FTC's Controversial Plan To Change The Patent System:
How Antitrust Laws Affect Patents: Important Points For Patent Firms To Consider

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Abstract

Patent rights promote innovation and expression of new ideas and inventions for the public benefit. Patent rights give incentives to inventors to express their ideas by giving them assurance that these ideas will be protected so that others will not be able to profit from them. However, while patent protection provides economic incentives for inventors, this protection is not unlimited. Antitrust laws impose important restrictions to ensure that inventors are not overstepping their boundaries by restricting competition.

I. Introduction

Antitrust laws aim for the goal of finding a perfect competitive economy. A perfect competitive economy occurs where a large number of firms produce the same product, and no single firm is able to control the market for that product by reducing its output. For example, if one firm reduced its output, perfect competition would exist if that firm's competitors would be able to increase their output by the same amount.

Some ways antitrust laws are able to promote competition are by strictly monitoring firms' actions by regulating potential mergers and preventing firms from forming monopolies. A monopoly occurs where the monopolist firm has the power to reduce total market output by reducing its own output. A monopolist is able to do this because there are no other competitors in the same market to respond to the monopolist's output decrease with an offsetting output increase. As a result, the market price goes up when the monopolist's price goes down [1].

II. Important Antitrust Statutes That Regulate Patent Firms' Actions

§1 Sherman Act: 15 U.S.C. § 1 "Agreements In Restraints Of Trade"	Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony.
§2 Sherman Act: 15 U.S.C. § 2 "Monopolization"	Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony.
§3 Clayton Act: 15 U.S.C. § 14 "Agreements Not To Use Goods Of Competitor"	It is unlawful to prohibit the making of a lease, sale, or contract for sale of goods or other commodities, whether patented or unpatented, on the condition . . . that the lessee or purchaser shall not use or deal in the goods . . . of a competitor . . . where the effect . . . may be to substantially lessen competition or to create a monopoly in any line of commerce.

Federal Trade Commission's Proposals

Recently, the Federal Trade Commission (FTC) recommended proposals to change patent policy. The reason for the proposals was to improve patent quality and to lower restrictions on competition. In the recent FTC report, the first two chapters discuss the relationship between competition and intellectual property. It first discusses the harms on competition when a patent is either poorly written or contains claims that are too broad. This can lead to problems that raise the cost of innovation such as firms foregoing their R & D efforts for fear of infringing an improperly written claim.

III. How Antitrust Laws Affect Intellectual Property

3.1 Horizontal Restraints

Traditionally, § 1 Sherman Act offenses have been thought of as being either horizontal (among competitors) or vertical (e.g. between seller and buyer, or between licensor and licensee). Horizontal antitrust concerns arise where firms that would otherwise be competitors combine their efforts to develop technology. Antitrust law looks at whether such arrangements would further competition in the relevant market or reflect a combination that would restrict output, increase price, or reduce incentives for innovation. Some patent activities that § 1 Sherman Act regulates are patent pooling and joint research ventures [2].

Patent Pooling

Patent Pooling occurs when patent rights are exchanged between two or more parties. In determining whether the patent pooling behavior is anticompetitive, courts apply a rule of reason analysis which analyzes the relevant market of the pooled technologies, the intent of the parties, whether the patent pool is open or closed, and other relevant factors, such as how their actions will affect other markets or if their actions would discourage future competition.

The relevant market includes all technologies that compete with the pooled technologies. Once that market is defined, one looks to the market shares of the pooled technologies and those outside the pool. If the owners of the pooled technologies collectively dominate a market that was previously competitive, the pool may confer on them the power to fix and maintain royalties or prices in the downstream market to an extent that the owners did not previously enjoy [3]. In addition to the relevant market inquiry, factors of intent are relevant to the inquiry also. If the intent is to obtain monopoly power or to exclude competitors from the market to a degree beyond that conferred by the patent to the individual patentee, the combination is illegal [4].

Joint Research Ventures

Joint research ventures occur when competitors or potential competitors exchange scientific research. The Antitrust Division of the Department of Justice outlines a general enforcement approach to research ventures among manufacturers with significant market shares in their output market that is very similar to the analysis of patent pools. The Department analyzes the market to which the relevant R & D belong; if there are four or more R & D efforts, the Department would not likely find anticompetitive effect. The Department also looks at whether any types of efficiencies would be created by a particular joint venture. Because of the concern of insufficient research expenditures, Congress enacted the National Cooperative Research Act (NCRA) in 1984, which analyzes joint research developments under a rule of reason analysis by taking into account all relevant factors affecting competition. The NCRA requires that companies register their joint procedures with the Attorney General and Federal Trade Commission [5].

3.2 Vertical Restraints

While antitrust agencies are concerned with horizontal restraints on competition, they are also concerned with vertical restraints. Examples of vertical activities that are scrutinized heavily are tying arrangements and exclusive dealing agreements.

Tying Arrangements

A tying arrangement is a sale or lease of a product on the condition that the buyer or lessee takes a second product as well. Tying arrangements can be illegal either as contracts in restraints of trade under § 1 of the Sherman Act, or else under § 3 of the Clayton Act.

One theory as to why courts oppose tying arrangements is because this creates a restriction on consumers on what they should purchase. A buyer would be forced to buy a product that they would not rather buy [6].

In the patent context, a patentee-licensor's efforts to condition the granting of a license upon the acquisition of some separate article of commerce from the licensor may amount to patent misuse, an improper tying arrangement in violation of antitrust laws, or both.

Exclusive Dealing

An exclusive dealing arrangement is an agreement between buyer and seller under which the buyer agrees to purchase all its needs of a particular product from the seller, i.e. the buyer agrees not to deal in the same product with a different supplier. Exclusive dealing arrangements can be held as illegal under § 3 of the Clayton Act. The legality of such arrangements depends on the degree and extent of foreclosure to others in the market seeking to deal with the party precluded by the agreements [7].

IV. Single Firm Activities

§ 2 Sherman Act is mainly directed at actions within a single firm. § 2 Sherman Act looks at firms who monopolized a specific market or their attempts at monopolization. Monopolization occurs when a firm has monopoly power in a defined market and willfully acquired or willfully maintained that power. Attempted monopolization occurs when a firm has an attempt to monopolize a defined market, in attempting to monopolize a firm engages in predatory conduct to pursue that goal, and there is a dangerous probability of success [8].

V. Federal Trade Commission's Proposals To Change The Patent System

Antitrust agencies, such as the FTC, have become more concerned with patent firms' activities. Recently, the FTC proposed regulations to create tighter restrictions on patent protection. The FTC's goal is to reduce the number of questionable patents that restrict competition. Another concern is to provide better quality patents so that patentees do not have more protection than what they are entitled to. To do this, the FTC has recently proposed certain guidelines that raise the bar for those seeking patent protection.

<u>5.1 In Obvious Determinations, Shifting The Burden From The Challenger To The Patentee</u>

Current patent rules require the patentee to show that claimed features of the patent are coextensive with those of the successful invention. Once this requirement is met, it is presumed that the invention itself, rather than other factors, caused the commercial success. The burden then shifts to the challenger to present evidence that rebuts this presumption [9]. The FTC however recommends that the patentee bear the ultimate burden of demonstrating that the claimed invention caused the commercial success. It reasons that the burden shifts too easily to the challenger and since it is the patent holder that would best know the cause of its product's commercial success, that the patent holder should be the one required to demonstrate it.

<u>5.2 Lower Standard For Determining Obviousness</u>

In determining obviousness of a patent, some recent cases have required the PTO to point to particular items of prior art that concretely suggest how to combine all the features of the claimed invention [10]. The FTC criticizes this requirement by stating that requiring concrete suggestions beyond those actually needed by a person in the art and failing to give weight to suggestions implicit from the art as a whole and from the nature of the problem to be solved is likely to result in patents on obvious inventions which would be detrimental to competition.

<u>5.3 Reducing The Standard For Challenging A Patent's Validity From Clear And Convincing To Preponderance Of The Evidence</u>

Under current patent rules, if the examiner does not produce a prima facie case of obviousness, the applicant is under no obligation to submit evidence of non-obviousness. Additionally, office personnel must treat as true a statement of fact made by an applicant in relation to the asserted usefulness of the invention unless countervailing evidence can be provided that shows that one of ordinary skill in the art would have a legitimate basis to doubt the credibility of such a statement [11]. Furthermore, the PTO is significantly under funded, leaving patent examiners with little time to research and evaluate patent applications. According to the FTC, these factors combined with the fact that the PTO grants patents based on a preponderance of the evidence standard, create an inappropriate presumption of a patent's validity. Because of these factors, the FTC believes that this presumption should not be aimed toward a patent's validity, but instead should point to a patent's invalidity. To accomplish this, the FTC seeks to enact legislation, which lowers a challenger's burden from clear and convincing to preponderance of the evidence.

5.4 Require Publication Of All Patent Applications 18 Months After Filing

Unless a patent application is filed exclusively in the United States, most patent applications have to be published within 18 months after filing. Because patent applicants who publish their applications can prevent copying by obtaining royalty rights after the patent issues, the FTC feels that patent applicants endure no harm from publishing their application. Therefore, the FTC believes that this 18 month publication requirement should extend to patent applications that are only filed domestically as well.

5.5 Create Intervening Or Prior Use Rights To Protect Parties From Allegations That Rely On Certain Patent Claims First Introduced In A Continuing Or Other Similar Application

Even after a patent application becomes published, the applicant may continue to amend its claims. The major problem with applicants amending their claims and filing continuation applications is that sometimes applicants use these procedures as a way to broaden their claims to cover a competitor's product. There have been many efforts to remedy actions for bad-faith broadening of claims. However, there are legitimate reasons for amending claims and filing continuing applications. To protect good-faith inventors who infringe a patent only because of claim amendments in a continuation application, the FTC proposes that these applicants should be able to obtain intervening or prior use rights.

5.6 Raise The Requirement For Willful Infringement: Requiring Either A Written Notice Of Infringement From The Patentee, Or Deliberate Copying Of The Patentee's Invention, Knowing It To Be Patented

Many times inventors deliberately fail to read a competitor's patent for fear of treble damage liability. However this failure may harm non-infringing efforts aimed at business or research strategies, causing wasteful business resources, resulting in duplication of effort, or preventing innovation that could have been derived from disclosures, thereby restricting competition. At the same time, the FTC agrees that infringers should not be allowed to profit from others by knowingly and deliberately using another's patented invention. Therefore, the FTC seeks to create a balanced medium where potential patentees can read other patents for their disclosure value, while at the same time, assessing potential infringement that may arise.

VI. Points To Consider For Complying With The FTC's Proposals

6.1 Submit Cease And Desist Letter

If a patentee has already secured a patent and seeks to collect treble damages for willful infringement, the patentee should submit a cease and desist letter to the potential infringer, clearly stating how the infringer infringes the patentee's patent. That way, if the FTC's proposal to raise the standard for willful infringement is enacted, the patentee will still be able to collect treble damages by showing that the infringer had notice that it was infringing another's patent.

6.2 Optimize Patent Values

For those seeking patent protection of a product, with the hopes of making that product commercially available, firms should look at ways to increase the patent's productivity and value, while being very careful not to infringe on another's patent. If the FTC's proposal for raising the willfulness infringement requirement becomes enforced, then firms will have greater flexibility in reading other patents for non-infringing uses, such as uses for business strategies and in research and development.

6.3 Avoid Overly Broad Claims

In deciding whether to patent, firms should consider the scope of the claims. Does the patent application have claims that cover more than what is necessary to protect the invention? Overly broad claims can cause anticompetitive effects because other competitors may forgo research and development efforts fearing that they will be infringing an improperly covered patent.

6.4 Funding Business Ventures

For investors deciding whether to fund companies collaborating together, beware of possible antitrust violations. For example, if the particular patent field is relatively new and both companies are the only ones producing in this field, then a § 1 Sherman Act violation may arise where these companies are trying to exclude competitors. In deciding whether to fund a single firm's patent procurement, investors should look to see if that firm has or will have a dominant market share for that particular product. If so, this creates a potential § 2 Sherman Act violation of monopolization or attempted monopolization. Investors should look to see what the relevant market is for that particular product, and how much of a need there is for that market.

6.5 Voluntary (Not Mandatory) Package Licensing Arrangements

Often times, packaging patents in one license may constitute patent misuse or even an antitrust violation. While voluntary package licenses have been held to be legal, mandatory (otherwise known as compulsory) package licenses have been held as illegal [12]. Unless the licensing package contains blocking patents (where each patent is dependent on another), firms should avoid using mandatory licensing provisions.

6.6 No Tie-Ins With Intellectual Property

A tying arrangement can occur where a patentee-licensor conditions the granting of a license on the licensee's agreement to use the licensor's trademark when selling products that are manufactured through use of a patent [13]. The main reason why these arrangements are disfavored is because this arrangement often times results in the post-expiration of patent royalties.

6.7 Prohibited Royalty Restrictions

A patentee is generally freely able to negotiate a royalty that a prospective licensee is willing to pay. However, there are some royalty arrangements, which courts have determined to be inherently unreasonable, or an improper attempt to extend the scope or terms of a patent monopoly. One such example is when a patent owner commits patent misuse. Patent misuse may occur when a patent owner conditions the grant of a license on a licensee's agreement to pay royalties based on total sales regardless of the actual use of the patented product or process [14]. However, the parties may voluntarily and for convenience agree to this type of royalty structure [15]. In determining whether the licensee entered into the agreement voluntarily, courts look to coercion on the part of the licensor [16].

Courts have been much harsher with respect to efforts by the patentee-licensor to discriminate between licensees on the basis of royalties. One example is when there is discrimination in royalty rates based on the licensee's geographic location [17]. Unless there is a "rational basis" for a particular discriminatory structure, such as different end users by different licensees, or increased production costs, patentees-licensors should avoid these types of royalties [18].

Patentees may also want to consider making their technology easier to license, for both academic research and commercial purposes, which is what Microsoft has recently decided to do. Microsoft has even designed a royalty-free program, in which the academic community may access its portfolio of copyrighted and patented technology for noncommercial use and research. In the commercial context, Microsoft recently announced two licensing technologies available: one for file transfers and one that makes reading text on computer screens clearer. General counsel Brad Smith even agrees that "this kind of step is consistent with the kinds of steps that others in the industry" have been encouraging them to take [19].

VI. Conclusion

Patent rights promote expression of ideas for the public benefit. By granting patent protection, this provides incentives for inventors to disclose their inventions. To ensure that these inventions are available for the public benefit, antitrust laws monitor the patent system, to make sure that others are not hindered from exposing their ideas. Patentees should be very careful when drafting their licensing agreements and royalty arrangements. Furthermore, should the FTC's proposals become enforced, patentees need make sure they are not overstepping their boundaries when structuring their claims too broadly and also need to be prepared to prove that their patent is non-obvious even without a showing of obviousness by the patent examiner.

VII. References

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