AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

October 24, 2008

Richard C. Donohue
Acting Secretary
Federal Trade Commission
Office of the Secretary
Room H-135 (Annex C)
600 Pennsylvania Avenue, N.W.
Washington, DC 20580

Re: Section 5 Workshop -- Comment, Project No. P083900

Dear Mr. Donohue:

The American Intellectual Property Association ("AIPLA") submits these comments in response to the request of the Federal Trade Commission for public comments in connection with the Commission's Section 5 Workshop in October 2008.

AIPLA is a voluntary bar association of nearly 17,000 members who work daily with patents, trademarks, copyrights, and trade secrets, and the legal issues that they present. Members include attorneys in private and corporate practice as well as government service. AIPLA's membership is intimately involved with the legal and business issues underlying the development, commercialization, and exploitation of intellectual property, including antitrust, enforceability, and licensing issues.

I. Introduction

AIPLA appreciates the opportunity to provide these comments for the Commission's consideration as it reviews the appropriate scope of its jurisdiction to prohibit "unfair methods of

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competition" in Section 5 of the FTC Act.[1] AIPLA recognizes the important enforcement role of the Commission in addressing anticompetitive conduct, including such conduct at the intersection of the intellectual property laws and antitrust laws. AIPLA submits that the Commission, in its consideration of these important issues involving Section 5, should be sensitive to the special role of patents and other forms of intellectual property in fostering innovation that is the lifeblood of the U.S. economy, thereby enhancing competition in the U.S. and the competitiveness of U.S. companies globally.

Viewed in this light, AIPLA believes there has been no demonstration of a need to exercise the Commission's authority to prohibit "unfair methods of competition" beyond the reach of the Sherman Act in matters involving intellectual property. AIPLA believes that any such extension could discourage the efficient dissemination and exploitation of intellectual property and, on balance, would be contrary to the interests of a dynamic economy and consumers.

No question exists that Section 5 embraces all violations of the Sherman or Clayton Acts.[2] It is also well-settled that, in principle, the Commission may prohibit as "unfair methods of competition" conduct that does not violate the Sherman or Clayton Acts.[3] However, many have questioned whether it is sound policy to extend the exercise of the Commission's "unfair methods of competition" jurisdiction beyond practices that can be reached by these Acts. In the words of one often-cited commentary:

> [T]here is a fundamental difficulty in distinguishing an *antitrust* offense under FTC Act §5 from that under the Sherman or the Clayton Act. Apart from possible historical anachronisms in the application of those statutes, the Sherman and Clayton Acts are broad enough to cover any anticompetitive agreement or monopolistic situation that ought to be attacked whether "completely full blown or not." Nothing prevents those statutes from working their own condemnation of practices violating their basic policies.[4]

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1 15 U.S.C. § 45 (2006). We understand that the Commission's workshop is limited to "unfair methods of competition." We will therefore not address, except collaterally, the application to intellectual property of the Commission's authority to prevent "unfair or deceptive acts or practices."

2 *See FTC v. Cement Institute*, 333 U.S. 683, 691-92 (1948).

3 *See FTC v. Sperry & Hutchinson Co.*, 405 U.S. 233, 244 (1972); *see also Cement Institute*, 333 U.S. at 694; *FTC v. Brown Shoe Co.*, 384 U.S. 316, 320-22 (1966).

4 II PHILLIP AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW § 302h2 (3d ed. 2007); s*ee also* Richard A. Posner, *The Federal Trade Commission*, 37 U. CHI. L. REV. 47, 52 (1969) ("[A]ny significantly anticompetitive behavior can be reached under the Sherman or Clayton Acts and novel extensions of antitrust doctrine such as we owe to

Whatever the reach of the Commission's incremental power might or should be in connection with other conduct, AIPLA believes that this admonition is particularly apt in connection with conduct involving intellectual property. Expanding the concept of "unfair methods of competition" beyond the bounds of the Sherman Act would be unnecessary and unwise. Such an extension – particularly if it means relieving the Commission of the need to demonstrate substantial harm to competition established by objective, effects-based analysis – will create a level of uncertainty that will inhibit efficient exploitation of intellectual property to the overall detriment of consumers and the economy.

In this letter, AIPLA focuses on the Sherman Act for conduct relating to intellectual property, because Sections 2 and 3 of the Clayton Act, 15 U.S.C. §§ 13, 14 (2006), pertain to commodities, which intellectual properties are not. To the extent that commodities are patented, AIPLA's comments would apply equally, i.e., the Commission should not proceed under Section 5 of the FTC Act against conduct relating to intellectual property rights in those commodities, unless the conduct also would violate the Clayton Act. In addition, while in this letter AIPLA focuses on patents, AIPLA's comments are likewise applicable to other forms of intellectual property.

II. Historical Perspective

Beginning in 1969, the Department of Justice declared as a matter of enforcement policy that it would view nine licensing practices as illegal *per se* under the antitrust laws. This list of "nine no-no's" included practices such as compulsory grantbacks, vertical restrictions on patented products, package licensing, and restrictions on the sales of products made by a licensed patented process.[5] Within a decade, however, the Department recognized that there were significant efficiency and

Section 5 seem in general highly questionable."); Stephen A. Stack, Jr., *Much Ado About Nothing: A Pragmatic View of Section 5*, 50 ANTITRUST L.J. 811, 811 (1982) ("What added dimension beyond the Clayton and Sherman Acts has Section 5 provided? Based upon a look at the record, the answer is, unfortunately, almost nothing.").

5 *See* Roland W. Donnem, Dir. of Policy Planning, Antitrust Div., U.S. Dep't of Justice, The Antitrust Attack on Restrictive Patent License Provisions, Address to Michigan Law Section and Michigan Patent, Trademark and Copyright Law Section, The Antitrust Attack on Restrictive Patent License Provisions (Sept. 25, 1969), *reprinted in* 14 ANTITRUST BULL. 749 (1969); *see also* Bruce B. Wilson, Deputy Assistant Attorney General, Antitrust Division, Address Before Michigan State Bar Antitrust Section and the Patent Trademark and Copyright Section (Sept. 21, 1972), *partial text reprinted in* 4 TRADE REG. REP. (CCH) ¶ 13,126.

procompetitive virtues to many of the nine condemned practices,[6] and it rescinded the “nine no-no’s.”[7] Core problems with the “nine no-no’s” were:

- they dispensed with any rigorous analysis of anticompetitive effects;[8]
- they gave no consideration to the positive contribution of these practices to innovation;[9] and
- they created “‘false positives’: the tendency . . . to condemn behavior that in a significant number of cases is procompetitive and efficiency-enhancing.”[10]

The enforcement agencies replaced the “nine no-no’s” with a more rigorous effects-based analysis. That analysis is reflected in the FTC/DOJ 1995 Intellectual Property Guidelines and the 2007 Report on Antitrust Enforcement and Intellectual Property Rights.[11] It factors in the importance of innovation, focuses on demonstrable anti-competitive effects, and is generally consistent with the standards of the Sherman Act.

AIPLA is concerned, however, that an effort by the Commission to prohibit as “unfair methods of competition” practices that do not meet the Sherman Act’s standards – which require a showing of, on balance, substantial negative effects on competition and not just merely competitors – will re-create the undesirable environment experienced during the era of the “nine no-no’s.” The Sherman Act’s competitive injury requirement lessens the chances of creating new liability rules that will deter beneficial conduct. If the Commission compromises that requirement, the risk of false positives and

6 *See* Ky P. Ewing, Jr., Deputy Assistant Attorney General, Antitrust Div., Dep’t of Justice, Remarks to the San Francisco Patent Law Association (May 5, 1979), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,128.

7 *See* Abbott B. Lipsky, Jr., Deputy Assistant Attorney General, Antitrust Div., U.S. Dep’t of Justice, Remarks to the American Bar Association Antitrust Section (Nov. 5, 1981), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,129.

8 Gerald Masoudi, Intellectual Property and Competition: Four Principles For Encouraging Innovation, Remarks to Digital Americas 2006 Meeting Intellectual Property and Innovation in the Digital World (Apr. 11, 2006), *available at* http://www.usdoj.gov/atr/public/speeches/215645.pdf at 10-11.

9 Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 ANTITRUST L.J. 913, 918 (2001).

10 Masoudi, *supra* note 8, at 11.

11 U.S. DEP’T OF JUSTICE AND FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY, § 2.3 (1995) (hereinafter, “1995 IP Guidelines”), *available at* http://www.usdoj.gov/atr/public/guidelines/0558.pdf; U.S. DEP’T OF JUSTICE AND FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION, 3-4 (2007) (hereinafter, “2007 IP Hearings Report”), *available at* www.usdoj.gov/atr/public/hearings/ip/222655.pdf.

over-deterrence increases. Where intellectual property and innovation are concerned, that increased risk can be especially detrimental.

As Deputy Assistant Attorney General James J. O'Connell, Jr. recently pointed out, criticizing the "nine no-no's" from the 1970s:

> By the 1980s, the Division understood that this approach was too narrow because it did not take into account the ways in which some restrictions in licensing agreements, over the long-term, can actually be used to increase competition. Certain licensing restraints may encourage licensees to develop the patent owner's technology, for example, or they may reduce the cost of licensing, or reduce the cost of production. Instead of reflexively saying "no" to specific intellectual licensing practices, we learned to examine them on a case-by-case basis to determine whether they, in fact, cause more good than harm. This is known as a rule of reason effects-based analysis.[12]

III. Intellectual Property Has Special Characteristics Making Application of Sherman Act Principles Important

The antitrust agencies have recognized that intellectual property has important characteristics "that distinguish it from many other forms of property."[13] Defining the scope of unfair methods of competition under Section 5 as being co-terminous with the scope of the Sherman Act is important when the distinct features of intellectual property are factored into any antitrust policy discussion.

First is the relationship between intellectual property and innovation in a dynamic economy. The purpose of intellectual property rights is to foster innovation by guaranteeing the inventor the right to exclude others from appropriating the innovation for a limited period of time.[14] In the case of patents, for example, the patent owner is granted the exclusive right to make, use, and sell the patented invention for 20 years from the date of filing.[15] A body of research demonstrates that the long-term, dynamic economic benefits of innovation are substantial.[16] Much of this return is not captured by the

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12 *See* James J. O'Connell, Jr., Maximizing Incentives to Innovate Under China's Anti-Monopoly Law: Some Fundamental Principles, Symposium on Innovation and Competition: A Forum on IPR-Related Antitrust Rules (Apr. 19, 2008), *available at* http://www.usdoj.gov/atr/public/speeches/234946.pdf at 4.

13 1995 IP Guidelines, *supra* note 11, § 2.1.

14 *See* U.S. CONST. art. I, § 8, cl. 8.

15 *See* 35 U.S.C. § 154(a).

16 *See, e.g.*, Richard Gilbert, Holding Innovation to an Antitrust Standard, AEI-Brookings Joint Center for Regulatory Studies 1, n.1 (Mar. 2007) ("Estimates of the average social rate of return to R&D range from 20 to 40 percent per annum and sometimes higher."); *see also* Michael J. Boskin and Lawrence J. Lau, *Capital, Technology, and Economic Growth*, *in* TECHNOLOGY AND THE WEALTH OF NATIONS 46-49 (N. Rosenberg et al.

intellectual property owner, but instead by numerous other users of inventions and, ultimately, by consumers. From a dynamic standpoint, long-term returns on this scale will often far exceed any short-term, static welfare concerns that trigger antitrust concerns regarding patent-related conduct.[17]

Second, as the Commission has pointed out, "[t]he value of intellectual property typically depends more on its combination with other factors of production . . . than does tangible property."[18] Given the possibility of multiple uses for intellectual property rights, it is often necessary for IP owners to contract with others for these factors of production in licenses, joint development agreements, or even more complex forms of economic integration.[19] And, as the Commission has also recognized, competitive restraints may often be necessary in these arrangements in order to increase the incentive of the intellectual property owner to license its property and the incentive of the licensee to invest in enhancing its social value.[20] An antitrust policy that unnecessarily deters transactions that can efficiently maximize the value of intellectual property will limit the social returns from innovation by limiting the use and dissemination of present innovation, and by lowering its anticipated value, thereby suppressing future innovation. Expanding the scope of Section 5 by unmooring it from the requirements of the Sherman Act and increasing the risk of possible violation can unnecessarily deter such beneficial transactions.

Third, investment in intellectual property is often riskier than investment in more tangible assets. Most of the investment is in upfront, sunk costs, with the prospect of adequate returns highly

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eds. 1992), *cited in* John W. Schlicher, PATENT LAW: LEGAL AND ECONOMIC PRINCIPLES § 2.3 at 2-5 n.3 (2d ed. 2005).

17 *See* Thomas O. Barnett, Assistant Attorney General, Antitrust Division, U.S. Department of Justice, Maximizing Welfare Through Technological Innovation, Remarks to George Mason University Law Review, 11th Annual Symposium on Antitrust (Oct. 31, 2007), available at http://www.usdoj.gov/atr/public/speeches/227291.pdf at 15 ("[A]ntitrust enforcers must be careful not to pursue immediate, static efficiency gains at the expense of long-term, dynamic efficiency improvements, since the latter are likely to create more consumer welfare than the former."); Thomas O. Barnett, Assistant Attorney General, Antitrust Division, U.S. Department of Justice, Competition Enforcement in an Innovative Economy, Remarks at the 4th Annual Competition Policy Conference, London, England (June 20, 2008), available at http://www.usdoj.gov/atr/public/speeches/234246.pdf at 2 ("[F]ocusing on static efficiency alone sells our economies far short of their potential. The far greater driver of economic growth is dynamic efficiency.").

18 2007 IP Hearings Report, *supra* note 11, at 4.

19 *See* 1995 IP Guidelines, *supra* note 11, § 2.3; *see also* Thomas M. Jorde & David J. Teece, *Innovation, Cooperation, and Antitrust*, *in* ANTITRUST, INNOVATION, AND COMPETITIVENESS 50-52 (Thomas M. Jorde & David J. Teece eds. 1992).

20 *See* 1995 IP Guidelines, *supra* note 11, § 2.3.

uncertain.[21] At the same time, as the Commission has recognized, intellectual property is easily misappropriated.[22] Given the substantial business risk attending R&D expenditures, the addition of significant legal risk to transactions that are necessary to realize an adequate return on those expenditures will likely deter some portion of that investment.

IV. The Antitrust Laws and Patent Laws Reflect a Balance

The patent laws represent a complex and well-articulated body of law finely balanced with the antitrust laws. As the Commission has recognized, these two bodies of law operate in complementary fashion to promote innovation and enhance consumer welfare.[23] The Commission recently reaffirmed that these bodies of law "share the same fundamental goals of enhancing consumer welfare and promoting innovation. *** Modern understanding of these two disciplines is that intellectual property and antitrust laws work in tandem to bring new and better technologies, products and services to consumers at lower prices."[24] As the Supreme Court recognized, the patent laws "are in *pari materia* with the antitrust laws and modify them *pro tanto.*"[25]

An example of this balance is in the doctrine of patent misuse. "The patent misuse doctrine, born from the equitable doctrine of unclean hands, is a method of limiting abuse of patent rights separate from the antitrust laws."[26] As the Supreme Court pointed out: "[I]f there was . . . patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation of either § 1 or § 2 of the Sherman Act."[27] The Federal Circuit similarly observed in a monopolization context:

> [V]iolation of the antitrust laws, in this case section 2 of the Sherman Antitrust Act, 15 U.S.C. § 2 (1994), requires more exacting proof than suffices to demonstrate patent misuse. For example, violation of the antitrust laws always requires an intent to monopolize, market power in a defined relevant market (which may be broader than

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21 *See* Schlicher, *supra* note 16, § 2.4 at 2-7 (private R & D investments "make sense only if they pay off . . . an amount several times larger than the investment," citing to studies).

22 *See* 1995 IP Guidelines, *supra* note 11, § 2.1.

23 *See* 1995 IP Guidelines, *supra* note 11, § 1.0.

24 IP Hearings Report, *supra* note 11, at 1; *see Atari Games Corp. v. Nintendo of America, Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) ("[T]he two bodies of law are . . . complementary, as both are aimed at encouraging innovation, industry and competition.").

25 *Simpson v. Union Oil Co. of Cal.*, 377 U.S. 13, 24 (1964).

26 *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997).

27 *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969).

> that defined by the patent), and damages attributable to the conduct asserted to be in violation of the antitrust laws.[28]

Notably, however, except for certain long-established conduct deemed *per se* misuse, for over 20 years the doctrine has been measured and constrained by the rule of reason:

> When a practice alleged to constitute patent misuse is neither *per se* patent misuse nor specifically excluded from a misuse analysis by [35 U.S.C.] §271(d), a court must determine if that practice is "reasonably within the patent grant" . . . . If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. . . . If, on the other hand, the practice has the effect of extending the patentee's statutory rights and does so with an anti-competitive effect, that practice must then be analyzed in accordance with the "rule of reason."[29]

As the Federal Circuit further explained:

> The appropriate criterion is whether [the patentee's] restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.[30]

The historic *antitrust* framework within which courts have harmonized these two statutory regimes has been provided by and balanced with the Sherman Act. The Commission could place this finely-tuned balance between patent law and antitrust law at risk if it departs from Sherman Act standards in attempting to define unfair methods of competition for intellectual property.

V. Public Policy Implications for Application of Antitrust Rules to Intellectual Property Without a Showing of Sherman Act Standards

The importance of innovation and the intellectual property protection that fosters innovation has significance for antitrust rules. The fact that some of the efficiency and procompetitive benefits from intellectual property will likely accrue in the long term and from unforeseen avenues means that these benefits will be systematically under-estimated, relative to short-term static effects, in any present effort to balance positive and negative effects of a particular practice. To compensate for this

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28 *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997).

29 *Virginia Panel,* 133 F.3d at 869 (internal citations and quotations omitted); *accord Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986) ("To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market."); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706 (Fed. Cir. 1992) (same, quoting *Windsurfing*); *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004) (same, quoting *Windsurfing*).

30 *Mallinckrodt,* 976 F.2d at 708.

bias, an enforcement policy for matters that bear directly on innovation should require a showing of significant, unreasonable competitive harm. To the extent, therefore, that the Commission decides to apply Section 5 to intellectual property matters without a demonstration of significant harm to competition that measures up to Sherman Act standards, it increases the risk of enforcement error and specifically of false positives.

The same factors also amplify the cost to consumers of enforcement error. Because of the multiplier effect of innovation, wrong decisions prohibiting or deterring efficient exploitation of intellectual property rights can be expected to produce a greater loss of consumer surplus than wrong enforcement decisions involving other areas of economic activity. Even if the risk of error is small, the consequences of false positives can be large.

The absence of any analytic framework once Section 5 reaches beyond Sherman Act boundaries also creates a substantial risk of over-deterrence. Without limiting principles and qualifying counter-examples such as Sherman Act jurisprudence provides, the isolated "unfair" decision takes on the force of law with potentially broad implications, likely to deter conduct well beyond the intended scope of the decision – conduct that may in fact be beneficial.[31] The determination by the Commission to challenge a practice as unfair tends to become a rule that constrains the general business community, as did the "nine no-no's" of three decades ago.

Following the approach suggesting an analytic framework that requires substantial anticompetitive effects that outweigh procompetitive benefits under a rule of reason analysis, however, would still allow for Section 5 enforcement efforts by the Commission in cases involving intellectual property. But such efforts would be based upon the type of effects-based analysis in each case to determine whether, on balance, competition and concomitantly consumers are being harmed. Absent such analysis, the uncertainty that firms will face in creating and deploying their intellectually property assets would be boundless, and would have a potentially devastating effect not only on innovation, but also on the ability of firms to effectively compete in the U.S. and globally.

In sum, attempting to prohibit "unfair methods of competition" that do not satisfy the standards of Sherman Act violations, where intellectual property rights are involved, creates a risk of false positives and over-deterrence that is greater than such a risk for conduct unrelated to innovation.

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[31] *See* Frank H. Easterbrook, *Information and Antitrust*, 2000 U. CHI. LEGAL F. 1, 22 (2000).

VI. The Commission's "Limiting Principles" for Section 5 Should Be Applied Consistently with a Sherman Act Analysis

The Commission's most recent statement on the scope of its "unfair methods of competition" authority is its Analysis of Proposed Consent Order To Aid Public Comment in the *N-Data* matter.[32] The Commission articulates two "limiting principles" that would confine the Commission's reach of this authority. First, the conduct must be coercive or oppressive; second, the conduct must have some effect on competition.[33] The problem with these principles is that they can be too easily misapplied to intellectual property.

A. Nature of the Conduct

A patent grants to the inventor a right to exclude everyone else from practicing the patented invention for a limited time.[34] Asserting that right necessarily involves some amount of "coercion" or "oppressiveness." The degree of oppressiveness, however, is critical. The Sherman Act has standards that distinguish between the kind of oppression that ought to justify antitrust intervention, on the one hand, and purportedly "oppressive" conduct that does not.

A prime example of the need to rely on Sherman Act jurisprudence involves enforcement of patents rights. Vindicating a patent right might require a broad program of litigation against potential infringers with the purpose of stopping their infringing activity or entering into licenses. The targeted infringers might view that activity as "oppressive." Yet that activity is regulated by Sherman Act precedent that balances the antitrust laws with the patent (and other) laws and the constitutional right to petition the courts.[35]

The courts for years have been dealing with these kinds of conduct issues in a way that harmonizes the policies of the antitrust and patent laws. Given the risk to dynamic efficiency that comes from uncertainty in this area, little reason appears for the Commission to depart from a Sherman Act analysis and introduce additional levels of risk and uncertainty into these kinds of activities.

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[32] *See* Analysis of Proposed Consent Order to Aid Public Comment, In the Matter of Negotiated Data Solutions LLC, File No. 051 0094 (Jan. 23, 2008), *available at* http://www.ftc.gov/os/caselist/0510094/080122analysis.pdf at 5.

[33] *See id.*

[34] *See* U.S. CONST. art. I, § 8, cl. 8.; *see also* 35 U.S.C. §§ 281, 283 (2000).

[35] *See Prof. Real Est. Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56-61 (1993).

B. Effect on Competition

The right of the patent owner to exclude others from making, using, or selling the patented invention is the central mechanism by which patents further the incentive to innovate. The Commission has recognize that this exclusionary effect is generally beneficial and procompetitive.[36]

This double-sided effect of the patent's exclusionary power makes antitrust analysis more challenging – more so than in other contexts where exclusionary effects are not inherently bound up with potential consumer benefits. Because patent rights are inherently exclusionary, antitrust analysis of patent-related activity needs a competitive effects standard that takes full account of the benefits of that exclusionary effect. Sherman Act jurisprudence provides a more reliable and predictable body of law to achieve this result than a less demanding formulation promulgated as an "unfair method of competition."[37]

By requiring evidence of a substantial harm to competition, the Sherman Act provides an important source of comfort to intellectual property owners as they try to assess antitrust risk from contemplated transactions. Water down that requirement with an expanded reach of Section 5, and the result will be more legal risk. For innovators engaged in activities that already carry a high business risk, the addition of greater legal risk will translate into investments not made. On the other hand, a full Sherman Act analysis allows the Commission to aggressively pursue activity that threatens and significantly harms competition without risking the procompetitive benefits that intellectual property provides.

VII. Private Rights of Action

Private rights under contract and on equitable grounds also exist to address the need the Commission may believe exists for Section 5 enforcement to protect the public interest beyond the antitrust laws as applied to intellectual property.

For example, in cases involving patents covering standards, defendants accused of infringement have available to them and have asserted defenses such as breach of contract, third party beneficiary

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36 *See* 2007 IP Hearings Report, *supra* note 11, at 1-5; *see also* 1995 IP Guidelines, *supra* note 11, §§ 1.0, 2.1.

37 As Judge Posner remarked in the context of patent misuse: "If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty." *USM Corp. v. SPS Tech., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982).

claims, fraud, express or implied license, equitable and promissory estoppel, unclean hands, waiver, and acquiescence. Most of these claims and defenses are based on the accused infringer's alleged reliance on a right to a license, or a right to use the patented invention based on the patent owner's alleged conduct in connection with the development of a standard. The harm sought to be addressed by the accused infringer is the reliance placed on the patent owner's conduct or silence, and absent proof of such reliance no harm would exist.

Although many cases involving these issues are still being litigated, in at least one case–*Qualcomm v. Broadcom* (which is now on appeal to the Federal Circuit)–a defense of waiver was held to render certain patents unenforceable.[38] Given the availability of such private rights to address situations where actual harm might exist, the need for the Commission to devote its resources to intervene on behalf of the public in such situations might be very limited, and certainly where no harm exists based on the lack of reliance, the Commission's involvement may be uncalled for entirely.

Moreover, defendants accused of infringing a patent also may defend on the equitable ground that the patent owner misused the patent. If misuse occurred, the patent cannot be enforced against anyone until the misuse is purged, regardless of whether the accused infringer was the subject of the misuse conduct. "It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent."[39] Thus, if one private party successfully asserts a misuse defense, all other potential infringers benefit from that unenforceability until the misuse is purged.[40]

VIII. Conclusion

A proper antitrust analysis that recognizes the importance of the distinguishing characteristics of intellectual property and proper balance with the antitrust laws is crucial if the intellectual property laws are to perform their accepted role in creating incentives for innovation and its dissemination and

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38 *Qualcomm Inc. v. Broadcom Corp.*, Civ. A. No. 3:05-CV-1958-B(BLM) (S.D. Cal. March 21, 2007).

39 *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 494 (1942) (abrogated on other grounds by *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42-43 (2006)).

40 *See U.S. Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957) ("[C]ourts will not aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse or thereafter until the effect of such misuse have been dissipated, or 'purged' as the conventional saying goes.")

commercialization. To apply the Commission's "unfair methods of competition" jurisdiction to conduct that does not rise to the level of a Sherman Act violation would introduce a level of risk and uncertainty into the creation and commercialization of intellectual property that would be both unnecessary and contrary to the long-term interests of consumers.

Accordingly, as the Commission considers specific cases under Section 5 that involve intellectual property, AIPLA believes the Commission should remain sensitive to these issues. AIPLA supports the Commission's efforts within the bounds of the Sherman Act to obtain the complementary benefits of both the intellectual property laws and the antitrust laws.

Respectfully,

Q. Todd Dickinson
Executive Director
AIPLA