Presentation of Salem M. Katsh*
Before the
Federal Trade Commission and Department of Justice

Hearings on Competition & Intellectual Property Law and Policy in the Knowledge-Based Economy

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Interface or Face-Off?

- Both Patent Law and Antitrust Law Have Common, Ultimate Objectives
  - Enhancement of consumer welfare
- The Means Are Different and At Times Will Conflict
  - Antitrust intervenes to combat undue acquisitions or exercises of market power
  - Patent law seeks to induce invention and innovation by offering the reward of lawful monopoly profits
- Are IP Rights Entitled to Special Antitrust Deference?

The Philosophical Divide: One Example

Kodak/Goodyear (Fed. Cir. 1997)

Goodyear alleges injuries stemming from Eastman's [acquisition and] enforcement of the *'112* patent. Goodyear, however, would have suffered these same injuries regardless of who had acquired and enforced the patent against it. Indeed, Goodyear would have suffered these same injuries if Zimmer had retained exclusive rights to the patent and had enforced the patent against Goodyear itself. The cause of Goodyear's injuries was not that Eastman enforced the *'112* patent, but that the patent was enforced at all. These injuries, therefore, did not occur "by reason of" that which made the acquisition [by Eastman] allegedly anticompetitive.

SCM/Xerox (2d Cir. 1981)

Patent acquisitions are not immune from the antitrust laws. Surely, a § 2 violation will have occurred where, for example, the dominant competitor in a market acquires a patent covering a substantial share of the same market that he knows when added to his existing share will afford him monopoly power.

FTC/DOJ IP Licensing Guidelines (1995)

Certain transfers of intellectual property rights are most appropriately analyzed by applying the principles and standards used to analyze mergers, particularly those in the 1992 Horizontal Merger Guidelines. The Agencies will apply a merger analysis to an outright sale by an intellectual property owner of all of its rights to that intellectual property and to a transaction in which a person obtains through grant, sale, or other transfer an exclusive license for intellectual property ….Such transactions may be assessed under section 7 of the Clayton Act, sections 1 and 2 of the Sherman Act, and section 5 of the Federal Trade Commission Act.

Recent Evolution of Antitrust Law

- Structuralist Approach Characterized Enforcement in the post-World War II Era, Until 1980
- "Chicago School" Approach Has Reduced Impact of Previous Antitrust Rules in Both Vertical and Horizontal Contexts
  - Dismissal of *IBM* Case (1980)
  - Adoption of Merger Guidelines (1982)
  - Deregulation--AT&T Divestiture
  - Joint FTC/DOJ Guidelines for the Licensing of Intellectual Property (1995)
    - Abandonment/modification of nine "no no's"
    - IP rights will be analyzed under Rule of Reason as other forms of property
  - DOJ Section 2 Case Against Microsoft
  - FTC Case Against Intel

Recent Evolution of Patent Law

- 1952 Code Adds Explicit Test of Nonobviousness
- 1966 *Graham* v. *John Deere* Case Construes 1952 Act
  - Urges "strict" application of non-qualitative test
  - Urges reform of PTO to maximize issuance of valid patents
- Pre-1982, Both Prior to and After *Graham*, Most Litigated Patents Are Held Invalid
- Federal Circuit Established in 1982
  - Dramatic increase in percentage of patents upheld as valid (over 60%; higher in jury trials)
  - Number of applications and allowances escalate
  - Underfunding of PTO consistently noted as a problem
  - *Markman* charges court with duty of claim construction
    - Note, however, that CAFC has overruled almost 50% of such determinations
  - *Warner-Jenkinson* affirms limited role for doctrine of equivalents
  - *Festo* raises new questions about equivalents doctrine (Supreme Court decision pending)
  - Recent cases illustrate uncertainty in patent system
    - *Tate Access Floors* v. *Interface Architectural Resources, Inc.*
    - *Johnson & Johnston Associates* v. *R.E. Service Co.*
  - Some contend "bar" to patentability has not been raised in accordance with *Graham* ruling
  - Business method patents allowed (1998)
- PTO Remains Underfunded to Handle Exponential Increase in Filings

Key Assumptions Underlying Current Patent Rules

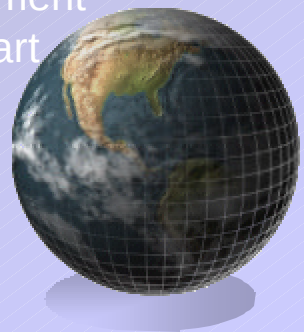
- Reward/Encourage Invention, Innovation and Disclosure of Technology
  - Relationship to fact that validity/enforceability of patent rights may not be known for years
  - Relationship to trade secret law
    - Trade secret law assumes significant limitations in patent coverage
  - Relationship to discoveries in areas that are not patentable
    - $E=MC^2$
  - Relationship to valuable, otherwise patentable but barred (e.g., 102(b)) innovations
  - Are "continuation" applications necessary or appropriate to support this assumption
- Prevent/Limit Free-Riding
  - Relationship to other areas where free riding is allowed--e.g., lack of protection for industrial designs, prohibition on resale price maintenance, normal leakage of trade secrets
- Let Market Determine Value of Issued Patents
  - Does this assumption imply that (1) known and relatively certain criteria will be used, or (2) actual worth/value of patent cannot in many/most cases be determined a priori
    - If (2), what standard of obviousness, if any, would further this assumption

Patent System Under Question

- Is *Graham* Being Followed?
  - Did the Federal Circuit unify patent law, refuse to apply *Graham's* "strict" criteria (or both)?
  - *Graham* endorsed early *Hotchkiss* case and views of Jefferson concerning the nonpatentability of known devices using new and nonobvious materials.
  - What reforms followed *Graham*?
- Is the PTO Following Coherent and Meaningful Criteria?
  - Do different examiners too frequently mean different results?
  - In *Graham*, the Court "was at a loss" to explain PTO decisions. Has the system changed?
- What is the Impact of the Long Time Lag Between Filings and Final Actions?
- Should There be a Doctrine of Equivalents?
  - What does "insignificant" mean?
  - Equivalent as of what point in time?
    - Currently, rule holds that time of alleged infringement is key
- What Is (or Should Be) the Test for "Obviousness"?
- Is the 102(b) Bar Fair and/or Overbroad?
- Should All Patents Have the Same "Limited" Term?
  - E.g., business method patents
- Should the Criteria be the Same for All Patent Applications?

Has the Federal Circuit Been a Success?

- The Venue Argument Is/Was a Red Herring
- Is it An "Expert" Court?
- Has it Followed *Graham?*
- Expansion of Patentable Subject Matter
  - E.g., business methods
- Inability to Define Doctrine of Equivalents
  - *Warner-Jenkinson* (en banc)
  - *Festo* (en banc)
- Injection of Substantial New Uncertainty with *Johnson & Johnston* (en banc), Elevating Significance of "Public Dedication" Defense
- Other Recent Cases
  - *Tate Access*
    - "Prior art" defense not cognizable against charge of literal infringement
    - Upholds preliminary injunction against defendant using only prior art



Inspiration or Perspiration?

- The Real Fight is Over What is Obvious.
- Did *Graham* Erect a High Bar?
- Has the CAFC Lowered the Bar?
- In any Event, What Should the Bar Be?
  - Edison: "Genius is one percent inspiration and ninety nine percent perspiration."
  - What standard of technological advance?
    - The "Aha" vs. grunt approach
  - Who is qualified to judge?
  - Does the patent disclosure of a successful result disclose the full invention?
    - Edison: "I have not failed. I've just found 10,000 ways that don't work."
    - Relative importance of trade secrets
  - Should economic significance be factored more or less into the obviousness analysis?

The Current Crisis-Pervasive Uncertainty

- Uncertainty as to What Patents Will Issue.
- Uncertainty About "Lurking Applications" and Continuation Practice.
- Uncertainty Based on Time Lag Between Filings and Final Actions.
- Uncertainty Based on Tendency of Federal Circuit to Modify or Reverse a High Percentage of Appeals.
- Uncertainty as to the Scope of Protection:
  - Frequent changes in basic legal rules
  - Retroactive effect of *Festo* and other precedents changing extant law
- Uncertainty as the Standard of Non-obviousness as Applied by the PTO and the Courts.
- Uncertainty About the Scope (and Existence) of the Doctrine of Equivalents.
- New Uncertainty Introduced as to the "Public Dedication" defense.
- Uncertainty Regarding What Should Go Into a Specification – Has Less Become More?
- Uncertainty About What Resources Should be Devoted to the Area of Patent Prosecution and Litigation.
- Uncertainty as to What Should be Kept as a Trade Secret.
- Uncertainty as to Quality of Decision-making at the Federal Circuit.

AS COMPARED TO THE ANTITRUST AREA, THERE IS A TREMENDOUS DISPARITY IN PREDICTABILITY

Standard Setting And Settlement Issues

- The Growth of Private Standard Setting Bodies
  - On the producer side
  - On the consumer side
- Are There Antitrust Implications for Concerted Efforts to Forestall Compensation of Intellectual Property?
- The Principle of Reasonable Non-Discriminatory Royalties.
- Do Standards Mitigate in Favor of or Against Patent Policy?
  - *Lear v. Adkins*—favors incentives to challenge patent validity
  - Standards tend to enhance first to market benefit
- Patent Settlements, Including Interference Proceedings Can Protect or Create Market Power
  - The vast majority of settlements can be justified today because of the tremendous uncertainty as to validity and infringement issues
  - Another reason for trying to reform system to reduce uncertainty
    - Currently, it will be extremely difficult for FTC or DOJ to determine what settlements may lack adequate legitimate consideration and therefore might pose antitrust issues