

**UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION**

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**DOCKET NO. 9305**

**PUBLIC VERSION**

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**IN THE MATTER OF  
UNION OIL COMPANY OF CALIFORNIA**

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**ANSWERING BRIEF OF  
UNION OIL COMPANY OF CALIFORNIA**

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## STATEMENT OF THE CASE

### I. SUMMARY

Judge Chappell's well-reasoned Initial Decision concluded that the Complaint's allegations regarding the petitioning conduct of the Union Oil Company of California ("Unocal") are barred by the *Noerr* doctrine. See *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961). It also concluded that certain aspects of the Complaint reached beyond the Commission's jurisdiction by requiring the Commission to decide substantial questions under patent law, including claim construction and infringement.

The Initial Decision applies well-established legal principles. The Complaint alleges that Unocal advocated specific regulatory policies to the California Air Resources Board ("CARB") in an informal rulemaking. Unocal lobbied in favor of performance-based rules, which set performance goals and give firms freedom to find the optimal way to satisfy them. The Complaint accuses Unocal of misleading CARB by arguing that performance-based rules would be cost-effective and flexible, and by designating research data as "nonproprietary" to induce CARB's adoption of a performance-based regulatory policy. It alleges harm resulting from governmental adoption of this policy, which the Complaint alleges would not have been adopted but for Unocal's conduct. This is classic *Noerr*-protected conduct. The Complaint's allegations fail the test laid out by the Supreme Court in *FTC v. Superior Court Trial Lawyers Ass'n*, 493 U.S. 411, 425 (1990) ("*SCTLA*"), which asks whether the challenged conduct "would have had precisely the same anticompetitive consequences during that period even if no legislation had been enacted." If the answer is "no," and the Complaint makes clear that the challenged conduct would have had no anticompetitive consequences had California not enacted its gasoline regulations, the conduct is *Noerr*-protected.

To avoid the outcome compelled by *Noerr*, Complaint Counsel rely heavily on legal tests that lack case law support and are, in fact, refuted by the very cases from which they are said to arise. Complaint Counsel's main argument is that a party that advocates an anticompetitive policy to government is not engaged in *Noerr*-protected petitioning unless government decisionmakers are aware of the policy's specific competitive consequences. This test not only lacks any foundation in the case law but is discredited by *Noerr* itself. Similarly, Complaint Counsel's claim that petitioning immunity must be based on the remedy being sought by the antitrust claimant is contradicted by the very case that supposedly gives rise to that principle, *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

Judge Chappell also correctly rejected Complaint Counsel's attempt to bring this case within a fraud exception to *Noerr* immunity that some courts have recognized in the adjudicative context. The Complaint alleges that CARB's rulemakings were quasi-adjudicative. Having seen that "allegation" (really, a legal conclusion) refuted by the uniform case law establishing the legislative character of rulemakings prescribing industry-wide legal requirements, Complaint Counsel now claim that the real issue is not whether CARB's rulemakings were quasi-adjudicative, but whether CARB engaged in political decisionmaking. This attempt to run away from the Complaint's allegations is unavailing. Rulemakings are part of the "political process." *Ass'n of Nat'l Advertisers v. FTC*, 627 F.2d 1151, 1174 (D.C. Cir. 1979). Indeed, the Supreme Court held in *Chevron USA, Inc., v. National Resources Defense Council, Inc.*, 467 U.S. 837, 865 (1984), that an agency conducting a rulemaking may "properly rely upon the incumbent administration's views of wise policy to inform its judgments." California's Supreme Court relied on *Chevron* to describe the broad discretion exercised by CARB in its rulemakings. *West-*

*ern States Petroleum Ass'n v. Superior Court*, 9 Cal. 4th 559, 572-73 (1995). This is a far cry from the adjudicative context in which some courts have recognized a narrow fraud exception.

The Initial Decision also correctly found that the Commission lacks jurisdiction to resolve the substantial issues of patent law raised by the Complaint. Complaint Counsel's brief does not dispute that the Complaint requires a determination of substantial patent questions. To promote uniformity, Congress has directed that matters in which the right to relief turns on substantial patent questions should be heard by courts and agencies which have expressly been given such authority. The Commission has neither express nor implied authority to decide patent matters within its own agency.

At the motion to dismiss stage, Unocal is constrained to accept the Complaint's allegations as true, except where the allegations are contradicted by officially noticeable documents. It therefore must accept for purposes of this motion many of the Complaint's allegations of misconduct. But lest the invective of Complaint Counsel and its amici be credited, it is important to note, as this brief will show, that those allegations susceptible to verification by officially noticeable rulemaking documents are, instead, contradicted by them. Indeed, CARB's Final Statement of Reasons for Rulemaking ("Final Statement") reveals a fact that is devastating to Complaint Counsel's attempts to paint Unocal as a wrongdoer.<sup>1</sup> It discloses that Unocal urged CARB not to adopt the Phase 2 regulations that allegedly conferred market power on Unocal. Appendix 1 at 47. Had CARB accepted Unocal's position, there would have been no govern-

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<sup>1</sup> The Final Statement, as an official government document the issuance of which is mandated by law, is officially noticeable in considering a motion to dismiss. *Menominee Indian Tribe v. Thompson*, 161 F.3d 449, 456 (7th Cir. 1998). Complaint Counsel acknowledge as much.



mental enactment of regulations that allegedly overlap Unocal's patents. This fact cannot be reconciled with Complaint Counsel's repeated accusations that Unocal conducted a fraudulent campaign to deceive CARB into adopting regulations coincident with Unocal's patents.

## **II. STATEMENT OF THE FACTS**

The Complaint alleges that Unocal made misrepresentations while advocating regulatory policies to CARB. Unocal allegedly made these misrepresentations in connection with rulemakings in which CARB promulgated Phase 2 reformulated gasoline ("RFG") regulations (Compl. ¶ 2) dictating the composition of gasoline sold in California. *Id.* ¶ 44.

### **A. The Complaint's Allegations Regarding the CARB Rulemakings.**

#### **1. The Conduct Alleged By the Complaint.**

The Complaint alleges that Unocal misled CARB by representing that Unocal research showing directional relationships between automobile emissions and certain gasoline properties was "nonproprietary." *Id.* ¶ 2(a). The Complaint emphasizes one aspect of the research – the relationship between "the midpoint distillation temperature of gasoline or 'T50'" and emissions. *Id.* It alleges that Unocal's representation was misleading because Unocal had applied for a patent on gasoline compositions, which resulted in the issuance of patents after CARB's promulgation of Phase 2 regulations. *Id.* ¶ 15. Unocal subsequently exercised its statutory rights as a patentee by seeking license fees for the use of its patented technologies. *Id.* ¶ 6.

The Complaint quotes Unocal's alleged misrepresentation and shows that Unocal represented to CARB that it considered only its "*data* to be non-proprietary and available to CARB" and others upon request. *Id.* ¶ 41 (emphasis added). The Complaint does not allege that Unocal has asserted proprietary rights over its data or that the representation was literally false.

The Complaint also alleges that Unocal misled CARB by arguing that regulations based on a predictive model, which permit the sale of fuels that are mathematically predicted to achieve emissions targets, would be cost-effective and flexible. It alleges that Unocal told CARB it would consider making equations and data resulting from its research public “[i]f CARB pursues a meaningful dialogue on a predictive model approach to Phase 2 gasoline.” *Id.* ¶ 39. Unocal designated certain data as “nonproprietary” in response to “CARB’s agreement to develop a predictive model.” *Id.* ¶¶ 40, 41. This designation allegedly caused CARB to promulgate regulations that overlapped with Unocal’s then-unissued patents. The Complaint alleges that Unocal’s advocacy of a regulatory policy that it represented to be cost-effective and flexible was misleading. *Id.* ¶¶ 2(b), 2(c).

## **2. CARB’s Alleged Reliance on Unocal’s Data and Representations.**

The Complaint alleges that “CARB relies on the accuracy of the data and information presented to it in the course of rulemaking proceedings” (Compl. ¶ 17), but cites no rule or communication that gave notice of such reliance. It further alleges that “CARB did not conduct any independent studies of its own, but relied on industry to provide the needed research and resulting knowledge” for its rulemakings. *Id.* ¶ 25. CARB’s officially noticeable Final Statement discloses, however, that “the ARB staff has conducted its own emissions test programs” and that the results of its tests were “consistent with the results of test programs conducted by others.” App. 1 at 19. The staff’s analysis led CARB to reject Unocal research results relating to the emissions impact of aromatic content and MTBE. *Id.* at 65, 66; *see also id.* at 35 (oxygenates).

The Complaint alleges that Unocal wanted CARB to regulate T50 because Unocal’s pending patent application contained claims with a T50 limitation. Compl. ¶ 37. It alleges that in reliance on “Unocal’s representation that the information was no longer proprietary,” CARB

“used Unocal’s equations in setting a T50 specification.” Compl. ¶ 43. CARB’s 229-page Final Statement, however, makes no reference to any reliance on the alleged nonproprietary nature of Unocal’s inventions. The Final Statement discloses that Unocal opposed regulating T50 (App. 1 at 41) and, more broadly, urged CARB not to adopt any new regulations. *Id.* at 47.

The Complaint alleges anticompetitive harm flowing from governmental adoption of regulations. It alleges that “[b]ut for Unocal’s fraud, CARB would not have adopted RFG regulations” that overlapped with its patents and/or the terms on which Unocal enforced its patents would have been different. Compl. ¶ 80. It avers that CARB would have changed its course of conduct because disclosure of Unocal’s patent application “would have impacted CARB’s analysis of the cost-effectiveness of the Phase 2 RFG regulations.” *Id.* ¶ 79.

CARB’s Final Statement shows that CARB estimated cost-effectiveness based on data from “only six refineries,” (App. 1 at 76), which did not include Unocal. After making its estimate, CARB expressed willingness to accept significantly higher costs, and concomitantly lower cost-effectiveness, for its regulations. In response to Unocal’s comment that the regulations may cost 25% more than CARB’s estimate, CARB said that “the Phase 2 RFG cost effectiveness would still be comparable to recently adopted regulations” with such an increase. *Id.* at 178. In response to a comment that the regulations’ cost-effectiveness could be 30% lower than CARB’s estimate, CARB said that the regulations “would still be comparable in cost-effectiveness to other recently adopted measures.” *Id.* at 119.<sup>2</sup>

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<sup>2</sup> CARB declined to evaluate the cost-effectiveness of individual regulatory parameters such as T50. CARB stated that “an incremental (limit-by-limit) analysis is not appropriate.” App. 1 at 98; *see also id.* at 99 (“it is not ARB policy to perform incremental cost analyses”).

### **3. CARB's Recognition of the Competitive Impact of Its Regulations.**

CARB's Final Statement recognized that its Phase 2 regulations would have a significant competitive impact. It recognized that "some refiners may reduce or stop production of gasoline due at least partially to Phase 2 RFG requirements." *Id.* at 111. CARB's staff recognized that production curtailment would "prompt[] a price increase." Technical Support Document at 155 (filed with Complaint Counsel Brief). CARB's Final Statement also recognized that the regulations would likely restrict gasoline imports into California. App. 1 at 21. The agency recognized that its regulations would impose cost increases that "will vary from refiner to refiner" (*id.* at 77) and would give some refiners, such as ARCO, a competitive advantage. *Id.*

#### **B. The Complaint's Allegations Regarding Industry Organizations.**

The Complaint alleges that Unocal misled two industry groups that participated actively in CARB's Phase 2 rulemaking. It alleges that Unocal "participat[ed] in industry groups that also were providing input into the CARB regulations" (Compl. ¶ 35) as part of its scheme to persuade CARB to adopt regulations that would give it an advantage. The Complaint alleges that disclosure of Unocal's patent application to the two groups would have caused their members to petition CARB for regulations that minimized infringement of Unocal's patents, petition CARB to negotiate favorable license terms with Unocal, or incorporate knowledge of the patents in business decisions. *Id.* ¶ 90.

#### **C. Unocal's Enforcement of Its Patents.**

In 1994, the Patent and Trademark Office issued to Unocal U.S. Patent No. 5,288,393, which covers certain gasoline compositions. *Id.* ¶ 15. Several refiners subsequently alleged in private litigation that "Unocal had lulled CARB and the defendants into believing that Unocal did not intend to enforce its patent rights" under the patent. *Union Oil Co. of Calif. v. Chevron*

*U.S.A., Inc.*, 34 F. Supp. 2d 1222, 1224 (C.D. Cal. 1998). The refiners subsequently abandoned that theory, on which the current Complaint is also based. The district court sanctioned the refiners, including both predecessors of Complaint Counsel’s amicus ExxonMobil, for “vexatious conduct” based on the “manner and method by which [they] asserted, litigated and ultimately abandoned these claims.” *Id.* at 1224-25. The court explained that it had intended to grant summary judgment to Unocal on the estoppel claims but denied the motion based on the refiners’ representation that they had evidence of “detrimental reliance on Unocal’s conduct.” *Id.* at 1224. At trial, however, the refiners abandoned the same reliance claim that the Complaint in the present case makes in favor of “a new ‘derivation’ argument, the gist of which was that Unocal had copied the invention from CARB.” *Id.*

Unocal prevailed in its claims for a defined infringement period. *Union Oil Co. of Calif. v. Atlantic Richfield Co.*, 34 F. Supp. 2d 1208 (C.D. Cal. 1998), *aff’d*, 208 F.3d 989 (Fed. Cir. 2000). The district court rejected the refiners’ claim that Unocal acted inequitably before the PTO and determined that there was “ample evidence of good faith in contrast to the lack of evidence of intentional deception.” *Id.* at 1222. The Federal Circuit endorsed this determination. 208 F.3d at 1002.

## **QUESTIONS PRESENTED**

1. Whether the antitrust immunity for petitioning government precludes antitrust liability for misrepresentations allegedly made in the course of advocating regulatory policy in a quasi-legislative rulemaking where the alleged competitive harm would not have occurred but for governmental adoption of regulations?
2. Whether the Commission has jurisdiction to decide a matter in which the right to relief necessarily depends upon the resolution of substantial questions of patent law?

## ARGUMENT

### A. ***Noerr* Immunizes Government Petitioning from Antitrust Liability Regardless of Petitioners' Motives or the Effects of the Proposed Governmental Action.**

The Complaint seeks to deprive Unocal of property rights because it exercised the right to petition government by advocating a regulatory policy based on performance rules, which give firms freedom to find the optimal way to meet regulatory objectives. The Complaint is barred by the *Noerr* doctrine, which immunizes such petitioning from antitrust liability. *Noerr* bars application of antitrust laws to petitioning conduct that is genuinely aimed at influencing public officials. As the Supreme Court explained, “[i]n a representative democracy . . . the whole concept of representation depends upon the ability of the people to make their wishes known to their representatives.” *Noerr*, 365 U.S. at 137. Further, because it is lawful for government to displace competition with regulation, it is equally lawful to urge government to take action that would have this effect. *City of Columbia v. Omni Outdoor Adver., Inc.*, 499 U.S. 365, 379 (1991).

*Noerr* involved a deceptive campaign to persuade legislatures to impose regulatory burdens on truckers. Railroad companies organized the campaign for the purpose of restraining competition from truckers. They successfully concealed their anticompetitive aims, and even involvement, by having the campaign carried out by seemingly disinterested civic groups that couched their advocacy in terms of the public interest. The Court held that neither the railroads’ deceptive means nor their anticompetitive intent affected their immunity from antitrust liability. It held that the Sherman Act “condemns trade restraints, not political activity” and that “a publicity campaign to influence governmental action falls clearly into the category of political activity. The proscriptions of the Act, tailored as they are for the business world, are not at all appropriate for application in the political arena.” *Noerr*, 365 U.S. at 140-41. The Court sub-

sequently expanded the immunity to reach petitioning activities aimed at the executive and judicial branches. *United Mine Workers of America v. Pennington*, 381 U.S. 657 (1965); *California Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508 (1972).

The *Noerr* doctrine immunizes anticompetitive attempts to influence government as long as the anticompetitive outcome results from governmental action. “‘Where a restraint upon trade or monopolization is the result of valid governmental action, as opposed to private action,’ those urging the governmental action enjoy absolute immunity from antitrust liability for the anticompetitive restraint.” *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 499 (1988) (quoting *Noerr*, 365 U.S. at 136). The antitrust immunity applies *unless* a private actor uses the governmental process itself – “as opposed to the *outcome* of th[e] process – as an anticompetitive weapon.” *Omni*, 499 U.S. at 380 (emphasis in original). Even misrepresentations are “condoned in the political arena.” *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 61 n.6 (1993) (“*PRE*”).

**B. The Conduct Alleged in the Complaint Is *Noerr*-Protected Petitioning.**

The Complaint alleges anticompetitive harms that are the outcome of Unocal’s petitioning, making clear that none of the harms would have occurred had CARB not acted. It avers that Unocal “*caused CARB to adopt Phase 2 RFG regulations* that substantially overlapped with Unocal’s concealed patent claims.” Compl. ¶ 45 (emphasis added). It further asserts that Unocal obtained market power through “conduct that *caused CARB to enact regulations* that overlapped almost entirely with Unocal’s pending patent rights.” *Id.* ¶ 76 (emphasis added).

This is a paradigmatic case for *Noerr* immunity. Complaint Counsel’s claim that Unocal did not engage in petitioning because “*Noerr* is inapplicable to cases in which the government is unaware that it is being asked to adopt or participate in a restraint of trade” (App. Br. 8) is un-



founded. *Noerr* itself was a case where the government was unaware that it was being asked to adopt or participate in a restraint of trade.

**1. The Complaint Depicts Classic Petitioning Conduct.**

The Complaint accuses Unocal of misleading CARB by representing that regulations based on a predictive model would be cost-effective and flexible. Compl. ¶¶ 2(b), 2(c), 48, 77, 78(a), 78(c), 79. Unocal allegedly misrepresented that its research results were “nonproprietary” (*id.* ¶ 2(a)) to persuade CARB “that ‘cost-effective’ regulations could be achieved through adoption of a ‘predictive model’ and convince CARB of the importance of T50” (*id.* ¶ 37). These alleged misrepresentations cannot be separated from policy advocacy; they are one and the same.<sup>3</sup>

The Complaint alleges that Unocal’s misrepresentation of its intent to assert proprietary rights was part and parcel of – indeed made in the same breath as – advocacy of a regulatory policy. Unocal, the Complaint alleges, agreed to consider making equations and data public “[i]f CARB pursues a meaningful dialogue on a predictive model approach” (Compl. ¶ 39) and made its data public in response to CARB’s agreement to consider this regulatory approach. *Id.* ¶¶ 40, 41. Unocal allegedly represented that this regulatory approach would be cost-effective and flexible. *Id.* ¶¶ 2(b), 2(c), 37, 48, 78(a), 78(c). Advocating a regulatory policy is the essence of *Noerr*-protected petitioning. The Commission has stated that “[s]o long as a private party’s actions are ‘genuinely aimed at procuring favorable government action,’ they come within the

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<sup>3</sup> Unocal’s advocacy against CARB’s adoption of any regulations (App. 1 at 47) is, of course, wholly inconsistent with Complaint Counsel’s claim that Unocal intended to induce CARB to adopt regulations that overlapped with Unocal’s allegedly concealed patent claims.

rationale of *Noerr*, even if the party employs ‘improper means’ to that end.” Appendix 2 at 11 (quoting *Omni*, 499 U.S. at 380). Under the test recently set out by the Commission, a submission that “attempt[s] to persuade” government decisionmakers with discretionary authority constitutes petitioning. Appendix 3 at 6, 11.

Unocal’s advocacy of cost-effective and flexible performance rules are classic policy statements that are implicated in most regulatory debates. Assertions that “environmental regulation imposes either high or low economic costs” are, as Professor Elhauge notes, “political statements.” Einer Elhauge, *Making Sense of Antitrust Petitioning Immunity*, 80 Cal. L. Rev. 1177, 1224 (1992). In this case, moreover, Unocal’s advocacy of performance rules mirrored the political judgment expressed by California’s legislature in preexisting state law.<sup>4</sup> There could be no clearer evidence that Unocal’s advocacy was political.

**2. *Noerr* Immunity Does Not Depend on Government Awareness of the Anti-competitive Consequences of Its Actions.**

*i. The Case Law Directly Refutes Complaint Counsel’s “Awareness” Test.*

Complaint Counsel’s argument that *Noerr* is inapplicable where government is unaware it is being asked to adopt a restraint of trade is refuted by *Noerr* itself. *Noerr* involved a sophisticated and well-concealed campaign by railroads to foster the adoption of laws that disadvantaged truckers. The railroads allegedly employed a “third-party technique” through which the advocacy “was made to appear as spontaneously expressed views of independent

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<sup>4</sup> California’s Administrative Procedure Act expressed “the intent of the Legislature that agencies shall actively seek to reduce the unnecessary regulatory burden on private individuals and entities by substituting performance standards for prescriptive standards wherever performance standards can be reasonably expected to be as effective and less burdensome.” Cal. Gov’t Code § 11340.1.

persons and civic groups.” *Noerr*, 365 U.S. at 130. Although the railroads allegedly sought to destroy competition, the front organizations acted under the guise of the public interest. They expressed concerns about “the enormous damage done to the roads” by trucks, the “violations of the law limiting the weight and speed of big trucks,” the truckers’ “failure to pay their fair share” of road construction and maintenance costs, and “the driving hazards” created by trucks. *Id.* at 131.

Three legislatures at which the petitioning was directed were not aware that they were considering anything other than public works and road safety issues. The lobbying was “fraudulent in that it was predicated upon the deceiving of those authorities through the use of the third-party technique.” *Id.* at 133.<sup>5</sup> The legislatures’ lack of awareness of the competitive consequences of their actions was irrelevant to the Supreme Court: Although the railroads “deliberately deceived the public and public officials[,]” their “deception, reprehensible as it is, can be of no consequence as far as the Sherman Act is concerned.” 365 U.S. at 145.

*Noerr* is not alone in conferring immunity where government had no basis to believe that the petitioner was seeking a monopoly. *Boone v. Redevelopment Agency of City of San Jose*, 841

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<sup>5</sup> The district court’s opinion makes clear that the railroads successfully concealed from public officials “the fact that the entire campaign was a creature of the railroads, and for the purpose of hindering and destroying the railroads [sic] in the long-haul transportation industry.” *Noerr Motor Freight, Inc. v. Eastern R.R. Pres. Conf.*, 155 F. Supp. 768, 810 (E.D. Pa. 1957). The railroads succeeded in “duping and using of public officials and officials of independent organizations to accomplish the same purpose of driving the plaintiffs out of competition with the defendants.” *Id.* at 816. This “duping” led to legislation raising truckers’ costs in New Jersey, New York, and Ohio. “Not one word of the railroads’ part in the picture ever seeped through” in New Jersey. *Id.* at 780. In New York, third parties carried out a campaign “without any attribution of responsibility to the railroads.” *Id.* at 783. In Ohio, the railroads performed “a magnificent job . . . in keeping any information as to the true position of the railroads in this campaign from the general public.” *Id.* at 785.

F.2d 886 (9th Cir. 1988), held that a developer who had allegedly misrepresented “the availability of parking” in San Jose, *id.* at 894, was immune from antitrust claims arising from the relocation of a planned municipal garage. The plaintiff claimed that the defendant had sought to relocate the garage to force the plaintiff to sell an office building to the defendant, which “would allegedly have given [the defendant] a monopoly on office space [in downtown San Jose].” *Id.* at 889. There is no indication that government decisionmakers understood they were deciding anything other than the need for a garage. The harm *in the office market* could not have been foreseen by officials evaluating the *adequacy of parking*.<sup>6</sup>

*Sessions Tank Liners, Inc. v. Joor Mfr’g, Inc.*, 17 F.3d 295 (9th Cir. 1993), also rebuts the “awareness” test. There, a storage tank manufacturer “knowingly made false statements,” *id.* at 298, regarding the safety of a technology for relining tanks, which led to the adoption of a model safety code amendment that effectively banned relining, *id.* at 297. Local governments began to deny the plaintiff’s permits based on the proposed amendment to the model code. The court held the conduct immune because the plaintiff’s alleged injuries resulted from governmental action. The court cited no evidence that any local government thought that it was doing anything but regulating safety by following the guidance of impartial experts. Rather than expressing a need for government decisionmakers to understand the competitive consequences of their actions, the court cautioned against “deconstructing the decision-making process to ascertain what factors

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<sup>6</sup> The alleged causal link between the relocation of the garage and the monopoly involved (a) a misrepresentation regarding parking availability, (b) leading public officials to conclude that a new garage was not needed at its planned location, (c) leading them to relocate the garage, (d) intending to force the plaintiff to sell its building, (e) resulting in the defendant’s monopoly in office space.

prompted the various governmental bodies to erect the anticompetitive barriers at issue.” *Id.* at 300.

*Westmac, Inc. v. Smith*, 797 F.2d 313 (8th Cir. 1986), likewise discredits the “awareness” test. The plaintiff alleged that the defendants had conspired to deny it government financing of a grain elevator “for the express purpose of forcing plaintiff to join an anticompetitive price maintenance conspiracy.” *Id.* at 314. The defendants did not frame their opposition to the financing before a development agency and a court in terms of the need for the plaintiff to join a conspiracy. The court upheld the immunity without hinting that the awareness of those petitioned by the defendants could matter.<sup>7</sup>

Complaint Counsel misstate *SCTLA* in claiming that it supports the “awareness” test. There the Court distinguished *Noerr* by observing that the restraint in *Noerr* was “the intended *consequence* of public action” whereas the trial lawyers’ petitioning was the means by which they implemented the restraint of trade. *SCTLA*, 493 U.S. at 425 (emphasis in original). This language appears in a passage about the *defendants’ purpose* and plainly refers to the intent of the petitioners, not the petitioned. It is consistent in this regard with the Court’s observation that

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<sup>7</sup> Complaint Counsel’s position would characterize virtually any competitively-motivated lawsuit, regardless of its basis, as non-petitioning conduct. Plaintiffs do not typically ask courts to restrain trade; they ask courts to enforce legal rights. In *Razorback Ready Mix Concrete Co. v. Weaver*, 761 F.2d 484 (8th Cir. 1985), the defendants’ state court challenge to the issuance of a bond to aid the plaintiff’s business was held immune even though there was no evidence that the defendants had informed the state court of their alleged conspiracy to drive the plaintiff out of business. In *Omni Resource Dev. Corp. v. Conoco, Inc.*, 739 F.2d 1412 (9th Cir. 1984), a lawsuit to deny the plaintiff the right to mine federal lands was held *Noerr*-protected in spite of allegations that the defendants had submitted fraudulent affidavits in state court. Justice Kennedy’s opinion contains no suggestion that the antitrust defendants had told the state court of the anticompetitive design that the plaintiff attributed to their lawsuit.

seeking to benefit from “the *outcome* of the [governmental] process [to harm competition]” defines the essence of *Noerr*-protected petitioning. *Omni*, 499 U.S. at 380 (emphasis in original); *PRE*, 508 U.S. at 61.

Complaint Counsel suggest elsewhere that valid petitioning depends on “awareness” by other private petitioners as well as governmental actors. App. Br. 31. *Omni* completely rebuts this claim. The claim in *Omni* arose from an allegedly “secret anticompetitive agreement” between defendant and government officials. Because of the surreptitious nature of the misconduct, no rival was able to counter it through its own petitioning, but this was of no consequence. According to the Supreme Court, “[a]ny lobbyist or applicant, in addition to getting himself heard, seeks by procedural and other means to get his opponent ignored.” *Omni*, 499 U.S. at 382. In *Armstrong Surgical Center, Inc. v. Armstrong County Mem’l Hosp.*, 185 F.3d 154 (3d Cir. 1999), the court relied on *Omni* to confer *Noerr* immunity on a defendant that had allegedly misrepresented its intent to construct an ambulatory care center, a fact that was uniquely within its control. The Commission supported that decision before the Supreme Court. *See* App. 2.

**ii. The “Awareness” Test Strikes at the Foundations of the *Noerr* Doctrine.**

The Supreme Court observed in *Noerr* that “[i]t is neither unusual nor illegal for people to seek action on laws in the hope that they may bring about an advantage to themselves and a disadvantage to their competitors.” 365 U.S. at 139. “Indeed, it is quite probably people with just such a hope of personal advantage who provide much of the information upon which governments must act.” *Id.* It would be extremely naive to suppose that advocates of policies that “bring about an advantage to themselves and a disadvantage to their competitors” frame their advocacy in terms of the competitive consequences of policies they seek. Those who

petition government typically seek to align their private interests with the public interest and ground their advocacy in public interest considerations.

Recognizing that the railroads concealed both their anticompetitive objectives and participation in the petitioning, *Noerr* held that it is lawful to “attempt to persuade the legislature or the executive to take particular action *with respect to* a law that would produce a restraint or a monopoly.” *Id.* at 136 (emphasis added). *Noerr* did not say, as Complaint Counsel recast it, merely that it is lawful to ask government expressly to confer a monopoly. *See* App. Br. 17. To require petitioners to state their ultimate objectives would impose a duty of disclosure of competitive motives on persons lobbying governmental institutions. No case has suggested that the antitrust laws mandate such speech or that the Constitution would tolerate such a mandate.

*Noerr* jurisprudence recognizes the need to protect a critical channel of communications from which government decisionmakers derive information that may guide their decisions. Even conduct that merits no First Amendment protection, such as the alleged conspiracy in *Omni*, is therefore shielded from antitrust penalties. This does not mean that improper activity must go unpunished. I Phillip E. Areeda & Herbert Hovenkamp, ANTITRUST LAW ¶203b at 165 (2d. ed. 2000) (“ANTITRUST LAW”) (“it hardly follows from denial of an antitrust remedy for improper political activity that no remedy of any kind remains”); *see Omni*, 499 U.S. at 382. But requiring those who petition government to disclose their competitive motivations would burden legitimate speech as much as, or more than, it would reach misconduct. Indeed, Complaint Counsel’s “awareness” test does not even require misconduct to deprive petitioning of *Noerr* protection. *See* App. Br. 16 (claiming that *Noerr* “is implicated” only where parties specifically request anticompetitive governmental action).

Complaint Counsel’s approach would undermine another foundation of *Noerr* immunity by requiring deconstruction of government decisionmaking. The Supreme Court “has consistently sought to avoid” the “deconstruction of the governmental process and probing of the official ‘intent’” to determine the basis for governmental action. *Omni*, 499 U.S. at 377. Accordingly, the Court has rejected “any interpretation of the Sherman Act that would allow plaintiffs to look behind the actions of state sovereigns.” *Id.* at 379; *see Armstrong Surgical*, 185 F.3d at 161; *Sessions Tank Liners*, 17 F.3d at 300.<sup>8</sup> *Noerr* immunity cannot depend on government awareness of the specific anticompetitive consequences of its actions. As the leading antitrust treatise explains:

[W]hatever the petitioner’s objective in seeking legislation that harms or excludes a rival, the resulting enactment declares the public interest as perceived by the legislature. To be sure, *the legislature may be mistaken or unaware of the consequences of its actions*, or it may be responding to political pressures not truly reflecting “the public interest,” but the antitrust court may not reappraise the legislature’s assessment of the public welfare.

ANTITRUST LAW, ¶202b at 258 (emphasis added).<sup>9</sup>

Complaint Counsel’s position necessarily compels probing decisionmakers’ minds for subjective explanations of governmental decisions. To avoid the deconstruction of CARB’s de-

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<sup>8</sup> Complaint Counsel concede that such deconstruction is impermissible in antitrust cases. App. Br. 15.

<sup>9</sup> Complaint Counsel quote Areeda and Hovenkamp to the effect that *Noerr* immunity requires that government “actually know about the restraint being imposed.” App. Br. 19 (*quoting* ANTITRUST LAW, ¶209a at 260). The passage in question, however, addresses *commercial dealings* with government and counsels “looking at the nature of the *transaction* between the government and the private firm, and the nature of the private firm’s request.” ANTITRUST LAW, ¶209a at 260 (emphasis added). Outside this narrow transactional context, Areeda and Hovenkamp squarely reject any notion that government awareness affects *Noerr* immunity, as the passage quoted in the text shows.



cisions, CARB’s official rulemaking documents would have to show a clear causal link between Unocal’s alleged misconduct and the alleged competitive harm. But there is no mention of CARB’s reliance on the absence of patent rights in CARB’s official rulemaking documents. Further, the only “awareness” on regulatory cost-effectiveness that official CARB pronouncements reveal is that CARB believed its regulations would be cost-effective even if they were to be 30% less cost-effective (App. 1 at 119) or to cost 25% more. *Id.* at 178. Complaint Counsel claim that “no onerous deconstruction of the governmental process is required in this case” (App. Br. 15), but their own witness list belies that claim. Complaint Counsel have identified six former CARB officials as witnesses who will testify about CARB’s regulatory decisionmaking process.<sup>10</sup>

Complaint Counsel’s subjective “awareness” test would have an enormous chilling effect on valid petitioning activity. Without knowledge of government decisionmakers’ states of mind, advocates of governmental action would be forced to predict and disclose all potential consequences of each policy position that they advocate. In this context, governmental compulsion of speech would violate fundamental First Amendment principles. *See Video Int’l Prod. Inc. v. Warner-Amex Cable Communications, Inc.*, 858 F.2d 1075, 1083 (5th Cir. 1988) (basing liability

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<sup>10</sup> ExxonMobil argues that “where governmental action is accompanied by a formal statement of reasons, setting forth the legal basis for the action taken, the effect of a misrepresentation can often be determined without an inquiry into the subjective impressions of decision makers.” ExxonMobil Br. 25-26. This would mean that the lack of any mention of reliance on the absence of patent rights in CARB’s Final Statement should be determinative.

ExxonMobil also argues that Unocal “controlled” the outcome of CARB’s rulemaking by making misrepresentations (ExxonMobil Br. 21), but that argument invents “control” out of thin air. Moreover, ExxonMobil cites no support for the premise that a misrepresentation somehow converts a governmental action into a private decision.

on government's state of mind would inhibit petitioning). As the Court stated in *McIntyre v. Ohio Elections Comm'n*, 514 U.S. 334, 348 (1995), even the "interest in providing voters with additional relevant information does not justify a state requirement that the writer make statements or disclosures she would otherwise omit." Indeed, even the dissent in *McIntyre*, which argued for narrower First Amendment protection than the majority, agreed that "it is not usual for a speaker to put forward the best arguments against himself, and it is a great imposition upon free speech to make him do so." *Id.* at 383 (Scalia, J., dissenting); *see also Wooley v. Maynard*, 430 U.S. 705, 714-15 (1977); *Miami Herald Publ'g Co. v. Tornillo*, 418 U.S. 241, 256-58 (1974).

**iii. The State Action Doctrine's "Clear Articulation" Prong Is Not Relevant to Noerr and Is Satisfied in Any Event.**

Complaint Counsel's "awareness" test represents an implicit importation into *Noerr* of the state action doctrine's "clear articulation" prong. ExxonMobil expressly argues for such an approach. No court has hinted that state action analysis has any place in *Noerr* jurisprudence, and for good reason. State action analysis is addressed to immunizing private marketplace conduct that causes competitive harm. There is no public interest in immunizing such private conduct unless the state clearly articulates its intent to displace competition with regulation. *Noerr*, by contrast, immunizes *petitioning* conduct. There is a strong public interest in protecting communications to government that "provide much of the information upon which governments must act." *Noerr*, 365 U.S. at 139. Given the important differences between the state action and *Noerr* immunities, conduct that does not merit state action immunity may nevertheless be *Noerr*-protected. *A.D. Bedell Wholesale Co., Inc. v. Philip Morris Inc.*, 263 F.3d 239, 255 n.34 (3d Cir. 2001). Moreover, *Noerr* immunizes advocacy of government action that itself would be unlawful. ANTITRUST LAW, ¶206a at 242-43.

Yet even importation of the “clear articulation” standard would not save the Complaint, as it requires only that suppression of competition be a “foreseeable result” of government action. *Hallie v. Eau Claire*, 471 U.S. 34, 42 (1985); *Omni*, 499 U.S. at 373. “As long as the State as sovereign clearly intends to displace competition in a particular field with a regulatory structure,” the test is satisfied. *Southern Motor Carriers Rate Conference v. United States*, 471 U.S. 48, 63 (1985). The Supreme Court had no trouble concluding in *Omni* that zoning regulations are necessarily intended to displace competition because “[t]he very purpose of zoning regulation is to displace unfettered business freedom in a manner that regularly has the effect of preventing normal acts of competition.” 499 U.S. at 373. The Court emphasized that a restriction of billboards “assuredly *is*” a “restriction on the ‘output’ of the local billboard industry[.]” *Id.* at 373 n.4 (emphasis in original).

The same is true of the Phase 2 regulations, which barred market access to gasoline that failed to satisfy regulatory requirements. Their very purpose was to “displace unfettered business freedom” and “prevent[] normal acts of competition.” *Omni*, 499 U.S. at 373. To paraphrase *Omni*, CARB’s regulations assuredly placed a restriction on the refining industry’s output.<sup>11</sup>

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<sup>11</sup> Complaint Counsel’s claim that *Noerr* extends only where “the stated purpose of the government is to restrain trade” (App. Br. 16) goes far beyond the requirements of even the state action doctrine. As the Supreme Court held in *Hallie*, “[i]t is not necessary . . . for the state legislature to have stated explicitly that it expected the City to engage in conduct that would have anticompetitive effects.” 471 U.S. at 42; *see also Omni*, 499 U.S. at 372 (“reject[ing] the contention that this [clear articulation] requirement can be met only if the delegating statute explicitly permits the displacement of competition”). Further, “[r]equiring express authorization for every action” that may be necessary “to effectuate state policy would diminish, if not destroy,” the usefulness of agencies. *Southern Motor Carriers*, 471 U.S. at 64.

[Footnote continued on next page]

CARB's Final Statement demonstrates CARB's understanding that the regulations would restrict output. CARB understood that the regulations could force refiners to exit the market. App. 1 at 111 ("some refiners may reduce or stop production of gasoline due at least partially to Phase 2 RFG requirements"). It understood that its regulations were likely to restrict gasoline imports into California. *Id.* at 21. CARB further recognized that the regulations would impose cost increases that "will vary from refiner to refiner," *id.* at 77, and would lead to higher gasoline prices, *id.* at 107. CARB also understood that the regulations would give ARCO a competitive advantage. App. 1 at 77, 172. Moreover, California law established that CARB's prescriptive Phase 2 rules may "discourage[] innovation, research, and development of improved means of achieving desirable social goals." Cal. Gov't Code § 11340(d).

Complaint Counsel concede at one point that "conduct that misleads government about the consequences or extent of a trade restraint may be protected by *Noerr*." App. Br. 20. Application of this test would confer *Noerr* immunity to the challenged conduct in light of CARB's clear awareness that its regulations would restrain competition.

**C. Unocal's Alleged Misrepresentations to CARB Are *Noerr*-Protected.**

Complaint Counsel seek to turn *Noerr* immunity on its head. They argue that "where there is some indication that the governmental decision depends and is predicated on the truthful and accurate submission of facts – *regardless of the branch of government* – bad faith misrepresentation of such facts vitiates *Noerr* immunity." App. Br. 30 (emphasis altered). Complaint

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The stated purpose of the legislatures that regulated trucks in *Noerr* was to maintain safety and finance road construction, not to harm competition.

Counsel cite no support for this attempt to overturn settled Supreme Court jurisprudence. The Court has made it clear that even misrepresentations are “condoned in the political arena.” *PRE*, 508 U.S. at 61 n.6. The only question left open by the Court is “whether and, if so, to what extent *Noerr* permits the imposition of antitrust liability for a litigant’s fraud or other misrepresentations.” *Id.* As the Court’s most recent statement on the issue, *PRE* limits any possible misrepresentation exception to a narrow adjudicative context. The case law reflects this reality. As the Commission recently argued, “no court of appeals has considered or affirmed an actual judgment awarding damages against a private defendant for competitive injuries inflicted most directly by state action, where that action was allegedly procured by the defendant’s fraud.” App. 2 at 15.

Complaint Counsel rest their argument on an alleged lack of substantive and procedural discretion enjoyed by CARB in the Phase 2 RFG rulemaking. According to Complaint Counsel, CARB’s adherence to California’s Administrative Procedure Act and promulgation of rules pursuant to a legislative mandate render its rulemakings “non-political” for *Noerr* purposes. This claim represents a conscious attempt to run away from the Complaint’s allegation that CARB’s rulemaking was “quasi-adjudicative.” Compl. ¶¶ 26, 96. But the change of nomenclature does not aid Complaint Counsel’s case. Both California and federal courts recognize that rulemaking is the equivalent of substantive lawmaking, a political function. CARB’s balancing of statutory mandates to maximize emission reductions and maintain cost-effectiveness was a legislative exercise. That CARB followed APA procedures and did not enjoy unfettered discretion in no way detracts from the political nature of the process. Courts have routinely held agencies to be exercising legislative power when employing far more stringent procedures and implementing more detailed statutory mandates.

**1. If Any “Fraud Exception” to Petitioning Immunity Exists at All, Its Scope is Narrowly Confined to Adjudicative Proceedings.**

According to Complaint Counsel, Unocal’s alleged misrepresentations in rulemaking proceedings eviscerate the antitrust immunity for petitioning. The sweeping exception envisioned by Complaint Counsel is foreign to the Supreme Court’s articulation of the governing law. *Noerr* itself established that the immunity covers petitioning conduct without regard to its ethics. It said that deception, though reprehensible, is “of no consequence” for antitrust purposes. *Noerr*, 365 U.S. at 145. The Court reaffirmed this principle in *Omni*. Despite allegations of an anticompetitive conspiracy affecting the core of the governmental process, the Court held that Sherman Act liability was barred by *Noerr* immunity. *Omni*, 499 U.S. at 383-84.

If a fraud exception to *Noerr* immunity exists, it is confined to adjudicative proceedings. Complaint Counsel make much of Justice Douglas’s suggestion in *California Motor Transp.* that misrepresentations may not be immunized “when used in the adjudicatory process.” 404 U.S. at 513. But the more recent *PRE* decision expressly left as an open question whether *Noerr* permits any antitrust liability “for a litigant’s fraud or other misrepresentations.” *PRE*, 508 U.S. at 61 n.6. If a fraud exception exists, the Court’s focus on the “adjudicatory process” and a “litigant’s” misrepresentations leaves no doubt that it is confined to the adjudicative context.<sup>12</sup> The Complaint’s drafters recognized this by alleging that CARB’s rulemaking was quasi-adjudicative.

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<sup>12</sup> Complaint Counsel rely on dictum in *Allied Tube*, 486 U.S. at 504, to the effect that misrepresentations to a legislative committee under oath “would not necessarily be entitled to the same antitrust immunity allowed deceptive practices in the legislative arena.” App. Br. 30. But the Supreme Court’s subsequent *holding* in *Omni* makes it clear that “deception, reprehensible as it is, can be of no consequence so far as the Sherman Act is concerned.” 499 U.S. at 384 (*quoting Noerr*, 365 U.S. at 145). Moreover, there is no allegation that Unocal

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Adjudications differ significantly from governmental processes in which parties advocate and press for the adoption of competing public policies. The “expected standards of conduct are much higher” in adjudication, where “there are well developed and highly elaborated definitions of what is or is not proper behavior by litigating parties.” ANTITRUST LAW, ¶203e at 169; *see also PRE*, 508 U.S. at 61 n.6 (“unethical conduct in the setting of the adjudicatory process often results in sanctions”). Outside this context, however, the Supreme Court has expressed extreme reluctance to regulate a channel of communications to government decisionmakers.

Nothing in Complaint Counsel’s brief supports an extension of a fraud exception beyond the adjudicative process. The linchpin of Complaint Counsel’s argument is an impermissibly broad reading of *Walker Process*, as eliminating *Noerr* immunity for all “material misrepresentations of fact to a government agency outside the ‘political arena.’” App. Br. 24.<sup>13</sup> At most, however, *Walker Process* might support a limited exception for proceedings with a predominantly adjudicative character. Indeed, in discussing “the adjudicatory process” in *PRE*, the Supreme Court cited *Walker Process* for the proposition that it left open the possibility of a *Noerr* exception “for a litigant’s fraud or other misrepresentations.” *PRE*, 508 U.S. at 61 n.6.

*Walker Process* involved an allegation of fraud upon the PTO in the patent application process. Patent applications are evaluated in a process that focuses on the narrow question whether the applicant has satisfied the statutory criteria for patentability. *See* 35 U.S.C. §§ 101-

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made *any* misrepresentation under oath or violated any rules governing the accuracy of representations.

<sup>13</sup> As noted above, Complaint Counsel elsewhere go even further by arguing that *Noerr* offers no immunity to misrepresentations in *any* forum.

103, 112. The fraud allegation related to a misrepresentation that the claimed invention had not been in public use more than one year prior to the filing date of the patent application. *Walker Process*, 382 U.S. at 174. Such use is an absolute bar to patentability. The misrepresentation violated a specific duty of candor and good faith imposed by the PTO as a condition of applying for a patent. *See* 37 C.F.R. § 1.56. It was functionally equivalent to lying to a court regarding a material fact.

Complaint Counsel have not identified a single case that has relied on *Walker Process* to restrict *Noerr* immunity outside the context of predominantly adjudicative proceedings. *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240 (9th Cir. 1982), involved allegations of fraud in adjudicative proceedings before the Interstate Commerce Commission. Unlike CARB’s rulemakings to establish rules governing an entire industry, the proceedings concerned the rights of a specific party. The Supreme Court has held that cases involving such determinations are fundamentally adjudicative in nature.<sup>14</sup> The *Clipper* court expressly predicated its decision on its understanding that “the adjudicatory sphere is much different from the political sphere.” *Id.* at 1261. It held that antitrust liability may be based on “the fraudulent furnishing of false information to an agency in connection with an adjudicatory proceeding.” *Id.* *Israel v. Baxter Labs.*, 466 F.2d 272 (D.C. Cir. 1972), similarly involved proceedings to determine the

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<sup>14</sup> *United States v. Florida East Coast Ry. Co.*, 410 U.S. 224 (1973). Agencies are required to use adjudicative procedures for decisions that affect “a small number of persons” and are based on “individual grounds.” *Id.* at 245. Although the *Clipper* ratemaking was technically classified as a rulemaking under the APA, it involved the determination of the rights and obligations of a specific party and involved the use of adjudicative proceedings. The *Clipper* court referred to participants in the ratemaking at issue as “litigants.” 690 F.2d at 1262 n.34.



rights of an individual party and not a process to establish industry-wide rules. *Israel*, moreover, based its holding on the misconception that the furnishing of false information to a regulatory body constitutes a “sham,” an approach that the Supreme Court expressly rejected in *PRE*.

Complaint Counsel’s reliance on *Woods Exploration & Producing Co. v. Aluminum Co. of Am.*, 438 F.2d 1286 (5th Cir. 1971), is curious. *Woods* involved a Texas Railroad Commission proceeding to determine allowable production from particular gas wells by applying a preexisting formula. The court viewed the proceeding as adjudicative and held that misrepresentations made in it were not *Noerr*-protected. At the same time, it emphasized that the same conduct would have been protected in a rulemaking:

[I]n the instant case there has been no attempt by defendants . . . to influence the policies of the Railroad Commission. The germination of the allowable formula was political in the *Noerr* sense, and thus *participation in those rulemaking proceedings would have been protected*. But the formula’s subsequent implementation is apolitical.

*Id.* at 1297 (emphasis added).<sup>15</sup>

Other cases cited by Complaint Counsel involved fraud in judicial proceedings. *See, e.g., Baltimore Scrap Corp. v. David J. Joseph Co.*, 237 F.3d 394 (4th Cir. 2001); *Liberty Lake Invs., Inc. v. Magnuson*, 12 F.3d 155 (9th Cir. 1993). These cases offer no support for a fraud exception extending beyond adjudicative proceedings. Indeed, *Baltimore Scrap* expressed

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<sup>15</sup> Complaint Counsel also rely on *Whelan v. Abell*, 48 F.3d 1247 (D.C. Cir. 1995), which was not an antitrust case but involved allegedly false statements to a court and the Maryland Division of Securities. Unlike the antitrust laws, the offenses of malicious prosecution and abuse of process alleged in *Whelan* directly seek to regulate communications with the government. *Whelan* also involved a determination of the rights of a particular party and not the establishment of rules for an entire industry.

considerable doubt that a fraud exception could be viable after *PRE* even in the adjudicative context. 237 F.3d at 401-02. Equally inapt is Complaint Counsel’s reliance on *Cheminor Drugs, Ltd. v. Ethyl Corp.*, 168 F.3d 119 (3d Cir. 1999). In considering alleged misrepresentations in litigation before the International Trade Commission, the *Ethyl* court specifically “decline[d] to carve out a new [misrepresentation] exception to the broad immunity that *Noerr-Pennington* provides.” *Id.* at 123.

Complaint Counsel mischaracterize cases involving certificate of need (“CON”) proceedings as establishing a broad rule that “‘knowing and willful submission of false facts to a government agency’ undermines a claim of *Noerr* immunity.” App. Br. 25 n.9 (citing *Kottle v. Northwest Kidney Ctrs.*, 146 F.3d 1056 (9th Cir. 1998); *St. Joseph’s Hosp. Inc. v. Hospital Corp.*, 795 F.2d 948 (11th Cir. 1986)). CON proceedings, however, determine the rights of specific applicants, based on adversarial proceedings, and are recognized as adjudicative in nature. *Kottle*, 146 F.3d at 1062 (CON determination “bears many indicia of a true adjudicatory proceeding”); *St. Joseph’s Hosp.*, 795 F.2d at 954 (agency “passing on specific certificate applications [] is acting judicially”). Furthermore, more recent authority has held that misrepresentations in CON proceedings are entitled to *Noerr* immunity. *Armstrong*, 185 F.3d at 164 (dismissing complaint alleging misrepresentations in CON proceeding). The Commission has specifically endorsed this latter view of the law, arguing that the CON process is “in some respects adjudicatory, but it also has aspects that are ‘political in the *Noerr* sense,’” such that an argument for antitrust liability even in that context could not “be forcefully advanced.” App. 2 at 19. CARB’s rulemakings do not even approach the adjudicative trappings of CON proceedings.

In short, none of the cases relied upon by Complaint Counsel supports a fraud exception outside the context of adjudicative proceedings. Judge Chappell correctly rejected the claim that such an exception applies in the context of a rulemaking to establish industry-wide rules.

**2. Because CARB’s Phase 2 RFG Rulemaking Was Not Adjudicative, Any Fraud Exception Is Inapplicable.**

The Complaint implicitly recognizes the inapplicability of any fraud exception outside the adjudicative context by alleging that CARB’s Phase 2 rulemaking was “quasi-adjudicative.” Compl. ¶¶ 26, 96. That allegation, however, is unsustainable even on a motion to dismiss. CARB conducted a classic quasi-legislative rulemaking to resolve significant policy questions left unaddressed by the California legislature.

*i. Administrative Law Principles Are Relevant in Distinguishing Between Adjudicative and Legislative Functions.*

Complaint Counsel fault Judge Chappell for relying on well-established administrative law principles to characterize CARB’s rulemakings. According to Complaint Counsel, “the line between administrative law definitions of quasi-adjudicative and quasi-legislative has nothing to do with a *Noerr* analysis.” App. Br. 28. That statement marks an extraordinary retreat from the Complaint’s allegation that “Unocal’s misrepresentations were made in the course of *quasi-adjudicative* rulemaking proceedings.” Compl. ¶ 96 (emphasis added). In fact, the administrative law characterization of rulemakings as quasi-legislative is based on the same underpinnings that have led courts to grant *Noerr* protection to petitioning of government policymakers.

California’s Supreme Court has held that CARB’s rulemakings are quasi-legislative. *Western States Petroleum Ass’n*, 9 Cal. 4th at 567. The term “quasi-legislative” carries a specific meaning under California law, which views the promulgation of quasi-legislative rules as “an authentic form of substantive lawmaking.” *Yamaha Corp. v. State Bd. of Equalization*, 19 Cal.

4th 1, 6 (1998). “Because agencies granted such substantive rulemaking power are truly ‘making law,’ their quasi-legislative rules have the dignity of statutes.” *Id.* CARB’s rulemakings receive a “highly deferential” review because of “the well-settled principle that the legislative branch is entitled to deference from the courts because of the constitutional separation of powers.” *Western States Petroleum Ass’n*, 9 Cal. 4th at 572. It is difficult to imagine a clearer statement of CARB’s legislative function in its rulemakings.

Federal administrative law similarly recognizes the legislative nature of rulemakings to promulgate regulations of future effect. It recognizes a basic dichotomy between “proceedings for the purpose of promulgating policy-type rules or standards, on the one hand, and proceedings designed to adjudicate disputed facts in particular cases on the other.” *Florida East Coast Ry.*, 410 U.S. at 245. This basic dichotomy underlies the entire body of administrative law. As described in the authoritative Attorney General’s Manual:

[T]he entire Act is based upon a dichotomy between rule making and adjudication . . . . *Rule making is . . . essentially legislative in nature*, not only because it operates in the future but also because it is *primarily concerned with policy considerations*. . . . Conversely, adjudication is concerned with the determination of past and present rights and liabilities.

U.S. Department of Justice, ATTORNEY GENERAL’S MANUAL ON THE ADMINISTRATIVE PROCEDURE ACT 14 (1947) (emphasis added). The federal courts have repeatedly emphasized the centrality of these characterizations to administrative law. *See, e.g., Utility Solid Waste Activities Group v. EPA*, 236 F.3d 749, 753 (D.C. Cir. 2001) (“EPA acted in a quasi-legislative fashion” in promulgating a rule); *Redwood Vill. P’ship v. Graham*, 26 F.3d 839, 842 (8th Cir. 1994) (referring to “the quasi-legislative act of rulemaking”); *Portland Audobon Soc’y v. Endangered Species*, 984 F.2d 1534, 1540 (9th Cir. 1993) (“[w]here an agency’s task is to adjudicate disputed facts in particular cases, an administrative decision is quasi-judicial. By

contrast, rulemaking concerns policy judgments to be applied generally in cases that may arise in the future”); *Ameron, Inc. v. U.S. Army Corps of Eng’rs*, 787 F.2d 875, 894 (3d Cir. 1986) (rulemaking “is legislative in character”).

These administrative law principles do not come from another planet, as Complaint Counsel’s brief would suggest. They are based on a recognition that agencies engage in an essentially political process when they promulgate rules of general applicability and future effect. The Supreme Court emphasized this point in its leading modern administrative law decision, *Chevron*, 467 U.S. 837. In *Chevron*, petitioners challenged the Environmental Protection Agency’s rules under the Clean Air Act based on the claim that the agency misinterpreted the statutory term “stationary source.” The petitioners challenged the EPA’s amendment of its rules to adopt a more flexible interpretation of the term in 1981, following the election of a Republican administration. *Id.* at 857-58. The Court held that the EPA’s reinterpretation of its statutory mandate through rulemaking was permissible:

[A]n agency to which Congress has delegated policymaking responsibilities may, within the limits of that delegation, properly rely upon the incumbent administration’s views of wise policy to inform its judgments. While agencies are not directly accountable to the people, the Chief Executive is, and it is entirely appropriate for *this political branch of the Government to make such policy choices* – resolving the competing interests which Congress itself either inadvertently did not resolve, or intentionally left to be resolved by the agency . . . .

*Id.* at 865-66 (emphasis added). The California Supreme Court embraced the *Chevron* standard of judicial review in describing the deference owed to CARB’s rulemakings. *Western States Petroleum Ass’n*, 9 Cal. 4th at 572-73.

*Chevron* recognized that rulemakings represent a continuation of a political process initiated by the legislature. The Court of Appeals for the D.C. Circuit reached the same conclusion in the context of an FTC rulemaking. In *Association of Nat’l Advertisers*, 627 F.2d at 1162, the

court reviewed lobbying by the Commission’s then-Chairman to enlist support for his proposal to regulate children’s advertising. The court held such lobbying efforts permissible, stating: “The legitimate functions of a policymaker, unlike an adjudicator, demand interchange and discussion about important issues. We must not impose judicial roles upon administrators when they perform functions very different from those of judges.” *Id.* at 1168. The court rejected a legal standard barring the Chairman’s lobbying efforts because “[w]e serve as guarantors of statutory and constitutional rights, but not as arbiters of the political process.” *Id.* at 1174. *See also Sierra Club v. Costle*, 657 F.2d 298, 401 (D.C. Cir. 1981) (“[i]nformal contacts may enable the agency to win needed support for its program”).

These very same considerations undergird *Noerr*’s analysis of the basis for the antitrust immunity for petitioning. Just as administrative law recognizes the political character of rule-making, *Noerr* recognized the political character of attempts to influence the passage of laws. And just as the “[l]egitimate functions of a policymaker” differ from those of an adjudicator, *Association of Nat’l Advertisers*, 627 F.2d at 1168, so do the permissible functions of parties appearing before the two types of government officials. In the legislative setting, as *Noerr* held, even deception is tolerated by antitrust tribunals. By contrast, “the expected standards of conduct are much higher” in adjudications. ANTITRUST LAW, ¶203e at 169.

***ii. In Adopting Its Phase 2 Rules, CARB Made Numerous Policy Decisions and Political Judgments.***

Complaint Counsel argue that CARB had minimal discretion and exercised only “specialized technical expertise” when promulgating the Phase 2 regulations. App. Br. 36. According to Complaint Counsel, the “central policy judgments” regarding air pollution were already established by California’s legislature. That position is contrary to the very purpose of administrative regulation. As the leading administrative law treatise explains:

An agency charged with administering a statute typically must make scores of policy decisions. Many of those decisions take the form of giving meaning to statutory language Congress left undefined. The agency's job is to select a combination of policies that will work together to further its statutory goals. Some policies will work well with some other combinations of policies but not with other combinations of policies.

I Richard J. Pierce, *ADMINISTRATIVE LAW TREATISE* § 3.4 at 149 (2002). As will be seen, this analysis offers a remarkably accurate description of the role that CARB performed in enacting Phase 2 regulations. The agency possessed and exercised extremely broad discretion in formulating its regulations. Complaint Counsel's position cannot be reconciled with CARB's governing statute, CARB's official rulemaking pronouncements, and the collective weight of judicial opinions reviewing similar rulemaking proceedings.

The California legislature directed CARB to consider multiple, and often conflicting, policy goals in adopting emission control regulations. It instructed CARB to regulate emissions in a manner that was "necessary," "cost-effective," and "technologically feasible." Cal. Health & Safety Code § 43018(b). The legislature also instructed CARB to achieve the "maximum degree of emission reduction possible" as soon as possible. *Id.* § 43018(a). The legislature defined none of these terms. CARB's assessment of what measures would be "cost-effective" is a pure policy decision reflecting the judgment of CARB's members. The agency's Final Statement emphasized the vast discretion that guided CARB's decisionmaking in promulgating Phase 2 regulations:

The statutes do not mandate what specific fuel characteristics must be controlled, how stringent those controls should be, what the compliance dates should be, to whom the controls should apply, whether the limits should be statewide or limited to areas with substantial air pollution problems, whether the limits should apply year-round or only during seasons with bad air quality, whether all batches of fuel should be subject to the same limit or an "averaging" program of some sort should be instituted, how the

controls should be enforced, and whether there should be provisions granting temporary “variances” based on unforeseen unique events. *The ARB does not need explicit statutory authority to implement any of these approaches.*

App. 1 at 190 (emphasis added).

The issues as to which CARB had no statutory guidance included what should be regulated, how it should be regulated, when the regulations should go into effect, who should be subject to the regulation, and what exceptions to allow. CARB had no statutory guidance regarding the meaning of the statutory mandates or the manner in which it was to balance conflicting mandates. It had no statutory guidance to inform its judgment when the regulatory approach that maximized emissions reductions turned out not to be cost-effective; California’s legislature left it to CARB to make political judgments regarding the trade-offs between emissions reductions and economic objectives. The legislature offered no guidance on where to draw the line or even how to draw it. CARB was hardly an agency whose discretion was confined to narrow technical decisions, as Complaint Counsel would have the Commission believe.<sup>16</sup>

CARB’s Final Statement demonstrates CARB’s exercise of policy judgments to balance competing statutory objectives. In some instances, as when CARB rejected Unocal’s suggestion that the Phase 2 RFG regulations be scrapped in favor of a more cost-effective buyback program for older, higher-polluting vehicles, CARB emphasized its “statutory mandate to achieve the maximum degree of emissions reductions possible.” App. 1 at 105. But CARB also elected to

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<sup>16</sup> The Final Statement of Reasons prepared for CARB’s subsequent Phase 3 RFG rulemaking, conducted pursuant to the same statutory mandate, states that whether regulations are “economically feasible” “is more of a policy or political question than a scientific one.” Proposed California Phase 3 Reformulated Gasoline Regulations, Final Statement of Reasons (June 2000), available at <http://www.arb.ca.gov/regact/carfg3/fsor.pdf>, at 6.



forego some decrease in emissions based on cost considerations. App. 1 at 85. These decisions were not simply technical. They reflected the considered political judgment of administrators attempting to balance various policy goals.

Complaint Counsel argue that CARB's decisions were based on a fact-finding process. App. Br. 37-38. But the Complaint itself makes no allegation that CARB's rulemaking was a "fact-finding" exercise. Moreover, even if Complaint Counsel's claim were true, it would neither turn a rulemaking into an adjudication nor distinguish the rulemaking from other legislative processes. "[T]he factual component of generalized rulemaking cannot be severed from the pure policy aspects of the rule." *Ass'n of Nat'l Advertisers*, 627 F.2d at 1162. "Even when evidentiary procedures are used in the formulation of specific fact, the product of those procedures is 'used in the formulation of a basically legislative-type judgment.'" *Id.* at 1165. CARB, of course, used no evidentiary procedures.

California law governing CARB is equally clear: "Fact-finding for the purpose of supplying the legislature with information on which to base general legislative action is obviously legislative, the determination of facts and formulation of legislative policy being the very core of the legislative function." 2 Cal. Jur. 3d, *Administrative Law* § 285 (1999); see *Carrancho v. CARB*, 4 Cal. Rptr. 3d 536, 547 (Cal. Ct. App. 2003) ("In authorizing administrative agencies to investigate, hold hearings, and report findings, the Legislature is, in effect, using those agencies as an 'arm' of the Legislature itself, performing functions that are quasi-legislative in nature").

Complaint Counsel also suggest that agency determinations that are governed by "enforceable standards" are non-political. In effect, this amounts to a claim that any agency that does not have unbounded substantive discretion is adjudicating for purposes of *Noerr*. But the fact that the EPA was required to take statutorily prescribed actions to control emissions from

stationary sources in no way affected the Supreme Court's conclusion in *Chevron* that the agency was exercising policymaking discretion in its rulemaking. *Chevron*, 467 U.S. at 865. To say that the existence of bounds on the agency's discretion convert rulemaking into adjudication is to turn virtually every government function into an adjudication.

***iii. CARB Adopted Its Phase 2 Regulations Through an Informal Process Subject to Few Procedural Constraints.***

In an attempt to show that CARB's rulemaking was in fact adjudicative, Complaint Counsel argue that CARB operated "under significant procedural constraints" in its rulemakings. App. Br. 39. Complaint Counsel particularly emphasize that CARB's rulemaking "was conducted in accordance with APA procedures" and "was subject to judicial review." App. Br. 51-52. But the unexceptional fact that CARB was subject to the minimal procedures that govern virtually all rulemakings does not convert what the California Supreme Court called a "quasi-legislative administrative decision," *Western States Petroleum Ass'n*, 9 Cal. 4th at 464, into an adjudication. The fact that CARB does not enjoy unfettered procedural freedom does not undermine the political nature of the rulemaking exercise. Even the presence of cross-examination did not undermine the fundamentally political nature of the FTC's rulemaking in *Association of Nat'l Advertisers*. And the presence of APA procedures and judicial review did not affect the Supreme Court's characterization of the EPA as belonging to the "political branch of the Government" in *Chevron*, 467 U.S. at 865. Not surprisingly, Complaint Counsel cite no authority to support the proposition that the use of rulemaking procedures and existence of

judicial review render an informal rulemaking “adjudicative” (or even non-political) for *Noerr* purposes.<sup>17</sup>

Complaint Counsel’s claim that CARB’s rulemakings are deprived of their legislative character because the regulations are reviewed by the Office of Administrative Law is equally meritless. California law specifically states that it is “the intent of the Legislature that neither the Office of Administrative Law nor the court should substitute its judgment for that of the rule-making agency as expressed in the substantive content of adopted regulations.” Cal. Gov’t Code § 11340.1. The statute plainly recognizes that CARB and other state agencies would exercise discretion in formulating rules and policies, and precludes second guessing of these judgments.

The court’s words in *Association of Nat’l Advertisers* are particularly apt in analyzing Complaint Counsel’s claim that the presence of minimal procedural constraints on CARB’s discretion deprive its rulemakings of their quasi-legislative character. The court wrote:

The presence of procedures not mandated by section 553 [of the APA], however, does not, as the appellees urge, convert rulemaking into quasi-adjudication. The appellees err by focusing on the details of administrative process rather than the nature of administrative action.

627 F.2d at 1161. CARB’s Phase 2 rulemaking was conducted under procedures comparable to those prescribed by section 553 of the APA. Complaint Counsel thus go even beyond the posi-

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<sup>17</sup> Complaint Counsel mischaracterize the standard for judicial review of CARB rulemakings under California law. Although California courts use the substantial evidence nomenclature to describe the standard, in application the standard is more similar to the arbitrary and capricious standard used to review most federal rulemakings. The standard of review is “whether the agency acted within the scope of its delegated authority, whether it employed fair procedures, and whether its action is arbitrary, capricious, or lacking in evidentiary support.” *Western Oil & Gas Ass’n v. Air Resources Board*, 691 P.2d 606, 609 (Cal. 1984).

tion rejected in *Association of Nat'l Advertisers* by arguing that the mere presence of section 553 procedures undermines the rulemaking's essentially quasi-legislative character. *See also Boone*, 841 F.2d at 896 (rejecting claim that presence of "some of the trappings normally associated with adjudicatory procedures" changes the nature of a fundamentally quasi-legislative proceeding for purposes of *Noerr* immunity).<sup>18</sup>

Complaint Counsel's attempt to inflate the significance of the limited procedural constraints applicable to CARB rulemakings also ignores the fact that the alleged misrepresentation at the core of the case occurred outside the framework in which those constraints apply. It occurred in *ex parte* communications between Unocal and CARB *before* CARB's commencement of the Phase 2 rulemakings.<sup>19</sup> The Complaint acknowledges that the process that led to the designation of the data as nonproprietary involved private, *ex parte* communications between Unocal and CARB staff. *See* Compl. ¶¶ 35, 39-41. Consequently, none of the very limited procedural constraints on which Complaint Counsel place such great weight were even operative at the time of the critical alleged misconduct.<sup>20</sup>

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<sup>18</sup> The standard of review used by California courts on appeal of determinations of the redevelopment board involved in the *Boone* case is identical to that used to review CARB decisions. *Compare Western States Petroleum Ass'n*, 9 Cal. 4th 559 with *Morgan v. Community Redevelopment Agency*, 284 Cal. Rptr. 745, 754-55 (Cal. 1991). Complaint Counsel argued before Judge Chappell that the redevelopment authority in *Boone* exercised a political function. Sur-reply in Opp. to Unocal Mot. at 23.

<sup>19</sup> The Complaint alleges that Unocal designated its data as "nonproprietary" in August 1991. Compl. ¶ 41. CARB's Final Statement discloses that the Phase 2 rulemaking commenced on October 4, 1991. App. 1 at 1.

<sup>20</sup> The States claim "[t]he ARB regulations were not promulgated through a legislative process, in which much information is provided off-the-record through the lobbying activities of interested parties." States Br. 14-15. This claim is contrary to the Complaint's allegations.

Finally, the Complaint does not contain any allegation that CARB conditioned participation in the Phase 2 RFG rulemaking on observance of any standard of ethical conduct. This is significant because the Supreme Court has emphasized the distinction between the political arena in which misrepresentations are condoned and adjudicative proceedings in which “unethical conduct . . . often results in sanctions.” *California Motor Transp.*, 404 U.S. at 512-13. “[T]he expected standards of conduct are much higher” in adjudicative proceedings. ANTITRUST LAW, ¶203e at 169. CARB’s rulemaking had no procedures for sanctioning unethical behavior and did not impose specific duties to disclose material information, such as the PTO practice at issue in *Walker Process*. The absence from CARB’s rulemaking of any “well developed and highly elaborated definitions of what is or is not proper behavior” (ANTITRUST LAW, ¶203e at 169) provides additional confirmation that the Phase 2 proceedings were not adjudicative.

***iv. The First Amendment Cannot Be Used as a Basis for Denying Noerr Immunity to Unocal.***

Ignoring that *Noerr* jurisprudence unequivocally shields even misrepresentations to legislative or quasi-legislative bodies from antitrust liability, Complaint Counsel seek to use the Constitution’s First Amendment as a sword to obliterate the immunity. But the First Amendment is a shield against government regulation of speech and not an instrument for regulating speech. The scope of *Noerr* immunity, moreover, is not coextensive with that of the First Amendment. *Omni* held that even conduct tantamount to bribery of public officials, a criminal offense to which the First Amendment offers no shield, is protected under *Noerr* because “the antitrust laws regulate

business, not politics.”<sup>21</sup> 499 U.S. at 383. As *Omni* reminded: “In *Noerr* itself, where the private party ‘deliberately deceived the public and public officials’ in its successful lobbying campaign, we said that ‘deception, reprehensible as it is, can be of no consequence so far as the Sherman Act is concerned.’” *Id.* at 383-84 (*quoting Noerr*, 365 U.S. at 145).

“The minimum teaching of *Noerr* is that unethical political conduct in the legislative context is irrelevant for antitrust purposes.” ANTITRUST LAW, ¶203e at 167. The *Noerr* Court refused to attach liability to improper petitioning activities because it “feared that excessive judicial control would chill legitimate modes of exercising a right to petition.” *Id.* ¶203d at 166. Further, “if antitrust recognized liability for misstatements or partially untruthful statements made in the political arena, there would be no shortage of such challenges, and the results would increase the risk and thus the cost of even truthful political representations.” *Id.* ¶203e at 167.

The Complaint highlights these risks. Unocal stands accused of representing that a form of regulation that is preferred by California law based on its efficacy and flexibility would be “cost-effective” and “flexible,” without disclosing facts that allegedly bear on the representation’s accuracy. Disputes about the cost and efficacy of regulations are the bread and butter of the political process. As Professor Elhauge notes, assertions that “environmental regulation imposes either high or low economic costs” are “political statements.” Elhauge, *supra*, at 1224. Basing antitrust liability on statements regarding the costs of environmental regulations, more-

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<sup>21</sup> Complaint Counsel’s suggestion that Unocal’s communications to CARB about its regulations constituted commercial speech (App. Br. 46-47) would convert virtually all corporate lobbying activities into commercial speech. Few corporations lobby governmental institutions unless they perceive that they will derive a commercial benefit from government adoption of the positions they advocate.

over, “would discourage citizens from offering input about the likely effects of economic regulation.” *Id.* at 1225. Professors Areeda and Hovenkamp similarly emphasize that antitrust courts “should not review the ‘truth’ of arguments or general statements about the world[,]” such as assertions about “the economic effects” of a regulatory program. ANTITRUST LAW, ¶203f2 at 175. This is precisely what the Complaint seeks to do. It repeatedly alleges deception based on Unocal’s statements about the cost-effectiveness and flexibility of a regulatory policy.

Unocal is also accused of misrepresenting its intentions to maintain proprietary rights over its inventions, but the statement quoted in the Complaint shows that Unocal represented that it considered its *data* to be nonproprietary. The Complaint contains no allegation that Unocal has asserted proprietary rights over its data. It alleges that Unocal asserted proprietary rights over *inventions*. Patent law allows inventions, but not data, to be patented. *See* 35 U.S.C. § 101 (patents may be granted for “any new and useful process, machine, manufacture, or composition of matter”); 1 Donald S. Chisum, CHISUM ON PATENTS § 1.01 at 1-6 (2002). The Complaint does not allege that Unocal’s representation was false but only that it created a “false and misleading impression.” Compl. ¶ 42. Significantly, the Complaint does not allege that CARB put rulemaking participants on notice that it was interested in patent rights, which might have caused participants to choose their words on the subject with particular care.<sup>22</sup> Allowing antitrust liability in cases involving ambiguous statements “will open the door to antitrust attacks on the presentation

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<sup>22</sup> In the private standard setting context, a vague patent disclosure policy, which does not “define clearly what, when, how and to whom the members must disclose,” cannot serve as a basis for a finding of fraud. *Rambus Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1102 (Fed. Cir. 2003). The Federal Circuit has warned that “after-the-fact morphing” of such a loosely-defined disclosure policy to capture actions not within the policy’s actual scope would have a chilling effect on standard-setting participation. *Id.*, n. 10.

of complex ideas to legislative bodies.” ANTITRUST LAW, ¶203e at 167. Allowing it in the context of this case would be even more chilling.

**D. Entitlement to *Noerr* Immunity Is Not Dependent on the Remedy Sought by the Antitrust Claimant.**

The Supreme Court’s decisions have repeatedly emphasized that *Noerr* immunity depends on the source of the anticompetitive harm. Private advocacy efforts to produce an *outcome* of a governmental process that harms competition defines the essence of *Noerr* immunity. See *PRE*, 508 U.S. at 61; *Omni*, 499 U.S. at 380; *SCTLA*, 493 U.S. at 424-25. The key issue is whether the challenged conduct “would have had precisely the same anticompetitive consequences during that period even if no legislation had been enacted.” *SCTLA*, 493 U.S. at 425.

Purporting to rely on *Walker Process*, Complaint Counsel argue that the true test of petitioning depends on the *remedy* sought by the antitrust claimant. They claim that *Noerr* may be invoked “only where the action seeks either to alter any government program or to restrain the challenged communication.” App. Br. 22. *Walker Process* not only fails to support such a rule, but squarely refutes it.

As an initial matter, there is no basis for Complaint Counsel’s suggestion that the imposition of antitrust sanctions based on communications to the government is permissible where enjoining such communications is not. To “encourage debate on public issues” and avoid “a ‘chilling’ effect [that] would be antithetical to the First Amendment’s protection of true speech on matters of public concern,” the Supreme Court has limited the imposition of monetary liability or other sanctions for speaking on issues of public concern. *Philadelphia Newspapers, Inc. v. Hepps*, 475 U.S. 767, 777 (1986); *First Nat’l Bank of Boston v. Bellotti*, 435 U.S. 765, 785 n.21 (1978) (noting that “the burden and expense of litigating . . . would unduly impinge on the exercise of the constitutional right”). Complaint Counsel’s claim that the remedy of stripping



Unocal of the right to enforce its patents in California based on its petitioning conduct “has no impact or effect – either direct or indirect” on “any party’s communication with a governmental body (App. Br. 23) is thus incomprehensible.”<sup>23</sup>

Moreover, the Supreme Court’s *Omni* decision would flunk Complaint Counsel’s test. There the plaintiff sought damages from an incumbent billboard producer for conspiring with public officials to restrict billboard construction. Allowing the damages claim would have neither altered the government’s billboard restriction program nor restrained the challenged communication in the manner in which Complaint Counsel define a restraint on communications. But the Supreme Court barred the antitrust claims.<sup>24</sup>

*Walker Process* itself would flunk the test that Complaint Counsel attribute to it. There the Court rejected the lower courts’ conclusion “that proof of fraudulent procurement may be used to bar recovery for infringement but not to establish invalidity.” 382 U.S. at 175 (internal citation omitted). It said that “a person sued for infringement may challenge the validity of a patent on various grounds, including fraudulent procurement.” *Id.* at 176. It is difficult to see where Complaint Counsel find support for the claim that “the remedy contemplated in *Walker*

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<sup>23</sup> Complaint Counsel also ignore that ¶ 4(b) of the Notice of Contemplated Relief seeks to regulate Unocal’s communications with “any state or federal governmental entity that conducts rulemaking proceedings in which Respondent participates.”

<sup>24</sup> Complaint Counsel’s claim that the “optimal remedy” in *Omni* would have been the rescission of the ordinance restricting billboards is irrelevant. The antitrust laws require remedies that are permissible, not optimal. Section 4 of the Clayton Act authorizes treble damages for violations of the antitrust laws, including the Sherman Act. That was the remedy sought in *Omni*. The Supreme Court rejected the antitrust claim not because damages were sub-optimal, but because the alleged injury resulted from governmental action and not the petitioning conduct that led to it.

*Process* would not revoke or alter the relevant government action – *i.e.*, the patents would not be invalidated.” App. Br. 22.

Indeed, patent invalidity is a core element of *Walker Process* fraud.<sup>25</sup> The offense is predicated on “intent to deceive the examiner and thereby *cause the PTO to issue an invalid patent*” that would not have issued but for the misrepresentation or omission. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1070 (Fed. Cir. 1998) (emphasis added). In *Walker Process* cases, “that which immunized the predatory behavior from antitrust liability (the patent) is, in effect, a nullity because of the underlying fraud.” *Liberty Lake*, 12 F.3d at 159; *see also Korody-Colyer Corp. v. General Motors Corp.*, 828 F.2d 1572, 1578 (Fed. Cir. 1987) (claim “involves a patentee’s enforcement of a patent the patentee knows is invalid”). Where the defendant “prevails on the issue of patent validity, plaintiffs’ antitrust claim based on fraud on the United States Patent Office would have to be dismissed.” *Akzona v. E.I. du Pont de Nemours & Co.*, 607 F. Supp. 227, 234 (D. Del. 1984).<sup>26</sup>

Complaint Counsel’s test has no basis in law. No court has articulated a remedies-based approach to *Noerr*, and the test is contradicted by the very case that supposedly gave rise to it.

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<sup>25</sup> *Walker Process* was expressly confined to “a special class of patents, *i.e.*, those procured by intentional fraud.” *Walker Process*, 382 U.S. at 350. Indeed, Justice Harlan made clear in his concurring opinion that the *Walker* analysis of antitrust remedies “should not be deemed available to reach section 2 monopolies carried on under a nonfraudulently procured patent.” *Id.* at 352.

<sup>26</sup> *See also Hewlett-Packard Co. v. Genrad, Inc.*, 882 F. Supp. 1141, 1157 (D. Mass. 1995); (“should the patents be found valid and enforceable in the patent trial, a motion for a directed verdict on the Defendant’s *Walker Process* counterclaims may be in order”) (*quoting United States v. Gypsum Co. v. National Gypsum Co.*, 1994 WL 74989 at \* 2 (N.D. Ill. Mar. 10, 1994)).

**E. Unocal's Enforcement of Its Patent Rights May Not Be Challenged So Long as Its Petitioning Before CARB Is *Noerr*-Protected.**

Complaint Counsel argued before Judge Chappell that Unocal was not entitled to *Noerr* immunity because the competitive harm in this case flows from Unocal's enforcement of its patents and not from a governmental decision. This claim fell under the weight of the test that Complaint Counsel proffered for resolving the issue: "Would the anticompetitive consequences be the same if the government had never acted?" Opp. to Mot. to Dismiss 19. Complaint Counsel have abandoned their meritless claim on appeal, but this claim is now asserted by ExxonMobil, which claims that CARB's regulatory activities did not immunize Unocal's assertion of its patent rights in negotiating license agreements and litigating infringement claims. ExxonMobil misses a fundamental fact. Enforcing a valid patent is not an antitrust violation. In cases in which the courts found that the harm flowed from private conduct, that conduct was itself unlawful.

ExxonMobil relies on *Cantor v. Detroit Edison Co.*, 428 U.S. 579 (1976), which held that an electric utility's tie-in of light bulbs and electric service was not immunized by governmental approval of a tariff that failed to meet the requirements of the state action doctrine. But *Cantor* involved tying by a firm with market power, which constitutes an antitrust violation absent valid government authorization. Enforcing a patent, by contrast, cannot be an antitrust violation unless the patent was obtained by fraud or the assertion of the patent is a sham. *Nobelpharma*, 141 F.3d at 1060.

ExxonMobil's state action argument is a logically vacuous bootstrap. To the extent that Unocal's petitioning before CARB brought about favorable governmental action, and did not in itself cause competitive harm, this conduct is *Noerr*-protected. For purposes of ExxonMobil's claim that Unocal's subsequent exercise of its patent rights provides an *independent* basis for lia-

bility, Unocal's rulemaking conduct *must* be deemed immune, for otherwise the subsequent patent enforcement is not being adjudged independently. And *Noerr*-protected conduct cannot be taken into account to render wrongful some other conduct that is otherwise lawful.

Thus, once the rulemaking conduct is cast aside as irrelevant to subsequent patent enforcement, some other *independent* basis must exist for denying *Noerr* protection. None exists. Patent enforcement is a legitimate exercise of rights inherent in the patent itself. Unocal's patent enforcement can only be deemed anticompetitive if it is tainted by the rulemaking conduct, which is tantamount to denying *Noerr*-protection for the rulemaking conduct itself.<sup>27</sup>

In addition to not constituting an antitrust violation, Unocal's enforcement of its patents is itself *Noerr*-protected unless Unocal's infringement claims are "objectively baseless." *PRE*, 508 U.S. at 60. The immunity applies not only to Unocal's initiation of infringement litigation but to attempts to enforce the patents that are short of litigation.<sup>28</sup> The Complaint does not allege that Unocal's assertion of patent rights is objectively baseless. Unocal's judicially-vindicated patent enforcement cannot in any way be deemed comparable to the independently unlawful tie-in at issue in *Cantor*.

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<sup>27</sup> ExxonMobil's "monopoly broth" claim corrupts the law of monopolization. Courts "reject the notion that if there is a fraction of validity to each of the basic claims and the sum of the fraction is one or more, the plaintiffs have proved a violation." *City of Groton v. Connecticut Light & Power Co.*, 662 F.2d 921, 928-29 (2d Cir. 1981). Even where the challenged acts are interrelated, the court must "analyze the various issues individually." *Id.* at 928; *see also Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1367 (Fed. Cir. 1999) (*citing Groton* with approval); *Calif. Computer Prods. Inc. v. IBM*, 613 F.2d 727, 746 (9th Cir. 1979); *Southern Pac. Com. Co. v. American Tel. & Tel. Co.*, 556 F. Supp. 825, 888 (D.D.C. 1983).

<sup>28</sup> *See Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343-44 (Fed. Cir. 1999); *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983); *Miller Pipeline Corp. v. British Gas PLC*, 69 F. Supp. 2d 1129, 1138 (S.D. Ind. 1999).

**F. Unocal Is Entitled to *Noerr* Protection With Respect to Alleged Harms Resulting from Its Alleged Conduct Towards Industry Groups.**

The Complaint alleges that Unocal “participat[ed] in industry groups that also were providing input into the CARB regulations” (Compl. ¶ 35) as part of its scheme to persuade CARB to adopt favorable regulations. Complaint Counsel’s current claim that “[n]one of this conduct ha[d] anything to do with CARB” (App. Br. 48) is an extreme form of revisionism. In opposing Unocal’s motion, Complaint Counsel claimed “the Complaint alleges that Unocal’s deception of these groups and its [sic] constituent members was part and parcel of Unocal’s anticompetitive scheme to subvert and corrupt the CARB rulemaking process.” Complaint Counsel Opp. to Unocal Mot. 35.

Complaint Counsel had it right the first time. The Complaint alleges that as a result of being duped by Unocal, the two organizations failed to “advocat[e] that CARB adopt regulations” that avoided Unocal’s patents as well as to “advocat[e] that CARB negotiate” license terms with Unocal. Compl. ¶ 90 (a), (b). According to the Complaint, Unocal’s misconduct involving the two private organizations was part and parcel of a scheme to secure favorable regulatory treatment.

The Complaint alleges that Unocal induced private organizations to change their advocacy before CARB. This is protected petitioning conduct. In *Noerr*, the challenged conduct was a deceptive publicity campaign aimed at third parties. Thus *Noerr* itself held that attempts to influence the public are immune, even when deceptive. *See also Manistee Town Center v. City of Glendale*, 227 F.3d 1090, 1092 (9th Cir. 2000); *Livingston Downs Racing Ass’n, Inc. v. Jefferson Downs Corp.*, 192 F. Supp. 2d 519, 531-32 (M.D. La. 2001). Because the alleged harm flows from CARB’s enactment of regulations, and thus the anticompetitive effects result from the *outcome* of the governmental process, *Noerr* applies.

In addition to alleging that the private industry organizations would have changed their advocacy before CARB, the Complaint also alleges that the refiner members of these groups would have made different investment decisions, had Unocal not engaged in the alleged misconduct. Compl. ¶ 90 (c). But incidental effects of Unocal’s petitioning conduct, such as the alleged impact on refiners’ investment decisions, are *Noerr*-protected as well. In *Noerr*, the Court held that the conduct was immune from antitrust liability not only insofar as it affected governmental actions but also with respect to its marketplace impact. The existence of injury to truckers’ relations with their customers resulting from the deceptive publicity campaign did not trump the immunity. That injury, the Court held, “can mean no more than that the truckers sustained some direct injury as an incidental effect of the railroads’ campaign to influence governmental action and that the railroads were hopeful that this might happen.” *Noerr*, 365 U.S. at 143.

More broadly, the challenged conduct is *Noerr*-protected because none of the harms that the Complaint attributes to Unocal’s alleged misconduct vis-à-vis the industry organizations would have occurred had CARB not promulgated its Phase 2 regulations. *SCTLA*, 493 U.S. at 425. Because all the conduct alleged in the Complaint is immune under *Noerr*, the dismissal can be upheld on that ground alone.<sup>29</sup>

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<sup>29</sup> Judge Chappell noted that to the extent the Complaint is attempting to allege conduct *not* directed at soliciting favorable government action, then the Commission lacks jurisdiction over such allegations because they necessarily involve substantial questions of patent law. This alternative grounds for dismissal is discussed in Section H, *infra*.

**G. The *Noerr* Doctrine Governs Cases Brought Under the Federal Trade Commission Act.**

Complaint Counsel's claim that the *Noerr* doctrine is inapplicable to cases brought under the Federal Trade Commission Act is groundless. Although *Noerr* was based on an interpretation of the Sherman Act, both the Supreme Court and the Commission have applied *Noerr* to FTC Act cases.

In *SCTLA*, both the Supreme Court and the Commission applied *Noerr* to conduct challenged under the FTC Act and denied the immunity solely because the harm at issue arose from the use of the governmental process and not from its outcome. The Court stated: “[I]n the *Noerr* case the alleged restraint of trade was the intended *consequence* of public action; in this case the boycott was the *means* by which respondents sought to obtain favorable legislation.” 493 U.S. at 424-25 (emphasis in original). The Commission had reached the same conclusion, holding that the case “differ[ed] from *Noerr* and *Pennington*” because the respondents “did not merely solicit governmental action or attempt to influence the decisions of public officials through meetings or a publicity campaign.” *In re SCTLA*, 107 F.T.C. 510, 590 (1984). The Commission nowhere suggested that the immunity did not apply to cases under the FTC Act. On the contrary, it affirmatively stated that the challenged conduct “would merit the protection of the First Amendment under *Noerr* and succeeding cases” if it were limited to attempts to influence the passage or enforcement of laws. *In re SCTLA*, 107 F.T.C. at 590; *see also In re New England Motor Rate Bureau*, 112 F.T.C. 200 (1989); *In re Michigan State Medical Soc’y*, 101 F.T.C. 191 (1983) (analyzing *Noerr* immunity without suggesting that it is inapplicable to the FTC Act).

In *Rodgers v. FTC*, 492 F.2d 228 (9th Cir. 1974), both the Commission and the court expressly concluded that *Noerr* applied to the FTC Act in precisely the same manner as it applies to the Sherman Act. The Commission held that “[t]he proscriptions of Section 5 of the FTC Act, as

we view them, like the proscriptions of the Sherman Act, are tailored to the business world, not for the political arena.” *Id.* at 230. These words echoed the Supreme Court’s words in *Noerr*. *See Noerr*, 365 U.S. at 141 (“[t]he proscriptions of the Act, tailored as they are for the business world, are not at all appropriate for application in the political arena”). On appeal, the court held that “we have neither the inclination nor the authority to discard the rationale and the decision of the Supreme Court in *Noerr*.” *Rodgers*, 492 F.2d at 230.

This outcome was compelled by *Noerr*, which said that to impute to the Sherman Act a purpose to regulate political activity “would have no basis in the legislative history of the Act.” 365 U.S. at 137. Nothing in the FTC Act’s legislative history suggests a congressional purpose to regulate such activity to a greater extent. On the contrary, the Commission has relied on the legislative history to reject an attempt to “expand the reach of the prohibition against attempted monopolization in the Sherman Act by condemning less offensive conduct under the purview of the Federal Trade Commission Act.” *In re General Foods Corp.*, 103 F.T.C. 204, 352 (1984). The Commission emphasized that “[w]hile Section 5 may empower the Commission to pursue those activities which offend the ‘basic policies’ of the antitrust laws, we do not believe that power should be used to reshape those policies when they have been clearly expressed and circumscribed.” *Id.*; *see also In re SCTLA*, 107 F.T.C. at 594 (citing the same “governmental interest underlying” the Sherman Act and FTC Act); *PRE*, 508 U.S. at 56 (petitioning “immune from *antitrust* liability”) (emphasis added).

#### **H. Judge Chappell Properly Dismissed This Matter Because the Commission Lacks Jurisdiction Over Substantial Questions of Patent Law.**

Where the right to relief depends on substantial questions of patent law, the Commission lacks jurisdiction to proceed administratively. The FTC Act does not expressly empower the Commission to make these determinations, and nothing in the Act’s legislative history indicates



that Congress ever contemplated the Commission undertaking such a role. Since the Complaint unquestionably raises substantial issues of patent law, this matter may only be brought, if at all, in a federal district court which has original jurisdiction over patent questions.

**1. The Relief Against Unocal Necessarily Depends on Substantial Questions of Patent Law.**

A case arises under the patent laws when a well-pleaded complaint facially establishes that the “right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.” *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808-09 (1988).

The Complaint expressly takes on the burden of resolving substantial questions of patent law. First, the Complaint’s fraud allegations necessarily require a determination of what Unocal did and did not patent as well as a claim construction and infringement analysis for each patent claim. The Complaint makes nine different allegations relating to the alleged overlap between Unocal’s patent claims and CARB’s regulations. Compl. ¶¶ 5, 33, 45, 76, 79, 80, 83, 88, 92.<sup>30</sup> Where the truth or falsity of the representation requires determining the scope and infringement of a patent, a complaint arises under the patent laws. *Additive Controls & Measurement Sys., Inc v. Flowdata*, 986 F.2d 476, 478 (Fed. Cir. 1993) (finding substantial patent question in a business disparagement action where alleged falsity required proof of noninfringement); *Datapoint Corp. v. VTel Corp.*, 1997 U.S. Dist. LEXIS 5770 at \*5-\*6 (S.D.N.Y. Apr. 29, 1997) (claim that

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<sup>30</sup> To prove the alleged overlap, Complaint Counsel must establish an appropriate claim construction for the patents. Only one of Unocal’s five patents has been construed by a court. *Union Oil Co. v. Atlantic Richfield Co.*, 34 F. Supp. 2d 1208 (C.D. Cal. 1998), *aff’d*, 208 F.3d 989 (Fed. Cir. 2000).

required resolution of alleged fraud's impact on patent royalties made it "necessary to determine the scope and validity of the underlying patent infringement claims" and thus to "determine substantial questions of patent law").

Second, the proof of harm alleged here also depends upon the resolution of substantial issues of patent law. The Complaint alleges that but for Unocal's fraud, members of two private organizations would have taken actions including, but not limited to, "advocating that CARB adopt regulations that *minimized or avoided infringement* on Unocal's patent claims" and "incorporating knowledge of Unocal's pending patent rights in their capital investment and refinery reconfiguration decisions to *avoid and/or minimize potential infringement.*" Complaint ¶¶ 90(a), (c) (emphasis added). The Complaint further alleges that refiners cannot avoid *infringement* but are locked-in to current refinery configurations. *Id.* ¶ 92 (extensive overlap between CARB regulations and Unocal patent claims makes avoidance of Unocal's patents infeasible"); *id.* ¶ 93 ("refiners cannot produce significant volumes of *non-infringing* CARB-compliant gasoline without incurring substantial additional costs") (emphasis added). These allegations require a determination of substantial patent questions, including the construction and scope of Unocal's patents, the existence of noninfringing alternatives, and the ability of refiners to reconfigure refineries to avoid infringement.

These are substantial issues of patent law. *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1329 (Fed. Cir. 1998) (substantial issues of patent law include infringement, validity and enforceability), *overruled in part on other grounds, Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1358 (Fed. 1999); *Scherbatskoy v. Halliburton*, 125 F.3d 288, 291 (5th Cir. 1997) (substantial question of patent law where infringement analysis was necessary to resolve contract claim); *Univ. of Minnesota v. Glaxo Welcome, Inc.*, 44 F. Supp. 2d 998, 1003-06

(D. Minn. 1999) (same), *aff'd*, 58 F. Supp. 2d 1036 (D. Minn. 1999). Although the Complaint requires the resolution of *many* substantial patent issues, it arises under the patent laws even if just *one* must be decided. *Christianson*, 486 U.S. at 809 (finding that right of relief needs to depend upon *a* substantial question of patent law to establish ‘arising under’ jurisdiction) (emphasis added).

Significantly, Complaint Counsel do not even attempt to refute Judge Chappell’s determination that these patent issues must necessarily be decided based on the Complaint. App. Br. at 56-57. Instead, Complaint Counsel argue that proof of market power does not require such a resolution – an issue which the Initial Decision never reached.

**2. The Commission Does Not Have Jurisdiction Over Substantial Questions of Patent Law.**

*i. Congress Has Clearly Mandated That Substantial Questions of Patent Law Should be Determined by the Federal Courts.*

In setting out the scope of the Commission’s authority over competition matters, Congress has vested the Commission with jurisdiction over “unfair methods of competition.” 15 U.S.C. § 45. In so doing, Congress neither expressly nor impliedly authorized the Commission to decide substantial patent law questions.

A fundamental rule of statutory interpretation is that “courts do not interpret statutes in isolation, but in the context of the *corpus juris* of which they are a part, including later-enacted statutes.” *Branch v. Smith*, 538 U.S. 254, 281 (2003). Consideration of the entire body of law addressing jurisdiction over patent matters demonstrates that when Congress wants a forum to have such jurisdiction, it either expressly grants such authority or makes its intent clear in the legislative history.

For example, although original jurisdiction is provided to federal district courts over federal questions in 28 U.S.C. § 1331, Congress chose to *expressly* grant the district courts original jurisdiction over patent cases in 28 U.S.C. § 1338. Similarly, through 28 U.S.C. § 1491, the Court of Claims is authorized to hear claims against the United States generally. Congress, however, *expressly* articulated the court’s jurisdiction over patent claims in 28 U.S.C. § 1498(a).

When Congress wanted federal agencies to address substantial patent questions, it has clearly expressed this intent. Obviously, the PTO is expressly authorized to make determinations of patentability and invalidity. *See, e.g.,* 35 U.S.C. §§ 131, 151, 301. And although the International Trade Commission, like the FTC, investigates “[u]nfair methods of competition,” the ITC also has the power to declare an unfair method of import trade where imported articles “infringe a valid and enforceable United States patent.” 19 U.S.C. § 1337(a)(1)(B)(i).

Long before Congress gave the ITC the right to determine issues relating to the validity and enforceability of patents, courts expressed concerns about the jurisdiction of its predecessor (the Tariff Commission) to decide substantial patent law matters. *See, e.g., Frischer & Co. v. Bakelite Corp.*, 17 C.C.P.A. 494, 509-10 (1930). In holding that the Tariff Commission could not determine patent validity, the Court noted that Congress did not expressly grant such a right:

The right to pass upon the validity of a patent . . . is a right possessed only by the courts of the United States given jurisdiction thereof by law. . . . Even where jurisdiction is vested in the Court of Appeals of the District of Columbia, and now in this court, to review the proceedings of the Patent Office in the issuance of patents, *it was and is expressly provided by law.*

*Id.* at 509 (emphasis added). The *Frischer* Court also noted that there was also no indication in the legislative history that Congress intended to confer this power upon the Tariff Commission.

*Id.* at 509-10.

In 1974, Congress added language to § 1337 allowing the ITC to consider “all legal and equitable defenses.” *Lannom Mfg. Co., Inc. v. ITC*, 799 F.2d 1572, 1577 (Fed. Cir. 1986). The legislative history clearly conveys that Congress intended, by this language, to allow the ITC to “review the validity and enforceability of patents.” *Id.* (citing S. Rep. No. 1298, 93 Cong., 2d Sess. at 196 (1974); see also H.R. Rep. No. 571, 93d Cong., 1st Sess. at 78 (1973)).<sup>31</sup> In contrast to the ITC, the FTC is neither expressly nor impliedly granted such rights.

Congress has also expressly acknowledged that other agencies may address patent matters within the scope of their jurisdiction by trying such issues in district court. For example, if infringing a patent is necessary to comply with certain provisions of the Federal Clean Air Act, Congress has empowered the EPA to request that the Attorney General initiate an action in federal district court. If the Attorney General demonstrates a substantial lessening of competition or tendency to create a monopoly, then the court may require the patent holder to license on reasonable terms. 42 U.S.C. § 7608. Similarly, the Tennessee Valley Authority Act of 1933 contains a specific provision allowing the TVA to copy patented methods, formulae, and scientific information. 16 U.S.C. § 831r. Patentees whose rights are infringed by the TVA have an exclusive remedy only in federal district court, where direct appeal to the Federal Circuit is assured. *Alco Standard Corp. v. Tennessee Valley Auth.*, 808 F.2d 1490, 1494 (Fed. Cir. 1986) (“It would be anomalous if appeals in patent infringement suits against TVA were heard by the regional circuit, when all other appeals in patent infringement suits come to this court.”).

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<sup>31</sup> The current language of the statute expressly permits the ITC to consider whether an article “infringe[s] a valid and enforceable United States patent.” 19 U.S.C. § 1337(a)(1)(B)(i).

To support their claim of jurisdiction here, Complaint Counsel cite to a series of cases from other courts and argue that bodies other than federal district courts can decide patent issues. These cases either support Judge Chappell's holding, because the court deciding the matter actually has express patent law jurisdiction, or are distinguishable, because the complaint at issue does not depend upon the resolution of substantial matters of patent law. For example, the Court of Federal Claims is expressly authorized to hear patent claims against the United States (28 U.S.C. § 1498(a)), and the cases from that court cited by Complaint Counsel only establish that patent matters were resolved by a court with jurisdiction over them. Bankruptcy courts likewise have jurisdiction to hear patent matters because they are a unit of the district court. 28 U.S.C. § 151. Finally, the Tax Court decision cited by Complaint Counsel, *Podd v. C.I.R.*, T.C. Memo 1998-231, 1998 Tax Ct. Memo LEXIS 233 at \*1 (U.S. Tax Ct. June 30, 1998), did not even arise under the patent laws, but rather looked to the appropriate arms-length value of the royalty payments under Section 482 of the Tax Code. *Id.* at \*28-29, \*40-57.

***ii. The FTC Act Does Not Grant Jurisdiction Over Patent Matters.***

In contrast to each of the statutes cited above, the FTC Act contains no express grant of jurisdiction over patent questions, and the Act's legislative history does not evince Congressional intent to confer such jurisdiction. As the Supreme Court has stated, "the Commission may exercise only the powers granted it by the Act." *FTC v. National Lead Co.*, 352 U.S. 419, 428 (1957). These powers do not include the right to determine substantial questions of patent law.<sup>32</sup>

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<sup>32</sup> Complaint Counsel's citation to *Schering-Plough* lends no persuasive support to its argument. *Schering-Plough* specifically held that a determination of patent validity was *not* necessary in order to determine whether agreements between a patent holder and a generic

[Footnote continued on next page]

*See Decker v. FTC*, 176 F.2d 461, 463 (D.C. Cir. 1949) (“The proceedings before the [FTC] related only to advertising. They did not draw into question the validity of the patent grant. Hence the case is not one arising under the patent laws, cognizable only in district court”); *Chas. Pfizer & Co., Inc. v. Columbia Pharmaceutical Corp.*, 142 U.S.P.Q. 493 (E.D.N.Y. 1964) (“The Federal Trade Commission has neither the right nor the power to pass on the patent’s validity”); *American Cyanamid Co. v. FTC*, 363 F.2d 757, 772 (6th Cir. 1966) (“we do not hold that the Commission has jurisdiction either directly or indirectly to invalidate or destroy a patent, nor do we hold that the Commission could order compulsory licensing without payment of reasonable royalties”).<sup>33</sup>

The legislative history of the FTC Act contains no indication that Congress contemplated the Commission should be vested with the power to decide substantial patent issues. In creating the Commission, Congress provided it with specific powers – among others, to investigate and restrict “unfair methods of competition.” 15 U.S.C. § 45. As explained by the Report of the Senate Interstate Commerce Committee, these powers “are of great importance and will bring both to the Attorney General and to the court the aid of special expert experience and training in

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[Footnote continued from previous page]

drug company were reasonable. *In the Matter of Schering-Plough Corp.*, Docket No. 9297, Slip. Op. at 35 (Dec. 18, 2003).

<sup>33</sup> Complaint Counsel rely heavily on *American Cyanamid* to support Commission jurisdiction over substantial patent law issues. But the Commission’s exercise of jurisdiction in *American Cyanamid* was based in part upon its determination that its conclusion that the questions before it were “incidental or collateral” patent matters. *In re American Cyanamid*, 63 F.T.C. 1747, 1856 (1963). At most, *American Cyanamid* suggests that the Commission should look to whether a state court would have jurisdiction in determining the scope of its own jurisdiction.

matters regarding which neither the Department of Justice nor the courts can be expected to be proficient.” S. Rep. No. 597, 63d Cong., 2d Sess. at 12 (1914). The special expertise of the Commission is the competition field, not patent law.

The Commission has been in existence for ninety years and has not—until recently—expressly asserted jurisdiction over what it viewed to be substantial questions of patent law. “[W]ant of assertion of power by those who presumably would be alert to exercise it, is . . . significant in determining whether such power was actually conferred.” *FTC v. Bunte Bros., Inc.*, 312 U.S. 349, 352 (1941). As the Supreme Court stated in *Federal Power Comm’r v. Panhandle Eastern Pipe Line Co.*, 337 U.S. 498, 513 (1949), “[f]ailure to use such an important power for so long a time indicates to us that the Commission did not believe the power existed.” See also *Bankamerica Corp. v. United States*, 462 U.S. 122, 131 (1983) (stating that “[g]overnment’s failure for over 60 years to exercise the power it now claims” under the Clayton Act “strongly suggests that it did not read the statute as granting such power”). The Complaint’s assertion of jurisdiction over matters arising under the patent laws is likewise an unprecedented expansion of the Commission’s authority that was never intended by Congress.

**iii. *Accepting Jurisdiction in this Agency Would Frustrate Congress’s Express Goal of Uniformity of Patent Law.***

There is no basis to read into the FTC Act any implied grant of jurisdiction over patent matters because such an *implied* right is directly contrary to Congress’ *express* goal of developing a uniform body of patent law. Congress’s desire for a uniform body of patent jurisprudence is realized through a statutory scheme that vests express jurisdiction in federal district courts and certain federal agencies with patent expertise (such as the PTO), and ensures that appeals of actions under the patent laws are heard by the Court of Appeals for the Federal



Circuit. This Congressional objective is well recognized: “There is a strong federal interest in an interpretation of the patent statutes that is both uniform and faithful to the constitutional goals of stimulating invention and rewarding the disclosure of novel and useful advances in technology. . . . Therefore, consistency, uniformity, and *familiarity with the extensive and relevant body of patent jurisprudence* are matters of overriding significance in this area of the law.” *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 650 (1999) (Stevens, J., dissenting) (emphasis added).

As noted above, 28 U.S.C. § 1338 grants original and exclusive jurisdiction over actions arising under the patent laws to federal district courts. Courts have long recognized that one of the primary goals of § 1338 is to develop “a uniform body of law in resolving the constant tension between private right and public access.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 142 (1989); *see also Hunter Douglas*, 153 F.3d at 1331 (noting Congressional intent to effect a “clear, stable and uniform basis for evaluating” patent matters). Complaint Counsel argue that § 1338 is not directed to agencies but only to the federal and state courts.<sup>34</sup> As the Initial Decision emphasizes, however, such an interpretation of § 1338 would be nonsensical because it would suggest that any agency or court, other than the state courts, might consider substantial questions of patent law. Courts have in fact recognized that § 1338’s grant of original and exclusive jurisdiction over patent matters indeed places limitations upon a *federal*

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<sup>34</sup> Complaint Counsel cite *Miss America Org. v. Mattel, Inc.*, 945 F.2d 536, 541 (2d Cir. 1991), for the proposition that § 1338 is irrelevant to a determination of whether an agency has jurisdiction over a patent action. App. Br. 50. But *Miss America* actually involved a copyright case in which the agency whose jurisdiction was challenged was *expressly* authorized to enact regulations in aid of the prevention of copyright infringement.

agency's power as well. *See, e.g., In re Convertible Rowing Exerciser Patent Litigation*, 814 F. Supp. 1197, 1206-07 (D. Del. 1993) (explaining ITC's lack of jurisdiction to render binding legal conclusions on validity, given district court's original jurisdiction under § 1338); *Bio-Technology General Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1564 (Fed. Cir. 1996) (ITC may not award infringement damages, which "may only be provided by the United States District Courts, which have original and exclusive jurisdiction over patent infringement cases.")

Congress reinforced its strong interest in consistent and uniform patent jurisprudence when it passed the Federal Courts Improvement Act of 1982, which established the Court of Appeals for the Federal Circuit. Under 28 U.S.C. § 1295(a)(1), the Federal Circuit has exclusive jurisdiction over appeals from district court decisions where the district court's jurisdiction over patent matters was based, in whole or in part, on section 1338. Congress's express purpose was to promote predictability, uniformity, and the efficient administration of patent law. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (for the sake of "desirable uniformity . . . Congress created the Court of Appeals for the Federal Circuit as an exclusive appellate court for patent cases"); *see also* S. Rep. No. 275, 97th Cong., 1st Sess. at 5-6 (1981) . Thus, appeal from the decisions of other agencies and courts that have express jurisdiction over patent law issues, such as the ITC and the Court of Claims, must be taken to the Federal Circuit. 28 U.S.C. § 1295. The same is true for appeals from PTO proceedings (35 U.S.C. § 141) and appeals from the bankruptcy courts when substantial patent issues are raised (*Institut Pasteur v. Cambridge Biotech Corp.*, 186 F.3d 1356, 1369-70 (Fed. Cir. 1999)).

There is no such provision authorizing appeal from the Federal Trade Commission to the Federal Circuit. Rather, jurisdiction for any appeal from a Commission decision is geographically determined. 15 U.S.C. § 45(c). Allowing the Commission to determine substantial matters of

patent law would violate the carefully constructed Congressional design to ensure that patent law matters are decided in the first instance by adjudicatory bodies with patent expertise and, on appeal, by the Federal Circuit.

A finding that the FTC has no jurisdiction to hear cases that necessarily depend upon substantial matters of patent law does not mean that the FTC is powerless to enforce unfair methods of competition that raise patent issues. Section 13(b) of the FTC Act gives the Commission the right to bring actions for equitable relief in district court. 15 U.S.C. § 57(b). If such a well-pleaded complaint arising under the patent laws was brought in district court, where original jurisdiction is vested, then on appeal, the matter would be heard by the Federal Circuit under § 1295.

### CONCLUSION

For all the foregoing reasons, Unocal requests that the Initial Decision be affirmed.

Dated: February 27, 2004

Respectfully submitted,

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By: Signature on File with Commission

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