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Antitrust in IP Licensing: Selected Concerns and Considerations

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ANTITRUST IN IP LICENSING: SELECTED CONCERNS AND CONSIDERATIONS

by Michael A. Lampert There is an inherent tension between antitrust law and intellectual property law:

Intellectual property law seeks to promote innovation, by offering the "carrot" of exclusivity to inventors and authors: a patent, for example, confers the right to exclude others from making, using or selling inventions throughout the United States, U.S.Const. Art I, § 8, cl. 8; 35 U.S.C. § 154(a)(1). This means a patent holder may enjoy a lawful monopoly over the "domain" of its patent from which it can exclude competitors.

Antitrust law, on the other hand, is the body of law that seeks to prevent monopolies and restraints of trade. The granting, enforcement or licensing of patents can hamper the very competition that antitrust law seeks to foster. These same policies undergird the recognition that the scope of a patent must be clearly delimited:

> " ... If competitors cannot be certain about a patent's extent, they may be deterred from engaging in legitimate manufactures outside its limits, or they may invest by mistake in competing products that the patent secures. In addition the uncertainty may lead to wasteful litigation between competitors...."

Festo Corp. v. Shoketsu Kinzoku Kogvo Kabushiki Co., Ltd., 535 U.S. 722, 730-31 (2002).

Antitrust also stands on guard against attempts to extend or leverage the patent into fields beyond its express scope through the patent holder's licensing practices, because: "power gained through some natural and legal advantage, such as a patent * * * can give rise to antitrust liability if 'a seller exploits his dominant position in one market to expand his empire into the next.' Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 457, 479-80, n.29 (1992) [citation omitted]. See also Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938).[1] Because the antitrust laws have criminal sanctions and punitive treble civil damages, a misstep in this reconciliation can have Draconian consequences.

This paper will review some common antitrust issues that arise in licensing illustrating clashes between IP and antitrust. Suffice it to say that this is an ever-changing area, where the courts have been unable to settle on any unified approach.[2] Just last term the Supreme Court granted certiorari in three major antitrust cases, which shows an unusual interest in competition matters. One of those cases, Independent Ink v. Illinois Tool Works, Inc., No. 04-1329, directly involves the patent-antitrust interface.

There are increasing opportunities for clashes as well: patents issued by the United States Patent and Trademark Office increase substantially almost every year; the scope of patent claims have perhaps broadened as have subject matters of patent claims including "business method" patents and various "source" (especially biotechnology) patents. The uncertain scope of the "doctrine of equivalents," only partially resolved by Festo, su ra may extend a patent holder's right to assert that technology outside the literal claims of a patent infringes the patent. Some of these frictions have resulted in calls for reforms of the patent system (as discussed in Part II below).

2 See e.g. Michael A. Carrier, "Unraveling the Patent-Antitrust Paradox," 150 U.Pa.L.Rev. 761 (2002)(reviewing at least six inconsistent approaches taken by courts or commentators to use in determining whether antitrust or patent law should prevail in regard to licensing practices).

We turn first to the complex job of understanding who decides and who enforces the balance between antitrust and IP and then look for some substantive guideposts.

I. Reconciling IP and Antitrust Law Ends Up As a Job For Several Different Federal Courts.

Initially, it would seem that reconciliation of IP and antitrust law could be simple because both IP and antitrust issues are specially committed to the federal courts.

At the trial level, the patent and copyright laws are federal statutes, and each of the 93 federal district courts have original, exclusive jurisdiction as to any claims (a) created by patent law, plant variety protection law, and copyrights, or (b) as to which "plaintiff's right to relief necessarily depends on resolution of a substantial question of federal law...." Christianson v. Colt Indus. Operating Corp., 486 U.S. 80 (1988); 28 U.S.C. § 1338(a) (emphasis added); see also Hunter Douglas Inc. v. Harmonic Design, Inc., 153 F.3d 1318 (Fed Cir. 1998), cert. denied, 525 U.S. 1143 (1999). But no district judge binds any other — whether in the same district or not. Questions under IP licenses, moreover, may wind up in state court. See Judge Friendly's opinion more than thirty years ago in T.B. Harms Co. v. Eliscu, 339 F.2d 823, 828 (2d Cir. 1964), as to whether a case sounds in copyright rather than state contract law. Under that test, "an action `arises under' the Copyright Act if and only if the complaint is for a remedy expressly granted by the Act, e.g., a suit for infringement or for the statutory royalties for record reproduction, or asserts a claim requiring construction of the Act...or, at the very least and perhaps more doubtfully, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim."

At the appellate level, the Federal Circuit Court of Appeals has exclusive jurisdiction over appeals from district courts in any action where the trial court's jurisdiction was based "in whole or in part" upon "any civil action arising under any Act of Congress relating to patents." 28 U.S.C. § 1295(a)(1) (emphasis added). (On the other hand, copyright issues are allocated to the several geographic Courts of Appeal, no one of which binds any other. 28 U.S.C. § 1295(a)(1).) The Federal Circuit has adopted a rule that, whatever the rule of the circuit from which the case had come to it, "all antitrust claims premised on the bringing of a patent infringement suit" should be decided under uniform, Federal Circuit, decisional law. Midwest Indus. Inc. v. Karavan Trailers, Inc., 175 F.3d 1356 (Fed. Cir. 1999); see also Unitherm Food Systems Inc. v. Swift Eckrich Inc., 375 F.3d 1341 (Fed. Cir. 2004) rev'd on other grounds, 126 S.Ct. 980 (2006).

But, in The Holmes Group, Inc. v. Vornado Air Circulation System, Inc., 535 U.S. 826 (2002), the Supreme Court held that the Federal Circuit lacked subject matter jurisdiction over an appeal where the plaintiff's complaint "arose under" state unfair competition law, but the defendant had asserted a permissive or compulsory counterclaim alleging patent infringement. The ruling will likely have a significant impact on the Federal Circuit's jurisdiction: alleged infringers can avoid having claims assessed in the Federal Circuit by winning the race to the courthouse and bringing a complaint arising under antitrust statutes or state law before the patent holder sues for infringement. Under Holmes Group such a case would be appealed to a geographic circuit.