



Intellectual Property & Antitrust

in 26 jurisdictions worldwide

Contributing editor: Susan M Hutton

2009



Published by
GLOBAL COMPETITION REVIEW
in association with:

Anderson Mōri & Tomotsune

Arnold & Porter (UK) LLP

Bär & Karrer

Blake Dawson

Chiomenti Studio Legale

Correia da Silva Advogados

Crowell & Moring LLP

Dahl Law Firm

Debarliev Dameski & Kelesoska Attorneys at Law

Eisenberger & Herzog Rechtsanwälts GmbH

Heuking Kühn Lüer Wojtek

Hoet Pelaez Castillo & Duque

Horák & Chvosta

Ivanyan & Partners

Jun He Law Offices

Latournerie Wolfrom & Associés

Lex Orbis

Luther Karasek Köksal Consulting AŞ

Lydian

Roschier

Stikeman Elliott LLP

Uthoff, Gomez Vega & Uthoff, SC

Werksmans Attorneys

White & Case LLP

Yoon Yang Kim Shin & Yu

United States

Robert Lipstein, Jeffrey Blumenfeld, Olivier Antoine and Ty Carson

Crowell & Moring LLP

Intellectual property

1 Intellectual property law

Under what legislation are intellectual property rights granted? Are there restrictions on how IP rights may be exercised, licensed or transferred?

Do the rights exceed the minimum required by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

The principal US intellectual property legislation covers:

- patents (35 USC);
- copyrights (17 USC, sections 101-803, 1001-1205);
- trademarks (15 USC, sections 1051-1129, 1141-1141n);
- design patents (35 USC, sections 171-173);
- trade secrets (the Uniform Trade Secrets Act, adopted under state law by about 46 states); and
- several special rights limited to particular subject areas such as mask work rights for semiconductors (17 USC, sections 901-914) and plant breeders' rights (7 USC, sections 2321-2582).

Holders of IP rights can generally transfer and assign their rights. Transfer and assignment normally occurs through licensing contracts or other exchange mechanisms for transferring property rights. Antitrust law remedies or national emergencies, however, can mandate certain limitations on the normal exercise of IP rights. For copyright, there also are limited compulsory licensing provisions, generally involving the entertainment industry, which provide mechanisms for the collection and distribution of royalties payable under compulsory licences. For example, the US Copyright Royalty Board sets music publishing mechanical royalties payments to songwriters and music publishers, and performance royalties payments to record companies and composers.

US IP rights frequently exceed the standards required by TRIPs. The US views TRIPs as setting minimum standards for the protection and enforcement of IP rights. Domestic IP legislation and enforcement usually exceed TRIPs standards, and it has generally been the policy of the US to try to enhance the standards and enforcement mechanisms provided in TRIPs with its trading partners around the world. For example, many US bilateral free trade agreements have included obligations for the protection and enforcement of IP rights that exceed the minimum standards under TRIPs.

2 Responsible authorities

Which authorities are responsible for administering IP legislation?

The US Patent and Trademark Office (USPTO), part of the US Department of Commerce, has principal responsibility for patents and trademarks. The USPTO examines and issues patents and examines and registers trademarks. The US Copyright Office, which is part of the Library of Congress, administers copyright in the United States. It serves as the office of record, where claims of copyright can be reg-

istered. The Copyright Office also administers the mandatory deposit provisions of the copyright law and the various compulsory licensing provisions of the law, which include collecting royalties. Additionally, the Copyright Office administers the Copyright Arbitration Royalty Panels, which meet for limited times for the purpose of adjusting rates and distributing royalties. Trade secrets are matters of state law and administered through the judicial systems of each US state. The US International Trade Commission investigates, under section 337 of the Tariff Act of 1930, as amended, (19 USC section 1337), claims regarding intellectual property rights, including allegations of patent, copyright or trademark infringement by imported goods (including grey-market goods cases).

3 Proceedings for enforcing IP rights

What types of legal or administrative proceedings are available for enforcing IP rights?

US federal courts resolve disputes involving patent, trademark and copyright infringements. US state courts normally resolve trade secret litigation, although federal courts may resolve these disputes as part of disputes involving federal law issues.

The USPTO holds administrative proceedings to aid its principal functions of examination, issuance, and registration. The USPTO's Board of Patent Appeals and Interferences (BPAI) holds proceedings to re-examine applications for patents and interference proceedings when parties dispute priority of inventorship. The USPTO's Trademark Trial and Appeal Board (TTAB) adjudicates petitions opposing proposed trademark registrations, or proceedings seeking to cancel an existing trademark registration.

The Copyright Office administers the Copyright Arbitration Royalty Panels and administrative proceedings are used for adjusting rates and distributing royalties for a limited number of copyright matters.

The US International Trade Commission adjudicates private claims seeking enforcement of IP rights against imported goods under section 337. Complainants may also assert antitrust claims relating to imported goods during section 337 investigations.

4 Remedies for infringed IP rights

What remedies are available to a party whose IP rights have been infringed?

A party whose IP rights have been infringed may seek two types of monetary damages through civil litigation – actual damages or statutory damages. In certain circumstances, an infringing party may be subject to criminal penalties.

To obtain an injunction against an infringing party, a plaintiff must demonstrate: (i) that it has suffered an irreparable injury; (ii) that remedies available at law, such as monetary damages, are

inadequate to compensate for that injury; (iii) that, considering the balance of hardships between the plaintiff and defendant, an injunction is warranted; and (iv) that the public interest would not be disserved by a permanent injunction. Prior to *eBay v MercExchange LLC*, 547 US 388 (2006), injunctions in patent cases were automatically awarded to a prevailing patentee. Since then, injunctions are only issued when the above criteria are met.

The primary remedy available in section 337 investigations is an exclusion order that directs US Customs and Border Protection to prevent entry of infringing imports at the US border. In addition, the Commission may issue cease and desist orders against named importers and other persons engaged in unfair acts that violate section 337. Expedited relief in the form of temporary exclusion orders and temporary cease and desist orders may also be available in certain exceptional circumstances.

Often, remedies are not mutually exclusive so an IP rights holder can, for example, seek monetary damages, injunctive relief and attorneys' fees in the same civil action.

5 IP legislation and competition

Does IP legislation make any specific mention of competition or contain provisions on the anti-competitive or similar abuse of IP rights?

Patent misuse is a judicially created doctrine that serves as a defence to an action to enforce patent rights. Section 271(d) of the Patent Act provides that certain types of conduct shall not constitute 'misuse or illegal extension of the patent right'. Regarding misuse claims based on tying, section 271(d)(5) provides that a tying arrangement involving patented goods shall not constitute misuse unless, in view of the circumstances, the patent owner has market power in the relevant market for the tying, patented product. Courts are split on whether section 271(d) should be read expressly to provide antitrust immunity or whether it covers only patent misuse. Further, the DOJ and FTC have recently stated that section 271(d)(4) of the Patent Act does not create antitrust immunity for unilateral refusals to license patents. However, the agencies concluded that 'liability for mere unilateral refusals to license will not play a meaningful part in the interface between patent rights and antitrust protections'.

Copyright misuse is also a judicially created doctrine that serves as a defence to an action to enforce copyright. In *Lasercomb America v Reynolds*, 911 F.2d 970 (4th Cir. 1990), a software developer sued a licensee alleging copyright violation. The defendant asserted a copyright misuse counterclaim because the software developer's licence restricted the licensee from developing similar software for 100 years. The court explained that such a licensing agreement constitutes copyright misuse because it attempts to suppress any attempt by the licensee to independently implement the idea which the copyright holder expresses.

Further, copyright misuse defences grounded in antitrust and antitrust counterclaims are routinely used, and complicate copyright infringement litigation. For example, copyright misuse defences were raised in the cases brought by music companies to shut down illegal peer-to-peer networks, such as Napster, Kazaa, Grokster, or Lime Wire. In 2006, when the Recording Industry Association of America sued Lime Wire, Lime Wire countersued claiming that the music companies engaged in antitrust violations, including price-fixing. The court rejected these claims on standing grounds, holding that Lime Wire had failed to show that it had suffered harm of the type that the antitrust laws were created to protect against (*Arista Records et al v Lime Wire et al* No. 06-CV-5936, SDNY, 3 December 2007).

6 Remedies for deceptive practices

With respect to trademarks, do competition or consumer protection laws provide remedies for deceptive practices in addition to traditional 'passing off' or trademark infringement cases?

The US has federal and state laws to remedy unfair, deceptive, or fraudulent practices. The Federal Trade Commission (FTC), through its Bureau of Consumer Protection, enforces section 5 of the Federal Trade Commission Act (FTC Act). The FTC Act and trade regulation rules promulgated by the FTC prohibit unfair and deceptive acts and practices. Neither the FTC Act nor the FTC trade regulation rules, however, can be enforced by private parties. Section 43(a) of the Lanham Act (15 USC, section 1125(a)), also known as the Trademark Act, provides a private federal cause of action for unfair competition involving passing off and false advertising; however, the Lanham Act's passing off provision covers a broader range of activity than traditional passing off and is sometimes referred to as passing off without the element of fraud. Each US state has its own consumer protection laws, agencies and procedures for remedying certain deceptive practices, and most state laws can be enforced by private rights of action.

7 Technological protection measures and digital rights management

With respect to copyright protection, is WIPO protection of technological protection measures and digital rights management enforced in your jurisdiction? Does legislation or case law limit the ability of manufacturers to incorporate TPM or DRM protection limiting the platforms on which content can be played? Could TPM or DRM protection be challenged under the competition laws?

The Digital Millennium Copyright Act (DMCA) implemented WIPO protection of TPMs and DRM (17 USC, sections 512, 1201-1205, 1301-1332; and 28 USC, section 4001). The DMCA adds provisions to prohibit, with certain exceptions, circumvention of technological measures used by copyright owners to protect their works and tampering with copyright management information. It provides for both civil remedies and criminal penalties for violating of the prohibitions.

Neither legislation nor case law limits the ability of manufacturers to incorporate TPM or DRM protection limiting the platforms on which content can be played. However, TPM or DRM protection could be challenged under the antitrust laws if such protection constituted illegal tying or attempted or actual monopolisation. Recently, the Fairplay DRM used by Apple in its iTunes digital music store has been at the centre of an antitrust suit brought in the Northern District of California. In this case, class action plaintiffs claimed that the lack of interoperability between iTunes and digital music players other than iPods constitutes tying under the antitrust laws. At the pleading stage, a California Court denied Apple's attempt to dismiss claims of an illegal tie between iTunes and iPods as well as a monopolisation claim. The litigation is currently ongoing.

8 International standards

What consideration has been given in legislation or case law to the impact of proprietary technologies in international standards?

The US Department of Justice (DOJ) has evaluated circumstances where international standards setting organisations wished to require members to disclose and announce licensing terms for patents that would cover a proposed standard. In general, DOJ has declined to bring actions against such arrangements so long as use of the declaration process is not a cover for price-fixing of downstream goods or to rig bids among patent holders. Courts have held that a patent holder's intentionally false promise to a standard setting organisation that it would license its technology on reasonable and nondiscrimina-

tory terms, coupled with the organisation's reliance on that promise when including the technology in a standard, can constitute anti-competitive conduct, on the ground that such behaviour increases the likelihood that the inclusion of the patented technology into the standard will confer monopoly power on the patent holder, and that the acquisition of such monopoly power through deceptive conduct can be actionable under US antitrust law (specifically 15 USC section 2).

Competition

9 Competition legislation

What legislation sets out competition law?

US federal antitrust legislation is found primarily in the Sherman Act and the Clayton Act. Section 1 of the Sherman Act (15 USC, section 1) prohibits concerted action that unreasonably restrains trade. Section 2 of the Sherman Act (15 USC, section 2) prohibits monopolisation, attempts to monopolise, and conspiracies to monopolise. Section 7 of the Clayton Act (15 USC, section 18) prohibits acquisitions where 'the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly', and has been interpreted to apply to the acquisition of intellectual property rights whether by assignment or exclusive licence. Section 7A of the Clayton Act, also known as the Hart-Scott-Rodino Act (15 USC, section 18a) requires that parties notify the US competition agencies before completing acquisitions that meet certain thresholds, and applies as well to the acquisition or exclusive licence of IP rights. US states have their own antitrust legislation. Such legislation is often interpreted to apply the same rules as federal antitrust legislation.

10 IP rights in competition legislation

Does the competition legislation make specific mention of IP rights?

While US antitrust legislation makes no specific mention of IP rights, IP rights play an important role in US antitrust case law. The transfer and exercise of IP rights also plays an important role in the enforcement of US antitrust legislation. For example, the DOJ and the FTC have jointly issued guidelines for the licensing of IP and both agencies analyse IP rights when evaluating mergers.

11 Review and investigation of competitive conduct

Which authorities may review or investigate the competitive effect of the conduct related to IP rights?

DOJ's Antitrust Division and FTC share jurisdiction to enforce the US antitrust laws. Instead of a formal statutory allocation of responsibility, the agencies allocate responsibility for investigating a particular conduct or transaction through an informal 'clearance' process based largely upon recent investigative experience and industry expertise. The FTC enforces antitrust laws through administrative processes, and both agencies may file cases before federal courts. Federal courts also review cases brought before them by private plaintiffs. Under its section 337 authority, the US International Trade Commission may be asked to investigate anti-competitive conduct associated with allegations that an imported good infringes IP rights. Finally, state attorneys general have jurisdiction to investigate conduct involving IP rights and to bring cases under either federal or state antitrust law.

12 Competition-related remedies for private parties

Do private parties have competition-related remedies if they suffer harm from the exercise, licensing or transfer of IP rights?

Private parties suffering competitive harm from the exercise, licensing or transfer of IP rights may seek remedies under federal or state anti-

trust law. Federal competition law provides that successful private plaintiffs may recover three times their actual damages plus court costs and attorneys' fees. Injunctive relief is also available to private plaintiffs. State antitrust laws usually provide similar remedies.

13 Competition authority guidelines

Has the competition authority issued guidelines or other statements regarding the overlap of competition law and IP?

In 1995, the DOJ and FTC jointly issued their 'Antitrust Guidelines for the Licensing of Intellectual Property'. The Guidelines state the competition enforcement policy of the agencies with respect to the licensing of intellectual property protected by patent, copyright, and trade secret law, and of know-how. In 2007, the DOJ and FTC jointly issued guidance titled 'Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition' (www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf), which addresses issues surrounding unilateral refusals to license, standard setting, patent pools, tying and bundling. Additional guidance can be found in DOJ's 'Competition and Monopoly: Single-Firm Conduct Under Section 2 of the Sherman Act' released in September 2008; note, however that the FTC issued a separate statement rejecting much of the DOJ's views, and the change of administration in 2008 likely will mean that the new DOJ will also reject at least some of the views expressed in the September 2008 guidance.

14 Exemptions from competition law

Are there aspects or uses of IP rights that are specifically exempt from the application of competition law?

See question 5.

15 Copyright exhaustion

Does your jurisdiction have a doctrine of, or akin to, 'copyright exhaustion' (EU) or 'first sale' (US)? If so, how does that doctrine interact with competition laws, for example with regard to efforts to contract out of the doctrine, to control pricing of products sold downstream and to prevent 'grey marketing'?

Under the Copyright Act, the owner of a lawfully made copy of a copyrighted work 'is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy', although it has no right to make additional copies (17 USC, section 109(a)).

Whether a copyright owner can control the price of the downstream transaction is a matter of some doubt. However, with the decision of the US Supreme Court in *Leegin Creative Leather Products, Inc v PSKS, Inc*, and the district court in California in *LucasArts Entertainment Co v Humongous Entertainment Co*, 815 F. Supp. 332 (N.D. Cal. 1993), there is a colourable argument for a copyright owner to control the pricing of its products downstream.

Because of the US 'first sale' rules in the copyright area, grey marketing in the US is controlled primarily through trademark rights, where an exception to first sale is recognised.

16 Import control

To what extent can an IP rights holder prevent 'grey-market' or unauthorised importation or distribution of its products?

An IP rights holder can prevent 'grey-market' or unauthorised importation of its products by filing a complaint for trademark infringement with the US International Trade Commission (ITC). After filing a proper complaint, the ITC pursues a 'section 337 investigation'.

The primary remedy available in section 337 investigations is an exclusion order that directs Customs to stop infringing imports from entering the United States. In addition, the Commission may issue cease and desist orders against named importers and other persons engaged in unfair acts that violate section 337. Expedited relief in the form of temporary exclusion orders and temporary cease and desist orders may also be available in certain exceptional circumstances. If a trademark holder registers its trademark with US Customs, Customs has the ability to seize grey-market imports and imports that are confusingly similar to the registered trademark.

Case law under the Trademark Act also permits the enforcement of trademarks against grey market goods distributed in the US, although the legal standards for enforcement are somewhat stricter than those applied under 337. Suits before federal courts for grey-market violations, however, permit the trademark owner to recover damages, and to obtain an injunction against distribution.

17 Competition authority jurisdiction

Are there circumstances in which the competition authority may have its jurisdiction ousted by, or will defer to, an IP-related authority, or vice versa?

There are no circumstances in which a US antitrust authority may have its jurisdiction ousted by an IP-related authority, or vice versa. Case law, however, holds that exercise of rights within the scope of the grant of IP rights cannot be challenged as a violation of the antitrust laws.

Merger review

18 Powers of competition authority

Does the competition authority have the same powers with respect to reviewing mergers involving IP rights as it does with respect to any other merger?

Yes.

19 Analysis of the competitive impact of a merger involving IP rights

Does the competition authority's analysis of the competitive impact of a merger involving IP rights differ from a traditional analysis in which IP rights are not involved? Is so, how?

US antitrust agencies apply the same general antitrust principles to conduct involving intellectual property that they apply to conduct involving any other form of property. If a licensing arrangement may adversely affect competition to develop new or improved goods or processes, the agencies will analyse such an impact either as a separate competitive effect in the current market for the good or process, or as a competitive effect in a separate innovation market – the market consisting of the research and development directed to particular new or improved goods or processes and the close substitutes for that research and development.

20 Challenge of a merger

In what circumstances might the competition authority challenge a merger involving the transfer or concentration of IP rights?

US antitrust agencies apply the same Clayton Act analysis to transactions involving a transfer of IP rights as they would apply to a transaction involving any other property. They will challenge the transaction if it would lead to a substantial lessening of competition in the form of higher prices or reduced output (in goods or technology markets) or reduced innovation (in an innovation market). For example, in *Ciba-Geigy Ltd*, 123 FTC 842 (1997), the FTC required divestiture of IP because the proposed merger would heighten barriers

to entry by combining portfolios of patents and patent applications of uncertain breadth and validity, requiring potential entrants to invent around or declare invalid a greater array of patents and create a disincentive in the merged firm to license intellectual property rights to or collaborate with other companies as compared to pre-merger incentives.

21 Remedies to alleviate anti-competitive effect

What remedies are available to alleviate the anti-competitive effect of a merger involving IP rights?

The US antitrust agencies prefer structural remedies, such as the sale or licensing of IP rights. This is often accomplished through a negotiated settlement between the merging parties and the antitrust agency. If the merging parties do not come to a settlement with the antitrust agency and nonetheless proceed with the merger, the antitrust agency can petition a court to enjoin the merger. A court also has the power to order compulsory licensing or divestment of IP rights. For example, in February 2008, the Antitrust Division of the DOJ conditioned Thomson's acquisition of Reuters on the sale of three financial data sets and the licence of related IP rights to a firm or firms that would use the data in order to offer products and services in competition with the combined Thomson/Reuters. A similar remedy was recently tailored by the FTC in Reed Elsevier's proposed US\$4.1 billion acquisition of ChoicePoint.

Specific competition law violations

22 Cartels and conspiracies

Describe how the exercise, licensing or transfer of IP rights can relate to cartel or conspiracy conduct.

Patent pools, copyright collectives and standard setting bodies have withstood antitrust law scrutiny under the 'rule of reason'. So long as the pro-competitive effects of the arrangement outweigh the anti-competitive effects and proper safeguards are instituted to avoid collusive or monopolistic behaviour, these arrangements should not run afoul of US antitrust laws. The framework of the US competition analysis for patent pools is set out in DOJ Business Review letters, for example the 24 October 2008 letter issued in connection with the proposed RFID patent pool. When the antitrust agencies suspect that the arrangements and behaviours are anti-competitive, however, they will not hesitate to bring enforcement action. For example, in *Summit Technology, Inc and VISX, Inc*, FTC Dkt. No. 9286 (filed 23 February 1999), the FTC alleged that the patent pool and related conduct between two producers of laser eye surgery technology was a conspiracy to fix prices and monopolise the market for the type of advanced eye surgery lasers at issue. The FTC concluded that the patent pool was illegal because it was an agreement among competitors comprising 100 per cent of the market to set prices and exclude third-party laser manufacturers seeking to license one or more of the pooled patents.

23 (Resale) price maintenance

Describe how the exercise, licensing, or transfer of IP rights can relate to (resale) price maintenance.

Historically, many types of resale price maintenance involving IP rights have been per se illegal, with the narrow exception that it was legal for a single owner of intellectual property to condition the single licence of that IP on the licensee's agreement to sell the resulting product at a specified price, as established in *United States v General Electric Co* 272 US 476 (1926). The *GE* case was, however, essentially limited to its facts as a result of numerous, subsequent decisions. Following the Supreme Court's decision in *Leegin Creative Leather Products*,

Inc v PSKS, Inc, however, agreements controlling downstream prices should be evaluated under the rule of reason in all circumstances, although there remains virtually no case law yet to confirm that guidance, beyond the pre-*Leegin* decision in *LucasArts v Humongous*.

24 Exclusive dealing, tying and leveraging

Describe how the exercise, licensing, or transfer of IP rights can relate to exclusive dealing, tying and leveraging.

The rules that generally apply to exclusive dealing, tying and leveraging also apply to the exercise, licence or transfer of IP rights. The mere possession of a patent does not create an automatic presumption of market power; therefore, plaintiffs must present actual evidence of market power in these types of cases. A patentee can grant an exclusive licence to use a patent; however, a patentee that grants a licence to use a patent in conjunction with requiring the licensee not to deal with competitors of the patentee may be found to be engaged in unlawful exclusive dealing if the patentee has market power in the patented good and the exclusive dealing arrangement unreasonably forecloses competition in the relevant market. In a tying case, where a seller conditions the purchase of a patented good on the purchase of another good, the purchaser must present some evidence that the purchaser of a patented tying product was forced to accept the tied product or forced to accept burdensome terms and conditions.

25 Abuse of dominance

Describe how the exercise, licensing, or transfer of IP rights can relate to abuse of dominance.

Exercise of IP rights, such as a the right to refuse to license, is generally not a violation of US antitrust law. However, tying arrangements involving IP can violate the antitrust laws. Such a tying arrangement can be problematic because it often tends to extend the intellectual property right beyond its statutory scope and enables the patentee to exploit a dominant position in one market to monopolise a second market. Similarly, a dominant firm may violate the antitrust laws through exclusive dealing agreements, for example by granting a licence on the condition that the licensee not also license competing technologies.

26 Refusal to deal and essential facilities

Describe how the exercise, licensing, or transfer of IP rights can relate to refusal to deal and refusal to grant access to essential facilities.

A simple refusal to license IP is not unlawful under US antitrust law. Lower courts are split over when refusals to license constitute illegal behaviour under the antitrust laws, and the Supreme Court has not yet resolved this split. Mandatory or compulsory licensing is a possible remedy on antitrust grounds, although courts are often uncomfortable compelling a patentee to license outside the merger context for fear of becoming entangled in the day-to-day regulation of the business of the parties and stifling innovation.

Remedies

27 Remedies for violations of competition law involving IP

What sanctions or remedies can the competition authority or courts impose for violations of competition law involving IP?

Remedies for the violation of antitrust laws include fines as well as actual damages and sometimes court costs and attorneys' fees. Courts also have the power to enjoin anti-competitive conduct (eg, enjoining a patentee from enforcing a patent). In the merger context, courts can restore competition through compulsory licensing or divestment of IP rights.

28 Competition law remedies specific to IP

Do special remedies exist under your competition laws that are specific to IP matters?

No.

29 Remedies and sanctions

What competition remedies or sanctions have actually been imposed in the IP context?

In addition to imposing fines and awarding damages, courts have refused to enforce patent rights when the patentee has engaged in inequitable patent misuses, courts have ordered a patentee to dedicate the patent to the public, and courts have imposed compulsory licensing.

30 Scrutiny of settlement agreements terminating an IP infringement dispute

How will a settlement agreement terminating an IP infringement dispute be scrutinised from a competition perspective?

As with most types of disputes, US courts generally favour settlement of IP disputes. Settlement of IP disputes can, nonetheless, raise antitrust law concerns. These concerns have been prominently litigated in the pharmaceutical industry between pioneer manufacturers of patented brand drugs and manufacturers of unpatented generic drugs. There is a lack of agreement among US courts as to the proper antitrust law analysis of patent disputes. Some courts have held that a payment to stay out of the market is a per se unlawful horizontal market allocation agreement. Other courts have analysed the extent to which antitrust law liability might undermine the encouragement of innovation and disclosure, or the extent to which the patent laws prevent antitrust law liability for such exclusionary effects. Courts are more likely to find a settlement to violate the antitrust laws if the patent-in-suit was procured by fraud, the enforcement suit is objectively baseless or the exclusionary effects of the settlement exceed the scope of the patent-in-suit. The Federal Circuit's October 2008 decision in the *In re Ciprofloxacin Hydrochloride Antitrust Litigation*, 2008 WL 4570669 (Fed. Cir. 2008) (*Cipro*) sharply limited the availability of antitrust law claims against patent settlements, suggesting that the Supreme Court will, eventually, have to address the split that exists among the US courts of appeal.

Economics and application of competition law

31 Economics

What role has economics played in the application of competition law to cases involving IP rights?

Like the application of the antitrust laws in any other context, economics plays a central role in the application of the antitrust laws to cases involving IP rights.

32 Recent cases

Have there been any recent high-profile cases dealing with the intersection of competition law and IP rights?

Rambus, Inc v Federal Trade Commission, 522 F.3d 456 (D.C. Cir. 2008), addressed the intersection of antitrust law and IP rights in the standard setting context. In *Rambus*, FTC alleged that Rambus participated in a standards setting organisation but deceptively failed to disclose that its patents covered the proposed standard, and ordered a reduced royalty, compulsory licence. The Court of Appeals held that Rambus could not be found liable for monopolisation because FTC did not show that Rambus's conduct was exclusionary and therefore harmed competition. An otherwise lawful monopolist's use of

Update and trends

One hot topic at the intersection of competition and IP policy remains the competitive concerns inherent in the standards-setting process.

The US Court of Appeals for the District of Columbia Circuit recently reversed the FTC's order in *Rambus, Inc v Federal Trade Commission*.

This decision is significant because it held that a defendant engaging in deceptive practices in the standard setting context cannot be held liable for unlawful monopolisation merely for engaging in deceptive practices. Instead, the plaintiff must show that such deceptive conduct was actually exclusionary and harmed competition.

Also in the standard setting arena, the FTC recently settled with N-Data. N-Data had acquired IP rights from a former holder who

committed to a standards-setting organisation to offer to license the technology under certain set terms. N-Data refused to perform under the previous holder's commitment. FTC alleged that N-Data's conduct constituted an unfair method of competition and an unfair act or practice under the FTC Act. FTC's settlement with N-Data required N-Data to continue to offer the same licence as the previous holder of the IP rights.

In the legislative arena, the US Senate recently introduced for consideration the Patent Reform Act of 2008. The Act, if enacted, would, among other reforms, seek to harmonise US patent law with that of other countries.

deception simply to obtain higher prices normally has no particular tendency to exclude rivals and thus to diminish competition, leading to unlawful monopolisation. On the other hand, if Rambus's more complete disclosure would have caused the SSO to adopt a different (open, non-proprietary) standard, then Rambus's failure to disclose harmed competition and would support a monopolisation claim. Therefore, a plaintiff must establish that the standard setting organisation would not have adopted the standard in question but for the misrepresentation or omission, a burden the Court of Appeals concluded the FTC had not met. In *Broadcom Corp v Qualcomm Inc*, 501 F.3d 297 (3d. Cir. 2007), the court reversed a motion to dismiss filed by the patent holder. *Broadcom's* outcome may have differed from *Rambus* because Broadcom explicitly alleged that Qualcomm's deceptive conduct caused the standard-setting organisation to adopt a standard employing Qualcomm's intellectual property. In other words, the standard setting organisation relied on the deceptive conduct. At the pleading stage, this was sufficient to allow the claim to proceed.

In the pharmaceutical context, the US Court of Appeal for the Federal Circuit recently weighed in on the issue of reverse payment patent settlements. The Federal Trade Commission had filed an amicus brief, in support of the plaintiffs, urging the Court of Appeal to hold that the reverse payment violated Section 1 of the Sherman Act. In *In re Ciprofloxacin Hydrochloride Antitrust Litigation*, 2008 WL 4570669 (Fed. Cir. 2008) (*Cipro*). The court disagreed, explaining that a 'patent by its very nature is anti-competitive' in the sense that it is 'an exception to the general rule against monopolies and to the right of access to a free and open market.' The Court held that the

agreement did not violate section 1 of the Sherman Act because any anti-competitive effects were within the exclusionary zone of branded company's patent. Only where the exclusionary effects go beyond the exclusionary zone of the patent can they constitute a violation of section 1 of the Sherman Act.

33 Recent changes

Have changes occurred recently or are changes expected in the near future that will have an impact on the application of competition law to IP rights?

The Court of Appeals for the Federal Circuit's decision in the *Cipro* case had a momentous impact on the question of patent rights in relation to reverse payment patent settlements in the pharmaceutical industry. The *Cipro* decision is at odds with the Federal Trade Commission's approach on reverse payments that was prominently expressed in the FTC's 2008 complaint in *Cephalon*, and the Sixth Circuit's decision in *In re Cardizem CD Antitrust Litigation*, but consistent with the Eleventh Circuit's decision in *Valley Drug Co v Geneva Pharm., Inc* 344 F.3d 1294 (11th Cir. 2003). As noted in question 30, this split in authority suggests that the Supreme Court will, eventually, have to address this question.

Reproduced with permission from Law Business Research. This article was first published in *Getting the Deal Through – Intellectual Property & Antitrust 2009*, (published in November 2008 – contributing editor Susan M Hutton). For further information please visit www.GettingtheDealThrough.com

Crowell & Moring LLP

Robert Lipstein
Jeffrey Blumenfeld
Olivier Antoine
Ty Carson

rlipstein@crowell.com
jblumenfeld@crowell.com
oantoine@crowell.com
tcarson@crowell.com

1001 Pennsylvania Avenue
NW, Washington DC 2004-2595
United States

Tel: +1 202 624 2500
Fax: +1 202 628 5116
www.crowell.com