Exploring the Dichotomy Between Patent and Antitrust Law

Introduction

The interplay between patent and antitrust laws creates an interesting, if not confusing, area of the law. Patent law, on the one hand, grants rights that are frequently (albeit loosely) referred to as a "monopoly." On the other hand, antitrust laws are intended to protect competition by preventing unlawful monopolies and other activities that create an unfair playing field between competitors. The potentially conflicting policies underlying these two bodies of law have created tension between them. But the existence of both areas of law means that a patent owner needs to understand both in order to steer clear of patent enforcement activities that can run afoul of the antitrust laws, as antitrust violations can result in patent unenforceability, civil damages, and criminal penalties.

Background of Patent and Antitrust Laws

Patents and the Right to Exclude

The United States Constitution gives Congress the power to promote the progress of science and the useful arts by securing for a limited time to inventors the exclusive right to their discoveries.[1] Congress has exercised its Constitutional power by allowing inventors to obtain patents on their inventions. In particular, patents provide the "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process."[2] This right to exclude, however, does not provide inventors with "any exemption from the provisions of the Sherman [Antitrust] Act beyond the limits of the patent monopoly."[3]

The Sherman Antitrust Act and Its Limitations on Monopolies

Antitrust law seeks to prevent unlawful monopolies and promote competition by encouraging multiple sellers to compete against one another to attract business. Such competition is presumed to benefit consumers because, in order to attract customers, rival firms will often lower prices, provide better quality and service, and generally be more responsive to customer needs. While competition is generally favorable, agreements between competitors to restrain trade are unfavorable and have long been held to be unenforceable under common law.[4] Congress codified this common law as well as a number of anti-price-fixing provisions in the Sherman Act of 1890 (the Sherman Act). Section 2 of the Sherman Act focuses on monopolization, and provides, in relevant part: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony…."[5,6]

When Patent and Antitrust Laws Collide

One of the most common forums where patent and antitrust laws collide is in the courtroom when a

patent owner attempts to exclude others from making, using, importing, offering for sale, or selling the patent owner's patented inventions. This clash occurs, in part, because the Sherman Act prohibits unfair methods of competition by one or more actors. Section 1 of the Sherman Act condemns concerted action by two or more actors to engage in activity that decreases competition.[7] Section 2 of the Sherman Act makes it improper for a person to monopolize, or attempt to monopolize, any part of trade or commerce among the States or with foreign nations.[8] The courts, however, have recognized an exception to these general rules when the "restraint upon trade or monopolization is the result of a valid governmental action," such as filing a patent infringement lawsuit to protect a legal monopoly.[9]

The act of filing a patent infringement lawsuit does not, however, allow a patent owner to escape the antitrust laws carte blanche. Rather, depending on the facts, an alleged infringer may assert that the patent owner violated antitrust laws by (1) procuring the patent through intentional fraud on the Patent Office, or (2) bringing the patent litigation in bad faith as a "sham" litigation.[10] If the alleged infringer successfully establishes either of these grounds, that party has overcome the first hurdle of proving an antitrust claim, but must still prove each element of a claim under the Sherman Act to prevail.

A party asserting that a patent was procured through intentional fraud on the Patent Office must prove "knowing and willful fraud" by clear and convincing evidence.[11] Typically, "knowing and willful fraud" involves some affirmative dishonesty, such as a "deliberately planned and carefully executed scheme to defraud [the Patent Office]."[12] For example, intentional fraud may occur when the patentee "knowingly and willfully" misrepresented or omitted facts to the Patent Office.[13] To support a finding of fraud, the misrepresentation or omission must also have been material such that, "if the Patent Office had been aware of the complete or true facts, the challenged claims would not have been allowed."[14] However, *enforcement*, and not merely the procurement of a fraudulent patent, is necessary to give rise to antitrust scrutiny. "[W]ithout some effort at enforcement, the patent cannot serve as the foundation of a monopolization case."[15]

A party asserting that a litigation is a "sham" must prove a number of objective and subjective criteria by clear and convincing evidence.[16] The objective criteria are used to determine whether the lawsuit is "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits."[17] Typically, "[t]he existence of probable cause to institute legal proceedings precludes a finding that an antitrust defendant has engaged in sham litigation."[18] If the lawsuit is found to be objectively baseless, the subjective criteria are then used to determine whether the baseless lawsuit "conceals an attempt to interfere *directly* with the business relationships of a competitor" through the use of governmental process as an anticompetitive weapon.[19] Exemplary subjective criteria include an assessment of whether the patent owner is intentionally pursuing a meritless lawsuit to harass a competitor or to deter others, regardless of the outcome of the litigation.[20] If both the objective and subjective criteria are met, the litigation is a "sham" litigation and is therefore not exempt from antitrust laws.[21]

If a party can successfully demonstrate that the patent litigation is not exempt from antitrust laws, that party must then prove the elements of the alleged Sherman Act violation.[22] The elements of an antitrust allegation under section 2 of the Sherman Act include "(1) the possession of monopoly power in the relevant market, and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident."[23]

Monopoly power is "the power to control prices or exclude competition."[24] Monopoly power may "ordinarily be inferred from the predominant share of the market" coupled with barriers to entry into the market.[25] However, monopoly power may not be inferred by the mere existence of a patent.[26] Indeed, it is rare for a patent to confer monopoly power in a market.[27] One reason for this is because many new technologies build on existing technologies that are already offered to consumers, *i.e.*, there are already competing products in the market place.[28] Another reason is because many inventions may have little to no commercial value, *i.e.*, other products or processes may be superior substitutes and the invention may be unable to drive all or most substitutes from the market.[29] Only a small number of basic, or "pioneer," patents embody truly novel innovations that either supersede a given field or create an entirely new field.[30] These "pioneer patents" are recognized to confer market power because, absent any prior art in the field, there is an opportunity for the patentee to draft broad claims that cover the entire market.[31]

The mere acquisition or maintenance of a monopoly through growth or development is not illegal.[32] The Sherman Act does, however, condemn the use of anti-competitive conduct to acquire or maintain a monopoly.[33] One example of anti-competitive conduct is tying, which occurs when the sale of a patented product that has market power (such as a printer) is conditioned on the purchase of another unpatented product (such as ink or paper).[34] Such an arrangement extends the patentee's economic control to unpatented products.[35] Another example is the maintenance of market power by unilaterally refusing to license or deal with other entities.[36] The courts have held that such anti-competitive conduct violates the Sherman Act and is unlawful.

Conclusion

Patent law grants the right to exclude competition while antitrust law targets those who exclude competition. This dichotomy creates the possibility that a patent owner who attempts to enforce its patent rights will be subject to a suit for antitrust liability. While such possibility should not paralyze a patent owner, it should cause a patent owner to consider the impact of its actions to enforce its patent rights. A good threshold question to consider is: does the activity extend beyond what can be excluded under the patent? If the answer to that question is anything other than an unqualified no, the activity should be carefully scrutinized because of the potential for antitrust allegations.

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Endnotes

1. U.S. Const. art. 1, § 8, cl. 8.
2. 35 U.S.C. 154(a)(1) (1965).
3. *U.S. v. Line Material Co.*, 333 U.S. 287, 308 (1948).
4. Indeed, leading antitrust thinkers are "skeptical…about the dangers to competition that is posed by unilateral firm action." Richard A. Posner, *Antitrust in the New Economy*, 68 ANTITRUST L.J. 925, at 932 (2000). At the same time, it is recognized that "the danger that heavy-handed antitrust enforcement may suppress a practice that may seem anticompetitive but actually is efficient, or at least neutral, from the broader social standpoint." *Id.*
5. 15 U.S.C. § 2 (2004).
6. Another antitrust provision, the Clayton Act, 15 U.S.C. § 12, *et seq*., is beyond the focus of this article. The Clayton Act prohibits price discrimination between purchasers and sellers of goods. In the patent context, this provision is principally used to address tying agreements.
7. 15 U.S.C. § 1 (2004).
8. 15 U.S.C. § 2 (2004).
9. *See E. R.R. Presidents Conference v. Noerr Motor Freight*, 365 U.S. 127, 136 (1961) (recognizing exceptions to the Sherman Act); *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979) (identifying patent infringement lawsuits as a valid governmental action).
10. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 174 (1965); *Glaverbel Societe Anonyme v. Northland Mktg. & Supply*, 45 F.3d 1550, 1558 (Fed. Cir. 1995); *Handgards*, 601 F.2d at 990.
11. *Handgards*, 601 F.2d at 996.
12. *Id.*
13. *Walker Process Equip.*, 382 U.S. at 177.
14. *Norton v. Curtiss*, 433 F.2d 779, 794 (C.C.P.A. 1970).
15. *California E. Lab., Inc. v. Gould*, 896 F.2d 400, 403 (9th Cir. 1990).
16. *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993); *Handgards*, 601 F.2d at 996.
17. *Prof'l Real Estate Investors, Inc.*, 508 U.S. at 60.
18. *Id.* at 62.
19. *Id.* at 60-61 (citing *Noerr*, 365 U.S. at 144) (emphasis in original).
20. *Id.* at 75 (Stevens, J. & O'Connor, J., concurring).
21. *Prof'l Real Estate Investors,* 508 U.S. at 61.

22. *In re Indep. Serv. Org. Antitrust Litig. CSU*, 203 F.3d 1322, 1328 (Fed. Cir. 2000).
23. *U.S. v. Grinnell Corp.*, 384 U.S. 563, 570-571 (1966).
24. *Id.* at 571.
25. *Id*.
26. *Illinois Tool Works v. Independent Ink*, 547 U.S. 28 (2006).
27. Edmund W. Kitch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 Vand. L. Rev. 1727, 1730 (2000).
28. *Id*.; *see also* Posner, *supra* note 4, at 939 (noting that "law time" moves slow relative to the speed of innovation, potentially resulting in antitrust litigation lagging current industry conditions).
29. *Brunswick Corp. v. Riegel Textile Corp.*, 752 F.2d 261, 265 (7th Cir. 1984).
30. Kitch, *supra* at 1730.
31. *Id.*
32. 15 U.S.C. § 2 (2004).
33. *Id.*
34. *See, e.g.*, *Illinois Tool Works,* 547 U.S. at 32 (addressing claims brought under Sections 1 and 2 of the Sherman Act).
35. *U.S. v. Loew's Inc.*, 371 U.S. 38, 45-46 (1962) (addressing claims brought under Section 1 of the Sherman Act).
36. *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 602-05 (1985) (addressing claims brought under Section 2 of the Sherman Act).