

**AIPLA Response to the Antitrust Modernization Commission
Questions for Public Comment**

New Economy Issues

The Antitrust Modernization Commission has requested public comment on several questions relating to its New Economy Study Plan. AIPLA submits this comment in response to two of those questions:

- (1) What significance should be attached to the existence of a patent or copyright in assessing market power in tying cases and in other contexts, and
- (2) Specific comments on the reports on the patent system issued by the Federal Trade Commission and the National Academies Board on Science, Technology, and Economic Policy.

Presumption of Market Power From Patent or Copyright

On the significance of patents or copyrights to market power in antitrust cases, AIPLA believes strongly that the existence of a patent or copyright should not confer any presumption of market power in any relevant antitrust market. AIPLA recently reaffirmed this position in an amicus brief filed in the United States Supreme Court in support of the petition for certiorari in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, No. 04-1329, *petition docketed*, April 4, 2005, which has subsequently been granted.¹ In that case the Court of Appeals for the Federal Circuit had held that in antitrust tying cases, ownership of a patent confers a rebuttable presumption that the patent owner has market power. The AIPLA amicus brief, attached as Appendix A at the end

¹ The Court of Appeals decision is reported as *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir. 2005).

of this comment, argues that such a presumption is improper for numerous reasons, including the following:

- The presumption has no basis in fact. Virtually all patents cover modest improvements to existing products which typically compete with existing products that are already established in the marketplace.
- Federal courts, including the Federal Circuit, have consistently held in non-tying antitrust cases that a patent does not confer market power.
- Congress has expressly eliminated such a presumption from the analogous defense of patent misuse based on alleged tying. *See* 35 U.S.C. § 271 (d) (5).
- The Federal Trade Commission and Department of Justice have concluded as a matter of enforcement policy that market power cannot and should not be presumed from the ownership of an intellectual property right. United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.2 (1995).
- The presumption of market power in tying cases, coupled with the application of the per se rule to tying, runs counter to the Supreme Court's recent jurisprudence that permits departure from the Rule of Reason only when experience has shown that a practice virtually always harms competition.
- Shifting the evidentiary burden on such a critical element of an antitrust tying claim to the patent owner will encourage the routine filing of antitrust counterclaims, which will increase the cost and risk of patent litigation, chilling the incentive of patent owners to enforce their patents in some cases.
- The presumption creates an anomaly in which the proof requirements for a misuse defense are more difficult than for an antitrust violation arising out of the same conduct -- a result that conflicts with the decisions of most courts.

It is not clear at this time how the Supreme Court will resolve this issue in the *Illinois Tool Works* case. If the Court fails to eliminate the presumption, AIPLA believes the

Commission could make a valuable contribution by urging Congress to eliminate any presumption of market power based on intellectual property rights. This would harmonize tying law with the rest of antitrust law and eliminate the current anomaly that exists between antitrust law and patent misuse by virtue of *Illinois Tool Works*.

Review of FTC and NAS Reports on the Patent System

One of the issues that the Commission has adopted for study is the effect of the current intellectual property regime on competition. On this subject the Commission has limited its solicitation to comments on recent studies of this subject by the Federal Trade Commission (FTC) and the National Academies Board on Science, Technology, and Economic Policy (NAS). AIPLA has previously published detailed critiques of both of these studies, which are attached as Appendix B (NAS) and Appendix C (FTC) to this comment. To aid the Commission in its review, we offer the following summary of the main points in these reports.

Flexible and Unitary Patent System (NAS Recommendation 1; FTC Recommendations 6 and 10)

AIPLA agrees with NAS's recommendation that the United States retain a unitary patent system in which the same standards of patentability are applied flexibly to different subject matter inventions. AIPLA also shares the perception in the NAS report that such a unitary system exists today, and that a variety of de facto mechanisms that provide flexibility to the system, such as different criteria for patentability for different technologies and variations in the level of ordinary skill applied to obviousness questions, do not detract from that uniform standard.

AIPLA disagrees with several points in the FTC Report that appear to contravene the notion of a unitary standard of patentability. AIPLA does not believe that the FTC's characterization of prior judicial decisions as improperly expanding the standard of patentability is correct. AIPLA also does not believe that decisions extending patentability to new subject matter should be based on economic criteria, such as an attempt to determine whether inventions in a particular subject area are likely to be forthcoming even without patentability. To depart from the uniform patentability standard would, in AIPLA's view, compromise the primary value of consistency and predictability that is crucial to stimulating invention and potentially conflict with treaty obligations under the TRIPS Agreement.

AIPLA agrees with many of the mechanisms recommended by the NAS to promote sound decision-making within a uniform patent system. AIPLA favors the continued use of Examination Guidelines, but cautions that they should not be given undue deference by the courts; acknowledges the benefits of amicus briefs in the Federal Circuit; and favors the continued practice of judges from other courts sitting by designation on the Federal Circuit. While agreeing that judges on the Federal Circuit should come from diverse legal backgrounds, AIPLA notes that the present make-up of that court already reflects such diversity and may in fact find patent law, and particularly patent litigation, under-represented.

*Changes To Non-Obviousness Standard (NAS Recommendation 2;
FTC Recommendation 3)*

AIPLA largely agrees with the broader thrust of both the NAS and FTC Reports on the subject of non-obviousness. AIPLA's position proceeds from two core principles. First, the non-obviousness standard should be applied with vigor and rigor. Second, there is no need to modify the statutory standard of non-obviousness to correct whatever shortcomings may exist in the current application of that standard. AIPLA believes that these shortcomings are largely the result of inconsistent application of the non-obviousness standard by the U.S. Patent and Trademark Office, which can be corrected by adequate funding, improved prior art search capabilities and an effective post-grant opposition procedure.

AIPLA's position differs from the NAS and FTC Reports in some details, however:

- The NAS Report recommends abandoning the per se rule that prevents consideration of the technical difficulty in obtaining pre-existing genetic sequences. To the extent that this recommendation could be read to advocate technology-specific application of the non-obviousness standard, AIPLA disagrees.
- AIPLA does not agree that the FTC's discussion of the "commercial success" test of non-obviousness warrants any change to current judicial practice. AIPLA also believes that the problem with the "suggestion" test perceived by the FTC is not prevalent and will be self-correcting without any need for legislation.

Effective Post-Grant Opposition Procedure (NAS Recommendation 3; FTC Recommendation 1)

AIPLA agrees with the recommendations of both the NAS and the FTC that Congress consider legislation to create an “Open Review,” or post-grant review, proceeding for third parties to challenge the validity of patents after issuance. The procedure should be adequately funded and should provide a balance between the cost and efficiency of removing invalid patents while protecting the rights of the requester and the patentee. General features of AIPLA’s recommended procedure include:

- Allowing any person to request reconsideration of the grant of a patent by a panel of three Administrative Patent Judges by filing an opposition request with the PTO.
- Requiring requesters to identify the real party in interest by allowing the identity of the real party in interest to be kept sealed unless requested by a Government agency or a person showing good cause or unless the requester relies upon affidavits or exercises the right to appeal an adverse decision.
- Requiring requests to be filed not later than nine months after the grant of the patent, unless the patent owner consents in writing.
- Allowing the opposition request to raise any question of patentability, including double patenting and any of the requirements for patentability set forth in 35 U.S.C. §§ 101, 102, 103, 112, and 251(d). (This assumes passage of HR 2795, 109th Congress.)
- Allowing the patentee to narrow claims by amendment.
- Allowing cross-examination of witnesses but no other discovery unless required in the interest of justice.
- Basing the burden of proof on a preponderance of the evidence and applying the broadest reasonable construction of the claim.
- Allowing a party to appeal a final decision to the Federal Circuit.

- Applying preclusive effect against an opposer in any subsequent proceeding with respect to an issue of invalidity raised by an opposer, decided by the panel, and necessary to the final determination.
- Concluding the proceeding not later than one year after institution with a possible extension by not more than six months.
- Allowing termination of the proceeding upon receipt of a joint request of an opposer and the patent owner, but if no opposer remains in the proceeding, permitting the panel to terminate the proceeding or issue a written decision in the absence of an opposer.

Strengthen PTO Capabilities (NAS Recommendation 4; FTC Recommendation 4)

AIPLA strongly supports the recommendations of both the NAS and FTC Reports, and of many other observers, that Congress should provide additional funding for the PTO to implement its 21st Century Strategic Plan, which AIPLA also supports. AIPLA believes there is no justification for the current practice of applying fees received by the PTO to fund non-PTO programs and that a first step toward adequately funding of PTO activities is to end that diversion of funds.

New Legislation To Codify The Exemption For Scientific Research And Experimentation

AIPLA agrees with the NAS recommendation that Congress act to exempt certain experimentation inventions from liability for patent infringement. The uncertain state of the law threatens numerous adverse consequences, including complicated licensing negotiations, compensation over-reaching, royalty stacking and delays in starting experiments until patent issues can be resolved. AIPLA has endorsed legislation, based on international precedents, that would exempt the following research activities from infringement liability:

- Evaluating the validity of the patent and the scope of protection afforded under the patent;
- Understanding features, properties, inherent characteristics or advantages of the patented subject matter;

- Finding other methods of making or using the patented subject matter; and
- Finding alternatives to the patented subject matter, improvements thereto or substitutes therefor.

AIPLA disagrees with the NAS's alternative remedy if Congress fails to enact exempting legislation of having the federal government assume liability for patent infringement by investigators whose work it supports under contracts, grants and cooperative agreements. AIPLA believes this remedy could prove unworkable and is at best insufficient.

Modify or Remove Subjective Elements From Patent Litigation (NAS Recommendation 6; FTC Recommendation 9)

Concerned that patent infringement litigation has been unnecessarily complicated and unpredictable as a result of issues that depend on assessment of a party's state of mind, the NAS Report recommends significant changes in three areas. These are willful infringement, which can give rise to treble damages, the "best mode" requirement, and inequitable conduct.

Willful Infringement

The NAS poses three alternatives for dealing with the problems associated with willful infringement: (1) abolishing the requirement that accused infringers obtain and disclose a written opinion of counsel as the only way of establishing due care; (2) limit inquiry into willful infringement to cases in which the defendant's infringement has already been established; and/or (3) require written notice of infringement and/or deliberate copying as a predicate for finding willful infringement (which the FTC Report also recommends).

AIPLA supports all three alternatives. AIPLA also suggests the following refinements to the third alternative: (1) reserve the issue of willfulness for the court, rather than the jury; (2) define a standard of due care to serve as a predicate for any finding of willful infringement; (3) specify that, absent deliberate copying, reasonable reliance on advice of counsel, offered in evidence, establishes due care; and (4) abolish any adverse inference based on the failure of the accused infringer to waive the attorney-client privilege.

Best Mode

AIPLA supports the NAS Report recommendation to eliminate the “best mode” requirement. AIPLA believes the “best mode” requirement should be removed as part of a coordinated effort to reform the U.S. patent laws in moving to a first-inventor-to-file system and because in any event it is beset with a host of practical problems that open it up to capricious and inconsistent application.

Inequitable Conduct

AIPLA supports elimination of the inequitable conduct defense to patent infringement except where actual fraud resulted in issuance of an invalid patent claim. This change would not disturb antitrust remedies for such conduct or for sham litigation, but would largely eliminate misconduct determinations, which the Federal Circuit has labeled an “absolute plague,”² from private litigation. The antitrust litigation would be streamlined by eliminating the issue of whether the conduct had been fraudulent. The private plaintiff would not be able to assert an antitrust claim based on PTO fraud absent an actual finding of fraud by the PTO. At the same time, collateral estoppel would presumably bar the patent owner from re-litigating a PTO finding of fraud. The antitrust plaintiff would still have to prove that the patent owner had knowledge of the misconduct, and that the misconduct was fraudulent, at the time that it prosecuted the infringement suit, as well as the other elements of an antitrust claim, such as market power, standing and damages.

As discussed in AIPLA’s comment to NAS, this procedure can only work effectively if it is coordinated with a number of the other changes recommended by NAS, including first-inventor-to-file (recommendation 7), more comprehensive post-grant opposition (Recommendation 3), and adequate PTO funding (Recommendation 7).

² See *Burlington Industries, Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988) (“[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague.”)

International Harmonization (NAS Recommendation 7; FTC Recommendation 7)

AIPLA agrees with the NAS that redundancies should be reduced and inconsistencies should be eliminated among the world's patent systems. Accordingly, AIPLA endorses the following specific recommendations of the NAS Report:

- AIPLA strongly supports adoption of a first-inventor-to-file system of priority for U.S. patents as an international “best practice” that is better able to protect the interests of independent inventors and small entities.
- AIPLA also supports the NAS recommendation that any U.S. first-inventor-to-file system retain the one-year “grace period” which allows an inventor to file a patent application within one year of publication of its details without having the publication considered prior art precluding the patent grant.
- As indicated earlier, AIPLA supports elimination of the “best mode” requirement, which is an anomaly among the world's patent systems.
- AIPLA supports in concept the NAS recommendations for moving toward a more globally uniform prior art definition, but would refine those recommendations in the following ways: (1) treat patents, printed publications, and other public knowledge as prior art at the time they become reasonably and effectively accessible to persons skilled in the art, thereby eliminating the artificial prior art distinction in U.S. patent law under which knowledge existing in the United States constitutes prior art and knowledge existing elsewhere, even if readily available and effectively accessible, does not, and (2) treat applications that later issue as patents or that are otherwise published as prior art, with no distinction between the use as prior art for novelty or for non-obviousness purposes and with no distinction between the filing of a national or an international application for patent.
- AIPLA has long advocated adoption of a requirement recommended by the NAS and FTC Reports to require publication of all U.S. patent applications after 18 months. Such a rule would minimize the uncertainty associated with submarine patents.

Enact Legislation To Create Intervening Or Prior User Rights (FTC Recommendation 8)

The purpose of a prior user right is to provide a safeguard against opportunistic broadening of claims to capture products after they have been developed by others at substantial cost. AIPLA supports the FTC's recommendation to the extent that it would provide prior user rights for products or processes before the effective filing date of a relevant patent application. Specifically, AIPLA recommends amending that provision to remove its current limitation to processes; to delete the requirement that the prior use be reduced to practice one year prior to the effective filing date; and to include "substantial preparation" as an act of prior use.

Modify Certain PTO Rules and Implement Portions of the PTO's 21st Century Strategic Plan (FTC Recommendation 5)

The FTC Report contains four specific recommendations to change PTO rules and procedures. AIPLA agrees with two of those recommendations, and disagrees with the other two.

- AIPLA **agrees** with the FTC recommendation (5c) that the PTO expand its "second pair of eyes" review in selected art areas -- a procedure which AIPLA has long advocated.
- AIPLA **agrees** with the FTC recommendation (5d) that the PTO forge a balance between the public's interest in intellectual property and each patent holder or applicant's interest in his or her patent or trademark -- a balance which AIPLA believes is best served by faithful adherence to the legislation which establishes governing patent policy.
- AIPLA **disagrees** with the FTC recommendation (5a) to require PTO applicants to submit a statement as to the relevance of a prior art reference upon request of an examiner. In AIPLA's view such a requirement will result in increased cost and time, and the likelihood that it will be used against the patent in subsequent litigation means that little or no useful information will be obtained.
- AIPLA also **disagrees** with the FTC recommendation (5b) to encourage greater use of PTO Rule 105, Examiners' Request for Information, to permit further examiner follow-up. In AIPLA's view expanded use of Rule 105 will introduce unnecessary

inefficiencies into the patent prosecution process and unnecessary obfuscation into the record, with little potential benefit.

Change The Burden of Proof of Invalidity From “Clear and Convincing Evidence” To Mere “Preponderance of the Evidence” (FTC Recommendation 2)

AIPLA **strongly disagrees** with the FTC’s recommendation for legislation to change the burden of proof of patent invalidity from “clear and convincing evidence” to a mere “preponderance of evidence.” AIPLA believes that such a change would undermine decades of well-reasoned precedent and open the door for patent invalidations based on allegations that are easily fabricated and almost impossible to disprove, typically consisting of uncorroborated oral testimony of prior uses or prior inventions. AIPLA believes that the FTC and, unfortunately, some courts, have failed to draw a distinction between the predicate facts underlying a claim of invalidity, which should be proven by clear and convincing evidence, and the legal conclusion of invalidity based on the persuasive force of those facts, which need only be demonstrated by a fair preponderance. Such a distinction, in AIPLA’s view, is most consistent with Supreme Court precedent and with the reward the patentee deserves for disclosing his or her invention to the public through the patent application process.

Conclusion

AIPLA appreciates the opportunity to present its views on these important subjects to the Commission. We direct the Commission’s attention to the documents provided in the three appendices for more detailed treatment of each of the subjects summarized above, and we hope that the Commission finds them useful. AIPLA would also be pleased to participate in the hearings which the Commission has planned to elaborate on these subjects and any others relating to intellectual property which the Commission would like to explore.

Appendix A



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