Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy,” FTC Hearing at 15 (Feb. 6, 2002) (statement of Charles James, Assistant Attorney General for Antitrust, U.S. Dept. of Justice) (“As everyone knows, the decision in the *CSU v. Xerox* case 18 months ago by the Federal Circuit has been a topic of extensive discussion and thought in both the intellectual property and the antitrust communities.”).

conclusion applies equally to all antitrust claims premised on the bringing of a patent infringement suit However, we will continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law such as relevant market, market power damages, etc., as those issues are not unique to patent law which is subject to our exclusive jurisdiction.⁴¹

The Federal Circuit began its analysis in *CSU* by noting that “[a]s a general proposition, when reviewing a district court’s judgment involving federal antitrust law, we are guided by [regional circuit law] We apply our own law, not regional circuit law, to resolve issues that clearly involve our exclusive jurisdiction.”⁴² Quoting its own decision in *Nobelpharma v. Implant Innovations*, the Court continued that “[w]hether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law.”⁴³ Accordingly, the “bottom line” analysis crafted by the Federal Circuit is that

The district court’s grant of summary judgment as to CSU’s antitrust claims arising from Xerox’s refusal to sell its patented parts is therefore reviewed as a matter of Federal Circuit law, while consideration of the antitrust claim based on Xerox’s refusal to sell or license its copyrighted manuals and software is under [regional] circuit law.⁴⁴

CSU v. Xerox has been criticized for its substantive holding as well as its jurisdictional and choice-of-law holdings. Despite the seemingly clear “refusal to deal” language of 35 U.S.C. §271(d)(4),⁴⁵ numerous organizations submitted amici briefs to the Federal Circuit. In one such brief, the American Intellectual Property Law Association (AIPLA) noted that the statute, by its terms, created a qualified immunity from misuse liability for patent-related refusals to deal.⁴⁶

⁴¹ *Nobelpharma*, 141 F.3d at 1067-68 (citations omitted). Moreover, the *C.R. Bard* case followed *Nobelpharma*, noting that “Federal Circuit law would thenceforth apply to determination of whether fraudulent conduct occurred in obtaining a patent, whereas determination of the other elements of the section 2 violation, *viz.* market power in the relevant market and illegal restraints on competition, since not unique to the patent right, would continue to be governed by regional circuit law.” *C.R. Bard Inc. v. M3 Systems, Inc.*, 157 F.3d 1340, 1383 n. 7 (Fed. Cir. 1998) (affirming judgment of antitrust violation).

⁴² *Id.* at 1325 (citations omitted).

⁴³ *Id.* (citing *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998)).

⁴⁴ *Id.*

⁴⁵ Section 271(d)(4) states: “(d) No patent owner otherwise entitled to relief for infringement . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (4) refused to license or use any rights to the patent . . .” *See also* Part II-B *supra*.

⁴⁶ Brief for *Amicus Curiae* American Intellectual Property Law Association, *CSU, L.L.C. v. Xerox Corporation*, Appeal No. 99-1323 (Fed. Cir. July 15, 1999), *available at* <<http://www.aipla.org/html/xeroxbr.html>>.

AIPLA continued by noting that “[b]ecause misuse relates to antitrust [like] a lesser included offense relates to its greater, including offense, it would be irrational and impossible for the law to excuse patentees from misuse while simultaneously subjecting them to antitrust liability for the same act.”⁴⁷ The Federal Circuit agreed, noting that this was not in any way a “tying” case:

We see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right. In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant.⁴⁸

On a petition for writ of *certiorari*, the Supreme Court asked the Clinton Administration for its views on the decision. The “Question Presented” was whether a unilateral refusal to license or sell intellectual property protected by patent or copyright is immune from a claim of monopolization or attempted monopolization. The Department of Justice recognized that this question is an “important issue” that “may well warrant the Court’s resolution in an appropriate case.”⁴⁹ The Department of Justice continued, “[b]ut precisely because that issue has such broad potential implications, it is particularly important that this Court choose the appropriate vehicle for resolution of the difficult questions implicated by the intersection of antitrust law and patent law. In our view, this case does not present that vehicle.”⁵⁰

The Supreme Court denied *certiorari*.⁵¹

III. The FTC/DOJ Hearings and Renewed Interest in the Antitrust/Patent Interface

FTC Chairman Muris announced the FTC/DOJ Hearings in a November 15, 2001 speech to this Section.⁵² The decision to conduct such hearings has been interpreted as a sign that antitrust regulators believe that the pendulum has swung too far toward intellectual property,

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Id.

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CSU, 203 F.3d at 1327.

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Brief for *Amicus Curiae* United States of America, *CSU, L.L.C. v. Xerox*, No. 00-62 (S. Ct. January 2001), at page 7, *available at* <http://www.usdoj.gov/osg/briefs/2000/2pet/6invt/2000-0062.pet.ami.inv.pdf>.

⁵⁰

Id.

⁵¹

CSU, L.L.C. v. Xerox Corp., ___ U.S. ___, 121 S.Ct. 1077 (2001).

⁵²

Muris, *supra* n. 1.

despite Chairman Muris’s on-the-spot disclaimer that “there is no hidden agenda in these hearings.”⁵³

In his speech, however, Chairman Muris nonetheless suggested that the pendulum may need to be pushed back toward antitrust law:

Where are we now, in 2001, when so much of the world seems to be changing so quickly? There are those observers - including my predecessor, Robert Pitofsky - who ask whether we might be at yet another crossroads in the relationship between the [antitrust and intellectual property law] doctrines. Only this time, they say, perhaps it is intellectual property doctrine that is not showing a proper appreciation for the innovation that competition may spur. They argue that overly broad grants, interpretations, or applications of intellectual property rights may unduly limit competition. Still others question whether antitrust doctrine and antitrust enforcers have yet found the right balance between the two doctrines - especially in particular cases.⁵⁴

Also in his speech announcing the hearings, Chairman Muris discussed five “notable developments” in antitrust and patent law that gave rise to the hearings. In the order listed by Chairman Muris, the developments are:⁵⁵

1. The increasing number of patents
2. The economic life and significance of patents
3. The changing scope of patents
4. The role of the Federal Circuit
5. Refusals to deal

The fourth development, “The Role of the Federal Circuit,” has many facets but one facet in particular stands out—the Federal Circuit’s recent decisions in *CSU v. Xerox* and *Nobelpharma AB v. Implant Innovations*. Many commentators believe that, out of all of the recent developments in antitrust and patent law, the *CSU* and *Nobelpharma* decisions were the spark that triggered the hearings. The facts and legal holdings of *CSU* and *Nobelpharma* are discussed in depth at Part II-C *supra*.

⁵³ “Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy,” FTC Hearing at 7 (Feb. 6, 2002) (statement of Chairman Muris). Moreover, a number of pro-patent witnesses testified at the hearings. *See also id.* at 13 (statement of Charles James, Assistant Attorney General for Antitrust, U.S. Dept. of Justice) (“The most frequently asked question since Tim announced these hearings that I encounter is ‘Is this an effort to rewrite the Intellectual Property Guidelines [formulated by in 1995 by the FTC and the DOJ]?’ I don’t think that that’s necessarily where anyone is going here. I think we are entering these hearings from a view that antitrust policy is best made in the light, and consequently, we want to get the best thinking and get the best information, and we’ll let the policy consequences of the information process sort themselves out as we are more informed.”)

⁵⁴ Muris, *supra* n. 1.

⁵⁵ *Id.*

In his speech to this Section, Chairman Muris discussed the role of the Federal Circuit and its jurisprudence:

Since its inception, the Federal Circuit's scope has grown in at least two ways: through its expanding jurisdiction over antitrust issues and through the court's application of its own law rather than regional circuit law. * * *. During the hearings, we will consider the Federal Circuit's substantive impact on competition law. That impact is defined, in the first instance, by its decisions regarding its jurisdictional scope. In the second instance, the court's choice of law defines its impact.⁵⁶

In the authors' opinion, Chairman Muris's remarks indicate that he believes the Federal Circuit should play a less significant role in shaping the antitrust/patent interface. His main concern may be that the Federal Circuit (acting in a more significant role) would bend the antitrust/patent interface toward patents and thus out of balance. This belief assumes that the Federal Circuit is stringently pro-patent, and anti-antitrust. A quick review of *Festo* and its progeny, in which the Federal Circuit dramatically slashed the once-powerful doctrine of equivalents, reveals that the Federal Circuit can be adamantly anti-patent.⁵⁷

Moreover, the Federal Circuit is not unequivocally anti-antitrust. In *CSU*, the Federal Circuit acknowledged that the patentee's right to exclude must yield to antitrust law when a patent is procured by fraud,⁵⁸ when an infringement suit is merely "sham litigation,"⁵⁹ and when there is "tying."⁶⁰ None of these situations were present in *CSU*.⁶¹

CSU also impacts the fifth development noted by Chairman Muris (refusals to deal). In his speech to this Section, he indicated that perhaps section 271(d)(4) needs to be changed:

[P]erspectives on *CSU v. Xerox* continue to provoke debate: under what circumstances should there be limits on the rights of patent or copyright holders to

⁵⁶ Muris, *supra* n. 1. In addition, Chairman Muris expressed particular concern that the Federal Circuit's broad jurisdictional holdings "could promote forum shopping with regard to non-patent issues, including antitrust issues." *Id.*

⁵⁷ See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed Cir. 2000) (en banc); *cert. granted*, ___ U.S. ___, 121 S. Ct. 2519 (June 18, 2001).

⁵⁸ See *CSU*, 203 F.3d at 1326. See also *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

⁵⁹ See *CSU*, 203 F.3d at 1326. See also *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

⁶⁰ See *CSU*, 203 F.3d at 1326-27. See also *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 480 n. 29 (1992) ("The Court has held many times that power gained through some natural and legal advantage such as a patent, . . . can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'").

⁶¹ See *CSU*, 203 F.3d at 1327 ("[T]here are no claims in this case of illegally tying the sale of Xerox's patented parts to unpatented products.").

refuse to deal? Should 35 U.S.C. § 271(d)(4) be changed or reinterpreted to reflect competition considerations? What are the implications for competition policy and innovation? These are among the issues that we will study in our upcoming hearings.⁶²

Chairman Muris's remarks imply that the Federal Circuit concluded that, under current law, a refusal to deal cannot form the basis of an antitrust violation.⁶³ However, *CSU* did not reach such a black-and-white conclusion. Although the Federal Circuit said it would not analyze a patentee's subjective motivation for refusing to deal (which *per se* seems to sharply limit any finding of an antitrust violation), it qualified its statement with a proviso:

We therefore will not inquire into [a patentee's] subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, *so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant.*⁶⁴

The third development mentioned by Chairman Muris concerns the "Changing Scope of Patents." His speech announcing the FTC/DOJ Hearings tackled the issue head-on "[S]ome observers allege," he said, "that, all too often, important patents — especially in biotechnology and software — are overbroad, and that overbroad patents can inhibit follow-on innovation."⁶⁵ In support, he cited to a 1991 article that significantly predated much of the current debate.⁶⁶

Of course, no discussion of the scope of patents could be free from debate over business method patents. "The explosion of business method patents is also controversial," Chairman Muris noted.⁶⁷ His talk to this Section acknowledged both the pro-patent and pro-antitrust positions, noting first that the "PTO sees the recognition of business method patents as the logical continuation of an unbroken evolutionary path from mechanical technology."⁶⁸ He also noted the pro-antitrust view:

⁶² *Id.*

⁶³ Such a holding would amount to an exemption from the antitrust laws, which is "strongly disfavored." *Square D Co. v. Niagara Frontier Tariff Bureau, Inc.*, 476 U.S. 409, 421 (1986).

⁶⁴ *CSU*, 203 F.3d at 1327-28. To the best of the authors' knowledge, no members of Congress have interjected as to whether section 271(d)(4) should be revised, and a suggested rewrite on behalf of the FTC, DOJ, or any other body is far from automatic. As was done with the bills that ultimately resulted in section 271(d)(4), Congress may want to conduct its own hearings before proceeding.

⁶⁵ Muris, *supra* n. 1.

⁶⁶ Suzanne Scotchmer, "Standing on the Shoulders of Giants: Cumulative Research and the Patent Law," 5 J. Econ. Persp. 29 (1991). Chairman Muris also recognized the contrary view, noting, "Others contend that broad patents are essential to encourage high-risk research in entirely new fields." Muris, *supra* n. 1.

⁶⁷ *Id.*

⁶⁸ *Id.*, *citing*, United States Patent and Trademark Office, "Automated Financial or Management Data Process Methods (Business Methods)," *available at* <<http://www.uspto.gov/web/menu/busmethp/index.html>>.

Others have contended that the PTO has “allowed a number of patents on ideas that would not appear *offhand* to meet the usual standards for novelty and non-obviousness, such as the patent held by Sightsound.com *which reputedly covers* ‘the sale of audio or video recordings in download fashion over the Internet.’”⁶⁹

This language underscores the importance of former Commissioner Dickinson’s comments (which the authors support) that “the claims of the patents are the *only* thing that have a legal effect”⁷⁰ The authors of this paper believe that a discussion of what a patent “reputedly covers” is of no serious assistance in analyzing PTO practices or sound national economic policy. Nevertheless, with this backdrop Chairman Muris announced the goal for this aspect of the FTC/DOJ Hearings:

Obvious questions arise: Has the recent explosion of business method patents reflected a commensurate increase in innovation? Or are such patents stifling, rather than promoting, innovation? What changes in procedure and presumptions have strengthened intellectual property rights during the past two decades? What have been the implications of these changes for both competition and intellectual property policy?⁷¹

Returning to the first development, the increasing number of patents, Chairman Muris emphasized that the U.S. Patent and Trademark Office is issuing far more patents today than it did 20 years ago. He cited PTO statistics showing that in 1980 about 66,000 patents issued, whereas more than 175,000 U.S. patents issued in 2000.⁷² Some commentators have considered the increase in the number of patents issued as a bad thing, calling it a “patent thicket”:

In short, our patent system, while surely a spur to innovation overall, is in danger of imposing an unnecessary drag on innovation by enabling multiple rights owners to “tax” new products, processes and even business methods. The vast number of patents currently being issued creates a very real danger that a single product or service will infringe on many patents. Worse yet, many patents cover products or processes already being widely used when the patent issued, making it harder for the companies actually building businesses and manufacturing products to invent around these patents. Add in the fact that a patent holder can seek

⁶⁹ *Id.*, citing Shapiro, *infra* n. 74 (emphasis added).

⁷⁰ Dickinson, *infra* n. 75 (emphasis added).

⁷¹ Muris, *supra* n. 1.

⁷² *Id.*, citing United States Patent and Trademark Office, U.S. Patent Statistics, *available at* <<http://www.uspto.gov/web/offices/ac/ido/oeip/taf/apat.pdf>>. This Technology Assessment and Forecast (TAF) report profiles patent activity for all U.S. patents granted between January 1, 1977 and December 31, 2000. The source of the data used for this report was the TAF database maintained by the Office for Patent and Trademark Information. It contains a rich compilation of information concerning patents granted by company, country of origin, year of issuance, and year of application.

injunctive relief, *i.e.*, can threaten to shut down the operations of the infringing company, and the possibility for “hold up” becomes all too real.⁷³

By contrast, other commentators have downplayed the fear of a “patent thicket,” noting that only in a very small percentage of cases result in patented ideas surviving product development cost burdens, manufacturing problems, and the other rigors of getting them into an actual product.⁷⁴ A former Commissioner of Patents and Trademarks, Q. Todd Dickinson, indicated at the hearings that the problem of patent thickets may be overstated:

Also, I think a lot of the arguments about thickets, unfortunately, tend to seem to rest, at least the ones that I've heard, on fairly anecdotal evidence, where patents are categorized as broad or overbroad, either through [an] expansive reading of the patent, maybe the abstract, maybe the press releases in some cases I've noted when companies obtain patents. It should be reminded that the claims of the patents are the only thing that have a legal effect * * *. Of course it is indeed possible, maybe even likely, that thickets might exist in certain areas, but I think we have to take them in many cases on a case-by-case basis.⁷⁵

In light of those perspectives, Chairman Muris noted in his speech to this Section that the focus of the FTC/DOJ Hearings on this point is to understand the reason for the increase in patents, to determine if and how this impacts the commercialization of new technology, and “[i]f the central approaches to navigating a patent thicket involve cross-licenses and patent pooling, [determining] how should antitrust enforcement react to these practices.”⁷⁶ The ongoing hearings also intend to focus on standards setting, and to explore the extent to which the “patent thicket” affects standard setting activities “when access to multiple patents in the hands of different patentees may be required to develop and implement a technological standard.”⁷⁷

With regard to the second point, the economic life and significance of patents, Chairman Muris sought to focus on a principle well known to patent lawyers and patentees—the principle that the *legal term* of a patent is far different from the period (if any) during which the patent provides an economic benefit to the patentee. According to Chairman Muris, this divergence can perhaps extend both ways and is worth exploring:

⁷³ Carl Shapiro, “Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting,” *available at* <<http://haas.berkeley.edu/~shapiro/thicket.pdf>>. Shapiro described the “patent thicket” as “a dense web of overlapping intellectual property rights that a company must hack its way through in order to actually commercialize new technology.” *Id.*

⁷⁴ See “Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy,” FTC Hearing at 56-57 (Feb. 8, 2002) (statement of Q. Todd Dickinson, former Commissioner of Patents and Trademarks), *available at* <<http://www.ftc.gov/opp/intellect/20208iptrans2.pdf>>.

⁷⁵ *Id.* at 63-64.

⁷⁶ Muris, *supra* n. 1.

⁷⁷ *Id.*

In some industries, . . . the economic life of patents may be increasingly shortened due to the pace of innovation. If so, does this phenomenon have competitive implications? Another issue to consider is whether, in some industries, strong technology companies can extend the economic significance of patents beyond their corresponding legal lives. We need to understand how the economic significance of patents can be extended to determine whether conduct that extends economic significance benefits consumers.⁷⁸

At the FTC/DOJ Hearings, Federal Circuit Judge Pauline Newman gave a succinct summary of the economic significance of patents as shown by the history of technology, innovation, and economic growth.⁷⁹ She also remarked that when the Federal Circuit was formed, our emphasis on innovation had waned along with our national economy:

Patents cover only things that are new, things that were unknown before the patentee discovered them and disclosed them. The technologies have driven the economy since the Industrial Revolution have all invoked the commercial incentive of patents. There are, I'm told, no exceptions, from the cotton gin to the electric light, the airplane.

As soon as the inventor showed the way, the entrepreneurial spirits of the nation took hold, and the copiers appeared, and litigation ensued. All the major patents have been through the courts.

The economic role of patents was studied as well as it might be at the time of the formation of the Federal Circuit court. You may recall that in the late 1970s, the economy of the nation was at a low point. Investment in basic science and in applied research had disappeared. There were mass layoffs of scientists and engineers. I recall the revolution in the American Chemical Society to try to somehow adjust or interact with what was happening to scientists who had studied and were jobless.

Our production in the United States was no longer competitive. Old technologies were stagnant. New ones were dormant, and the balance of trade had turned negative for the first time perhaps in our national history. Only technology-based industry made a positive contribution, and there was concern, real concern, that national policies were not attuned to the needs of this industry, that we had created disincentives to industrial innovation.⁸⁰

⁷⁸

Id.

⁷⁹

See “Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy,” FTC Hearing at 42-43 (Feb. 8, 2002) (statement of Hon. Pauline Newman, Federal Circuit Judge), *available at*

<http://www.ftc.gov/opp/intellect/20208iptrans2.pdf>.

⁸⁰

Id.

Since the late 1970s, Judge Newman continued, an emphasis on industrial innovation “rebalanced” the tension between antitrust and patent laws.⁸¹ As a result, our national economy today is even more dependent on technology and on the advance of technology-based industry than it was just 20 years ago.⁸² Without explicitly identifying a cause-effect relationship, Judge Newman then stated:⁸³

Also during that period we’ve experienced the most creative, energetic, entrepreneurial surge since the Industrial Revolution because manufacturers are involved. I’m afraid our court can’t take all the credit, but I would like to. The creation of our court was a major step that was taken as part of the design to restore the statutory and indeed the constitutional role of intellectual property.⁸⁴

Judge Newman then noted that her practical experience on the bench lets her see that commercial realities sometimes contradict theories espousing that most patents are not valuable:

[A] commercial reality is seen in every patent in litigation, and it does contravene some of what I’ve read being written by the theorists. For example, one sometimes reads, in studies of the patent system, that most patents are on minor changes. That’s true. But the conclusion ensues that they aren’t worth very much, why bother.

Yet in our court we often see patent litigation on what look like relatively minor advances in relatively small industries, but the business they support must be worth at least the hundreds of thousands or the millions of dollars that the litigation costs.⁸⁵

IV. Conclusion

The FTC/DOJ Hearings have re-ignited debate over the antitrust/patent interface. The hearings featured strong advocates for both the pro-antitrust and pro-patent positions, and may have raised more questions than it answered. Although it is now clear where many of the decision-makers stand, it remains to be seen which way the pendulum will sway.

81 *Id.*

82 *See id.*

83 *Id.*

84 *Id.*

85 *Id.*