

FTC/DOJ HEARINGS ON IP AND ANTITRUST

Testimony of Ronald Myrick

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Good morning. My name is Ron Myrick. I currently serve as Chief Intellectual Property Counsel of the General Electric Company (“GE”). I am also the immediate past president of the Intellectual Property Owner’s Association and am president-elect of the American Intellectual Property Law Association. I have the privilege of serving on the U.S. Patent and Trademark Office’s Patent-Public Advisory Committee (“P-PAC”), and on the Council of the IP Law Section of the American Bar Association and in various other capacities for other organizations. But I want to preface my remarks by making clear that I am appearing here in my personal capacity and that my views are not necessarily those of any of the organizations with which I am affiliated, including GE.

I commend the Federal Trade Commission and the Antitrust Division for seeking the views of the business community and the IP and antitrust bars on the issues to be addressed in these hearings, and I welcome the opportunity to appear today to present my perspective on “Real World Experience with Patents.”

I start with the basic proposition that I see no fundamental “crisis” in either the substantive patent or other IP law or the interface between IP law and antitrust law in the United States. However, reform in some areas of the substantive patent law could be helpful. (*See* pp. 10-21, *infra*). And surely the PTO could use additional resources to assist it in speedily carrying out its mandate to ensure that newly issued patents satisfy the statutory requirements of novelty, utility, and nonobviousness. (*See* pp. 6-8, *infra*). But concerns about “proliferation” of patents

seems to be somewhat overstated, and I do not believe that the relationship between the IP laws and the antitrust laws is out of balance.

To the extent that adjustments would be beneficial, I believe that they are best accomplished through legislative changes to the intellectual property laws and the administration of those laws, rather than by using the instrument of antitrust enforcement – particularly of private treble damages antitrust enforcement. The Congress has in the past enacted such legislation to clarify the scope of IP rights. Among the more prominent examples are the 1999 Inventor’s Protection Act – which created a limited prior use right exception in the case of business method patents; and the 1988 Patent Misuse Reform Act, which provided patent owners with protection from claims based on refusals to license and clarified the standard for assessing patent tying claims to require proof of market power in a properly defined relevant market. There are additional areas that I believe could benefit from legislative changes, which I address later in my testimony.

I would also urge the FTC and DOJ to encourage foreign antitrust enforcers to adopt the view of the IP/antitrust interface that has come to prevail in the U.S. over the last 20 or so years. Intellectual property owners are increasingly licensing on a global basis, and the positions on limited licensing, discriminatory licensing terms, and compulsory licensing taken by some foreign competition authorities serve as disincentives for innovation.

Finally, the DOJ/FTC *Antitrust Guidelines for the Licensing of Intellectual Property* – to the extent that they accurately reflect the agencies’ enforcement intentions – are valuable because they increase the certainty with which IP owners can make licensing decisions – even though the *Guidelines* are not, of course, binding upon either the courts or private litigants. If the FTC or DOJ changes its enforcement policies as a result of these hearings – whether to expand

or narrow the latitude granted to IP owners – I would urge the agencies to update the *Guidelines* to reflect any such new enforcement posture.

* * * *

Let me turn, then, to some of the subjects identified in the Federal Register notice about which I hope my views will be helpful.

A. The Quantity and Quality of Patents.

As Chairman Muris noted in his November, 2001 speech on Competition and Intellectual Property Policy¹, there has been a substantial increase in the volume of patents issued annually. In my view, this growth reflects the growing awareness of the value of IP rights, far more than any improper loosening of the standard of patentability. Patents are intangibles that are receiving even more interest from the SEC in the wake of recent events. I believe the growth in patents can be attributed to three factors, none of which should be the basis for great concern.

First, businesses and the public have become increasingly focused on evaluating the role that IP plays in new competitive environments and regarding new technologies that are critical to business success. Can there be any doubt about the proliferation of technologies? This means that inventors and their companies now seek patent protection for inventions for which there was no corollary twenty years ago. But the fundamental premise underlying our patent system – that disclosure of inventions and the best method of making them serves the public interest – means that this development is to be welcomed, not feared. An alternative to seeking patent protection

¹ See Timothy Muris, Competition and Intellectual Property Policy: The Way Ahead (Nov. 15, 2001), available online at <<http://www.ftc.gov/speeches/muris/intellectual.htm>>.

is trade secrecy, not permitting an invention to become publicly known. But as Chief Judge Markey once put it, “a valid patent gives to the public something it never had before.”²

Second, the creation of the Court of Appeals for the Federal Circuit (“CAFC”) created uniformity and increased certainty, thus increasing the value of patents.³ Prior to the creation of the CAFC, there were some courts – and some circuits – where the rule appeared to be that all patents were invalid.⁴ The CAFC has rectified that imbalance, and in so doing has developed improved jurisprudence in difficult areas such as obviousness.⁵ I do not mean to suggest that the CAFC is the captive court of patent holders. Far from it. Exemplary of that fact is the court’s controversial decision in the *Festo* case,⁶ which substantially limited the scope of patents (prospectively and, most importantly, retrospectively) by narrowing the doctrine of equivalents – shows that it is not.⁷ But with greater certainty and predictability in the patent system, inventors have been more likely to seek patent protection and thus benefit the public through disclosure of their inventions⁸.

² See *Chisholm-Ryder Co., Inc. v. Mecca Bros., Inc.*, 1982 WL 1950, *4 n.13 (W.D.N.Y. 1982).

³ See Paul Janicke, *To Be or Not To Be: The Long Gestation of the U.S. Court of Appeals for the Federal Circuit*, 69 *Antitrust L.J.* 645, 666 (2002) (“Janicke”).

⁴ See Janicke, p. 646.

⁵ See Janicke at 660-62, 665-66. Developments in the law of obviousness have *not* meant that more patents are being held valid; studies find that about half of all judicially completed patent litigation ends with a finding of patent invalidity on the basis of obviousness. *Id.* at 666 & n.116.

⁶ *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki*, 234 F.3d 558 (Fed. Cir. 2000) (*en banc*), *cert. granted.*, 533 U.S. 915 (2001).

⁷ See Janicke, p. 665, n.117 (citing the patent infringement statistics available on <http://www.patstats.org/>).

⁸ See Janicke, p. 666.

Finally, the growth of patent litigation over the last twenty years has served to establish the value of patents -- value that can be realized through royalty-bearing licenses that are the product of agreement as well as through litigation damages awards. Awards now, often rendered by juries after the court has conducted a Markman hearing to construe the claims and counsels for both sides have developed their cases fully, exceed by wide margins the standards of generations past. The very size of the stakes in patent litigation, both for plaintiffs and defendants, forces focus on obtaining patent protection for inventions.⁹

At the same time, my own view is that any concern with “too many” patents is misplaced. The patent system fosters innovation and investment in research and development through what the Supreme Court has described as “a carefully crafted bargain.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989). In exchange for “disclosure and the consequent benefit to the community,” the law, based upon Constitutional mandate, gives inventors exclusionary rights to their inventions for a limited period of time. *Id.* An inventor who lives up to his end of the bargain, who invents something novel, useful, and nonobvious and discloses the best form of the invention, deserves the statutory right to exclude granted by the Patent Act.

Recognizing the import of intellectual property to our nation’s vitality, the Framers of our Constitution expressly empowered Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their

⁹ There were 2,615 patent infringement cases filed in 2001. See <http://www.uscourts.gov/judiciary2001/tables/c02jun01.pdf>. Of the 2,386 patent cases terminated in 2001, only 52 were terminated after jury trials; the rest were terminated by settlement or judicial action. See <http://www.uscourts.gov/caseload2001/tables/c04mar01.pdf>.

respective writings and Discoveries.” U.S. Const., Art I, § 8, cl. 8. Intellectual property plays no less a role in promoting the general welfare today than it did some 200 years ago. Indeed, the growth in the number of issued patents has coincided with most prolonged period of economic growth that our nation has ever known (despite a short-lived or nonexistent recession), and with improvements in productivity and low inflation that economists and pundits previously considered impossible.

On the opening day of these hearings, Undersecretary Rogan noted the high correlation between a country’s economic growth and the vitality of its patent system. Like Undersecretary Rogan, I do not attribute all – or even most – of our country’s economic successes over the past decade to the strength of our patent system or the growth in patent issuance. But I believe that the burden is properly on those who are concerned about the trend in patent issuance to provide a sound factual basis for their concerns, given this history. They should also have the burden of suggesting an alternative to our current patent system that better serves the public interest. I am aware of no such alternative.

I would be remiss if I did not mention the role of the USPTO in the concerns about proliferation. It is a complicated one. In my opening remarks, I said that I did not see a “crisis” in the substantive patent law. But I do see a looming crisis in the ability of the USPTO to administer that law.¹⁰ It is this crisis that I believe is the root cause of the bulk of the IP concerns expressed by others inside and outside of these hearings. The USPTO is charged with the

¹⁰ I addressed this issue in greater detail in my June 7, 2001 testimony before the House Judiciary Subcommittee On Courts, the Internet, and Intellectual Property. *See* http://www.ipo.org/2001/IPissues/Ron_Testimony.doc.

primary jurisdiction over issuance of patents (trademark registrations also fall into its jurisdiction but do not give rise to the current level of concern). No other agency has such jurisdiction; nor should any other agency assume it or attempt to preempt it. It falls to the USPTO to faithfully discharge the responsibility of issuing valid patents or denying undeserving patent applications expeditiously. I am not going to say that the Office has done its job as well as it could be done, but equally I am not going to say that it has been supported properly in discharging its important duties.

In particular, during the time when some are so concerned about the issuance of patents either in too great numbers or too slowly for industries' and the public's needs, the PTO has been starved for funds. The PTO is *entirely* supported with the fees paid by patent and trademark applicants — it receives no taxpayer funds. Since 1992, however, Congress has been withholding consistently substantial portions of these applicant fees for use in other government agencies. That withholding continues to this day and totals many hundreds of millions of dollars. In fact, in the latest proposed budget a surcharge is proposed on USPTO fees to provide funds for further diversion, some or all of which is slated for homeland security, certainly a major priority in this time. Placing a surtax on innovation to support homeland security may ignore the impact of such tax upon a critical element of that security, namely economic security.

Past fee withholding has substantially hindered the PTO's ability to examine patent applications and either issue valid and enforceable patents or deny applications *on a timely basis*. The PTO's own estimates show that pendency of patent applications will rise from 25.0 months in FY 2000 to 38.6 months in FY 2006 -- a 54% increase absent a significant increase in resources. The Office is currently hoping to hire a large number of new examiners to address, and hopefully avoid, this anticipated increase.

I do *not* believe that the impact of this lack of funding has been the wholesale granting of patents that fail to meet the statutory requirements. Rather, by lengthening the time it takes for the PTO to review a patent application, the PTO has granted *fewer* patents, not more patents with the accompanying diminished disclosure and certainty. Patents exist to provide disclosure to build the economic base of society. History suggests they have done the job for 200+ years. Significantly delaying the discharge of their function is not in the public interest.

Moreover, while I believe the USPTO could do a better job regarding the quality of its work, I have not seen sufficient evidence to suggest that the overall quality of patents issued by the Office is poor. Some are. Most are not. The application of modern “Six Sigma” quality methodology to USPTO processes could afford a significant improvement in quality and reliability of the examination and issuance process. That effort should be funded along with the modernization of today’s paper-based patent application processing techniques.

The business community, antitrust enforcers, and members of the IP and antitrust bars thus share a common interest in a properly funded PTO, one that can expeditiously and rigorously review and process the large number of patent applications. I would thus call on the Antitrust Division and the FTC to add their voices and their unique perspectives to the ongoing battle for proper PTO funding. A PTO with the resources it requires will simultaneously serve the interests of those concerned with strong patent protection and those concerned with encouraging competition and innovation, as well as the interest of the public to know.

B. The Need For Certainty

The federal patent system, and the constitutional grant of authority from which it is derived, are based on the recognition that “[i]nvention is an uncertain business,” and that, “[t]o spur investment in it, inventors must be reasonably assured that they will be able to recoup their

costs and earn a profit.” Rochelle C. Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 Va. L. Rev. 677, 679 (1986). Without the reward of a patent or copyright, and the right to exclude use that it confers, “firms have weak incentives to absorb the costly expenditures needed to develop intellectual property.” Alden F. Abbott, *Developing a Framework for Intellectual Property Protection to Advance Innovation*, Intellectual Property Rights in Science, Technology and Economic Performance 311, 317 (Francis W. Rushing & Carole G. Brown eds., 1990). They “run the risk that . . . their innovations w[ill] earn insufficient profits to offset the losses stemming from failed research efforts,” and that “capital markets w[ill] be far less willing to provide funds for independent research efforts.” *Id.* at 321.

Firms make huge investments in innovating and in obtaining patent protection for their patentable inventions. Certainty – knowing the IP and antitrust rules that will apply to our efforts to obtain patent protection, the scope of that protection, and the antitrust rules that govern exercise of our patent rights – is essential to justifying and continuing this investment.

1. The Role of the CAFC

The Court of Appeals for the Federal Circuit has played a critical role in increasing the uniformity and certainty of the law affecting IP owners, particularly patent holders.¹¹ The CAFC is increasingly dealing with IP/antitrust cases outside its traditional area of antitrust liability for misconduct in obtaining a patent (*Walker Process*¹²), or enforcing it (*Handgards*¹³). Examples

¹¹ See Janicke, p. 666.

¹² *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

¹³ *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980), and *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985).

include *Xerox*¹⁴ (refusals to deal), *Intergraph*¹⁵ (monopolization standards), and *Bard v. M3*¹⁶ (predatory innovation). The CAFC's increasing importance reflects in part the increasing importance of IP and IP litigation in business decisions; as a result, antitrust claims are more frequently ending up in the same case as patent claims.

Although the Federal Circuit does – and should – apply the law of the regional circuits to general questions of antitrust law, the Federal Circuit's decision in *Nobelpharma*¹⁷ and subsequent cases to apply its own law to questions of “[w]hether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws” is a salutary development because it increases the certainty and clarity of the rules that apply to patent owners.

2. Presumption of Market Power

Different antitrust rules apply to firms with market power than those without market power. Application of this principle is complicated, however, by judicial decisions that improperly create a presumption of market power based on the ownership of IP. This uncertainty is troubling for IP owners.

¹⁴ *In re Independent Service Organization Antitrust Litigation*, 203 F.3d 1322, 1324 (Fed. Cir. 2000), *cert. denied sub nom, CSU LLC v. Xerox Corp.*, 531 U.S. 1143 (2001).

¹⁵ *Intergraph Corp. v. Intel Corp.*, 195 F.3d 134 (Fed. Cir. 1999).

¹⁶ *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), *cert. denied*, 526 U.S. 1130 (1999).

¹⁷ *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir.), *cert. denied*, 525 U.S. 876 (1998).

While the Supreme Court has suggested in older decisions that a presumption of market power should exist, the courts of appeals have been divided in their holdings, and the Supreme Court has chosen not to revisit the issue in nearly twenty years. Almost 40 years ago, in an overbroad statement unnecessary to the holding of the case at hand, the Supreme Court stated that the “economic power required for a tying violation is presumed when the tying product is patented and copyrighted.” *United States v. Loew’s, Inc.*, 371 U.S. 38, 44 (1962). Citing to this language, the Supreme Court reiterated its position over two decades later, suggesting in dictum in another tying case that, “if the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power.” *Jefferson Parish Hosp. Dist. v. Hyde*, 466 U.S. 2, 16 (1984). In a well-reasoned concurring opinion, Justice O’Connor flatly rejected this presumption and explained that a patent holder lacks market power when there are close substitutes to the patented products. *Id.*, at 38 n.7 (1984). But her position garnered only four votes, and the lower courts were left to choose between the misguided dictum of the majority and the more realistic view reflected in the concurring opinion of Justice O’Connor.

Taking the latter course, most courts of appeal have recognized that a presumption of market power is economically baseless. *See, e.g., A.I. Root Company v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985). The Court of Appeals for the Ninth Circuit, however, has maintained that the presumption applies with respect to patents and copyrights in tying cases. *Digidyne v. Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984). Because the decisions of the Ninth Circuit affect the legal rights of over 50 million people living in nine western states - an area that includes much of our nation’s high-tech industries - as well as the rights of any national or global

company doing business in this large and populous area, that court's presumption of market power has troublesome consequences. Many onlookers have hoped that the Ninth Circuit would overturn its decision or that the Supreme Court would resolve the issue, but neither event has occurred. Indeed, on several occasions in recent years, the Supreme Court has opted not to hear a case that squarely presented the question. *See, e.g., id., cert. denied*, 473 U.S. 908 (1985); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986). Thus, the federal courts have not settled the issue, and intellectual property owners have been confronted with uncertainty, insecurity and the risk that their actions will result in significant litigation costs and possibly even treble damages.

Section 2.2 of the *IP Guidelines* properly rejects any such presumption of market power. A patent gives its holder the right to exclude others from making, using, selling, offering for sale, or importing his invention. A quick search of the PTO's website reveals hundreds of patents for mouse traps, but I dare say none of them confers market power on their owner. To use the blunt words of Professor Hovenkamp, "presum[ing] market power in a product simply because it is protected by intellectual property is nonsense." Herbert Hovenkamp, *Federal Antitrust Policy: The Law of Competition and Its Practice* 136 (1994).

In order to remove the uncertainty in this area of the law once and for all, I would urge the FTC and the DOJ to support efforts in Congress to make clear that ownership of IP should not create a presumption of market power. There have been several attempts in Congress over the years to overturn this harmful presumption, but none has yet been successful.

3. Refusals to License

Intellectual property owners need certainty in another area – clarification of their right to unilaterally refuse to license lawfully acquired intellectual property. The very essence of a patent has always been “the right to exclude others from making, using, offering for sale, or selling the invention.” 35 U.S.C. § 154(a)(1). The Supreme Court has recognized this principle many times¹⁸, and the FTC and DOJ’s *IP Guidelines* recognize in § 2.2 that even where intellectual property *does* confer market power, such market power does not “impose on the intellectual property owner an obligation to license the use of that property to others.”

This is consistent with the essence of the patent right, which is an exclusionary right, not a mere guarantee of remuneration. In fact, unlike other property, including baseball bats, the patent right consists only of the exclusionary right to stop others from using the invention; it does not include the affirmative right to use the invention. The legislative changes to the definition of patent infringement enacted by Congress over the last 15 years are evidence of Congress’s willingness to expand the exclusionary rights conferred by patents.

¹⁸ See, e.g., *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) (the “essence” of the patent grant is the “right to exclude others from profiting by the patented invention”); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (the “heart of [the patentee’s] legal monopoly is the right to invoke the State’s power to prevent others from utilizing his discovery without his consent”); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 457 (1940) (holding that a patent owner has a legal “right to refuse to sell . . . [its] patented products”). With regard to copyrights, see generally *Stewart v. Abend*, 495 U.S. 207, 228-29 (1990) (noting that “nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright” and that “a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work”); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (“The owner of the copyright, if he pleases, may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his property.”).

Section 271 of Title 35 provides the basic statutory definition of patent infringement. From 1952, when it was first enacted, until September 1984, Section 271 remained unchanged. Over the last 15 years, however, Congress has amended Section 271 seven times, each amendment making the definition of infringement -- and thus the patent holder's exclusionary rights -- broader than before.

- In September 1984, subsection (e) was added, broadening infringement to include a drug maker's filing of an Abbreviated New Drug Application with the FDA. *See* Act of Sept. 24, 1984, Pub. L. No. 98-417, 202, 98 Stat. 1585, 1603.
- In November 1984, subsection (f) was added, broadening infringement to address the problem of uncombined component parts of patented inventions. *See* Act of Nov. 8, 1984, Pub. L. No. 98-622, 101, 98 Stat. 3383, 3383.
- Four years later, Section 271 was amended three more times -- first to add subsection (g) to address the importation of products made by patented processes (*see* Act of Aug. 23, 1988, Pub. L. No. 100-418, 9003, 102 Stat. 1107, 1563-64), then to make changes to subsection (e) relating to, *inter alia*, generic animal drugs (*see* Act of Nov. 16, 1988, Pub. L. No. 100-670, 201(i), 102 Stat. 3971, 3988), and then to add new parts (4) and (5) to subsection (d) to further protect patentees from meritless allegations of patent misuse or antitrust liability (*see* Act of Nov. 19, 1988, Pub. L. No. 100-703, 201, 102 Stat. 4674, 4676).
- In 1992, Congress amended Section 271 to clarify that the several States were liable, and subject to suit in federal court, for any patent infringement they might commit. *See* Act of Oct. 28, 1992, Pub. L. No. 102-560, 2, 106 Stat. 4230, 4230 (adding subsection (h), defining "whoever" in subsection (a) to include the States). Although the Supreme Court recently held Congress had exceeded its powers in subjecting the States to federal suit in this particular manner, *see College Savings Bank v. Florida Prepaid Postsecondary Ed. Expense Bd.*, 527 U.S. 666 (1999), Congress's intent to provide patentees with full infringement remedies is unmistakable and remains undiminished.
- Finally, in 1994, as part of the legislation implementing the TRIPs, Congress expanded subsections (a), (c), and (e) of Section 271 to include the "offers to sell" and "imports into the United States" language mandated by the TRIPs, as well as adding a new subsection (i) that defines "offer to sell." *See* Act of Dec. 8, 1994, Pub. L. No. 103-465, 553(a), 108 Stat. 4809, 4988.

The foregoing amendments to Section 271 have enlarged the scope of the patentee's exclusionary rights and powers under the patent laws.

The Ninth Circuit's decision in *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (1997), which held that when a seller has market power, his mere refusal to license a patented product to a competitor can violate section 2 of the Sherman Act based on the patent owner's subjective intent, introduced enormous uncertainty into what was previously thought to be a well-established area of the law. Fortunately, the Court of Appeals for the Federal Circuit rejected the Ninth Circuit's analysis and holding in the *Xerox* case, but patent holders who may face litigation in the Ninth Circuit will have to be cautious before exercising their fundamental patent rights, particularly if courts are permitted to apply the economically baseless presumption that all intellectual property establishes market power.

The 1988 Amendments to the Patent Act, codified at 35 U.S.C. § 271(d)(4), provide that “[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of . . . having . . . (4) refused to license or use any rights to the patent.” Although the Federal Circuit held in *Xerox* that § 271(d)(4) bars both misuse claims and antitrust claims, there is not universal agreement on this point, and the *IP Guidelines* imply (in § 5.3) that the enforcement authorities interpret § 271(d) as applying only to the misuse defense. If that is, in fact, the agencies' position, I would urge them to reconsider it, for it makes no sense to say that conduct cannot constitute misuse but may still violate the antitrust laws. Legislation making clear that the rules set forth in § 271(d) apply to both antitrust claims as well as the misuse defense – thus clarifying that a mere refusal to license a patent cannot violate the antitrust laws – would be helpful.

As the Supreme Court has noted, “[c]ompulsory licensing is a rarity in our patent system.”¹⁹ It “often has been proposed, but it has never been enacted on a broad scale.”²⁰ Nevertheless, I recognize that some have argued that compulsory licensing of patents is appropriate in particular contexts, most notably in the case of life-saving pharmaceuticals. Regardless of the merits of such a compulsory licensing system in any given context, I believe that the identifying the contexts in which compulsory licensing is appropriate is a patent law question, not an antitrust question. Whether the social contract under which a patent is granted in exchange for disclosure should be amended in the case of pharmaceuticals or other products to be merely the right to remuneration is for the Congress to debate, not the antitrust agencies.

4. Limited Licensing

Intellectual property owners who *do* choose to license their inventions and works may choose to maximize the value of their IP by issuing only limited licenses – licenses with field of use, territorial, or customer restrictions. Additional certainty regarding the antitrust rules in this area would be helpful as well.

I believe that nonexclusive IP licenses with field of use, territorial, or customer provisions should be encouraged as procompetitive. I am talking here only of provisions defining the scope of the license grant – not of noncompete agreements that apply regardless of whether the intellectual property is used. The Patent Act expressly authorizes licenses limited to “any specified part of the United States,” 35 U.S.C. § 261, and Supreme Court precedent

¹⁹ *Dawson Chemical Co. v. Rohm and Haas Co.*, 448 U.S. 176, 215 (1980).

²⁰ *Id.* at 215 n.21.

recognizes the territorial and field of use limitations do not violate the antitrust laws. *See, e.g., Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456 (1940) (territorial limitations); *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938) (field of use limitations). Other courts have upheld customer limitations in licenses. *See, e.g., In re Yarn Processing Patent Validity Litig.*, 541 F.2d 1127, 1135 (5th Cir. 1976).

The *IP Guidelines* could be clarified on this point, they currently state that “[f]ield of use, territorial, and other limitations on intellectual property licenses *may* serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible.” *Guidelines* § 2.3 (emphasis added). The Guidelines recognize that these kinds of restrictions protect the licensor from efforts by licensee’s to free-ride on the licensor’s investments, and that they will increase incentives to license by protecting the licensor from competition in a market niche it prefers to keep to itself. Given that an IP owner need not license its intellectual property *at all*, it is hard to see how an IP owner’s decision to nonexclusively license *some* of its rights can be anticompetitive, even when the licensee competes with the licensor.

C. Other Areas for Legislative Consideration.

Antitrust law enforcement can be a “blunt instrument” for addressing patent issues. Legislative solutions are to be preferred to antitrust solutions for some of the issues raised in the Federal Register notice and by participants in these hearings.

1. Patent Thicket/Blocking Patents

Chairman Muris in his speech, and some of the witnesses at these hearings, have expressed concern with what some call a “patent thicket” – a term for a large number of

potentially blocking patents in an industry.²¹ There are a number of industries and fields of invention that are covered by such a multitude of patents.

I believe it is important to bear in mind that blocking patents can serve a useful social function: they can force innovation. If a given technology is “blocked” by one or more patents, competitors are forced to innovate around those patents; that is desirable from the viewpoint of the long-term economy and the progress of the useful arts. Absent blocking, there will be many who would simply compete using the technology that is known already. This may be good in the short run, by adding competitors and reducing prices, but alternative – and potentially superior – technologies will have fewer advocates and searchers and society may be the worse for that.

In some cases, a new market entrant may face quite a number of patents. Many industries have experienced that phenomenon, notably, for example, the computer industry. I am aware of the concerns about this issue expressed by those in the computer industry – but has any industry advanced further or faster than the American computer industry? That success is the best empirical evidence that the patent system works without untoward effects from a “patent thicket.” It is undoubtedly true that patents permit some in the industry to profit – for a limited time – from their inventions. But that is, after all, the purpose of the patent laws. But experience shows that others in the computer industry will advance quickly as well as a result of forced innovation, to continue the overall drive for societal advancement for the industry as a whole.

²¹ *See also* Carl Shapiro, “Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting,” *available online* at <<<http://haas.berkeley.edu/~shapiro/thicket.pdf>>>.

As the Supreme Court has recognized, “A patent by its very nature is affected with a public interest.” *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816 (1945). Thus, just as the antitrust laws are concerned with competition, not competitors, *Brooke Group v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 224 (1993), the patent system must be viewed as to its overall good for, and effect on, the public welfare. Concerns about the problems of individual patentees or individual targets of patentees must give way to concern for the impact of the patent system on incentives for innovation, and all that means for the public welfare and the strength of the economy. The patent system does not exist just to reward individual patentees; rather, it exists to provide incentives to inventors to *disclose* inventions for the benefit of the public as a whole.

I believe that some of those who have expressed concern about a “patent thicket” and about so-called “paper patents” – patents covering inventions that the patentee does not manufacture – are trying to rebalance the system of incentives created by our patent system to value the patents of some inventors more than the patents of others, particularly small or academic inventors. This is not the proper role of antitrust law enforcement – particularly because these small inventors can rarely be considered to have the market power that *is* the proper concern of the antitrust laws.

If there is a problem, it is one to be addressed in Congress, which can make substantive changes in the patent laws after proper deliberation. There are a few ways in which this could be done:

- Congress could expand the prior use right to all patents (not just patents claiming “methods for doing or conducting business”), and eliminate the requirement that the method be reduced to practice one year before the patent’s effective filing date for the exception to apply.²²
- Eliminating the right to opt-out of publishing patent applications after 18 months (a right granted inventors that do not file foreign applications, and one exercised by a relatively small percentage of applicants), would partially eliminate the potential for “surprise” or “hold up” about which some have expressed concern.
- To protect the rights of inventors whose applications will be disclosed, such a change should be combined with a Congressional mandate to issue or deny patents within 18 months or some other comparatively brief term.
- These changes could also be combined with a move to a first-to-file patent system, which would increase incentives for speedier filing of patent applications.

I believe that such changes would largely eliminate the types of concerns that have been raised. The alternative – using antitrust law enforcement to mandate compulsory licensing – would serve only to fix individual complainants’ concerns about individual patents while adversely affecting the overall incentive effects of the patent system.

2. Opposition systems

Some have also expressed concern about the availability of routes for post-grant attacks on patent validity. Congress has attempted to make a better post grant review process available, and I think this is a good idea. But the devil is in the details, and this is something for the Congress to resolve, not the antitrust agencies. I do think, however, that Congress could provide an avenue for the antitrust agencies to participate or even to cause the initiation of, an enhanced post grant review mechanism in the USPTO. This avenue could be used whenever the antitrust agencies question a patent’s validity in the normal exercise of their antitrust duties. That is to

²² *Cf.* American Inventors Protection Act of 1999, Pub. L. No. 106-113, 113 Stat. 1537, Subtitle C, § 4302.

say that the antitrust agencies could refer a validity question to the agency with primary jurisdiction for the patent grant, the PTO.

* * * *

I do not want my remarks today to be misunderstood. There is, of course, a role for the antitrust agencies in reviewing concerted conduct involving intellectual property that affects competition, conduct such as patent pools and restrictive licensing agreements that may in some circumstances foreclose competition that would have existed even absent the IP license.

But the patent system and the antitrust system today live in reasonable balance. Changes to that balance should be carefully assessed from the point of view of where those changes should be best effected. In general, I believe that the best approach is to focus change at the level of the underlying substantive law rather than applying an antitrust-based remedy on top of that substantive law. By so doing, the Congress maintains its proper role and primary jurisdiction rests with the agency with primary expertise.

Of course, all this assumes that the agency with primary jurisdiction over patents, the USPTO, is funded for success in its role and empowered to use its funding to become fully modern and efficient. The economy needs high quality decisions as to patentability promptly. A valid patent delivered years after the market and technology have gone another path is of no benefit to anyone. I encourage the FTC and DOJ to support the increased funding of the USPTO's operations to ensure its proper administration of the patent laws.