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Apostolos Chronopoulos

Patenting Standards – A Case for US Antitrust Law or a Call for Recognizing Immanent Public Policy Limitations to the Exploitation Rights Conferred by the Patent Act?* **

This paper examines the adverse effect of patent ambushing on competitive conditions resulting in the distortion of the standardization process in markets where the effectiveness of competition relies heavily on standardization. The US Rambus litigation serves as a point of departure. In this case, the strategic behavior of the patentee was subjected to both an antitrust and unfair competition analysis. Both approaches display an inadequacy to squarely balance all of the conflicting interests involved. The solution proposed is to apply the patent misuse doctrine as a rule that expresses a public policy defense against patent enforcement so as to ensure the precompetitive function of standard-setting bodies. The argument is then taken further by addressing the issue of whether public policy limitations of patent rights are necessary in network industries in order to achieve welfare-enhancing reductions of the exclusionary effect of the patent.


The term “patent ambush” refers to tactical maneuvers of patent holders during the standardization process with the purpose of establishing proprietary rights on the standard to be adopted. The typical scenario involves participants in Standard Setting Organizations (SSOs) concealing or misrepresenting their patent interests on technologies that are about to be incorporated into the standard. While observing the development of the standardizing activity they keep perfecting their patent claims so as to be able to hold up the commercialization of the end product and negotiate licensing fees from an advantageous position.1 Patent rights are asserted at a point where it is uneconomic or gravely inconvenient to shift to other technologies due to irreversible sunk investments. The industry is in this sense locked-in by the standard and subject to the monopolistic royalties of the patentee. The

* LL.M (Lond.); LL.M Eur. (Munich).
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1 This is another example of the patent system’s failure to provide adequate notice so as to protect the investment decisions of third parties. Patent continuations create a significant potential for abuses that aim to exclude competitors who have independently produced the patented invention prior to the broadening continuation. See Lemley & Moore, “Ending Abuse of Patent Continuations”, 84 B.U.L. Rev. 63-118 (2004).

Recently, the Court of Appeals for the Federal Circuit2 answered in the affirmative reversing a ruling from the FTC3 that held this type of conduct as exclusionary under Sec. 2 of the Sherman Act. The case concerns the conduct of a technology licensing company, Rambus, within the proceedings of the JEDEC Solid State Technology Association (JEDEC), a standard-setting body that develops standards for hardware interfaces. JEDEC was developing a technical standard for a form of computer memory known as dynamic random access memory (DRAM) at that time. Rambus took part without disclosing its patent position, namely that it was developing patents and possessed pending patent applications on technologies that were being considered and finally adopted in JEDEC’s industry-wide standards. JEDEC and its members were deceived in that they proceeded to adopt a standard based on a certainty that it was going to be an open one. Up to this moment there has been no substantive ruling for the same legal question in Europe. The European Commission has sent a statement of objections to Rambus and both parties have reached a tentative settlement providing for maximum royalty rates. This paper is therefore focused on the legal assessment to be made under US Law and provides only a short overview of the legal situation in Europe.

The article proceeds in eight parts. Part II sketches the relevant antitrust principles. Part III analyzes critically the possible antitrust argumentation that supports the rulings of both the FTC and the D.C. Circuit. Consideration is given to other judicial opinions as well. The opinion of the D.C. Circuit is considered as rightfully negating antitrust applicability to patent ambushing in view of its potentially over-deterrent sanction system and the general postulate of respecting the competency of the patent system to regulate innovation. The legal problem is thus relegated to another set of norms, the applicability of which will be examined in the following parts.

Part IV turns an eye to those opinions that have attempted to apply the unfair competition cause of action to the legal problem under consideration. The core legal issue addressed there is the relationship between antitrust and unfair competition theories of liability and more specifically the breadth of FTC authority to forbid unilateral actions in competition that fall short of an antitrust violation. It is affirmed that the Sec. 5 theories developed by the FTC do not contradict the antitrust doctrine.

Part V argues that antitrust and unfair competition theories can neither effectively deter patent ambushing nor enhance static and dynamic efficiency

2 Rambus, Inc. v. FTC, 522 F.3d 456 (D.C. Cir. 2008).
by widening the access to the standard. This can also be said for contractual remedies and some equitable enforcement-related patent law doctrines such as denial of automatic injunctions or estoppel. The remedy that could deter ambush in network industries and steer inventive effort to socially desirable innovation within the standard is patent unenforceability. Patent ambushing is thus a matter of patent scope and coordination of inventive activity according to the public interest. It is, in other words, a patent law problem. The relevant legal doctrine is that of patent misuse.

Part VI examines the legal nature of the misuse defense. It purports to dissolve the misunderstanding that misuse has been a doctrinal tool of equity, implementing the inherency doctrine in order to confine the patentee to rewards that are directly related to his right of exclusion. The misuse doctrine is presented as a substantive limitation of patent exploitation for public policy reasons. In this respect it implements the incentives paradigm of patent law at the enforcement stage. Simultaneously it is shown that the misuse theory exists in common law supplementing the Patent Act, has an autonomous field of application and has not been absorbed by the antitrust laws.

Part VII deals with the specific application of the misuse theory in industries characterized by network effects. Part VIII examines the extent to which the proposed solution is arguable in Europe. Part IX provides a brief summary and conclusion.

II. Exclusionary Conduct Under Section 2 of the Sherman Act

The monopolization offense is committed when monopoly power is willfully acquired or entrenched through exclusionary conduct. Illegal monopolizing behavior is usually negatively defined by way of contrast to growth or development as a consequence of a superior product, business acumen, or historic accident. Section 2 of the Sherman Act is generally permissive of competitive efforts to expand, which harm or even drive rivals out of the market, where they are based on better performance. Such rigorous competition is axiomatically presumed to enhance social welfare.

The purpose of the provision dictates some general rules that accompany its judicial application:

(a) For unilateral conduct to fall within the ambit of Sec. 2, the actor must either possess or be likely to achieve market power;

(b) Only the anticompetitive acquisition or maintenance of monopoly power is unlawful, not its mere possession or exercise;

(c) Harm to competitors lies in the nature of competition. Antitrust liability arises therefore when the competitive process is hindered to the detriment of consumers;

(d) Since the difference between pre- and anticompetitive conduct is often not easily discernable, courts have to take account of the dangers of over-deterrence (false positives) and under-deterrence (false negatives);

(e) The administrative enforcement costs and the effect of antitrust rules on firm decision making are also part of the inquiry.

The concrete application of those principles cannot be uniform as the various types of unilateral action in competition have their own potential to promote or threaten consumer welfare. It makes sense, for instance, to be tolerant of predatory pricing because it delivers the palpable consumer benefit of lower prices. The same holds true for unilateral refusals to deal, since imposing obligations to assist rivals is highly likely to reduce incentives to compete vigorously and chill innovation. For that reason courts address these issues by deploying legal tests that tend to eliminate false positives such as the “profit sacrifice” or the “no economic sense” test.

Therefore, the common-law notion of reasonableness guides the application of Sec. 2 in that it mandates a different legal treatment for various types of conduct so as to achieve the welfare-maximizing result in each individual case. The rule of reason has therefore a field of application, which precedes the treatment of specific facts. This becomes clearer when one turns to Sec. 1 cases. Before proceeding to the substance, courts must first choose the legal test that enhances social welfare by deciding whether the per se rule or the rule of reason is applicable in the case at hand.


7 Standard Oil Co. v. United States, 221 U.S. 1, 61-62 (1911).


10 Id.


14 The rule of reason becomes thus relevant in various levels of norm application.
III. The Application of Section 2 of the Sherman Act to Patent Ambush

The legal issue arising here is whether the unilateral acquisition of monopoly power through exploitation of the standard-setting process to gain control over standardized technologies is exclusionary. On this issue there is no judicial unanimity.\(^{15}\)

A. Undermining and Subversion of the Standard-Setting Process as Concepts of Competitive Harm

Standard-setting activity is of utmost importance in industries characterized by network effects; it pursues interoperability and compatibility among the various products within the network.\(^{16}\) In addition, voluntary consensus on a standard among industry participants facilitates the commercialization of new technologies in a highly efficient manner. In a standardized environment the market grows in size fostering economies of scale, as multiple suppliers are brought together in a more or less homogenous product market. Competition on the price is then intensified to the benefit of the consumer.\(^{17}\) Efficiencies generated by the standardization process are harnessed where patent hold-ups are confronted. The monopolistic behavior of the patentee increases the cost of marketing technology in standardized form. The situation becomes worse where there are more patent holders and royalty stacking occurs.\(^{18}\) Standardization bodies serve as forums providing the possibility to avoid this problem by collective bargaining.\(^{19}\)

In the light of the precompetitive function of SSOs there is a significant strand of judicial opinions that declare distorting the standardization process as a harm to competition. The authority that pointed down this path was Allied Tube and Conduit Corp. v. Indian Head, Inc.\(^{20}\) At the time of that decision it was a well-established rule that group action to influence legislative, executive, administrative or judicial decision making was immune from antitrust laws.\(^{21}\) The purpose of this doctrine was to guarantee the exercise of fundamental rights such as the right to petition the government, to file a standard among industry participants facilitates the commercialization of new technologies in a highly efficient manner. In a standardized environment the market grows in size fostering economies of scale, as multiple suppliers are brought together in a more or less homogenous product market. Competition on the price is then intensified to the benefit of the consumer.\(^{17}\) Efficiencies generated by the standardization process are harnessed where patent hold-ups are confronted. The monopolistic behavior of the patentee increases the cost of marketing technology in standardized form. The situation becomes worse where there are more patent holders and royalty stacking occurs.\(^{18}\) Standardization bodies serve as forums providing the possibility to avoid this problem by collective bargaining.\(^{19}\)

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The rulings of the FTC in Rambus\(^{25}\) and of the Third Circuit in Broadcom Corp. v. Qualcomm Inc.\(^{26}\) elaborate upon this line of argumentation. Withholding information about proprietary interests on a technology under consideration obscures the costs of its incorporation into the ultimate standard. Adoption of this technology leads to licensing fees and prices for compatible products that are higher than those which would have resulted if the SSO had had all necessary information to make a fully informed choice of technol-

\(^{15}\) A Supreme Court's ruling is unfortunately missing. The FTC's petition for certiorari in Rambus has been rejected.

\(^{16}\) For these consumer benefits see Motta, "Competition Policy" (2004), at 82-83.

\(^{17}\) Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297, 309 (3rd Cir. 2007).


\(^{23}\) Whether misrepresentations directed at a governmental standard-setting body enjoy the Noerr-Pennington immunity is also an issue thoroughly examined by the FTC. In the Matter of Union Oil Company of California, Docket No. 9305, available at http://www.ftc.gov/os/adipro/9305/040706commissionopinion.pdf. Since the matter is peripheral for the purposes of this paper, it will not be examined in detail but only very briefly addressed here. Unocal misrepresented its patents and enforcement intentions to competing gasoline refiners and to the California Air Resources Board (CARB). As a result, the new standards for automobile fuels were substantially overlapping its patents. Unocal claimed that such misrepresentations to other participants, so as the latter unconsciously induce the executive authority to regulate in its favor, amount to indirect petitioning to the government in order to influence the passage of laws protected by Noerr-Pennington. The legal problem was whether there is a general misrepresentation exception to this immunity since the judicially recognized explicit exceptions ("Sham litigation" and "Walker Process") did not apply to the case at hand. Floyd, "Antitrust Liability for the Anticompetitive Effects of Governmental Action Induced by Fraud", 69 Antitrust L.J. 403, 422, 423-425 (2001). Taking into account the hybrid constitutional and antitrust policy underlying the immunity the decisive question becomes, whether the misrepresentation takes place within the political arena or not. Unocal, at 32 et seq.; Kottle v. Northwest Kidney Centers, 146 F.3d 1056, 1061 (9th Cir. 1998); for the necessity of a purposive interpretation of the Noerr-Pennington, see also Areeda & Hovenkamp, supra note 5, at 182, Sec. 203(f). After weighing the relevant factors including the basis of the nature of government expectations, the degree of governmental discretion, the necessity to rely on Unocal's assertions, the ability of CARB to determine a causal link between the petitioning conduct and an ensuing governmental action, the FTC held the antitrust laws applicable. In the Matter of Union Oil Company of California, at 37-45.

\(^{24}\) Allied Tube and Conduit Corp. v. Indian Head, Inc., supra note 20, at 501.

\(^{25}\) In the Matter of Rambus, Inc., supra note 3, at 36.

\(^{26}\) Broadcom Corp. v. Qualcomm Inc., supra note 17.
ology. In Broadcom the Third Circuit indicated that the efficient selection of preferred technologies could also be distorted even if the participant does in fact reveal its proprietary interests on the technology to be adopted. The deception can refer to the extent and the use of the monopoly power that would result from the standardization of the patented technology and the lock-in created by the standard. Qualcomm was alleged to have induced the European Telecommunications Standards Institute (ETSI) into adopting its technology into a 3-G telecommunications standard by making a representation that it would then license on Fair, Reasonable and Non-Discriminatory (FRAND) terms. Thereafter Qualcomm began charging discriminatory royalties to firms using cellular phone chipsets manufactured by its competitors in an attempt to strengthen its power over third-generation mobile technology. In this way, the standardization process was subverted by a less efficient choice because the actual cost of commercializing the standardized product was concealed.

In some cases the deceptive conduct may not have subverted the standardizing procedure because the monopoly power acquired by the patentee would have been the natural result of the process within the SSO, for example where there is no alternative technology. The FTC suggests in Rambus that patent ambush would even then violate Sec. 2 of the Sherman Act because such conduct, if permitted, would decrease incentives to participate in and rely on standard-setting bodies and activities. The harm to the competitive process flows accordingly out of the distortion of a precompetitive institution. At the very least it can be read as resolving the issue by placing an almost insuperable burden of proof on the defendant to establish redeeming precompetitive virtues of its conduct.

Both the FTC and the Third Circuit purport to apply the net consumer welfare test that dictates a balancing of pre- and anticompetitive effects. In practice however they did not perform such a balance because they find patent ambush anticompetitive and without any precompetitive virtue. It could be argued that the reason for applying this test is that courts consider there is not enough experience with such unilateral action in competition so as to formulate a more concrete legal test. In any event, both decisions do not explicitly balance the interest of Rambus as inventor of the DRAM memory. While the FTC did not hesitate to recognize that trade secrecy should always be scaled back for the sake of building trust for participation in SSOs, it did not make any such statement for the interests of the inventor, who has contributed to society by disclosing his invention. This is a first indicator that antitrust law is not the appropriate means to legally assess patent ambush, as this is an issue of patent scope.

The analysis of the FTC and the Third Circuit in denying patent ambush any precompetitive virtue comes close to creating a new concept of competitive injury, namely the subversion and undermining of the standardization process.

B. Patent Ambush as Non-Exclusionary Price-Increasing Deception

The D.C. Circuit rejected these theories of antitrust liability in its appellate decision on Rambus. In contrast to the FTC and the Third Circuit it did not consider the conduct at issue in the context of standard development and argued in an abstract manner. It rather subsumed patent ambush within the broader category of price-increasing deception performed by a lawful monopolist. The latter cannot sustain its prices for long at a supra-competitive level. If it does so, this would attract competitors whose entry into the market would drive prices down towards marginal cost. Monopoly pricing is further seen as a concomitant of the mere existence of monopoly power, which is itself a characteristic of dynamic competition promoted by antitrust legislation. Antitrust interference with monopolist’s pricing policy is to be avoided because the risk of false positives is great.

The syllogism of the D.C. Circuit seems to be based on the additional premise that business torts cannot lead to antitrust remedies. The doctrine of antitrust injury serves exactly the purpose of allowing advancement in competition at the expense of competitors so as to maintain intense competitive rivalry in the market. Accordingly, harm to competitors would not suffice for a monopolization claim unless the competitive process is harmed. The requirement of antitrust injury is again a manifestation of the need to avoid over-deterrence of precompetitive exclusion. JEDEC participants lost at most an opportunity to negotiate ex ante FRAND terms and were to this extent hampered by the actions of Rambus. According to the D.C. Circuit there was no harm to the competitive process because Rambus was still facing competitive pressure from alternative technologies. Whereas it remained unclear whether an unfair competition cause of action would have been successful, the Court opined that a monopolization claim does not come into play in any event. Implicit in its argumentization is equally the notion that patents do not guarantee their owners a monopoly in an economic sense. In addition, by referring to the conduct of a “lawful monopolist”, which is in principle privileged by antitrust laws, the court seems to suggest that the monopoly power enjoyed by Rambus is simply the result of

27 Id. at 313.
28 Id. at 314.
29 In the Matter of Rambus, Inc., supra note 3, at 70.
30 Id. 68-71.
33 Rambus, Inc. v. FTC, supra note 2.
34 Id. at 464-465.
its patent. Although the court does not expressly address the patent/antitrust interface, following its logic could lead to the conclusion that the outcome was also influenced by the notion that antitrust interference with the exercise of the patentee's rights should be kept to a minimum so as to avoid a dilution of the regulation of innovation that takes place within the patent system.36

The starting point of criticizing the decision of the D.C. Circuit is its failure to examine the practices of Rambus in the context of the competitive environment in which they occur. The classification of competitive strategies in the pre- or the anticompetitive category cannot be successfully effectuated unless it is context-related.37 When it comes to private business arrangements in general and unilateral actions such as monopoly pricing, price discrimination or even deception specifically, antitrust enforcement is indeed highly likely to lead to over-deterrence. However, the same competitive strategies entail risks of under-deterenting anticompetitive conduct if evaluated in the context of standard-setting activity. Letting the ambush escape antitrust liability threatens to put standardization and its efficiencies aside or to erode the commercial success of the ultimate standard by the imposition of high commercialization costs. Price discrimination such as that exercised by Qualcomm restricts the number of participants and consequently reduces the innovative effort within the standard. In the light of the anticompetitive effects of patent deception within the SSOs analyzed above, the proposition that the requirement of antitrust injury requires a total eclipse of competition becomes indeed arguable.

Another avenue to evaluate the decision of the D.C. Circuit is to examine its reliance on the Supreme Court’s Nynex Corp. v. Discon decision.38 Nynex was a case involving a concerted refusal to deal in the market for removal and salvage of obsolete telephony equipment. This market was created after the divestiture measures taken against the AT&T monopoly in the local telephone service business. The emerging companies had to replace their call-switching equipment in order to make it possible for all companies offering long-distance services to have access to their customers. This would assure that the long-distance service would remain competitive.


37 See for example the remark of J. Ginsburg in: Caribbean broadcasting Systems, Ltd. V. Cable & Wireless P.L.C., 148 F.3d 1080, 1087 (C.A.D.C. 1998) “Anticompetitive conduct can come in too many different forms and is too dependent upon context for any court or commentator ever to have enumerated all of the varieties.”

38 Nynex Corp. v. Discon, supra note 8.

Nynex was a telephone service provider and a regulated monopoly in the geographic area of New York. It bought removal services from Discon but later on switched to AT&T Technologies (an AT&T affiliate) after the latter agreed to participate in a fraudulent scheme that aimed to inflate the rates paid by its customers. Nynex would buy removal services exclusively from AT&T Technologies bypassing and essentially excluding Discon from the market. It would further pay inflated rates for the removal service, which would be then passed on to consumers. Nynex would receive a secret year-end rebate in return. The Supreme Court had to decide whether this amounted to a conspiracy to exclude Discon by defrauding both the regulatory agency in its oversight of the rate-setting process and ultimately consumers.

The first issue addressed by the Court was whether the per se rule prohibiting horizontal group boycotts was equally applicable when the concerted refusal to deal is being effectuated by undertakings in vertical relationship. The Court denied to apply the per se rule in vertical boycotts because such case law would discourage firms from changing suppliers even in cases where the competitive process itself suffers no harm.39 Moreover, the harm to consumers was caused by the exercise of monopoly power that was lawfully acquired by Nynex. This also excluded liability under Sec. 2. The Supreme Court explained the result by stating that the transformation of all cases involving aggressive business behavior to treble-damage antitrust cases would lead to inefficient over-deterrence.40 The core statement of the Court turned out to be that antitrust is not the proper legal instrument to deal with the case before it and considered that the proper legal assessment lies outside the scope of the antitrust laws.

In view of the above it should be examined whether the reliance of the D.C. Circuit on Nynex was justified. According to the court Rambus bears a clear analogy to Nynex because both cases deal with a lawful monopolist's effort to increase revenue by deception.41 This argument has been criticized on the ground that penalizing Nynex for its fraudulent scheme generates false positives whereas letting Rambus escape antitrust liability for its deceptive conduct would create – as mentioned above – false negatives.42 The analogy to the Nynex precedent is however to be traced in the notion that where the competitive process is not disabled, antitrust is not the proper set of norms to legally assess firm behavior in view of its grave deterrent effect and the
The existence of a causal link between the allegedly exclusionary conduct of patent ambush and the acquisition of monopoly power was denied by the appellate court in *Rambus*. The adoption of the standard by the SSO was simply one link in the causal chain, since the creation of market power was equally dependent upon a wide acceptance of the standard in the marketplace. The Commission's finding was that the market would have, with the greatest probability, gravitated around a single standard given the components in the same computer system was indispensable. In the absence of deceptive patent ambush, JEDEC would either have excluded Rambus's patented technologies from its standard or demanded RAND assurances from the outset of the standardization process. The adoption of the standard by the SSO was a sine qua non condition for the incorporation of its patents into the standard and the acquisition of monopoly power. The D.C. Circuit negated for this reason the existence of a causal link between the allegedly exclusionary conduct and the achievement of monopoly power. In this respect it departed from its previous ruling in *Microsoft*, where it held that it suffices for establishing causation, if the plaintiff shows that the defendant's actions appear reasonably capable of making a significant contribution to the acquisition or maintenance of monopoly power. It was thus not necessary for the plaintiff to reconstruct the hypothetical marketplace and show Netscape Navigator and Java would have indeed survived competition in the absence of Microsoft's exclusionary practices. The “but-for” test applied by the D.C. Circuit in its causation analysis is not satisfactory because it is under-inclusive. Its inadequacy is evident in cases of overdetermined causation, where more factors would have been independently sufficient to produce harm, so that none of them amounts for a condition precedent for the antitrust injury. Excluding the non-necessary conditions for achievement of monopoly power from the reach of antitrust law would prohibit intervention against serious anticompetitive threats and invite undertakings to do their part in market evolutions that lead to harmful monopolization. It is indeed difficult to argue that acquisition of market power through misrepresentation and concealment of patent-related pursuits in the context of standard setting does not deserve the scrutiny of antitrust law at all. In the realm of antitrust, causation analysis should consequently be driven by functional considerations.

The causation analysis of the D.C. Circuit is undoubtedly problematic. Its ruling on the merits of the monopolization claim may be unsatisfactory in terms of economic public policy but right in terms of antitrust doctrine. The decision should not be seen however as an approbation of patent ambushing, but rather, as the reliance on Nynex suggests, as a relegation of the matter to other sets of norms and a call to examine the same set of facts in view of protection interests other than those protected by antitrust laws. It is noteworthy that the language used by the D.C. Circuit in its administration of the antitrust injury requirement does not contain policy considerations regarding standard-setting on the basis of which the arguments of Rambus should be dismissed. The court rules basically on antitrust inapplicability.

*IV. The Unfair Competition Powers of the FTC*

The unfair competition cause of action might be more adequate than antitrust in dealing with patent ambush. It is the discipline that protects businesses against tortious harm caused by competitors. It not only concerns exploitative deception. While participants in SSOs agree to forego competing in certain manners such as using different technologies, competitive rivalry among them is taken to another level as each member strives to have his technology standardized. The legal problem emerging is consequently

46 "[... N]o government seriously concerned about the evil of monopoly would condition its interventions solely on a clear and genuine chain of causation from an exclusionary act to the presence of monopoly." AREEDA & HOVENKAMP, *supra* note 5, Sec. 651(f) at 83, 84, (2nd ed. 2002).


whether deceptive concealment of patent interests so as to win the race for property rights on the ultimate standard and exploit co-participants with exorbitant royalties amounts to a competitive tort.

A preliminary question arises here with regard to the applicability of the unfair competition cause of action to the exercise of intellectual property rights. Unfair competition laws constitute a relationship mechanism of common law legal regulation. Rights and duties are pursuant to this mode of thought automatically assigned to individuals as a legal consequence of the fact that they are parties to a legally recognized relationship. Just as between principal and agent, landlord and tenant, or debtor and creditor there are specific duties arising for the parties to a competitive relationship. With regard to its position in the system of torts, unfair competition belongs therefore to the kind of torts that impose duties on persons in particular situations to persons in similar situations. To the extent that duties of “fairness” are inflicted on a patent holder as a participant in a group competitive relationship, the exercise of its exclusive rights can accordingly be restricted.

A. Patent Ambush: A Newborn Subspecies of the Common Law Tort of Unfair Competition?

Section 5 of the Federal Trade Commission Act declares unfair methods of competition and unfair or deceptive acts or practices unlawful at a federal level. The demarcation of the jurisdiction of the FTC through the common law concept of unfairness means that the Commission has, at least in theory, the authority to prohibit conduct that is not penalized by antitrust laws. Both courts and the Commission itself interpret Sec. 5 narrowly as conferring limited “unfairness powers” to the FTC. Behind this view is the notion that it is antitrust law that sets the amount of competitive rivalry necessary to bring about the results of effective competition. Disallowing business practices that antitrust laws do not denounce reduces the optimal amount of competitive rivalry. This section examines scope of the legal notion of unfairness as a touchstone of competitive tort liability designed to implement regulation of competition below the threshold of competition injury.

1) The Doctrine of Prima Facie Tort

In a nutshell, the doctrine of prima facie tort dictates that intentionally inflicting injury on a third party is tortious behavior unless there is a justification for such harm. The justifiability of the defendant’s conduct is furthermore appreciated in the light of general public interests. Despite the fact that it had, to a great extent, served as an instrument of fighting malevolence not captured by nominate torts, the element of intentional damage was reduced in the course of its development so that it would suffice for a prima facie tort if the alleged tortfeasor consciously committed actions that are pertinent to damage another. The essence of the prima facie tort doctrine lies thus in the justification element. In other words there is a rule of thumb that provides: if the furtherance of an individual interest through the damage of another serves a superior social interest, then the defendant should escape liability. Tortious liability is therefore assigned not only with the purpose of the plaintiff’s indemnification but in view of wider public interests. An illustrious example can be found in one of the first English precedents that established the doctrine in the Anglo-American legal system. In order to exclude competitors from trade with China, British ship owners engaged in various activities such as loyalty rebate schemes and predatory pricing. The House of Lords had to balance conflicting interests in the light of the public interest of the advancement of overseas trade. The interest of the defendants to secure their own advantage by endangering that of their competitors was given prominence over a plaintiff’s interest to be protected in the legitimate exercise of his trade so as to promote a desirable social result like the maintenance of incentives to overseas trade. At this point there is no need to take a stance on the theoretical dispute whether the general rule is liability for harm and recognition of exemptions based on definite grounds, as the prima facie tort doctrine suggests, or whether the law prescribes liability grounds by way of exemption. Both theories can coexist harmoniously in the legal order. The second theory controls the application of contemporary law by revealing the available grounds for liability, the nominate torts. It assists the legal profession. The utility of the prima facie tort doctrine and especially of its justification element is to...
generate causes of action arising in tort by taking account of the interests of the parties involved and those of the public in general. It blazes the trail for the development of tort law. 62

2) The Prima Facie Tort Doctrine as a Touchstone of Unfair Competition Law Liability

When regulating competitive conduct the doctrine privileges as a rule practices that are designed to harm competitors (the competitive privilege). 63 These are justified by the prevailing social interest of maintaining a competitive economy, which is based on fierce rivalry among competing undertakings. 64 The unfair competition cause of action comes into play when rivalry between competitors becomes excessive to the extent that it no longer serves an effective competition process. The regulation of such rivalry excesses is exactly the field that antitrust leaves unattended to fall within the realm of unfair competition law. 65 While antitrust law safeguards the process of competition to the benefit of the consumer, the creation of new unfair competition causes of action via the prima facie theory is a form of regulation of competitive conduct to ensure the effectiveness of the competitive process. 66 The unfair competition doctrine sets the "rules of the game" where this is necessary in order to reach efficient outcomes. An example would be the tort of passing off. Misrepresentation with regard to the source of goods is not an antitrust offence. Allowing goodwill misappropriation through trade diversion would not harm the competitive process, but it would undermine the effectiveness of competition by reducing the incentives to maintain high product quality.

62 Id.
63 For details on the prima facie tort doctrine as the basis for unfair competition law liability see OPPENHEIM, "Unfair Trade Practices and Trade Regulation"., (1950), at 42 et seq.; See also the wording of Sec. 1 of the Restatement (Third) Of Unfair Competition (1993) under Chapter One entitled "Freedom to Compete": "One who causes harm to the commercial relations of another by engaging in a business or trade is not subject to liability to the other for such harm unless: (...)" See also Restatement (Second) Of Torts Sec. 768 (1977), where competition is treated under certain qualification as a justification for interfering with the business relations of another.
64 The prima facie tort doctrine has been criticized because it puts the burden of the justification on the defendant. The Restatement (Third) Of Unfair Competition places, as a rule, in Sec. 1 the burden to prove that a defendant's conduct is not privileged competition upon the plaintiff. CALLMANN, in "What Is Unfair Competition?", 28 Geo. L.J. 585, 589 et seq. (1940) has also pointed out that it is based on the false premise that overpowering competitors is prima facie tortious. This was not in accordance with his perception of unfair competition as an order of struggle. In any event, the utility of the prima facie tort doctrine in the field of unfair competition is not the allocation of the burden of proof but its accessory role in the generation of new unfair competition causes of action by calling for a balance between the utility of injurious conduct against the utility of the interest invaded, where the utility relates to the effectiveness of competition.
66 Id.

68 Cf. Hovenkamp, "Federal Antitrust Policy, The Law of Competition and its Practice", (2005), Sec. 15.2 at 597, where he recognizes that the FTC, in view of the fact that its findings of Sec. 5 violations do not support subsequent private actions for treble damages, has authority to identify practices that are economically anticompetitive even if they are technically not covered by the Sherman Act provided that their prohibition does not entail significant error costs. MURIS, "Looking Forward: The Federal Trade Commission and the Future Development of U.S. Competition Policy", 2003 Colum. Bus. L. Rev. 359, 399-406, 386-391 (2003); Calkins, "The Legal Foundation of the Commission's Use of Section 5 to Challenge Invitations to Collude is Secure", 14 Antitrust 69, 78 (2000); See also In re Negotiated Data Solutions, LLC, Docket No. 051-0094 (2007), at 7-8, available at http://www.ftc.gov/os/caselist/0510094/index.shtm.
69 A mechanism for transferring instructions between a computer's central processing unit and its peripherals.
71 Id. at 618.
any event be aware of the qualification of their rights of exclusion. The FTC invoked the same line of reasoning in the Unocal case.

The Sec. 5 theory promulgated by the FTC declares the intentional abuse of the standard process as an act of unfair competition. Deception as such is for this theory a secondary issue in the sense that it matters only as long it subverts or undermines the standardization process. This is evident in the ruling of the FTC in N-Data.72 There, a member of a working group of the National Semiconductor Corporation that was developing a standard for East Ethernet agreed to license its technology for a specific fee to any manufacturer implementing the ultimate standard. After having entered into this commitment it transferred its patent rights to a third party. The new owner of the patent demanded royalties maximizing his profit at a time where the standard had already been implemented. Despite the fact that there was no deception by the patentee so as to have its technology standardized, the FTC considered the assertion of patent rights under such circumstances as an act of unfair competition because it was undermining and subverting standard setting activity.

The arguments of the FTC basically support the view that there is no justification serving superior social interests for the conduct of the ambusher and thus its conduct can be qualified as a competitive tort under the prima facie liability theory of unfair competition.

B. The Application of Consumer Protection Principles

The elements of deceptive conduct actionable under Sec. 5 of the FTC Act are set out in the Commission's Policy Statement on Deception.73 These principles are valid not only in the context of the protection of the unsophisticated consumer but are also applicable by analogy to other economic operators because efficiency can only be achieved through informed economic decisions.74 Accordingly, the FTC has jurisdiction to take action against deception when the misrepresentation is "material" in the sense that "it is likely to mislead others acting reasonably under the circumstances and thereby likely to affect their conduct or decisions."75 The crux of the matter ultimately becomes whether the allegedly deceiving action is surmountable or not.

Misleading advertising statements, for example, would not be taken to be deceptive if they are transparent to rivals that can protect themselves by engaging in counter-advertising of their own. The situation is different with

regard to participants in SSOs.76 Contrary to their legitimate expectations of candor and cooperation they find themselves trapped in a lock-in situation and defenseless against the exploitative strategies of the ambusher.

Although the Commission handled the case as one of monopolization, it suggested that the conduct of Rambus could be prosecuted on the basis of a deception claim pursuant Sec. 5 of the FTC Act alone.77

V. The Necessity to Search for a Solution in Patent Laws

A. The Insufficiency of Antitrust and Unfair Competition Analysis

Antitrust and unfair competition law cannot provide the suitable legal consequence that would deter patent ambush and guarantee that SSOs would have the opportunity to reach the most efficient outcome possible. Even if the FTC analysis would be considered as the correct one, the remedial restoration of competition in the majority of the cases of patent ambush would be to compel the ambusher to license on reasonable terms. This would encourage patent holders to engage in attempts at capturing industry standards by patent continuation claims, since they do not have anything to lose. In the worst-case scenario they will be able to charge reasonable royalties in a very large market. In addition, the best antitrust outcome would still lead to the inefficiencies described above when the standard setting process is meant to culminate in an open industry standard. The remedy that can effectively discourage patent holders from becoming ambushers is the unenforceability of the patent against any infringer. This can be found in patent law and more specifically in the patent misuse doctrine. Furthermore, the stringency of the remedy counterbalances the potential lack of power of SSOs to enforce policies that make provision for disclosure duties of patent interests.

It could be argued that a different interpretation of the doctrine of competition injury is possible.78 The succession of monopolists taking place in Schumpeterean competition is not apt to bring welfare-maximizing results in high-tech industries and especially in situations of standardization. The requirement of establishing harm to the competitive process would accordingly be interpreted not as protecting competition as an end in itself but by considering that it is effective competition that is protected. The D.C. Circuit's application of the doctrine can be also criticized from another standpoint. Requiring harm to the competitive process in order to sustain an antitrust claim has a double doctrinal function. The antitrust injury requirement raises the principle that competition is the most efficient economic order, but it is also invoked by courts to dismiss bogus claims where the

72 In re Negotiated Data Solutions LLC, supra note 68 at 7-8.
74 For this line of reasoning see the Final Brief for Respondent Federal Trade Commission on the Court of Appeals, 2008 WL 144939, at 36 et seq.
75 Id. at 37.
76 Id. at 40.
77 In the Matter of Rambus, Inc., supra note 3, at 30 and fn. 141.
plaintiff simply seeks to recover for damage suffered in its course of business and the anticompetitive effect is not easily visible in defendant's acts79 or the harm to consumers is likely to be overcompensated in the long run. One could speculate that this antitrust litigation pattern repeated itself when Rambus reached the D.C. Circuit. Rambus was not the case of a claimant who is non-meritorious of protection though.

B. The Pertinence of the Misuse Theory

1) General

Even in this case antitrust is not best solution to deal with standardization problems. The remedy of unenforcedness guarantees quick access to the standard, not only for the parties that were deceived and suffered antitrust injury but also for other industry actors that do not fulfill the antitrust standing requirement. Access to the standard remains undistorted because the parties wishing to join do not hesitate in the fear of engaging themselves in lengthy antitrust litigation. They can simply infringe and put forward a misuse defense if sued. The misuse doctrine has standing requirements that serve the purposes of effective competition in the standardization context better than those of antitrust. Another issue is that the deference that antitrust law must show to substantive patent law valuations.80 If the patent system allows continuations and divisionals so as to allow the patentee to capture the full value of its inventive effort, antitrust law cannot negate such policy decision of the patent act.81 Patent remedies are, in any event, more effective because they can stop the ambusher before it manages to impermissibly expand the economic gravity of its patent. Because even if the ambusher is restricted to reasonable royalties, it still retains a benefit from its deceptive conduct as it can still exploit the network effects arising from standardization although the market has enlarged for reasons not attributable to its inventive contribution. For similar reasons other possible doctrinal solutions are unsatisfactory.

2) Compared to Denial of Permanent Injunction Pursuant Section 283

Patent Act

Denying the ambusher permanent injunctive relief pursuant to Sec. 283 Patent Act82 considering the hardships faced by undertakings that have irreversibly invested in the standard does not resolve the problem of corruption of the standard setting process. First of all, contrary to constellations of holding-up the commercialization of a complex product or excluding non-competitors from practicing the patented invention, the market power of the ambusher does not result from the threat of an injunction but from the lock-in situation created by its deceptive actions. The patentee is also not interested in refusing to license. It is rather eager to exploit a market characterized by network effects based on its invention. Disallowing the automatic injunction upon finding of infringement does not prevent the patentee from distorting standardization.

3) Compared to Contractual Remedies

Contractual enforcement of SSO policies stipulating disclosure obligations regarding patent interests on technologies considered for standardization is, on the other hand, not possible for third parties who are willing to join the standard, because they are usually not intended − at least by the patentee − to be beneficiaries of the contract.83 The right of a third party to sue in order to enforce an SSO IP policy could be grounded on the protection of a reliance interest under the contractual doctrine of promissory estoppel. This requires proof that: (a) there was indeed reliance by a third party on the patentee's contractual promise to license within the SSO and (b) that the promissor was aware of the fact that the third party was expecting to benefit from such promise.84 Contract law remedies are therefore deficient in deterring patent ambush and widen the access to the standard because they are only available to a restricted number of claimants.85

4) Compared to the Principle of Equitable Estoppel

Patent ambush could also be remedied by an application of the doctrine of equitable estoppel. The defense of infringement is successful when the mis-

80 Drezek, supra note 31, at 152-153.
82 See eBay Inc. v. Merc Exchange L.L.C., 547 U.S. 388 (2006). A unanimous Court held that plaintiffs succeeding in patent infringement suits are not automatically entitled to a permanent injunction, and injunctive relief requires the fulfillment of the traditional four-factor test namely the showing of: (a) irreparable injury, (b) inadequacy of remedies at law, (c) the balance of hardships favors an injunction, and (d) the public interest would not be (Contd. from page 801)
leading conduct of the patentee leads an alleged infringer to reasonably infer that the patent would not be enforced. Also required is a showing that reliance on the misrepresentation was reasonable and detrimental. The bar to enforcement is indeed a doctrinal feature that serves the legal implementation of policy considerations against patent ambush. But just like contractual remedies, equitable estoppel cannot come to the rescue of all entities worthy of protection because it requires a privity relationship of the patentee to each individual infringer. 86

Merges and Kuhn 87 propose to plug this doctrinal loophole by recognizing a gradually developing reliance interest of industry members as they proceed to invest in a standard, which is derived from the patentee’s non-disclosure or willful enforcement inertia. In our view there is no need to conceptually stretch the doctrine of equitable estoppel since the misuse theory of the patent can squarely address patent ambush in standards. The “standards estoppel” willful enforcement inertia. In our view there is no need to conceptually stretch the doctrine of equitable estoppel since the misuse theory of the patent can squarely address patent ambush in standards. The “standards estoppel” doctrine is actually intended to foster the efficiency-enhancing effect of standardization, but it relies heavily on the assumption that there is a reprehensible conduct by the patentee. In this respect, it is not a complete theory that seeks to make an assertion about the optimal scope of patent rights in markets characterized by network externalities. The misuse theory can instead effectively cope with patent ambush and simultaneously establish the incentives paradigm as the legal yardstick for assessing the desirable degree of patent protection in such markets. The particularities of network industries speak for special limitations of IP protection in this field. 88 The patent misuse doctrine guarantees the necessary doctrinal flexibility for ad hoc balancing of such interests and assessing future legal problems.


87 Id.

88 See generally MACKENRODT, “Assessing the Effects of Intellectual Property Rights in Network Standards”, in DREXL (ed.), “Research Handbook on Intellectual Property and Competition Law” 80-107 (2008). This author makes the point that during the lock-in situation arising after the termination of the standard race, IPR’s suppress static efficiencies in the form of scale economies and dynamic efficiencies in the form of follow-on innovations within the standard, while providing an incentive to innovate by overmastering the standard. In this way, he shows that the trade-offs between static and dynamic competition in network industries are different and more complex than in conventional markets. Static efficiency gains in those industries because its promotion leads to lower prices and furtherance of the compatibility within the network. Inventive activity should, moreover, be focused on sequential innovation within the standard. These two factors speak for narrowing the patent scope. Acquiring patent rights on a standard confers significant market power on the patentee allowing him to exploit a large market. Such a reward should be kept for only extraordinary inventive performances, which in turn implies that the requirements for awarding patents in network industries should be tightened. He therefore shows that legal policy should be aimed at weakening IP protection in the context of standard setting.


paradigm complements antitrust law and constitutes a competition policy decision “in the spirit of antitrust.”

The bottom line is that the incentives paradigm incorporates patent and competition policy under the rubric of public policy.

The incentives paradigm is brought to bear by specific doctrinal tools. The non-obviousness requirement is set to prevent the hampering of competition by the issuance of patents for inventions that are essentially in the public domain. In an attempt to exclude the possibility of awarding trivial patents, courts have applied the commercial success test as an indicator of non-obviousness. To give a more attentive consideration to competitive concerns it has been proposed to restrictively apply this test by placing on the patent applicant the burden to prove that the commercial success is directly derived from the invention claimed.96 Similarly, when it comes to evaluating whether the prior art has already suggested the claimed invention (the “suggestion test”) examiners are advised to assume that the person having an ordinary skill in the art is able to combine or modify prior art references.97

The patent misuse doctrine is in turn a manifestation of the incentives paradigm that covers the rent-seeking activity of the patentee. At the infringement stage the proprietary grant is reassessed for conformity with public policy in the aforementioned sense in view of its specific strategic use in competition.98

B. The Birth of the Patent Misuse Doctrine

The substantive elements of the misuse theory are set out in its early founding precedents. Under consideration was the trade practice of patent holders to use their rights so as to establish themselves as the sole providers of goods destined to be used as replacement products in their “patented machines.”

The legal argument supporting competitive conduct of that kind was that the

92 For the various techniques of assuring that IPRs do not confer excessive market power to their owners see the contributions of DREXEL, PATTERSON & SCHWITZER, in: GOVAERE & ULLRICH (eds.) “Intellectual Property, Market Power and the Public Interest”, (2008).

93 The issue of whether there are markets that should not be allocated by the legally recognized patent exclusivity could be depicted in the example of In re Independent Service Organizations Antitrust Litigation (CSU, L.L.C. v. Xerox Corp.), 203 F.3d 1322 (Fed. Cir. 2000). Xerox's refusal to license patented parts was directed at excluding Independent Service Organizations (ISOs) from the service market of their products. Rejecting the finding of antitrust violation the court held that it could do so because the patented articles fell under the right holder's exclusivity, at 1327-1328. This is a rather formalistic approach. A precompetitive reduction of the patent's scope would leave the service market open and confine the patentee to economic benefits strictly derived from its invention (selling high-volume copiers and their spare parts). Such restriction of the patent exclusivity would not decrease incentives to innovate those durable goods and their spare parts. See PATTERSON, “Intellectual Property and Sources of Market Power”, supra note 92, at 58. As we further argue, the optimal scope of the patent is an issue of patent law and more specifically of the patent misuse doctrine that could be utilized to prevent such anticompetitive expansion of the exclusive right. The court disallowed the defense of patent misuse, at 1328, under the same justification with which it dismissed the antitrust claim, namely that the parts needed to compete in the service market were part of the patentee's right of exclusion. As we shall see this is a misunderstood attribution of the patent misuse theory to the inherency doctrine.


95 HEINEMANN, “The Contestability of IP-Protected Markets”, in: DREXEL (ed.), supra note 88, at 54-77 addressing the contestability of the protected primary market but arguing that all other IP-related markets attributed to the patentee as reward for his inventive contribution should remain contestable as well.
patentee, as the owner of the patent, has the right to set the conditions of third-party use of the invention at will. To achieve this aim, licensees were obliged to sell the machines manufactured under the patented process to consumers on the condition that they buy replacement products from the patentee either expressly or by affixing a relevant notice on the machine (tying cases). Any third-party supplier of replacement products that came to threat the integrity of such a commercial scheme was sued for contributively infringing the patent. The notorious cases that reached the Supreme Court concerned obligations to use motion picture projectors produced under a protected invention with films produced by the patentee and a foodstuff preservation device implementing a patented technical rule with patentee's refrigeration element. In another case the patentee had not stipulated obligations of that kind but was seeking to achieve the same restriction on the use of the invention by suing traders who supplied a substance knowing it was going to be used in practicing the patented method for contributory patent infringement.

The suits were denied in all three cases. In *Motion Picture* the Court based its judgment on three rules applicable to the construction of patents and patent law in general: (a) the scope of the patent is limited to the invention described in the claims; (b) patent law protection of inventors may not go beyond the securing of an exclusive right on the claimed invention; and (c) the utilitarian basis of patent rights implies that a patentee engaging in rent-seeking activity under its patent should confine itself to the revenue deriving from the demand created for the invention. In many parts of its opinion the Court put particular emphasis on the latter argument stating that the primary object in granting and securing the exclusive right was the public benefit in form of innovation and not the profitability of the patentee. The Court therefore concluded that the plaintiff could not impose patent-related restrictions with regard to the films that were going to be used with its patented picture projectors because these films did not embody the protected invention and because the relief sought was outside the scope of patent law and contrary to its purposes. It is important to note that the three lines of legal argumentation are interrelated since the last one is a superordinate concept, but they remain distinguishable. The ratio decidendi of *Motion Picture* is consequently not solely based on the proper interpretation of the patent claims. After all, the Supreme Court applied the three principles cumulatively and did not, as it could have done, provide an answer to the legal question before it by simply identifying the subject matter of the patent. The main proposition is that the rent-seeking activity of the patentee is to be upheld by the patent laws only to the point that his returns accrue from demand generated for his invention. Any further benefit, like the one arising from the sale of input products, does not form part of the patent bargain and is in other words a loss for society without a service in return.

The use of the patent was found detrimental to the public interest from an additional point of view. The Court saw in the plaintiff's conduct an attempt to use his patent "as an instrument for restraining commerce" by means of "securing a limited monopoly over unpatented material." The term "limited monopoly" means that the arrangements of the patent holder would allow it to control the part of the market for replacement products, that were to be used in operating the invention. A leveraging theory is ascribed to the opinion of Justice Brandeis, which plainly focuses on the foreclosure effects of tie-ins on the tied-product market. Contemporary judges were actually sensing the anticompetitive potential of tying agreements but had no assistance from an economic theory that would point out the pro-competitive virtues of these agreements. However, *Carbice* does not exclusively rest on the leveraging theory. This becomes clearer if the decision is read in light of the analytical framework of the relationship between patent and antitrust law that underlies it. The two areas of law were contemplated as opposing each other. Intellectual property rights formed exceptions to the principle of free competition and were accordingly defined as "legal monopolies." Deciding on the scope of the exception was hence also a matter of competition policy moored in the patent regime. Restricting the benefits of the patentee to the demand for its technical contribution was a solution dictated by the principle of free competition in order to avoid competition "suppression", as the Court put it, on the tied-product market. The Court was in essence arguing that the patentee could only derive profit from a market in which its inventive contribution played a role. This specific use of the patent was therefore found to be contrary to the public interest and the patentee was barred from enforcing its rights.

Obviously, those tying cases would have been resolved in a different manner today. But still, *Motion Picture* and the cases that applied it stand for the important proposition that since patents are rights dictated by the public interest their exercise is subject to post-grant control for conformity with

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100 Carbice Corporation of America v. American Patents Development Corporation et al., 283 U.S. 420 (1931).
102 Motion Picture Patents Company v. Universal Film Manufacturing Company, supra note 99 at 510-511 (1917).
103 Id. ("The primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is "to promote the progress of science and the useful arts" (U.S. Constitution, Art. 1, the Section 8, Clause 8)."
104 Carbice Corporation of America v. American Patents Development Corporation et al., supra note 100, at 32.
106 In *Motion Picture Picture Patents Company v. Universal Film Manufacturing Company*, supra note 99, at 519, the Court was anxious that permitting the leverage strategy at issue would "give to the plaintiff such a potential power for evil over an industry which must be recognized as an important element in the amusement life of the nation ..."
that purpose at the infringement stage. Patent misuse amounts therefore to a limitation of the patentee’s rights, which is inherent to the patent system. The Supreme Court hereby abolished the doctrine contemplated in *Henry v. A.B. Dick Co.* that the public interest of promoting innovation is actually served when the patentee is allowed to enforce its patent monopoly as he sees fit. In that case, the plaintiff was held to have permissibly tied the sale of rotary mimeograph machines to stencil paper, ink, and other supplies of its production. On the other hand, *Motion Picture, Carbice and Leitch* follow a market-oriented approach focusing on the effects of a specific strategic use of a patent on social welfare. It is indeed extremely difficult to discern such uses of patents that should not be upheld because they are socially harmful. However, as shown, the doctrinal tool for disallowing such practices exists in common law in the patent system. Although the term patent misuse and its sanction of *erga omnes* unenforceability were only formalized subsequently in the infamous case of *Morton Salt*, it is the trio of authorities analyzed in this section that has molded the substantive law aspects of the misuse doctrine.

C. Sanction and Procedural Aspects

Procedurally, misuse is invoked as an affirmative defense in a suit for patent infringement and leads to the general unenforceability of the patent for as long as the adverse effects of its misuse remain in operation. This legal consequence arises even if the defendant has suffered no injury as a result of the patent holder’s conduct. Unless the misuse is purged, the patentee cannot take action against any other infringer. The sanction attached to a successful misuse claim indicates the deterring character of the doctrine.

D. The Gradual Curtailment of the Misuse Defense

In the meantime subsequent case law and legislative intervention have attempted to substantially alter the true nature of the misuse doctrine.

107 Id. at 511, citing Kendall v. Wissor: “It is undeniable true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtful the primary object in granting and securing that monopoly.” Then went on to say: “This Court has never modified this statement of the relative importance of the public and private interests involved in every grant of a patent, even while declaring that, in the construction of patents and patent laws, inventors shall be fairly, even liberally, treated.”

108 224 U.S. 1 (1912).

109 Id. at 35.


112 Hovenkamp, Jants & Lemley, supra note 90, at Sec. 3.2-3.5.


117 CHAPEL, “Coming Into Equity with Unclean Hands”, 47 Mich. L. Rev. 1065, 1071-1074 (1949), arguing that the reason for rooting patent misuse to equity has been plainly the fact that the relevant precedents were related to injunctions.


the patentee seeks to capture unpatented material and its exploitative efforts bear no direct relationship to its right of exclusion. Patent misuse was also affirmed with regard to post-expiration royalties because the right holder was seeking to extract a profit from an expired patent. Those opinions did not embrace the teaching of early case law that sought to exclude from the scope-of-protection those uses that in effect collide with public policy. Instead, they created a per se rule that barred every strategic use of the patent that was conferring control upon subject matter not contained in the patent claims or outside of the temporal scope of the patent. The peak of this evolution was marked by the ruling of the Supreme Court in *Mercoid Corp. v. Mid-Continent Investment Co.* The right holder tied its patent (a furnace system) with non-staple articles namely “stoker switches” that had no other substantial non-infringing use because they could not be used in any way other than being components of the patented machine. The patentee was held to have misused the patent because it was trying to control unpatented material.

3) Patent Misuse and Contributory Infringement

The result in *Mercoid* led practically to an evanescence of the theory of contributory infringement. Congress amended the Patent Act in 1952 so that the contributory infringer could not escape liability based on the patent misuse defense. This general principle is expressed in Sec. 271(d) of the Patent Act. The same section provides explicitly under lit. (c) for a contributory infringer liability of the seller of non-staple articles. The new rule has been interpreted to reflect a compromise between the doctrines of patent misuse and contributory infringement and giving effect to both of them.

4) Absorption of the Misuse Defense by the Antitrust Rule of Reason

After the *Mercoid* case the courts gradually abandoned the idea of prohibiting patent practices by referring to the scope of the patentee’s right of exclusion. Even if the patentee was attempting to control unpatented material, his arrangements if scrutinized under the antitrust rule of reason would turn out to be precompetitive in general. The sustainment of a misuse defense should thus follow a factual determination, which reveals that “the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market.” Thus, in the field of licensing the misuse doctrine became obsolete. The Patent Act was amended again in 1988 to exclude the finding of a misuse in cases of refusal to license or use any rights to the patent and in tying cases where the right holder has no market power in the market for the patented product.

5) The Misuse Doctrine is Alive and Evolving

Although case law suggests that antitrust analysis of patent exploitation under the rule of reason has absorbed the doctrine of patent misuse, the legislative history of the 1988 amendment indicates that it was not meant to abolish the misuse theory. This creates a rather peculiar legal situation.


122 *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944), (Mercoid I).

123 Id. 664-665.

The Patent Act is supplemented by a common law doctrine whose scope of application has been partially reduced by judicial intervention. In the licensing context it lost significant ground since the public policy concerns that underlie it became part of the legal evaluation under the antitrust rule of reason. As already submitted the patent misuse doctrine retains a considerable scope of application by controlling unilateral exercise of patent rights through the standard of public interest. That patent misuse can be affirmed without a finding of an antitrust violation is evident by the observation that the incentives paradigm is independent of and complementary to antitrust theory.

VII. Applying the Patent Misuse Doctrine in the Context of Standards

Deceptive use of the patent system during participation in an SSO runs contrary to both patent and competition policy and therefore constitutes patent misuse. Rendering the patent unenforceable in cases of deceptive patent misuse is evident by the observation that the incentives paradigm is independent of and complementary to antitrust theory.

There is literature supporting with varying argumentation an independent role for patent misuse doctrine. A potential autonomous field of application for the patent misuse doctrine could be found for cases where antitrust scrutiny cannot take account of the effects on innovation of allowing or prohibiting a patent exploitation scheme.


See also Chisum, supra note 116, at Sec. 19.04(2) (19, 444-446), emphasizing the separate policy concerns between the antitrust law and the misuse concept. This interpretation is also consistent with the "abuse" concept of Art. 8(2) TRIPS, which allows for exceptions to protection broader than those resulting from antitrust laws, since it does not require a finding of market power and simply presupposes the existence of an exclusive right. See Reichenmann, "Antitrust Law of Intellectual Property in the TRIPS Agreement of the World Trade Organization", in: Beier & Schrecker (eds.), "From GATT to TRIPS - The Agreement on Trade Related Aspects of Intellectual Property Rights" 239, 243 (1996). The public policy objectives postulated in Arts. 7 and 8 of the TRIPS agreement indicate that the abuse concept is to be understood broadly. See Reichenmann, "Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement", 29 Int'l L. 345, 354-355 (1995). The counterargument reads Art. 8(2) TRIPS in view of its compatibility clause as a programmatic statement, the content of which is authentically defined in more specific subsequent provisions such as Arts. 40 or 31 TRIPS. See Hoenskamp, Janis & Lemley, supra note 90, at Sec. 40.2.

The application of the misuse theory to patent enforcement in network industries has also been suggested, albeit with a different line of reasoning, by Mueller, "Patent Misuse..."
activity of the industry. Patent ambushng is therefore an impermissible extension the economic scope of the patent.

In conclusion, deception with regard to patent interests is an act of patent exploitation that runs contrary to the public interest. The patent misuse doctrine renders the patent unenforceable so as to avoid harm to social welfare by deterring such conduct.

Even more challenging appears to be the question whether the patent misuse doctrine could be applied in order to control the royalty rates of the patentee even if its invention was not incorporated into the standard through deception. If the standardization process has not been distorted and the SSO is able to take informed decisions, the welfare-maximizing result described above can only be achieved through a liability rule. Thinking in terms of economic analysis of law, this legal problem features a certain analogy with the hold-out problem observed in property law, when large-scale development projects require the assembly of land whose ownership is dispersed. Just as in that case, there is a welfare-increasing project (standardization) that touches upon a property right (patent). The value of the property right (patent) increases because the entrepreneur of the project (SSO) has found a use for it that creates advantages that are akin to those brought forward by economies of scale. Theory suggests such problems ought to be resolved by liability rules.

It might be a well-established principle of patent law that the right holder is free to set the level of royalties for its invention to profit-maximizing levels regardless of how high the end price for the consumer might be. Incentives to innovate are provided by guaranteeing the possibility for the patentee to earn the entire economic benefit the market is willing to offer for licensing the invention. However, there is misuse precedent that seeks to control royalty setting in view of its impact on the industry as a whole. It has been held that it constitutes patent misuse to charge an "exorbitant, oppressive royalty, involving the bulk of the industry, with a corresponding raise of the manufacturer's and retailer's selling prices of the licensed machines." The precedent value of such ruling is, with good reason, questioned. Controlling the pricing behavior of the patent monopolist should be an extraordinary exception. In our view, network industries are one of those rare examples where the control of the patentee's pricing strategy is justified by the public interest of promoting wide commercialization of standardized technology. In industries where network effects are present, the need for widespread commercialization has special significance both in terms of static (optimal price and output) and dynamic efficiency (concentration of innovative intelligence within the standard). The fact that the patentee can license in a widely standardized market is a guarantee that it will have an incentive to innovate even if the company would not be allowed to license on monopolistic terms. A liability rule imposed by the misuse doctrine would simultaneously make sure the degree of commercialization is towards the optimum.

Patent misuse could also apply in this case so as to control the profit-seeking activity of the patentee and put limits on patent exploitation dictated by public interest. In such a case the legal consequence attached to the misuse doctrine has to be modified by creating a liability rule in order to better serve the public interest. Equally the patent misuse doctrine could be utilized to reduce the patent scope in the case of a proprietary standard so as to prevent the patent holder from suppressing socially desirable sequential innovation.

VIII. Short Comment on the European Perspective

Article 82(a) of the EC Treaty provides a wider legal framework for controlling pricing behavior than the Sherman Act in that its reach goes beyond predation and explicitly prohibits exploitative pricing abuses of dominant undertakings imposing unfair purchase or selling prices. This could be a gateway for a case like Rambus, where it is easy to establish dominance since the adoption of the DRAM standard incorporating proprietary technology has been industry wide. This is still not an adequate solution since EC

146 The patent misuse doctrine is flexible with regard to the remedies attaching to the finding of a misuse. Patent unenforceability is not the only possible remedy; Ostrai, "The Misuse Doctrine: Issues of Scope and Remedy" in ABA SECTION FOR ANTITRUST LAW (eds.) supra note 130, at 203. The doctrine remains to a great extent amorphous because it is difficult to categorize because there can be no clear and concise casuistry of detrimental patent enforcement and their remedy in each individual case. Those who ascribe patent misuse to equity, see Merges, "Reflections on Current Legislation Affecting Patent Misuse", 70 J. Pat. & Trademark Off. Soc'y 793, 796 (1988) attribute this to the "messy" world of equity.
Competition Law does not control the acquisition of monopoly power and controls market behavior only after the threshold of dominance is reached. It therefore has to put up with an impermissible extension of the patent. Furthermore, European patent law precludes a general public policy limitation, which requires a patent protection that promotes the functions of effective competition. Given this legal landscape, the most practicable de lege lata solution at the moment in Europe seems to be a pro-competitive application of national unfair competition laws, under which the prominence would be given on the interests of the consuming public.

IX. Conclusion

Patent ambushing is a legal problem that requires a balance between the various incongruous interests of inventors, competitors and the consuming public. It is the realm of patent law that offers valuations capable of embracing the complete array of interests involved. The nature of the legal problem is such that it can only be remedied at the infringement stage. The assertion of patent rights contrary to the interests of the public as concretized in the case of network industries can be barred by an application of the patent misuse doctrine. Patent law would thus serve the public interest by providing incentives for sequential innovation within the standard, promoting trust in the proceedings of SSOs, and controlling royalty rates in network industries so as to achieve welfare-maximizing results.

149 For a de lege ferenda discussion see JARBUSCH, “Funktionsfähigkeit des Patentschutzes und Patentgesetzgebung”, 1980 GRUR 761.
150 See DREXL, supra note 31, at 146 elaborating on the German Act Against Unfair Competition (UWG).

Opinion

Thomas T. Jaeger, Reto M. Hilty, Josef Drexl and Hanns Ullrich*


The Max Planck Institute for Intellectual Property, Competition and Tax Law endorses the Commission's plans for a Community patent, which promises several key advantages as compared to fragmented rights under the EPC system. The Institute likewise endorses the general structure for patent litigation under the latest proposal advanced by the Council and the Commission in 2009 for the establishment of a European and Community patent court (ECPC), which answers to most of the current problems of ineffectiveness plaguing patent litigation and incorporates a workable compromise between the differing interests of political players and other stakeholders. The Institute underlines in particular that the tasks of creating a substantive patent right for the internal market and of reforming the patent litigation system are essentially separate and may therefore be implemented separately. However, the structure of the ECPC as discussed under the 2009 Proposal requires a number of adaptations to increase effectiveness and to ensure compliance with general Community law.

I. Introduction

1. The 52-year-old plans to establish a single patent right for the internal market have been hampered for many reasons shifting over time and ranging from early protectionism to concerns over the institutional setup, language requirements or the allocation of revenues and costs. An instrument setting up the Community patent would also have provided for the establishment of

* T.T. Jaeger, Dr. jur., Research Fellow MPI; R.M. Hilty, Prof. Dr. jur., Director MPI; J. Drexl, Prof. Dr. jur., Executive Director MPI; H. Ullrich, Prof. Dr. jur., Research Fellow MPI. Christoph Heinrich is accredited with devising the lists at the end of this article and for rendering other valuable work on the piece.