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United States Antitrust Policy in an Age of IP Expansion

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### Author

Hovenkamp, Herbert J.

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# United States Antitrust Policy in an Age of IP Expansion

## **Abstract**

The idea that there is a tension between antitrust and the intellectual property laws is readily exaggerated. The tension that exists results mainly from our uncertainty about the optimal amount and scope of IP protection. In general, antitrust draws clearer lines than intellectual property law does, although one should not push the point too far. Antitrust policy as manifested in the courts has achieved a fair amount of consensus today. By contrast, deep uncertainty remains about fundamental questions concerning the socially optimal outcome of IP disputes. In addition, while the antitrust statutes are for the most part public regarding provisions interpreted by the courts, the IP laws have increasingly become special interest statutes less concerned with optimal IP coverage and more concerned with protection of the claims of particular interest groups. As a result, antitrust needs to take a bolder position in areas of potential conflict with IP law than it has in the past. This does not mean that we must revert to a post-New Deal regime in which the courts imagined threats from IP rights where none existed. However, it does entail that antitrust stop being so deferential in areas where threats to competition are real and the IP laws are ambiguous on the issue in question.

## UNITED STATES ANTITRUST POLICY IN AN AGE OF IP EXPANSION

Herbert Hovenkamp<sup>1</sup>

A commonplace in the literature on intellectual property and antitrust in the United States is that a tension or conflict exists between the two and must be resolved,<sup>2</sup> or that the relationship between them presents a paradox.<sup>3</sup> On the one hand, the IP laws create a right to exclude. On the other, antitrust regularly condemns practices because they exclude firms from markets.<sup>4</sup>

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<sup>1</sup>Ben V. & Dorothy Willie Professor of Law and History, University of Iowa. My comments relate solely to the antitrust and intellectual property laws of the United States.

<sup>2</sup>E.g., *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981):

The conflict between the antitrust and patent laws arises in the methods they embrace that were designed to achieve reciprocal goals. While the antitrust laws proscribe unreasonable restraints of competition, the patent laws reward the inventor with a temporary monopoly that insulates him from competitive exploitation of his patented art.

See also David McGowan, *Networks and Intention in Antitrust and Intellectual Property*, 24 *J. Corp. L.* 485, 485 & n.1 (1999) (recognizing tension); Aaron Xavier Fellmeth, *Copyright Misuse and the Limits of the Intellectual Property Monopoly*, 6 *J. Intell. Prop. L.* 1, 3 (1998) (same).

<sup>3</sup>Michael A. Carrier, *Unraveling the Patent-Antitrust Paradox*, 150 *Univ. Penn.L.Rev.* 761 (2002).

<sup>4</sup>In addition to the citations in the previous two notes, thoughtful writing on the subject includes Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 *Harv. L. Rev.* 1813 (1984); Ward S. Bowman, Jr., *Patent and Antitrust Law: A Legal and Economic Appraisal* (1973); William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 *Yale L.J.* 267 (1966). See also Daniel J. Gifford, et al., *Symposium: The Interface Between Intellectual Property Law and*

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Antitrust Law: Foreword: Antitrust's Troubled Relations with Intellectual Property, 87 Minn. L. Rev. 1695, 1714 (2003); Timothy J. Muris, Chairman, Federal Trade Commission, Competition and Intellectual Property Policy: The Way Ahead, Remarks at the American Bar Association Antitrust Section Fall Forum (Nov. 15, 2001), available at <http://www.ftc.gov/speeches/muris/intellectual.htm>; Manisha M. Sheth, Note, Formulating Antitrust Policy in Emerging Economies, 86 Geo. L.J. 451, 475 (1997).

The conflict between IP and antitrust is readily exaggerated. Further, a significant portion of it is explained by deep uncertainty about the optimal amount and scope of IP protection. As long as that uncertainty remains there will always be tension between IP and antitrust.

At the policy level antitrust draws clearer lines than IP law does. Antitrust is concerned about practices that limit competition, and -- at least in the range of realistic antitrust concern -- "competition" has a reasonably uncontroversial definition. Competition exists when the number of buyers and sellers, freedom of trading, and market information are sufficient to drive prices toward marginal cost.<sup>5</sup> To be sure, one should not push the point about antitrust's relative clarity too far. Many questions continue to provoke debate, such as How strictly can we impose marginal cost pricing on concentrated markets? How many firms are required for effective competition? or How serious is the threat of competitive foreclosure resulting from vertical practices? or What are appropriate remedies for unilateral exclusionary conduct?

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<sup>5</sup>For the historical evolution see George J. Stigler, "Competition," 1 *The New Palgrave: A Dictionary of Economics* 531-536 (John Eatwell, et al., eds. 1987); George J. Stigler, Perfect Competition, Historically Contemplated, 65 *J.Pol.Econ.* 1 (1957).

But this uncertainty is not nearly as broad or deep as the level of our uncertainty over intellectual property questions such as What is the optimal length of time for patent or copyright protection? What is the appropriate scope of patent claims? When is a new collection of technologies or methods patentable? and -- perhaps most fundamentally of all -- what is the proper balance between the protection of new ideas and the public license innovators must have to build on the innovations of their predecessors?<sup>6</sup> This final question accounts for many others, such as What is the proper scope of fair use in

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<sup>6</sup>On the extent to which innovation is furthered by borrowing from the innovation of predecessors, see Larry Lessig, *Free Culture: How Big Media Uses Technology and the Law to Lock Down Culture and Control Creativity* (2004); Jared Diamond, *Guns, Germs & Steel: the Fate of Human Societies*, ch. 13 (1999) (societies make more progressive when innovators have freedom to borrow ideas from previous innovators). See also Lawrence Lessig, *The Future of Ideas: the Fate of the Commons in a Connected World* (2001); Adam B. Jaffe, *The U.S. Patent System in Transition: Policy Innovation and the Innovation Process*, 29 *Res.Policy* 531 (2000); Stephen G. Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies and Computer Programs*, 84 *Harv. L.Rev.* 281 (1970); Robert M. Hurt and Robert M. Schuchman, *The Economic Rationale of Copyright*, 56 *Am.Econ.Rev.* 421 (1966); Fritz Machlup and Edith Penrose, *The Patent Controversy in the Nineteenth Century*, 10 *J.Econ.History* 1 (1950).

copyright?<sup>7</sup>

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<sup>7</sup>See, e.g., Wendy J. \*\*\*\*Gordon, Fair Use as Market Failure, 82 Colum. L. Rev. 1600 (1982).

When comparing the United States antitrust and IP statutes one is struck by the relative success that special interest groups have had in obtaining IP legislation, in contrast with the relative lack of interest group influence on the antitrust laws.<sup>8</sup> This is evidenced by the text of the statutes themselves. Aside from the Robinson-Patman Act,<sup>9</sup> which admittedly is special interest legislation, the antitrust laws are spare and most of their technical meaning has been supplied by judges. By contrast, the IP laws have become increasingly detailed codes directing the courts to provide specific types of protections to specific interests. As a general matter, detailed codes are a sign of interest group compromise.<sup>10</sup> Particularly when one looks at the industry-specific provisions of the Patent Acts, there is no grand principle claiming universal assent, but rather a large number of deals struck between Congress and conflicting special interests.<sup>11</sup> The Copyright Act is even more extreme.<sup>12</sup> While antitrust law, properly

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<sup>8</sup>See Christina Bohannon, *Construing the Copyright Act after Eldred v. Ashcroft* (2004). One can only hope that the Congressionally-created Antitrust Modernization Commission, which is currently examining whether the federal antitrust laws need to be modernized, will not change this. See Pub. L. 107-273, 116 Stat 1758 (Nov. 2, 2002). On the Commission and its activities, see <http://www.amc.gov>; [http://www.disinfopedia.org/wiki.phtml?title=Antitrust\\_Modernization\\_Commission](http://www.disinfopedia.org/wiki.phtml?title=Antitrust_Modernization_Commission); and Albert A. Foer, *Putting the Antitrust Modernization Commission into Perspective*, 51 *Buffalo L.Rev.* 1039 (2003).

<sup>9</sup>15 U.S.C. §13. See 14 Herbert Hovenkamp, *Antitrust Law*, Ch. 23 (1999).

<sup>10</sup>See Frank H. Easterbrook, *The Court and the Economic System*, 98 *Harv. L. Rev.* 4, 16-18 (1984); Robert P. Merges, *One Hundred Years of Solicitude: Intellectual Property Law, 1900-2000*, 88 *Cal.L.Rev.* 2187, 2190 (2000).

<sup>11</sup>See Dan L. Burk and Mark A. Lemley, *Policy Levers in Patent Law*, 89 *Va. L.Rev.* 1575, 1637 (2003).

<sup>12</sup>*Ibid.* See also William F. Patry, *Copyright and the Legislative Process: A Personal*



applied, is public interest legislation, increasing portions of the IP laws are a series of

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Perspective, 14 *Cardozo Arts & Ent. L.J.* 139, 141 (1996):

Copyright interest groups hold fund raisers for members of Congress, write campaign songs, invite members of Congress (and their staff) to private movie screenings or soldout concerts, and draft legislation they expect Congress to pass without any changes. In the 104th Congress, they are drafting the committee reports and haggling among themselves about what needs to be in the report. In my experience, some copyright lawyers and lobbyists actually resent members of Congress and staff interfering with what they view as their legislation and their committee report. With the 104th Congress we have, I believe, reached a point where legislative history must be ignored because not even the hands of congressional staff have touched committee reports.

See also Merges, *One Hundred Years*, note 10 at 2235 (on greatly increased lobbying in the IP area); John R. Allison & Emerson H. Tiller, *The Business Patent Myth*, 18 *Berkeley Tech. L.J.* (forthcoming Dec. 2003) (warning against "the definitional gerrymandering of patent lawyers" in designing industry-specific statutes); Jessica Litman, *Digital Copyright* 25-29 (2001) (commenting on the swollen copyright statute and the influence of special interest groups).

special interest deals.

The extent of IP capture in the United States may be enhanced by the fact that the agency that makes most of the initial policy, the PTO, is specialized, responding mainly to prospective and actual IP rights holders. By contrast, the FTC and Antitrust Division of the Justice Department, which make most of our public antitrust policy, are much more diverse in two senses. First, they represent a greater variety of markets. Second, their constituents represent a much more balanced variety of positions on any issue. While it has not always been so,<sup>13</sup> today it is hard to make a case that either of

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<sup>13</sup>Many government brought antitrust decisions from the 1970s and earlier reflected small business protectionism at the expense of consumers. Examples include *United States v. Von's Grocery Co.*, 384 U.S. 270, (1966) (condemning merger in unconcentrated market with low entry barriers, fearing a rising tide of concentration in the grocery industry); *Brown Shoe Co. v. United States*, 370 U.S. 294 (1962) (condemning merger in unconcentrated market, in part because it created efficiencies that injured smaller rivals); *FTC v. Procter & Gamble Co.*, 386 U.S. 568 (1967) (condemning conglomerate merger, in part because resulting advertising economies gave firm an advantage over rivals); *FTC v. Consolidated Foods Corp.*, 380 U.S. 592 (1965) (accepting FTC challenge to merger of sellers of complementary products on theory that they might engage in reciprocal buying with others); *United States v. E.I. du Pont de Nemours & Co.*, 353 U.S. 586 (1957) (accepting government's challenge to vertical merger on theory that acquired firm would favor its parent in purchasing inputs); *In re Foremost Dairies, Inc.* 60 F.T.C. 944, 1084 (1962) (condemning a merger because the resulting efficiencies gave the firm a "decisive advantage" over "smaller rivals"); *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594 (1953) (rejecting government challenge to newspaper's requirement that advertisers run same ads in morning and evening editions even though justified by reduced type setting costs); *International Salt Co. v. United States*, 332 U.S. 392 (1947) (challenge to non-monopolist's requirements that users of its salt injector also purchase its salt); *FTC v. Brown Shoe Co.*, 384 U.S. 316 (1966) (accepting government challenge to Brown's practices of giving special services to retailers who favored Brown's shoes); *Ash Grove Cement Co. v. FTC*, 577 F.2d 1368 (9th Cir.1978), cert. denied, 439 U.S. 982 (1978) (accepting FTC's challenge

the antitrust agencies has an enforcement bias favoring some special interest group, such as small business. While literally thousands of interest groups have petitioned Congress over the years for special amendments to the antitrust laws, the list of exemptions and qualifications remains relatively small and is in fact dwindling under deregulation.<sup>14</sup>

The theory of interest groups suggests that small, unified and well organized groups are much more effective in obtaining the legislation they want than larger, more diffuse and differentiated groups. As a result, too much legislation ends up protecting special interests at the expense of society as a whole.<sup>15</sup>

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to relatively small ready mix firm's acquisition of a cement supplier); *United States v. White Motor Co.*, 194 F.Supp. 562, 576-577 (N.D.Ohio 1961), rev'd on other grounds, 372 U.S. 253, 256 n.2. (1963) (lower court accepted government challenge to supplier setting maximum prices its dealers could charge; issue not appealed to Supreme Court); *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967) (accepting government's request for per se rule against vertically imposed territorial restraints); *United States v. Topco Assoc., Inc.*, 405 U.S. 596 (1972) (accepting government's request for per se rule against efficient territorial restrictions by joint venture without significant market power); *FTC v. Henry Broch & Co.*, 363 U.S. 166 (1960) (highly anticompetitive decision condemning broker for reducing commission in order to make large sale); *FTC v. Morton Salt Co.*, 334 U.S. 37 (1948) (accepting challenge to nonmonopoly salt seller's quantity discount program); *Mid-South Distrib. v. FTC*, 287 F.2d 512 (5th Cir.), cert. denied, 368 U.S. 838 (1961) (condemning buying cooperative for obtaining low prices on auto parts for its members); *FTC v. A.E. Staley Mfg. Co.*, 324 U.S. 746 (1945) (virtually requiring competitors to verify one another's prices in order to avoid Robinson-Patman Act violation).

<sup>14</sup>See 1A Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶¶249-251 (2d ed. 2000). The "classic" exemptions were labor and insurance. See *id.*, ¶¶219-220 (insurance), ¶¶255-257 (labor). On the impact of deregulation, see ¶241.

<sup>15</sup>James Buchanan & Gordon Tullock, *The Calculus of Consent* (1962) Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (1965);

While the theory of public choice is elegant, it is not particularly robust at explaining regulatory choices across the full range of economic markets. For example, in every American state the sale of groceries, shoes, and furniture occurs in competitive, generally unregulated markets. By contrast, in every state retail electricity and taxicab fares are price regulated and there may be government restrictions on new entry. Why this pair of outcomes should be virtually universal is certainly not a coincidence. Further, it is highly unlikely that the explanation is that electric utilities or taxicab companies are better political organizers or have more unified interest groups representing them, while their customers are less well organized. As a result, these particular industries manage to obtain regulatory freedom from competition and guaranteed profit margins, while grocers and shoe sellers do not.

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2d ed. 1971). A good survey of the literature on public choice is Daniel A. Farber & Philip P. Frickey, *Law and Public Choice: a Critical Introduction* (1991). For specific application to regulation, see George J. Stigler, *The Theory of Economic Regulation*, 2 *Bell J. Econ. & Mgt. Sci.* 3 (1971); and Richard A. Posner, *Theories of Economic Regulation*, 5 *Bell J. Econ. & Mgt. Sci.* 335 (1974).

The important differences between the regulatory choices that have been made in these markets is best explained by the basic neoclassical economics of production and distribution. Electricity is a traditional natural monopoly and the traditional solution to natural monopoly has been agency price regulation. Taxis are a market in which, according to the given wisdom, transactions have to be made quickly and purely private bargaining would yield too much uncertainty and bad results.<sup>16</sup>

The significance of interest group explanations for regulation in the United States seems to be driven by two factors. The first is how well underlying political markets are working. The second is how clearly policy makers understand the market in question.

If political markets worked perfectly they would yield efficient regulatory solutions and public choice theory would not have much of interest to say. Regulation in such a regime would correct market failures and produce efficient markets -- no more and no less. Of course, political markets are not perfect and some are highly imperfect. As a result, regulatory solutions are imperfect as well. The classic public choice position on regulation is that, because of imperfections in government process, we tend to regulate too much and we tend to use regulation to transfer wealth to politically successful

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<sup>16</sup>See Herbert Hovenkamp, *Antitrust and the Regulatory Enterprise* 2004 *Col.Bus.L.Rev.* 335, 339 (2004). Cf. P. Croley, *Theories of Regulation: Incorporating the Administrative Process*, 98 *Colum. L. Rev.* 1, 55 (1998); Mark Kelman, *On Democracy-Bashing: A Skeptical Look at the Theoretical and "Empirical" Practice of the Public Choice Movement*, 74 *Va. L. Rev.* 199 (1988); Daniel A. Farber & Philip P. Frickey, *The Jurisprudence of Public Choice*, 65 *Tex. L. Rev.* 873, 895-900 (1987).

interest groups rather than producing the economically efficient outcome.

The second important factor determining the robustness of public choice explanations is the degree of policy consensus about how a particular market should work. Special interest legislation is most robust in markets where right answers are elusive. The more complex the problem and the less clearly a single solution emerges, the more room for special interest groups to make their case to the legislature. This explains why the tax code has so many interest group provisions. There is no obvious "correct" answer to how much taxes should be or how the burden should be distributed among various constituencies. It also explains why interest groups have generally been more effective in obtaining legislation in the regulated industries. While the identification of industries that require regulation may be relatively uncontroversial, the ideal form that the regulatory enterprise should take seldom is. So once the state decides to regulate, interest groups acquire a stronger voice.<sup>17</sup>

These facts were clear features of the American regulatory landscape even in the nineteenth century.<sup>18</sup> For example, toll bridges, railroads and gas utilities tended to be price regulated, but not blacksmiths, haberdasheries, or general stores. In general, the effectiveness of the government control over a market varied with the degree of

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<sup>17</sup>See Herbert Hovenkamp, Regulation History as Politics or Markets, 12 Yale J.Reg. 549 (1995).

<sup>18</sup>Herbert Hovenkamp, Enterprise and American Law, 1836-1937 at 105-170 (1991).

consensus about how the market worked. If there was a broad consensus that competition was working well, special interests tended not to be very successful. By contrast, when little about a market is known, then alternative regulatory approaches are less clear and legislators tended to listen more to interest groups.<sup>19</sup>

Ambiguity about the correct policy explains why the IP statutes are fairly susceptible to interest group capture. No one really knows the answers to such questions as what is the correct term for a patent or copyright, or what is the proper scope of such rights, how "non-obvious" an innovation must be before it is patentable, what is the appropriate scope of fair use of copyrighted material, and the like.

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<sup>19</sup>See Hovenkamp, Regulation History, note 17.

Over the years most statutory amendments to the United States Patent and Copyright Acts have tended to expand IP protection. The term of protection given to patents and copyrights has consistently been extended.<sup>20</sup> Most other amendments to those statutes have tended to expand the scope of protection. Good examples are the patent misuse reform act of 1988,<sup>21</sup> or the Digital Millennium Copyright Act.<sup>22</sup> The Sonny Bono Copyright Term Extension Act<sup>23</sup> has been described as legislation that "strongly favored a narrow class of copyright owners, broadly but mildly affected many present and future consumers, was intensively lobbied, and became law with little opposition."<sup>24</sup>

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<sup>20</sup>On the copyright term, see Christina N. Gifford, *The Sonny Bono Copyright Term Extension Act*, 30 U.Mem.L.Rev. 363 (2000) (tracing history of copyright terms and extensions). Since 1850 the patent term has gone from 14 years, to 17 years, to its current 20 years from application date. A good summary of changes in the law in both areas is contained in Tyler T. Ochoa, *Origins and Meanings of The Public Domain*, 28 Dayton L. Rev. 215, 222-224 (2002).

<sup>21</sup>See 35 U.S.C. §271(d). On the legislative history of §271(d), see Richard Calkins, *Patent Law; the Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 Drake L. Rev. 175 (1988); Sharon Brawner McCullen, *The Federal Circuit and the Ninth Circuit Face-off: Does a Patent Holder Violate the Sherman Act by Unilaterally Excluding Others from a Patented Invention in more than one Relevant Market?*, 74 Temple L. Rev. 469, 494 et seq (2001).

<sup>22</sup>Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (codified in scattered sections of 17 U.S.C.).

<sup>23</sup>Pub. L. No. 105-298, 112 Stat. 2827 (1998) (codified in scattered sections of 17 U.S.C.).

<sup>24</sup>Mergers, *One Hundred Years*, note 10 at 2236.



While the degree of special interest capture in IP legislation has tended to increase over time, the courts have been less consistent and have tended to go in cycles, particularly where conflicts between IP and competition policy are concerned. For example, in the early nineteenth century the courts interpreted patent rights very expansively, with the result that relatively few patent practices were found to constitute antitrust violations or patent "misuse"<sup>25</sup> based on the perceived anticompetitive consequences of the conduct. For example, in *Henry* the Supreme Court permitted a patentee to enforce a notice on its duplicating machine that the licensee could use the machine only with the paper, ink and other supplies provided by the patentee.<sup>26</sup> The Supreme Court permitted an action for contributory infringement against a person who sold such supplies to someone who intended to use them in one of A.B. Dick's machines. *Henry* represented a high point in Supreme Court patent law expansionism because it permitted patentees to "tie" unpatented goods even if they were staple commodities, and interpreted the doctrine of contributory infringement so as to reach the seller of such staples.

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<sup>25</sup>On IP "misuse," see discussion *infra*, text at note 34 et seq.

<sup>26</sup>*Henry v. A.B. Dick*, 224 U.S. 1 (1912).

In the *Paper Bag* case the Supreme Court also ended a controversy over whether less protection should be given to unused, or "unworked," patents.<sup>27</sup> Previously, some courts had either denied infringement actions based on patents that the patentee was not actually practicing or licensing to others. Other decisions permitted the actions but limited plaintiffs' relief to damages.<sup>28</sup>

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<sup>27</sup>Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 429 (1908). The right was very likely codified in 35 U.S.C. §271(d)(4). See Janice M. Mueller, Symposium: Patent System Reform: Patent Misuse Through the Capture of Industry Standards, 17 Berkeley Tech. L.J. 623, 680 (2002).

<sup>28</sup>E.g., Electric Smelting & Aluminum Co. v. Carborundum Co., 189 F. 710 (C.C.W.D. Pa. 1900); Dorsey Harvester Revolving Rake Co. v. Marsh, 7 F. Cas. 939, 945 (C.C.E.D. Pa. 1873). But the issue of unworked patents has continued to provoke

Finally, the *Bement* decision,<sup>29</sup> expanded in 1926 in the *General Electric* case,<sup>30</sup> permitted patentees to fix the product price charged by competing licensees who sold the patented good in competition with the patentee.

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controversy even since the *Paper Bag* decision. See *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 671 (Fed. Cir. 1988) (refusing to award lost profits as damages for infringement because patent was unworked); *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (taking into consideration whether party practiced welding system patent). See also *Hartford-Fairmont Co. v. United States Glass Co.*, 2 F.2d 109, 110 (W.D. Pa. 1924); *Dorsey Harvester*, 7 F. Cas. 939; *Landis Tool Co. v. Ingle*, 286 F. 5, 6-7 (3d Cir. 1923); *Westinghouse Elec. & Mfg. Co., v. Toledo*, 172 F. 371, 372 (6th Cir. 1909).

29E. *Bement & Sons v. Nat. Harrow Co.*, 186 U.S. 70 (1902).

30United States v. Gen. Elect. Co., 272 U.S. 476 (1926). See 2 Herbert Hovenkamp, Mark D. Janis, and Mark A. Lemley, *IP and Antitrust: an Analysis of Antitrust Principles Applied to Intellectual Property Law*, ch. 31 (2004); 12 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶2041 (2d ed. 2005).

Beginning in the 1930s the Roosevelt Court did a complete about face and began to see patents and later copyrights as inherently anticompetitive and antitrust, or the related doctrine of misuse, as the cure.<sup>31</sup> A series of decisions both imagined that patents conferred significant market power, even in what appeared to be robustly

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<sup>31</sup>A contemporary book which well captures the change of viewpoint was written by Legal Realist Walton Hamilton. See Walton Hale Hamilton, *Patents and Free Enterprise* 161 (1941).

competitive markets, and also believed it was quite easy for firms to "enlarge" these monopolies simply by tying patents together or bundling patented and unpatented goods.<sup>32</sup>

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<sup>32</sup>The important precursor was *Carbice Corp. of Am. v. American Patents Dev. Corp.*, 283 U.S. 27, 29 (1931), which refused to enforce an action for contributory infringement against one who sold dry ice to licensees of the patentee's patented ice box, when its license required licensees to purchase their ice exclusively from the patentee; Court believed that patentee was attempting to "extend its monopoly" over unpatented supplies. See also *International Salt Co. v. United States*, 332 U.S. 392 (1947) (condemning tying by firm that lacked real market power, holding that the power conferred by the patent is all that was necessary to make tying unlawful); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 669 (1944) (finding patent use when the

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patentee bundled the different elements in a combination patent); Court saw the bundling as an attempt to extend the monopoly of the patent so as to create a larger monopoly); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942) (refusing to enforce a patent against an infringer because the patentee was tying salt to its patented salt injector; no market power requirement other than Court's observation that patentee was attempting to use the monopoly of the patent to create a second "limited monopoly" in salt tablets; tablets themselves were a commodity in which patentee had no power); *B. B. Chem. Co. v. Ellis*, 314 U.S. 495, 498 (1942) (patentee who tied shoe insole material to its patented insole machine could not bring infringement action; no market power requirement); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 463 (1938) (condemning tying even when the tied element was an essential part of the patented process); *International Business Mach. Corp. (IBM) v. United States*, 298 U.S. 131 (1936) (condemning tying of IBMs computing machines to its paper punch cards). Other decisions include *United States v. Paramount Pictures*, 334 U.S. 131, 156-159 (1948) (condemning block-booking of feature films as enlarging "the monopoly of the copyright"); *United States v. Loew's*, 371 U.S. 38 (1962) (extending *Paramount* to block-booking of television shows; again inferring power from the existence of the copyright).

That era was quite properly brought to a close, mainly as a result of Chicago School writings that exploded the leverage theory of patents, and more general writings that began to treat patent rights as simply a species of property, with the attendant power to exclude, rather than as a species of monopoly.<sup>33</sup> One result is that antitrust tribunals today are quite properly far more tolerant of IP rights today than they were from the 1930s through the 1960s, and antitrust claims in IP markets have become more difficult to prove. Now the question is whether are in danger of going too far.

### **Appropriate Antitrust Responses**

How should antitrust respond to a regime in which the intellectual property laws very likely grant more than the optimal amount of protection and where the ongoing amendment process reflects significant capture by special interests? The harmful results include, at the least, costly impediments to innovation, the high licensing and transaction costs of negotiating through the thicket of IP rights, leading to underuse of innovations.<sup>34</sup> On top of all of this is higher consumer prices.

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<sup>33</sup>E.g., Bowman, note 4; Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 *J L & Econ* 265 (1977). For summaries, see William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law*, ch. 1 (2003); Hovenkamp, Janis, & Lemley, note 30 at §4.2. On the history of the Supreme Court's presumption of market power from patents and copyrights, mainly in tying cases, see 10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶1733 (2d ed. 2004).

<sup>34</sup>On the "thicket" created by excessive IP protection, Lessig, note 6. See also Burk and Lemley, note 11; Mark A. Lemley, *Place and Cyberspace*, 91 *Calif. L.Rev.* 521 (2003); Dan Hunter, *Cyberspace as Place and the Tragedy of the Digital Anticommons*, 91 *Calif. L. Rev.* 439 (2003); Michael A. Carrier, *Resolving the Patent-Antitrust Paradox*

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Through Tripartite Innovation, 56 Vand. L. Rev. 1047, 1085 et seq (2003); R. Polk Wagner, Information Wants to Be Free: Intellectual Property and the Mythologies of Control, 103 Colum. L. Rev. 995 (2003); Carl Shapiro, Navigating the Patent Thicket: Cross Licensing, Patent Pools, and Standard Setting, in *Innovation Policy and the Economy* (Adam Jaffe et al., eds. 2001); Maureen A. O'Rourke, Toward a Doctrine of Fair Use in Patent Law, 100 Colum. L. Rev. 1177, 1179 (2000); Mark D. Janis, Second Tier Patent Protection, 40 Harv. Int'l L.J. 151, 200 (1999); Michael A. Heller, The Tragedy of the Anticommons: Property in the Transition from Marx to Markets, 111 Harv. L. Rev. 621 (1998).



First, it is not antitrust's purpose to interfere in legislative decisions about the scope of IP rights, even if those legislative acts result from socially harmful acquiescence to interests group pressure. Courts have other tools at their disposal for limiting the power of special interests, in particular, the canons of statutory construction.<sup>35</sup> But antitrust was never intended to be and is not a device for fixing special interest legislation. Antitrust was designed to correct economic markets, not political markets.<sup>36</sup>

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<sup>35</sup>See Dan L. Burk and Mark A. Lemley, Policy Levers in Patent Law, 89 Va.L.Rev. 1575 (2003) (mainly, patent). More generally, see Einer Elhauge, Preference-Eliciting Statutory Default Rules, 102 Col.L.Rev. 2162 (2002); Frank H. Easterbrook, The Supreme Court, 1983 Term--Foreword: The Court and the Economic System, 98 Harv. L. Rev. 4, 15-18 (1984); see also Frank H. Easterbrook, Statutes' Domains, 50 U. Chi. L. Rev. 533 (1983).

<sup>36</sup>See Herbert Hovenkamp, Federal Antitrust Policy: the Law of Competition and its Practice, §18.1 (3d ed. 2005); Hovenkamp, Antitrust and the Regulatory Enterprise, note 16.

Second, we should never return to the former regime of hostility that dominated antitrust in the United States courts during the period from the New Deal through the Warren era. Characteristic of that era were presumptions of market power where none existed, and the general notion that patent power was easily "extended" or enlarged through simple contract devices. Most of this law condemned practices that were not anticompetitive. Indeed, many of them were socially beneficial devices for reducing transaction costs<sup>37</sup> or enabling patentees to maintain the quality of their product.<sup>38</sup> The presumption that an IP right is inherently monopolistic, or that it confers significant market power on its owner, is no more correct today than it was a half century ago.<sup>39</sup> Further, it remains the case that very few vertical contract practices, such as tying, have robust anticompetitive explanations.

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<sup>37</sup>Examples are the block booking condemned in *Loew's* and *Paramount*; and many of the tying arrangement cases listed in note 32. On block-booking, see F. Andrew Hanssen, *The Block booking of Films Re-examined*, 43 *J.L. & Econ.* 395 (2000); Roy W. Kenney & Benjamin Klein, *How Block Booking Facilitated Self-Enforcing Film Contracts*, 43 *J.L. & Econ.* 427 (2000). On tying, see Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶¶1703, 1711-1718 (2d ed. 2004).

<sup>38</sup>E.g., *International Salt*, note 32; *IBM*, note 32.

<sup>39</sup>The presumption continues to have legal vitality, however. Four Justices accepted it in dicta in *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 16-17 (1984), although the four concurred expressly rejected it. *Id.* at 37 n. 7. See also *MCA Television Limited v. Public Interest Corp.*, 171 F.3d 1265, 1278 (11th Cir. 1999) (accepting the presumption for a copyright in a block-booking decision; in this case, the copyrighted work found to have power was syndicated reruns of a television detective show, *Magnum, P.I.*). See also *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1341-42 (9th Cir. 1984), cert. denied, 473 U.S. 908 (1985) (accepting the presumption for a copyrighted computer operating system, RDOS, even though it was not the market dominant system).

While the evidence of legislative capture is strongest in the area of copyright,<sup>40</sup> there is even less room for antitrust intervention than in the case of patents. Outside of copyrighted computer software, copyrights are less effective tools of monopoly than patents are. Setting aside software, a copyright is less likely to create market power than a patent is.<sup>41</sup> Further, licensing or infringement disputes over copyrights are much less frequently between competing firms -- the typical copyright infringer is not a rival of the copyright owner.

But antitrust can pursue unreasonable exercises of market power where they are found, and it need not be detained by the IP statutes unless they clearly immunize the challenged practice. Here, the principles of statutory construction may become relevant: ambiguous statutes that reflect special interest capture should generally be construed against the special interests that were responsible for them. First, such statutes should be regarded as no more than private bargains, and as such they are to be construed as any contract is. Second, and more importantly, if Congress dislikes the construction the court gives, the powerful special interest is in the best position to get

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<sup>40</sup>See Burk & Lemley, note 35; Lessig, note 6.

<sup>41</sup>See 1 Hovenkamp, Janis & Lemley, IP and Antitrust, note 30 at §4.2a.

the statute changed so as to make its meaning clearer. The result is greater transparency in law making.<sup>42</sup>

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<sup>42</sup>On the Copyright Act, see Bohannon, note 8; more generally, see Easterbrook, note 10; Elhauge, note 35.

When a practice poses a significant threat to competition, it should not be saved by an ambiguous IP provision. One corollary of the principle that an IP right is simply property is that no special deference is due to the IP laws when courts fashion remedies for proven antitrust violations. For example, ordering compulsory licensing for a proven antitrust violation is no different than fining a firm or ordering divestiture of a plant.<sup>43</sup> While we do not want to deter innovation, we do want to deter antitrust violations either. While the Patent Act provides that a refusal to license is not patent misuse,<sup>44</sup> that provision has the same status as the common law rule that the owner of real property has no duty to share it. That does not mean, however, that property rights cannot be forfeited for proven violations.<sup>45</sup> To be sure, application of antitrust remedies can get courts mired in such things as setting reasonable royalty rates, an activity for which they are very poorly suited. But these problems are rarely different for IP rights than for

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<sup>43</sup>For a generally contrary position, see Frank H. Easterbrook, *Cyberspace vs. Property Law*, 4 *Tex. Rev. L. & Politics* 103 (1999).

<sup>44</sup>35 U.S.C. §271(d).

<sup>45</sup>See 3 *Antitrust Law* ¶1710 (2d ed. 2001).

other types of property interests.<sup>46</sup>

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<sup>46</sup>In general, compulsory dealing orders pose serious administrative difficulties when the refusal is unilateral, but much less substantial when it is the product of an agreement. See 11 Herbert Hovenkamp, *Antitrust Law* ¶1903 (2d ed. 2005).

Antitrust tribunals in the United States should also take a more aggressive approach to acquired patents, particularly when they are unused. Free licensing of patents is an essential incentive to innovation. But acquisitions of exclusive patent rights need not be entitled to the same degree of deference as internally developed patents.<sup>47</sup>

A rule limiting the exclusionary power of unused, or "unworked," patents also limits the incentive to innovate. Many innovations are unplanned, often the byproduct of innovation in other areas. Firms in rapidly changing markets often innovate far out into the future. At the same time, however, dominant firms often employ strategies of patenting everything possible, whether or not they intend to use it, simply to create a wall around their own technologies.<sup>48</sup> The Patent Act provides that simple nonuse of a patent is not "misuse," but this does not preclude the pursuit of nonuse under the antitrust laws when market power and unreasonable exclusionary effect are shown.

When significant market power is present, little deference should be given to

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<sup>47</sup>For an example of such deference, see *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981). See also 3 *Antitrust Law* ¶1708e (2d ed. 2002); Burk & Lemley, *Policy Levers*, note 35 at 1666-1667; Kurt M. Saunders, *Patent Nonuse and the Role of Public Interest as a Deterrent to Technology Suppression*, 15 *Harv. J.L. & Tech.* 389 (2002).

<sup>48</sup>See *Merges, One Hundred Years*, note 10 at 2220; and Leonard S. Reich, *The Making of American Industrial Research: Science and Business at GE and Bell, 1876-1926* (1985).

patents that are both acquired<sup>49</sup> and unused. A firm ordinarily acquires a patent, or obtains an exclusive license, either to practice the patent itself, include it in a license package, or else to deny access to rivals. While the first two of these activities are almost always procompetitive the last one typically is not.

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<sup>49</sup>The acquisition itself may be unlawful, under either §1 of the Sherman Act or §7 of the Clayton Act. See 3 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶707 (2d ed. 2002) (treated as exclusionary practice); 5 Phillip E Areeda & Herbert Hovenkamp, *Antitrust Law* 1202f (2d ed. 2004) (treated as merger).



United States antitrust tribunals should also be somewhat less deferential than they currently are to settlements of IP disputes. In general, we want firms to settle their bona fide intellectual property disputes, and in most cases the impairment of competition threatened by a settlement agreement is no greater than that which would result from a court judgment upholding the intellectual property right. But the possibility of settlements creates incentives to cartelize markets. As a result, settlements that would constitute antitrust violations in the absence of a valid IP right must be given fairly close scrutiny.<sup>50</sup> In particular, the Supreme Court should overrule its *General Electric* decision and permit the lower courts to scrutinize patent licensing agreements that

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<sup>50</sup>For example, the court seemed too tolerant in *Clorox Co. v. Sterling Winthrop, Inc.*, 117 F.3d 50 (2d Cir. 1997), which approved a product market division agreement among household chemical manufacturers based on the doubtful premise that the "Pine-Sol" trademark infringed the "Lysol" mark. See 12 Antitrust Law ¶2046b4 (2d ed. 2005).

include price-fixing provisions.<sup>51</sup>

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<sup>51</sup>United States v. Gen. Elect. Co., 272 U.S. 476 (1926). Recent applications of the rule include LucasArts Entm't Co. v. Humongous Entm't Co., 870 F. Supp. 285 (N.D. Cal. 1993); cf. Sample v. Monsanto Co., 218 F.R.D. 644 (E.D.Mo. 2003) (refusing to certify class, but noting allegations of price-fixing conspiracy in patented seed). See also Asahi Glass Co., Ltd. v. Pentech Pharmaceuticals, Inc., 289 F.Supp.2d 986, 992 (N.D.Ill. 2003), where Judge Posner opined of GE that while the Court "upheld the arrangement ... I doubt that it would do so today, at least without a further inquiry into the strength of the patents and the rationale for the licensing arrangement. And see William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 382-384 (2003).

The courts should also be more skeptical than the Eleventh Circuit was about so-called exit payment settlements.<sup>52</sup> In such settlements the patentee, and infringement plaintiff, settles its dispute with the infringement defendant by means of an agreement under which the defendant agrees not to enter the market with its allegedly infringing product in exchange for a significant payment from the infringement defendant. Such deals should probably not be per se unlawful. For example, an exit payment may be less than the expected cost of prosecuting and winning the patent infringement claim. But they should be subject to very close scrutiny, particularly when the payments are larger than the reasonably anticipated cost of litigation, and even more particularly when the impact of the settlement agreement is to prevent or delay the entry of other firms into the market.<sup>53</sup>

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<sup>52</sup>Valley Drug Co., Inc. v. Geneva Pharmaceuticals, Inc., 344 F.2d 1294 (11th Cir. 2003).

<sup>53</sup>The Hatch-Waxman Act, designed to rationalize the entry of generic drugs when pioneer patents expires, gives the first generic filer of an Abbreviated New Drug Application, or ANDA, a 180 day exclusivity period which begins to run on (1) the date on which the firm begins marketing the generic product; or (2) the date of a court decision holding the patent invalid or not infringed. See 21 U.S.C. §355(j)(5)(B)(iv). A properly crafted settlement may entail that the prospective generic entrant will never begin marketing the product and that the patent will never be declared invalid or not infringed. As a result, a settlement agreement under which the pioneer patentee pays the generic firm to stay out of the market can operate so as to delay entry by other generics significantly. For a full description of the process, see Hovenkamp, Janis & Lemley, note 30 at §7.4e.

Recent Congressional amendments provide that the first generic to file its ANDA, which contemplates FDA approval to market a new generic (provided that the product does not infringe any still valid patent), is entitled to only 180 days of generic exclusivity. Further, the exclusivity will be forfeited if the generic producer fails to enter the market within a reasonable time.<sup>21</sup> U.S.C. §355(j)(5)(D)(i)(I) That provision reduces the value of anticompetitive settlements because they will be less likely to deter entry indefinitely.

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Nevertheless, the gains from an anticompetitive settlement agreement -- and corresponding consumer losses -- could still be significant.

It may also be time for the United States courts to recognize a broader role for claims of IP "misuse." The concept of misuse is simple enough -- certain IP practices are deemed harmful and must be penalized, in most cases by denial of the right to maintain an infringement action.<sup>54</sup> As such, misuse is typically a defense to an infringement claim, not an affirmative cause of action. Most instances of IP misuse involve perceived injuries to competition as well; however, the doctrine of misuse has a checkered history. Particularly in the 1930s and 1940s the courts used it to expand the scope of antitrust liability by finding misuse where injury to competition was highly unlikely. Indeed, in the case of tying and similar practices, the antitrust law was already significantly overdeterrent, and misuse doctrine went even further.<sup>55</sup>

Since that period the trend has been toward converging antitrust and misuse doctrine, although the courts are not fully in agreement. Judge Posner's opinion in the *USM* case insisted that misuse should be analyzed strictly under antitrust principles.<sup>56</sup>

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<sup>54</sup>See Hovenkamp, Janis & Lemley, note 30 at §§3.1-3.2.

<sup>55</sup>See, e.g., *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931) (finding misuse and denying infringement action in tying case without proof of power; suggesting that the conclusion was "analogous" to finding of antitrust violation;); see also *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (denying an infringement action against an admitted infringer because the plaintiff was tying salt tablets to its injection machines, even though infringer was not injured by the tying); *Lasercomb America v. Reynolds*, 911 F.2d 970, 973, 979 (4th Cir. 1990) (noncompetition clause in copyright license constituted misuse; no finding of antitrust violation).

<sup>56</sup>*USM Corp. v. SPS Technologies*, 694 F.2d 505 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983). That view is embraced in the *Antitrust Law* treatise, but qualified in *IP and Antitrust*. Cf. 10 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶1781d

Decisions in the Federal Circuit have leaned toward the approach that because antitrust applies more severe remedies the standard for an antitrust violation should be higher than the standard for patent misuse.<sup>57</sup> The Fourth took a similar position in a copyright misuse case.<sup>58</sup>

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(2d ed. 2004); with Hovenkamp, Janis & Lemley, note 30 at §§3.3-3.4, particularly §3.4b1 on copyright misuse.

<sup>57</sup>E.g., *Hewlett-Packard Co. v. Bausch & Lomb*, 882 F.2d 1556, 1563 (Fed. Cir. 1989) ("When a party seeks to collect monetary damages from a patentee because of alleged violations of the antitrust laws, it is appropriate to require a higher degree of misconduct for that damage award than when a party asserts only a defense against an infringement claim"). See also *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986) (finding different standards for tying depending on whether misuse or antitrust was involved).

<sup>58</sup>*Lasercomb America v. Reynolds*, 911 F.2d 970, 973, 979 (4th Cir. 1990).

Recently, Judge Posner took a broader view of copyright misuse than his view of patent misuse in *USM*. In *Assessment Technologies* the infringement plaintiff owned a copyrighted database program that public tax assessors used to collect data about real property, and that local governments used to store and organize the data.<sup>59</sup> The infringement defendant wanted the raw data for use by real estate brokers and when it attempted to download that data the plaintiff claimed copyright infringement. While the database itself was copyrightable, the raw data clearly was not. The court viewed the infringement action as an attempt by the copyright holder to "sequester" the uncopyrighted data in its copyrighted database, for the data were not practically available in any form other than in the database.<sup>60</sup> However, there was no showing that any relevant market was threatened with monopoly. Such an application of misuse resembles tort law more than antitrust.

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<sup>59</sup>*Assessment Technologies v. Wiredata, Inc.*, 350 F.3d 640 (7th Cir. 2003); 361 F.3d 434 (7th Cir. 2004).

<sup>60</sup>While some tax assessors made hand-written notes, which would have been in the public domain, others carried laptop computers to properties and entered the data directly into the infringement plaintiff's database. As a result, much of the data existed in no other form than in the database. See 350 F.3d at 645.

However, "misuse" has independent antitrust relevance even when the scope of misuse is limited to antitrust violations. The misuse remedial structure differs from the antitrust structure, making remedies available to those who would not have antitrust remedies. In a case such as *Microsoft*, for example,<sup>61</sup> the indirect purchaser rule of *Illinois Brick*<sup>62</sup> barred most damages actions by indirect purchasers, because passed-on damages would have to be computed, something that the indirect purchaser rule prohibits.<sup>63</sup> One can only guess, but the amount that Microsoft actually paid in damages would appear to fall very far short of the amount needed to deter the conduct that was found unlawful. However, the misuse remedy is different, requiring no pass-on, or even the computation of damages. When the IP holder has misused its intellectual property right it can no longer maintain an infringement action against alleged infringers. Thinking of the consumer harm caused by antitrust violations involving IP rights as misuse could lead to a more effective set of remedies.<sup>64</sup>

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<sup>61</sup>United States v. Microsoft Corp., 253 F.3d 34, 49 (D.C.Cir.), cert. denied, 534 U.S. 952 (2001).

<sup>62</sup>Illinois Brick v. Illinois, 431 U.S. 720 (1977).

<sup>63</sup>See 2 Antitrust Law ¶1346 (2d ed. 2000). However, several states interpreted their antitrust statutes so as to permit indirect purchaser damage actions against Microsoft. For a list see Antitrust Law ¶12412d (2004 Supp).

<sup>64</sup>In fact, very little of the *Microsoft* litigation has involved claims of copyright misuse. See *Microsoft Corp. v. Jesse's Computer & Repair, Inc.*, 211 F.R.D. 681 (M.D.Fla. 2002) (rejecting claim of copyright misuse because there was not a sufficient connection between the alleged misuse and the infringement claim); *Microsoft Corp. v. Computer Support Services of Carolina, Inc.*, 123 F.Supp.2d 945 (W.D.N.C. 2000) (dismissing vague allegations of copyright misuse); *Microsoft Corp v. PTI, Inc.*, 2003 WL 21406291 (E.D.N.Y. Mar. 14, 2003) (refusing to strike copyright misuse defense).



## Conclusion

Antitrust's first duty is always to ensure that a real injury to competition has been threatened. As a result, it should not infer power from IP rights too readily, or imagine anticompetitive consequences when none exists. At the same time, however, antitrust need not be timid about remedying anticompetitive behavior when it is found, and need not be detained by IP defenses that are not clearly defined by the intellectual property statutes or the case law that interprets them. Such an approach is calculated to limit the tension that exists between antitrust and the intellectual property laws.