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ANTITRUST/ INTELLECTUAL PROPERTY

Federal Antitrust Agencies Announce Hearings on the Intersection of Antitrust and Intellectual Property Issues

As the first step toward developing a new paradigm between antitrust and intellectual property, the Federal Trade Commission (FTC) and the Antitrust Division of the Department of Justice (DOJ) last week announced an upcoming series of hearings on "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy." FTC Chairman Timothy J. Muris announced the hearings on Thursday, November 15, 2001, at a meeting of the American Bar Association, and a Federal Register Notice was concomitantly published to provide details on the issue. The hearings will be held in Washington, DC, beginning in January of 2002. Written comments were also encouraged.

The Purpose of the Hearings

Antitrust and intellectual property laws have always needed creative harmonization, as the former condemns the misuse of market power while the latter creates a government-sanctioned monopoly. The antitrust agencies published Intellectual Property Antitrust Enforcement Guidelines in 1995. But it has been clear for awhile that intellectual property antitrust enforcement policy development was an important issue for this Administration (not even counting the *Microsoft* case).

In his speech, Chairman Muris observed that, in the 1970s, antitrust law and policy lacked a "sufficient appreciation of the incentives for innovation that intellectual property and intellectual property licensing can provide." Now, Muris noted, some observers feel that "perhaps it is intellectual property doctrine that is not showing a proper appreciation for the innovation that competition may spur." Antitrust law and intellectual property law, he said, should "seek to promote innovation and enhance consumer welfare…IP law, properly applied, preserves the incentives for innovation. Innovation benefits consumers through the development of new and improved goods and services, and spurs economic growth. Similarly, antitrust law, properly applied, promotes innovation and economic growth by combating restraints on vigorous competitive activity. By deterring anticompetitive arrangements and monopolization, antitrust law also ensures that consumers have access to a wide variety of goods and services at competitive prices…The hearings will consider the implications of competition and intellectual property law and policy for innovation and other aspects of consumer welfare."

Chairman Muris cited several notable developments "in the antitrust and IP systems [that] may have…significant implications for competition and innovation in the American economy," such as:

The increasing number of patents issued annually. "We need to understand the recent trend in patent proliferation," Muris said.

The changing scope of patents. "Some allege that…important patents…are overbroad, and that overbroad patents can inhibit follow-on innovation…others contend that broad patents are essential to encourage high-risk research in entirely new fields."

The role of the Federal Circuit. "Because patent and competition issues frequently arise in the same cases, the Federal Circuit can play an increasingly important role in the development of competition law."

Refusals to deal. Muris observed that "tensions can also arise between antitrust and IP doctrines when a patent or copyright holder unilaterally refuses to license its intellectual property."

Chairman Muris said that the hearings "will explore primarily the interrelationships between competition and patent policy, with some attention to other intellectual property issues as they arise in particular contexts. Standard-setting, cross-licensing and patent pools, unilateral refusals to deal, other business practices, the proliferation of patents, the changing scope of patents, and the role of the Federal Circuit will be among the topics on the agenda."

The Substance of the Hearings

In the Federal Register Notice formally announcing the hearings and soliciting public comment, the FTC listed some of the particular questions for which it seeks answers:

What roles do competition and intellectual property law and policy play in fostering initial and follow-on innovation? From a practical business perspective, how does each contribute to or impede ongoing innovation? What do empirical studies show?

What is the frequency of cross-licensing, patent pooling, and other arrangements for the transfer or joint use of intellectual property? Does their use or usefulness vary across industries? What business reasons most typically underlie their creation? What intellectual property and competition issues do they typically raise? Have the guideposts for antitrust analysis established by the DOJ/FTC Antitrust Guidelines for the Licensing of Intellectual Property proved useful?

To what extent does commercialization of new technology require multiple licenses from multiple patentees - that is, to what extent do "patent thickets" exist? How do they affect both practices with respect to intellectual property and competition among innovator companies? How should policymakers take this into account?

What competition issues arise in the settlement of patent disputes and in the context of other agreements, such as standard setting, that involve patent rights? What should be the standards for assessing the antitrust significance of a unilateral refusal to deal, an issue recently addressed by the Federal Circuit's decision in *CSU v. Xerox?* To what extent has the Federal Circuit become an increasingly important source of antitrust doctrine?

*To what extent do questions about the scope and types of patents (*e.g., *business methods patents), and the procedures and criteria under which they are issued, raise competition issues?* To what extent do substantive and procedural rules, both at agency and judicial levels, have implications for initial and sequential innovation, competition, and appropriability? What are the facts in this area?

To what extent is the assessment of these and other intellectual property-related questions different for new technologies? How does the globalization of the economy affect the assessment of these and related issues? What further insights can be offered to both intellectual property and antitrust doctrine from economics and other disciplines?

To what extent should, and if so, how might, fact gathering and other learning from the hearings be incorporated into competition and intellectual property practices, doctrine, and procedures?

Specific Examples of the "Problem"

In its Notice, the FTC refers specifically to two Federal Circuit cases. These cases highlight the two key tension points between IP and antitrust — when does a patent holder go too far from an antitrust perspective; and what antitrust limits are there on a patent holder's freedom to decide whether to license and on what terms.

In *Atari Games Corp. v. Nintendo of America, Inc.,* 897 F.2d 1572 (Fed. Cir. 1990), the then dominant manufacturer of home video game consoles and complimentary video game cartridges conferred a license upon a competitor to create new games for its system. The competitor's license allowed it only to author and distribute the games; the dominant firm retained sole authority to manufacture games for its system, and maintained this authority through use of a patented security chip that commu-

nicated with the game console. The resulting business arrangement required the competing firm to design games for submission to the dominant firm, who would then manufacture the cartridges and sell them back to the competitor for distribution. The competing firm sought to temporarily enjoin the dominant firm's enforcement of its patent rights so that the competing firm could manufacture its own cartridges. It couched its argument in terms of Section 2 of the Sherman Antitrust Act, alleging that the dominant firm was abusing its patent for the purposes of establishing and maintaining a monopoly in the market for home video games.

The Federal Circuit found that:

> "When the patented product is merely one of many products that actively compete on the market, few problems arise between the property rights of a patent owner and the antitrust laws. However, when the patented product is so successful that it creates its own economic market or consumes a large section of an existing market, the aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition. There may on occasion exist, therefore, a fine line between actions protecting the legitimate interests of a patent owner and antitrust law violations. On the one hand, the patent owner must be allowed to protect the property right given to him under the patent laws. On the other hand, a patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, *i.e.* beyond the limits of what Congress intended to give in the patent laws. The fact that a patent is obtained does not wholly insulate the patent owner from the antitrust laws. When a patent owner uses his patent rights not only as a shield to protect his invention, but as a sword to eviscerate competition unfairly, that owner may be found to have abused the grant and may become liable for antitrust violations when sufficient power in the relevant market is present. Therefore, patent owners may incur antitrust liability for enforcement of a patent known to be obtained through fraud or known to be invalid, where license of a patent compels the purchase of unpatented goods, or where there is an overall scheme to use the patent to violate antitrust laws."

The court nonetheless held that, on the facts presented, there was no evidentiary basis for an injunction.

In *In Re Independent Service Organizations Antitrust Litigation,* 203 F.3d 1322 (Fed. Cir. 2001), the Federal Circuit recently held that in the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation intended only to interfere with another party's business, a patent holder could enforce its given statutory right to exclude free from antitrust liability. In this case, defendant manufacturer of copying machines refused to sell patented copying machine replacement parts to independent service organizations. This refusal to deal effectively negated the servicers' ability to repair defendant's machines, thus shutting them out of the market for copying machine service with regards to defendant's product line.

The court held that, in general, a patent holder has the right to refuse to license its product as it sees fit. "The patentee's right to exclude, however, is not without limit. [A] patent owner who brings suit to enforce the statutory right to exclude others from making, using or selling the claimed invention is exempt from the antitrust laws, even though such a suit may have an anticompetitive effect, unless the infringement defendant proves one of two conditions: First, he may prove that the asserted patent was obtained through knowing and willful fraud, or second, he may demonstrate that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere directly with the business relationships of a competitor." (Citations omitted). The court thus announced a more narrow view of patent holders' potential antitrust liability for refusals to deal than it did in Atari.

The Hearings and the Agencies' Report will be Important

We believe that the antitrust agencies have started a process that will highly influence future enforcement efforts, judicial treatment of these issues, and legislative initiatives. We think many groups and industries will weigh in on the debate.

These hearings are important to nearly every industry, but are particularly important for market participants in certain sectors, such as:

Biotechnology firms. The FTC Notice suggests that one of the particular issues troubling regulators may be the trend toward patenting genetic and other biological compounds and processes.

High-Tech firms. The FTC asks "to what extent do questions about the

scope and types of patents (*e.g.,* business methods patents), and the procedures and criteria under which they are issued, raise competition issues"? This question seems particularly germane to high-tech and Internet-related firms, concerning for example the "one-click" debate.

Drug firms, Medical Device firms. The issues surrounding enforcement of drug patents have been in the public spotlight of late, whether concerning the manufacture of generic AIDS drugs by African nations or the threatened Congressional revocation of the patent for Cippro unless Bayer agreed to wholesale price reductions.

Media firms. As the media industry evolves into the digital and interactivity looms on the horizon, the extent of patent protection and the boundaries imposed by the antitrust laws may materially affect business models. Just one illustration is the patent portfolio of Gemstar, the interactive television guide concern, and the litigation it has spawned.

With a top antitrust practice based in Washington and an extensive intellectual property practice, Mintz Levin is ideally positioned to assist clients in navigating the still-uncharted territory where antitrust and patent laws converge, where important strategic business issues will play out in the months and years to come. Working together on interdisciplinary legal teams to address complex and emerging areas of law is one of Mintz Levin's proven strengths, and the firm is prepared to address the needs of each client's unique circumstances with all the necessary expertise and perspective.

Our antitrust and intellectual property groups would be happy to discuss the agencies' initiative and its implications, as well as assist anyone who wishes to participate in the proceeding. We will continue to follow its evolution.

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