from the Section Chair

The “Patent Monopoly”

Dear Colleagues,

Antitrust law, we are told, strives to prevent the willful acquisition of monopoly power. Patent law, we are also told, confers a limited “monopoly.” Sounds like an irreconcilable conflict, does it not? Historically, intellectual property protection was viewed as an exception to the antitrust laws. The modern view is a bit different, that the antitrust and IP are complementary ways of promoting innovation. In an economy increasingly driven by innovation and the commercialization of ideas, the relationship between antitrust and intellectual property laws plays a prominent role in competition policy and enforcement. This edition of Antitrust explores that dynamic interface.

The role of IP in antitrust matters has two polar extremes. The laissez-faire view, championed by Joseph Schumpeter, is that greater innovation comes from firms with monopoly power in part because they have greater resources to invest. The classic contrary view came from Kenneth Arrow, who argued that smaller firms have more to gain and so are prone to greater and more focused investment. This almost metaphysical debate has no conclusion, but analysis has nevertheless come a long way over the years. As demonstrated by the diminishing role of the “scope of the patent” test, antitrust has learned from deep exploration of these issues, and has developed a more rigorous, empirical approach that allows enforcers to look beyond the bare IP rules and to focus more on actual or likely competitive effects as well as the incentive to innovate.

Traditionally, practices that fell within the terms of a patent grant were immune from antitrust scrutiny and practices that went beyond the patent (e.g., temporally or physically) were subject to challenge. The original formulation of this concept pre-dates antitrust laws and is the product of patent policy—indeed, it was the basis for first sale doctrine in patent law. But the use of the concept in antitrust matters took time.

Initially, in the early 20th century, antitrust and IP law were deemed largely incompatible, and patents were simply assumed to confer government-endorsed monopoly power. In a 1902 decision, the Supreme Court held that product price fixing within a licensing agreement did not violate the Sherman Act, declaring that “the general rule is absolute freedom in the use or sale of rights under the patent laws.” And in 1912, the unfortunate decision in Henry v. A.B. Dick Co., held that tying of unpatented articles (mimograph paper) to a patented product (mimograph machines) could not be challenged under the Sherman Act. Practically speaking, patents and agreements related to those patents were beyond antitrust’s reach.

Then, with the passage of the Clayton Antitrust Act in 1914, Congress for the first time made clear that antitrust had a specific role to play even where IP rights are involved, legislatively overruling Henry v. Dick in the process. As courts began to bridge the isolation of patents from antitrust, the scope of the patent took form as a defense to antitrust scrutiny. By the middle of the 20th century, the types of conduct that were considered within the scope and immune from antitrust scrutiny narrowed. For example, the Supreme Court condemned the resale price maintenance of gasoline containing a patented additive in Ethyl and the tying of salt to the licensing of a patented salt-injection machine in International Salt. As framed by the Court in United States v. Line Material, the “precise terms of the grant define the limits of a patentee’s monopoly and the area in which the patentee is freed from competition.”

Antitrust’s increased activity in the field of IP was at times perceived as overly restrictive. Congress passed the Patent Act in 1952, which listed specific patent practices that did not constitute patent misuse. Antitrust intervention receded for a time in response, but by the 1970s had returned to its aggressive stance, highlighted by the DOJ’s “nine no-nos” of patent licensing. Following then-DAAG Tad Lipsky’s memorable repudiation of the no-nos in 1981, Congress answered again in 1988 by expanding the list of practices immune from patent misuse claims.

Two more recent decisions have provided some needed clarification on important contested issues. First, in 2006, Illinois Tool Works v. Independent Ink Co., jettisoned the concept that a patent necessarily confers monopoly power in the antitrust context. Numerous cases were overruled as a result.

Second, the Court sharply limited the scope of the patent defense in FTC v. Actavis. Under the Hatch-Waxman statutory scheme, patent owners and first-in-time generic filers are sometimes incentivized to avoid costly patent litigation using settlements whereby the patentee pays the generic manufacturer to delay entry for some amount of time that is less than the remaining patent duration. In this way, the companies are able to share in the patentee’s preserved monopoly profits without expanding the temporal scope of the patent.

In Actavis, the Court addressed a pay-for-delay reverse settlement, explicitly discussing the scope of the patent test. First, the majority acknowledged that while the effects of the reverse settlement agreement would likely have fallen within the scope of the patent assuming it was valid and not infringed, that fact does not immunize the settlement agree-
ment from antitrust attack. Next, addressing the assumptions of validity and non-infringement, the majority stated "it would be incongruous to determine antitrust legality by measuring the settlement’s anticompetitive effects solely against patent law policy, rather than by measuring them against procompetitive antitrust policies as well." For the dissenting Justices, issues of patent validity and infringement were within the exclusive purview of patent policy, and anticompetitive effects falling within the scope of a patent are beyond antitrust’s reach.

The Actavis majority held that whether a practice lies beyond the scope of the patent point is a question for a rule of reason analysis. In subjecting the scope of the patent to rule of reason analysis, the court also made clear that reverse payment settlements are not presumptively unlawful. As a result of Actavis, both patent and antitrust factors, including issues of patent validity and infringement where appropriate, will be considered in antitrust’s rule of reason analysis to determine the scope of a patent.

Antitrust courts are now more experienced and willing to critically analyze conduct through the rule of reason lens, allowing for more sophisticated enforcement of both antitrust and IP laws. There will be many future developments. The articles in this issue provide a great start.

All the very best,

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