



## American Intellectual Property Law Association

August 20, 2018

VIA ELECTRONIC SUBMISSION THROUGH PORTOL:

<https://www.ftc.gov/policy/hearings-competition-consumer-protection>

Office of Policy Planning  
Federal Trade Commission  
600 Pennsylvania Avenue, NW  
Suite CC-5610 (Annex C)  
Washington, DC 20580

**Re: AIPLA Comments on Competition and Consumer Protection in the 21<sup>st</sup> Century Hearings  
Project No. P181201**

The American Intellectual Property Law Association (“*AIPLA*”) welcomes this opportunity to submit these comments on proposed topics for the U.S. Federal Trade Commission’s (“*FTC*”) Hearings on Competition and Consumer Protection in the 21<sup>st</sup> Century, as announced on June 20, 2018. Specifically, AIPLA submits comments on proposed Topic 1 “The state of antitrust and consumer protection law and enforcement, and their development since the Pitofsky hearings,” and Topic 8 “The role of intellectual property and competition policy in promoting innovation.”

The American Intellectual Property Law Association is a national bar association of approximately 13,500 members who are primarily lawyers engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public’s interest in healthy competition, reasonable costs, and basic fairness.

AIPLA regularly comments on, issues concerning the development, protection, commercialization, and licensing of intellectual property rights (“IP rights”). AIPLA explained the importance of strong IP rights protection when considering the intersection of intellectual property and competition law.<sup>1</sup>

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<sup>1</sup> AIPLA Comments on India TRAI Discussion Paper at 2 (Oct 4, 2017); Letter from Denise W. DeFranco, President, AIPLA, to Dep’t of Indus. Policy & Promotion, Ministry of Commerce, Gov’t of India, *AIPLA Comments on Discussion Paper on Standard Essential Patents & Their Availability on FRAND Terms* at 1 (Apr. 22, 2016); Letter from Denise W. DeFranco, President, AIPLA, to Young Wook Yoo, Senior Deputy Director, Korea Fair Trade Commission, *AIPLA Comments on the KFTC Amendment to its IP Guidelines* at 1 (Jan. 12,

It is in this context that AIPLA offers the following comments on hearing Topic 8, subtopics a, b and c. AIPLA would be pleased to have the opportunity to submit additional comments as the FTC's process continues.

## **I. General Comments—Function and Importance of Intellectual Property**

AIPLA recognizes the important policy and enforcement roles of the FTC in addressing anticompetitive conduct, including such conduct at the intersection of intellectual property laws and antitrust laws.<sup>2</sup> AIPLA encourages the FTC to 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 globally.<sup>3</sup>

As the Department of Justice and the FTC have recognized, intellectual property has “important characteristics . . . that distinguish it from many other forms of property.”<sup>4</sup>

First is the relationship between intellectual property and innovation in a dynamic economy. The purpose of IP rights is to foster innovation by ensuring that the innovator has the opportunity to reap the rewards of her creative work,<sup>5</sup> rather than having those rewards appropriated by others who seek to free-ride on her efforts. In the case of patents, for example, the patent owner is granted the right to exclude others from making, using, offering to sell, selling and importing the patented invention for 20 years from the date of filing.<sup>6</sup> The long-term, dynamic economic benefits of innovation are substantial. Much of this return is not captured by the intellectual property owner, but instead by numerous other users of inventions and, ultimately, by consumers. Long-term returns on this scale will often far exceed any short-term, static welfare concerns that trigger antitrust concerns regarding patent-related conduct.<sup>7</sup>

Second, as the FTC has pointed out, “[t]he value of intellectual property typically depends more on its combination with other factors of production . . . than does tangible property.”<sup>8</sup> Given the possibility of multiple uses for IP 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.<sup>9</sup> And, as the FTC also recognized, competitive

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2016); AIPLA Comments to Canada at 1 (Aug. 2015); Letter from Sharon A. Israel, President, AIPLA, to European Comm'n, *AIPLA Response to Questionnaire on Patents and Standards* at 1 (Feb. 13, 2015); see also Brief of *Amicus Curiae* American Intellectual Property Law Association in Support of Neither Party at 3–5, *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024 (9th Cir. 2015) (No. 14-35393); Letter from Wayne P. Sobon, President, AIPLA, to Counsel to Samsung, Ohno & Partners, 2013 (ne) No. 10043 (first instance: Tokyo District Court 2011 (wa) No. 38969) at 1 (Mar. 20, 2014).

<sup>2</sup> Letter from Q. Todd Dickinson, Exec. Dir., AIPLA, to Richard Donahue, Acting Secretary, FTC, *Section 5 Workshop -- Comment, Project No. P083900* at 1–3 (Oct. 24, 2008) [hereinafter 2008 AIPLA Letter to FTC].

<sup>3</sup> *Id.* at 5–7.

<sup>4</sup> U.S. Dep't of Justice & Federal Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.1 (Apr. 6, 1995) [hereinafter 1995 IP Guidelines].

<sup>5</sup> See U.S. Const. art. I, § 8, cl. 8 (“To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”).

<sup>6</sup> See 35 U.S.C. § 154(a)(1)–(2).

<sup>7</sup> 2008 AIPLA Letter to FTC at 5–6.

<sup>8</sup> U.S. Dep't of Justice & Federal Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* at 4 (Apr. 2007).

<sup>9</sup> See 1995 IP Guidelines § 2.3.

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 the IP's social value.<sup>10</sup> An antitrust policy that unnecessarily deters transactions that can efficiently maximize the value of intellectual property will limit social returns from innovation by restricting the use and dissemination of present innovation, lowering its anticipated value, and suppressing future innovation.<sup>11</sup>

Third, investment in intellectual property is often riskier than investment in tangible assets. Most of the investment is in upfront, sunk costs, with the prospect of adequate returns highly uncertain. At the same time, as the FTC has recognized, intellectual property is easily misappropriated.<sup>12</sup> IP rights play a critical role in identifying and defining property interests in certain intangible results of investment, which in turn provides a mechanism to purchase and exchange rights in such property. IP rights thus create markets, allowing investments to be monetized and returns to be earned through transactions.

The importance of innovation, and the intellectual property that fosters innovation, has significance for antitrust rules. The fact that some of the efficiency and procompetitive benefits from intellectual property will likely accrue over the long term and from unforeseen applications of technology means that these benefits will be systematically underestimated, relative to short-term static effects, in any present effort to balance positive and negative effects of a particular practice. To compensate for this bias and to lower the risk of competition law enforcement errors, an enforcement policy for matters that bear directly on innovation should require a showing of significant, unreasonable competitive harm.<sup>13</sup>

The same factors also amplify the cost to consumers of enforcement error. Because of the multiplier effect of innovation, incorrect decisions prohibiting or deterring efficient exploitation of IP rights can be expected to produce a greater loss of consumer surplus than incorrect enforcement decisions involving other areas of economic activity. Even if the risk of error is small, the consequences of a false positive can be large.<sup>14</sup> 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.<sup>15</sup>

An important factor in analyzing transactions, such as licensing agreements, involving IP rights is whether the agreement restricts competition that likely would have occurred in the absence of the agreement. This overarching principle encourages the licensing of IP rights by permitting IP rights holders to grant limited rights to exploit their intellectual property that might not otherwise be exploited. Field-of-use, territorial and other limitations in IP rights licenses may be pro-competitive by allowing a licensor to exploit its property efficiently, giving a licensee

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<sup>10</sup> *Id.*

<sup>11</sup> 2008 AIPLA Letter to FTC at 6.

<sup>12</sup> *See* 1995 IP Guidelines § 2.1.

<sup>13</sup> 2008 AIPLA Letter to FTC at 8–9.

<sup>14</sup> *Id.* at 9.

<sup>15</sup> *Id.* at 6–7.

an incentive to invest in products embodying the licensed IP rights and to develop additional applications for the licensed property.<sup>16</sup>

In general, it is important, as the FTC has noted, that IP rights provide IP rights owners the right to exclude others from practicing the subject intellectual property. The mere ownership of IP rights does not necessarily confer market power.<sup>17</sup> Proof of dominant market position should be based on evidence of market power, beyond the existence of the IP rights.<sup>18</sup> And mere exclusion through the exercise of IP rights, without more, does not itself violate the antitrust laws.

Patent law in the U.S. has undergone dramatic change in the past decade. In 2012, Congress passed the America Invents Act, under which the U.S. Patent and Trademark Office soon thereafter introduced a new Inter Partes Review patent opposition process. The Inter Partes Review process allows anyone willing to pay a filing fee to challenge the validity of an already-issued patent without commencing costly district court litigation. Inter Partes Review challenges have become hugely popular. In an Inter Partes Review proceeding, unlike in a district court proceeding, the Patent Trial and Appeal Board does not presume that a patent is valid. This means that the patent validity presumption that existed when the FTC released its 2003, 2007 and 2011 reports has been undermined substantially.

During the same period, the Supreme Court has handed down a series of cases that limit patent protection and patent holders' rights: limiting the ability to obtain injunctions against infringers,<sup>19</sup> subjecting patent litigation settlements to antitrust review,<sup>20</sup> reducing the scope of patent subject matter eligibility,<sup>21</sup> reducing the burden for attorneys-fee shifting,<sup>22</sup> among others.

These legislative and case law developments have dramatically reshaped U.S. patent law in a way that more narrowly circumscribes the patent right than was the situation 12 years ago.<sup>23</sup> Therefore, the policy and analysis surrounding IP-antitrust questions may also be due for

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<sup>16</sup> Letter from Mark L. Whitaker, President, AIPLA, to Qiu Yang, Office of the Anti-Monopoly Comm'n of the State Council of the People's Republic of China, *AIPLA Comments on the Guidelines for Anti-Monopoly Enforcement Against Abuse of Intellectual Property Rights (Draft for Comments)* at 12 (Apr. 19, 2017).

<sup>17</sup> *Illinois Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 45 (2006) ("Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee.").

<sup>18</sup> Letter from Denise W. DeFranco, President, AIPLA, to Handong Zhang, Dir. of the Price Supervision & Anti-Monopoly Bureau, National Development and Reform Commission, *AIPLA Comments on State Council Anti-Monopoly Commission's Anti-Monopoly Guidelines on Abuse of Intellectual Property Rights (Draft for comment)* at 3 (Feb. 9, 2016).

<sup>19</sup> eBay.

<sup>20</sup> Actavis.

<sup>21</sup> Mayo, Alice.

<sup>22</sup> *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755–56 (2014) ("This text is patently clear. It imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for 'exceptional' cases.")

<sup>23</sup> U.S. Chamber of Commerce Global Innovation Policy Center, *U.S. Chamber International IP Index*, at 35 (February 2018) [http://www.theglobalipcenter.com/wp-content/uploads/2018/02/GIPC\\_IP\\_Index\\_2018.pdf](http://www.theglobalipcenter.com/wp-content/uploads/2018/02/GIPC_IP_Index_2018.pdf) (showing that the United States falling to 12<sup>th</sup> relative to other countries in the category of Patents, Related Rights and Limitations).

rethinking and adjustment, in order to account for the vast changes on the intellectual property side.

## **II. Contemporary Patent Doctrines—Patent Eligibility Under Section 101 of the Patent Code**

Perhaps the most significant issue in current U.S. patent law is the definition of patent-eligible subject matter under 35 U.S.C. § 101. While this issue does not seem to present antitrust enforcement or consumer protection issues, as a policy matter it has strong implications for the future of competition in the U.S. and global economy. The FTC should be aware of the risk to long-term, dynamic competition that the current chaos in this area of law poses.

One of the most potent drivers of today’s economy and competition is emerging technologies. And one of the most potent drivers of new technology is the incentive to invest and innovate created by patents. Today, the uncertainty surrounding what is patent-eligible subject matter threatens to undermine the incentive to invest and innovate, particularly in emerging technologies, an example of which is artificial intelligence (“AI”). AI is being embedded in many new products and services. Systems that act like human neural networks and learn from successive experiences and assorted sources of information are becoming crucial in many new and existing industries. In the healthcare field, the diagnosis and treatment of diseases and other medical issues are leaping forward in this age of information and data.<sup>24</sup>

These and other frontier technologies—ranging from the Internet of Things to processing big data through new 5G communications and cybersecurity<sup>25</sup>—rely heavily on software and AI “cognitive learning” solutions.<sup>26</sup> AI is even more robust when combined with other expanding technologies, such as “blockchain,” which represents the likely future of how many transactions will be securely shared and administered in a distributed manner.<sup>27</sup> For companies to pay the sizable costs of developing the computing speeds, the data, the algorithms, the industry intersections, and the “out-of-the-box” advances, they must have a level of confidence that they can see a reasonable, predictable return on their investment.

Yet the incentive to invest and invent in these areas is being challenged by recent judicial decisions interpreting the scope of “patent eligibility” under 35 U.S.C. § 101. As noted above, these decisions have led to uncertainty and increased risk in many promising fields that are expanding R&D boundaries.<sup>28</sup>

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<sup>24</sup> Daniel Faggella, *7 Applications of Machine Learning in Pharma and Medicine*, techemergence (July 19, 2018), <https://www.techemergence.com/machine-learning-in-pharma-medicine/>

<sup>25</sup> It was reported that by 2021, there will be 3.5 million unfilled cybersecurity jobs. Cybersecurity Ventures, *Cybersecurity Jobs Report 2018-2021* (May 31, 2017), <https://cybersecurityventures.com/jobs/>

<sup>26</sup> Alex Gerage, *Three Ways Machine Learning Will Disrupt Transportation* (Oct. 27, 2016), <https://www.mccormick.northwestern.edu/news/articles/2016/10/three-ways-machine-learning-will-disrupt-transportation.html>

<sup>27</sup> Blockchain can involve securely tracking and storing data at various points in a multi-step relationship, such as a supply chain, shipped commodities (such as food) and banking transactions.

<sup>28</sup> See, e.g., *Berkheimer v. HP Inc.*, 881 F.3d 1360, 1364 (Fed. Cir., May 31, 2018) (Lourie, J., joined by Newman, J., concurring in denial of petition for rehearing en banc) (“However, I believe the law needs clarification by higher authority, perhaps by Congress, to work its way out of what so many in the innovation field consider are § 101 problems. . . . Section 101 issues certainly require attention beyond the power of this

In particular, the current test of “patent eligibility” is to determine if the patent claims are directed to a judicial exception to eligibility, such as an abstract idea and, if so, whether there is something more to the invention than the abstract idea.<sup>29</sup> This test is malleable and subjective, often leading to inconsistent results in different courts and creating significant uncertainty for the courts, the Patent Office and the innovation community.

The consequences of this regime are evident. While in some cases, companies may realize compelling business cases that override the patent interest,<sup>30</sup> more often companies are hoping to obtain a return on risky R&D expenses, at least in part, through royalties. Without patents, an R&D proposal depreciates and investment funding looks for more attractive alternatives. Such discouragement of investment in emerging growth industries in the U.S. impacts job creation, new industry development, economic growth, national security<sup>31</sup> and leadership in education and research.

In a global context, other countries are promoting indigenous invention and patenting in their jurisdictions. The number of non-U.S. patents in key emerging technologies is growing. Accordingly, as U.S. patent laws reduce the force of patents in major future technologies, jurisdictions like China, South Korea, India and Europe are enhancing their patent systems and other incentives. For example, the Chinese patent system is supportive of AI innovation<sup>32</sup> and, in 2016, there were three times as many patent applications relating to AI filed in China as were filed in the U.S.<sup>33</sup> Japan also amended its patent examination guidelines to clarify that deep learning (so-called trained model and neural network) artificial intelligence inventions are patent eligible.<sup>34</sup>

China announced its intent to dominate key future technologies in 10 to 15 years, with a goal of leading the world in AI by 2030. Where AI is predicted to contribute US\$7–13 trillion by 2025, restricting opportunity in that sector in the U.S. at this time is unwise. Last year, 48% of global AI startup funding was invested in Chinese startups, surpassing funding for U.S. AI

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court. . . . Even if [the case] was decided wrongly, which I doubt, it would not work us out of the current §101 dilemma. In fact, it digs the hole deeper by further complicating the §101 analysis. Resolution of patent-eligibility issues requires higher intervention, hopefully with ideas reflective of the best thinking that can be brought to bear on the subject.”)

<sup>29</sup> *Alice Corporation Pty. Ltd. v. CLS Bank International*, 134 S.Ct. 2347, 2354–59 (2014); *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. 66, 72 (2012).

<sup>30</sup> Also, in some instances where a party has substantial control over a market otherwise, patents may be less critical.

<sup>31</sup> AI tools, such as those powered by IBM’s Watson technology, can sift through vast amounts of unstructured data addressing documented software vulnerabilities in 70,000 security research papers and blogs published each year, capturing critical information and insights from experts across the globe. These tools can learn over time, with successive transactions, to identify and respond to intrusions. Such technologies are the product of (1) investing, for years, in people and technology, and (2) collaboration which should yield solid value, such as a patent.

<sup>32</sup> European Patent Office, *China: Revision of SIPO's Examination Guidelines*, <http://www.epo.org/searching-for-patents/helpful-resources/asian/asia-updates/2017/20170331.html> (last visited Aug. 6, 2018).

<sup>33</sup> Peter Cowan & Jim Hinton, *Intellectual property and artificial intelligence: what does the future hold?* at 24, IAM (Mar./Apr. 2018), [http://www.bereskinparr.com/files/file/IAM88\\_AI-and-IP\\_Jim%20Hinton.pdf](http://www.bereskinparr.com/files/file/IAM88_AI-and-IP_Jim%20Hinton.pdf).

<sup>34</sup> Japan Patent Office, *Examination Guidelines pertinent to IoT Related Technologies* at 15, 17, 18 (Mar. 2017), [https://www.jpo.go.jp/tetuzuki\\_e/t\\_tokkyo\\_e/pdf/iot\\_examination\\_e/01.pdf](https://www.jpo.go.jp/tetuzuki_e/t_tokkyo_e/pdf/iot_examination_e/01.pdf).

startups.<sup>35</sup> AI-related patent publications in China have also exploded as compared to publications in the U.S. In the area of deep learning, from 2013 to 2017, six times the number of deep learning patent applications were published in China compared with the number published in the U.S.<sup>36</sup> SenseTime, a Chinese company, is the world's highest-valued AI startup.<sup>37</sup>

In short, there are a number of adverse competitive effects from the patent eligibility uncertainty: (i) discouraged innovation in critical fields, (ii) inefficient litigation over patent eligibility, (iii) global competition concerns as foreign countries enhance their patent systems and promote emerging information technology incentives, and (iv) potential loss of U.S. leadership in key advanced technologies.

Some private associations have proposed legislative approaches for Congress to consider.<sup>38</sup> For example, the joint AIPLA-IPO proposal is intended to define eligibility in a more objective, narrow, and technology-neutral manner as well as restore the separate eligibility and patentability framework established by the 1952 Patent Act by expressly excluding consideration of "inventiveness" under Section 102, 103, and 112 in the eligibility determination.<sup>39</sup> Other organizations have adopted similar proposals for legislative reform.

Denying patent protection for critical 21<sup>st</sup> century technologies is short-sighted and harmful. This is a time when the U.S. patent system should lead the world, promote vital inventions in critical industries, and stimulate investment for growth and improved quality of life in our nation. FTC policy advocacy could provide important assistance for these goals.

### III. Evaluation of Intellectual Property Litigation in Competitive Effects Analysis

AIPLA generally supports economically efficient licensing of patents and other intellectual property assets, cautioning against overbroad reactions to new market entrants and new licensing models. As with other markets, AIPLA believes the competitive landscape of

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<sup>35</sup> CBInsights, *Top AI Trends to Watch in 2018* at 6, <https://www.cbinsights.com/research/report/artificial-intelligence-trends-2018/>.

<sup>36</sup> *Id.* at 7.

<sup>37</sup> Jon Russell, *China's SenseTime, the world's highest valued AI startup, raises \$600M* (Apr. 9, 2018), <https://techcrunch.com/2018/04/08/sensetime-raises-600-million/>.

<sup>38</sup> See AIPLA, *AIPLA Legislative Proposal and Report On Patent Eligible Subject Matter* (May 12, 2017); Intellectual Property Owners Ass'n, *Proposed Amendments to Patent Eligible Subject Matter Under 35 U.S.C. § 101* (Feb. 7, 2017), <https://www.aipla.org/resources2/reports/2017AIPLADirect/Documents/AIPLA%20Report%20on%20101%20Reform-5-19-17-Errata.pdf>; American Bar Association Section of Intellectual Property Law, *Supplemental Comments Related to Patent Subject Matter Eligibility* (March 28, 2017), [https://www.americanbar.org/content/dam/aba/administrative/intellectual\\_property\\_law/advocacy/advocacy-20170328-comments.authcheckdam.pdf](https://www.americanbar.org/content/dam/aba/administrative/intellectual_property_law/advocacy/advocacy-20170328-comments.authcheckdam.pdf);

Intellectual Property Law Association of Chicago, *Resolution to Amend 35 U.S.C. § on Patent Subject Matter Eligibility* (April 19, 2018), <http://www.iplac.org/work-product>;

New York Intellectual Property Law Association, *NYIPLA to Support Joint IPO-AIPLA Proposal on Section 101 of the Patent Act*, <https://www.nyipla.org/NewsBot.asp?MODE=VIEW&ID=27370>

<sup>39</sup> AIPLA and Intellectual Property Owners Association, *Joint IPO-AIPLA Proposal Concerning Legislative Amendment of 35 U.S.C. § 101*, (May 2018), <https://www.aipla.org/advocacy/congress/Pages/joint101proposal.aspx>.

licensing markets is enhanced by the unhindered Schumpeterian “perennial gale of creative destruction.”<sup>40</sup> Consistent with that view, AIPLA submits that intellectual property litigation should not generally be viewed as conduct having anticompetitive effects. Indeed, because IP rights holders are constitutionally entitled, with narrow exceptions, to resort to the courts to enforce their IP rights, it would be improper to consider IP enforcement litigation—as a general matter—as a negative competitive effect.

In 2006, the FTC addressed the *Noerr-Pennington* Doctrine in an extensive staff report (“FTC *Noerr-Pennington* Report”).<sup>41</sup> Eight years later, in 2014, the FTC brought a case that involved allegations of sham patent litigation in the pharmaceutical industry.<sup>42</sup> Twelve years have passed since publication of the FTC *Noerr-Pennington* Report, and new case law has developed, both from an intellectual property and an antitrust perspective. Much of that development has weakened the protection of intellectual property. AIPLA suggests that a rebalancing of the law is overdue, and strengthening of *Noerr-Pennington* protections for IP rights holders may be one area in which such adjustments could be made.

### **A. Litigation and the *Noerr-Pennington* Immunity From Antitrust Liability**

Litigation is a common route for commercial entities to resolve their differences, typically after attempts to reach an amicable solution fail. In the U.S., private parties enjoy a “right . . . to petition the Government for a redress of grievances” guaranteed under the First Amendment of the U.S. Constitution.<sup>43</sup> Petitioning activity includes the filing of a lawsuit.

In a series of cases, the U.S. Supreme Court developed the *Noerr-Pennington* doctrine, in which it recognized private parties’ right to petition for government action, even where such action limits or replaces competition. The doctrine derives its name from two Supreme Court cases, *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*<sup>44</sup> (“*Noerr*”) and *United Mine Workers of America v. Pennington*<sup>45</sup> (“*Pennington*”). *Noerr* involved petitioning for legislative action,<sup>46</sup> while in *Pennington*, the Court extended *Noerr* protection beyond the legislative arena to prohibit antitrust challenge of attempts to influence the executive branch.<sup>47</sup> The *Noerr-Pennington* doctrine is broad, frequently invoked and not limited to contexts that involve IP rights.

In *Noerr*, the Supreme Court rested its decision on three pillars. First, in our representative democracy, people have a right to make their wishes known to their representatives, and that

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<sup>40</sup> Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, at 87 (New York: Harper & Rowe, 1st ed. 1942 reprinted 1965, London: Unwin University Books).

<sup>41</sup> Federal Trade Comm’n, *Enforcement Perspectives on the Noerr-Pennington Doctrine* (2006), <https://www.ftc.gov/sites/default/files/documents/reports/ftc-staff-report-concerning-enforcement-perspectives-noerr-pennington-doctrine/p013518enfperspectnoerr-penningtondoctrine.pdf>.

<sup>42</sup> See Press Release, *Statement of FTC Chairman Joe Simons Regarding Federal Court Ruling in FTC v. AbbVie* (June 29, 2017), <https://www.ftc.gov/news-events/press-releases/2018/06/statement-ftc-chairman-joe-simons-regarding-federal-court-ruling>.

<sup>43</sup> U.S. Const. amend. I.

<sup>44</sup> *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

<sup>45</sup> *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965).

<sup>46</sup> *Noerr*, 365 U.S. at 129–30.

<sup>47</sup> *Pennington*, 381 U.S. at 659–61.



right is expressly protected by the Bill of Rights.<sup>48</sup> Second, Sherman Act liability cannot be based on valid government action, as opposed to private action.<sup>49</sup> And finally, by logical extension, the Sherman Act does not prohibit efforts to influence the passage and enforcement of laws.<sup>50</sup> Filing a lawsuit has been recognized as protected petitioning that is presumptively entitled to *Noerr-Pennington* immunity from liability under the antitrust laws.<sup>51</sup>

### **B. The Narrow Sham Litigation Exception to *Noerr-Pennington* Exemption From Antitrust Liability**

In 1979, a U.S. federal appeals court first described circumstances in which a patent infringement lawsuit may be the basis of antitrust liability in *Handgards, Inc. v. Ethicon, Inc.*<sup>52</sup> The court recognized that “[p]atentees must be permitted to test the validity of their patents in court through actions against alleged infringers.”<sup>53</sup> By contrast, infringement actions brought in bad faith, such as enforcing a patent known to be invalid, may violate the antitrust laws.<sup>54</sup> Balancing these interests, the court held that “a patentee’s infringement suit is presumptively in good faith and that this presumption can only be rebutted with clear and convincing evidence” that the patentee acted in bad faith.<sup>55</sup> The court remanded the case for consideration under this standard.

In 1993, the Supreme Court held that antitrust claims based on alleged sham litigation (such as enforcement of copyright claims) must meet an exacting two-part standard—even more rigorous than the bad faith test established in *Handgards*—in order to overcome the *Noerr-Pennington* antitrust exemption. In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*,<sup>56</sup> the Court held that the lawsuit first “must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.”<sup>57</sup> And, if the lawsuit is objectively baseless, a court must then “examine the litigant’s subjective

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<sup>48</sup> *Noerr*, 365 U.S. at 137.

<sup>49</sup> *Id.* at 136 (“where a restraint upon trade or monopolization is the result of valid governmental action, as opposed to private action, no violation of the [Sherman] Act can be made out”).

<sup>50</sup> *Id.* at 136–38 (“the Sherman Act does not apply . . . at least insofar as those activities comprised mere solicitation of governmental action with respect to the passage and enforcement of laws”).

<sup>51</sup> *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972).

<sup>52</sup> 601 F.2d 986 (9th Cir. 1979).

<sup>53</sup> *Id.* at 993.

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 996.

<sup>56</sup> 508 U.S. 49 (1993). Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively, PREI) operated a resort hotel. *Id.* at 51. PREI installed videodisc players in the hotel rooms, assembled a library of motion picture titles and rented videodiscs to guests for in-room viewing. *Id.* at 51–52. PREI also attempted to develop sales of videodisc players to other hotels wishing to offer in-room viewing of prerecorded material. *Id.* at 52. Columbia Pictures Industries, Inc., and seven other major motion picture studios held copyrights to the motion pictures recorded on the videodiscs that PREI purchased. *Id.* They also licensed the transmission of copyrighted motion pictures to hotel rooms through a wired cable system. *Id.* The motion picture studios sued PREI alleging that PREI’s rental of videodiscs for viewing in hotel rooms infringed the motion picture companies’ copyrights. *Id.* PREI counterclaimed, alleging, inter alia, that the copyright infringement action was a mere sham that cloaked underlying acts of monopolization and conspiracy to restrain trade. *Id.*

<sup>57</sup> *Id.* at 60.

motivation” to determine whether the “lawsuit conceals an attempt to interfere *directly* with the business relationships of a competitor . . . through the use [of] the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon.”<sup>58</sup> On the facts of the case before it, the Court held that the major motion picture producers’ copyright infringement suit against PREI was not sham litigation because it was not objectively baseless. The Court explained that “[a]ny reasonable copyright owner in Columbia’s position could have believed that it had some chance of winning an infringement suit against PRE[I] . . . Columbia’s copyright action was arguably ‘warranted by existing law’ or at the very least was based on an objectively ‘good faith argument for the extension, modification, or reversal of existing law.’”<sup>59</sup>

Subsequent U.S. case law demonstrates that the two-part *Professional Real Estate* test is difficult to meet, as courts “have generally rejected claims of anticompetitive sham litigation.”<sup>60</sup>

### **C. AIPLA Comments on *Noerr-Pennington* and Sham Litigation**

The Supreme Court’s decisions have shown that both important fundamental rights and strong logical and policy reasons support the general rule that the use of litigation to enforce IP rights should be immune from antitrust liability. Consistent with this precedent, the sham litigation exception should remain narrow.

Furthermore, it should be noted that, unlike property rights over land or other tangible things, IP rights are not self-executing. Intangible property cannot be physically fenced against trespassers/infringers. Instead, IP rights holders can *only* protect their rights by resorting to court proceedings to enforce them. Thus, in the intellectual property field, there is strong reason to be careful not to expand the sham litigation exception, lest the exercise of legitimate IP rights become unduly burdened.

In addition, few would dispute that over the past 12 years, the framework for enforcing IP rights has generally been weakened, with the 2006 *eBay* decision<sup>61</sup> which changed U.S. courts’ approach to injunctive relief, the introduction of *inter partes* reviews, and a number of other Supreme Court cases including *Alice*<sup>62</sup> and *Impression Products v. Lexmark International*.<sup>63</sup> In light of this evolution, AIPLA submits that, in general, a rebalancing of the law to restore protections for intellectual property is overdue. And this is all the more reason why care should be taken to avoid expanding the sham litigation exception.

### **D. AIPLA Comments on Demand Letters**

AIPLA generally supports economically efficient licensing of patents and other IP rights and cautions against overbroad reactions to new market entrants and new licensing models. In

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<sup>58</sup> *Id.* at 60–61 (internal citations and quotation marks omitted).

<sup>59</sup> *Id.* at 65 (quoting Fed. R. Civ. P. 11).

<sup>60</sup> 1 Herbert Hovenkamp et al., *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* § 11.3b4 (2d ed. 2010).

<sup>61</sup> *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

<sup>62</sup> *Alice Corporation Pty. Ltd. v. CLS Bank International*, 134 S.Ct. 2347 (2014).

<sup>63</sup> *Impression Products, Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523 (2017).

contemplating enforcement actions and policy statements involving intellectual property, the Commission should be careful not to over-regulate in these areas.

AIPLA is aware of recent calls for legislation or regulation in regard to “demand letters” sent by patent holders. AIPLA supports the constitutional protection of the right of IP rights holders to petition the government for redress of grievances, as well as their right to free speech. Any exceptions to these freedoms relating to demand letters should be strictly limited to demand letters that are sent in bad faith or involve fraudulent or misleading statements.<sup>64</sup> AIPLA respectfully submits that any legislation or regulation should be approached with caution and with due regard for the above principles.

AIPLA is also mindful that certain states have sought to regulate demand letters. Regulation of the assertion of IP rights by 50 states with varying standards and requirements, as well as the federal government, unduly burdens federally-granted IP rights. AIPLA therefore supports development of national uniform standards in this area, or federal preemption of state-level regulations of this type.

#### **IV. Deceptive Trademark Solicitations**

AIPLA members value the role the FTC plays in drawing attention to the consumer protections and other resources it makes available to trademark owners. One example is the active role the FTC has undertaken with regard to addressing fraudulent and misleading solicitations sent to trademark owners from deceptive sources.<sup>65</sup> Recognizing that trademark owners were receiving these solicitations with increasing regularity, the FTC took a leadership role in serving as a forum for consumers to submit complaints about solicitation letters received and to call out the sources of these solicitations for further investigation. The FTC created a portal for the submission of complaints here: <https://www.ftc.gov/faq/consumer-protection/submit-consumer-complaint-ftc>.

As new forms of fraudulent and misleading solicitations are constantly being developed that impact and impede IP owners’ rights, the IP community will continue to look to the FTC for ways to address these issues, as they arise.

#### **V. Conclusion**

AIPLA appreciates the opportunity to provide these comments. Please contact us if you would like us to provide additional information on any issues discussed above. In the event that comments on additional topics may be relevant or appropriate, AIPLA looks forward to providing further materials, comments or testimony.

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<sup>64</sup> In late 2014 the AIPLA supported the FTC enforcement action against MPHJ, See AIPLA comment in In the Matter of MPHJ Technology Investments, LLC, et al., File No. 1423003 (December 8, 2014) available at <https://www.ftc.gov/policy/public-comments/2014/12/08/comment-00007>.

<sup>65</sup> In July 2017 AIPLA published a Statement on Fraudulent and Misleading Trademark Solicitations <https://www.aipla.org/advocacy/executive/Documents/AIPLA%20Statement%20Fraudulent%20and%20Misleading%20Solicitations%20Roundtable%202017%20July%2026.pdf>

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Sincerely,

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Myra H. McCormack

President

American Intellectual Property Law Association