

Presentation of Salem M. Katsh*
Before the
Department of Justice and Federal Trade
Commission

*Hearings on Competition & Intellectual Property
Law and Policy in the Knowledge-Based Economy*

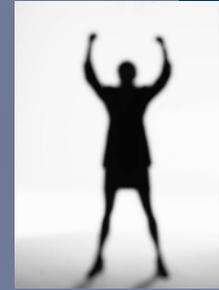
May 14, 2002



*Mr. Katsh is a partner with Shearman & Sterling. The views expressed herein are solely those of Mr. Katsh and do not necessarily reflect the views of his law firm or any other person or entity.

Patent Rights Enjoy No Constitutional Superiority Over Antitrust Rules

- The Constitution's Patent Clause gives the owner the exclusive right to his discoveries. Apart from the implicit right to exclusive use, it says nothing about the consequences of transfers, licenses or agreements
 - The misuse doctrine, grounded in principles of equity, has not been challenged on constitutional grounds
- The antitrust laws and the FTC Act were enacted pursuant to the Commerce Clause
- The patent laws contain no provisions for balancing the relative innovative value of a patent to competitive costs and benefits
 - It is true that the value of many inventions cannot immediately be known
 - Term of 20 years is arbitrary
 - Federal Circuit, ostensibly applying the same *Graham* criteria, has reversed prior trends which held most patents invalid
 - “There is something terribly wrong with the patent system”



The Philosophical Divide: One Example

Kodak/Goodyear (Fed. Cir. 1997)

Goodyear alleges injuries stemming from Eastman's [acquisition and] enforcement of the '112 patent. Goodyear, however, would have suffered these same injuries regardless of who had acquired and enforced the patent against it. Indeed, Goodyear would have suffered these same injuries if Zimmer had retained exclusive rights to the patent and had enforced the patent against Goodyear itself. The cause of Goodyear's injuries was not that Eastman enforced the '112 patent, but that the patent was enforced at all. These injuries, therefore, did not occur "by reason of" that which made the acquisition [by Eastman] allegedly anticompetitive.

SCM/Xerox (2d Cir. 1981)

Patent acquisitions are not immune from the antitrust laws. Surely, a § 2 violation will have occurred where, for example, the dominant competitor in a market acquires a patent covering a substantial share of the same market that he knows when added to his existing share will afford him monopoly power.

FTC/DOJ IP Licensing Guidelines (1995)

Certain transfers of intellectual property rights are most appropriately analyzed by applying the principles and standards used to analyze mergers, particularly those in the 1992 Horizontal Merger Guidelines. The Agencies will apply a merger analysis to an outright sale by an intellectual property owner of all of its rights to that intellectual property and to a transaction in which a person obtains through grant, sale, or other transfer an exclusive license for intellectual property Such transactions may be assessed under section 7 of the Clayton Act, sections 1 and 2 of the Sherman Act, and section 5 of the Federal Trade Commission Act.



There Is No Chicken or Egg Issue

- *MERCROID CORPORATION v. MID-CONTINENT INVESTMENT CO.*, 320 U.S. 661,666 (1944)

"The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. . . . When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts."

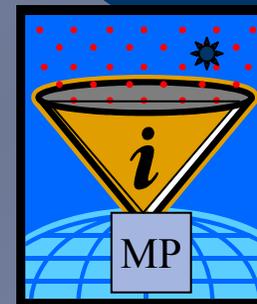
- *UNITED STATES v. LINE MATERIAL CO.*, 333 U.S. 287 (1948)

"The effort through the years has been to expand the narrow monopoly of the **patent**. The Court, however, has generally been faithful to the standard of the Constitution, has recognized that the public interest comes first and reward to inventors second, and has refused to let the self-interest of patentees come into the ascendancy."



Patents and Market Power--In Context

- Firms, not patents, raise prices, reduce outputs, exclude competitors, collude and/or monopolize markets
- The scope and enforceability of a patent is a matter of speculation unless and until finally litigated
 - A patent is a cause of action granted by the government
 - A patentee gives up his property--trade secrets--for a cause of action that is valid against independent invention
- Antitrust analysis traditionally has been skeptical of defenses based upon speculative scenarios (e.g., “ruinous competition” (*Trenton Potteries*), “failing company” defense (Guidelines); boycotts of alleged design pirates (*FOGA*))
- Where the value of a patent varies according to who holds it, or what other assets is combined with, one cannot say that the threat to competition is simply a function of a patentee’s right to exclude
- All patents are not of equal merit, but are treated as such under the patent law
 - Marginally patentable inventions may confer huge market power benefits



The Federal Circuit Has Made New Law

- *Xerox*--In addition to narrowing the types of situations in which antitrust rules can be applied, the court:
 - Eliminated scienter as a relevant factor
 - Embraced the new/old syllogism--the patent could have been used to exclude; therefore, it can be licensed under any condition not itself illegal
 - Intent or “pretext” evidence, however, may be highly relevant to a court’s evaluation of a patent’s value
- The syllogism erroneously assumes the patent chicken came before the antitrust egg
 - Suppose, in *Aspen*, that Highlands’ most advanced chair lifts practiced a patent acquired by Ski Co.?
 - Suppose, in *Lorraine Journal*, the newspaper used a patented business method for its advertisements?
 - Consider Justice Scalia’s acknowledgement of section 2’s “special lens” test in his dissent in *Kodak*



Compare....

- The antitrust laws have always had difficulty regulating single firm conduct based on a firm's unilateral development of commercial assets, tangible or intangible
 - The IBM cases--interface data
 - Vertical integration cases
- In most of the key Supreme Court cases involving patents, the focus has been on firm conduct, regardless of the presence of patents
 - Cases cited above (*Mercoid*; *Line Material*)
 - Singer--right to assign patent yields to proof of anticompetitive motive to exclude, by agreement, foreign competition
 - Glaxo--prohibitions on bulk sales were grounded in contractual agreements
 - Patents, held or employed independently, would not have created the same power engendered by agreements
 - Price fixing cases--ostensibly “vertical” agreements viewed as possible horizontal sharing of monopoly profits
- These cases bear no relationship to the CAFC's *Xerox* decision



The PRE Problem

- Objectively baseless test is said to preclude courts from balancing patent's merits with competitive harm
 - Immunizes court actions by companies seeking to impose huge uncertainty on new entrants, and to raise cost of entry
- Settlements become more difficult to regulate
 - A new entrant that “succumbs” to lawsuit expense and leaves market or takes an onerous license
 - Is alleged infringer under an antitrust obligation to litigate?
 - Federal intervention?
 - *PRE* would presumably apply to DOJ/FTC intervention in lawsuit
 - Can DOJ/FTC bar settlement, as an antitrust violation, when lawsuit itself was presumptively legitimate and defendant simply does not want to shoulder litigation costs?
- DOJ/FTC can push courts to construe “objectively baseless” criterion in a manner that includes weighing of circumstances
- Licenses--mostly, are agreements settling lawsuits before they are brought
 - Also affected by *PRE*

