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Intersection Between the Patent System and Antitrust Laws: Patents Speeding, Antitrust Yielding, Innovation Bleeding!

Stijepko Tokic

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INTERSECTION BETWEEN THE PATENT SYSTEM AND ANTITRUST LAWS: PATENTS SPEEDING, ANTITRUST YIELDING, INNOVATION BLEEDING!

*Stjepko Tokic**

I. Introduction	19
II. Historical Overview.....	23
A. Goals and Policy Behind Antitrust Laws.....	23
B. Goals and Policy Behind Patent Laws.....	27
III. Conflicts Between the Patent System and Antitrust Laws....	31
IV. Proposed Adjustments	40
A. Pre-Grant: Competition Policy with a Focus on Antitrust Intent Must Be Considered in an Initial Patent Application and the Applicant’s Interview with the PTO.....	40
B. Post-Grant: Intent Standards Must Be More Objective Across the Board and Antitrust Must Play a More Meaningful Role.....	43
V. Conclusion.....	50

I. INTRODUCTION

A dialogue concerning the intersection between the patent system and the antitrust laws has endured since the early 1940s.¹ Today, in the era of the “new economy,” issues related to the intersection of the patent system and the antitrust laws are as pressing as ever due to their enormous impact on innovation. Consequently, scholars, practitioners, governmental agencies, and other relevant stakeholders have devoted a great deal of attention to the intersection between the two laws and engaged in dynamic discussions designed to explore their complex

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1. JOSEPH SCHUMPETER, CAPITALISM, SOCIALISM AND DEMOCRACY (1942).

relationship.² In this article, I explain the interaction between the two laws and describe the ways in which these two extremely important areas of government regulation are and are not in tension. I argue that the conflict between the two laws is overstated, but the proper balance is far from being found. The reason for that is a notion that the current state of the patent system is more of a hindrance than a spur to innovation and competition due to overprotection and broadening of patent rights, lowering of standards to grant patents, chronic inefficiency of the Patent and Trademark Office (PTO) that issues far too many “questionable” patents and, as a result of all that, the skyrocketing number of issued patents.³

Furthermore, I propose that any meaningful attempt to improve the current state of the patent system must center on the fact that patentees seek patents under many circumstances, rather than only when they wish to protect a newly developed technology from imitation and exploit it commercially.⁴ It is now known that most firms rely on patents the least among a variety of methods for protecting the returns from their

2. See DEP’T OF JUSTICE [DOJ], ANTITRUST AND INTELLECTUAL PROPERTY (2003) (address by R. Hewitt Pate, Acting Assistant Attorney General Antitrust Division U.S. Department of Justice, before the American Intellectual Property Law Association [AIPLA]), *available at* <http://www.justice.gov/atr/public/speeches/200701.htm> (last visited Feb. 21, 2010); FED. TRADE COMM’N [FTC], TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (Oct. 2003), <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>; RICHARD GILBERT, CPC CONFERENCE: ANTITRUST AND INTELLECTUAL PROPERTY IN A CHANGING POLITICAL CLIMATE (2009) (summary of the Antitrust and Intellectual Property in a Changing Political Climate Conference, held at UC Berkeley on February 5 and 6, 2009, co-sponsored by the Competition Policy Center and the Antitrust and Intellectual Property Law sections of the American Bar Association, by Richard Gilbert, Professor of Economics and Chair of the Competition Policy Center), *available at* http://iber.berkeley.edu/cpc/antitrust_conference_2009/Conference%20Summary.pdf (last visited Feb. 21, 2010). See generally DOJ & FTC, ROUNDTABLE ON COMPETITION, PATENTS AND INNOVATION, DAF/COMP/WD(2006)52 (Oct. 3, 2006) (note was jointly submitted by the DOJ and the FTC to the Organisation for Economic Co-operation and Development [OECD] Competition Committee), http://www.ftc.gov/bc/international/docs/IP_US.pdf.

3. The number of issued patents has almost doubled in the last twenty years from 96,725 in 1990 to 190,121 in 2009. See U.S. PATENT AND TRADEMARK OFFICE [USPTO], USPTO ANNUAL REPORT: PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2009 (2009), *available at* http://www.uspto.gov/web/offices/com/annual/2009/oai_05_wlt_06.html (last visited February 21, 2010).

4. See generally WESLEY COHEN, RICHARD NELSON & JOHN WALSH, NAT’L BUREAU OF ECON. RESEARCH [NBER], PROTECTING THEIR INTELLECTUAL ASSETS: APPROPRIABILITY CONDITION AND WHY U.S. MANUFACTURING FIRMS PATENT (OR NOT), Working Paper 7552 (2000), *available at* <http://www.nber.org/papers/w7552>. The authors conducted a survey of nearly 1500 R&D labs in the US manufacturing sector. *Id.* at 14, 17. This study has been widely cited in OECD Policy Roundtable on Competition, Patents and Innovation. See generally DOJ & FTC, *supra* note 2.

inventions and that in no industry are patents identified as the most effective appropriability mechanism.⁵ Because of the current state of the patent system, patents have become largely a strategic tool that patentees can use solely for anticompetitive reasons, such as blocking competitors' development activities, protecting against infringement suits, and using patents as leverage in negotiations over technology rights.⁶ My argument is that preventing reliance on patents for anticompetitive reasons that do not concomitantly advance the "Progress of Science and useful Arts"⁷ is crucial for the improvement of the patent system and striking the balance with antitrust laws. We are mistaken to believe that seeking an optimal level of patent protection and improving the efficiency of the PTO by raising its budget and providing more qualified patent examiners will be enough to improve the patent system and preclude reliance on patents for "illegitimate" reasons because "patents are either too weak or too strong"⁸ and "improper patents will always be issued,"⁹ regardless of how efficient the PTO might be.

Commentators have described the current state of the patent system as a "perfect storm."¹⁰ However, it is more like a fire that keeps burning down the city of innovation. Trying to resolve the problem and prevent the fire from spreading by merely providing more fire trucks and firemen to the fire department, or making it much more difficult to obtain pyrotechnical devices is naive. While those measures are certainly important, the problem will not be resolved until it is determined who is perpetrating the fire and how and why. Only then an adequate response and meaningful punishments can be implemented in order to deter future wrongdoings. This article, therefore, argues in favor of allowing a more extensive inquiry into the patentee's subjective

5. COHEN ET AL., *supra* note 4, at 3, 6.

6. *Id.* at 17.

7. U.S. CONST. art. I, § 8, cl. 8.

8. See Shubha Ghosh, *Intellectual Property Rights: The View from Competition Policy*, 103 NW. U. L. REV. COLLOQUY 344, 348-49 (2009).

9. See 2000 *United States Patent and Trademark Office: Hearing on H.R. 63-845 Before the Subcomm. on Courts and Intellectual Prop. of the H.R. Comm. on the Judiciary*, 106th Cong. 2, at 112 (2000) (statement of Rochelle Dreyfuss, Professor, Director of the Engelberg Center for Innovation Law and Policy, N.Y.U. School of Law), available at http://commdocs.house.gov/committees/judiciary/hju63845.000/hju63845_0.HTM (last visited Feb. 22, 2010).

10. See Eric Chabrow, *The U.S. Patent System in Crisis*, INFORMATION WEEK, Feb. 20, 2006 (providing a summary of testimony by John Lerner, Professor, Harvard Business School, before a House subcommittee), available at <http://www.informationweek.com/news/global-cio/showArticle.jhtml?articleID=180204145> (last visited Feb. 22, 2010).

intent for patenting, which is fairly limited under the current law in both pre-grant and post-grant issues. In particular, this article suggests that competition policy with a focus on antitrust intent should be considered in the initial review of patent applications, and the approach to intent standards in post-grant issues must be more objective across the board, so that antitrust law's "swords" can be used more often in patent cases involving allegations of patentee's misconduct in order to deter future misconducts. However, this article does not suggest by any means that antitrust competition authorities should assume responsibilities in the initial review of patent applications, or that the patentee's "improper" subjective intent for patenting should make a perfectly valid patent unenforceable. To the contrary, my argument is that the patentee's subjective intent for patenting should not be viewed as a red light at the intersection between the patent system and antitrust laws, but it must be an important arrow that directs the traffic when other signs are invisible. I use *Dippin' Dots Inc. v. Mosey*, arguably the second most controversial patent case of the last decade, to illustrate this point and to explain the cost of the current approach to intent standards in patents.¹¹

The Article is divided as follows. Part II provides a historical overview of goals and policy behind both the patent system and antitrust laws. Part III underlines the areas of actual conflict between the two laws. Part IV explores possible adjustments that could reduce the conflict between the two laws and lead to a proper balance.

11. 476 F.3d 1337 (Fed. Cir. 2007). The most controversial patent case of the last decade is probably *In re Bilski*, 545 F.3d 943, 966 (Fed. Cir. 2008). The Federal Circuit court affirmed the rejection of the patent claims involving a method of hedging risks in commodities trading. See Erick Schonfeld, *Your Business Method Patent Has Just Been Invalidated*, THE WASHINGTON POST, Oct. 30, 2008, available at <http://www.washingtonpost.com/wp-dyn/content/article/2008/10/30/AR2008103003751.html> (last visited Feb. 28, 2010). It has been widely reported that the *In re Bilski* decision will call into question the validity of many already issued business method patents. *Id.* The Supreme Court of the United States granted certiorari on June 1, 2009 and oral argument on the patent applicants' appeal was heard on November 9, 2009. See Transcript of Oral Argument, *In re Bilski*, 130 S. Ct. 3218 (2009) (No. 08-964), available at http://www.supremecourt.gov/oral_arguments/argument_transcripts.aspx (last visited Oct. 10, 2010).

II. HISTORICAL OVERVIEW

A. *Goals and Policy Behind Antitrust Laws*

The federal antitrust laws first saw the light of day in the last half of the 19th century.¹² During that period, industrialization was in full-swing in the United States and the common law was deemed inadequate to deal with the growth of trusts, such as John D. Rockefeller's Standard Oil Trust formed in 1882, cartels and industrial monopolies that were becoming strong enough to influence prices and outputs and create inefficiencies.¹³ Consequently, Congress enacted the Sherman Act in 1890 as a legislative response to new conditions in the marketplace.¹⁴ The Sherman Act prohibited unreasonable agreements in restraint of trade under section I,¹⁵ and monopolizing, attempts to monopolize, and combinations or conspiracies to monopolize under section II in interstate commerce.¹⁶ The Sherman Act went significantly further than common law because it established, among other things, absolute prohibitions enforceable by private damage actions.¹⁷ Subsequently, Congress added amendments to the Sherman Act at various times through 1950 to strengthen it. The most important of these amendments are the Clayton Act of 1914,¹⁸ the Robinson-Patman Act of 1936,¹⁹ and Federal Trade Commission Act of 1914.²⁰

What the main goals of antitrust are has never been clearly articulated, due to the fact that the U.S. competition statutes are not clear about their goals. The Supreme Court has described the language of the

12. *See infra* note 13, at 4.

13. For extensive background on the history of antitrust laws see William H. Page, *The Ideological Origins and Evolution of U.S. Antitrust Law*, 1 ISSUES IN COMPETITION L. & POL'Y 1, 2008 A.B.A. SEC. ANTITRUST L., at 4-17, available at <http://ssrn.com/abstract=692821> (last visited Feb. 26, 2010).

14. *Id.* at 3. In 1890, Congress took aim at the trusts with passage of the Sherman Act, named for Senator John Sherman (R-Ohio). The Sherman Act outlawed trusts altogether. Sherman Act of 1890, ch. 647, 26 Stat. 209 (1887-1891) (codified as amended at 15 U.S.C. §§ 1-7 (2010)).

15. Sherman Act of 1890, ch. 647, § 1, 26 Stat. 209 (1887-1891) (codified as amended at 15 U.S.C. § 1 (2010)).

16. *Id.* at § 2.

17. *See Id.* at § 7.

18. 15 U.S.C. § 12 (2010). In addition to tightening legal standards of the Sherman Act, the Clayton Act prohibits exclusive dealing arrangements, tie-in sales, or mergers where the effect may be to substantially lessen the competition or to create a monopoly. Clayton Act of 1914, ch. 323, §§ 2-7, 38 Stat. 730 (1914).

19. 15 U.S.C. § 13 (2010) (prohibiting certain price discriminations).

20. *Id.* §§ 41-51 (prohibiting unfair methods of competition in or affecting commerce or unfair or deceptive acts or practices in or affecting commerce).

U.S. competition laws as having “a generality and adaptability comparable to that found . . . in constitutional provisions.”²¹ Consequently, U.S. competition policy has never had one exclusive goal. Rather, it has had a different set of goals that reflected the political, social and economic concerns at the particular historical moment. These goals centered around limiting large concentrations of economic power and dispersing economic and political power,²² protecting small businesses,²³ protecting individual autonomy and economic opportunity,²⁴ and protecting labor.²⁵

Today, there is widespread consensus that the main purpose of the U.S. antitrust laws is to ensure a competitive market.²⁶ Commentators

21. *Appalachian Coals, Inc. v. United States*, 288 U.S. 344, 359-60 (1933).

22. Congress was concerned about the monopoly power of the great industrial trusts. *See, e.g.*, 51 CONG. REC. 14,222 (1914) (remarks of Sen. Thompson) (noting that giant corporations had a “monopoly upon practically everything we produce, everything we eat and wear, and everything we use in the construction of the homes in which we live . . .”). Congress also believed that trusts sought not only industrial domination, but “political supremacy.” Some members of Congress feared that the wealthy and privileged few would usurp political power, leading to socialism “as the properties of all the people pass into the hands of a few trust magnates.” *See* 51 CONG. REC. 9167 (1914) (remarks of Rep. Nelson).

23. *See* 51 CONG. REC. 14,217 (1914) (remarks of Sen. Thompson) (“The trust wave swept over the country like a terrible cyclone, causing greater loss and destruction of property accumulated by individual effort than all of the storms and cyclones that have occurred since the flood. Men who had devoted a lifetime to a particular trade or business found themselves bankrupt in a single night and, what was really worse, left in an entirely helpless condition . . .”). At times, the courts have even suggested that protecting small business supersedes even consumers’ interests in lower prices. *See United States v. Trans-Missouri Freight Ass’n*, 166 U.S. 290, 323 (1897), *overruled by Fisher v. City of Berkeley*, 37 Cal. 3d 644 (1984).

24. Members of Congress viewed competition and dispersed power as the “best environment for the advancement and the welfare of mankind in the individual initiative, the individual independence, and the individual responsibility.” *See* 51 CONG. REC. 9167 (1914) (remarks of Rep. Nelson). Some viewed competition law’s purpose as “encouraging investment, encouraging intelligent action and opportunity, but with the old Democratic principle underlying it all – ‘Equal rights to all and special privileges to none.’” *Id.* at 9270 (remarks of Rep. Carlin). These concerns were equally evident around 1950 when the disappearance of small firms was viewed as threatening the fabric of a decentralized democracy and depriving individuals of control over their lives. *See* 95 CONG. REC. 11,493 (1949) (remarks of Sen. Carroll); *id.* at 11,485 (remarks of Rep. Celler).

25. It was believed that the trusts enjoyed a substantial degree of protection from strikes because of their economic strength. *See* EARL W. KINTNER, *THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES* 993 (1978). It was argued that an unintended consequence of the Sherman Act was its use by federal courts to enjoin strikes and limit the ability of workers to organize. *Id.* Congress corrected this in the Clayton Act when it declared that labor organizations are not conspiracies in restraint of trade and made clear that workers could act jointly in bargaining with employers without fear of prosecution under the antitrust laws. 15 U.S.C. § 17 (2010).

26. As stated in the DOJ/FTC International Guidelines: “For more than a century, the U.S. antitrust laws have stood as the ultimate protector of the competitive process that underlies our free

have used an aphorism “protect competition, not competitors” articulated by the Supreme Court to successfully reorient the goals of antitrust laws.²⁷ However, interpreting competition has often troubled courts and commentators. Judge Bork has suggested in his book *The Antitrust Paradox* that competition should be interpreted as a “term of art, designating any state of affairs in which consumer welfare cannot be increased by moving to an alternative state of affairs through judicial decree.”²⁸ Subsequently, consumer welfare has emerged as a main goal of antitrust, and behavior was not deemed anticompetitive absent consumer harm.²⁹ However, the courts and commentators still disagree over how broadly or how narrowly consumer welfare should be interpreted.³⁰ This debate has particularly escalated in the wake of the fairly recent Supreme Court decision in *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, where the court examined the issue of whether the same legal standards should be applied in monopoly and monopsony cases.³¹

Monopsony is the “mirror image” of monopoly, but on the demand side of the curve.³² It is essentially power over suppliers, not consumers.

market economy. Through this process, which enhances consumer choice and promotes competitive prices, society as a whole benefits from the best possible allocation of resources.” See DOJ & FTC, ANTITRUST GUIDELINES FOR INTERNATIONAL OPERATIONS (1995), available at <http://www.justice.gov/atr/public/guidelines/internat.htm> (last visited Oct. 10, 2010).

27. *Brown Shoe Co., Inc. v. United States*, 370 U.S. 294, 344 (1962).

28. ROBERT BORK, *THE ANTITRUST PARADOX* 61 (1978).

29. See Steven C. Salop, *Buyer Power and Antitrust: Anticompetitive Overbuying by Power Buyers*, 72 ANTITRUST L.J. 669, 686-87 (2005). See generally Richard O. Zerbe, Jr., *Buyer Power and Antitrust: Monopsony and the Ross-Simmons Case: A Comment on Salop and Kirkwood*, 72 ANTITRUST L.J. 717 (2005).

30. See *Brook Grp. Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 224 (1993); John Kirkwood, *The Robinson-Patman Act and Consumer Welfare: Has Volvo Reconciled Them?*, 30 SEATTLE U. L. REV. 349, 360-61 (2007). See also *Fed. Trade Comm’n v. Univ. Health, Inc.*, 938 F.2d 1206, 1223 (11th Cir. 1991); *United States v. United Tote, Inc.*, 768 F. Supp. 1064, 1084-85 (D. Del. 1991).

31. See *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, 549 U.S. 312, 315 (2007). In *Weyerhaeuser*, a large saw mill operator in the Pacific Northwest was accused of driving out its rivals by simultaneously bidding up the price of inputs (alder saw logs) and cutting the prices on the output (alder lumber). *Id.* at 315-16.

32. In economics, buyer power is analyzed through monopsony model, where a single buyer purchases inputs for its outputs from many sellers. Under this approach, monopsony is the “mirror image” of monopoly, but on the demand side of the curve. See ROGER D. BLAIR & JEFFERY L. HARRISON, *MONOPSONY: ANTITRUST LAW AND ECONOMICS* (1993). See also HERBERT HOVENKAMP, *FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE* § 1.2(b)-14 (1994) (defining a monopsonist as “a monopoly buyer rather than a seller”); Roger D. Blair & Jeffrey L. Harrison, *Antitrust Policy and Monopsony*, 76 CORNELL L. REV. 297, 297-98 (1991).

Some commentators have described it as an upstream market power in input markets, “the circumstance in which the demand side of a market is sufficiently concentrated that buyers can exercise market power over sellers.”³³ Others simply define buyer power as a factor which “enables a firm or a group of firms to obtain from a supplier more favorable terms than those available to other buyers.”³⁴ Under this approach, if the buyer (e.g., a retailer) can force sellers (e.g., suppliers) to reduce price below the level that would emerge in a competitive market, a buyer has market power.³⁵ Commentators often use Wal-Mart as an example of a firm that has buyer power over its suppliers.³⁶ Since buyer power is an upstream power in inputs markets that actually harms suppliers but potentially enhances consumer welfare, the issue becomes whether the conduct on the buy side of the market should be treated just as strictly as conduct on the sell side of the market.³⁷ The Court in *Weyerhaeuser* held that conduct on the buy side of the market should be reviewed as stringently as conduct on the sell side of the market even if there is no direct consumer harm because illegal exercise of buyer power can in the long run be just as harmful to consumers as anticompetitive conduct occurring in the output market.³⁸

The decision in *Weyerhaeuser* has implications on the debate about whether the narrow interpretation of consumer welfare standard is in accordance with antitrust goals and policies.³⁹ Commentators have long

33. Roger Noll, *Buyer Power and Economic Policy*, 72 ANTITRUST L. J. No. 2 588, 589 (2005).

34. That is, a firm’s ability to achieve “more favorable terms” from suppliers than from other buyers. See Margaret Bloom, *Retailer Buyer Power*, 2001 FORDHAM CORP. L. INST. 395, 397 (B. Hawk ed., 2000).

35. *Id.* 396-97.

36. Stephanie Wagner, Note, *Big Box Living Wage Ordinances: Upholding Our Constitutive Commitment to a Remunerative Job*, 15 GEO. J. ON POVERTY L. & POL’Y 359, 368 (2008) (arguing that Wal-Mart, due to its immense market share, has the ability to demand prices from its suppliers, essentially wielding monopsony power in the marketplace because it can act as a sole buyer, giving it the power to tell suppliers what price Wal-Mart is willing to pay them).

37. To address this issue, some commentators argued that “[w]here buyer conduct clearly harms suppliers but does not benefit consumers, the impact on suppliers should be dispositive.” See Kirkwood, *supra* note 30. See also *Telecor Commc’ns, Inc. v. Sw. Bell Tel. Co.*, 305 F.3d 1124, 1133-34 (10th Cir. 2002). On the other hand, at least one court has held that in cases involving conduct that clearly harms suppliers but consumers might benefit from it, the impact on consumers is decisive. *Baltimore Cinema, Inc. v. Allied Artist Pictures Corp.*, 885 F.2d 313, 317 (6th Cir. 1989) (holding that an agreement among film distributors to refrain from bidding against each other for films was not illegal because it might increase consumer welfare by lowering prices).

38. *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, 549 U.S. 312, 315 (2007).

39. Kenneth Heyer, *Welfare Standards and Merger Analysis: Why Not the Best?*, 2 COMPETITION POL’Y INT’L 29, 30 (2006). See also THOMAS ROSCH, FTC, MONOPSONY AND THE

proposed a broader interpretation of “consumer welfare,” something akin to “total welfare,” and argued that seeking efficiencies is the best way to enhance consumer welfare.⁴⁰ The efficiencies approach suggests that the long-run interest of consumers in the benefits from efficiencies may be as important as their immediate interest in lower prices.⁴¹ Professor Brodley has articulated three types of efficiencies that ultimately increase consumer welfare—production, innovation, and allocative efficiencies.⁴² Although it seems that antitrust authorities have acknowledged that competition policy may not have a single goal and are working to accommodate the goals of enhancing efficiencies and promoting consumer welfare, it was suggested that “delayed benefits from efficiencies (due to delay in the achievement of, or the realization of consumer benefits from, the efficiencies) will be given less weight because they are less proximate and more difficult to predict.”⁴³ Nevertheless, the current goal of antitrust can be summarized as promoting consumer welfare by enhancing efficiencies.

B. Goals and Policy Behind Patent Laws

The roots of intellectual property in the United States stem from the U.S. Constitution where the Framers authorized Congress “To promote the Progress of Science and useful Arts, by securing for limited Times to

MEANING OF “CONSUMER WELFARE”: A CLOSER LOOK AT WEYERHAEUSER 1-2 (Dec. 7, 2006) (address before the 2006 Milton Handler Annual Antitrust Review) (“Courts and federal law enforcement officials routinely invoke ‘consumer welfare’ as the guiding principle behind their application of the antitrust laws.”), <http://www.ftc.gov/speeches/rosch/061207miltonhandlerremarks.pdf>.

40. Heyer, *supra* note 39, at 2. *See generally* Laura Alexander, Note, *Monopsony and the Consumer Harm Standard*, 95 GEO. L.J. 1611 (2007).

41. *See generally* Alexander, *supra* note 40.

42. *Id.* *See also* Joseph F. Brodley, *The Economic Goals of Antitrust: Efficiency, Consumer Welfare, and Technological Progress*, 62 N.Y.U. L. REV. 1020, 1025 (1987) (“Production efficiency is achieved when goods are produced using the most cost-effective combination of productive resources available under existing technology. Innovation efficiency is achieved through the invention, development, and diffusion of new products and production processes that increase social wealth. Allocative efficiency is achieved when the existing stock of goods and productive output are allocated through the price system to those buyers who value them most, in terms of willingness to pay or willingness to forego other consumption.”). In the context of buyer power, allocative inefficiency occurs when too few resources are devoted to an activity: too little output is produced by a monopolist and too few inputs are hired by a monopsonist. This argument presumes that this inefficiency is harmful to consumers even if no direct effects can be demonstrated. *See* Brodley, *supra*.

43. *See* DOJ & FTC, HORIZONTAL MERGER GUIDELINES 32 n.37 (1997), *available at* http://www.justice.gov/atr/public/guidelines/hmg.htm#N_37_ (last visited Feb. 26, 2010).

Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”⁴⁴ The Patent Act of 1790 was the first act enacted by Congress and, for the first time in American history, the law gave inventors rights to their creations.⁴⁵ The Patent Act of 1790 defined the subject matter of a U.S. patent as “any useful art, manufacture, engine, machine, or device, or any improvement thereon not before known or used” and granted the applicant “the sole and exclusive right and liberty of making, constructing, using and vending to others to be used” of his invention, for a period of fourteen years.⁴⁶ Over the period of the last two centuries, the requirements of novelty, utility, non-obviousness, and the period of patents have been developed through patent law reforms.⁴⁷

44. U.S. CONST. art. I, § 8, cl. 8.

45. Patent Act of 1790, ch. 7, § 1, 1 Stat. 109-110 (repealed 1793).

46. *Id.*

47. See ROGER E. SCHECHTER & JOHN R. THOMAS, PRINCIPLES OF PATENT LAW 16 (2004). See also Patent Act of 1952, ch. 10, 66 Stat. 792, 797-98 (1952) (codified as amended at 35 U.S.C. §§ 100-04 (2010)). Section 102 provides ground for obtaining a patent:

A person shall be entitled to a patent unless-

- (a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or
- (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or
- (c) he has abandoned the invention, or
- (d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or
- (e) the invention was described in (1) an application for patent, published under section 122(b), by another filed in the United States before the invention by the applicant for patent or (2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351(a) shall have the effects for the purposes of this subsection of an application filed in the United States only if the international application designated the United States and was published under Article 21(2) of such treaty in the English language; or
- (f) he did not himself invent the subject matter sought to be patented, or
- (g) during the course of an interference conducted under section 135 or section 291, another inventor involved therein establishes, to the extent permitted in section 104, that before such person's invention thereof the invention was made by such other inventor and not abandoned, suppressed or concealed, or (2) before such person's invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it. In determining priority of invention under this subsection, there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was

Ever since the early beginnings of the intellectual property laws, commentators and scholars have been arguing over whether it is justified to give exclusive rights in intellectual property, given that intellectual property is not like other kinds of property.⁴⁸ A great amount of scholarly work has been devoted to the debate over whether intellectual property should be considered a property like other kinds of property, and it is now an accepted view that intellectual property is just another form of property and should be treated no different than other kinds of property.⁴⁹ In addition to an argument that intellectual property is a

first to conceive and last to reduce to practice, from a time prior to conception by the other.

35 U.S.C. § 102 (2010).

48. See Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, in *THE RATE AND DIRECTION OF INVENTIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS* 609, 614-16 (Richard R. Nelson ed., 1962) (discussing information's properties of indivisibility and inappropriability); Harry First, *Controlling the Intellectual Property Grab: Protect Innovation, Not Innovators*, 38 RUTGERS L.J. 365 (2007); Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031 (2005) (discussing differences between tangible and intellectual property). See, e.g., HERBERT HOVENKAMP, MARK D. JANIS, MARK A. LEMLEY & CHRISTOPHER R. LESLIE, *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* 1-5 (2d ed. 2004); Mark A. Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 TEX. L. REV. 873, 895-904 (1997) (discussing growth in use of propertization rhetoric); Tom Palmer, *Are Patents and Copyrights Morally Justified?: The Philosophy of Property Rights and Ideal Objects*, 13 HARV. J.L. & PUB. POL'Y 817 (1990) (reviewing natural law and utilitarian arguments for intellectual property rights); Stewart E. Sterk, *Intellectualizing Property: The Tenuous Connections Between Land and Copyright*, 83 WASH. U. L. Q. 417 (2005) (discussing implications of using property rights label, particularly for copyright law). For an argument that Lockean natural rights philosophy, as well as Benthamite utilitarianism, influenced the development of patent theories in the eighteenth century, see Adam Mossoff, Comment, *Rethinking the Development of Patents: An Intellectual History, 1550-1800*, 52 HASTINGS L.J. 1255 (2001). Compare John F. Duffy, *Intellectual Property Isolationism and the Average Cost Thesis*, 83 TEX. L. REV. 1077 (2005) (arguing that intellectual property should be viewed as a species of property), with Mark A. Lemley, *What's Different About Intellectual Property?*, 83 TEX. L. REV. 1097 (2005). The Department of Justice also moved from a position of hostility to patents and copyrights to an embrace of patents and copyrights as just another form of "property." See 4 TRADE REG. REP. (CCH), ¶ 13,126, at 20,709 (1995) (remarks of Bruce B. Wilson, Deputy Ass't Attn'y Gen, Antitrust Div. of DOJ, made on Sept. 21, 1972). Charles F. Rule, then Deputy Assistant Attorney General in the Antitrust Division, made the linguistic shift clear. Patents and copyrights are not "evil monopolies," he wrote. They "simply create property rights." See Charles F. Rule, *The Administration's Views: Antitrust Analysis After the Nine No-No's*, 55 ANTITRUST L.J. 365, 367 (1986).

49. Rule, *supra* note 48, at 367. The federal antitrust enforcement agencies have endorsed the property-rights approach in their guidelines for the licensing of all "intellectual property," taking as their basic approach the view that "the same general antitrust principles" should apply to conduct involving "intellectual property" as apply to conduct involving "any other form of tangible or intangible property." See DOJ & FTC, *ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY*, § 2.1, at 3 (Apr. 6, 1995), <http://www.ftc.gov/bc/0558.pdf>; 4 TRADE REG. REP. (CCH), *supra* note 48, ¶ 13,132, § 2.1, at 20,733.

property no different than other kinds of property, scholars and theorists have often used the utilitarian or economic incentive framework to justify giving exclusive rights to inventors.⁵⁰ The theory is that giving investors exclusive rights in intellectual property creates incentives to invent that otherwise would not be there.⁵¹

The extensive debate over justification for exclusive rights in intellectual property has raised the question whether intellectual property laws really are about property rights or about promoting innovation. The fact that intellectual property is considered just another kind of property makes it difficult to argue that intellectual property laws are not about property rights; however, commentators have vigorously argued that intellectual property is about promoting innovation.⁵² In order to support their position, those who argue that intellectual property is about promoting innovation often point to the language of the Constitution and requirements for obtaining intellectual property rights, arguing that they are designed to create incentives to innovate and, ultimately, to promote innovation.⁵³ This position has been supported by the Supreme Court, which made clear that in the patent context, the ultimate purpose of the act is to promote innovation:

[The] purpose [of patent power] has two dimensions. Most obviously the grant of exclusive rights to their respective writings and discoveries is intended to encourage the creativity of “Authors and Inventors.” But the requirement that those exclusive grants be for “limited Times” serves the *ultimate purpose* of promoting the “Progress of Science and useful Arts” by guaranteeing that those innovations will enter the public domain as soon as the period of exclusivity expires.⁵⁴

Furthermore, the landmark decision in *Mazer v. Stein* made it piercingly clear that although patent statutes are designed to strongly reward the owner of patents rights in order to encourage inventions, patent statutes make reward to the owner a secondary consideration.⁵⁵

50. See First, *supra* note 48 (providing an extensive background and discussion on this issue).

51. First, *supra* note 48. See also DOJ, ANTITRUST DIV., INTELLECTUAL PROPERTY AND THE ANTITRUST LAWS: PROTECTING INNOVATORS AND INNOVATION (1995) (address by Richard J. Gilbert, Deputy Ass’t Att’y Gen., Antitrust Div. of DOJ, before the Annual Winter Meeting of the Licensing Executives Society), available at <http://www.justice.gov/atr/public/speeches/0130.htm> (last visited Feb. 22, 2010).

52. See First, *supra* note 48.

53. First, *supra* note 48.

54. *Eldred v. Ashcroft*, 537 U.S. 186, 223 (2003) (Stevens, J., dissenting) (emphasis added).

55. *Mazer v. Stein*, 347 U.S. 201, 219 (1954), *superseded by statute*, Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976). See also, e.g., *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*,

“The copyright law, like the patent statutes, makes reward to the owner a *secondary consideration*.” However, it is “intended definitely to grant valuable, enforceable rights to authors, publishers, etc., without burdensome requirements; ‘to afford greater encouragement to the production of literary [or artistic] works of lasting benefit to the world.’” The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in “Science and useful Arts.” Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.⁵⁶

Clearly, the idea that the purpose of intellectual property laws is primarily to promote innovations and secondarily to reward the property rights owners is now deeply embedded in intellectual property law.

III. CONFLICTS BETWEEN THE PATENT SYSTEM AND ANTITRUST LAWS

Are the patent system and antitrust laws in conflict? Is there a tension between the need to protect the rights of intellectual property owners and the need to protect consumers? At first sight, the patent system and antitrust laws appear to be in conflict because the patent system gives to the owners of patent rights a right to exclude competitors for a limited number of years, while antitrust laws protect robust competition. However, modern thinking has dismantled the concept that antitrust and intellectual property are in conflict, and the common view is that the two bodies of law are complementary and are designed to promote innovations and enhance consumer welfare.⁵⁷ Ward Bowman has offered arguably one of the most persuasive and comprehensive

499 U.S. 340, 349 (1991). See also *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (“The monopoly privileges . . . [are not] primarily designed to provide a special private benefit. Rather, the limited grant . . . is intended to motivate the creative activity of authors and inventors by the provision of a special reward . . .”) (rejecting claim of copyright liability arising out of the sale of VCRs), *superseded by statute*, Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998).

56. *Mazer*, 347 U.S. at 219 (emphasis added) (quoting *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948); *Washington Co. v. Pearson*, 306 U.S. 30, 36 (1939)).

57. See DOJ & FTC, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 2 (Apr. 2007), <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>. See also *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981); DOJ & FTC, *supra* note 49, at 2 (“The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare.”).

interpretations of the interaction between the patent system and antitrust laws. In his book *Patent and Antitrust Law: A Legal and Economic Appraisal*, Bowman argues:

In terms of the economic goals sought, the supposed opposition between these laws is lacking. Both antitrust law and patent law have a common central economic goal: *to maximize wealth by producing what consumers want at the lowest cost*. In serving this common goal, reconciliation between patent and antitrust law involves serious problems of assessing effects, but not conflicting purposes. Antitrust law does not demand competition under all circumstances. Quite properly, it permits monopoly when monopoly makes for greater output than would the alternative of an artificially fragmented (inefficient) industry. The patent monopoly fits directly into this scheme insofar as its central aim is achieved. It is designed to provide something which consumers value and which they could not have at all or have as abundantly were no patent protection afforded. . . .

. . . .

The goal of both antitrust law and patent law is to maximize allocative efficiency (making what consumers want) and productive efficiency (making these goods with the fewest scarce resources). In achieving this goal under either antitrust or patent law the detriment to be avoided is output restriction. This may arise from monopolization which diverts production from more urgent to less urgent use or from legal rules requiring inefficient methods of production. The evil then may be viewed as net output restriction after efficiency increases are accounted for. Both antitrust and patent law seek output expansion not output restriction. Competition deserves support insofar as it brings about this result. And so it is with patents. The temporary monopoly afforded by a patent, once a particular invention has come into being, will have all the output-restrictive disabilities of any monopoly. The argument for patents is that without this temporary monopoly there would be insufficient profit incentives to produce the invention, and that because an invention is profitable only if consumers are willing to pay what the patentee charges, the consumers are therefore better off than they would be without the invention, even if they are charged "monopoly" prices. If this is so, a trade-off (some monopoly restraint for greater output in the long run) is in the interest of socially desirable resource allocation. An appraisal of alleged conflicts between antitrust law and patent law depends upon understanding the role of profits in

providing the incentive for undertaking efficient production of those things consumers value.⁵⁸

According to this approach, the two laws have the same goal and are not in conflict at all. Rather, they are complementary efforts to promote an efficient marketplace and long-run, dynamic competition through innovation. The Supreme Court in *Atari Games Corp. v. Nintendo of America, Inc.* has also embraced this concept: "the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition."⁵⁹ "Without intellectual property rights, the incentive to invest and innovate would be greatly diminished. That result would be contrary to the very purpose of the antitrust laws, which is to promote the well-being of consumers by spurring efficiency, innovation, and investment."⁶⁰

Arguably, the two laws are complementary, at least in theory, and have the same goal—to promote fair competition and to bring innovation to consumers. Nonetheless, it is indisputable that the two laws take very different routes to get to their goals: antitrust laws via robust competition in the marketplace, the patent system via the right to exclude competition for a limited number of years in order to protect the ability to earn a return on the investments necessary to innovate.⁶¹ Although both systems spur competition among rivals and seek to promote innovation, it is too ambitious to say that the two laws are always complimentary and never in conflict. The conflict between the two laws occurs when one of the laws gets out of its lane and gets in the way of another and, consequentially, hinders competition and innovation. Throughout recent years, the two laws were fairly active in attempting to keep each other in the proper lane, and that has greatly helped to reduce the conflict between the two laws.⁶² Nonetheless, there are still many ongoing concerns, and the proper balance between the two laws is yet to be found.

58. See WARD BOWMAN, JR., *PATENT AND ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL* 1-3 (1973). See also Paul Goldstein, *The Competitive Mandate: From Sears to Lear*, 59 CALIF. L. REV. 873, 874, 878-79 (1971).

59. See, e.g., *Atari Games Corp. v. Nintendo of Am.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990).

60. See DOJ, *supra* note 51.

61. *DiscoVision Assoc. v. Disc Mfg. Inc.*, 42 U.S.P.Q.2D (BNA) 1749, No. 95-345-SLR, 1997 U.S. Dist. LEXIS 7507, at *24 (D. Del. Apr. 3, 1997).

62. Tremendous progress has been made in attempting to reduce the conflict between the two laws, primarily in post-grant issues, that is, what can you do with the patent once you get it. See, e.g., *id.* Also, antitrust authorities issued Intellectual Property Guidelines in 1995. See ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY, *supra* note 49.

To begin with, the general sentiment is that patent rights are getting overprotected, while the standards to grant patents are lowering.⁶³ Consequently, commentators argue that this expansion of patent rights not only makes protecting the property rights of inventors a primary consideration, but it also stagnates innovation, which ought to be the primary consideration of intellectual property laws.⁶⁴ As put by Harvard professor John Lerner during his testimony before a House subcommittee:

We've moved toward this litigious point over the past two decades as the courts strengthened the rights of patent holders while the standards to grant patents were weakened. It's a 'perfect storm,' a complex and intensifying combination of factors that increasingly makes the patent system a hindrance rather than a spur to innovation.⁶⁵

Scholars also argue that overly expansive patent protection and overly excessive patents weaken innovation by unnecessarily shrinking the public domain and deterring innovative activity by others.⁶⁶ Overall, the general consensus is that protection of intellectual property in general, and patents in particular, is totally out of control.⁶⁷

Furthermore, there are widespread and growing concerns about the patent application process. The notion is that the PTO issues far too many "questionable" patents that are unlikely to be found valid based on a thorough review of the sort one sees in patent litigation. As Shapiro and Lemley have pointed out:

63. See Chabrow, *supra* note 10.

64. See, e.g., Lemley, *Property, Intellectual Property, and Free Riding*, *supra* note 48, at 1058-59. Lemley was writing only with respect to over breadth, but his reasoning applies to loose patentability standards, as well. See also First, *supra* note 48.

65. See Chabrow, *supra* note 10.

66. HERBERT HOVENKAMP, *THE ANTITRUST ENTERPRISE: PRINCIPLE AND EXECUTION* 249 (2005). See also Christopher R. Leslie, *Antitrust and Patent Law as Component Parts of Innovation Policy*, 34 IOWA J. CORP. L. 1259 (2009). The business method patents are particularly controversial. For example, a patent has been issued for "Methods of Promoting Sleep Systems," which covers a "method for selecting a sleep system" by "positioning a person on a mattress in a lying position," extending one of their arms, positioning a pillow "underneath the person's head," and then forcefully moving the arm towards the person's feet. As explained in the patent:

Finding the correct mattress can be a difficult task. Within the United States there are literally hundreds of makes and models of mattresses, such as firm mattress[es], plush mattresses, and the like. Selecting a mattress that will provide an appropriate degree of comfort and/or support to meet a person's needs can be especially challenging.

See U.S. Patent No. 6,997,070 (issued Feb. 14, 2006) (abstract) (example available at <http://www.patentlysilly.com/patent.php?patID=6997070>) (last visited Jan. 18, 2010).

67. See First, *supra* note 48.

There are good reasons to doubt the efficiency of a system for granting patents under which 1) patents differ greatly in their commercial significance and value; 2) patent applicants are uncertain about the value of their ideas, but have far superior information to examiners; 3) patent applicants often have superior information as well about prior art, but are under no obligation to conduct a search for the relevant prior art; 4) patent applicants can persist repeatedly through the continuation process in seeking to have certain claims accepted by patent examiners; 5) the burden of proof falls upon the PTO to explain why a patent application will *not* be granted; and 6) patent examiners are faced with a flood of applications and have little time to devote to each one.⁶⁸

The inefficiencies of the patent application process coupled with overprotection and expansion of patent rights have contributed to another problem: the skyrocketing number of issued patents.⁶⁹ At first it might seem that the skyrocketing number of issued patents is not necessarily something to be worried about. After all, more patents mean more innovations right? Ideally yes, but in reality that is not the case because a large amount of patents have a little or no value.⁷⁰ On the other hand, the skyrocketing number of issued patents can also have very negative effects on competition and innovation. Commentators point out that the patent explosion could injure competition and impede innovation by making it more difficult for rival inventors to sell competing products. According to Professor Carl Shapiro, a “patent thicket” has formed, which he describes as “a dense web of overlapping intellectual property rights that a company must hack its way through in order to actually commercialize new technology.”⁷¹ Firms in certain industries are said to fear that it is “all too easy” to infringe another patent accidentally and thereby risk liability.⁷² The testimony of an executive from Texas Instruments illustrates why: “TI has something like 8000 patents in the United States that are active patents, and for us to know what's in that portfolio, we think, is just a mind-boggling,

68. Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. ECON. PERSPECTIVES 75, 83 (2005), available at <http://faculty.haas.berkeley.edu/shapiro/patents.pdf> (last visited Mar. 1, 2010).

69. See USPTO ANNUAL REPORT: PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2009, *supra* note 3.

70. Jean O. Lanjouw, Ariel Pakes & Jonathan Putnam, *How to Count Patents and Value Intellectual Property: The Uses of Patent Renewal and Application Data*, 46 J. INDUS. ECON. 405 (1998). See also Lemley & Shapiro, *supra* note 68, at 75, 81.

71. See Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting*, in INNOV. POL'Y & ECON. 119, 120 (Adam Jaffe et al. eds., 2001).

72. *Id.* at 121.

budget-busting exercise to try to figure that out with any degree of accuracy at all.”⁷³ If a company with the resources of Texas Instruments cannot afford to know even what it has in its *own* patent portfolio, one can imagine how hard it could be for small potential entrants to determine their risks of triggering a patent infringement lawsuit.

Due to the current state of the patent system, commentators keep debating over what can be done to improve the current state of the patent system. The debate generally centers around well-worn discussions over how to strike an optimal level of patent protection and how to improve the patent applications process.⁷⁴ These debates are not new. For example, President Johnson established a Commission on the Patent System in 1965 “To Promote the Progress of . . . Useful Arts” that made thirty-five recommendations on how to improve the patent system, and the majority of concerns were almost identical to current ones.⁷⁵ As evinced by the statement of President Johnson upon releasing the report of the President's Commission on the Patent System, even the rhetoric was almost identical to current debates, and his statement was made forty-five years ago.⁷⁶ Through the years, a number of scholars and policymakers have continued proposing meaningful reforms designed to limit the scope of patent protection and to improve the patent application process in order to reduce the number of improperly issued patents without causing genuine innovators to be denied patents.⁷⁷ Some of

73. FTC, TRANSCRIPT OF COMPETITION AND INTELLECTUAL PROPERTY LAW AND POLICY IN THE KNOWLEDGE-BASED ECONOMY WORKSHOP 743 (Feb. 28, 2002) (testimony of Frederick Telecky, Senior Vice President and Gen. Patent Counsel, Texas Instruments, Inc. as of date of workshop), www.ftc.gov/opp/intellect/020228ftc.pdf.

74. See generally DOJ & FTC, *supra* note 2; DOJ, *supra* note 2; FTC, *supra* note 2; GILBERT, *supra* note 2.

75. COMM’N ON THE PATENT SYS., “TO PROMOTE THE PROGRESS OF . . . USEFUL ARTS”: IN AN AGE OF EXPLODING TECHNOLOGY: REPORT OF THE PRESIDENT’S COMMISSION ON THE PATENT SYSTEM (1966).

76. See John T. Woolley & Gerhard Peters, *Lyndon B. Johnson: Statement by the President upon Releasing the Report of the President's Commission on the Patent System*, THE AMERICAN PRESIDENCY PROJECT (statement of then President Lyndon B. Johnson, Dec. 2, 1966), <http://www.presidency.ucsb.edu/ws/index.php?pid=28057> (last visited Feb. 23, 2010).

77. Some of the suggestions include the need to improve patent quality, arguing that the patent applications should be subjected to more rigorous scrutiny at patent offices to make certain that they meet the statutory standards for patentability and patent scope. Particular suggestions include raising the budgets of patent offices so that they can hire more examiners, taking advantage of the knowledge that companies and private researchers have by giving them more opportunities to initiate post-grant challenges. Another common proposal is to establish a more effective opposition system in which interested third parties could challenge the validity of an issued patent before an administrative patent board. See FTC, *supra* note 2. See also 2000 *United States Patent and*

these proposals have been adopted. For example, the seventh recommendation of President Johnson's commission called for pre-issue publication, which was finally adopted in 1999.⁷⁸ Nonetheless, in spite of tremendous efforts to improve the patent system, the already alarming situation has only gotten worse.

While there might be many explanations why the patent system is not functional, one might be particularly worth considering. Empirical studies have cast doubt on innovation as the main reason for patenting, and it is now known that more and more companies are using intellectual property in general and patents in particular as a strategic tool.⁷⁹ Studies indicate that most firms rely on patents the least among a variety of methods for protecting the returns from their inventions and that in no industry are patents identified as the most effective appropriability mechanism.⁸⁰ Realizing this fact, scholars were curious why more and more patents are being sought if they are not helping most firms to protect their innovation returns. It is now known that firms seek patents under many circumstances, and not only when they wish to protect a newly developed technology from imitation and exploit it commercially.⁸¹ For example, "start-up companies may try to get as many patents as possible because patents can help to persuade venture capitalists to fund young firms."⁸² "Many large companies may want to build up their patent portfolios for the purpose of gaining leverage in licensing or settlement negotiations."⁸³ Some companies may use the "patent flooding"⁸⁴ strategy to anticompetitively disadvantage rivals by raising their cost.⁸⁵ Alternatively, companies may pursue patents in an

Trademark Office: Hearing on H.R. 63-845 Before the Subcomm. on Courts and Intellectual Prop. of the H.R. Comm. on the Judiciary, supra note 9.

78. 35 U.S.C. § 122 (2010).

79. COHEN ET AL., *supra* note 4, at 8.

80. *Id.* at 3.

81. *Id.* at 7, 14.

82. See OECD, POLICY ROUNDTABLES: COMPETITION, PATENTS AND INNOVATION, DAF/COMP (2007) 40, at 28 (Jan. 8, 2008) (from background note: Box 1. The Problem of Measuring Innovation), <http://www.oecd.org/dataoecd/26/10/39888509.pdf>.

83. *Id.*

84. With patent flooding, a firm files a multitude of patent applications that claim minor variations on a competitor's existing technology. Sri Krishna Sankaran, *Patent Flooding in the United States and Japan*, 40 IDEA J. L. & TECH. 393 (2000).

85. *Id.* See also COHEN ET AL., *supra* note 4, at 4. As the name implies, a raising rivals' costs strategy generally involves actions by one firm to increase the costs of one or more competitors in order to gain an advantage in the marketplace. The advantage of strategies that raise rivals' costs over other strategies of unilateral monopolization (such as predatory pricing) is that

effort to block their competitors' development activities.⁸⁶ Some websites that provide general information on patents specifically advise others to "use patents to block competitors," while some provide "ask yourself such questions as: . . . What patents do we need to block our competitors now and in the future?"⁸⁷ Toyota, for example, has filed for patents on more than 2,000 systems and components for its best-selling hybrid Prius in order to cash in on the Obama administration's tough new fuel-efficiency standards.⁸⁸ It was suggested Toyota's goal is to make it difficult for other auto-makers to develop their own hybrids without seeking licensing from Toyota. Both the Ford Motor Company and Nissan Motor Company have already done so in order to make their hybrid vehicles.⁸⁹

Unlike expansion and broadening of patents rights and inefficiencies of the PTO office, the known fact that patentees widely rely on patents for reasons other than protecting a newly developed technology from imitation and exploiting it commercially has not received as much attention as it should have. If the patent system was not so broken, paying close attention to why patentees rely on patents would not be necessary or justified. However, given that it is fairly easy to obtain a patent, including "questionable" or invalid ones due to the above-stated reasons, and given that it is accepted that most patents have little or no commercial potential/value and the Supreme Court has held that the patentee does not even have a duty to use the granted patent, a patentee can easily obtain a patent and rely on it solely to hurt competitors.⁹⁰ When the Framers authorized Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings

such strategies may require little or no short-run profit sacrifice to achieve the desired long-term goal of lessening competition in the marketplace. *Id.*

86. OECD, *supra* note 82, at 28.

87. See CASTLE ISLAND CO., *Benefits of Having an IP Strategy: Competitive Intelligence, USING PATENTS AS KEY INFORMATION SOURCES FOR COMPETITIVE INTELLIGENCE AND BUSINESS STRATEGY* (last modified Oct. 18, 2008), available at http://www.additive3d.com/patk_03.htm (last visited Oct. 10, 2010). See also *Taking Intellectual Property Seriously*, CHIEFEXECUTIVE.NET (Nov. 1, 2004), available at <http://www.chiefexecutive.net/ME2/dirmod.asp?sid=&nm=&type=Publishing&mod=Publications%3A%3AArticle&mid=8F3A7027421841978F18BE895F87F791&tier=4&id=055DF3168CC44ABC5B7760EBE66C033> (last visited Feb. 23, 2010).

88. See John Murphy, *Toyota Builds Thicket of Patents Around Hybrid To Block Competitors*, WALL ST. J., July 1, 2009, at B1, available at <http://online.wsj.com/article/SB124640553503576637.html> (last visited Feb. 23, 2010).

89. *Id.*

90. See *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 429 (1908).

and Discoveries,” the obvious intention was to create incentives to innovate by enabling inventors to exploit their invention commercially by not allowing free-riding and unjust imitation from competitors. It was not a constitutional intention to enable patentees to use the patent system as an incentive to deliberately hurt competitors by purposely blocking their development or raising their cost, without any concomitant advance in the “Progress of Science and useful Arts.” Unfortunately, it appears that is what the patent system is turning into, which clearly creates a conflict with antitrust laws and is extremely detrimental to innovation for numerous reasons. For example, such a massive reliance on patents for “illegitimate reasons” inherently increases the number of issued patents, which, as described above, has proven to have negative effects on competition and innovation in and of itself. Needless to say, the time and money spent on developing and filing for these “illegitimate” patents designed to hurt competitions could have been better spent on developing new and genuine inventions capable of promoting “Progress of Science and useful Arts.”

One might argue that finding an optimal level of patent protection and enhancing the efficiency of the patent application process will preclude patentees from relying on patents for “illegitimate” reasons, but that is unlikely to be the case. As some commentators have correctly suggested “patents are either too weak or too strong.”⁹¹ The U.S. has traditionally favored strong protection of intellectual property rights and, given that intellectual property is proudly considered a key driver of the U.S. economy, the process is unlikely to change to a degree that will make it impossible for patentees to rely on patents for improper reasons.⁹² Along the same lines, the patent application process will never be as efficient as it would need to be to preclude patentees from relying on patents for improper purposes. As explained by Professor Dreyfuss in her testimony before a House subcommittee:

[s]ome bad patents always have issued and always will issue. Examiners are human; the information needed to properly assess patentability is not always available to them. And to be candid, not every invention has the kind of commercial potential that merits the

91. Ghosh, *supra* note 8.

92. See DOJ, PREPARED REMARKS OF ATTORNEY GENERAL ALBERTO R. GONZALES AT THE UNITED STATES CHAMBER OF COMMERCE INTELLECTUAL PROPERTY SUMMIT (2006), available at http://www.justice.gov/archive/ag/speeches/2006/ag_speech_0609291.html (last visited Oct. 10, 2010).

expenditure of vast resources and improper patents will always be issued.⁹³

The following section of the article will explore alternative opportunities capable of precluding reliance on patents for solely “illegitimate” reasons and leading to a proper balance between the patent system and antitrust laws.

IV. PROPOSED ADJUSTMENTS

A. *Pre-Grant: Competition Policy with a Focus on Antitrust Intent Must Be Considered in an Initial Patent Application and the Applicant’s Interview with the PTO.*

In a fairly recent patent case, *DiscoVision Associates v. Disc Manufacturing Inc.*, a district court held that a firm’s right to even file patent applications was qualified, “subject to abuse and antitrust scrutiny.”⁹⁴ However, under the current patent system, issues related to a patentee’s subjective intent for patenting do not come up in patent applications, or during the applicant’s interview with the PTO, as the PTO is only interested in whether the patent application meets all statutory standards for patentability.⁹⁵ The competition policy is not considered in the initial review of patent applications. This paper argues that it should be. This is not to suggest that antitrust authorities should be involved in initial review of patent applications. For several reasons, such as a lack of relevant technical expertise and limited resources, it has been suggested that competition authorities should not assume responsibilities related to the initial review of patent applications, but should assist the PTO in improving the patent granting process through informal cooperation designed to foster greater mutual understanding of each other’s fields.⁹⁶

93. See 2000 *United States Patent and Trademark Office: Hearing on H.R. 63-845 Before the Subcomm. on Courts and Intellectual Prop. of the H.R. Comm. on the Judiciary*, *supra* note 9, at 112.

94. *DiscoVision Assoc. v. Disc Mfg. Inc.*, 42 U.S.P.Q.2D (BNA) 1749, No. 95-345-SLR, 1997 U.S. Dist. LEXIS 7507, at *24 (D. Del. Apr. 3, 1997).

95. See 35 U.S.C. § 102 (2010).

96. See OECD, POLICY ROUNDTABLES: INTELLECTUAL PROPERTY RIGHTS, DAF/COMP (2004) 24, at 7 (Jan. 21, 2005) (executive summary by the Secretariat of the OECD), <http://www.oecd.org/dataoecd/61/48/34306055.pdf>. Instead, commentators have suggested a variety of ways for competition authorities to assist IP agencies in taking steps to improve the IP granting process themselves. The ideas included opening interdisciplinary dialogues with patent agencies to foster greater mutual understanding of each other’s fields, commissioning expert reports

However, while it would not be practicable for competition authorities to participate in the initial review of patent applications for the reasons states above, there is no valid reason why competition policy should not be considered in the initial review of patent applications, given that at least one court has held that firm's right to even file patent applications is qualified, "subject to abuse and antitrust scrutiny,"⁹⁷ and the notion that "reconciling intellectual property and competition policy requires recognizing that intellectual property law is a form of competition policy."⁹⁸ I am not proposing that the PTO consider the potential effect on the market before granting the patent. Such inquiry would be overly time consuming, expansive, and speculative. However, the PTO should make an inquiry into the patentee's motives for patenting in order to evaluate whether the patentee has an anticompetitive intent.

Obtaining a patent is a qualified privilege fairly analogous to obtaining a visa to enter the United States. In both instances, a qualified privilege is granted for a certain period of time only if an applicant meets all statutory requirements to obtain a privilege and, subsequently, it must act strictly within the bounds of its statutory rights to maintain the privilege.⁹⁹ For years, one of the most pressing issues in the immigration law was using temporary visitors' visas, such as a B-2 tourist visa or an F-1 student visa, to permanently immigrate to the United States. Consequently, appropriate legislation was enacted, and the visa applicant's intent is now an important part of visa application process for most temporary visas.¹⁰⁰ The consular or port officials are

that study a country's patenting system to determine whether and how it is causing any undue problems, and holding seminars or hearings in which academics, public and private sector practitioners, and industry participants come together to discuss problems and possible improvements to IP policies. *Id.* Some scholars have joined in the call for competition and patent officials to meet regularly to share information and views about whether patents are having desirable effects and how matters might be improved by easing or tightening patent examination policies and processes. *See generally* James Langenfeld, *Intellectual Property and Antitrust: Steps Toward Striking a Balance*, 52 CASE W. RES. L. REV. 91 (2001).

97. *See generally* DiscoVision Assoc., 1997 U.S. Dist. LEXIS 7507, at *24.

98. Ghosh, *supra* note 8, at 345.

99. *See, e.g.*, BUREAU OF CONSULAR AFFAIRS, U.S. DEP'T OF STATE, *Foreign Students (F-1) in Public Schools*, TRAVEL.STATE.GOV, http://travel.state.gov/visa/temp/types/types_1269.html (last visited Feb. 25, 2010). *See also* Patent Act of 1952, ch. 10, 66 Stat. 792, 797-98 (1952) (codified as amended at 35 U.S.C. §§ 100-04 (2010)); BUREAU OF CONSULAR AFFAIRS, U.S. DEP'T OF STATE, *Visa Denials*, TRAVEL.STATE.GOV, *available at* http://travel.state.gov/visa/frvi/denials/denials_1361.html (last visited Oct. 10, 2010).

100. *See* Immigration and Nationality Act of 1990, Pub. L. No. 101-649, § 214(b), 104 Stat. 4978 (codified as amended at 8 U.S.C. § 1184(b) (2006)).The Immigration and Nationality Act, or

required to assess whether a visa applicant has impermissible immigrant intent, and if they develop a “reasonable belief” that a visa applicant has such intent, the visa applicant can be denied admission to the United States.¹⁰¹ The courts have clarified the concept of dual intent and immigration intent, as a whole line of immigration law cases have made a distinction between “fixed” immigrant intent, which is prohibited, with a mere desire to permanently stay in the United States if possible, which is not prohibited.¹⁰² Similar standards and inquiry should be implemented in the patent system, as the patent system is currently facing a similar conceptual problem: patentees are using the patent system for unintended purposes. This is not to suggest that the patent applicant should be denied what appears to be a perfectly valid patent if there are some concerns as to why the patent is sought. However, if the patent officer develops a “reasonable belief” that a patentee is seeking a patent for reasons other than protecting a newly developed invention and has a “fixed” antitrust intent, not merely a desire to hurt competitors if possible, such patent application should be very closely scrutinized, and more information should be requested from the applicant.

INA, was originally created in 1952. Before the INA, a variety of statutes governed immigration law but were not organized in one location. The McCarran-Walter Bill of 1952, Public Law No. 82-414, collected and codified many existing provisions and reorganized the structure of immigration law. The Act has been amended many times over the years, but is still the basic body of immigration law. U.S. DEP'T OF HOMELAND SEC [DHS], *Immigration and Nationality Act*, U.S. CITIZENSHIP AND IMMIGRATION SERVICES, available at <http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnnextchannel=f3829c7755cb9010VgnVCM10000045f3d6a1RCRD&vgnextoid=f3829c7755cb9010VgnVCM10000045f3d6a1RCRD> (last visited Oct. 11, 2010). See also DHS, TEMPORARY MIGRATION TO THE UNITED STATES: NONIMMIGRANT ADMISSIONS UNDER U.S. IMMIGRATION LAW 75-76 (Jan. 2006), available at http://www.uscis.gov/files/nativedocuments/Nonimmigrants_2006.pdf (last visited Feb. 27, 2010).

101. See BUREAU OF CONSULAR AFFAIRS, U.S. DEP'T OF STATE, *Visa Denials*, *supra* note 99 (explaining INA § 214(b)).

102. After the INA was first enacted in 1952, courts have developed the concept of immigration intent. See *Bong Youn Choy v. Barber*, 279 F.2d 642, 645-46 (9th Cir. 1960) (finding even though an alien wanted to finish his and his children's education in America, he only intended to stay temporarily as a visitor unless he could arrange a permanent legal stay). See also *Brownell v. Carija*, 254 F.2d 78, 80 (D.C. Cir. 1957) (finding nonimmigrant who entered for travel through the United States “does not become an unlawful entrant because he entertains a desire, purpose or intent to remain here if the laws of the country permit him to do so. Such a purpose, so limited, could at best be only a hope”); *Chryssikos v. Comm. of Immigration*, 3 F.2d 372, 375 (2d Cir. 1924) (finding that when a new bride entered the United States on a visitor's visa with her permanent resident husband, she intended to depart when her visa expired, and to return only after her husband became a citizen). In the case *Lauvik v. INS*, 910 F.2d 658, 660, 662 (9th Cir. 1990), the judge reversed the denial of an E-2 for an applicant who expressed the desire to immigrate but did not intend to immigrate if not permitted.

While one might argue that it might be nearly impossible to find such antitrust intent, it is hard to imagine that it would be any harder than finding an intent to form an agreement to fix prices or divide the territory in antitrust law, finding immigrant intent in visa applicants, or finding discriminatory intent against a protected class in constitutional law. In addition to straight forward questioning of an applicant, there are varieties of factors that an examiner can consider in finding antitrust intent. To begin with, because it is known that the reliance on patents significantly varies from industry to industry,¹⁰³ the examiner can consider whether the patent is sought in an industry where patents are not commonly used and whether the applicant's legitimate purposes could have been served by alternative means. Such inquiries are not foreign to courts.¹⁰⁴ Furthermore, the examiner can consider whether the patentee already has other patents in the same field concerning the same or a substantially similar invention. If so, the examiner can inquire into the apparent commercial value of such patents and how/if the patentee used those other patents. Considering competition policy with the focus on antitrust intent in initial review of patent applications will inherently put the patent applicants on notice that relying on patents for primarily anticompetitive reasons will not be tolerated. While the patent applicants may still try to "abuse" the patent system, the patent applicants will have to do much more in order to do so. Informal cooperation with antitrust authorities designed to foster greater mutual understanding of each other's fields would be particularly helpful to patent officers in the context of antitrust intent, as antitrust authorities have tremendous experience with finding impermissible antitrust intent.

B. Post-Grant: Intent Standards Must Be More Objective Across the Board and Antitrust Must Play a More Meaningful Role.

One reason that enables patentees to rely on patents for "illegitimate" reasons is the current state of law on the role of subjective intent in patents. The role of subjective intent in patents has been debated in years past, and it has been on the table in many cases.¹⁰⁵ The

103. See COHEN ET AL., *supra* note 4, at 4.

104. In *United States v. United Shoe Mach. Corp.*, 391 U.S. 244 (1968), the court questioned United Shoe's acquisitions of patents, which suggests legitimate purposes could have been served by alternative means.

105. For example, in *United Shoe*, the court questioned United Shoe's acquisitions of patents, suggesting legitimate purposes could have been served by alternative means. *Id.* Similarly, in *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 423-24, 430 (10th Cir. 1952), *cert. denied*, 344

prevailing view on the role of subjective intent in patents has been articulated in *Independent Service Organizations Antitrust Litigation (Xerox)*¹⁰⁶ where the court made it clear that in the absence of any illegal tying, fraud on the PTO, or sham litigation, the patentee's subjective intent for obtaining a patent or enforcing its statutory rights is largely irrelevant.¹⁰⁷ The court's approach in *Xerox* appears sound as far as it goes. If the patent holder has a valid patent and does not engage in "illegal acts," inquiry into patentee's subjective intent for enforcing its statutory rights is neither necessary nor justified. To hold otherwise would inherently weaken the patent system. Nevertheless, the issue of subjective intent in patents is far from settled. That is so because intent standards to find those "illegal acts," fraud for example, that would then justify inquiry into the patentee's subjective intent are set too high and are highly subjective. The fairly recent decision in *Dippin' Dots*,¹⁰⁸ after *In re Bilski*¹⁰⁹ arguably the second most controversial patent case in recent history, is a good example of inadequacy and inefficiency of intent standards in patent law that inherently increase expected costs from legal errors.

The *Dippin' Dots* case arose out of a patent dispute between Dippin' Dots and its former distributors.¹¹⁰ Dippin' Dots was the holder of a patent covering a method for making a form of cryogenically

U.S. 837 (1952), the Court found that the acquisition, non-use, and enforcement of "every important patent" in the field with a purpose to exclude competition, together with other anticompetitive acts, violated section 2 of the Sherman Act. More recently, in *DiscoVision*, a district court has held that a firm's right to even file patent applications was qualified, "subject to abuse and antitrust scrutiny" if the firm sought "to expand the monopoly granted by the patent laws by misuse, agreement, or accumulation." *DiscoVision Assoc. v. Disc Mfg. Inc.*, 42 U.S.P.Q.2D (BNA) 1749, No. 95-345-SLR, 1997 U.S. Dist. LEXIS 7507, at *24-26 (D. Del. Apr. 3, 1997).

106. *In re Indep. Serv. Orgs. Antitrust Litig. (Xerox)*, 203 F.3d 1322, 1327 (Fed. Cir. 2000).

107. *Id.* It is important to note that *Xerox* case was decided three years after *Image Technical Services v. Eastman Kodak Co. (Kodak)*, 125 F.3d 1195 (9th Cir. 1997) reached an opposite decision. At issue in *Kodak* was refusal to license patented works. The court ruled that absent a legitimate "business justification," unilateral conduct by the owner of intellectual property, including a refusal to sell or license, may violate the antitrust laws if it adversely affects competition. The Court found that Kodak's subjective intent to exclude competition from independent service organizations was the real reason for Kodak's conduct and, thus, Kodak's "business justification" disappeared. *Id.* It is important to note that *Kodak* has not been followed by other courts and commentators have widely criticized it, although some commentators have endorsed this decision. *Xerox*, 203 F.3d at 1326-27.

108. *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337 (Fed. Cir. 2007).

109. *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

110. *Dippin' Dots*, 476 F.3d at 1341.

prepared beaded novelty ice cream products.¹¹¹ When several of Dippin' Dots' former distributors terminated their relationship with Dippin' Dots in order to compete against it, Dippin' Dots initiated a series of patent infringement lawsuits against its new competitors.¹¹² The distributors defended on the grounds of inequitable conduct and a *Walker Process* counterclaim under section 2 of the Sherman Act based on undisputed facts relating to omission of information from the patent application regarding certain prior sales from the patent at issue that would render the patent invalid.¹¹³ In particular, Dippin' Dots included a sworn statement in its patent application claiming that "the initial sales were in March of 1988," while it was undisputed that sales were made in 1987; the 1987 sales were not disclosed by Dippin' Dots in its application to the PTO.¹¹⁴ Under the Patent Act, sales made more than one year before the patent priority date trigger the on-sale bar.¹¹⁵

The doctrine of inequitable conduct and the *Walker Process* claim essentially operate as defenses in patent infringement lawsuits. The judicially created doctrine of inequitable conduct is the patent system's response to invalid patents procured by deceptive conduct before the PTO.¹¹⁶ The *Walker Process* claim is its antitrust equivalent based on the Supreme Court's holding that a claim under section 2 of the Sherman Act could be maintained against the holder of a patent who obtained that patent through fraud on the Patent Office, assuming all other elements of a section 2 monopolization claim are met.¹¹⁷ While both defenses require a showing that the patent holder intentionally misrepresented or failed to disclose material information to the PTO, the primary distinction between the affirmative defense of inequitable conduct and a claim for *Walker Process* fraud is the heightened standard for materiality and intent for the latter.¹¹⁸ However, while the inequitable conduct defense merely denies the enforcement of a patent

111. *Id.* at 1340. Specifically, the patented method was for preparing, storing and serving a free flowing, frozen alimentary dairy product comprising six separate steps. *Id.*

112. *Id.* at 1341.

113. *Id.*

114. *Id.* at 1340-41.

115. *See* 35 U.S.C. § 102(b).

116. *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006).

117. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965). The United States Supreme Court held that a claim under section 2 of the Sherman Act could be maintained against the holder of a patent who obtained that patent through fraud on the Patent Office, assuming all other elements of a section 2 monopolization claim are met. *Id.* at 177.

118. *Dippin' Dots*, 476 F.3d at 1346 (citing *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069 (Fed. Cir. 1998)).

that was procured by unclean hands, a successful *Walker Process* claim denies the enforcement of a patent procured by unclean hands and subjects the patentee to antitrust liability, including treble damages.¹¹⁹ Therefore, although the difference between inequitable conduct and *Walker Process* fraud claims seems merely technical, and the two claims very often arise in the same matter and are supported by the same evidence, the practical difference between the two claims is tremendous.

The jury in *Dippin' Dots* found for distributors and upheld both the inequitable conduct defense and *Walker Process* counterclaim.¹²⁰ On appeal, the Federal Court also upheld distributors inequitable conduct defense.¹²¹ The court first found that omission of prior sales was material because the PTO would not have issued the patent if the 1987 festival sales had been disclosed.¹²² The court then turned to the question of intent and found that although the evidence of Dippin' Dots' intent to deceive the examiner was "not particularly strong," the court was allowed "to balance the relatively weak evidence of intent together with the strong evidence that [Dippin' Dots'] omission was highly material to the issuance of the '156 patent and to find that on balance, inequitable conduct had occurred."¹²³ However, the court did not uphold the *Walker Process* counterclaim.¹²⁴ The court did find that omission of the 1987 festival sales met the heightened standard of materiality for *Walker Process* claim.¹²⁵ Nonetheless, the court found that omission of the festival sales, which was sufficient to prove intent for purposes of inequitable conduct, was not sufficient to prove the heightened standard of deceptive intent for *Walker Process* fraud.¹²⁶ The court refused to balance the high materiality of omission against the lesser showing of deceptive intent, as it did to find inequitable

119. *Walker Process*, 382 U.S. at 175, 176-77; 35 U.S.C. § 284 (2000) ("[T]he court may increase the damages up to three times the amount found or assessed."); 35 U.S.C. § 285 (2000) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.").

120. *Dippin' Dots*, 476 F.3d at 1342 ("The jury also found that both Jones and Schickli had, with intent to deceive, made material misrepresentations or omissions in violation of the duty of candor to the PTO. It also determined that defendants Mini Melts, Inc. and Frosty Bites Distribution had proven all required elements of their antitrust counterclaim, including the requisite fraud on the PTO.").

121. *Id.* at 1346.

122. *Id.* at 1347.

123. *Id.* at 1346.

124. *Id.* at 1348.

125. *Id.* at 1347.

126. *Id.* at 1348.

conduct.¹²⁷ The court viewed the *Walker Process* claim as a “sword” and inequitable conduct as a mere “shield” and held that in order to use a “sword” *Walker Process* claimants had to prove intent to deceive the examiner independently.¹²⁸ Nevertheless, the court held that omissions can form a basis for a *Walker Process* claim but, again, claimants had to affirmatively show separate actual evidence of Dippin’ Dots’ fraudulent intent.¹²⁹ The court cited *Nobelpharma* case as a sole example of the kind of facts necessary to prove *Walker Process* fraud by omission.¹³⁰

In *Nobelpharma*, the patent applicant had included a prior art reference in a draft, but then deleted that reference from its final application.¹³¹ The evidence of the actual deletion of the prior art reference by the applicant’s patent agent was sufficient grounds for the jury to find intent to defraud.¹³²

Scholars were quick to criticize *Dippin’ Dots* on the basis that it both goes too far and it does not go far enough. Those who claim that it goes too far point out that it unjustifiably expands inequitable conduct doctrine by allowing interference of deceptive intent without any evidential support.¹³³ Those who claim that it does not go far enough argue that it precludes meaningful role of antitrust in the patent system.¹³⁴ On one hand, *Dippin’ Dots* does suggest that omission of highly material facts will lead to an inference of deceptive intent sufficient to prove inequitable conduct, even if the omission is purely innocent and in good faith.¹³⁵ On the other hand, *Dippin’ Dots* also suggests that omissions, however material, cannot lead to an inference of deceptive intent sufficient to prove *Walker Process* fraud, even if omission is intentional and in bad faith.¹³⁶ Regardless of which position is more plausible, one fact is certain: both positions clearly indicate that there is a probability of error that a purely innocent actor can be found “guilty” of wrongdoing and a wrongdoer can escape a meaningful punishment. The cost of error can be tremendous. That is so because

127. *Id.*

128. *Id.* (citing *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1071 (Fed. Cir. 1998)).

129. *Dippin’ Dots*, 476 F.3d at 1348.

130. *Id.*

131. *Nobelpharma*, 141 F.3d at 1062.

132. *Id.* at 1072.

133. See generally Melissa Feeney Wasserman, *Limiting the Inequitable Conduct Defense*, 13 VA. J.L. & TECH. 7 (2008).

134. Leslie, *supra* note 66.

135. *Dippin’ Dots*, 476 F.3d at 1346.

136. *Id.*

the error can lead to *overdeterrence costs* if it causes potential patentees to go way beyond the feasible level of precaution in order to avoid potential penalties for material omissions. At the same time, the error can also lead to *underdeterrence costs* if patentees discount the likelihood of ever being subjected to rigorous antitrust liability for even intentional omissions due to the fact that a “sword” provided by the *Walker Process* claim will not be available to alleged infringers.¹³⁷ As some have suggested, if the only punishment for intentional omission is to merely “return” the patent, that is unlikely to deter future intentional omissions, just as if the only punishment for robbing the bank would be to require a robber to return the money, that would unlikely deter future robberies.¹³⁸ Consequently, the patentees will not be discouraged to rely on patents for “improper reasons,” which can ultimately lead to an even higher number of valid and invalid patents that inherently hurt competition and stifle innovation.

This highly controversial case clearly illustrates the inadequacy and inefficiency of intent standards in patents. It is precisely the type of approach to intent that was rejected by Cass and Hylton in their extensive and widely-cited study on the role of intent analysis in antitrust law, but they have specifically acknowledged that their framework applies to other areas of law as well.¹³⁹ Cass and Hylton rejected the two extreme normative positions on the role of intent: the view that intent should play no role in legal analysis, and the view that intent should be determined for most purposes by a subjective inquiry.¹⁴⁰ The court in *Dippin’ Dots*, however, seemed to follow these two extreme normative positions. On one hand, intent played no role in finding of inequitable conduct as the court focused solely on the high materiality of omitted fact without any regard to intent to deceive.¹⁴¹ On the other hand, the court sought highly subjective evidence of the patentee’s state of mind, such as the evidence in *Nobelpharma*, to find *Walker Process* claim and subject the patentee to antitrust damages.¹⁴² Cass and Hylton rejected the two normative positions and argued in favor of a more

137. There are also administrative or litigation costs as alleged infringers will likely seek a “shield” provided by inequitable conduct defense in virtually every case involving omissions. See Wasserman, *supra* note 133.

138. Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 MINN. L. REV. 101, 173 (2006).

139. Ronald A. Cass & Keith N. Hylton, *Antitrust Intent*, 74 S. CAL. L. REV. 657, 658 (2000).

140. *Id.*

141. *Dippin’ Dots*, 476 F.3d at 1346.

142. *Id.*

objective approach to intent finding that objective approach to intent ultimately leads to minimizing the expected costs from legal errors.¹⁴³ In particular, they have argued that an “objective specific intent” should be the proper intent standard in antitrust and other areas of law.¹⁴⁴ Their definition of “objective specific intent” provides in part:

[T]he term *specific intent* is not synonymous with *subjective intent*, although the two are frequently used as synonyms both in antitrust law and in other fields. A “subjective intent” standard requires the plaintiff to produce evidence of the defendant’s *actual* state of mind. In contrast, we use *specific intent* here to describe an inquiry conducted on the basis of objective evidence. Rather than asking for direct evidence of what the defendant had in mind, the objective approach asks what state of mind can reasonably be attributed to the defendant in light of his actions.¹⁴⁵

Such an objective approach to intent would be particularly useful in patents because it would allow courts to consider a variety of available “external” factors to determine what state of mind could reasonably be attributed to the defendant in light of his actions. These “external” factors, such as the type of industry,¹⁴⁶ the commercial potential/value of the patent, and the patentees’ conduct in relation to the use or non-use of the patent, could help courts to inquire into the patentee’s motives for patenting. In turn could explain the patentee’s state of mind by suggesting, for example, a lack of mistake or knowledge in omissions and misrepresentations that would otherwise negate intent to deceive, as was the case in *Dippin’ Dots*. Consequently, that would open the door for a more meaningful role of antitrust in post-grant issues and enable it to confidently swing its “swords” in the right direction without a fear of causing innocent “casualties.” All together, by adopting a more objective approach to intent in patents across the board, the courts would be better positioned to minimize the cost from legal errors, to deter future misconducts and, ultimately, to start putting an end to reliance on patents for solely “illegitimate” reasons without causing genuine innovators undue hardship.

143. Cass & Hylton, *supra* note 139, at 742.

144. *Id.* at 659.

145. *Id.* (emphasis added).

146. See COHEN ET AL., *supra* note 4, at 4.

V. CONCLUSION

The notion that the patent system and antitrust laws are in conflict has long been dismantled as it is now accepted that the two laws ultimately have the same goals: promoting innovations and enhancing consumer welfare. Nonetheless, the proper balance between the two laws is far from being found. As this article has illustrated, the patent system is currently more of an obstacle to innovation and competition than their promulgator. It is not only in crisis, it is so broken that it practically enables patentees to rely on patents for solely anticompetitive reasons without any concomitant advance in the “Progress of Science and useful Arts,” and studies show that patentees are not reluctant to do so.¹⁴⁷ The broken patent system cannot be fixed with chewing gum and duct tape. Any meaningful attempt to improve the current state of the patent system will have to recognize an overlooked fact that patentees seek patents under many circumstances, rather than only when they wish to protect a newly developed technology from imitation and exploit it commercially. This article has argued in favor of a more extensive inquiry into the patentee’s subjective intent for patenting, which is fairly limited under the current law in both pre-grant and post grant issues. In particular, this article has suggested that the competition policy with a focus on antitrust intent should be considered in the initial review of patent applications, and the approach to intent standards in post-grant issues must be more objective across the board, so that antitrust’s “swords” can be used more often in patent cases involving allegations of a patentee’s misconduct in order to deter future misconducts, start putting an end to reliance on patents for “illegitimate reasons” and, ultimately, minimize the cost from legal errors. However, it is important to note that this article does not suggest by any means that antitrust competition authorities should assume responsibilities in the initial review of patent applications or that the patentee’s “improper” subjective intent for patenting should make a perfectly valid patent unenforceable. The article has argued, however, that although subjective intent for patenting should not be viewed as a red light at the intersection between the patent system and antitrust laws, it must be an important arrow that directs the traffic when other signs are invisible, as was the case in *Dippin’ Dots*.

147. See generally COHEN ET AL., *supra* note 4.