

GLOBAL COMPETITION REVIEW

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The clash of IP and antitrust



Editorial

Our cover story is so timely that new developments were included at the last moment, as news came through from the Supreme Court. The Supreme Court is hearing more IP-antitrust cases now than for nearly 50 years and is interested in preventing overzealous patent use from harming competition. A team at Crowell & Moring LLP look at the 10 most important cases before the court.

Another hot topic this year is abuse of dominance. A unilateral conduct group has been set up by the International Competition Network, and Europe and the US are reassessing their approach to the area. Gerwin van Gerven and Christian Ahlborn hope that the European Commission isn't missing a chance for genuine progress on page 26. They fear the discussion paper takes two steps forward and two steps back.

Meanwhile, new commentary on the US merger guidelines gets a look-over from Paul Denis, who was principal draftsman of those guidelines. Paul Crampton, who filled that role for the Canadian guidelines, gives an international perspective.

The new Chinese antitrust law is always an attention-grabber, and we have the latest updates from Beijing on page 16. Mexico has just passed major amendments to its law and we give the details. It may be that these countries could learn from Hungary, which the OECD has picked as the rising star of eastern European agencies. Our country survey interviews the agency head and reveals their successes and struggles.

From young to mature regimes: Canada's law is coming up to its 20-year anniversary and our feature looks at what has been learnt in two decades.

An interview with BT Global Services's general counsel Tim Cowen rounds off the issue.

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Most action in 50 years

Jeffrey Howard, David Schnorrenberg and Jeffrey Blumenfeld of Crowell & Moring LLP examine 10 essential IP-antitrust cases pending before the US Supreme Court



It has been nearly half a century since the US Supreme Court has paid so much attention to IP-antitrust issues. This year, it is looking at 10 cases.

In recent years, many industry observers in the US have complained that too many questionable patents are being issued, with significant anti-competitive effects. In fact, the US Federal Trade Commission held hearings about this and recommended changes to reduce the number of bad patents issued. In March 2006, the leading business newspaper in America, the *Wall Street Journal*, reported that: “US patent law has been hijacked so that it now operates nearly in reverse, deterring research and penalizing innovation.” The *Wall Street Journal* complains of “too many flaky patents” and the resultant “damage that a broken patent system is doing to the larger American economy.” “[T]he patent system is fast becoming a detriment to US competitiveness, not to mention basic fairness.”

Remarkably, these sentiments are being echoed by the justices of the US Supreme Court during oral arguments before the court:

- 21 March 2006: “[Y]ou will establish monopolies throughout this country beyond belief and it will be difficult for people, without paying vast amounts of money, to use their useful ideas.”
- 29 March 2006: “If this [business method idea] could be patented, maybe A&P could patent their process for a supermarket.”
- 29 March 2006: “It’s not like he invented the internal combustion engine or anything. [This business method patent is] very vague I think, and this is one of the considerations [...] The exact parameters of when it was going to be infringed and when it wasn’t were amorphous. And so isn’t that a factor the district court can take into account in deciding whether to issue an injunction.”
- 29 November 2005: “If I decide this case in your favor [holding that where the tying product is patented, market power is presumed], I would then be afraid that particularly in the patent area, there will be lots of instances where new technology, uncertain technology [...] does not get off the ground because a very easy way to finance the risk [is] through a requirements contract.”
- 29 November 2005: “[Y]our main argument is [...] leave it to Congress. [But] The Court created this rule [...], not Congress. Why, when we’re dealing with a Court-created rule, should we say [...] it’s the legislature’s job to fix it up [...]?”

The court is looking at 10 cases that raise many of these public policy questions, ranging from the scope of patentability to the standards for injunctions against infringement. The following discussion analyses these cases.

1. *eBay v MercExchange*

The patentee had obtained a business method patent on a method for selling goods online. It sued eBay for infringement of the patent, by means of its online ‘Buy-Now’ feature. The jury found the patents valid and infringed.

The trial court awarded damages of US\$29.5 million, but denied the patentee’s motion for a permanent injunction. Under the traditional criteria for an injunction – irreparable injury, inadequate remedy at law, balance of the equities, and the public interest – the court found there was no irreparable injury and the patentee had an adequate remedy at law. The Court of Appeals for the Federal Circuit reversed, without even referring to the four traditional criteria for injunctions, holding instead that because the essence of a patent is the right to exclude, “the general rule is that a permanent injunction will issue.”

It’s not like he invented the internal combustion engine or anything. This business method patent is very vague

On 15 May, the Supreme Court disagreed and remanded to the trial court to consider, in the first instance, whether an injunction was warranted under the traditional four-factor test. The decision was unanimous, with Chief Justice Roberts writing a brief concurring opinion, joined by Justices Scalia and Ginsburg, noting that traditionally the courts have issued such injunctions in the vast majority of patent cases and observing that “a page of history is worth a volume of logic.”

Four other justices, however, (Kennedy, Stevens, Souter and Breyer) joined in another concurring opinion, noting that the historical practice of granting injunctions against patent infringement is only relevant in cases like those the courts have confronted before. These four justices then pointed out that in recent years, three circumstances have arisen which may make the issuance of an injunction less desirable than before.

First, patent ‘trolls’ have emerged who

do not produce or sell goods but use their patents primarily to exact licence fees. Sometimes the patented invention is only a small component of the product that the companies want to make and the threat of an injunction is used merely for undue leverage in negotiations. In this case, “legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” Finally, injunctions may be more difficult in the case of patents over business methods, where “potential vagueness and suspect validity [...] may affect the calculus under the four-factor test.” This decision is clearly not the last word on the issuance of injunctions for infringement, but it does change the standards, making both the defence and the prosecution of such a remedy into a more traditional civil litigation proceeding.

2. *Unitherm Food Systems v Swift-Eckrich*

Swift obtained a patent on a method for browning cooked meat. It sent letters to competitors in the trade, warning them not to infringe the patent. Unitherm then brought suit for a declaratory judgment of invalidity, on the grounds that the patent

was procured by fraud on the Patent Office. Swift counterclaimed for patent infringement. At trial, Unitherm proved that it had in fact invented the process. The jury returned a verdict against Swift finding the patent had been obtained by fraud and that Swift had enforced the fraudulent patent in an attempt to monopolise the relevant market.

The Court of Appeals for the Federal Circuit disagreed, holding that it could consider the evidence for itself, even though Swift had not moved to set aside the verdict owing to insufficient evidence. The court then proceeded to overturn the jury’s verdict, holding that the evidence was insufficient to establish the antitrust claim.

On 23 January, the Supreme Court reversed, holding that Swift’s failure to move for judgment as a matter of law following the verdict, barred the court of appeals from considering the sufficiency of the evidence. Although the case was resolved on

this technical procedural point, the Supreme Court affirmed the jury's finding of fraud in the procurement of the patent and attempted monopolisation by the enforcement of a fraudulently obtained patent. The decision breathes new life into antitrust counterclaims against patent infringement suits.

3. *Illinois Tool Works v Independent Ink*

The Supreme Court addressed whether the patentee should be presumed to have market power, when it ties the licence of a patented product to the sale of an unpatented product. Illinois Tool licensed its patented printhead technology to customers on the condition that they also purchase unpatented ink. Independent Ink sued for anti-competitive tying in violation of section 1 of the Sherman Act.

The trial court granted Illinois Tool summary judgment. It found that Independent Ink had failed to prove Illinois Tool had market power in the printhead market, such that it could coerce the purchase of ink from its printhead customers. The Federal Circuit reversed, holding that it was not Independent Ink's burden to prove market power, because a patentee like Illinois Tool is presumed to have market power. The Federal Circuit relied

patent. The inventors of the disputed patent had discovered that there is correlation between elevated levels of a certain amino acid in the blood and deficiency of vitamin B12. The inventors patented a number of methods for testing the blood for the elevated amino acid. In addition, they obtained a broad claim that required only two steps: "assaying a body fluid" for an elevated level of the amino acid; and "correlating an elevated level" of the amino acid in the body fluid with a deficiency of vitamin B12.

A jury concluded that LabCorp infringed the patent claim, and the trial court entered judgment against LabCorp, which the Federal Circuit affirmed.

The Supreme Court asked the US solicitor general whether it should take the case. The solicitor general said no. In an unusual event, the Supreme Court rejected the advice and agreed to hear the issue of "whether a method patent [...] directing a party simply to 'correlate' test results can validly claim a monopoly over a basic scientific relationship [...]."

The case has been argued and is now pending decision. We expect a remand to the Federal Circuit for further consideration of the case and an expression of concern about whether the patent is impermissibly broad. At the heart of the court's concern is the fact that every doctor in America would be infringing

agreed to hear the case on the question of whether an alleged infringer has standing to challenge a patent for which he continues to pay royalties under protest. The petition to the court argued that the current rule was inconsistent with the law established by the other Circuit Courts of Appeal, before the creation of the Federal Circuit, and inconsistent with the usual rules applicable to other contract disputes. The Supreme Court will probably reverse the Federal Circuit and bring the law of standing for a patent licensee into harmony with the general law, with respect to parties to other contracts. The effect will be to encourage more licensees to bring suit challenging the validity of patents.

On 15 May, the US submitted its brief, urging the court to reverse the Federal Circuit. In its view, not only was the ruling below in error, but "public policy strongly favors ridding the economy of invalid patents, which impede efficient licensing, hinder competition, and undermine incentives for innovation." According to the US, the Federal Circuit's rule effectively muzzles all licensees and "if licensees 'are muzzled, the public may continuously be required to pay tribute to would-be monopolists without need or justification.'"

6. *SmithKline Beecham v Apotex*

While using a process revealed in an old patent to produce a chemical compound, SmithKline discovered a second chemical compound as a byproduct and obtained a patent on it. The appeal centres on whether the newly patented product was inherently anticipated by the old patent.

The trial court found no anticipation because the newly discovered result was not known at the time of the invention of the old process. On appeal, the Federal Circuit, in an en banc rehearing, found the patent invalid under a theory of inherent anticipation.

The Federal Circuit decision arguably presents some conflict with old Supreme Court precedent where inherent anticipation was deemed not to arise from an "unwitting" or "unappreciated" invention. Even so, the vast majority of the Federal Circuit judges seem united on a standard of inherent anticipation that would serve to limit the number of patents that can be issued. To a Supreme Court that appears concerned about the recent proliferation of patents, this may be a case the court chooses not to hear.

On 22 May, the US filed a friend-of-the-court brief urging the court not to hear

The exact parameters of when it was going to be infringed and when it wasn't were amorphous

on an old line of Supreme Court cases dating back over 40 years, which had spoken of such a presumption with respect to patents, despite the overwhelming legal and economic literature criticising these cases, the lack of any presumptions in tying cases outside the IP context, and Congress's rejection of such a presumption for a patent misuse defence.

The Supreme Court reversed, holding that market power cannot be presumed from patent ownership and must be proved through normal economic analysis. The court found it persuasive that since it had last addressed the issue, there had been an evolution in the law of tying outside the IP context.

4. *Laboratory Corporation of America v Metabolite Laboratories*

This case examines whether a scientific fact can be effectively patented through a method

the patent when he looked at a blood test to detect elevated amino acid and concluded that his patient should receive B12 supplements. At oral argument, Metabolite took the position that the doctor's mental correlation constituted infringement. Yet under the patent law, basic scientific facts are not patentable. The court seems concerned about such overreaching.

5. *Medimmune v Genetech*

Medimmune licensed patents from Genetech. Later, disputes arose over the validity of the patents and Medimmune brought an action for a declaratory judgment that the patents were invalid. The District Court dismissed for lack of standing under the law established by the Federal Circuit, that a licensee has no standing to bring such an action while it continues to pay royalties to the licensor. The Federal Circuit affirmed.

On 21 February, the Supreme Court

this case because the court of appeals got it right. In the US's view, a patent should be invalidated whenever it claims a particular form of a compound that is inherently anticipated by the prior art that inevitably produced it.

7. Federal Trade Commission v Schering-Plough

Schering-Plough brought suits against two generic drug makers, for allegedly infringing its patents on a prescription drug. Schering-Plough had a formulation patent relating to a coating on an unpatented active ingredient.

Before trial, Schering-Plough settled with the generics by agreeing to pay them US\$15 million and US\$60 million respectively, not to market the generic drug for several years. The Federal Trade Commission found the settlements to be unreasonable restraints on trade, in violation of section 1 of the Sherman Act. According to the commission, based on its study of patented drugs from 1992 to 2000, generics prevailed in 73 per cent of patent infringement suits. Here, it found the two generics had also certified that their products did not infringe the patents.

The court of appeals reversed on the grounds that, among other things, there was no evidence that the patent was invalid and the settlement permitted the generics to enter before the patent would expire. The commission has asked the Supreme Court to hear the case because of the multibillion-dollar savings at stake for consumers if more generics enter these markets.

On 18 May, the United States submitted a brief as a friend of the court suggesting that the court not take the case because the record below was not adequately developed and there is no split among the courts of appeal on the law. The case poses a very significant issue at the forefront of the interface between IP and antitrust law.

8. KSR International Co v Teleflex Inc

This case raises a very important rule of patent law that, if reversed, could have profound effects on the litigation and prosecution of patents.

KSR is a supplier of gas pedals to GM. It supplied a gas pedal that combined two relatively old technologies: an adjustable gas pedal, and electronic throttle control. Teleflex had a patent on the combination of these two admittedly old technologies and sued KSR for infringement. The trial court

invalidated Teleflex's invention as obvious. The Federal Circuit reversed on the ground that KSR had not proved that there was any teaching, suggestion or motivation in prior work, to combine the adjustable gas pedal and electronic throttle control technology.

The Supreme Court has now asked the solicitor general whether it should take the appeal. The question would be whether the 'motivation' requirement imposed by the Federal Circuit over 20 years ago conflicts with Supreme Court precedent, which never spoke of such a requirement. The larger issue is whether it makes sense to eliminate a requirement that has made it very difficult for patent examiners to reject patent claims during examination and for defendants to invalidate them during litigation. Many see the elimination of this rule as a primary means by which to reduce the proliferation of US patents.

On 26 May, the United States submitted a brief as a friend of the court urging the Supreme Court to take the case and reverse the Federal Circuit's decision. According to the US, the Federal Circuit's rule "renders patent examination and litigation more costly, grants patent applicants unjustified rewards for disclosing non-innovative subject matter and forecloses competitors from using the public storehouse of knowledge that should be freely available to all.

9. Princo Corp v US Philips Corp

Philips had sought a ruling by the International Trade Commission that CD-Rs imported by Princo infringed six of its patents. The commission broadened the scope of the inquiry and found that the Philips patents were unenforceable owing to patent misuse, as Philips had licensed a package of essential and non-essential patents as a group. The commission found that Philips had market power in the essential patents and that tying them together with non-essential patents constituted misuse akin to illegal tying.

The Federal Circuit reversed. The court affirmed that Philips had market power but rejected the finding that the patent package foreclosed competition for alternative non-essential patents because there was insufficient evidence of "commercially viable alternatives".

On 19 April, Princo petitioned the US Supreme Court to hear the case. Although the court has not ruled on the petition, this case bears watching because it implicates the interface between patent and antitrust law in such stark terms.

10. Microsoft Corp v AT&T Corp

This case presents the Supreme Court with the opportunity to curtail the foreign application of US patent law, restricting the ability of US patents to foreclose foreign competition. At issue is the foreign distribution of Microsoft's Windows operating software. Microsoft creates a master version of that software in the US and ships it to facilities abroad, where it is copied and the copies are installed in computers sold abroad.

In the trial court, Microsoft software was found to infringe an AT&T patent relating to coding speech signals. The question on appeal was whether Microsoft could be liable for infringement from the foreign sales of the software. The trial court and a divided three-judge panel of the Federal Circuit found Microsoft liable for the foreign sales.

The issue turns on the meaning of one section of the US Patent Law, which provides that a person who "supplies" "components" of a patented invention from the US can be liable for infringement, if the components are combined abroad in a way that would infringe a US patent if the combination had occurred in the US.

The appeal centres on two different questions: whether software is a "component" and whether the copying of software abroad constitutes "supplying". On the first issue, Microsoft says that software fulfils design specifications rather being a physical component part. On the second point, Microsoft contends that even if software is a "component", it is being copied, installed and licensed abroad and so should be subject only to foreign patents and foreign patent laws.

The Supreme Court has asked the solicitor general's advice on whether the court should hear the appeal. The court might be inclined to take the case, as a way to confine the reach of US patents to domestic effects, much as with US antitrust laws two years ago.

* * *

These 10 cases suggest that the highest court in the US may be interested in re-examining a number of aspects of patent law, taking into account the competitive effects of current rules. If, as the *Wall Street Journal* has declared, there are "too many flaky patents" being issued that are "becoming a detriment to US competitiveness", these cases pose a very significant opportunity for the Supreme Court "to tweak the system back in a more serviceable direction."