

Report Q187

in the name of the United States Group
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Limitations on exclusive IP Rights by competition law

Questions

I) STATE OF THE SUBSTANTIVE LAW

- 1) *The Groups are requested to indicate if the law of their country knows rules governing in general the relationship between the rules of competition and the intellectual property rights.*

The United States does not have specific statutory provisions governing the relationship between intellectual property rights and the rules of competition. The various forms of intellectual property protection are the subjects of separate extensive statutory schemes that are designed to balance the goals of providing incentives for innovation and artistic creation with the benefits of a free-market system. Similarly, the competition laws are embodied in comprehensive federal and state antitrust and competition statutes. The relationship between the two bodies of law is defined by a rich history of judicial precedent that has evolved over more than one hundred years. The Court of Appeals for the Federal Circuit has recognized that the goals of the two systems are not inconsistent. *See Atari Games Corp. v. Nintendo of Am.*, 897 F.2d 1572, 1576 (Fed. Circuit 1990) (“[T]he 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.”).

The U.S. Constitution empowers Congress to enact legislation to provide exclusive rights to authors and inventors for a limited period of time to “promote the progress of science and the useful arts.” U.S. Const. Art. I, Sec. 8, Cl. 8. Unless an intellectual property right has been misused by the patent holder, concerns over freedom of competition generally should not be a basis for limiting the legitimate assertion of the exclusive rights. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) (“The essence of a patent grant is the right to exclude others from profiting by the patented invention.”). However, if a holder of a patent or other intellectual property right exceeds the legitimate scope of the right (either temporally or in its subject matter), the antitrust laws may be applied to prevent such overreaching.

Two broad categories of activities involving the exploitation of intellectual property rights may implicate the antitrust laws. First, misuse of intellectual property may lead to antitrust liability. Second, improper efforts to enforce an intellectual property right may constitute a violation of the antitrust laws. These concepts are discussed later in this section.

The first federal antitrust statute, the Sherman Act, was enacted in 1890. That Act provides in pertinent part that, “[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with a foreign nation, is declared to be illegal . . .” 15 U.S.C. § 1. Although the language section 1 of the Sherman Act is quite broad, the courts have interpreted the Act as prohibiting “unreasonable” restraints of trade. Section 2 of the Sherman Act provides that “[e]very person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to mo-

nopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony. . . .” Again, the language of section 2 is quite broad, however, in practice, the courts have distinguished between those who possess a monopoly by virtue of their legitimate business success or a lawful exclusive position and those who have engaged in anticompetitive conduct to obtain or maintain a monopoly.

Intellectual Property Misuse

Misuse of an intellectual property right typically arises out of licensing or sales contracts in which the owner of the intellectual property uses its exclusive position to restrain competition beyond that permitted by the statutory right.¹ Such an improper restraint may extend beyond the legitimate scope of the right (e.g., to unpatented goods) or may extend beyond the legitimate duration of the right.

The law of misuse is best developed in connection with patents. Common examples of conduct by a patent holder deemed to constitute patent misuse are: 1) improperly extending the scope of the patent claims by requiring the purchase of unpatented goods in connection with the patented goods; 2) improperly exceeding the exclusive scope of the patent rights by conditioning a sale or license of patented goods on the agreement to sale or license other unpatented goods; 3) prohibiting purchasers or licensees of patented goods from making or selling goods that compete with the patented goods; and 4) expanding the temporal scope of the patent by conditioning sale or licensing of the patent invention on the payment of royalties or other consideration after expiration of the right. Patent misuse renders the patent unenforceable and, therefore, may be asserted as a defense to a charge of patent infringement. Patent misuse may also form the basis of an antitrust violation. Although patent misuse overlaps with the federal antitrust laws, the two are not coextensive. As explained by one patent scholar, “[u]se of a patent to violate the antitrust laws will constitute misuse. However, conduct which in some respect falls short of an antitrust violation may still constitute misuse.” Chisum on Patents, 6:19.04[2] (2004). The Patent Misuse Reform Act of 1988 requires a showing that the patent owner possesses market power in the relevant market for certain types of patent misuse. See 35 U.S.C. § 271(d). The mere existence of a patent standing alone does not establish market power sufficient to establish misuse under the patent statute. However, in a recent decision, the Court of Appeals for the Federal Circuit held that in a tying case,² a rebuttable presumption of market power arises from the possession of a patent covering the tying product. *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 2005 U.S. App. LEXIS 1205, Appeal No. 04-1196 (Fed. Cir. January 25, 2005).

¹ In 1995, the Federal Trade Commission and the U.S. Department of Justice jointly published Antitrust Guidelines for the Licensing of Intellectual Property. See www.usdoj.gov/atr/public/guidelines/ipguide.htm/. These guidelines summarize potential antitrust implications of licensing arrangements as follows: “While intellectual property licensing arrangements are typically welfare-enhancing and procompetitive, antitrust concerns may nonetheless arise. For example, a licensing arrangement could include restraints that adversely affect competition in goods markets by dividing the markets among firms that would have competed using different technologies. . . . An arrangement that effectively merges the research and development activities of two of only a few entities that could plausibly engage in research and development in the relevant field might harm competition for development of new goods and services. . . . An acquisition of intellectual property may lessen competition in a relevant antitrust market. . . . The Agencies will focus on the actual effects of an arrangement, not on its formal terms.

The Agencies will not require the owner of intellectual property to create competition in its own technology. However, antitrust concerns may arise when a licensing arrangement harms competition among entities that would have been actual or likely potential competitors [footnote omitted] in a relevant market in the absence of the license (entities in a “horizontal relationship”). A restraint in a licensing arrangement may harm such competition, for example, if it facilitates market division or price-fixing. In addition, license restrictions with respect to one market may harm such competition in another market by anticompetitively foreclosing access to, or significantly raising the price of, an important input, [footnote omitted] or by facilitating coordination to increase price or reduce output.”

² A tying arrangement is one in which the sale of a patented product (the “tying product”) is conditioned on the purchase of a second unpatented product (the “tied product”).

Improper Enforcement

Efforts by a holder of an intellectual property right to enforce the right to exclude or restrain competition may give rise to antitrust liability in certain narrow circumstances. In general, an action to enforce a legitimate intellectual property right in a court or administrative agency, even if unsuccessful, is regarded as Constitutionally protected petitioning of the government and is immune from liability under the antitrust laws. The basis for this immunity is known as the "Noerr-Pennington doctrine." *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

There are, however, two exceptions to Noerr-Pennington immunity. First, if the intellectual property right was procured by fraud or known to be invalid, then its enforcement may give rise to antitrust liability if the owner of the right exercises market power to restrain competition in a relevant market. *Walker Process Equip. v. Good Mach. & Chem. Corp.*, 382 U.S. 172, 147 (1965) (enforcement of allegedly fraudulently procured patent); *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998); *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 992-93 (9th Cir. 1979) (considering a monopolization claim against a patentee for asserting a patent it allegedly knew to be invalid). Second, if the enforcement action is a mere sham brought only to interfere with a competitor's business, then antitrust liability may exist. "Sham" petitioning is activity that is "ostensibly directed toward influencing governmental action, [but] is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor . . ." *Id.* at 144. There is a limited exception to Noerr-Pennington immunity for "sham" litigation. Sham litigation is litigation that meets the following criteria: (i) "the lawsuit [is] objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits"; and (ii) the "baseless lawsuit conceals an attempt to interfere directly with the business relationships of a competitor through the use [of] the governmental process – as opposed to the outcome of that process – as an anticompetitive weapon." *Professional Real Estate Inv's, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993).

- 2) *The Groups are invited to indicate if previous to the adoption of the TRIPS, the legislation of their country knew the exceptions in particular founded on article A.4 of the Paris Union Convention, to the exclusive rights of patents, designs and models or copyright.*

It is assumed that this question was intended to refer to Section A (4) of Article 5 of the Paris Convention. That section provides certain restrictions on the rights of a member country to require compulsory licensing of a patent in the event of failure to work the patented invention or insufficient working. The United States was a member of the Paris Convention prior to the enactment of the TRIPS Agreement.³ The President ratified the Paris Convention with the advice of the Senate in 1887 and the domestic patent laws were amended to recognize a right of foreign priority in 1903.⁴

The United States has not had working requirements for patents either before or after the adoption of TRIPS, nor has its laws provided for compulsory licensing of patents that are not worked. Therefore, the exceptions found in Article 5, Section A(4) are not applicable to the United States.

The Groups must also describe the conditions and the effects of these exceptions.

This question is not applicable to the United States.

Finally, do the Groups have to indicate the justification of these exceptions and in particular if these exceptions were justified by requirements of the freedom of competition?

This question is not applicable to the United States.

³ The TRIPS Agreement is applicable in the United States by virtue of the Uruguay Round Agreements Act of 1994.

⁴ Act of March 3, 1903, ch. 1019, § 1, 32 Stat. 1225, 1226.

- 3) *The Groups are invited to indicate if articles 13, 30 and 31 of the treaty TRIPS gave place to the establishment of legal rules defining the exceptions being able to be brought to exclusive rights of copyright, patent, designs.*

No new exceptions to exclusive intellectual property rights were created as a result of the adoption of TRIPS by the United States. Moreover, to implement the obligations of the United States under the TRIPS Agreement, Congress amended the Copyright Act in 1994 to restore US copyrights in works from WTO Members that had fallen into the public domain because of the lack of a treaty relationship between countries or a failure to comply with the formalities in prior US law.

The fair use doctrine of U.S. copyright law serves the same purpose as Article 13 of TRIPS, and is applied and interpreted in a way entirely consistent with the standards set forth in that Article. Fair use permits limited and reasonable uses of works, for example, quotation of portions of a book being reviewed in a book review article, without authorization from or payment to the author. If so much material was quoted that the review would serve as a substitute for purchasing the book by the general public, such use would not be encompassed by the fair use exception. The types of allowable uses under the fair use doctrine should not interfere with the copyright owner's normal exploitation of rights.

Copyright law in the United States provides for compulsory licensing in certain well-defined circumstances. Title 17, section 115 contains a compulsory license for the production and distribution of phonorecords of a nondramatic musical work. This license is available only after the owner of copyright has first authorized the distribution of phonorecords embodying the work. Sections 111 and 119 contain compulsory licenses for secondary transmissions by cable and satellite. Section 118 contains a compulsory license for the use of certain works in connection with noncommercial broadcasting.

In the United States, very few exceptions to the exclusive rights of a patent are recognized, either through the patent statute or other laws.⁵ There are two notable exceptions, both of which existed prior to adoption of TRIPS:

- 1) Use of a patented invention for the use or production of nuclear material or atomic energy pursuant to 42 U.S.C. § 2183; and
- 2) use of a patented invention concerning inventions that are necessary to comply with the emission laws under the Clean Air Act pursuant to 42 U.S.C. § 7608.

The Groups should in this case indicate the conditions for application of these exceptions and their consequences.

- i) A court must examine the following four factors to determine whether the fair use exception will apply:
 - 1) the purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes;
 - 2) the nature of the copyrighted work;
 - 3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
 - 4) the effect of the use upon the potential market for or value of the copyrighted work.

⁵ The entry of a permanent injunction after a final judgment of patent validity and infringement requires exercise of a court's equity powers. One factor to be considered is the impact of the injunction on public welfare, and a court may decline to enter an injunction if it determines that the public will be adversely affected to an unacceptable extent. See *Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577 (7th Cir. 1934). The refusal to enter a permanent injunction may be viewed as a form of compulsory license, but such refusal occurs rarely following a judgment that a valid patent is being infringed.

The four factors must be balanced to determine whether the use conflicts with the copyright owner's normal exploitation of the work. See 17 U.S.C. § 107. The Supreme Court has stated that the fourth factor, which specifically focuses on the impact on potential market exploitation of the work, is the most important. See *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 566 (1985).

- ii) Under 42 U.S.C. § 2183, if an invention or discovery claimed by a patent is of primary importance in the production or utilization of special nuclear material or atomic energy, and the licensing of such invention or discovery under section 2183 is of primary importance to effectuate the policies and purposes of the Atomic Energy Act, the Nuclear Regulatory Commission may make limited use of the patented invention without authorization from the patent holder by declaring the patent to be "affected with the public interest."

Prior to making a determination that a patent meeting those criteria is "affected with the public interest,"

- 1) any third party must possess specific qualifications and must apply to the Commission for a license to use the invention;
- 2) the third party must specify in its application the steps it has taken to obtain a license from the patent owner and the applicant's estimate of the effects on the activities for which a license is requested both if the license is not obtained, and if the license is obtained;
- 3) the Commission must hold a hearing after giving the patentee notice and all information in the application; and
- 4) should the Commission grant a license for the purpose requested in the application, or should the Commission use the invention or discovery, the patent owner must be paid a reasonable royalty (the amount determined by the Commission if the parties cannot agree), taking specified factors into consideration, including the importance of the invention or discovery and the cost of its development or acquisition.

The Commission's decisions in these matters are subject to independent judicial appeal under the Administrative Procedure Act.

- iii) Under 42 U.S.C. § 7608, the Administrator of the Environmental Protection Agency may apply to the Attorney General of the United States for a certification that:

a right under any United States letters patent, which is being used or intended for public or commercial use and not otherwise reasonably available, is necessary to enable any person required to comply with [the requirements of the Clean Air Act] and there are no reasonable alternative methods to accomplish [compliance], and that the unavailability of such right may result in a substantial lessening of competition or tendency to create a monopoly in any line of commerce in any section of the country. See 42 U.S.C. § 7608. If the Attorney General determines that all these conditions exist, the Attorney General may make a certification to a federal district court. After providing the patent owner with the opportunity for a hearing, the court may order the patent owner to license the invention on reasonable terms and conditions. The decision of the Court is appealable. It should also be noted that the authority of section 7608 has never been exercised.

And the Groups should indicate the justification of these exceptions and in particular if these exceptions were justified by requirements of the freedom of competition.

The policy justifications for the fair use doctrine of copyright law are the same as those for Article 13 of TRIPS. The compulsory licensing provision are justified as a compromise for making works available in limited well defined circumstances where requiring the expenditure of costs associated with obtaining permission would be untenable. The above-described exceptions to the exclusive rights of patent owners under Title 42 are justified by the interests of national security and public welfare.

- 4) *The Groups are invited to indicate if such limitations apply as regards to trademarks and which are the conditions, the consequences and the possible justification.*

Federal protection of trademarks is provided by the Trademark Act of 1946, Title 15, United States Code ("Lanham Act"). The United States recognizes a right of priority on the basis of an earlier trademark application filed in another country that "is a party to any convention or treaty relating to trademarks, trade or commercial names, or the repression of unfair competition, to which the United States is also a party, or extends reciprocal rights to nationals of the United States by law." Although trademark rights in the United States derive from the use of the mark in commerce and the mark may be abandoned by failure to use it, there are no compulsory licensing or other notable exceptions to the exclusive rights of a federal trademark owner in the United States.

- 5) *The Groups are invited to inform if the existence of intellectual property rights constitutes a justification to some practise regarded in general as anti-competing, such as the refusal to sell or others?*

A United States patent vests the owner with the exclusive right to prevent others from making, using, importing, selling or offering to sell the claimed inventions. See 35 U.S.C. § 271(a). However, a patent owner has no affirmative duty to make, sell or use the claimed invention at any time during the term of the patent. In general, unless part of an overall misuse of the patent right, a patent owner does not violate antitrust laws by refusing to license or sell the patent invention to its competitors.

One court recently described a patent owner's right to exclude as follows:

"A patent grants its owner the lawful right to exclude others. See 35 U.S.C. §§ 271(a) (defining infringement) & 283 (providing injunctive relief for infringement); Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215, 100 S. Ct. 2601, 2623, 65 L. Ed. 2d 696 (1980) ("The essence of a patent grant is the right to exclude others from profiting by the patented invention."). This exclusionary right is granted to allow the patentee to exploit whatever degree of market power it might gain thereby as an incentive to induce investment in innovation and the public disclosure of inventions. Bonito Boats, Inc., v. Thunder Craft Boats, Inc., 489 U.S. 141, 150-51, 109 S. Ct. 971, 977-78, 103 L. Ed. 2d 118 (1989); United States v. Studiengesellschaft Kohle, m.b.H., 216 U.S. App. D.C. 303, 670 F.2d 1122, 1127 (D.C. Cir. 1981). The exclusionary right cannot be exploited in every way – patentees cannot pool their patents and fix the prices at which licensees will sell the patented article, for example, see United States v. New Wrinkle, Inc., 342 U.S. 371, 72 S. Ct. 350, 96 L. Ed. 417, 1952 Dec. Comm'r Pat. 411 (1952) – but a patentee can choose to exclude everyone from producing the patented article or can choose to be the sole supplier itself, see, e.g., In re Indep. Serv. Orgs. Antitrust Litig., 203 F.3d 1322, 1328 (Fed. Cir. 2000); SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1209 (2d Cir. 1981); or grant exclusive territorial licenses carving up the United States among its licensees, see 35 U.S.C. § 261. Within reason, patentees can also subdivide markets in ways other than territorial, such as by customer class. Gen. Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175, 58 S. Ct. 849, 82 L. Ed. 1273, 1938 Dec. Comm'r Pat. 831, aff'd on reh'g, 305 U.S. 124, 59 S. Ct. 116, 83 L. Ed. 81, 1938 Dec. Comm'r Pat. 841 (1938) (approving a license restricting the licensee's sales to non-commercial customers). Such arrangements undoubtedly tend to result in lower production and higher prices of the patented article than if competition were unrestrained, but these anticompetitive tendencies do not render them in violation of the Sherman Act."
Valley Drug Co. v. Geneva Pharms., 344 F.3d 1294, 1305 (11th Cir., 2003)

- 6) *The Groups are invited to indicate if some of the attributes of the intellectual property rights, such as the duration of these rights, are considered in their country as raising problems from the point of view of the exercise of the freedom of competition.*

As stated above, the U.S. Constitution provides for the grant of exclusive intellectual property rights to authors and inventors "for a limited time." The current terms of protections for intellectual property rights are not considered problematic from an anticompetitive perspective.

If the term of intellectual property protection were extended to a period beyond that necessary to "promote the progress of science and the useful arts," it might be challenged as unconstitutional. In 1998, Congress enacted legislation, known as the Sonny Bono Copyright Term Extension Act, that extended the term of most copyrights in the United States by a period of 20 years. The copyright term extension applied both prospectively and retroactively and was challenged in the federal courts on grounds that a retroactive extension of the term could not "promote the progress of science and the useful arts." The Supreme Court determined that the copyright term extension was Constitutional and upheld the Sonny Bono Act. See *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

Under the current law, the term of a U.S. patent is either 17 years from the date of issuance (for patents issuing on applications filed before June 8, 1995) or 20 years from the date of filing (for patents with applications filed on or after June 8, 1995). However, as part of the American Inventors Protection Act of 1999 (AIPA), the United States Patent Office will adjust the term of an issued patent to restore days lost due to administrative delays during the prosecution of the application. The AIPA will add additional days to the term of the patent under the following circumstances:

- 1) if the USPTO fails to initially act on an application within fourteen months of its filing date;
- 2) if the USPTO fails to respond to a reply or appeal by applicant within four months of the reply or appeal;
- 3) if the USPTO fails to act on an application within four months of a Board of Patent Appeals and Interferences (BPAI) or court decision in an application containing allowable claims;
- 4) if the USPTO fails to issue a patent within four months of the date the issue fee was paid;
- 5) if the USPTO fails to issue a patent within three years of its filing date;
- 6) if issue of a patent was delayed due to imposition of a secrecy order;
- 7) if issue of a patent was delayed due to an interference proceeding; or
- 8) if the issue of a patent was delayed due to successful appellate review.

Additionally, patents on pharmaceuticals may be extended under a specific statutory provision to restore patent term lost due to administrative delays during the regulatory approval process by the Food and Drug Administration or the United States Department of Agriculture. See 35 U.S.C. § 156.

- 7) *The Groups are finally invited to formulate any other observation concerning the relationship which may exist in the substantive law of their country between the exclusive rights of the intellectual property and the rules relating to the respect of the freedom of competition.*

See discussion below in Section II.

II) PROPOSALS FOR THE FUTURE

- 1) *The Groups are invited to indicate if any modifications of the exclusive rights of patent rights are desirable in aim to reinforce the freedom of competition.*

In October 2003, the United States Federal Trade Commission, one of the government agencies charged with enforcing federal antitrust laws on behalf of the United States government, issued a 250 page report summarizing hearings conducted by the commission in cooperation with the Department of Justice, Antitrust Division regarding the impact that patents have on competition and consumer protection.⁶ The FTC Report, entitled "To Promote Innovation: The Proper Balance of Competition and Patent Law Policy" contained ten recommendations for changing the patent system. The report was based on the premise that in recent years, the Patent and Trademark Office has been issuing so-called "questionable patents" containing claims that are either invalid or overly broad. The FTC concluded that these questionable patents pose a significant competitive concern and have the potential to discourage innovation and competition. The report concluded that "although most of the patent system works well, some modifications are needed to maintain a proper balance of competition and patent law and policy."

The FTC report recommended the following changes to the patent system:

- 1) Enact legislation to create a new administrative procedure to allow post-grant review of and opposition to patents;
- 2) Enact legislation to specify that challenges to the validity of a patent are to be determined based on a "preponderance of the evidence standard," rather than the "clear and convincing evidence" standard currently applied;
- 3) Tighten certain legal standards used to evaluate whether a patented invention would have been obvious;
- 4) Provide adequate funding for the PTO;
- 5) Modify certain PTO rules and implement portions of the PTO's 21st Century Strategic Plan;
- 6) Consider Possible Harm to Competition, along with other possible benefits and costs, before extending the scope of patentable subject matter;
- 7) Enact legislation to require publication of all patent applications 18 months after filing;
- 8) Enact legislation to create intervening or prior user rights to protect parties from infringement allegations that rely on certain patent claims first introduced in continuing or other similar application;
- 9) Enact legislation to require, as a predicate for liability for willful infringement, either actual written notice of infringement from the patentee or deliberate copying of the patentee's invention, knowing to be patented; and
- 10) Expand consideration of economic learning and competition policy concerns in patent law decision-making.

Several months later, another organization, the National Academies of Science, also published a report on the state of the current patent system.⁷ Like the FTC Report, the NAS Report acknowledged that "the patent system is working well and does not require fundamental changes." However, the NAS believes that the patent system could benefit from the input and insights of economists, scientists, and engineers in different disciplines, in addition to those practicing attorneys, judges, patent office administrators, and legally trained legislators already involved in patent policy-making decisions.

⁶ See FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY (October 2003) ("FTC Report").

⁷ See NATIONAL RESEARCH COUNSEL OF THE NATIONAL ACADEMIES, COMMITTEE ON INTELLECTUAL PROPERTY RIGHTS IN THE KNOWLEDGE BASED ECONOMY BOARD ON SCIENCE, TECHNOLOGY AND ECONOMIC POLICY, A PATENT SYSTEM FOR THE 21ST CENTURY (2004) ("NAS Report").

The NAS made the following recommendations for improvements to the current patent system:

- 1) Preserve an open-ended, unitary, flexible patent system that allows somewhat different treatment of different technologies without formalizing different standards;
- 2) Reinvigorate the non-obviousness standard by assiduously observing the standard and finding another method for determining the state of knowledge in areas such as business method patents;
- 3) Institute an Open Review procedure for third parties to challenge patents after their issuance;
- 4) Strengthen USPTO capabilities by providing additional resources for hiring and training additional examiners and implementing better technology;
- 5) Shield some research uses of patented inventions from liability for infringement such as non-commercial scientific research in a university;
- 6) Modify or remove the subjective elements of litigation, including willful infringement, best mode, and inequitable conduct standards;
- 7) Reduce redundancies and inconsistencies among national patent systems by further harmonizing US law with that of other countries.

In general the U.S. intellectual property bar has favored many of the proposals made by the FTC and the NAS. For example, the bar generally favors proposals for meaningful post-grant review, as well as adequate Patent and Trademark Office funding, publication of patent applications and some forms of intervening rights. However, the IP bar has not favored proposals to reduce the burden of proof of patent invalidity, to alter the standards for "obviousness," or to require courts and agencies to consider the impact on competition or "economic learning" in patent decision making.

The American Intellectual Property Law Association (AIPLA), a professional organization whose members are intellectual property practitioners, issued a formal response to each of the reports.⁸ Selected portions of the groups' reports are discussed below.

On which attributes of the exclusive rights of intellectual property these modifications should carry (duration, exclusiveness, specific evidence etc...)?

- i) The reports recommend a post-grant review proceeding to replace the current reexamination process and serve as an alternative to costly and time-consuming patent litigation. The groups cite concerns that the current procedure lacks an opportunity for discovery, cross-examination and oral presentations and limits the level of participation of third parties, even in the recently adopted inter partes reexamination proceedings.

AIPLA supports the creation of a post grant administrative review procedure and believes that the grounds for requesting such a review should be all of those currently available in litigation under sections 102 (novelty), 103 (obviousness) and 112 (sufficiency of disclosure, best mode, etc.) of the patent statutes. AIPLA also advocates imposing sufficient time and cost limitations on the proceeding and agrees that the decision of the administrative law judge should be appealable to the United States Court of Appeals for the Federal Circuit. AIPLA would encourage parties to use the post-grant review system by making it available for a limited period of time after the patent issues, unless by mutual agreement. Finally, AIPLA would impose limitations on the amount and type of discovery allowed during the proceeding to keep control over the length and the cost of the proceedings.

⁸ The AIPLA response to the FTC report may be found at www.aipla.org/Content/ContentGroups/Issues_and_Advocacy/Comments2/Patent_and_Trademark_Office/2004/ResponseToFTC.pdf.

- ii) The FTC suggests lowering a patent challenger's burden of proof of invalidity to a preponderance of the evidence standard. FTC asserts that the presumption of validity enjoyed by a patent and the clear and convincing standard of invalidity currently in effect operate to bias the system in favor of patent issuance once an application has been filed.

AIPLA disagrees with FTC's proposal to lessen the burden of proof and believes it to be based partially on a misunderstanding of the law. AIPLA asserts that a change in the standard would "undermine decades of well-reasoned precedent that have rejected attempts to invalidate patents based on allegations that are easily fabricated and almost impossible to disprove, typically uncorroborated oral testimony of prior uses or prior inventions."

Rather, AIPLA believes that proper application of the current law, which requires only the underlying *facts* (i.e., what is the content of the prior art and the level of skill in the art), not the *legal conclusion* of invalidity that must be shown by clear and convincing evidence, is the better solution.

- iii) The NAS Report suggests several additional changes to further harmonize US patent law with that of other countries. Specifically, the NAS recommends adoption of a first-to-file system, repeal of the grace period for filing an application in the US after publication, removing the exception of the 18-month publication rule for domestic applications not seeking foreign filing rights and removal of the best mode requirement.

AIPLA supports these changes to the US patent system and believes that "such changes to U.S. patent laws would also have the salutary effect of further harmonizing U.S. patent laws with those of other advanced industrialized countries."

How then it would be advisable to preserve the monopoly resulting from the exclusive rights of intellectual property?

It is important to note that the suggestions contained in the FTC and NAS reports are just that, suggestions. None of these topics under discussion have been enacted as legislation, nor is any such legislation currently pending before Congress.

The reports have brought the issue of the interaction between antitrust and patent law to the forefront and have sparked lively debates among practitioners in the fields. Although some of the suggested changes may be implemented at some point in the future, such changes should be the result of comprehensive analysis and thorough debate. Furthermore, any changes made to the patent system should be based on the general principles discussed above, that a patent is a Constitutionally permitted exclusive right, and concerns over freedom of competition should not be used to limit the legitimate exercise of those rights.

- 2) *The Groups are also invited to wonder about the possible application of the concept of compulsory licence, licence ex-officio or improvement licence as regards patents, copyright, designs and models or the trademarks.*

Compulsory licensing is generally disfavored in the United States, except in very narrow circumstances. See Response to Question 3 above. Even the FTC, and agency charged with responsibility for administering the antitrust laws, has not recommended compulsory licensing as a means for harmonizing intellectual property protection with competition laws.

- 3) *The Groups are requested to also formulate any other suggestion concerning the Question.*

The principal issues are addressed in the body of the report.

Summary

While the relationship between intellectual property laws and competition rules is not defined by statute, more than one hundred years of evolving judicial precedent governs this relationship. The competition rules of the United States are embodied in federal and state antitrust laws. The U.S. Constitution empowers Congress to enact legislation providing limited exclusive rights to authors and inventor so as to “promote the progress of science and the useful arts.” Both systems are designed to promote innovation and competition for the public good.

It is generally recognized in the United States that the incentives for innovation and artistic creation justify relatively short-term restraints on competition. The courts have recognized that the purpose of patents and copyrights is to exclude competition. The antitrust laws preclude only unreasonable restraints of competition – not those resulting from legitimate business success or lawful exclusive positions. The legitimate exercise of intellectual property rights does not violate the antitrust laws. However, misuse of such a right, by improperly expanding the right to exclude (either temporally or in its subject matter) beyond the legitimate scope of the statutory right can give rise to antitrust liability. Enforcement actions that are mere shams and attempts to enforce intellectual property rights that were procured by fraud or that are known to be invalid also can give rise to antitrust liability.

The United States does not provide working requirements for patents, and patent owners are not compelled to license patents that are not worked. Indeed, compulsory licensing is disfavored in the United States and exists only in very limited circumstances. Similarly, patent owners are not required to sell patented goods to competitors and may choose not to make, use or sell a patented invention.

The Federal Trade Commission has recently published a lengthy report addressing the relationship between the patent system and the competition laws and policies. The Commission has recommended several changes to the patent system to minimize what it regards as improper and unnecessary restraints on innovation and competition. To date, no legislative changes have been enacted based on the Commission’s recommendations.

Résumé

Alors que la relation entre le droit de la propriété intellectuelle et les règles de concurrence n’est pas définie par une loi, plus de cent ans de jurisprudence gouvernent cette relation. Les règles de concurrence des Etats-Unis sont comprises dans des lois sur la concurrence fédérales et des Etats. La constitution américaine donne au Congrès le pouvoir de légiférer en donnant aux auteurs et inventeurs des droits d’exclusivité limités afin de “promouvoir le progrès de la science et des arts appliqués”. Ces deux systèmes ont pour but de promouvoir l’innovation et la concurrence pour le bien public.

Il est généralement reconnu aux Etats-Unis que les incitations pour l’innovation et la création artistique justifient des restrictions à la concurrence relativement courtes dans le temps. Les cours ont reconnu que le but des brevets et des droits d’auteur est d’exclure la concurrence. Le droit de la concurrence interdit seulement des limitations à la concurrence qui ne sont pas raisonnables – et non pas celles qui résultent du succès légitime d’une entreprise ou de positions exclusives légales. L’exercice légitime de droits de propriété intellectuelle ne viole pas les lois anti-concurrence. Cependant, la mauvaise utilisation de ce droit, en développant de façon incorrecte le droit d’exclure (dans le temps ou dans sa substance) au delà du champ légitime d’un droit, peut donner lieu à une responsabilité en matière anti-concurrentielle. Des actes de défense qui ne sont que des feintes ou des essais pour faire respecter des droits de propriété intellectuelle qui ont été obtenus par fraude ou sont connus comme étant nuls peuvent aussi donner lieu à une responsabilité en matière anti-concurrentielle.

Les Etats-Unis ne disposent pas de conditions d’utilisation pour les brevets, et les propriétaires de brevets ne sont pas obligés de concéder une licence pour un brevet non utilisé. En effet, la licence

obligatoire n'est pas favorisée aux Etats-Unis et existe seulement dans des circonstances très limitées. De la même façon, les propriétaires de brevets ne sont pas obligés de vendre des produits brevetés à des concurrents et peuvent choisir de ne pas fabriquer, utiliser ou vendre une invention brevetée.

La "Federal Trade Commission" a publié récemment un long rapport concernant la relation entre le système de brevet et les lois et politiques du secteur de la concurrence. La Commission a recommandé de nombreux changements au système de brevet afin de minimiser ce qu'elle considère comme des restrictions erronées et inutiles à l'innovation et à la concurrence. A ce jour, aucun changement législatif basé sur les recommandations de la Commission n'a eu lieu.

Zusammenfassung

Obwohl das Verhältnis vom Recht des geistigen Eigentums zu den wettbewerbsrechtlichen Regeln nicht gesetzlich definiert ist, wird dieses Verhältnis durch mehr als 100 Jahre sich entwickelnden Fallrechts bestimmt. Die wettbewerbsrechtlichen Regeln der Vereinigten Staaten sind im Kartellrecht des Bundes und der Einzelstaaten festgehalten. Die U.S. Verfassung gibt dem Kongress die Kompetenz, Gesetze zu erlassen, die Autoren und Erfinder beschränkte Exklusivitätsrechte gewähren, um "den Fortschritt der Wissenschaft und der nützlichen Künste zu fördern". Beide Systeme sind darauf angelegt, Innovation und Wettbewerb zum öffentlichen Wohl zu fördern.

Es ist in den Vereinigten Staaten allgemein anerkannt, dass die Anreize für Innovation und künstlerische Kreation kurzfristige Beschränkungen des Wettbewerbs rechtfertigen. Die Gerichte erkennen an, dass der Zweck von Patenten und Urheberrechten der Ausschluss der Konkurrenz ist. Das Kartellrecht verhindert nur unverhältnismässige Wettbewerbsbeschränkungen – nicht aber solche, die durch legitimen Geschäftserfolg oder rechtliche Ausnahmen bestehen. Die rechtmässige Ausübung von geistigen Eigentumsrechten verletzt das Kartellrecht nicht. Der Missbrauch eines solchen Rechts, durch den das Recht ungebührlich über den gesetzlichen Schutzbereich ausgedehnt wird, kann jedoch zu einer kartellrechtlichen Haftung führen. Klagen, die nur zum Schein geführt werden oder Versuche, durch Betrug erlangte oder bekanntermassen ungültige geistige Eigentumsrechte durchzusetzen können ausserdem kartellrechtliche Haftung zur Folge haben.

Die Vereinigten Staaten verlangen nicht, dass Patente benutzt werden müssen, und Inhaber von Patentrechten sind nicht verpflichtet, Patente zu lizenzieren, die nicht benutzt werden. Die erzwungen Lizenzierung ist in den Vereinigten Staaten sogar unerwünscht und existiert nur in sehr beschränkten Ausnahmen. Ähnlich sind Patentinhaber auch nicht verpflichtet, patentierte Güter an Konkurrenten zu verkaufen und können sich dazu entscheiden, eine patentierte Erfindung nicht umzusetzen, zu benutzen oder zu verkaufen.

Die Federal Trade Commission hat kürzlich einen langen Bericht zum Verhältnis zwischen dem Patent System und dem Wettbewerbsrecht und wettbewerbsrechtlichen Richtlinien veröffentlicht. Die Commission hat mehrere Änderungen am Patent System empfohlen, um die ihrer Ansicht nach unangemessenen und unnötigen Beschränkungen der Innovation und des Wettbewerbs zu minimalisieren. Bis heute hat es auf die Empfehlungen der Commission keine Gesetzesänderungen gegeben.