



Supplemental Patents and Antitrust Discussion Outline and Memorandum

This memorandum and discussion outline provide discussion material and possible recommendations on two topics: “The Relationship between Competition and Patent Law” and “The Interface of Antitrust Law and Patents.” In the first section, “Background” contains general material appropriate for inclusion in a chapter of the report. Possible findings and recommendations follow. Although the Commission decided not to adopt for study the issues discussed in the section on Antitrust Law and Patents, some information relevant to these issues has been received, and some discussion of them may be appropriate. This document provides a brief summary of what could be said based on the record and other sources.

I. The Relationship between Competition and Patent Law

A. Background

- The patent laws encourage invention by granting to those who develop new, useful, and nonobvious advances in technology and design the exclusive right to practice the invention for a period of years.
- Not every patent is a monopoly, and not every patent confers market power. The Commission agrees with the Supreme Court’s holding in *Independent Ink v. Illinois Tool Works*¹ that courts should not presume that a patent confers market power.
- Nonetheless, a patent can confer market power and therefore can limit competition. The patent statutes recognize this possibility and contain requirements that limit the circumstances in which patents will be awarded. According to the Supreme Court:

Taken together, the novelty and nonobviousness requirements [to obtain a patent] express a congressional determination that the purposes behind the Patent Clause

¹ 126 S. Ct. 1281 (2006).

[of the U.S. Constitution]² are best served by free competition and exploitation of either that which is already available to the public or that which may be readily discerned from publicly available material.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150 (1989).

- Thus, the federal patent laws express “a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.” *Bonito Boats*, 489 U.S. at 146.
- Some have questioned whether the current implementation of patent law properly maintains that careful balance. In recent reports, the Federal Trade Commission (“FTC”) and the National Academies’ Board on Science, Technology, and Economic Policy (“NAS-STEP”) identified ways in which, among other things, the current implementation of patent law may harm competition. Each report advocated legislative and other changes to address the issues they identified; some recommendations are similar, others are not.
- Certain bills are pending before Congress that would adopt various changes to the patent system.
- In an *amicus* brief urging the Supreme Court to grant *certiorari* in *KSR Int’l v. Teleflex, Inc.*,³ the United States stated that the Federal Circuit’s approach to the non-obviousness inquiry “unnecessarily sustains patents that would otherwise be subject to invalidation as obvious.” *Amicus Brief*, at 12. The brief explained that the “extension of patent rights to obvious combinations of familiar elements retards, rather than advances, new discoveries.” *Id.* at 9.

B. Possible Findings and Recommendations

In light of this discussion, the Commission expresses the following views and makes the following recommendations:

Possible Findings

- [1] Patents and patent law play an important role in the property rights regime essential to a well-functioning, competitive economy.

² U.S. CONST. art. I, § 8. The Constitution authorizes Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to ... Inventors the exclusive Right to their respective ... Discoveries.”

³ Brief for the United States as Amicus Curiae, *KSR International Co. v. Teleflex Inc.* (No. 04-1350), available at 2006 WL 1455388 (May 25, 2006). The Supreme Court granted certiorari on June 26, 2006.

- ❑ [2] The Commission agrees with the Federal Circuit that patent and antitrust law “are actually complementary, as both are aimed at encouraging innovation, industry, and competition.”⁴
- ❑ [3] How well the patent system operates matters for competition, however. A failure to strike the proper balance between competition and patent law and policy can harm innovation and competition. For example, to grant patents on obvious inventions may harm competition and innovation by lowering the value of creating a non-obvious invention.
 - ❑ [a] Holders of valid patents may be required to defend against the claims in a patent granted on obvious subject matter, thus causing litigation costs that are a drain on the system.
 - ❑ [b] The grant of patents on obvious subject matter increases the risk that patent holders for trivial ideas could expropriate the value of the true innovation.
 - ❑ [c] To grant patents on obvious inventions may slow follow-on innovation by discouraging firms from conducting research and development out of fear that they may be infringing the obvious patent.
 - ❑ [d] A patent holder may need to pay royalties to the holder of a patent on obvious subject matter, thus distorting the incentive system that the patent system was designed to provide.
 - ❑ [e] To avoid litigation for the infringement of, or the payment of royalties on, patents on obvious subject matter, firms may develop their own patents on obvious subject matter, so that they can cross license those patents with others. This may contribute to patent proliferation and raise competition concerns about entry barriers in industries in which patents have proliferated.

Possible Recommendations

- ❑ [4] The Commission expresses no view on the validity of the specific problems with the patent system identified in the NAS-STEP and/or FTC reports.
- ❑ [5] The Commission finds that the concerns and problems with the patent system identified in the NAS-STEP and/or FTC reports are well founded.
- ❑ [6] Although the Commission expresses no view on the validity of the specific problems with the patent system identified in the NAS-STEP and/or FTC reports, it agrees that those reports raise serious issues regarding the potential effect of problems in the patent system on competition and innovation.
- ❑ [7] The Commission recommends that Congress seriously consider recommendations in the FTC and NAS-STEP reports with the goal of encouraging innovation and at the same time avoiding abuse of the patent system

⁴ *Atari Games Corp. v. Nintendo of Am.*, 897 F. 2d 1572, 1576 (Fed. Cir. 1990).

that, on balance, will likely deter innovation and unreasonably restrain competition.

- ❑ [a] In particular, the Commission recommends that Congress seriously consider the NAS-STEP and FTC recommendations targeted at ensuring the quality of patents.
- ❑ [b] The Commission further recommends that Congress ensure that the Patent and Trademark Office is adequately equipped to handle the burden of reviewing patent applications with due care and attention within a reasonable time period.
- ❑ [c] The Commission recommends that courts and the PTO should avoid an overly lax application of the obviousness standard that allows patents on obvious subject matter and thus harms competition and innovation.

II. The Interface of Antitrust Law and Patents

- A number of issues relating to the antitrust treatment of conduct and transactions involving intellectual property were proposed to the Commission for study. Several of those are discussed in other sections of the Commission's Report dealing with merger enforcement and single-firm conduct. Other issues, namely, standard-setting and patent settlements, are also important, although (for reasons explained below), they were not adopted for study by the Commission. Because of the importance and currency of those issues, they are described briefly below.
- *Standard setting.* Recent cases have identified the potential for competitive harm when parties to standard-setting processes make misleading statements about or fail to disclose the existence of intellectual property rights relevant to a standard under consideration and subsequently assert their patent against those using that standard. Some firms asked the AMC to hold hearings on specific forms of joint conduct that members of standard-setting organizations might take to avoid such circumstances. For example, members of a standard-setting organization may wish to agree jointly with patent holders—in advance of choosing a standard—to license at pre-set royalty rates those patents that might cover the standard under development.
- The Commission decided not to study this issue because: a) a legislative solution might be difficult to develop; b) a proper approach might best evolve through the marketplace adapting to existing case law (e.g., by contract among the relevant parties involved in standards development); and c) future adjudicative proceedings would be best suited to address the unique facts of each case. In particular, several members of the Commission believed that standard-setting members' agreements with patent holders—in advance of standard selection—on pre-set royalties for patents that cover the ultimate standard would and should be legal under a rule of reason analysis. In a speech of September 2005, FTC Chairman Deborah Majoras outlined her view of the appropriate analysis of such conduct and generally confirmed this view.
 - ❑ [8] The AMC encourages the agencies and the courts to continue to review such conduct under the rule of reason.

- *Patent settlements.* Patent settlements in which the infringed firm pays the infringer to stay out of the market can raise significant antitrust concerns. The Commission decided not to address this issue, because it is the subject of ongoing case law development in the courts.
 - [9] Nonetheless, the Commission notes that the cross licensing of patents that are substitutes for each other raises more antitrust concerns than the cross licensing of patents that are complements for each other.