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INTERNATIONAL PATENT-ANTITRUST PRINCIPLES
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The balance between the dynamic efficiency goals of intellectual property law and the static efficiency goals of traditional competition law is among the most important issues in contemporary antitrust law, both because of the fundamental importance of technology to the economy and because of the contemporary strengthening of intellectual property rights.

It is especially important to explore this balance internationally. Differences in the balance among different nations (or a nation and a region such as Europe) can create unnecessary difficulties for business – save for strong reason, a business should not be faced with inconsistent requirements in the different jurisdictions in which it may operate, nor, ideally, should it be faced with significant duplicative costs in obtaining approval for a transaction in different jurisdictions. The differences can also have important international competitive effects; adoption of a particular antitrust principle can assist the firms of one nation at the expense of those of another. The transatlantic tensions associated with U.S. and European review of the Boeing-MacDonald Douglass merger and the proposed GE-Honeywell merger exemplify the impact of differences in antitrust analysis; although each regulator argued that it was presenting a balanced position, each regulator's position corresponded to its own merchantile interest.¹

This paper is prepared for the Department of Justice – Federal Trade Commission patent-antitrust hearings on May 22, 2002, at which international licensing issues will be considered. Although the author will not be present, he hopes the points presented herein can be considered and the paper posted with the other presentations on the FTC website. Issues of impacts on developing nations will ultimately be more important, but the paper deals primarily with US-European patent-antitrust issues, in the expectation that this is where initial international discussions will be concentrated. It does not attempt to present an exhaustive analysis, but attempts instead to suggest those areas in which differences between U.S. and European patent-antitrust principles may give rise to unnecessary economic costs to business or to competitive

¹ Some, but not all, such problems could be resolved if antitrust authorities explored the effects on consumers in global markets, not just in national markets.

distortions among the two areas, and therefore to highlight areas for discussion as to possible harmonization.

I. PATENT PRINCIPLES

In the first instance, it should be noted that there are important differences between the United States and Europe in the scope of inventions subject to patent protection. This may itself have important competitive implications for particular industries and certainly provides an important background for patent-antitrust analysis. For example, patents on software and business methods are much less available in Europe than in the United States.² The exact implication of this difference is unclear, for there is certainly a possibility of what amounts to extraterritorial enforcement of U.S. patents – for example, the claims of a business method patent might be written in such a way that the patent would be infringed by a European firm using the business method on a European server but marketing to a U.S. customer. Moreover, the impact of these patents on innovation is also unclear. It is possible that a European firm is, in general, harmed in comparison with a U.S. firm by its inability to obtain such protection and the incentives associated with it. And it is also possible that a European firm is helped (especially in the financial service industries) by not having to worry about infringement and litigation over such patents.

The other important patentability difference, a somewhat less crisp one, is that biotechnology research tools such as partial gene sequences may also be somewhat less likely to be patentable in Europe than in the United States. There is a significant possibility as well that certain diagnostic patents will be weak or unavailable in Europe, as suggested by Institut Curie's effort to attack the Myriad Genetics breast cancer diagnostic patent before the European Patent Office. Similarly, utility patents are available on plant lines in the United States and can be used to prevent research breeding with the lines; such patents are not available in Europe.³ The implications, again, are mixed. Certain genomics and diagnostic industries have less incentive in Europe. The pharmaceutical firms and research laboratories using the various tools, however, need worry less about infringement, and are better off. And there is a chance for European

² Compare *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998), with Commission Proposal for a Directive of the European Parliament and of the Council on the patentability of computer-implemented innovations, COM (2002) 92 final, Feb. 2, 2002.

³ Note that there are similar important differences in other intellectual property areas that may give rise to similar distortions, e.g. the European Data Base Directive, possible different rights in the reverse engineering of computer programs, and the Digital Millennium Copyright Act.

research and diagnostic havens to emerge as well.⁴

II. VERTICAL LICENSING PRINCIPLES

At one time, both the United States and Europe strongly restricted the use in patent licenses of a variety of contractual provisions such as tying and exclusivity provisions. The United States radically changed its position in the 1980s, recognizing that many of these provisions were actually pro-competitive. Albeit later, Europe has moved in the same direction; this is quite clear in its new *Regulation 2659/2000 of 29 November 2000, on the application of Article 81(3) of the Treaty to categories of research and development agreements*, part of a continuing process of modification of the old transfer of technology block exemptions. Part of this process includes a questioning of the doctrine of the old *Windsurfing* case, Case 193/83 (ECJ 1986).⁵

There is, however, a further issue being posed today to both U.S. and European antitrust law that tying may in fact be a problem in situations in which the tying or tied markets are subject to network externalities. In such cases, tying may provide a way to move from a dominant position in one to a dominant position in the other – a possibility that poses economic concern even when the dominant position in the first market is legitimately based on an intellectual property right. Although the case does not involve patents, this is part of the logic in the Microsoft case; Europe is pursuing the case in the context of Windows and media players.⁶ This tying question raises both harmonization issues and issues of national competitiveness; it clearly deserves joint discussion.

III. MERGERS

In analyzing mergers, both the United States and Europe look for specific markets in which competition may be reduced; these include potential markets in which one or both of the

⁴ See John Walsh, University of Illinois Chicago, Ashish Arora & Wes Cohen, Carnegie Mellon University, "The Patenting of Research Tools and Biomedical Innovation," available at http://www7.nationalacademies.org/step/STEP_Projects_Intellectual_Property_Rights_Commissioned_Research.html. And, for a research haven example, see *Bayer AG v. Housey Pharmaceuticals, Inc.*, 169 F.Supp. 2d 328 (D. Del. 2001).

⁵ Commission Evaluation report on the Transfer of Technology Block Exemption Regulation No. 240/96; Technology Transfer Agreements under Article 81 (Dec. 2001), available at http://comm/competition/antitrust/technology_transfer/.

⁶ EU Press Release, Commission initiates additional proceedings against Microsoft, Aug 30, 2001.

firms is engaged in research as opposed to product development. Both regulators then attempt to estimate the effect that the merger will lead to concentration in the market for the specific product, taking into account the potential competition available from other firms, and taking into account the extent to which such entry may be complicated by existing patent portfolios. It is hard to see that the FTC's approach in cases like *Ciba-Giegy Limited*, C-3725 (1997), *Glaxo-Wellcome & SmithKline Beecham*, C-3990 (2001) is fundamentally different from that of the European Commission in cases like *Dow Chemical/Union Carbide*, M. 1671 (2000) and its version of *Glaxo Wellcome/SmithKline Beecham*, M1846 (2000). There may be differences at the detailed level in the process of estimating the likelihood of anticompetitive effects in a particular sector, and different sectors may of interest in the different markets, but the need in this area is probably evaluation of the accuracy of past judgments and continued procedural simplification to reduce the combined costs of review in the two jurisdictions.

IV. THE INTERCONNECTION STANDARDS ISSUE

An area that might involve significant difference is exemplified by the early 1990s dispute over the European Telecommunications Standards Institute (ETSI) standards. Under the initial version of the ETSI patent policy, a firm participating in the development of a telecommunications standard had to be prepared to offer a license on any patented technologies involved. Many U.S. firms regarded the ETSI principles as, in effect, requiring them to give up their patent rights as a condition of access to the European market; they therefore worked through the United States government and the European Commission to change the policy. Ultimately, ETSI did change its policy to require only a request to the patent holder to make license available on "fair, reasonable and non-discriminating" terms, leaving open what will happen if such a license is not forthcoming.⁷

This outcome is not significantly different from contemporary U.S. practice. Moreover, the principles of formal standard setting organizations may be becoming less important as firms more and more negotiate standards outside the context of such organizations. Nevertheless, it is possible that there is still a trend in European law that, in general, a firm participating in the development of an interconnection standard must be readier than is required by U.S. law to provide a license to technology needed for development and use of the standard.⁸ If so, this is a

⁷ R. Bekkers & I. Liotard, *European Standards for Mobile Communications: The Tense Relationship between Standards and Intellectual Property Rights*, 21 *E.I.P.R.* 110 (1999); M. Lemley, *Intellectual Property Rights and Standard Setting Organizations*, presented at Joint FTC-DOJ Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy, April 18, 2002.

⁸ The same willingness to grant a compulsory license is seen in the famous *Magill* case (*Radio Telefis Eiranne v. Commission*), [1995] E.C.R. I-743. As of yet, there is no European case compelling the license of technology for use in a standard, and it seems unlikely

point with significant implications, for it affects the bargaining positions of U.S. patent-holding firms in their negotiations with European firms to define standards relevant to the European (and probably therefore the global) markets.

Attempting to define the “correct” answer in this context is difficult. There are two balances that must be made. The first recognizes that an interconnection standard is an enormous convenience to both industry and consumer and, at the same time, a significant source of market power. Recognizing the benefits of standards and the need to permit firms to find solutions to the patent jungles that often surround standards, the DOJ and the European Commission have thus approved cross-licenses (or perhaps more precisely collective licenses to users) designed to permit creation of standards in situations such as MPEG LA and DVD. At the same time, reflecting this first balance or tension, there is sometimes concern from some supplier and consumer groups as to the terms of the licenses needed for practice of specific standards.

The second balance involves the terms on which patents are cross-licensed among the participants, a point at which the United States and Europe may differ. Technology really is needed in developing or implementing a standard, and patents can help encourage the creation of this technology. But this incentive benefit of patents must be balanced against the difficulty of negotiating the cross-licenses necessary to implement the standard, and it must be recognized that the patents involved in standard battles sometimes appear to serve more as bargaining chips than as a basis for innovation. The issues of disclosure, identified by the FTC in *Dell Computer*, C-3658 (1996), exemplify this concern for the negotiation process. But it is the balance between encouraging innovation and facilitating negotiation that is crucial. Although the U.S. approach is more likely to increase the bargaining power of a patent-holding outsider in setting a standard, it is not clear which of the approaches is more likely to lead to good standards or their rapid adaptation to competitive and technological change.

The precise role of patents in negotiations towards standards is thus an important and difficult issue. There is enormous value in global standards; the firms setting standards are often themselves global; and the implications of standards are global. Moreover, the standards question is but part of a much broader group of questions posed by the behavior of firms with large mutually-blocking patent portfolios – a situation of increasing importance.⁹ Hence, along with the other issues discussed here, this is an essential subject for international discussions bringing together antitrust practitioners, economists, and business communities.

that this would be done except for a firm in a dominant position; but the balance is certainly different from that in U.S. law.

⁹ See, e.g., J. Barton, *Antitrust Treatment of Oligopolies with Mutually Blocking Patent Portfolios*, 69 *Antitrust L. J.* 851 (2002).