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Statement
Of
Robert P. Taylor
On Behalf of
Section of Intellectual Property Law
American Bar Association
on
Competition and Intellectual Property Law and Policy
In the Knowledge-Based Economy
for
Hearings of U.S. Federal Trade Commission and
Antitrust Trust Division, U.S. Department of Justice
July 11, 2002

I appreciate the opportunity to present these views on behalf of the Section of Intellectual Property Law of the American Bar Association. My name is Robert P. Taylor, and I am the managing partner of the Silicon Valley Office of the law firm of Howrey Simon Arnold & White, LLP in Menlo Park, California. The views expressed have not been approved by the House of Delegates or Board of Governors of the American Bar Association, and should not be construed as representing the views of the Association, nor do they represent the views of my law firm or any of its clients.

I. Jurisdiction and choice of law issues

Several commentators have questioned efforts by the Federal Circuit to define its own jurisdiction and to bring uniformity to the legal issues that affect patent cases and the commercial exploitation of patents. A related concern is whether the Federal Circuit acts appropriately in creating its own jurisprudence, rather than relying on the jurisprudence of the regional circuits, in deciding legal issues that are peripheral to the interpretation of Title 35. A few commentators have been especially critical of a series of decisions through which the Federal Circuit has begun to formulate its own case law for resolving issues at the interface of patent law and antitrust law instead of following the court's original approach that sought to discern and apply the law of the regional circuit on such issues.[1]

[1] *See* e.g., Ronald S. Katz and Adam J. Safer, *Should One Patent Court Be Making Antitrust Law for the Whole Country?*, 69 Antitrust L.J. 687 (2002); Peter M. Boyle, Penelope M. Lister and J. Clayton Everett, Jr., *Antitrust Law at the Federal Circuit: Red Light or Green Light at the IP-Antitrust Intersection*, 69 Antitrust L.J. 739 (2002).

Properly understood, the Federal Circuit's efforts on both fronts have been largely consistent with its Congressional mandate to bring uniformity to the process by which patent rights are defined and enforced. Equally important, the thrust of the criticism does not appear to stem from dissatisfaction with the end results in particular cases, which have been largely consistent with the results that would obtain in any of the regional circuits. Rather, the criticism expresses disagreement with dicta in some Federal Circuit cases, and concern that this appellate court, whose primary mission is addressed to patents and the construction of Title 35, has been able – on its own – to expand that role in areas not absolutely essential to its primary mission. These two points, jurisdiction and choice of law, are inextricably intertwined as a practical matter, but should be examined independently for clarity.

Worth noting at the outset is that the Federal Circuit is unique in federal jurisprudence. There are no other situations in which appeals from a given district court can move in different directions, depending upon the jurisdictional basis for the underlying case in the lower court. Congress created the Federal Circuit in an express effort to eliminate the costly and damaging impact of widely varying results in patent infringement cases, depending upon which circuit court of appeals would ultimately hear an appeal from a judgement in the district court.

It is apparent from the legislative history of the enabling act that Congress intended that to have this single court of appeals deal with all of the issues that are raised by a well-pleaded Complaint in such cases. Indeed, one of the prime reasons for the Federal Circuit was a procedural problem. Prior to the creation of the Federal Circuit, a race to the courthouse and an expensive venue fight in many if not most important cases preceded any effort to get at the merits.[2] This practice was driven directly by widely varying attitudes among the regional circuits as to whether patents were desirable economic institutions, worthy of enforcement because they fostered investment and risk taking, or dreadful monopolies left over from the 1800s before there was a Sherman Act.

Whatever may have been the underlying rationale of the various circuits in their approach to patents, patent owners had one set of preferred courts and patent defendants had a

[2] *See Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1437 (Fed. Cir. 1984) (en banc), overruled on other grounds in *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998) (quoting congressional reports to show that the vesting of exclusive jurisdiction in the Federal Circuit was intended to alleviate "the serious problems of forums [sic] shopping among the regional courts of appeals on patent claims").

mutually exclusive set of preferred courts. The result was enormously wasteful and undermined the economic importance of patents in fundamental ways. The most important of patents, for example, could be placed in jeopardy merely by asserting invalidity in one of the circuits known to be hostile to patent enforcement, thereby intimidating many patent owners into relinquishing patent rights at a mere fraction of their actual market value. Anyone today who advocates diversity among the circuits as desirable in this arena needs to understand the history that led to the Federal Circuit and the problems that Congress was trying to alleviate. The court was not created in a vacuum.

The Federal Circuit's basic jurisdiction is defined as exclusive for cases in which jurisdiction in the lower court is based "in whole or in part" on section 1338(a) of Title 28, the federal procedure statute that gives district courts jurisdiction over cases involving patent infringement. For cases brought as ordinary patent infringement cases, there is no jurisdiction problem or controversy as to the proper jurisdictional path for the appeal. Thus, where there is a non-frivolous patent cause of action stated in the complaint, the statutory mandate seems clear that the Federal Circuit has exclusive jurisdiction over the appeal from any part of the case, even if the particular issue being dealt with on appeal has nothing to do with a patent.[3]

Less clearly dictated by the enabling statute are the appellate paths for the myriad variations in which the original complaint in the district court does not assert a patent infringement cause of action, as such, but where the need to interpret a patent is essential for the cause of action that is stated. A plaintiff may assert, for example, that conduct by the defendant to inform customers of a patent that was obtained by fraud or is otherwise known to be invalid constitutes unfair competition or a violation of the Sherman Act. Irrespective of what is ultimately determined to be the proper appellate path in these various situations, there is no reason to have a different rule in each of the eleven regional circuits for the various situations, and in general both the Federal Circuit and the regional circuits have recognized this. In short, while the Supreme Court is the ultimate arbiter, the determination of appellate jurisdiction is generally ceded to the Federal Circuit in the first instance.

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[3] As early as 1986, in the *Innotron* case, the Ninth Circuit declined jurisdiction over an appeal of a non-patent procedural issue in a patent case in favor of the Federal Circuit. This result is normal and uninteresting today. *In re Innotron Diagnostics*, 800 F.2d 1077 (Fed. Cir 1986).

In many of these cases, the Federal Circuit has been willing to assume appellate jurisdiction, based on the language in the enabling statute, "in whole **or in part."** The Federal Circuit's primary rationale for doing so flows from the underlying reasons for creating that court in the first instance – uniformity in the law that determines the scope and legal impact of patent rights. Furthermore, if it appears that the Federal Circuit is taking a more expansive role today than it might have taken in the 1980s in these various situations, one might legitimately attribute the change to the accretion of experience over the now twenty years that the court has been at it.[4]

The jurisdiction of the Federal Circuit in connection with the many cases that are not filed as garden variety patent cases has also been the subject of Supreme Court review. Of particular importance at this juncture is another case, recently decided by the Supreme Court, that has resolved many, but unfortunately not all of these jurisdictional issues. In *Holmes v. Vornado***,** the Supreme Court held the Federal Circuit cannot assert jurisdiction over patent counterclaims where the complaint does not allege a patent law claim.[5] The Court de-emphasized its role in determining what would further Congress' goal of patent law uniformity, highlighting instead preservation of plaintiff's choice of forum and fair, consistent statutory interpretation.[6] Providing further insight into the Court's view of Federal Circuit jurisdiction, Justice Steven's concurrence suggested that decisions by regional courts "will provide an antidote to the risk that the specialized court may develop an institutional bias" and that "[a]n occasional conflict [between the Federal and regional circuits in patent] decisions may be useful in identifying questions that merit this court's attention." Finally, the Court rejected the issue based or "actually adjudicated" conception of Federal Circuit jurisdiction articulated in Justice Ginsburg's concurrence. While this precedential decision settles significant jurisdictional issues, it necessarily raises different questions. Significantly, may a

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[4] A recent analysis of the Federal Circuit's jurisdiction worth noting is an article by Scott A. Stempel and John Terzaken entitled "Casting a Long IP Shadow Over Antitrust Jurisprudence: The Federal Circuit's Expanding Jurisdictional Reach", 69 ANTITRUST LAW JOURNAL 711 (2002). The authors conclude, on balance, that the Federal Circuit's approach to defining its jurisdiction is largely consistent with its statutory mandate, even though in some respects it fails to discourage the very type of forum shopping that the court was created to avoid.

[5] No. 01-408, slip op. at 3-8, 535 U.S.___ (June 3, 2002).

[6] Section 1338(a) granting Federal Circuit jurisdiction uses the same operative language "arising under" as section 28 U.S.C. 1331, which governs federal court jurisdiction, thus invoking the well-pleaded complaint rule.

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patent claim be filed as a separate action in federal court while a separate antitrust action is pending, or must the patent claim be dismissed for nonjoinder? If so, to the extent that regional circuit interpretation and application of patent law differ, such variance will create incentives for plaintiffs to race to file in order to engage in the forum shopping that the creation of a single patent court of appeals was intended to eliminate.

More controversial than the jurisdictional issues has been the gradual movement by the Federal Circuit to develop its own unique set of rules for resolving issues that are peripheral to a straight construction of Title 35. Of particular concern are the decisions of the court in *Nobelpharma* (1998), *Intergraph v. Intel* (1999), and *Xerox* (2000).[7] In each of those cases, the court resolved antitrust issues arising from patent ownership, exploitation or enforcement by determining and applying its own rules rather than making an effort to discern what the law of the circuit in which the district court was located might have been. This became controversial, in part, because the court departed from its own practice in earlier years of trying to apply the law of the regional circuit.[8]

However, the decision in each of those cases was consistent with regional circuit law. In *Nobelpharma* , the Federal Circuit held that enforcement of a patent that the jury found to be procured by fraud, given proper market conditions, was properly the basis for finding a violation of Section 2 of the Sherman Act.[9] Reviewing all of the decisions of all twelve circuit courts of appeals, it is apparent that only a handful have ever affirmed an award for a plaintiff in that setting, but in light of the nature of the conduct found by the jury, it is also apparent that the ruling was correct.

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[7] *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998); *Intergraph Corp. v. Intel Corp.*, 1195 F.3d 1346 (Fed. Cir. 1999); *CSU L.L.C. v Xerox Corp.*, 203 F.3d 1322 (Fed. Cir. 2000).

[8] *See e.g., Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1429 (Fed. Cir. 1984) (en banc)), *overruled in part*, *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998) (applying Seventh Circuit law to copyright infringement actions); *Panduit Corp. v. All States Plastic Manufacturing Co.*, 744 F.2d 1564 (Fed. Cir. 1984), *overruled in part, Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998) (holding that region circuit law applied to an appeal from an order disqualifying a firm).

[9] The original panel decision would have gone the other way. Based on a powerful dissent by Judge Plager, the panel recalled its first opinion and held that enforcement was in fact a violation of the antitrust laws. An analysis of the two opinions and the procedure itself shows the sensitivity of the Federal Circuit to the legitimate needs of the antitrust laws and the need to preserve the competitive process, where appropriate.

In *Intergraph*, the Federal Circuit dissolved a preliminary injunction that required Intel to continue disclosing intellectual property to a company that was suing Intel and certain of its customers for patent infringement and that did not want to enter into a cross license with Intel for the property involved. The Federal Circuit applied the law of the Eleventh Circuit to the standards for obtaining preliminary injunction.

In *Xerox*, the Federal Circuit affirmed a holding by the district court that Xerox's policy of not selling patented spare parts to companies that competed with Xerox in the service business was not unlawful. The court relied on the well established principle that the United States, unlike certain other countries in the world, does not impose compulsory licensing obligations on the owners of intellectual property, a principle traceable to the earliest days of patent law and articulated most recently in the Supreme Court's decision in *Dawson v. Rohm & Haas.*[10]

In the early days of the Federal Circuit, the recent experience with issues involving the interface of patents and antitrust law lay with the regional circuits. That is no longer true. The law of the regional circuits on issues involving patents, because they come up typically in patent infringement cases, is no longer developing as it once did. And during that same twenty year period, much of antitrust law – not just the portion pertaining to patents and other forms of intellectual property, but all of antitrust – has gone through a major transformation. Commencing in the late 1970s, and continuing to the present, the Supreme Court and the lower courts have made a steady effort to rationalize antitrust with contemporary economics.[11] Per se rules have largely been abandoned, or at least confined to the clearest of cases. Market analysis has been refined and has become central to nearly every antitrust case. Competitive effects and diminished output have become the touchstones for enforcement.

[10] *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980). Some commentators view *Xerox* as inconsistent with the 9th Circuit's decision in *Image Technical Services Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 423 U.S. 1094 (1998).

[11] *See e.g., SCM v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981) (holding that acquisition of patents, even if carried out with intent of achieving a future monopoly, did not violate the Sherman Act as long as such monopoly did not exist at time of acquisition); *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980) (holding no misuse where owner licensed its patented process only to customers of an unpatented chemical necessary to practice the process).

Since it is the Federal Circuit, and not the regional circuits, that is likely to continue to hear the bulk of cases that present patent issues, it seems appropriate for that court to create a body of law that is internally consistent and for the regional circuits courts to recognize the special role that Congress has created for the Federal Circuit in guiding the enforcement and use of patents. The Federal Circuit has more contemporary experience with that exercise than do all of the regional circuits combined, and the Supreme Court seems more than willing to consider the implications of what the Federal Circuit is doing, when appropriate.[12]

II. Scope and Types of Patents

The Hearing Notice raises issues concerning the scope and types of patents being issued. The U.S. Supreme Court and the Federal Circuit have broadly construed the type of subject matter eligible for patenting. This has had a positive effect on the U.S. economy.

For example, in *Diamond v. Chakrabarty* the Supreme Court determined that biotechnology inventions are eligible for patent protection. 447 U.S. 303, 309 (1980). Without patent protection, the venture capital which has been critical in fostering the biotechnology industry would not have been available. This entire industry, in which the United States is the clear leader, would have languished.

More recently, the Federal Circuit, following the mandate of *Chakrabarty* for broad interpretation of what subject matter is eligible for patenting, determined that business methods also are patentable subject matter. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), cert denied __ U.S. __ (1999). The limited collection of business method prior art available to Patent Examiners in some subject areas initially caused some difficulties. However, business methods patents, once through the growing pains of infancy, should enable the United States to maintain and increase its leadership in information technology.

Turning now to the scope of patents -- in Markman, the Federal Circuit held that determining the scope of patent claims is an issue for the judge, not for the jury. *Markman v.*

[12] Often unnoticed on this point is that the Supreme Court has no way of finding a conflict in the circuits for much of what the Federal Circuit does. Accordingly, the Court often is motivated by a powerful dissent in the Federal Circuit to review the case. Examples include *Morton Int'l, Inc. v. Cardinal Chemical Co.*, 959 F.2d 948 (Fed. Cir. 1992), *Hilton Davis Chemical Co. v. Warner-Jenkinson Co., Inc.*, 62 F.3d 1512 (Fed. Cir. 1995), *Festo*

Westview Instruments, Inc. 52 F.3d 967 (Fed. Cir. 1995) (en banc), aff'd 517 U.S. 370 (1996). Markman and its progeny have provided increased certainty as to the boundary of the patent right. This fosters competition by enhancing a competitor's ability to design around the claims of a patent.

At the same time, the Federal Circuit has narrowed, not broadened, the scope of patents. Through a series of decisions, the Federal Circuit has held that a patent claim cannot be broader than the invention described in the specification at the time the application was filed. See, e.g. *Gentry Gallery, Inc. v. Berkshire Corp.*, 134 F.3d 1473 (Fed. Cir. 1998) (finding invalidity for failure to satisfy the written description requirement of 35 U.S.C. § 112, ¶1 because "claims may be no broader than the supporting disclosure."); *Network, LLC v. Centraal Corp*., 242 F.3d 1347 (Fed. Cir. 2001) (finding no infringement because the claims cannot "enlarge what is patented beyond what the inventor has described as the invention."); *Bell Atlantic Network Services, Inc. v. Covad Communications Group, Inc.*, 262 F.3d 1258 (Fed. Cir. 2001) (finding no infringement because "the specification may define claim terms 'by implication' such that the meaning may be found in or ascertained by a reading" of the specification).

The Federal Circuit is still defining the boundaries of this increased emphasis on the role of the specification in interpreting the scope of claims; but there can be no doubt that the result has been a narrowing, not a broadening, of claim scope in comparison with historic standards, and that competition thereby has been enhanced.

Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd., 72 F.3d 857 (Fed. Cir. 1995), *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995).