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# INTELLECTUAL PROPERTY AND ANTITRUST: TWO SCORPIONS IN A BOTTLE

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*"No monopolies shall be granted amongst us,*
*but of such new inventions that are profitable to the countrie,*
*and that but for a shor time"*

- Massachusetts Body of Liberties, 1641

The Congress Shall Have The Power …

*To promote the progress of science and useful arts,*
*by securing for limited times to authors and inventors*
*the exclusive right to their respective writings and discoveries*

- U.S. Constitution, Article 1, Section 8

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**Introduction.** While it seems true that antitrust and intellectual property law are often like two scorpions in a bottle, is not always clear whether they are fighting, flirting or mating. It seems to depend on the season, the decade or the continent.

Today, it is politically incorrect to say out loud that there is a great conflict between patent law and competition law. All of the modern commentators today regard the patent laws and the antitrust laws as serving complementary purposes. They say that the limited exclusivity of patent laws promotes innovation and the efficient sharing of ideas, which in turn promote consumer welfare – a key purpose of antitrust and competition law. At some level of abstraction, this is no doubt true. Yet on the ground, in the trenches, in the agencies, and in the federal district courts, there is tension and often a degree of confusion. Intellectual property law, or at least US patent law, bestows on the owners of intellectual property rights ("IPR") the right to exclude others from making, using, or selling their patented invention. For a long time, as discussed below, most courts considered this right to exclude to be the grant of a "monopoly." Indeed, the 1641 Massachusetts Body of Liberties was explicit in this regard. And until just two years ago, a patent was presumed by competition courts to give its owner "market power" over the subject covered by the patent.

So whatever balance may be in place today between patent and competition law, it is youthful, and perhaps even short-lived. The individual report by the Federal Trade Commission, published in October 2003[1], expressed the view that the patent system in the United States was in need of repair and was in some ways more of a hindrance to competitive markets than a help. The Commission thus focused on questionable patents being issued by an understaffed and overworked PTO, and made a variety of recommendations: to allow post-grant review of and opposition to patents; to enact legislation to specify that challenges to the validity of the patent should be determined based on a preponderance of the evidence (rather than by clear and convincing evidence); to tighten the legal standards used to evaluate whether a patent is "obvious"; to require the PTO to consider possible harm to competition before extending the scope of patentable subject matter; to enact legislation to make it more difficult for a patentee to establish willful infringement; and to provide more money to the PTO to help look into all these things. This was a worthy undertaking.

This paper has a limited purpose – to try to highlight issues of current interest on both sides of the Atlantic and to make those issues sufficiently clear that they can be intelligently and interestingly discussed by people, including me, who have no special training in patent law but who have been or will be exposed to competition law in an intellectual-property setting. This paper spends a disproportionate amount of time dealing with the US law and policy on the western side of the Atlantic for two reasons: first, there is much more of it than there is in Europe and, second, it is much easier to find. So we begin with an overview of the current state of things at the IP/AT intersection in United States, including a small amount of foundational history. Along the way in places, and even more in Part 5, it presents the European approach to the space commonly occupied by IP and antitrust, which points in a rather different direction than the U.S. approach.

## A. Some Brief Background

### 1. 1641-1930

For nearly 300 years, from 1641 up until about 1930, patents were King, despite the admonition in the Massachusetts Body of Liberties against monopolies, which in any event carved out an exception for "... such new inventions that are profitable to the countrie…." Antitrust was a toothless serf. During this period, the Supreme Court and lower federal courts were generally receptive to patents and the enforecement of patent rights. Patents in those years frequently stemmed from the work of the great American inventors, such as Thomas Edison, George Westinghouse and Cyrus McCormick, and the patent litigation of the day usually involved a vindication of the rights of individual inventors or their start-up companies, which were trying to compete with their larger competitors of the day.

1 The FTC's Report, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," can be found at http://www.ftc.gov/os/2003/10/innovationrpt.pdf. For a brilliant Hymarx outline version of the entire Report, see the prepared remarks of FTC Chairman Timothy J. Muris, Competition and Intellectual Property Policy: The Way Ahead, before the American Bar Association, Antitrust Section Fall Forum (November 15, 2001), *available at* http://www.ftc.gov/speeches/muris/intellectual.shtm.

By way of example, the very first case ever to address the intersection of the patent and antitrust laws, *E. Bement & Sons, Inc. v. National Harrow Co.,*[2] upheld price fixing provisions in a patent pool. Then, in 1926, the Supreme Court upheld licensing price restrictions against government challenge in the *General Electric* case.[3] The passage of the Sherman Act in 1890 had no immediate impact, although the Great Depression did.

**2. 1930-1988**

In a reversal of fortune that began during the 1930 in the midst of the Great Depression, and extended through the 1970s and a bit beyond, courts and the general public became increasingly hostile to patents. This hostility was based on the general understanding that patents were "monopolies" and, as such, were contributing to the increasing concentration of economic power, which in turn was perceived to be a significant cause of the Great Depression.

Much of this hostility found its way into the federal bench through judicial appointments made by President Roosevelt. Many of these appointees came from the ranks of those who were generally opposed to the visible excesses of big business and who perceived patent owners, by then often large corporate enterprises, as operating not in the public interest, but rather to make large fortunes for the few at the expense of many.

So it was that, starting in the 1930s, the Supreme Court repeatedly reminded the lower federal courts that patents were "monopolies." The national suspicion of "monopolists" resulted in many decisions with "anti-patent" results, including:

- Restrictive infringement constructions
- Dislike of the contributory infringement remedy
- Frequent invalidity findings
- Restrictive validity requirements.[4]

In an antitrust setting, deeming a patent a "monopoly" had consequences. The evil Section 2 seeks to prevent or remedy is the exercise of monopoly or market power - the monopolist's ability to control price or output - in ways that injure competition. Once the courts deemed a patent to have created a monopoly, many of the commercial practices of patentees became inherently suspect under Section 2.

In consequence, patent licenses also became subject to heightened scrutiny under Section 1 of the Sherman Act, prohibiting agreements that unreasonably restrain trade. In analyzing agreements under Section 1, it is almost always important to consider the market power of the parties to the agreement. If it was concluded that a patent holder has monopoly power, patent licenses came under closer scrutiny. This indeed occurred, and a group of patent licensing practices came to be considered *per se* unlawful under Section1 because they were perceived as tending to "expand" the scope of the patent monopoly.

In addition, patent misuse – inequitable conduct by patent holders that can render the patent unenforceable – has deep roots in and close ties to antitrust law. As a result of the hostility of antitrust law to patents, a group of patent licensing practices rapidly came to be recognized as patent misuse and, thus, became bases to render patents unenforceable.

As the Depression of the '30's gave way to the post war boom, the situation for patent holders became no better; well into the '70's and beyond, the legal landscape at the crossroads of

2 186 U.S. 70 (1902).
3 *United States v. General Electric Co.*, 272 U.S. 476 (1926).
4 *See generally,* ABA Section of Antitrust Law, Antitrust Law Developments 1081 (6th ed. 2007).

patent and antitrust law remained often inhospitable for patent holders. These forces produced, in 1971, the infamous "Nine No-No's" issued by the Antitrust Division.[5]

(1) It is unlawful to require a licensee to purchase unpatented materials from the licensor;

(2) It is unlawful for a patentee to require a licensee to assign to the patentee any patent which may be issued to the licensee after the licensing arrangement is executed;

(3) It is unlawful to attempt to restrict a purchaser of a patented product in the resale of that product;

(4) A patentee may not restrict his licensee's freedom to deal in the products or services not within the scope of the patent;

(5) It is unlawful for a patentee to agree with his licensee that he will not, without the licensee's consent, grant further licenses to any other person;

(6) Mandatory package licensing is an unlawful extension of the patent grant;

(7) It is unlawful for a patentee to insist, as a condition of the license, that his licensee pay royalties in an amount not reasonably related to the licensee's sales of products covered by the patent — for example, royalties on the total sales of products of the general type covered by the licensed patent;

(8) It is unlawful for the owner of a process patent to attempt to place restrictions on his licensee's sales of products made by the use of the patented process; and

(9) It is unlawful for a patentee to require a licensee to adhere to any specified or minimum price with respect to the licensee's sale of the licensed products.

Additionally, even if a patent related restraint was not *per se* unlawful under one of the Nine No No's, it could still be found unlawful depending on the answers to the following questions:

(1) Is the particular provision justifiable as *necessary* to the patentee's exploitation of his lawful monopoly?

(2) Are there available to the patentee *less restrictive alternatives* that are more likely to foster competition?

(3) "Where the answer to the first question is no, and to the second is yes, the Department will consider bringing a case to challenge the restrictions involved."[6]

This was not all that long ago. Antitrust was King; intellectual property was now the serf, although that was, for antitrust, the high water mark.

During the latter part of the '70's, and even more so during the early days of the Reagan/Baxter regime, the Nine No-No's were subjected to withering criticism and were set aside as a statement of either enforcement policy or the law itself. Two premises animated this new government policy at the IP/antitrust interface. First, a young Deputy to William Baxter, in an influential speech, made the point that there was nothing inherently wrong or anticompetitive about the market power conferred by a patent grant or other intellectual property rights:

> While it is possible to debate the wisdom of the congressional decision to reward invention through the grant of what might be "market power," it is indisputable

5 Address by Bruce Wilson, Special Assistant to the Assistant Attorney General (1971).
6 *Id.*

> that Congress has made the choice. Accordingly, antitrust analysis is bound to accept the legality of the patent holder's monopoly position.[7]

This was repudiation of the Nine No No's, or at least most of their undergirding principles.[8]

Second, it came to be the received wisdom of the enforcement agencies that the value of the patent monopoly arises from the patent holder's ability to exploit his patent-based market power. It is only where market power is unlawfully obtained or exploited – that is, by means other than individual inventive effort – that a true antitrust problem arises. Thus, the independent decisions of the patent holder/patentee regarding the means by which an invention is to be combined with other productive inputs ought to be regarded as having no inherent anticompetitive import.

As the 1980's wore on, it became increasingly clear that enforcement policy would condemn only those intellectual property licensing arrangements that (a) restricted competition among technologies that were economic substitutes, or (b) excluded new technologies from the market, or (c) involved sham conduct designed to coordinate the pricing of the products not directly related to the patent. The antitrust laws were suddenly *not* viewed as hostile to licensing that represented an effort by the licensor fully to appropriate the inherent value of the intellectual property at hand.

**3. 1988 and Beyond**

In 1988, the Antitrust Division released its "Enforcement Guidelines for International Operations." Section 3.6 of that document dealt with intellectual property licensing arrangements. It was the first real effort by the DOJ to develop a framework for thinking about intellectual property law and antitrust. The 1988 guidelines described a four step analysis. The *first step* examined whether the license restrained independent competition between the licensor and its licensee(s) in a relevant market and, if so, whether the license likely would create, enhance or facilitate the exercise of market power. This step in general was designed to analyze the competitive effects of cross licenses and patent pools involving competing technologies.

The *second step* examined whether the license expressly or implicitly restrained competition in some other market in which the licensor and licensee competed or would compete in the absence of the license. This inquiry was aimed at "spillover" effects. The Department was concerned about the competition that could occur if the licensee had access to the licensor's technology.

The *third step* examined whether the license would (a) result in anticompetitive exclusion (*e.g.*, exclusion other than that inherent in the intellectual property rights themselves), or (b) facilitate collusion in some market. This step drew heavily on the Reagan-era view that vertical restraints were, in general, benign and became unlawful only in exceptional circumstances -- such as where they facilitate collusion in horizontal markets resulting in anticompetitive exclusion from some essential input.

The *fourth and final step* examined whether any anticompetitive features were offset by procompetitive efficiencies generated by the license restrictions. This, of course, roughly paralleled the merger guidelines, which had by then been in force for more than five years.

Since 1988, literally hundreds of speeches, articles, papers, updated guidelines, agency reports, and of course judicial opinions, have issued addressing the intersection of IP and antitrust law. An extraordinary amount of time has been spent (and ink spilled) on the topic. The 1988 guidelines were superseded by the 1995 Intellectual Property Guidelines. Then, during the early years of the 21st-century the FTC and the DOJ held extensive hearings on the proper balance of

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7 Abbott B. Lipsky, Jr., Deputy Assistant Attorney General, Antitrust Division, Current Antitrust Division Views on Patent Licensing Practices (November 15, 1981), *reprinted in* 4 Trade Reg. Rep. (CCH) Paragraph 13,129.

8 The Nine No No's have become a sort of parody. Almost nobody today actually reads them; instead they make fun of them as a symbol of something silly. But many of them still reflect the general view of the law today (##1, 4, 7 and, until last year, 9), and as our colleague Doug Rosenthal reminded me, in commenting on the antepenultimate draft of this paper, Bruce Wilson was a Republican.

competition and patent law and policy. These hearings resulted, in October 2003, in a report of several hundred pages from the FTC itself, which recommended a variety of changes to the patent system as summarized in the introduction to this paper.[9] This was, even if flawed,[10] a thoughtful and important document that in the long run might prove influential. Nearly four years later, in the spring of 2007, the two agencies issued their 123-page report on "Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition." Meanwhile, of course, just in the last decade or so we have had a great many high profile IP cases and IP based antitrust cases or investigations involving Microsoft,[11] Intel,[12] QUALCOMM,[13] Rambus,[14] Xerox,[15] Quanta,[16] eBay,[17] Verizon,[18] and various pharmaceutical companies,[19] among others. These cases, many involving technologies that are themselves barely a decade old, have been at least partly responsible for unleashing a tsunami of writings about the proper balance between protecting innovation and prohibiting monopoly.

Before going further, it is useful to dwell for a moment on the 1995 Guidelines for the Licensing of Intellectual Property, as they are still in effect and they still represent the enforcement policy of United States, notwithstanding the several hundred other pages of materials mentioned above issued both by the FTC and the DOJ.

First of all, the Guidelines set forth the view – considered almost radical at the time they were issued — that IP and antitrust have the common purpose: "of promoting innovation and enhancing consumer welfare." (Section1.0). The Guidelines announced that they were embracing three bedrock principles, most of them widely accepted today (although not completely, and in some cases grumblingly). However, at the time, none of the principles were really as embraced by the courts as they are today.

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9 See n.1 *supra*. When viewed in the broader context of reform in the United States, it seems clear that some of the FTC's proposed changes are similar in nature or intent to those being considered currently by the United States Congress for the purpose of increasing the overall quality of granted patents. *See* The Patent Reform Act of 2007, H.R. 1908, S. 1145, 100th Cong. (2007). The 2003 FTC Report ended up being substantially embraced The Antitrust Modernization Commission too, see the Report and recommendations of the AMC, available at www.amc.com The AMC's main concerns surrounded the quality of patents issued, a certain laxity in the application of the obviousness requirement, and the limitations of the PTO in dealing with these problems. This may suggest that the focus is shifting away from the idea that the patent laws and competition laws are inherently in conflict, and reflecting instead a strengthening consensus that patents are not antithetical to competition so long as they are not misused or improvidently granted.

10 A most thoughtful critique of the FTC report was 'offered by Robert P. Taylor, "Imbalance' is in the Eye of the Beholder: A Comment on the FTC Report on Competition and Patent Law and Policy." (March 3, 2004)(This paper was published, although I cannot find out right now where; I have a manuscript copy and would be happy to provide it to anyone who asks).

11 *United States v. Microsoft Corp*., 253 F.3d 34 (D.C. Cir. 2001) (*en banc*); Case T-2-1/04, *Microsoft Corp. v. Commission* (Sep. 17, 2007), *available at* http://eur-lex.europa.eu/LexUriServ.do?uri=CELEX:62004A0201:EN:HTML. It is also available via Lexis, where it is cited as 2007 ECJ EUR-Lex LEXIS 2620. The case will be referred to here simply as *"Microsoft CFI"* and citations will be to the pertinent paragraph number(s).

12 Intel is the target of a private action brought under Section 2 of the Sherman Act by Advanced Micro-Devices, Inc. *AMD et al. v. Intel,* Civil Action No. 55-441 (D. Del., filed January 27, 2005). The European Commission issued a press release on July 27, 2007 describing its Statement of Objections to Intel, brought as a result of a complaint launched by AMD with the EC. According to the Commissions release:

> First, Intel has provided substantial rebates to a leading European personal computer retailer conditional on its selling only Intel-based PCs. Secondly, Intel made payments in order to induce a leading Original Equipment Manufacturer to delay the planned launch of a product line incorporating an AMD-based CPU. Thirdly, in a subsequent period, Intel has provided substantial rebates to that same OEM conditional on it obtaining all of its laptop CPU requirements from Intel.

Almost a year later, on July 17, 2008, the Commission issued a further release confirming that it had sent a supplementary Statement of Objections to Intel. According to that release:

> "Each of the conducts outlined in the 26 July 2007 Statement of Objections and the SSO is provisionally considered to constitute an abuse of a dominant position in its own right. However, the Commission also considers at this stage of its analysis that all the types of conduct reinforce each other and are part of a single overall anticompetitive strategy aimed at excluding AMD or limiting its access to the market.

In the end, *Intel* is probably "simply" an Article 82 case without any special connection to intellectual property."

13 QUALCOMM is the target of litigation by Broadcom and Nokia [*Broadcom Corp. v. Qualcomm, Inc*., 501 F.3d 297 (3d Cir. 2007), *Nokia v. QUALCOMM* , Civil Action No. 06-509 JJF, 2006 US Dist. LEXIS 61383 (D. Del. Aug. 29, 2006)] in the United States and is the subject of an investigation by the EC in Brussels. The EC issued a release on October 1, 2007, announcing the initiation of formal proceedings against QUALCOMM in connection with a potential abuse of a dominant market position. The proceedings were commenced based on complaints lodged with the commission by Erickson, Nokia, Texas Instruments, Broadcom, NEC and Panasonic- all manufacturers of either mobile phones or chipsets. QUALCOMM is a holder of IPR in the CDMA and WCDMA standards for mobile telephony. The WCDMA standard forms part of the 3G (third generation) standard for European mobile phone technology.

The Commission pointed out in its release that the initiation of proceedings does not imply that the Commission has proof of an infringement, but only signifies that the Commission will conduct an in-depth investigation as a matter of priority.

According to the release, the alleged conduct concerns the terms under which QUALCOMM licenses its patents essential to the WCDMA standard and the investigation is focusing on whether QUALCOMM is dominant and whether the licensing terms and royalties imposed by QUALCOMM are, as alleged by the complainants, not fair, reasonable and nondiscriminatory (FRAND). As to the conduct relating to standardization, a finding of exploitive practices by QUALCOMM in the WCDMA licensing market contrary to Article 82 may depend on whether the licensing terms imposed by QUALCOMM are in breach of its FRAND commitment.

14 *Rambus Inc. v. Federal Trade Comm'n*, 522 F.3d 456 (D.C. Cir. 2008).

15 *In re Indep. Serv. Orgs. Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1143 (2001).

16 *Quanta Computer, Inc. v. LG Elecs., Inc.*, __ U.S. __, 128 S. Ct. 2109 (2008).

17 *eBay v. MercExchange, LLC*, 547 U.S. 388 (2006).

18 *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004).

19 *In Re: Tamoxifen Citrate Antitrust Litigation,* 429 F.3d 370 (2d Cir. 2005); *Schering-Plough Corp. v. FTC.,* 402 F.3d 1056 (11th Cir. 2005); *Imperial Chem. Indus., PLC v. Heumann Pharm. GmbH & Co.*, 991 F.2d 811 (Fed. Cir. 1993), discussed in part 6, below.

**1. Intellectual property is considered to be essentially comparable to other forms of property.** Recall that in the early years, court decisions embraced the notion that patent holders enjoyed "... absolute freedom in the use or sale of rights under the patent laws of the United States" because the "very object of these laws is monopoly."[20] It was based on this principle that the Supreme Court permitted horizontal price-fixing[21] and minimum resale price maintenance[22] by holders of intellectual property that would have been *per se* illegal had it involved tangible property. While this first principle has been criticized as giving little guidance, and misleadingly suggesting an overly simplistic approach to complex issues,[23] it is nonetheless a helpful first step at demystification of the field. Intellectual property rights are just like other property rights, but they are often very complicated packages or bundles of rights. A lot of intellectual property rights certainly do begin to look more complicated when they are put in pools together, when they are assembled in "thickets," and when one tries to ascertain what other packages or bundles of rights might be thought to be competing with, and hence in the same market as, a particular patent and its associated claims. And, of course, the rights associated with patents are often contestable, making them difficult to pin down or stabilize for the purpose of the analyses required by antitrust.

**2. There is no presumption that intellectual property generates market power in a relevant market for antitrust purposes.** Previously, courts had condemned various practices they viewed as falling outside the protection of the patent and copyright laws because they were not inherent in the patentee's exploitation of its statutory "monopoly." Thus, Courts considered these practices — including tying, grantbacks, exclusive dealing, and package licensing — unlawful under the antitrust laws.[24] While Congress had amended the Patent Act in 1988 to clarify that the grant of a patent should not be equated with market power for purposes of the patent misuse defense,[25] it was not until the Supreme Court's recent decision in *Illinois Tool Works v. Independent Ink, Inc.*,[26] that the judiciary finally abandoned the presumption in antitrust cases that intellectual property conferred market power or monopoly power.

This does not, of course, mean that patents never confer market or monopoly power: they may indeed do so if there is no other substitute readily available. But the absence of the presumption leaves patent holders far more secure from attacks based on Section1 of the Sherman Act.

**3. Licensing is generally procompetitive inasmuch or insofar as it allows firms to combine complementary factors of production in an efficient manner.** For most practical purposes, the important aspects of the Guidelines spring from this proposition. As the agency put it:

> Licensing, cross-licensing, or otherwise transferring intellectual property can facilitate integration of the licensed property with complementary factors of production. This integration can lead to more efficient exploitation of the intellectual property, benefiting consumers through the reduction of costs and the introduction of new products. Such arrangements increase the value of intellectual property to consumers and to the developers of the technology. By potentially increasing the expected returns from intellectual property, licensing also can increase the incentive for its creation and thus promote greater investment in research and development.[27]

Again, this does not mean that all licensing is good, but in most cases, the antitrust issues are likely to be of a more obvious sort. Generally, licensing schemes will not raise antitrust issues, except for cases where: licenses effectively divide markets; the licensing arrangement effectively amounts to a merger of close competitors and hence the elimination of competition; the arrangement might foreclose or limit competitors' access to required inputs; or where the arrangement might facilitate coordination

20 *Bement, Inc., v. National Harrow Co.,* 186 U.S. 70, 91 (1902).
21 *Id.* at 91-92.
22 *United States v. GE, Co.* 272 U.S. 476, 490 (1926).
23 Biester, Reevaluating the 1995 Antitrust Guidelines for the Licensing of Intellectual Property, *Antitrust Magazine*, 9 (Summer 2002).
24 Cases on these collected in ABA Section of Antitrust Law, Antitrust Law Developments (6th ed. 2007), 1081.
25 35 U.S.C. (d) (5).
26 547 U.S. 28 (2006).
27 Guidelines, Section 2.3.

between or among competitors. In Europe, there is the additional and consequential issue of whether a refusal to grant a license, or particular terms contained within a license, might amount to of an abuse of a dominant position under Article 82 of the EC Treaty (or a violation of Article 81), all of which is addressed in Part 5 of this paper below.

Beyond these three guiding principles, the Guidelines address the mode of analysis (Section 3.4) (nearly always rule of reason); set forth some general principles (Section 4);[28] provide a safe harbor (Section 4.3);[29] and provide some guidance with respect to specific areas, these being: horizontal restraints (Section 5.1), Resale Price Maintenance (Section 5.2), Tying (Section 5.3), Exclusive Dealing (Sections 4.1.2 & 5.4), Cross-Licensing and Pooling Agreements (Section 5.5), Grantbacks (Section 5.6), Acquisition of Intellectual Property (Section 5.7) and Enforcement of Invalid IP (Section 6).

The Guidelines do not address, however, what has become one of the hottest topics in IP/antitrust–the issues arising out of the settlement of patent litigation between brand-name drug companies and generic companies in the context of litigation generated by the Hatch Waxman Act and they also do not address the entire area of the role of antitrust in policing the use and abuse of IP in standard setting, also a vital area today both in the United States and Europe. This paper now visits these areas serially in an effort to explicate the state of the law, the state of important or conflicting government policy where appropriate, and generally to highlight important or attention-grabbing issues. Along the way, and also separately, the paper attempts to provide an understanding of the state of law and policy on many of these issues in Europe, or at least the European Union.[30]

**B. Current Issues**

Most of the action at the confluence of IP and antitrust falls into one of a handful of "buckets." These buckets, some of which are big and some of which are small, are describable as follows:

**1. Conduct by the patentee that involves an effort to enforce rights the patentee does not really have.** It is useful to think of this area of the law as involving essentially three different scenarios, although there may be variations of each. First, there is the classic situation described in *Walker Process*[31] involving the enforcement of a patent procured by fraud on the Patent Office. Efforts to enforce such a patent may give rise to liability under Section 2 of the Sherman Act "... provided the other elements necessary to a Section 2 case are present." This has always been a somewhat murky, yet more or less straightforward area of the law, although that is changing(it is becoming both less murky and less straightforward). Over the years, the "enforcement" requirement became its own critical element in *Walker Process* litigation.[32] This has now changed as a result of the decision of the Federal Circuit in *Hydril Co. LP v. Grant Prideco LP.*[33] The court there held that the threat of enforcement activity directed against a rival's customer was enough to satisfy the "enforcement" requirement of a *Walker Process* claim. What the Court said was:

> Threats of patent litigation against customers, based on a fraudulently-procured patent, with a reasonable likelihood that such threats will cause the customers to cease dealing with their supplier, is the kind of economic coercion that the antitrust laws are intended to prevent. A supplier may be equally injured if it

28 "When a licensing arrangement affects parties in a horizontal relationship, a restraint in that arrangement may increase the risk of coordinated pricing, output restrictions, or the acquisition or maintenance of market power. Harm to competition also may occur if the arrangement poses a significant risk of retarding or restricting the development of new or improved goods or processes."
"When the licensor and licensees are in a vertical relationship, the Agencies will analyze whether the licensing arrangement may harm competition among entities in a horizontal relationship at either the level of the licensor or the licensees, or possibly in another relevant market. Harm to competition from a restraint may occur if it anticompetitively forecloses access to, or increases competitors' costs of obtaining, important inputs, or facilitates coordination to raise price or restrict output."

29 Absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement if (1) the restraint is not facially anticompetitive and (2) the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly affected by the restraint. This "safety zone" does not apply to those transfers of intellectual property rights to which a merger analysis is applied. *See* section 5.7.

30 A main, new, and important source of guidance in Europe is the 2004 Commission Guidelines on the Application of the EC Treaty to Technology Transfer Agreements, see Comm'n Reg. No. 772/2004, [2004] O.J. 2004 L 123/11.

31 *Walker Process Equip., Inc. v. Food Mac. and Chem. Corp.,* 382 U.S. 172 (1965).

32 *See,* Christopher R. Leslie, New Possibilities for Asserting *Walker Process* Claims, Antitrust Magazine 48-49 and nn. 7-8 (Summer 2007).

33 474 F.3d 1344 (Fed. Cir. 2007).

> loses its share of the market because its customers stop dealing with it than if its competitor directs its monopolistic endeavors against the supplier itself. Without customers, a supplier has no business.[34]

What this means is that patentees who are vulnerable to a claim that they procured their patent through fraud no longer have the kind of safe harbor at the margin that they used to have.[35]

*Walker Process* claims are often raised as counterclaims in patent infringement actions and hence, if appealed, end up before the Federal Circuit. This can be important as a matter of what substantive law applies.[36] The most important case in this area is *Nobelpharma AB v. Implant Innovations, Inc.,*[37] which found that *Walker Process* and the sham exception to *Noerr*[38] "…provide alternative legal grounds on which a patentee may be stripped of its immunity from the antitrust laws; both legal theories may be applied to the same conduct."[39] Second, there are the slightly similar situations where a patentee might either commence enforcement on a patent in good faith, but along the way come to learn that critical prior art was not disclosed to the PTO, or might institute litigation with knowledge that its patent is for some reason invalid. The leading case in this area is *Handgards, Inc. v. Ethicon, Inc.*,[40] but there are several others too. Unlike a *Walker Process* claim, which requires the plaintiff to prove that the defendant knew it was enforcing a patent obtained by fraud, this theory requires only that the plaintiff show the defendant learned sometime before suit was filed (or even during the pendency of suit) that the patent was not valid, enforceable, or infringed. Thus the continuation of ongoing litigation can become liability producing if, as and when the plaintiff comes to learn that he has no case.

Third, there is a developing variation on these two themes. Suppose a plaintiff has a patent that is valid and plainly not procured by fraud. But suppose that the plaintiff, either alone or in concert with others proceeds knowingly and serially to assert patent claims against defendants the patentee knows or should know do not in fact infringe the patent. In such circumstances, a party whose goods are claimed to infringe the patent(s), and who is threatened by this serial litigation, even against his customers, may have a claim under Section 1 of the Sherman Act for conspiracy (assuming concerted action) or under Section 2 of the Sherman Act for monopolization or attempted monopolization (or conspiracy to monopolize) where the subject matter of the patent itself may describe a pertinent relevant market, either a goods market or a technology market. *See Rockwell Automation, Inc. v. Schneider Automation, Inc. et al.*'[41] The case proceeded for years after the motion to dismiss was denied and eventually settled. While the case was decided prior to the Supreme Court's decision in *Twombly,*[42] there is little reason to believe that *Twombly* would have made any difference.[43]

**2. Acquisition of patents that might violate the antitrust laws, whether Sections 1 or 2 of the Sherman Act, or Section 7 of the Clayton Act.** Conceptually, this is a relatively straightforward area. Nearly all of the activity here is at the federal level in the context of merger or joint venture reviews of one sort or another. This does not mean that there are not opportunities for private enforcement in this area, but the opportunities are probably quite limited and a keen understanding of the problem, if there is one, is likely to be difficult for outsiders to the technology or industry.

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34 *Id.* at 1350.
35 Somewhat of a piece with this development is the Supreme Court's decision in *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007), which repudiated the Federal Circuit's "reasonable apprehension of suit" test for obtaining a declaratory judgment. The Supreme Court found the Federal Circuit's test inconsistent with the Supreme Court's own declaratory judgment jurisprudence and the Court was critical of the Federal Circuit for making it too difficult for competitors to challenge the validity of a rival's patent.
36 *See generally,* ABA Section of Antitrust Law, Antitrust Law Developments (6th ed. 2007) 1090-91.
37 141 F.3d 1059 (Fed Cir. 1998).
38 *Eastern R.R. Presidents Conference v. Noerr Motor Freight*, 365 U.S. 127 (1961), providing First Amendment protection to petitioning activity, including the filing of good faith non-sham antitrust lawsuits.
39 *Nobelpharma AB*, 141 F.3d at 1071.
40 601 F.2d 986 (9th Cir. 1979).
41 Case No. 02-C-1195 (E.D. WI, Sep. 30, 2003) (denying defendants' motions to dismiss for failure to state a claim).
42 *Bell Atlantic Corp. v. Twombly,* 127 S. Ct. 1955 (2007), is an extremely important US Supreme Court decision requiring antitrust plaintiffs, and indeed other plaintiffs in general, to plead facts sufficient to support the conclusions alleged and eviscerating several decades of cases generally holding that if a plaintiff could prove "any set of facts" in support of his claim, his case could proceed beyond a motion to dismiss.
43 Generally, just because a patent owner loses its case does not mean it did not have probable cause when it filed suit. For a situation to constitute a sham litigation, it must be the case that the patent owner learns it has no case *before judgment* but nevertheless continues to pursue its case.

**3. Conduct by the patentee that involves tying (or maybe a tie-out) or bundling.** This discussion assumes a working knowledge of the law of tying and bundling generally, at least in the United States. It does not assume knowledge of bundling or "range effects" in Europe. More so than in other areas of antitrust, lawyers and economists tend to think of tying or bundling in an intellectual-property setting as involving either "contractual" or "technological" tying or bundling. Classic "contractual" patent tying occurs when the tying product (such as a mimeographed machine) is patented, the tied product is an unpatented commodity used as an input (such as ink or paper), and the sale of the patented product is conditioned on the purchase of the unpatented product.[44] The analysis in general is relatively straightforward, at least in theory. As in any other type of tying, coercion is the essential element, and hence to establish unlawful tying there must be evidence that licensees were in some way forced to take a product they did not want.

This often comes up in a patent misuse setting where the defendant seeks to eviscerate the plaintiff's patent by asserting patent misuse as an affirmative defense. Incidentally, it is worth being aware that patent misuse is often a much more powerful weapon than an antitrust counterclaim. While attorneys' fees and treble damages are not available, the threat to the plaintiff is that the patent becomes unenforceable until the misuse is purged. More importantly, perhaps, the assertion of an affirmative defense of patent misuse, unlike the assertion of an affirmative antitrust claim or counterclaim, is not freighted with issues of standing, antitrust injury, injury in fact, damages and so forth, all of which can make an antitrust plaintiff's life unusually difficult and burdened.[45]

A "technological tie" is one in which "the tying and tied products are bundled together physically or produced in such a way that they are compatible only with each other."[46] An example would be a razor and razor blade cartridge. The U.S. Government's tying claim against Microsoft involved both a contractual and a technological bundling of the Internet Explorer Web browser (the tied product) with Microsoft's Windows operating system (the tying product).[47] In many cases different intellectual property rights may themselves be combined into bundles or packages. Mandatory package licensing occurs when a patent owner refuses to license a particular patent unless a licensee accepts an entire package (or where the patent owner's royalty scale has this effect). The notion includes "block booking" of motion pictures or television shows.[48]

The circuit courts and the lower courts in general have not taken a consistent analytical approach to tying and bundling cases involving intellectual property. Package licenses generally come under the same set of rules as tying and bundling. At one extreme, the Eleventh Circuit applied the *per se* rule to a package license for television programming since the package at issue could not be distinguished from the block booking that the Supreme Court declared to be illegal *per se* in *United States v. Loews, Inc.*[49] On the other hand, the D.C. Circuit in its *en banc Microsoft*[50] decision declined to apply the *per se* rule to "platform software," thereby carving out what has been described as a "technology exception" to the *per se* rule. The Federal Circuit, reversing the International Trade Commission, has also rejected a *per se* approach in a package licensing case and applied traditional tying case law to find that a package license combining alleged "essential" with "nonessential" patents did not constitute patent misuse because there was no separate demand for the "nonessential" patents, and thus no separate product market in which competition could have been foreclosed.[51] The court

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44 See US Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007) 107.

45 Although establishing patent misuse is simpler than establishing an antitrust violation, a recent line of cases from the Federal Circuit incorporated traditional relevant market/antitrust analyses into the analysis. For example, the Federal Circuit in *Philips Corp.* v. *Int'l Trade Comm'n.,* 424 F.3d 1179 (Fed. Cir. 2005), concluded that, in certain cases, the doctrine of patent misuse under 35 U.S.C. Section 271(d) may even be narrower than the corresponding antitrust laws. Because 35 U.S.C. Section 271(d) designates several forms of conduct, including certain types of patent license tying, as not constituting patent misuse unless the patent holder has market power for the patent on which the license is conditioned, the Federal Circuit has concluded that patent misuse cannot be found in cases where it cannot be demonstrated that the patentee does not have market power, and need not be found even in cases where market power can be demonstrated. Consequently, even though the patent misuse doctrine is theoretically broader than the antitrust laws, in practice their scope may be much the same. Still, though, the procedural hurdles attending a misuse claim are noticeably fewer than those accompanying an antitrust claim.

46 1 Hovenkamp *et al.*, IP and Antitrust Section 21.5b2, at 21-104-05.

47 *United States v. Microsoft Corp.,* 253 F.3d 34, 45 (D.C. Cir. 2001)(*en banc*).

48 US Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007) 107.

49 371 U.S. 38 (1962).

50 *Microsoft*, 253 F.3d at 95.

51 *Philips Corp. v. Int'l Trade Comm'n,* 424 F.3d 1179, 1193-97 (Fed. Cir. 2005).

rejected a *per se* approach "[i]n light of the efficiencies of package patent licensing and the important differences between product-to-patent tying arrangements and arrangements involving group licensing of patents. …"[52]

The antitrust treatment of these types of licenses depends mainly on whether the licensee has been forced to accept the package as a condition for receiving one or more desired licenses. Consensual package licenses not involving some form of coercion are generally found lawful and also do not amount to patent misuse. Where the price of the package sought does not vary depending on the number of licenses in it, there should not be any issue, and where for activities under one patent and package could not be carried out without infringing all patents in the group, then even theoretical "coercion" does not create liability.[53]

Slightly similarly, the Federal Circuit held that a contractual tie that prevented licensees of Monsanto's patented herbicide tolerance trait from using a non-Monsanto herbicide was not misuse when only Monsanto's herbicide had been approved by the EPA for use with the Monsanto trait.[54] While the court took note that the Supreme Court had not permitted justifications for anticompetitive conduct unrelated to the public interest in competition, it found that the tie should be analyzed under the rule of reason and did not have the anticompetitive effect required to constitute patent misuse because it was the government registration restriction, not Monsanto's contract, that limited competition.[55]

In short, tying still presents legal challenges to companies and their counsel, and, concomitantly, opportunities for the plaintiffs' bar. But in most cases the analysis is not particularly complicated and competition lawyers should not be intimidated by the fact that the legal analysis takes place in some specie of high-tech environment. On the other hand, and the decision of the Third Circuit in *LePages* notwithstanding, nearly all situations involving ordinary commercial bundling of products or services at prices above average variable cost are probably unburdened by material risk.

**4. Conduct by a holder of intellectual property rights (IPR) in a standard-setting context.** The main legal issue in this area is whether, or to what extent, a company's conduct before a standard-setting organization ("SSO") may thereafter limit its ability to enforce patents covering that standard. The patent and competition law principles continue to be far from settled; the area has seen an enormous amount of activity; and writings on the topic are plentiful.[56] The activity in this area has been coming from three directions: FTC enforcement activity resulting in litigation or consent decree; Justice Department Business Review Letters; and private litigation.

**a. FTC Activity.** The lead FTC enforcement action, of course, is *Rambus*,[57] about which I wrote a great deal for this group two years ago, concluding that the FTC decision was deeply flawed.[58] In a decision of more than a hundred pages, the Commission found Rambus to have engaged in a Section 2 Sherman Act violation by deceiving the SSO (the Joint Electron Device Engineering Council, universally referred to as JEDEC) into adopting Rambus' proprietary technology as part of a standard. The gravamen of the FTC's case was that "Rambus' alleged deception [of the SSO] enabled it *either* to acquire a monopoly through the standardization of its patented technologies rather than possible alternatives, *or* to avoid limits on its licensing fees that the SSO would have imposed as part of its normal process of standardizing patented technologies."[59] The court held that this latter activity - deceit enabling a monopolist to charge higher prices than it otherwise could have charged - would not in itself constitute monopolization. And since the

52 *Id.* at *1193.*
53 *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723 (9th Cir. 1964).
54 *Monsanto Co. v. Scruggs*, 459 F.3d 1328 (Fed. Cir. 2006).
55 *Id.* at 1341.
56 Cowie, Antitrust and Standard Setting: Recent Developments, Presentation to licensing Executives Society (May 7, 2008); Anne Layne Farrar, Antitrust and Intellectual Property Rights: Assessing the Link between Standards and Market Power, Antitrust Magazine 42 (Summer 2007); Michael G. Cowie and Joseph P. Lavelle, Patents covering industry standards: the risks to enforceability due to conduct before standard-setting organizations, AIPLA Quarterly J. 95 (Winter 2002); Taylor, Standard Setting: A Growing Morass, (May, 2002) (unpublished).
57 *Rambus, Inc. v. Federal Trade Comm'n*, 522 F.3d 456 (D.C. Cir. 2008).
58 John Briggs, *The Unsettled and Unsettling Nature of U.S. Competition Law Governing Single Firm Conduct,* Sedona Conference at 19-23 (Oct. 26-27, 2006).
59 *Rambus Inc.* 522 F.3d at 458 (emphasis in original).

Commission only found "A" or "B" without determining which was the violation, since either could be, the Court found that the Commission's conclusion that Rambus' conduct was exclusionary depended on the syllogism that Rambus avoided one of two outcomes by not disclosing its patent interests; the avoidance of either of those outcomes is anticompetitive; therefore Rambus' nondisclosure was anticompetitive.[60] But "the Commission expressly left open the likelihood that JEDEC would have standardized Rambus' technologies *even if Rambus had disclosed its intellectual property.*"[61] Under this hypothesis, JEDEC lost only an opportunity to secure a RAND commitment from Rambus. But the loss of such a RAND commitment is not itself a harm to competition from alternative technologies in the relevant markets. For this proposition, the panel relied heavily on the Supreme Court's decision in *NYNEX Corp. v. Discon, Inc.*[62]

Discon had alleged that New York Telephone, through a corporate affiliate, had switched its purchases of removal services from Discon to a higher-priced independent firm. The New York Telephone affiliate would pass the higher fees on to New York Telephone, which in turn passed them on to customers through higher rates approved by regulators. According to Discon, the nub of the deception was that AT&T technologies would provide the New York Telephone affiliate with a special rebate at year's end, which it would then share with NYNEX. By thus hoodwinking the regulators, the scam raised prices for consumers. Discon, because it refused to play the game, was driven out of business. It alleged that the arrangement was anticompetitive and constituted both an agreement in restraint of trade in violation of Section 1 of the Sherman Act and a conspiracy to monopolize the market for removal services in violation of Section 2 of the Sherman Act.

As to Discon's Section 1 claim, the Court held that where a single buyer favors one supplier over another for an improper reason, the plaintiff must "allege and prove harm, not just to a single competitor, but to the competitive process."[63] And while conceding injury to consumers, the Supreme Court found that the consumer injury naturally flowed not so much from a less competitive market for removal services as from the exercise of market power *lawfully* in the hands of a monopolist, New York Telephone. It was that, combined with the deception worked upon the regulatory agency, that prevented the agency from controlling New York Telephone's exercise of its monopoly power.[64]

Because Discon based its Section 2 claim on the very same allegations of fraud, the Supreme Court vacated the appellate court's decision to uphold that claim because "[u]nless those agreements harmed the competitive process, they did not amount to a conspiracy to monopolize."[65] The D.C. Circuit panel sharply criticized the Commission for failing to grapple with, or even mention, the *Discon* case. This broad reading of *Discon* by the Court of Appeals seems especially to have rankled the Commission.

The panel's decision is not necessarily the last word, since the Commission last June filed a petition for rehearing *en banc*, arguing that the panel decision is: (1) inconsistent with the causation standard for monopolization articulated by the D.C. Circuits' *en banc* decision in *United States v. Microsoft Corp.,*[66] requiring "but for" proof in an equitable enforcement action would impose on the Government a nearly insurmountable burden of reconstructing the hypothetical "but for" marketplace - a burden that "would only encourage monopolists to take more and earlier anticompetitive action," and (2) improperly extends the Supreme Court's holding in *Discon* to protect a firm's use of deception to achieve monopoly power. The Commission in this area argues that:

> The panel's dismissal of the harm to JEDEC members as a mere "loss of an opportunity to seek favorable licensing terms"- and its consequent reliance on the analysis in … *Discon* – reflects its failure to appreciate the fundamental differences between actions taken by a monopolist to exercise monopoly power already obtained, and actions that are central to its obtaining of such power.[67]

60 *Id.* at 463.
61 *Id.* at 466 (emphasis in original).
62 525 U.S. 128 (1998).
63 *Id.* at 135.
64 *Id.* at 136.
65 *Id.* at 139.
66 253 F.3d 34 (D.C. Cir. 2001).
67 FTC Pet. for Rehearing *en banc* at 10, http://www.ftc.gov/os/caselist/0110017/080606rambusrehearingpetition.pdf.

*Rambus* continues to be an important case not just for the parties, but also for the development of the law more broadly, including more broadly even than the IP/antitrust interface.

Less visible and less dramatic, but nonetheless important, is the Commission's January 2008 Consent Order involving Negotiated Dated Solutions, LLC (" N-Data").[68] The pertinent SSO was the Institute of Electrical and Electronics Engineers ("IEEE"). The case had its roots in the working group that determined that it would be desirable for Fast Ethernet equipment to be compatible with existing LAN equipment and with future generations of equipment. In 1994 the patent holder advocated that NWay technology be adapted into the new IEEE Ethernet standard. In 1994, the patent holder provided public assurances that if NWay technology were chosen, it would license NWay to any requesting party to for a one-time fee of $1000. The patent holder later assigned a number of the patents, who in turn assigned some of them to N-Data. N-Data was aware of the 1994 assurances, but rejected requests from companies to license NWay technology for a one-time fee of $1000 and instead threatened to initiate legal actions against companies refusing to pay its more excessive royalty demands.

In a 3-2 decision, the FTC accepted a consent decree from N-Data. In its "Statement," the majority wrote that "... we find reason to believe that [N-Data's] conduct violated Section 5 of the FTC act … [as] an unfair method of competition…. [and that] N-Data's conduct is also an unfair act or practice." The majority relied on the 1972 Supreme Court decision in *FTC v. Sperry & Hutchinson Co.*[69] The fundamental issue here was whether Section 5 of the FTC Act reaches beyond those acts or that conduct prohibited by Sections 1 and 2 of the Sherman Act. In its accompanying "Analysis of Proposed Consent Order to Aid Public Comment," at 5, n.8, the Commission goes out of its way to note that: "… because the proposed complaint alleges stand-alone violations of Section 5 rather than violations of Section 5 that are premised on violations of the Sherman Act, this action is not likely to lead to well-founded treble damage antitrust claims in Federal Court." The majority recognized Commissioner Kovacic's dissenting concern that FTC "unfair methods" cases may support private actions based on state law and the majority seemed to share this concern, or at least "join[ed] him in encouraging comment on that issue."

The dissenting opinions of Chairman Majoras and Commissioner Kovacic questioned whether there should be liability at all, and Commissioner Kovacic was especially concerned that N-Data, a small company without substantial resources, could become exposed to private treble damage actions under state law or otherwise. He was critical of the majority's assumption that there would be no spillover effects and expressed concern that many state consumer protection statutes embrace rulings of the Federal Trade Commission as part of their substantive law and that many states have authorized private parties to enforce their UMC and UAP statutes in suits that permit the court to impose treble damages for infringements.

A salient point is that the private treble damage action has fallen into considerable disrepute when all five FTC commissioners express concern or fear about whether their decision would trigger such actions, even as they rely upon a case from the early 1970s that expanded the boundary of the Commission's authority to its very outer limit (*S&H*).

**b. DOJ Activity.**[70] The only notable recent DOJ activity has been the issuance of two Business Review Letters to two separate SSO's – one last year to the IEEE, another in 2006 to the VMEBus International Trade Association (VITA).

68 All of the pertinent papers, filed January 23, 2008, may be found at http://www.ftc.gov/os/caselist/0510094/index.shtm.
69 405 U.S. 233, 242 (1972).
70 Both the DOJ and the FTC have their fingerprints on a few policy statements from the DOJ/FTC 2007 Joint Antitrust/IP *Guidelines* in respect of standard setting. What they say is by and large unremarkable:
1. An IP holder's voluntary and unilateral disclosure in its licensing term, including its royalty rate, is not a collective act subject to review under Section 1 of the Sherman Act.
2. Bilateral *ex ante* negotiations about licensing terms that take place between an individual SSO member and an individual IP holder…outside the auspices of the SS also are unlikely to require special antitrust scrutiny….
3. *Per se* condemnation is not warranted for joint SSO activities that mitigate "hold up" and that take place before deciding which technology to include in a standard.

VITA sought review of its patent policy under which each member of the working group had to: (i) identify all relevant patents or patent applications; (ii) declare the maximum royalty rates and most restrictive non-royalty they will request for any such patent claims; (iii) patent holders may submit subsequent declarations with less restrictive licensing terms (including lower royalties); and (iv) working group members could consider the various declared licensing terms when deciding which technology to support during the standard-setting process. The Department advised that, unless the standard-setting process was used as a sham to cloak naked price-fixing or bid-rigging, it would analyze the action taken during the standard-setting process under the rule of reason. No enforcement challenge was merited.

IEEE sought review of a proposed patent policy under which a patent holder had five options: (i) provide no assurance; (ii) state that it does not hold essential patents; (iii) commit not to assert its patents against implementers of the standard; (iv) commit to a license on RAND terms, or (v) commit to maximum price terms. The Department concluded that the IEEE's policy offered potential benefits comparable to those offered by the VITA policy and hence did not merit an enforcement challenge.

**c. Private Litigation.** There are two broad classes of litigation and recent cases illustrate each. First, there are cases that hinge on IP disclosure issues, and second, there are cases that deal more with what a RAND promise means as a practical or legal matter.

Rambus is responsible for much of the private litigation in the first category. Some eight years ago, Rambus sued Infineon for allegedly infringing four of its patents in implementing the JEDEC SDRAM standards. Infineon counterclaimed asserting fraud claims under state law. Initially, the District Court found that Infineon had not infringed Rambus's patents and the jury found that Rambus had committed fraud by failing to properly disclose patent information to the SSO.[71] On appeal, the Federal Circuit vacated the noninfringement judgment and was skeptical of the anticompetitive implications of nondisclosure. In particular, the majority found that JEDEC's disclosure rules were too vague to create any enforceable commitment for Rambus.

Then there was *Broadcom Corp. v. QUALCOMM Inc.*[72] The simple holding was that a patent holder's intentionally false promise to a standard-setting organization that it would license its technology on RAND terms, coupled with the SSO's reliance on that promise when including the technology in a standard, amounted to anticompetitive conduct since it increased "the likelihood that patent rights will confer monopoly power on the patent holder."[73] The case may not be as reliable on this point as could be otherwise thought for two reasons: first, it relied heavily on the now reversed Federal Trade Commission decision in *Rambus* that was criticized by the D.C. Circuit as being in conflict with *Discon*.[74] Second, the decision simply reversed an order granting a motion to dismiss so there was no factual record to speak of beyond the complaint.

There is also *Nokia v. QUALCOMM, Inc.*[75] Here, as in the *Broadcom* case, the plaintiff asserts that QUALCOMM made a RAND promise to the SSO but failed to keep it. At the core of both cases is the presumption that being included in a standard confers market power on patent holders. According to the complaints, they share a common concern over the aggregate royalty rate for the 3G standard for mobile telecommunications. Both Broadcom and Nokia allege that RAND entails not just a reasonable royalty rate from each licensor viewed in isolation, but a reasonable cumulative rate when all firms' rates are stacked up, as would be required for any downstream firm to implement the standard in as much as the elements of a standard are complementary and implementers must therefore license all of them. In the circumstances, the assertion by Broadcom and Nokia was that a given firm's rates can be deemed reasonable only in light of their relative place in the

71 Anne Lynn Farrar, Antitrust and Intellectual Property Rights: Assessing the Link Between Standards and Market Power, Antitrust Magazine 32 (Summer 2007). [Hereafter "Farrar"].
72 501 F.3d 297 (3d Cir. 2007).
73 *Id.* at 314.
74 *Rambus v. Federal Trade Comm'n, supra* at 463.
75 Civil Action No. 06-509 JJF, 2006 US Dist. LEXIS 61383 (D. Del. August 29, 2006). The District Court's two page opinion is limited to remanding the case to the Delaware Court of Chancery, finding removal to have been improvident. Interestingly, the case was brought in state court as a breach of contract case in a standard-setting context. The court found that resolution of the claim depended on interpretation of the terms of the licensing agreement, rather than an interpretation of the patents. Accordingly, the court concluded that there was no substantial question of patent law warranting federal jurisdiction. I find this to be one of the most interesting aspects of all of this.

cumulative total. Thus a key element in the complaints by Nokia and Broadcom against QUALCOMM is that its rates are "excessive" in relation to its contributions to the standard. In defense, QUALCOMM has argued that its IP contributions to the 3G standard are highly valuable and its rates are hence justified. Indeed, QUALCOMM maintains that, rather than there being any *ex post* "holdup" by it, it is the mobile handset manufacturers downstream who are exerting market power in an effort to lower their licensing costs below reasonable levels.[76]

Multiple complainants, including both Broadcom and Nokia, have lodged charges against QUALCOMM before the European commission.[77] Based only on the public documents available, it appears that the Commission's investigation springs not from some broken promise, but rather from conduct on the part of QUALCOMM alleged to be in the nature of a breach of contract, namely, an alleged failure to charge licensees fair, reasonable, and nondiscriminatory (FRAND) royalties, as QUALCOMM had allegedly contracted to do with the SSO. In this respect, it seems to be congruent with the private action brought against QUALCOMM by Nokia.

In this connection, it is now noticeable that the European Commission has taken an interest in the level of royalties that are charged by IP holders. The *Microsoft CFI* decision requiring FRAND licensing by Microsoft was one step, and its investigation of QUALCOMM is clearly another.[78] The EC has also sent a Statement of Objections to Rambus on the ground that it infringed Article 82 of the EC Treaty by claiming unreasonable royalties for the licensing of certain patents for DRAMS subsequent to a so-called "bait and switch."[79]

**4. Issues arising out of licensing in general, including cross licensing, patent pooling and grantbacks.**[80]

There is one patent case of great interest that, on its face, does not appear to have anything to do with antitrust law but that below the surface seems to have the potential to implicate antitrust to an increasingly great degree in patent licensing issues. The case is *Quanta Computer, Inc., et al. v. LG Electronics, Inc.*[81] The case was about the patent exhaustion doctrine, sometimes also referred to as the "first sale" doctrine. The doctrine limits the patent rights that survive the initial authorized sale of a patented item. The Federal Circuit had held that the doctrine did not apply to method patents at all and, in the alternative, that it did not apply against LG because the sales at issue were not authorized by the conditional license agreement between LG and its licensees. The Supreme Court disagreed with the Federal Circuit on both scores holding that because the exhaustion doctrine applies to method patents, and because the license authorized the sale of complements that substantially embody the patents in suit, the sale exhausted the patents.

There are several reasons why this is a very important case. First, conditional licenses have become ubiquitous throughout the United States. They are used in drug applications, transgenic crops, and elsewhere as a way of making IP rights available to some without the patentee completely losing control of the patented technology. The Supreme Court's decision clearly throws the status of a number of such licenses into doubt.

Second, the rule applied by the Supreme Court was derived from one of the Court's decisions from a much earlier era, *United States v. Univis Lens Co.,*[82] which many people thought had been significantly mitigated over the years by the lower courts as a practical matter. For the US antitrust community, it is perhaps fair to compare the *Quanta* decision to the old *Schwinn* case,[83]

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76 This discussion of *Nokia* and *Broadcom* is drawn from the excellent summary in Farrar, *supra,* at 44.
77 Cases COMP/C-3/39.247-252 (Feb. 13, 2006).
78 This entire subject is covered in considerable detail in a worthwhile paper by my partner Damien Geradin, Pricing abuses by essential patent holders in a standard-setting context: A view from Europe, Paper presented to a University of Virginia conference on "The Remedies before Dominant Firm Misconduct" (June 4-5, 2008)(unpublished; available on request).
79 See Memo/07/330, "Commission confirms sending a Statement of Objections to Rambus," Brussels, 23 August 2007.
80 For the interested and the curious, these are covered in a useful although abstract way in Chapters 3 and 4 the DOJ/FTC Report, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007), found at http://www.usdoj.gov/atr/public/hearings/ip/222655.htm. For a thoughtful, although perhaps excessively polite, critique of this Report, *see* Willard K. Tom, the DOJ/FTC Report on Antitrust Enforcement and Intellectual Property Rights, Antitrust Magazine 35 (Summer 2007)
81 __ S. Ct. __ (June 9, 2008). Citations to the case are to the slip opinion, *available at* http://www.supremecourtus.gov/opinions/07pdf/06-937.pdf.
82 316 U.S. 241 (1942).
83 *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967).

which simply looked at whether title had passed to decide whether the original seller was restraining trade by controlling (through a bilateral agreement with the buyer) any downstream aspect of the selling of the product.

Third, and this is related to both of the first two points, in its final footnote in the case, note 7, the Court said that:

> … the authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages. See *Keeler v. Standard Folding Bed Co.,* 157 US 659, 666 (1895)("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws").

This is probably more important that it looks at first glance.

The brief of the Solicitor General supported the Petitioners and advanced the position ultimately taken by the Supreme Court. The defendants in *Quanta* had asked the Court to hold that their purchase of patented microprocessors from Intel, a licensee of the plaintiff patent owner LGE, carried with it an absolute right to incorporate these microprocessors into computer systems also covered by LGE's patents, notwithstanding an express limitation to the contrary in the patent licensed to Intel and the defendants' knowledge of that limitation. The Solicitor General, while recognizing the contractual freedom of a patent owner to impose reasonable conditions on its licensees, embraced making the formal transfer of title to a licensed product an operative event to cut off any subsequent assertion of patent rights against that product or a larger product into which it might be incorporated. The Solicitor General suggested that antitrust concerns motivated its position.[84]

And so here we are, with a *Schwinn*-like patent decision from the Supreme Court that limits patent rights, but leaves the door open for patentees to achieve similar goals by contract, but in a setting where there is or may be a higher than normal degree of confusion surrounding the antitrust rules by which the contracts (licenses) will be judged.

The discussion that follows is by and large as applicable to contractual issues as to patent issues, a point made more salient by the *Quanta* decision.

As a very basic first step, it is important to know whether the relationship between a licensor and a licensee is horizontal or vertical. If, but for the license relationship, the companies would be competitors, the relationship is horizontal. A licensing arrangement has a vertical component when it affects activities that are in a complementary relationship. Companies that might be in competition generally might still be in a vertical relationship as to particular IP. Where a manufacturer licenses IP to a direct manufacturing competitor, whether the relationship is horizontal or vertical will depend on what alternatives are available. If the licensee has viable alternatives to the licensed IP, then the relationship is almost certainly horizontal. If not, it is probably vertical.

As a basic second step, it is useful to think about things as being either "inside the patent" or "outside the patent." An owner of intellectual property need not create competition in its own technology "inside the patent." Antitrust issues begin to arise when a licensing arrangement diminishes rivalry among entities that would have been actual or likely potential competitors in a relevant market in the absence of the license. And as we shall see in a few pages, unilateral conduct

84 The general view of the patent bar was that *Quanta* provided an opportunity for the Supreme Court to modernize and update patent law. A thoughtful article published late last year, before oral argument in the case, said that: "it is time for the Court to abandon the formulaic and dogmatic approach that has characterized the case law on patent exhaustion for over a century. The court should ground the analysis instead on fundamental, uncontroversial, and widely accepted principles of patent licensing, foremost among which is the freedom of knowledgeable entities to enter into a binding license that serves the needs of their particular technology and industry." Robert P. Taylor and Henry C. Su, Patent Exhaustion: A Simple Problem Made Hard, The Antitrust Source (December 2007) (www.antitrustsource.com).

taken by the patentee "inside the patent" is very likely to be found lawful in virtually all circumstances provided that the patent is valid. However, conduct having a competitive impact "outside the patent" does not enjoy the same level of near certain lawfulness, although the mode of analysis should not be thought of as unduly intimidating.

A third basic thing to note is that the rule of reason in patent settings is not much different from the rule of reason elsewhere. The main lines of questions have to do with: whether the restraint increases the risk of coordinated pricing or reduced output; whether it results in the acquisition or maintenance of market power; and whether the arrangement poses a significant risk of retarding or restricting the development of new or improved goods or processes. As in any kind of market, the potential for competitive harm depends in part on the degree of market concentration, the ease or difficulty of entry, and the responsiveness of supply and demand to price changes in the market. In purely vertical settings, competitive harm may occur if the licensing arrangement forecloses access to, or increases competitors' costs of obtaining, important inputs, or if it facilitates coordination to raise price or restrict output. For example, licensees who are competitors may find it easier to coordinate their pricing if they are subject to common restraints and licenses for the common licensor or competing licensors.

Finally, efficiencies may play a role in patent licensing settings even where there is some noticeable anticompetitive impact. This is especially true as to portfolio cross licenses and industries, such as the semiconductor or computer industries, that are characterized by large numbers of overlapping patent rights. These kinds of cross licenses allow firms operating within a patent "thicket" to use each other's patented technology without the risk of litigation, including the risk of an injunction that could shut down production.

There is at least one area where patent law provides for virtually *per se* legality as a matter of antitrust and patent misuse law: territorial restrictions. Under the patent statute, a patentee has the right to license its patent for use in "the whole or any specified part of the United States."[85] However, where territorial restrictions are applied based both on patent rights and on trade secret rights, that territorial restriction may be scrutinized once the patent has expired. This was the situation in *United States v. Pilkington plc*[86], where Pilkington continued to enforce the inclusive territories based on the trade secret license upon the expiry of the patent. The DOJ argued that the trade secrets had no substantial value and were simply a device for maintaining a market division arrangement. A consent Decree ensued.[87]

Field of use restrictions are common and are generally lawful (*e.g.,* a license to use a novel OLED only for cell phone screens). Where a field of use restriction is within the patent grant ("inside the patent"), that should end the inquiry. Field of use restrictions "outside the patent" require a determination of competitive effect using the normal analytical approaches.

Nonexclusive cross licenses are governed by the rule of reason. When the licensing of rights allows firms to combine complementary factors of production, such licensing is normally procompetitive;[88] this is also true to the extent they operate as mechanisms for using technologies that require access to a large number of patents. The Guidelines provide a safe harbor if the parties to a cross license "collectively account for no more than 20% of each relevant market significantly affected by the restraint," and the restraint is not "facially anticompetitive."[89] Where a cross licensing arrangement affects a technology market for which market share data may be unavailable or may not actually represent the parties' competitive significance, the agencies consider whether "there are four or more independently controlled technologies in addition to the technologies controlled by the parties to the licensing agreement that may be substitutable for the licensed technology at a comparable cost to the user."[90] In other words, five rivals is enough for the agencies.

85 35 U.S.C. Section 261.
86 No. 94-345, 1994-2 Trade Cas. (CCH) Paragraph 70,842 (D. Ariz. 1994).
87 *Available at* http://www.usdoj.gov/atr/cases/f220800/220860.pdf.
88 *See* 2007 FTC/DOJ Report at 62-62.
89 Guidelines Section 4.3.
90 *Id.*

Patent pools are generally governed by the law of tying, although other Section 1 Sherman Act issues may well exist from time to time. Relatively few antitrust cases have been sustained in recent years in connection with patent pools,[91] and the one case that did result in a finding of patent misuse (by the International Trade Commission) was swiftly reversed by the Federal Circuit.[92] Patent pools are formed when multiple patented technologies are needed to produce a standardized product and they are generally recognized as mitigating the "holdup" and "holdout" problems that can sometimes stymie industry efforts to make a product that conforms to an industry standard. In general, competitive concerns tend to arise when the pools are composed of pure substitute patents covering technologies that compete with each other, rather than complementary patents covering separate aspects of a given technology that do not compete with each other.[93]

Patent pools are much more likely to be a governmental issue than a private litigation issue. Governmental concern focuses on horizontal coordination among pool licensors as well as on the more subtle problem of discouraging R& D, new product development, and innovation in general that results from the ability of members of a pool to share their successful R&D and to free ride on the accomplishments of each other. Notably, the agencies have supplemented the pooling analysis found in the Guidelines in several business review letters issued by the Department of Justice[94] and in the FTC's 1999 enforcement action against a patent pool formed by Summit Technology and VISX.[95] By and large, though, pools tend to be thought of as procompetitive by virtue of integrating complementary technologies, reducing transaction costs, clearing blocking positions and promoting the dissemination of technology. They are unlikely to have anticompetitive effects unless (1) excluded firms cannot effectively compete in the relevant market for the good incorporating the licensed technologies and (2) the pool participants collectively possess market power.

**5. A word about grantbacks.** A grantback is generally an agreement by which a licensee extends back to the licensor the right to use the licensee's improvements to the licensed technology. In some cases, the scope could be even broader and cover inventions that relate in any way to the subject of the licensed patent(s). Grantbacks may be exclusive or nonexclusive. The competitive issue is whether or not the grantback reduces significantly the incentives of the licensee to invest in improving the licensed technology. As a rule, the issues surrounding grantbacks tend to be of governmental and policy concern, rather than of pertinence in private litigation.

Finally, there are some miscellaneous but important points. It is not an antitrust violation to extend royalties beyond the term of the patent, but it could be found to be patent misuse by some courts, thus making the patent unenforceable until the misuse is purged. Relatedly, providing for a royalty based on the total sales of infringing and non-infringing goods can amount to patent misuse unless the arrangement was for the convenience of the licensee. Discriminatory royalties are generally neither a misuse nor any form of antitrust violation, although increasingly SSO's are requiring RAND royalty commitments and so discriminatory royalties subject to such commitments can raise either contract liabilities, or potentially, antitrust liabilities in some circumstances.

**6. EU Law and Policy in Respect of the Topics Mentioned Above.** When I began this paper, I intended to spend more time on European law and policy. However, two forces in particular have conspired to prevent this. First, there are few policy pronouncements on these topics emanating from the European Commission beyond the 2004 Technology Transfer Block Exemption (TTBE) and

91 *But see United States v. Krasnov,* 143 F.Supp. 184 (ED Pa. 1956), *aff'd per curiam*, 355 U.S. 5 (1957)(Violation of Sections 1 and 2 of the Sherman Act found where companies who together had monopoly power formed a patent pool and agreed: to refrain from licensing others; to allocate customers, to maintain prices established by the licensor and to determine jointly institution and maintenance of infringement suits); *United States v. National Lead Co.*, 63 F.Supp. 513 (SDNY 1945), *aff'd,* 332 U.S. 319 1947(court found illegal an agreement between two largest titanium dioxide companies involved in exchange of nonexclusive licenses under all of their patents, present and future, with knowledge and intent that such arrangement would strengthen each to the exclusion of others).

92 *See* Part 3 *supra*.

93 2007 FTC/DOJ report at 66.

94 *See* 2007 Report at Chapter, n. 58 and pp. 68-71.

95 *Id.* at 73-74. This was a somewhat straightforward enforcement action. Summit and VISX both owned patents relating to the manufacture and use of lasers employed in performing certain eye surgeries. At the time they put their patents in pool, they were the only firms whose later equipment had received marketing approval from the US FDA. The FTC alleged that the pool eliminated all competition between Summit and VISX in the sale and leasing of the pertinent equipment and in the licensing of technology related to the procedure. In effect, the pool operated as a price-fixing agreement.

an accompanying set of *Technology Guidelines,*[96] and second, finding out about the status of pending matters is considerably harder than one might think. For example, it is well-known that the EC is pursuing in depth investigations of some interest against Intel and QUALCOMM, in each case at the behest of various rivals, but it is not possible to learn much authoritative about these investigations other than by perusing documents filed by the targets of the investigation with the US Securities and Exchange Commission. None of the filings made by the parties (or by third parties) is accessible or public other than to "interested parties" (*e.g.,* complainants), and even then they are heavily redacted and mostly confidential. From the EC, all we see is a single press release normally.

It is helpful to begin with a brief discussion of the sources of competition law and policy at the intersection of intellectual property and competition law within the European Union.[97] Insofar as European law is concerned, and putting wholly to one side for most purposes of this paper the national law of the 25 Member States, Articles 81 and 82 of the EC Treaty provide the initial source of competition law. These articles of the EC Treaty are enforced on a European wide basis mainly by the European Commission,[98] but national competition authorities ("NCA's") of the Member States now have been authorized since January 1, 2004 (under the Modernisation Program) also to enforce these provisions. Also, to the extent permitted by the courts and procedures of the Member States, private parties can also bring private actions asserting rights under Articles 81 and 82, including sometimes collective actions, in the courts of the Member States. Few such actions have been brought outside of France, Germany and the United Kingdom, but that may change as time goes on and, of course, the Commission is encouraging this in various ways, as other papers will discuss in some detail.

Nearly all of the cases in Europe involving principles of both intellectual property and competition law require a working knowledge of Articles 81 and 82 of the EC Treaty. It is therefore useful to begin with basic information about each.

**Article 81**

Article 81(1) states that "all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market" shall be prohibited as incompatible with the common market. This article forbids agreements that "directly or indirectly fix purchase or selling prices or any other trading conditions," that "limit or control production, markets, technical development, or investment" and that "share markets or sources of supply," among other things.[99] Article 81(1) is broader than Section 1 of the Sherman Act, but nonetheless has much in common with it.

By and large, Art. 81 does not often come into play in connection with intellectual property/competition law issues, and therefore I will dwell on it no further.

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96 I do not mean, though, to understate the importance of the Technology Transfer Block Exemption Regulation and the associated *Guidelines*. The *Guidelines* lay out a "general framework for analysis," and then apply this analytical framework to a list of specific restrictions commonly found in IP licenses. The Regulation and the associated *Guidelines* are *available at* http://ec.europa.eu/comm/competition/antitrust/legislation/transfer.html.

European Commission treatment of competition and intellectual property, as in the US, involved three phases. Prior to 1966, before the *Grundig* case, [1966] ECR 299, the Commission accepted that exclusive patent licensing agreements, unlike exclusive distribution agreements, could be viewed as not restrictive of competition as long as the contents of the license remained within the scope of the patent. Practices that leveraged the patentee's rights so as to restrict matters "outside the patent," were viewed as a misuse of the patent and generally were found illegal. In *Grundig*, the ECJ (this was prior to the formation of the CFI) broadened Article 81 (1) by defining it to apply to market partitioning agreements. Thus it stated that the infringement of Article 81 consisted of the attempt by the licensor and licensee to isolate the French market for Grundig products and maintain artificially separate national markets within the community. There followed more than two decades of development of case law. A most excellent publication detailing all these developments is Stephen D. Anderman and John Kallaugher, Technology Transfer and the New EU Competition Rules: Intellectual Property Licensing after Modernisation (Oxford University Press 2006). So far as I can tell, this is the only book written on the subject and it is a most indispensable research tool for anyone wishing to delve into the topic.

The third phase really began in recent years, culminating in the adoption in 2004 of the TTBE and its associated *Guidelines*, development of which began in 1996. The Regulation and the *Guidelines* and are *available at* http://ec.europa.eu/comm/competition/antitrust/legislation/transfer.html.

97 *See* ABA Section of Antitrust Law, Antitrust Law Developments 164 *et seq.* (6th ed. 2007), for a useful, but incomplete, discussion of this very topic.

98 EC Treaty, Art. 84. EC decisions are subject to judicial review by EU Courts: The Court of First Instance (CFI), and thereafter, the European Court of Justice (ECJ). EC Treaty, Art. 220.

99 Art. 81(1)(a)-(e).

**Article 82**

Article 82 states that "[a]ny abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States." By its terms, Article 82 specifies certain prohibited practices including: "directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions; limiting production, markets or technical development to the prejudice of consumers; applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;" and "making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial use should, have no connection with the subject of such contracts."[100]

Critical to many IP-antitrust issues is the meaning of the term "dominant position," not defined in the Treaty. The ECJ has held that a "dominant position" is

> a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave in an appreciable extent independently of its competitors, its customers and ultimately of the consumers.[101]

This is very close to the definition of a "monopolist" in the United States, although it has been interpreted quite differently when put in the context of market share. A brief digression on some key differences between Article 82 and Section 2 of the Sherman Act as they have been applied in practice is in order.

The best short source document on this topic is a brilliant address given by FTC Chairman William E. Kovacic a few weeks ago entitled *Competition Policy in the European Union and the United States: Convergence or Divergence?"*[102] As he there points out, the interpretations of Article 82 by the CFI and the EC J have tended to create a wider zone of liability for dominant firms than the decisions of the US courts under Section 2 of the Sherman Act.

> In their technical findings and in their attitude, modern US Supreme Court decisions in cases such as *Brooke Group, Trinko*, and *Weyerhaeuser* have demonstrated greater skepticism about abuse of dominance claims than judicial decisions in matters such as *France Telecom/Wanadoo, Michelin II*, and *British Airways.* EU decisions in *IMS Health* and *Microsoft* show a greater inclination to condemn refusals to deal than modern US rulings such as *Trinko.* Unlike *Brooke Group* and *Weyerhaeuser*, *FranceTelecom/Wanadoo* decision rejects the need to apply a recoupment test to resolve allegations of exclusionary pricing. A finding of dominance can occur in the EU at or somewhat below a 40 percent market share, while the US offense of attempted monopolization usually treats shares below 50 percent as being inadequate to establish substantial market power.[103]

There is a degree of unclarity about how to resolve the tension between the EC rules of competition contained and Articles 81 and 82 and the intellectual property rights conferred by the national systems of law. Article 295 of the EC Treaty provides that "[t]his Treaty shall in no way prejudice the rules in Member States governing the system of property ownership." According to the ABA Section of Antitrust Law, "[i]n cases where the exercise of intellectual property rights conflicts with EU antitrust law, the Commission has the authority to limit the exercise of those intellectual property rights in order to harmonize them with EU law."[104]

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100 Art. 82 (a)-(d).
101 Case 85/76, *Hoffmann-LaRoche & Co. v. Comm'n*, [1979] ECR 461, Paragraph 38.
102 Bates White Fifth Annual Antitrust Conference, Washington, DC at 11-12 (June 2, 2008). http://www.ftc.gov/speeches/kovacic/080602bateswhite.pdf.
103 *Id.* (Internal footnotes omitted).
104 Antitrust Law Developments 1165-66 (6th ed. 2007). For this proposition, the volume cites *Établissements Consten. S.à.R.L. & Grundig-Verkaufs-GmbH v. Comm'n* , Joined cases 56&58/64,[1966] ECR 299, 345-46.

The highly thoughtful opinion of the Vice Chancellor in *Intel Corporation and VIA Technologies Inc and VIA Technologies*[105] (*Intel/Via*) contrasts two Court of Justice decisions. The earliest was *Volvo v. Veng,*[106] in which the court stated this about the right of an owner of intellectual property:

> It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a license for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a license cannot in itself constitute an abuse of a dominant position.[107]

A decade later, in *ITT Promedia NV v. European Commission*,[108] the Court of Justice seemed to state a notably different proposition:

> It follows from the nature of the obligations imposed by Article [82] of the Treaty that, in specific circumstances, undertakings in a dominant position may be deprived of the right to adopt a course of conduct or take measures which are not in themselves abuses and which would even be unobjectionable if adopted or taken by non-dominant undertakings (see, to that effect, case 322/81 *Michelin* v. *Commission* [1983] ECR 3461, Paragraph 57). Thus, the conclusion of a contract or the acquisition of a right may amount to abuse for the purposes of Article [82] of the Treaty if the contract is concluded or that right is acquired by an undertaking in a dominant position (see, to that effect, Case T-51/89 *Tetra Pak v Commission* [1990] ECR 11-309, Paragraph 23).[109]

In a nutshell, it appears that Article 295 of the EC Treaty does not mean quite what it seemed to say, and article 82 does indeed have the capacity to "trump" IPR acquired from Member States.[110]

**Main EU Cases Applying Competition Law to Intellectual Property**

I should mention at the outset here that the paramount question in Europe, at least as a matter of EC law, is whether, or under what circumstances, a holder of IPR might be required to license others. Most of the cases arise in the context of a refusal to deal, after which the unlicensed company complains to the authorities, who than take over the investigation of the matter and either bring a case or do not. The issue can also arise, or at least it once has, in the context of a patent enforcement action where the defendant claims that the patent should be declared unenforceable against it because the suit itself by the patentee amounts to an abuse of a dominant position. This sort of setting is quite analogous to the "patent misuse" defense common in the United States, but that is, so far as I can tell, highly uncommon in Europe.

In the beginning, which in this area of European law was about 20 years ago, there was just the case of *Volvo v Veng* mentioned above.[111] The question presented was whether Volvo's refusal to license its protected design for car body panels constituted an abuse of dominance. The actual holding was that such a refusal, standing alone, could not be regarded as an abuse of a dominant position. But in what we would call *dicta*, the ECJ went on to say:

105 2002 E.W.C.A. Civ 1905 (December 20)(*Intel/Via*).
106 [1988] ECR 6211.
107 *Id.* at 6235, Paragraph 8.
108 Case T-111/96 [1998] ECR II-2937.
109 *ITT Promedia, supra* at 2987, Paragraph 139. *See Intel, supra* at Paragraph 36.
110 There is no meaningful Europe-wide patent system, a reality that provides a complex overlay to the applicability of competition law to patents issued by one or another member State. The UK *SanDisk* case mentioned at p. 38-39 *infra provides* a most useful discussion of how this issue comes into play, including in detaining whether a particular court even has jurisdiction to hear a claim of patent abuse.
111 Case 238/87, AB Volvo v. Erik Veng (UK) Ltd., [1988] ECR 6211.

> It must however be noted that the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article [82] if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States.[112]

*Volvo* was followed, in 1995, by *Magill.*[113] *Magill* involved a company that was the only source of basic information on program scheduling, an indispensable raw material for those wishing to compile a weekly television guide in the UK. Magill sought to publish a comprehensive weekly television guide, but was refused a license to do so by the defendants, who reserved to themselves the secondary market for weekly television guides by denying access to the basic information needed by others. The Commission found that the defendants had violated Article 82 (actually its predecessor) and ordered them to supply "third parties on request and on a nondiscriminatory basis with their [copyrighted] individual advanced weekly programme listings" and to permit publication of these listings.[114] The CFI affirmed the Commission and was in turn affirmed by the ECJ, which laid out a three part test to identify those *"exceptional circumstances"* where the exercise of an exclusive right might "involve abusive conduct": (1) the refusal related to information that was "indispensable" to the appearance of a "new product… for which there was a potential consumer demand"; (2) there was no justification for the refusal; and (3) the refusal allowed the defendants to " reserve… for themselves the secondary market… by excluding all competition on that market."[115] *McGill* was really the first case cleanly holding a refusal to deal to amount to an abuse of a dominant position under Article 82, and providing an analytical framework. The touchstone was that the "circumstances" had to be "exceptional." As we shall soon see, the next decade brought about a fair amount of "exceptional circumstance creep," and all at the very time that on the western side of the Atlantic there was developing a broad and relatively deep consensus that unilateral refusals to deal were almost always lawful.

Enter *IMS Health,*[116] which on a rather different set of facts re-articulated and embraced the three-part test of *McGill,* while also reiterating that a dominant firm's refusal to grant a license cannot "by itself" constitute an abuse. The Court stated that:

> [T]he refusal… to allow access to a product protected by [an intellectual property right], where that product is indispensable for operating on a secondary market, may be regarded as abusive only where the undertaking which requested the license does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the [intellectual property right], but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand.[117]

In other words, if the would-be licensee is actually going to do something beyond what the dominant firm already does with the IPR, then the circumstances appear to be "exceptional." And so the conduct, not quite "by itself" only by virtue of external circumstances, can indeed create liability.

Before getting to the CFI decision in *Microsoft*, I want to digress momentarily to the most excellent decision of the Vice-Chancellor in the *Intel/Via* case mentioned above. The case is interesting for at least three reasons. First, the case is interesting because it sets forth a highly informative and useful discussion of the origins of the principles being applied, both in respect of Article 81 and Article 82 principles.

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112 *Id.* Paragraph 9.
113 Joined Cases C- 241/91 P and C- 242/91 P are *RTE and ITV v. Commission (Magill)* [1995] ECR I-743.
114 *Id.,* Paragraph 9-10. See generally two recent and useful secondary sources of information about some of the cases discussed herein: Damien Geradim, Pricing abuses by essential patent holders in a standard-setting context: A view from Europe, Paper prepared for the "The Remedies for an Dominant Firm Misconduct" Conference, University of Virginia (June 4-5, 2008); Renata B. Hesse, Counseling Clients on Refusal to Supply Issues in the Wake of the EC *Microsoft* Case, antitrust Magazine 32 (Spring 2008) .
115 *See Hesse*, *supra* at 33; *Magill* at Paragraphs 50-56.
116 Case C- 418/01, *IMS Health GmbH & Co. v. NDC Health GmbH & Co. AG*, [2004] ECR I 5039.
117 *Id.* Paragraph 49.

Second, it is a case decided applying UK law (the Competition Act 1998), but heavily reliant on and informed by the law of Articles 81 and 82 of the EC Treaty. While the case was decided prior to the onset of "Modernisation" (January 1, 2004), it nonetheless provides a most interesting example of how Article 82 may well come into play in other national courts.

Third, the case is interesting because the competition issues arose as part of the defense to a patent enforcement action. Intel was seeking to enforce patents against Via both in respect of CPU's and chipsets. In defense, Via asserted:

> (a) as to the chipset patents: that the bringing of the infringement proceedings was itself an abuse by Intel of the exercise of intellectual property rights and that in consequence Intel should be estopped or otherwise precluded from seeking the relief sought in the infringement proceeding, and
>
> (b) as to the CPU patents: (i) that the refusal of Intel to grant a license to Via either in whole or on lawful reasonable terms was an abuse of a dominant position and hence that, again, Intel, should not be entitled to the relief sought , and (ii) Intel's refusal to license Via was abusive because it formed part of a plan to withdraw from the market certain products for which there was a continuing demand, and to force consumers and users to adopt a new and more expensive technology.

In a moderately lengthy opinion, the Vice Chancellor found that the case clearly established various of the propositions advanced by Via, including that a license term is incompatible with Article 81 if it seeks to regulate the commercial market by controlling not only what is made with the licensed technology but also the use made of it thereafter. The court also accepted that "the exclusivity conferred by a patent may not be used to license the invention on terms which restrict or distort competition in some respect going beyond what is strictly necessary to define the extent to which exclusivity is thereby surrendered."[118] This recognizes that anti-competitive harm collateral to licensing acts which would otherwise constitute an infringement must be justified, if at all, on its own merits and not because of its inclusion in a license of an intellectual property right.[119]

If I understand correctly, this Article 81 issue seems congruent with, perhaps even almost identical to, the analysis that will now be required in the wake of the Supreme Court's decision last term in *Quanta,* discussed above.

Just before I concluded this paper, I came across another UK case of note dealing with abuse of patent issues, *SanDisk Corporation v Koninklijke Philips Electronics NV & Ors* [2007] EWHC 332 (Ch). SanDisk brought a claim alleging breach of the Chapter I and Chapter II prohibitions of the UK Competition Act and Articles 81 and 82 of the EC Treaty. The judge had to consider whether the aggressive enforcement of patent rights in multiple Member States constituted abusive conduct. While the Court found itself, in the end, without jurisdiction to hear the claim by SanDisk, the judgment does confirm, relying very much on *ITT ProMedia NV v. Comm'n, supra,* that the bringing of a legal action will only breach Article 82 where an undertaking in a dominant position brings an action which (i) cannot reasonably be considered as an attempt to establish its rights and can therefore only serve to harass the opposite party; and (ii) is conceived in the framework of a plan whose goal is to eliminate competition. *SanDisk,* Paragraphs 43-45. However the predicate for the action, apart from the important jurisdictional issues [which require a reading of the case to appreciate], seems to have much in common with *Walker Process* and its progeny. As the court stated (at Paragraph 46):

> Where there is no dispute that the patents have been granted to the patentee, it seems to me that the enforcement action can be considered to be merely harassing in the sense explained above if the patent is obviously not infringed or if the patent is invalid and in either case the patentee either knows or believes that to be the case.

118 *Intel/Via* at Paragraph 72.-73.
119 *Id.* Paragraph 73.

These two cases are a good segue into the recent decision of the CFI in *Microsoft,* to which this paper now turns.[120]

It is useful to remind ourselves what the *Microsoft* case in Europe was all about. It began with Sun Microsystems complaining that Microsoft would not supply it with interface information that was necessary to develop server software products fully compatible with Windows-based PCs.[121] The Commission began an investigation and became aware of more widespread complaints by other developers of non-Microsoft server operating systems who also complained that their competitive positions in the market for workgroup server operating systems were being impaired by Microsoft's refusal to share its interoperability information.[122] The investigation lasted for five years, after which the Commission concluded that Microsoft had violated Article 82 of the EC Treaty by refusing to supply its competitors with the interface information described and that Microsoft's refusal to supply the information could lead to the elimination of its competitors from the relevant market.[123] The Commission also found that:

> - an increasing number of consumers were locked into Microsoft's Windows workgroup server operating system "[d]ue to the lack of interoperability that competing work group server operating system products can achieve with the Windows domain architecture;"[124]
>
> - Microsoft's proprietary interface information was "indispensable to carry on business in [the] market;"[125] and that
>
> - Microsoft's refusal could not be objectively justified merely by the fact that it constituted a refusal to license intellectual property.[126]

As a remedy, the Commission ordered Microsoft to share its interface information to enable competing workgroup server software developers to create products fully interoperable with Windows-based PCs.[127] The order also compelled Microsoft to disclose updated interface information whenever Microsoft released a new version of its own software.[128] Finally, the commission made the point that if any of Microsoft's interface information constituted intellectual property, Microsoft would be entitled to charge reasonable royalties for supplying that information to competitors.[129]

Microsoft also involved tying – the tying of the Windows Media Player ("WMP") to the Windows operating system. PC manufacturers were required to license windows with WMP. If they wanted to install an alternative media player on Windows, they could do so only by installing something in addition to WMP. The Commission found that:

> - streaming media players and PC operating systems were two separate products (rejecting Microsoft's argument that WMP was an integral part of Windows);
>
> - there was and continues to be separate consumer demand for stand-alone media players and a number of vendors develop and supply media players on a stand-alone basis; and

120 Case T-2-1/04, Microsoft Corp. v. Commission (Sep. 17, 2007), *available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62004A0201:EN:HTML. It is also available via Lexis, where it is cited as 2007 ECJ EUR-Lex LEXIS 2620. The case will be referred to here simply as "*Microsoft CFI*" and citations will be to the pertinent paragraph number(s).
121 Case COMP/C- 3/37.792 (Mar. 24, 2004), cited here as "Microsoft EC" and to the pertinent paragraph. The full decision is *available at* http://europa.eu.int/comm/competition/index_en.html A far shorter and more reader-friendly summary of the case is published in the Official Journal of the European Union, cited here as *Microsoft EC OJ* Paragraph __.
122 See Hesse, *supra* at 32-33.
123 *Microsoft EC* , Paragraph 692.
124 *Id.* Paragraph 694.
125 *Id.* Paragraph 712.
126 *Id.*
127 *Id.* Paragraph 799.
128 *Id.* Paragraph 1022.
129 *Id.* Paragraph 1008.

> - Microsoft itself developed and distributed versions of its WMP for other PC operating systems and promoted WMP in direct competition with third-party media players.[130]

As a remedy, the Commission ordered Microsoft to offer end-users and OEMs within the European Union a full functioning version of the Windows operating system not incorporating WMP. Microsoft was thus required to provide so-called "Windows Lite." Microsoft was also enjoined from using any means that would have the equivalent effect of tying WMP to Windows, for example by reserving privileged interoperability with Windows to WMP or by promoting WMP over competitors' products through Windows.[131]

Lastly, a fine was imposed. The basic fine was €165,732,101, which was uplifted by doubling for the gravity of the offense to €331,464,203, and then uplifted by another 50% for the duration of the infringement for a total of €497,196,304. This was a very large fine!

Microsoft appealed to the CFI, which affirmed the EC in all material respects. Regarding the refusal to deal, the main area of the case of lasting interest, the CFI purported to apply, but also expanded upon, the principles of *McGill* and *IMS Health* discussed above. Indeed, Microsoft itself relied on the criteria laid down in *McGill* and *IMS Health* while the Commission argued that an "automatic" application of the criteria laid down in *IMS Health* would be "problematic," and that in order to determine whether such a refusal was abusive, one must take into account all the particular circumstances surrounding the refusal, which need not necessarily be the same as those identified in *McGill* and *IMS Health*.[132] After discussing these and other cases, the CFI reiterated that it would only be "in exceptional circumstances that the exercise of the exclusive right by the owner of [an] intellectual property rights may give rise to an abuse [of a dominant position]…" within the meaning of Article 82.[133] The court then stated that the following circumstances could be considered "exceptional" in this sense:

> - a refusal relates to a product or service indispensable to the exercise of a particular activity on a neighbouring market;
>
> - the refusal is of such a kind as to exclude any effective competition on that neighbouring market; and
>
> - the refusal prevents the appearance of a new product for which there is potential consumer demand.[134]

If the circumstances are thus "exceptional," the refusal will infringe Article 82 "unless the refusal is objectively justified."[135] It is completely unclear under what circumstances a refusal might be deemed "objectively justified," although it is clear that "... the mere fact of holding intellectual property rights" will never "in itself constitute objective justification for the refusal to grant a license," since if that were so "the exception established by the case-law could never apply."[136]

Notably, too, the CFI[137] observed that not all three of these circumstances need necessarily be present for Article 82 to become applicable and that in the absence of one or more of the circumstances described above, the Court could go on to consider other factors advanced by the Commission.[138]

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130 *Microsoft EC OJ*, Paragraph 26.
131 *Id.* Paragraphs 33-34. Microsoft was also enjoined from giving OEMs or users a discount conditional on their obtaining windows together with WMP. The unbundled "Windows Lite" version had to be no less performing than the version of windows bundled with WMP.
132 *Microsoft CFI* Paragraph 315-16.
133 *Id*. Paragraph 331.
134 *Id.* Paragraph 332.
135 *Id.* Paragraph 333.
136 *Id.* Paragraph 690.
137 *See* Paragraph 336 and other paragraphs therein referred to.
138 The other factors advanced by the Commission were three: (1) the information Microsoft refused to disclose related to interoperability in the software industry, a matter to which the Community Legislature attached particular importance; (2) Microsoft used its extraordinary power on the client PC operating systems market to eliminate competition on the adjacent work group server operating systems market; and (3) the conduct in question involved in disruption of previous levels of supply. *Microsoft CFI* ¶ 317.

It is difficult to avoid the conclusion that the *Microsoft* CFI decision expands the space occupied by Article 82 and diminishes, somewhat, the space occupied by the protections of intellectual property law. Many observers have concluded from the decision that a dominant firm will have little room to establish that a refusal to supply is objectively justified once it has been determined that the information sought by the rival is "indispensable,"[139] a word with the potential to have an extremely elastic meaning. Microsoft had argued that "…a particular technology [could not] be characterized as indispensable if it is 'economically viable' for the competitors of the undertaking in a dominant position to develop and market their products without having access to that technology." [140] In rejecting that argument, the Commissioner seems to have said that what I need from you is "indispensable" if without it I cannot become your equal in our competing commercial endeavors.[141] Finally, where *McGill* and *IMS Health* had required the prevention of any competition in the neighboring market, *Microsoft* evolved that requirement to something less – the suppression of expansion by existing rivals in the neighboring market. Thus, the bars for proving prerequisites ("indispensability" and "exceptional circumstances") seem to have been lowered. While this may be a Microsoft-specific elasticity, these things have a way of migrating elsewhere.

**7. Antitrust issues arising out of the settlement of patent litigation, normally in a so-called "Hatch Waxman" setting.**[142] This is an area of pertinence only in the United States and hence comes last in this paper. It has limited relevance to international or transatlantic issues except insofar as it underscores the "inside the patent"/ "outside the patent" distinction I have mentioned at various points in this paper. In any case, and while a niche topic even in the US (but a large niche), it is an area of great interest on the west side of the Atlantic and not just because it is an area of fierce disagreement even between the FTC and the DOJ. There is roiling discontent at the Commission about its failure to get courts to listen to it in respect of reverse payments in patent settlement litigation; at least three circuits (Federal, Second, and Eleventh) have issued decisions broadly holding that, like Las Vegas, what happens within the patent grant stays within the patent grant. These holdings amount to a near-total exclusion of antitrust from conduct within the patent grant and hence gives patent holders a right, if they can find a way, to bring about anticompetitive outcomes within the patent grant. The presumption of validity that accompanies the patent grant adds to the mix in important ways too. In short, these are interesting cases and there is a great deal below the surface that is pertinent to the broader issues of IP and antitrust.

While there are a number of cases of interest, I am for now going to mention just four, which taken together illuminate the issues well enough. The first case is *In re Indep. Serv. Orgs. Antitrust Litig.*,[143] wherein the court held that a patentee or copyright owner generally has an absolute right to refuse unilaterally to license patents or copyrights (or refuse to sell patented or copyrighted products) for any reason. The plaintiffs, independent service operators (ISO's in the parlance) were complaining about the refusal of Xerox to sell them parts they needed to service Xerox products in the aftermarket. In other words, the case was an offspring of the *Kodak* case.

The precise holding was this:

> [I]n 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 [antitrust] liability.... [This is so] even if the refusal to deal impacts competition in more than one market.

This was a broad holding against the plaintiff/appellant (interestingly, represented by now Chief Justice Roberts). Other circuits have slightly different and less sweeping rules,[144] but the Federal

139 *See, e.g.,* Hesse, *supra* at 33 and n. 22; *Id.* Paragraph 694.
140 *Id.* Paragraph 337.
141 *See Id.* Paragraph 412.
142 Part of this section is an edited version drawn from part of last year's paper, "The Incredible Shrinking Scope and Scale of American Antitrust, 1976-2007."
143 203 F.3d 1322, 1329 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1143 (2001).
144 In the First and Ninth Circuits, however, the refusal to license (or sell) only gives rise to a rebuttable presumption that the refusal is supported by a legitimate business reason and, in the Ninth Circuit, that presumption can be rebutted by *subjective intent* evidence. *See Image Tech. Servs., Inc. v. Eastman Kodak Co.*, 125 F. 3d 1195, 1218 (9th Cir. 1997); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994); *see also Microsoft*, 253 F.3d at 63 ("frivolous" to argue "absolute and unfettered right" to use one's own intellectual property as one wishes). It remains to be seen whether the use of subjective intent evidence, without satisfying the factual predicate of *Aspen*, can stand after *Trinko*.

Circuit's opinion in the area is doubtless the most important as it comes from a court that hears a lot of these issues more often than others. The decision was, and remains, controversial, and it is the starting point in a way for thinking about the next two cases.

Second, there is *Schering-Plough, Corp. v. F.T.C.*[145] What happened is that Schering settled some patent litigation with some generic companies who had made a "Paragraph IV certification" under the now familiar Hatch-Waxman regime under which a company seeking approval from the Food and Drug Administration (FDA) to market a new drug must file a New Drug Application (NDA) demonstrating the safety and efficacy of its product. Once an NDA has been approved and a company starts marketing a "brand name" version of the drug, a company seeking to market a generic version of that drug may file an Abbreviated New Drug Application (ANDA) demonstrating that its product is the "bioequivalent" of its brand name counterpart.

If the brand name version of the drug is the subject of one or more patents, FDA may not make its approval of an ANDA effective before the expiration of any such patent, unless the applicant makes a "Paragraph IV certification" that such patent is either invalid or not infringed by the generic version. If the patent holder files an action for infringement within 45 days of receiving notification of that certification, FDA's approval is automatically stayed for 30 months (unless the patent expires or a court holds the patent invalid or not infringed).

The settlements Schering entered into in each case involved (a) setting a date earlier than the expiry of the relevant patent after which the generics could enter the market, and (b) some non-trivial consideration flowing from Schering to the generics. There were a variety of other things going on in the case as well, including: judicial involvement in the settlements; cross licenses flowing to Schering; and a mediation of one of the patent disputes that suggested an uncertain 50/50 sort of litigation outcome.

The Commission's theory was simply that the payments from Schering to the generics ("reverse payments" as they have universally become known) coupled with the delayed entry of the generic amounted, pretty much without more, to a violation of Section 1 of the Sherman Act.

The Commission was defeated by Schering and the ALJ at trial; declared itself the winner on appeal to itself; lost by a wide margin in the Eleventh Circuitt; got mugged by the DOJ, which opposed the Commission's own petition for *certiorari*, and then was quietly humiliated by the Supreme Court's denial of *certiorari.* The Commission is still licking its wounds and bruising for a fight and has chosen to make it *Cephalon* (see discussion of that case below). The problem for the FTC is that the Eleventh Circuit's decision was very broad, to the effect that any competition lost was within the "exclusionary potential" of the patent claims, regardless of the purpose or effect of the agreements. That is, it was "inside the patent." Furthermore, the Commission took the position that no sort of mini or other trial on the merits of the patents was necessary or desirable and so the Commission's position about the presumed anticompetitive effect of the agreements was the same whether the patent was 99% likely to be enforced or 1% likely to be enforced. But the Commission's actual position makes the most sense only if the patent is presumed to be nearly worthless.

And so the Commission is receiving annual reports about patent settlements and many of these reports contain arrangements that the Commission finds offensive. Yet it seemed to be doing nothing, at least until it filed suit against Cephalon last January. This is, no doubt, partly because of the third case of this group of four — *In Re: Tamoxifen Citrate Antitrust Litigation.*[146] The case had some skeletal similarities with Schering but the facts were quite different as the patent at issue had already been declared invalid by the time of the challenged settlement agreement.

As in *Schering,* the settlement at issue in *Tamoxifen* arose against the statutory backdrop of the Hatch-Waxman Act, summarized ever so briefly above, which of course establishes procedures designed to facilitate the market entry of lower-priced generic drugs while maintaining incentives to

145 402 F.3d 1056 (11th Cir. 2005).
146 429 F.3d 370 (2d Cir. 2005).

invest in new drug development. Under the version of the Hatch-Waxman Act in effect at the time of the relevant events, the first company to file an ANDA with a Paragraph IV certification for a particular drug was granted the exclusive right to market the generic version until 180 days after the earlier of two dates: (1) when the company began commercial marketing of the generic version, or (2) when a court held the patent invalid or not infringed.

Barr filed an ANDA to market a generic version of Zeneca's tamoxifen. In 1987, Barr amended its ANDA to include a Paragraph IV certification; shortly thereafter, Zeneca sued Barr for patent infringement in the United States District Court for the Southern District of New York. In 1992, the district court held the pertinent patent (the '516 patent) invalid and unenforceable on the ground that, in a predecessor patent application, Zeneca had fraudulently withheld data regarding the hormonal effects of tamoxifen on mice.[147] Zeneca appealed to the Federal Circuit. While that appeal was pending, Zeneca and Barr entered into a settlement, conditioned on *vacatur* of the judgment invalidating the '516 patent. The settlement provided that Barr would receive a cash payment of $21 million from Zeneca, withdraw its Paragraph IV certification and its challenge to the validity of the patent, and enter into a license with Zeneca for the duration of the patent term, under which Barr would be allowed to market Tamoxifen supplied by Zeneca. According to the complaint, Zeneca and Barr also agreed that Barr would not market its generic version of the drug until the patent expired. If another generic manufacturer successfully invalidated the patent, the parties allegedly understood that Barr would attempt to invoke the exclusivity period on the basis of its previous Paragraph IV certification (and argue that the exclusivity period would not begin to run until Barr began commercial marketing of the generic version of the drug). If it were successful, Barr would effectively discourage any other generic manufacturer from entering the market until the patent expired

As agreed, Zeneca dismissed its appeal, and Zeneca and Barr moved to vacate the district court's decision. Consistent with its practice at the time, the Federal Circuit granted the parties' motion.[148] Three other companies later filed ANDAs with Paragraph IV certifications for generic versions of tamoxifen. Zeneca sued all three for patent infringement and prevailed. While that patent infringement litigation was still pending, Barr attempted to invoke the 180-day exclusivity period, but the FDA (after litigation on the issue) ultimately refused to allow it to do so.

In 2002, various plaintiffs filed a class action against Zeneca and Barr in New York alleging that the settlement unlawfully restrained competition by preventing Barr (and others) from marketing generic versions of the drug, thereby enabling Zeneca to continue monopolizing the market for tamoxifen. The Second Circuit affirmed the District Court's dismissal of the complaint.

The court first concluded that the complaint could not state an antitrust claim based on the settlement alone "without alleging something more than the fact that Zeneca settled after it lost to Barr in the district court." The court reasoned that "'courts are bound to encourage' the settlement of litigation," and that restrictions on patent settlements might frustrate "the goals of the patent laws because the increased number of continuing lawsuits that would result would heighten the uncertainty surrounding patents." Although the court of appeals acknowledged that a settlement could be invalid under the antitrust laws if the parties had entered into the settlement in bad faith, the court refused to consider the likelihood of success on the underlying patent infringement claim in assessing the validity of a settlement. The court reasoned that it was impossible to assess the likelihood of Zeneca's success on appeal "with any degree of assurance."

The court also concluded that the mere allegation that the patent holder made a "reverse payment" to the alleged infringer as part of the settlement did not suffice to make out an antitrust claim, reasoning that "reverse payments are particularly to be expected in the drug-patent context because the Hatch-Waxman Act created an environment that encourages them." The court explained that a prospective generic manufacturer "has relatively little to lose" in a patent infringement suit precipitated by a Paragraph IV certification, whereas "[t]he patent holder's risk if it loses … is correspondingly large."

147 *Imperial Chem. Indus., PLC v. Barr Labs.*, 795 F. Supp. 619, 621-622 (S.D.N.Y. 1992).
148 *Imperial Chem. Indus., PLC v. Heumann Pharm. GmbH & Co.*, 991 F.2d 811 (1993).

The court rejected plaintiffs' argument that the settlement was invalid under the antitrust laws because the size of the reverse payment was excessive, although the court acknowledged that "[t]here is something on the face of it that does seem 'suspicious' about a patent holder settling patent litigation against a potential generic manufacturer by paying that manufacturer more than either party anticipates the manufacturer would earn by winning the lawsuit." According to the court, however, "so long as the patent litigation is neither a sham nor otherwise baseless, the patent holder is seeking to arrive at a settlement in order to protect that to which it is presumably entitled: a lawful monopoly over… the patented product." The court explained that "the law allows the settlement even of suits involving weak patents with the presumption that the patent is valid and that settlement is merely an extension of the valid patent monopoly."

The court ultimately held that, "absent an extension of the monopoly beyond the patent's scope … and absent fraud …, the question is whether the underlying infringement lawsuit was objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." Applying that standard, the court determined that the settlement in this case was valid under the antitrust laws.

The plaintiffs filed a petition for *certiorari* and the Court invited the Solicitor General to express his views. In its filing, the SG took the view that the court of appeals erred by focusing on whether the underlying patent infringement claim was "objectively baseless"—a standard typically used in determining whether a defendant is entitled to antitrust immunity under the *Noerr-Pennington* doctrine—rather than engaging in a broader inquiry concerning the patent holder's likelihood of success on that claim. According to the SG, the court of appeals correctly recognized that, in passing on the validity of a settlement, a reviewing court should view the settlement from the perspective of the parties at the time they entered into it. But, said the SG, the court nevertheless refused to inquire into the likelihood of success on the patent infringement claim on the ground that it was impossible to assess the likelihood of success (in this case, Zeneca's likelihood of prevailing on appeal) "with any degree of assurance."

The SG emphasized that a court would not need to conduct a full trial on the merits of the underlying claim to assess the patent holder's likelihood of success and that a limited examination of the merits of the claim is hardly impossible. Indeed, similar inquiries are commonplace, such as in deciding whether to grant a preliminary injunction … or in reviewing the fairness of a proposed class-action settlement. The SG also opined that the atypical facts of the case illuminated the court of appeals' error in refusing to consider the strength of the infringement claim beyond a determination that the claim was not objectively baseless.

The SG put special emphasis on the fact that at the time the parties entered into the settlement at issue here, the district court had already held Zeneca's patent invalid in a decision on the merits. As a result, said the SG, the Federal Circuit "would have reviewed [the district court's] factual findings underlying [its] conclusion of invalidity with considerable deference, rather than engaging in a presumption of validity." Thus, the case was plainly one in which, at the time of settlement, there was reason to doubt the patent holder's likelihood of success, although pointing the other way was the fact that Zeneca had prevailed in all three of its other infringement suits presenting the identical issue. The SG's criticism was that the standard articulated by the court of appeals precluded any such assessment.

But despite all the criticism of the Second Circuit's decision, the SG recommended against the Court taking the case on the theory that it did not provide a suitable vehicle. The Second Circuit's decision is obviously at odds with some fundamentals of the Eleventh circuit's decision in *Schering* inasmuch as in *Schering* the Eleventh Circuit held that the "proper analysis" of an antitrust challenge to a patent settlement "requires an examination of: (1) the scope of the exclusionary potential of the patent; (2) the extent to which the agreements exceed that scope; and (3) the resulting anticompetitive effects."[149] On the other hand, both courts put their focus on whether the "exclusionary effects of the agreement [exceeded the] scope of the patent's protection." And finally the Eleventh Circuit, unlike

149 *Schering-Plough* at 1066 (citing *Valley Drug Co. v. Geneva Pharm., Inc.*, 344 F.3d 1294, 1312 (11th Cir. 2003), *cert. denied*, 543 U.S. 939 (2004)).

the court in *Tamoxifen,* did not purport to hold that proof of "sham" or "objectively baseless" litigation is a prerequisite to antitrust liability (in the absence of proof that the settlement extended the patent holder's monopoly beyond the patent's scope).

The SG's *Tamoxifen* brief brings to mind a bit the SG's filing in *LePages.* The government plainly thought both decisions wrong, but apparently feared that the record was too tangled to allow for a clean decision.

The most recent response of the FTC to all of this has been, in February of this year, to file a suit against Cephalon alleging monopolization by it of the market for Provigil a branded prescription drug approved by the FDA for the treatment of excessive daytime sleepiness associated with narcolepsy.[150] According to the FTC complaint, Cephalon's CEO has conceded that Provigil faces "no competition."[151] According to the FTC, Cephalon "bought off" through reverse payments four separate generic companies, each of which had planned to sell a generic version of Provigil and each of which had made a so-called Paragraph IV certification to the effect that either (a) its generic version of Provigil does not infringe Cephalon's patents or (b) the patents were invalid. The FTC action against Cephalon is different from prior enforcement actions in several respects. First, the Commission went straight to Federal District Court and chose the District of Columbia as its preferred jurisdiction, presumably wanting to generate a conflict in the circuits so as to get one or more of these sorts of cases before the Supreme Court. In this respect, the Commission was frustrated almost at the outset, since Cephalon moved successfully to transfer the case to the Eastern District of Pennsylvania.[152] This inability of the Commission to choose its own jurisdiction presents, for the commission, a separate problem, wholly apart from its otherwise frustrating experience with respect to Hatch-Waxman.

Second, the Commission did not sue any of the four generic manufacturers (Barr, Teva, Ranbaxy, and Mylan) who had filed the Paragraph IV certifications and received the "reverse payments." This creates a rather different negotiating dynamic as between branded companies and generics in negotiating these arrangements since the risk of illegality may not be shared as in the past.

Third, by using a theory grounded on Section 2 of the Sherman Act, the Commission further changes the negotiating dynamics as between branded and generic pharmaceutical companies. Indeed, by focusing on Section 2 the Commission exposes the branded companies to private treble damage actions to a greater extent than the generics, although the generics are not necessarily free of liability in private actions just because the Commission has chosen only to pursue the branded company.

Fourth, the Commission seems to some extent to have taken on the burden of showing that one or more of the generic companies' invalidity arguments would have prevailed, and hence, entry would in fact have occurred but for the payments by Cephalon.[153] This is a material change from the Commission's prior rhetoric about not needing to inquire into the strength or weakness of the patent.

Based just on a reading of the complaint, the Commission seems to have a strong case relying upon theories and an approach not previously used. Still and all, the Commission continues to lobby Congress to change the law, while at the same time changing its approach slightly to accommodate the reality that it has lost all the cases it has brought under existing law.

150 The complaint and all other papers associated with this case are available via the FTC website at http://www.ftc.gov/os/caselist/0610182/index.shtm.
151 Complaint at Paragraph 27.
152 The opinion by Judge Bates ran to 21 pages and is of independent interest to US antitrust lawyers in general for its discussion of the transfer considerations attending enforcement actions brought by the government in the District of Columbia.
153 Complaint, Paragraphs 41-52.