

November 15, 2002

Donald S. Clark  
Office of the Secretary  
Federal Trade Commission  
600 Pennsylvania Avenue, NW  
Washington, DC 20580

Dear Mr. Clark:

RE: Comments Regarding Competition and Intellectual Property

Enclosed please find comments by Intellectual Property Owners Association submitted in response to the Federal Register noticed published on November 20, 2001.

Sincerely,

Herbert C. Wamsley  
Executive Director

Enclosure

**Intellectual Property Owners Association (IPO)**

**Comments on the  
Joint Hearings of the Federal Trade Commission and the Department of  
Justice Regarding Competition and Intellectual Property Law  
and Policy in the Knowledge-Based Economy**

**Submitted November 15, 2002**

# CONTENTS

IPO Overview .....	1
Philosophy.....	2
General Observations.....	4
Specific Topics	
Role of the Court of Appeals for the Federal Circuit.....	8
Standard Setting.....	9
Settlement of Intellectual Property Disputes.....	10
Licensing Arrangements and the IP Licensing Guidelines.....	13
Patent Scope and Patentable Subject Matter.....	17
Market Power Presumption.....	19
Unilateral Refusal to Deal.....	20
Conclusion.....	21

In response to the Federal Register notice published November 20, 2001, we welcome this opportunity to provide our association's views on the interplay between intellectual property protection and competition law. We offer some general observations, as well as our views on some of the specific topics about which the Agencies have requested comments. Many other groups have already filed scholarly legal analyses on these topics. In this submission, we will address the issues from the business viewpoint of an intellectual property owner.

### **INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO)**

IPO is a trade association that represents companies and individuals who own patents, trademarks, copyrights, and trade secrets. Our members include about 100 large and mid-sized companies and more than 250 small businesses, universities and independent inventors.<sup>1</sup> Some of these companies, or individuals employed by the companies, have separately testified in these hearings.

Our members are among the most innovative companies in the world. Collectively, they spend huge sums every year on research and development. For the most part, this innovation is *practical* innovation designed to improve the products and services offered by the members or to develop new products the members can offer to their customers. As a result of their investment and innovations, our members file about 30 percent of the patent applications filed in the United States Patent and Trademark Office ("USPTO") originating from U.S. nationals each year, as well as many thousands of trademark applications.

Our members regularly work with diverse issues involving patents, copyrights, trade secrets, unfair competition, and other fields involving and affecting intellectual property. They are active licensors and licensees of intellectual property rights and understand the real world

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<sup>1</sup> A list of IPO's Board of Directors is attached as Exhibit A.

considerations that drive licensing transactions. IPO members license intellectual property to generate a return on the owner's R&D investment while allowing the licensee recipient to avoid research and development costs or meet market needs not supplied by the intellectual property owner. Our members have the benefit of being on both sides of these transactions and recognizing the issues that are intertwined with licensing of intellectual property, such as patent validity, scope and likelihood of litigation. Our members have innumerable experiences enforcing intellectual property rights against others as well as having intellectual property rights asserted against them. Our members are also frequent users of the judicial system to resolve disputes involving intellectual property. They full well understand the cost to business and the public of poor quality patents, uncertainty as to the meaning and scope of an intellectual property right and the costs to resolve these issues. They also understand the real-world factors that drive agreements to settle intellectual property disputes.

For all of these reasons, IPO believes that it is particularly well suited to comment upon the interplay between our nation's intellectual property and competition laws and many of the specific topics on which the Agencies have solicited comments.

## **PHILOSOPHY**

IPO supports strong intellectual property rights. We believe that the constitutional mandate to "promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries,"<sup>2</sup> promotes the free enterprise system that has stimulated the American economy to its outstanding performance. Innovation is the key to increasing the standard of living of all. IPO believes that it is through innovation that we explore new science, develop new products, and become more productive, all of which promote the general good for the businesses and citizens of the United

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<sup>2</sup> U.S. Const. Art. I.

States and of the other countries of the world. It is incentives offered by the intellectual property laws that help businesses realize a return on their research and development investments, and it is the possibility of that return that encourages them to continue to make these investments.

IPO also supports certainty in our intellectual property system—certainty as to the scope of an intellectual property right, certainty as to how it will be interpreted and enforced, and certainty as to whether our members can proceed with their business plans while respecting the rights of others. The members of IPO need to understand the impact of intellectual property (and the antitrust laws related thereto) when they make business decisions to invest large sums in research and development, when they decide to offer a new product or service, or when they formulate plans on how to bring new products or services to market. Uncertainty adds costs, delays decisions, requires that resources be devoted to contingency plans, and opens the door for high stake, expensive litigation to resolve that uncertainty.

IPO supports the awarding of well-examined patents, timely issued, and for a reasonable processing fee. We believe the USPTO shares these goals. Unfortunately, for too many years, Congress has diverted significant portions of the fee revenue the USPTO generates, leaving the USPTO to operate on minimal budgets and unable to muster the funds to support the staff and technology resources needed to complete its mission. As a result, the pendency period for applications is too long and the USPTO has not been able to fully deliver on its plans to automate the office.

IPO believes, in general, that the owners of intellectual property should be free to utilize their intellectual property rights, including their rights granted by statute to exclude others in order to maximize the benefit of the intellectual property to them. Of course, IPO also believes that the antitrust laws serve an important purpose in deterring and remedying situations where intellectual property was obtained with intentional misrepresentations or where the attempted use

of the intellectual property is outside the scope of the intellectual property right or joined with other improper conduct.

The above themes will be found throughout our analysis and suggestions relative to the specific topics raised.

## **GENERAL OBSERVATIONS**

The core value of a statutory intellectual property right (patent or copyright) is the limited right to exclude others from exploiting the inventor/creator's innovation and expressions. Intellectual property rights are narrowly circumscribed so that the right to exclude is limited to the narrow area defined by the patent claims or encompassed within the copyrightable subject matter. Valid patents cover only new, useful and non-obvious inventions.<sup>3</sup> With respect to patents and copyrights, protection lasts only for a limited period of time defined by statute. Intellectual property rights protect against only limited types of infringing activity, also defined by statute.

Notwithstanding that intellectual property protections are circumscribed, they remain a driving force behind innovation. In many instances the costs of innovation, research, development and testing are staggering. For-profit companies that must account to their shareholders cannot justify such expenses unless the company can expect a return on its investments. Through their exclusionary nature, intellectual property rights provide a mechanism to prevent free riding—the unfettered exploitation of research and development by those who did not invest the resources to develop the technology. By preventing free-riding and allowing the firms that invest in research to recoup the cost of their investments and earn a return for their shareholders, the level of confidence provided by the intellectual property laws encourages investment in research and development and the commercialization of innovations.

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<sup>3</sup> See 35 USC § 101-103

By affording innovators exclusivity and protection, the intellectual property laws spur those competitors who are not merely free riders to innovate around the protected property and make advances in alternative and often-times superior technologies.

The above discussion presents the theory supporting the value of the intellectual property system. IPO member companies can confirm that this is not just the theory but the practice as well. We can confirm that the availability of high quality and timely intellectual property rights is a significant factor in determining the level of investment in any particular project.

IPO recognizes, of course, that the quality of services provided by the USPTO can significantly affect the efficacy of our intellectual property regime as set forth in the patent laws. While patent laws call for patents to be narrowly circumscribed and based upon well-supported claims, our intellectual property protection system may break down if the body charged with implementing the system does not—or cannot—live up to its responsibilities. Central to the effective and appropriate patent protection of new technology is the quality and timeliness of examination of patent applications.

Many of the “competitive” problems that have been cited in the course of these proceedings are symptoms of inadequate funding of the USPTO and an inability of the USPTO to keep pace with the quantity and complexity of the patent applications it receives. Although the USPTO shoulders a tremendous responsibility in annually reviewing huge numbers of patent applications and deciding which deserve the patent reward, recent executive and legislative branch actions have severely undermined the ability of the USPTO to meet the growing responsibilities it faces. Since 1992, the President and the Congress have combined to divert to other Federal programs over \$800 million of USPTO fee revenues, paid by USPTO users as user fees established to support the cost of the USPTO operations. This diversion of revenue from the USPTO has increasingly inhibited the USPTO from hiring and retaining sufficient numbers of well trained and experienced patent examiners to perform high quality search and examination of



patent applications in a timely manner. Again, through the extensive experience of its members, IPO can confirm that this is not just theory but is found in practice every day. Diversion of revenue has also inhibited the establishment of electronic filing and processing of patent applications necessary to be efficient.

Due at least in part to budgetary issues, The USPTO has proposed initiatives that, if implemented, would transfer some obligations involved in examining patent applications from the USPTO to applicants or require applicants to contract with third parties for services. The obligations include searching the prior art, determining the relevant prior art, and in some instances, describing why the claims of the pending application are patentable or not in view of this prior art. IPO is concerned that such changes to current USPTO operations create a significant danger that the quality of the process will be diminished and issued patents will be of reduced quality.

With greater assurance that patents are valid and enforceable (i.e. that the USPTO has the resources to complete its mission in a timely, thorough manner), both patent holders and their competitors will be better able to plan their research and development activities. In the end, greater clarity from the USPTO will produce more innovation at less cost and reduce the use of IP as strategic weapons of competition that have raised some of the concerns that are the subject of these hearings. IPO therefore urges that there be greater funding for the USPTO and allowing the USPTO to retain all user fees paid by patent and trademark applicants to support the USPTO. If it has proper funding, we believe the USPTO would have the ability to conduct a rigorous and timely review of all patent applications.

To this end the IPO and its members have lobbied and testified in Congress for the passage of legislation aimed at eliminating this diversion of funds. Moreover, IPO is a strong supporter of the USPTO developing a five-year plan. President Bush's 2003 budget proposals include an increase in funding for the USPTO, but also includes diversion of fees to non-PTO

programs. IPO submitted a statement to Congress on July 18, 2002 indicating that IPO opposed continued diversion of fees to the general treasury, fee increases not tied to the level of spending at the USPTO, and process changes that would create further uncertainty such as allowing for deferred examination (the ability to delay a pending patent application for years while maintaining its effective filing date for enforcement purposes).

## **SPECIFIC TOPICS**

### **Role of the Court of Appeals for the Federal Circuit**

The Court of Appeals for the Federal Circuit was created in 1982 to bring uniformity to patent law and eliminate the blatant forum shopping that had existed in patent cases. Nearly every appeal that “arises” out of the patent laws is adjudicated in the Federal Circuit. In reviewing antitrust issues, the Federal Circuit normally applies the antitrust precedent of the regional court of appeals for the circuit in which the district court rendering the judgment is located.<sup>4</sup> However, for issues that the Federal Circuit believes “clearly involve [its] exclusive jurisdiction,” it applies its own precedent, rather than that of the regional circuit.<sup>5</sup> The Federal Circuit believes that issues of patent misuse fall within the area of its exclusive jurisdiction.<sup>6</sup>

IPO believes that the Federal Circuit’s view of its jurisdiction in this area is appropriate. It provides uniformity in application of the antitrust laws for patents—which by definition have nationwide scope—and for conduct that is almost never limited to one region of the country. Disposition of those cases usually includes resolution of the antitrust issues as between the parties involved and typically is not followed by a separate case involving only antitrust issues.

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<sup>4</sup> See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067 (Fed. Cir. 1998); *Loctite Corp. v. Ultraseal, Ltd.*, 781 F.2d 861, 875 (Fed. Cir. 1985).

<sup>5</sup> See *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000).

<sup>6</sup> *Id.*

By applying a uniform antitrust standard in the infringement cases, uncertainty is reduced for patent owners, which fosters innovation, as discussed earlier. Moreover, applying its own precedent does not insulate the Federal Circuit from developments in antitrust law from other regional circuits. Those circuit courts of appeals each apply their own regional precedent. Yet they consider and adopt or reject developments from other circuits. The Federal Circuit does as well.<sup>7</sup> The Supreme Court has recently held in *Holmes Group Inc.* that lawsuits filed as antitrust cases are outside the exclusive jurisdiction of the Federal Circuit even if a patent counterclaim is subsequently filed.<sup>8</sup> This of course means that the other circuit courts of appeal will be hearing appeals from these patent counterclaims and presumably following Federal Circuit precedent with respect to patent issues.

### **Standard Setting**

The interplay between intellectual property and antitrust policy in the arena of standard setting remains a developing area of the law. Many standard setting bodies now have their own rules governing what intellectual property rights must be disclosed and licensed. Some bodies have policies under which their members or participants that are owners of specific, identified intellectual property commit that they will license their intellectual property to all on a reasonable and non-discriminatory basis to the extent the intellectual property rights are necessary to practice the standard. Some require that this license be granted royalty-free.

IPO believes that the development of standards through a standard setting body can advance a particular technology to the benefit of consumers and industry. However, the owner of an intellectual property right incorporated into an industry standard without the participation

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<sup>7</sup> See, e.g., *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1327 (considering and declining to adopt Ninth Circuit position on intent for antitrust liability for unilateral refusal to deal).

<sup>8</sup> *Holmes Group Inc. v. Vornado Air Circulation Systems Inc.*, 535 U.S.\_\_\_\_\_(2002)

of the owner, and absent a contractual or policy obligation to the contrary, must be able to retain the ability to enforce that right and to obtain an injunction in the same manner as if there were no industry standard. This owner has not participated in the process and therefore has neither directly, or by its actions, consented to any type of license or waiver of seeking the relief of an injunction.

IPO recognizes there are currently many issues concerning standard setting such as: the duty to disclose information available or known to a participant in a standard setting process; what obligations are imposed on the participants, or even the agency itself, to perform patent searches for patents that might cover products or processes covered by the standard; what obligations there are to disclose non-public information (pending patent applications) relevant to the standard, and what is a reasonable and non-discriminatory royalty. IPO believes these areas need to evolve and be developed through case law and testing in the marketplace before an approach can be identified as the recommended way to solve these issues. However, we do believe discussions in the standards setting process among interested parties, including potential competitors -- about IP licensing terms, the potential scope of a patent, or what intellectual property is covered by a proposed standard -- should not themselves create an antitrust issue.

### **Settlement of Intellectual Property Disputes**

The agencies asked for views on competition issues that arise in the settlement of intellectual property disputes. The IPO recognizes that settlements are a form of agreement and as such are subject to the proscriptions of Section 1 of the Sherman Act, which prohibits agreements in restraint of trade. Accordingly, depending on the terms of the settlement and the relationship of the parties in the marketplace, IP settlements could raise antitrust issues similar to those raised by any other form of agreement. At the same time, IP settlements are an efficient means of resolving litigation and eliminating risk for owners of intellectual property and their

potential competitors. Moreover, litigation settlements serve other important public policies, such as the conservation of judicial resources. IPO believes that antitrust rules relating to settlements need to accommodate all of these policy considerations.

A few courts have recently held certain arrangements under IP settlement agreements illegal under a *per se* rule<sup>9</sup>. While we take no position as to the merit of those particular cases, the IPO believes that applying a *per se* rule to litigation settlements is unwise and inappropriate. Central to the legitimacy of IP settlements is the issue of whether the alleged infringer would be able to compete absent a license. In order to apply a *per se* rule to an intellectual property settlement, a court must, in effect, assume that the intellectual property owner would lose the infringement suit—an assumption that no court is entitled to make without a trial of the infringement issue, or a finding of clear and convincing evidence to overcome the statutory presumption of validity of issued patents. For these reasons, we believe that, absent a fraudulent intellectual property right or a sham lawsuit or settlement, intellectual property settlements should be analyzed under the rule of reason.

We echo the comments and proposal of the American Intellectual Property Law Association (“AIPLA”) in their submission in these hearings, which proposed that the starting point for any rule-of-reason analysis should be the range of possible outcomes in the infringement litigation. At one extreme is the possibility that the intellectual property owner will win and the alleged infringer will be enjoined from competing by using the technology that is the subject of the intellectual property right until the right expires and will be required to pay for damages. At the other extreme is the possibility that the intellectual property owner will lose and the alleged infringer will be able to compete by using the technology immediately and recover damages. The possibility that, had the litigation not been terminated by a settlement, the alleged

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<sup>9</sup> [Terazosin Hydrochloride Antitrust Litigation, 164 F. Supp. 2d. 1340 \(S.D. Fla. 2000\)](#) and [Cardizem DC Antitrust Litigation, 105 F. Supp. 2d. 682 \(E.D. Mich. 2000\)](#)

infringer might have been enjoined from competing by using that technology significantly affects the antitrust analysis. Measured against that possibility of no competition by using that technology, restrictions in a settlement agreement usually represent a lesser restriction on competition than that which would exist absent the settlement.<sup>9</sup>

The IPO agrees with the AIPLA's proposal that courts and agencies adopt the following principle: Provisions in a settlement that fall within the range of possible outcomes in the litigation should be presumed lawful and analyzed under a rule of reason. Thus, an agreement that, without more, grants to an alleged infringer a license of the intellectual property rights at issue, which license is restricted in field of use, time (e.g., delayed entry), and/or geographic scope, should be presumed lawful. Also a settlement in which an alleged infringer essentially surrenders by stipulating validity and infringement and agreeing to stay off the market with that protected technology should be presumptively lawful. On the other hand, agreements relating to technology falling *outside* the scope of the intellectual property rights at issue should not fall within this presumption and so should be analyzed under normal antitrust principles. This presumption should be subject to two exceptions consistent with existing case law. One is where the intellectual property right at issue has knowingly been obtained by fraud. The other is where the litigation meets the test for sham litigation under *Noerr-Pennington* principles.

Application of this presumption would preclude the impossible inquiry into the merits of the underlying infringement suit to re-create the "but-for world" necessary to determine apparent competitive effects. Foreclosing this inquiry preserves the certainty, elimination-of-risk, and cost-saving efficiencies promoted by settlements. Antitrust courts analyzing intellectual property settlements have so far not undertaken inquiry into the relative strength or weakness of the underlying intellectual property claims. Nor should they. Also irrelevant under this approach would be an inquiry into motive or intent, which some courts have deemed relevant in the past. These would include a motive to exclude competition or to avoid judicial

determination of an intellectual property right's validity. Evidence of a motive to exclude competition does not advance the antitrust analysis, since the very core of an intellectual property right is the right to exclude competitors. Nor does a motive to avoid an adverse judgment advance the antitrust analysis, since avoiding that risk is precisely why parties settle cases.

For all of these reasons, the IPO urges that the federal antitrust agencies and courts adopt a rule of reason approach to IP settlement agreements as outlined above.

### **Licensing Arrangements and the IP Licensing Guidelines**

The Agencies asked for views on the frequency and usefulness of cross-licensing and patent pooling and the antitrust issues they raise, whether so-called “patent thickets” present competitive issues and on whether the “guideposts” established by the 1995 DOJ/FTC *Antitrust Guidelines for the Licensing of Intellectual Property* (“*IP Guidelines*”) have proved useful.

The frequency of cross licensing varies from industry to industry, depending on factors such as the importance of patent coverage to an industry, the relative size and strength of the patent portfolios of the competitors in an industry, the complexity of the products in an industry, and the speed of development, product introduction and obsolescence. For example, in the semiconductor industry—where the major companies have large patent portfolios, the products are complex and any single product (indeed, most of a company's products) could be impacted by numerous patents, and product cycle time is rapid—cross licensing is widespread and promotes innovation and product supply. On the other hand, in industries where a single patent or small number of patents may give a company's products a significant competitive advantage (e.g., pharmaceuticals), or product cycle times are long, cross licensing may be relatively uncommon.

The *IP Guidelines* recognize, correctly in our view, the pro-competitive benefits of cross-licensing: “integrating complementary technologies, reducing transaction costs, clearing blocking positions and avoiding costly infringement litigation.”<sup>10</sup> They also caution, again correctly in our view, that cross-licenses that merely provide cover for price-fixing or market allocation schemes will not be countenanced.<sup>11</sup>

Some have asked whether cross-licensing in an industry can go “too far,”—that is, if the leading companies in an industry have entered into royalty free cross-licenses (or cross-licenses with up-front balancing payments to reflect differences in portfolio strength), will newer, smaller competitors be effectively locked-out because they do not have enough patents to join the cross-licensing “club” and cannot compete if required to pay royalties to each of the major players. Others have asked whether a common provision in cross-licenses—the grant of rights in future inventions—lowers the incentive to innovate because each party has the right to “copy” the others improvements.

It is our perception that these “theoretical” concerns are just that—theoretical concerns that are not borne out by the real world experiences of the cross licensing activities of our members. We believe that the overwhelming majority of cross-licenses are entered for the purpose of and have the effect of avoiding/settling expensive and potentially crippling (for the loser) patent litigation and permitting “freedom of operation”, and in fact achieve the pro-competitive benefits cited in the Guidelines. Accordingly, we encourage the Agencies to continue to follow the approach set forth in the *IP Guidelines*—that cross-licensing is procompetitive and should be encouraged.

As for patent pools, it is our perception that they are relatively uncommon and that they are almost always subjected to scrutiny by the Agencies, either in advance, as with the MPEG-2

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<sup>10</sup> *IP Guidelines*, at § 5.5.

<sup>11</sup> *Id.*



and DVD standards, or after the fact, as with the *Summit/VISX* matter. We take no position on whether the Agencies' determinations with respect to any of those patent pools was correct, but merely urge the Agencies to continue to apply a case-specific approach in evaluating patent pools, to update their evaluations as experiences evolve and circumstances change, and to base their evaluations on the actual market effects the pools will have.

Nor do we believe that so-called patent "thickets," in and of themselves, present competitive challenges. With the assistance of skilled patent counsel, competitors usually can find their way around even large patent portfolios sometimes owned by multiple parties. If patents are valid, and were obtained in a way that was not separately anticompetitive, there is no reason to separately legislate or regulate in order to artificially ease the burden that competitors have in circumventing a "patent thicket." Indeed, the difficulties imposed by "patent thickets" often spur greater innovation than would have occurred had the competitor to the patent holder simply needed one or two licenses as opposed to dozens or more, in order to compete. Again, if the patent thicket consists of valid patents, patent thickets do not in themselves create an anticompetitive result, but rather, in many cases, generate significant innovation. The issues that arise in this area emphasize why it is important to any balancing of patent rights with competition policy that the USPTO be able to provide high quality examination of patent applications to increase the likelihood that only valid patents are issued.

A related area leading to much uncertainty is a "patent application thicket"; large numbers of unexamined applications due either to USPTO delays or due to the deferral of examination of patent applications as is allowed for applications filed under the Patent Cooperation Treaty or as might be allowed under some of the proposals the USPTO has recently put forward for future legislative consideration. There is uncertainty when trying to formulate business plans that are predicated upon predicting the future valid scope of large numbers of

unexamined patent applications. For this reason, as mentioned elsewhere, IPO is opposed to various deferred examination schemes.

For several reasons, we believe that the *IP Guidelines* have proven useful to companies involved in intellectual property licensing. First, the three “general principles” stated in the Guidelines—that the Agencies will apply the same antitrust principles to intellectual property matters as they do to other types of property, that the Agencies will not presume that intellectual property confers market power, and that the Agencies acknowledge that intellectual property licensing is generally pro-competitive<sup>12</sup>—reflect an important and express repudiation of the hostility toward and misunderstanding of patents and patent licensing that dominated courts decisions and enforcement actions from the 1940s through 1970s. Second, the *IP Guidelines*’ “safety zones” and their statement that most transactions will be decided under the “rule of reason” provide certainty to companies involved in licensing transactions. Third, while the *IP Guidelines* are not binding on courts in deciding disputes between private litigants, they serve to guide courts in deciding licensing issues on which there is either no precedent or on which the precedent is often decades old and not reflective of modern, economic-based analysis of patent licensing issues. The increase in predictability afforded by the existence of the guidelines facilitates effective decision-making, and therefore compliance and efficiency in our markets.

### **Patent Scope and Patentable Subject Matter**

The Agencies have also sought comment on the relationship of patent scope and type to competition and, more particularly, on the implications for competition of judicial and agency procedures under which patents are procured and enforced. In our view, the patent laws as administered by the USPTO and as interpreted and enforced by the judiciary strike a generally solid, predictable and appropriate balance between the reward for innovation provided by the

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<sup>12</sup> *IP Guidelines* § 2.0

exclusive grant of a patent right for a limited time and the promotion of a healthy competitive marketplace.

The grant of any patent right has a potential effect on competition. To the extent the patent right is a valid one, is directed to a new, useful and unobvious invention, and otherwise satisfies the criteria set forth in the patent code, the effect of the patent on competition in favor of the patentee is an appropriate one. The patent laws are long established and constitutionally sanctioned. The procurement, use, licensing and enforcement of valid patent rights are a bedrock of the economic incentive for individuals and corporations to innovate. This guiding principle holds true regardless of the technology or application for which patents are obtained. Because the patent code does not discriminate among patents in different technical fields or markets,<sup>13</sup> we do not see any need for the antitrust laws to do so. Introducing competing standards of patentability or enforceability for different market segments or technology sectors or among different classes of subject matter would likely have unintended and disruptive consequences. Patents, already difficult instruments to interpret, would likely be made less clear, and additional issues would likely be injected into already expensive and time-consuming enforcement proceedings.

Notwithstanding the recent concerns voiced, we believe that the standards under which certain types of patents are examined and issued —most prominently so-called business method patents – are not in need of legislation, and that issues about prior art, examination processes and scope of allowed claims are best resolved through the existing administrative procedures of the USPTO. Our patent laws should not differentiate among innovations in different subject areas with respect to the scope of an intellectual property right or the standard of patentability applied. Disfavoring certain patentable subjects would diminish the incentives to invest in those

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<sup>13</sup> *State Street Bank and Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998)

technologies for the long term, and may diminish the incentives to invest in other technologies that appear to be subject to public scrutiny in future years. Assuming adequate funding, the USPTO possesses the administrative and technical expertise for examining and issuing patents. The USPTO has historically fully met this responsibility, even in the face of tremendous and rapid technological change. IPO has faith in self-correcting decisions by the courts and the abilities of an adequately funded USPTO. If a patent meets the statutory criteria, a court should sustain its validity. If a patent is too broad because it, for example, either encompasses or is obvious over subject matter that is in the public domain, it should be held invalid. If a district court holds otherwise, the Federal Circuit can correct the mistake. Moreover, if a court were to make a mistake in sustaining a patent, others in the industry can still challenge that validity, and if one challenge succeeds, the patent would be invalid as to all. In addition, since a patent rarely encompasses an entire relevant market in the economic sense, reasonable substitutes for the patented subject matter routinely exist. Consequently, patents themselves rarely preclude legitimate competition in a market served by the patented subject matter. Those inventions perceived as minor advances will be rewarded commensurately in the market place. Others will rapidly come to market with improvements or the inventions will quickly become obsolete.

The market place should determine the value of the advancement for a particular innovation, and therefore the value of a patent precluding others from using that innovation. It is unlikely that any patent office would have the expertise or resources to effectively evaluate the degree of advancement or value of an invention beyond patentability as defined in our patent law.

For all of these reasons, the IPO believes that issues as to scope of rights to exclude others should be left to the USPTO and to the courts. The scope should not be artificially altered to meet concerns of other bodies of law, such as antitrust. The burdens upon companies faced with inventing around a patent thicket should not be diminished. Instead, working with the

scope of valid patents, the courts should balance the two complementary goals when they intersect in particular cases. We do remain concerned, however, that the diversion of fee revenue from the USPTO in recent years has undermined the capability of the USPTO to meet the demands being placed on it.

### **Market Power Presumption**

Some courts in the past have indicated that the presence of an intellectual property right suggests that the owner has “market power.” In our opinion such market power should never be presumed. In many cases of patented products, there are viable substitutes. An entity generally will not have market power if there is a substitute product reasonably available. Even if there is not a substitute product, the absence may be due to the size of the market, production efficiencies, or scale rather than to the existence of a patent or other intellectual property right. This all suggests that a traditional market power analysis rather than a presumption is the right approach for conducting an antitrust analysis to determine if there is “market power.”

The DOJ/FTC *IP Guidelines* specifically indicate that the “Agencies will not presume that a patent, copyright or trade secret necessarily confers market power on its owner.” IPO agrees and has testified before Congress as recently as November 2001 in support of legislation to provide that there should be no market power presumption based on intellectual property rights. We urge the Agencies to support any future legislation to accomplish this result.

### **Unilateral Refusal to Deal**

The core value of an intellectual property right is the statutory right to exclude others from exploiting the invention for a limited period of time. Given that this affirmative right is granted to the IP owner as long as the owner is not subject to contrary obligations and there are no separate anticompetitive activities, the right to refuse to license the intellectual property right

to others (either directly, or indirectly by selling a device or part that utilizes the intellectual property) is entirely consistent. If the innovation had to be shared with others on demand, it would eliminate the incentive to innovate. Usually the others are those that are unwilling to make the research and development investment to innovate themselves, or are unwilling to make investments necessary to produce and distribute the product.

At least one court has looked to the intent of the patent holder to determine if the refusal to deal was “pretextual.”<sup>14</sup> The Federal Circuit, on the other hand, has held that the intent of the intellectual property owner is irrelevant in making a decision to deal with another.<sup>15</sup> We agree. Since the intellectual property right provides the right to exclude others, the intellectual property owner’s intent is immaterial in the absence of other unlawful, anticompetitive activities outside the scope of the intellectual property right.

We strongly urge the Agencies to adopt the approach of the Federal Circuit in order to provide certainty in an area that is basic to all who own intellectual property. Companies expect a return on their investment when they invest in the development of new products and processes. Any suggestion in the law that they must share the benefits of these investments with others will decrease investment and retard the development of creative new products that have driven our economy. Any suggestion in the law that the motivation of an intellectual property owner in making licensing decisions is subject to antitrust redress will create the potential for litigation. We urge the Agencies to make clear in any future enforcement actions or guidelines, that unilateral refusals to deal, by themselves, are not considered an antitrust violation.

Some have suggested that the right to exclude should be limited to a single antitrust relevant market. The claims of an issued patent, however, define the invention, and the invention extends to all goods or services that are covered by the claims of the patent regardless

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<sup>14</sup> *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9<sup>th</sup> Cir. 1997)

<sup>15</sup> *Independent Service Organization Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000)

of the number of relevant markets that are covered. To interpret the law otherwise would ignore the longstanding laws of patentability, infringement and damages, arbitrarily limit the scope of a patent, and add untold uncertainty and expense. To adopt the suggestion, a costly antitrust market analysis would be required—first to determine the relevant market to which the patent applies and then to determine the other markets to which it does not apply. That would be unworkable.

## **CONCLUSION**

IPO believes that the intellectual property and antitrust laws are complementary and both act to stimulate innovation that leads to the enhanced welfare of society in general. Our current statutory scheme of limited exclusionary grants for patents has served us well and will continue to serve us well if we can assure that the USPTO has the resources to properly examine patent applications and grant only those patents that meet the statutory criteria. The economy will be best served if the owners of patents are free to use them within the scope of the grant to best serve their business needs, and owners have certainty about the scope of patents that will allow them to invest in research and development knowing what return they might expect if the research and development is successful.

We believe that there should be no market power presumption based on an intellectual property right. Settlements of intellectual property disputes should be reviewed under a rule of reason standard. The Agencies should continue to utilize the *DOJ/FTC Antitrust Guidelines for the Licensing of Intellectual Property* as guideposts for evaluating licensing arrangements of whatever form. We believe that all innovations should be evaluated against the same statutory criteria to determine if they are entitled to a patent. We further believe that the owners of intellectual property rights have the right to enforce their exclusionary grants without regard to their intent.

We appreciate the opportunity to submit our members' perspectives on the issues the Agencies are examining.



## APPENDIX

### Members of Board of Directors, Intellectual Property Owners Association\*

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