



Antitrust in the 113th Congress

Anant Raut provides an insider's perspective on recent activities of the subcommittees with jurisdiction over anti-trust issues in Congress. He concludes that promises of more aggressive antitrust oversight failed to materialize and that Congress is unlikely to attempt much legislating in this area ahead of the mid-term elections.

Supreme Court to Address Removal of State *Parens Patriae* Actions to Federal Courts Under CAFA

In the wake of the Supreme Court's grant of certiorari in *Mississippi ex rel. Hood v. AU Optronics*, **Blake Harrop** examines a split in the circuits over whether *parens patriae* cases are removable to federal court as "mass actions" under the Class Action Fairness Act.

The Foreign Trade Antitrust Improvements Act: Did *Arbaugh* Erase Decades of Consensus Building?

Did the Supreme Court in *Arbaugh v. Y&H Corp.* articulate a new standard for determining whether the Foreign Trade Antitrust Improvements Act of 1982 addresses the subject-matter jurisdiction of federal courts or creates a new substantive element of a Sherman Act claim? **Tad Lipsky** and **Kory Wilmot** address the approaches taken by various courts and explain the practical importance of the distinction.

Not as Easy as Advertised: New Challenges in Bringing a Successful § 43(a) False Advertising Case

Christopher Cole and **Jason Crawford** canvas recent false advertising cases under Section 43(a) of the Lanham Act to analyze the effect of the Supreme Court's decisions in *Twombly/Iqbal* and in *eBay/Winter* on a plaintiff's ability to obtain redress.

Paper Trail: Working Papers and Recent Scholarship

Editor **Bill Page** surveys papers by **Rich Gilbert**, **Dennis Carlton** and **Allan Shampine**, and **Mark Lemley** and **Carl Shapiro** that discuss some of the difficult issues raised by patent owners' commitments to charge only "fair, reasonable, and non-discriminatory" (FRAND) royalties in return for inclusion of their patents in an industry standard.

Antitrust in the 113th Congress

Anant Raut

Despite a hotly contested general election that saw the most-ever campaign dollars spent,¹ the results of the 2012 election left the upper reaches of the federal government looking largely as before—with President Barack Obama reelected for a second term, and the Democrats chipping away at the Republican majority in the House of Representatives, while modestly padding their lead in the Senate, for yet another divided Congress.

Same Places, Different Faces

The first session of the 113th Congress started in January with all but one new face overseeing the subcommittees having jurisdiction over antitrust issues.

A little bit of background: when Congress wants to take on antitrust issues, either through hearings or legislation, all roads go through the Judiciary Committee, specifically, the Judiciary Committee's antitrust subcommittee.² This is true for both chambers. The chair of the Judiciary Committee generally has a good working relationship with the chair of the subcommittee (as the former usually plays a large role in selecting the latter). But ultimately it is the subcommittee chair's decision as to which hearings to hold and which legislation to advance. As a practical matter, this means that, with rare exception, all antitrust-related hearings—whether merger-of-the-week fare or agency oversight hearings—are held by the antitrust subcommittees. With respect to legislation, although every member of Congress has the ability to introduce antitrust legislation, for the bill to actually have any chance of passing into law, it must first be voted out of the subcommittee, and then the full Judiciary Committee, before it can be scheduled for a vote by the full chamber.³

Senate Antitrust Subcommittee. With the retirement of Sen. Herb Kohl (D-WI), Sen. Amy Klobuchar (D-MN), the senior Senator from Minnesota, took over as Chairman of the Senate antitrust subcommittee. Sen. Mike Lee (R-UT) remained the Ranking Member. Sen. Klobuchar has traditionally eschewed partisan rancor in favor of behind-the-scenes consensus-building, and is rumored to be keen on developing a national profile with her eye on the 2016 election, either as a potential Vice Presidential candidate or for a Cabinet position in a Democratic administration.⁴

■ **Anant Raut** is a Vice-Chair of the ABA Section of Antitrust Law's Legislative Committee. He served previously as Antitrust Counsel to the House Judiciary Committee in the 110th and 111th Congresses.

¹ Jennifer Liberto, *2012 Election Priciest to Date: \$4.2 Billion Tab and Rising*, CNNMONEY (Nov. 5, 2012, 6:36 PM), <http://money.cnn.com/2012/11/05/news/economy/campaign-finance/index.html>.

² These would be the Subcommittee on Regulatory Reform, Commercial and Antitrust Law in the House of Representatives, <http://judiciary.house.gov/about/subcommittee.html>, and the Subcommittee on Antitrust, Competition Policy and Consumer Rights in the Senate, <http://www.judiciary.senate.gov/about/subcommittees/antitrust.cfm>.

³ If largely identical bills are passed by both chambers, a conference committee consisting of representatives from both chambers decides upon a single bill, which is then returned to both chambers for a single up-or-down vote. Should that bill pass both chambers (or should both chambers pass the same bill the first time through), the bill then lands on the desk of the President, who can either sign it into law or veto it.

If these rumored aspirations are true, then expect to see only legislation and issues with bipartisan support move through her committee in the near future.⁵

House of Representatives Antitrust Subcommittee. When the 112th Congress's Chairman of the House antitrust subcommittee, Rep. Bob Goodlatte (R-VA), ascended to Chairman of the full Judiciary Committee in the new Congress,⁶ there was no clear successor. Reps. Howard Coble (R-NC) and Steve Chabot (R-OH) were each reportedly considered before the gavel was ultimately passed to Rep. Spencer Bachus (R-AL). Although entering his tenth term in Congress, Chairman Bachus does not have a significant footprint in antitrust policy making. Searching Thomas.gov, the last non-budgetary bill substantially related to antitrust introduced by Chairman Bachus was the Health Care Antitrust Improvements Act,⁷ all the way back in 2003.

Sitting to Chairman Bachus's left on the dais as the new Ranking Member is Rep. Steve Cohen (D-TN), an affable Southern charmer who once prefaced pointed questioning of Attorney General Eric Holder about the Delta/Northwest merger with "I will talk fast even though I am from the South."⁸

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Legislation

Most of the antitrust bills introduced so far in the first session of the 113th Congress have been either noncontroversial extensions of preexisting law or the ghosts of failed bills from Congresses past.⁹ Some of these retreads include an extension of an exemption for emergency collaboration among pharmaceutical companies; limited McCarran-Ferguson exemption repealers; a bill to create collective bargaining rights for community pharmacists; a bill to prohibit competition-delaying payments from major drug companies to generic competitors; and bills to limit the enforcement of mandatory arbitration clauses in certain class action cases.

So far, the Pandemic and All-Hazards Preparedness Reauthorization Act of 2013¹⁰ is the only antitrust bill to have been passed by Congress and signed into law this session. The Act suspends for another six years the application of the antitrust laws to collaborations among certain types of vaccine manufacturers during pandemics. Failure to pass this extension had been something of a black mark on the previous Congress, emblematic of the partisan rancor that had consumed Congress in the latter half of 2012, even during the lame-duck session. Passage of the bill was a priority in the new Congress because the preexisting law had expired in December 2012, leaving

⁴ See, e.g., *Which of the 20 Women Senators Could Be the First Female President of the U.S.*, FORBES, <http://www.forbes.com/pictures/them45ffk/amy-klobuchar-d-minn/> (last visited July 10, 2013).

⁵ *Id.* (noting that Sen. Klobuchar has favored "easy-to-win issues over more controversial bills").

⁶ His predecessor, Rep. Lamar Smith (R-TX), was required to step down as Chairman of the Judiciary Committee due to intra-party term limits.

⁷ Health Care Antitrust Improvements Act of 2003, H.R. 1120, 108th Cong. (2003), available at <http://www.gpo.gov/fdsys/pkg/BILLS-108hr1120ih/pdf/BILLS-108hr1120ih.pdf>. The bill would have applied the rule-of-reason standard to collective bargaining by two or more physicians with health plans. *Id.* § 2.

⁸ *Oversight of the U.S. Department of Justice: Hearing Before the H. Comm. on the Judiciary*, 112th Cong. 447–49 (2012) (questions from Rep. Cohen, Member, H. Comm. on the Judiciary), available at http://judiciary.house.gov/hearings/printers/112th/112-152_74504.pdf.

⁹ This thus begs the question whether any conditions have changed that would make these bills more likely to pass this divided Congress than they were in the last one.

¹⁰ Pandemic and All-Hazards Preparedness Reauthorization Act of 2013, Pub. L. No. 113-5, 127 Stat. 161 (2013), available at <http://www.gpo.gov/fdsys/pkg/PLAW-113publ5/pdf/PLAW-113publ5.pdf>.

the affected companies in legal limbo should the need for collaboration have arisen during the 2013 flu season.¹¹

Repealing the McCarran-Ferguson antitrust exemption with respect to health insurers is again in vogue, as narrowly focused McCarran repealers were introduced by Democrats and Republicans alike.¹² At first blush, the bipartisan interest suggests a unity of purpose; in reality, however, the language of the bills shows that consensus may lie in explicitly stating what is not covered by these bills.

- Section 2 of Rep. John Conyers, Jr.'s (D-MI) Health Insurance Industry Antitrust Enforcement Act of 2013¹³ would add price fixing, bid rigging, and market allocation as additional acts that are specifically excluded from the scope of McCarran-Ferguson antitrust exemption. Acts of boycott, coercion, and intimidation already fall completely outside the exemption. The Conyers bill also carves out price fixing, bid rigging, and market allocation when committed by medical malpractice insurers and health insurers. But health insurers are then treated to a belt-and-suspenders approach, because Section 3 of the Conyers bill amends McCarran-Ferguson so as to strip health insurance companies of their antitrust exemption entirely.
- Rep. Stephen Lynch's (D-MA) Competitive Health Insurance Act,¹⁴ like Section 3 of the Conyers bill, would strip health insurance companies of their exemption from the antitrust laws (which would include Section 5 of the FTC Act insofar as unfair methods of competition are concerned). Unlike the Conyers bill (which also addresses medical malpractice insurers), the Lynch bill does not separately carve out price fixing, bid rigging, and market allocation because those acts would be proscribed by the federal antitrust laws anyway if the exemption for health insurance companies were stripped away.
- Rep. Peter DeFazio's (D-OR) Health Insurance Industry Fair Competition Act¹⁵ appears to be identical in substance to the Lynch bill, which is odd, given that it was introduced after Rep. Lynch's.¹⁶
- Rep. Paul Gosar's (R-AZ) Competitive Health Insurance Reform Act of 2013,¹⁷ like the Lynch and DeFazio bills, would make health insurers (including dental insurers) subject to the fed-

¹¹ Or a zombie outbreak caused, for example, by the rage virus or similar infection. *See, e.g.*, 28 DAYS LATER (Twentieth Century Fox 2002) (four weeks after a mysterious, incurable virus spreads throughout the United Kingdom, a handful of survivors tries to find sanctuary); RETURN OF THE LIVING DEAD (Orion Pictures 1985) (when a bumbling pair of employees at a medical supply warehouse accidentally release a deadly gas into the air, the vapors cause the dead to reanimate and go on a rampage through Louisville, Kentucky, seeking brains).

¹² The McCarran-Ferguson Act, ch. 20, 59 Stat. 33 (1945) (codified as amended at 15 U.S.C. §§ 1011–1015), creates an exemption from the federal antitrust laws for those insurers that are engaged in the “business of insurance” and already regulated by state law. *Id.* § 2(b). Falling outside of the exemption, however, are agreements to boycott, coerce, or intimidate, and acts of boycott, coercion, or intimidation. *Id.* § 3(b).

¹³ Health Insurance Industry Antitrust Enforcement Act of 2013, H.R. 99, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113hr99ih/pdf/BILLS-113hr99ih.pdf>.

¹⁴ Competitive Health Insurance Act, H.R. 344, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113hr344ih/pdf/BILLS-113hr344ih.pdf>.

¹⁵ Health Insurance Industry Fair Competition Act, H.R. 743, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113hr743ih/pdf/BILLS-113hr743ih.pdf>.

¹⁶ H.R. 344 was introduced on January 22, 2013, and H.R. 743 was introduced on February 15, 2013. Both were referred to the House Judiciary Committee.

¹⁷ Competitive Health Insurance Reform Act of 2013, H.R. 911, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113hr911ih/pdf/BILLS-113hr911ih.pdf>.

eral antitrust laws. It goes a step further, however, and explicitly clarifies that the “business of health insurance” to which the antitrust laws would apply does not include the business of life insurance (including annuities) or the business of property or casualty insurance. This clarification would appear unnecessary; after all, *none* of the McCarran repealer bills introduced this session facially targets life and property/casualty insurers. The Gosar bill is the only one to say so explicitly. Most likely, this provision was included specifically to mollify industry concerns that the bill may be ambiguous in its application to other areas of insurance.

Of the four bills, the Gosar bill has the most co-sponsors, seven Republicans and five Democrats. Unfortunately, as of press time, there is no parallel legislation in the Senate, so the prospects of any of these bills advancing during this session are dim.¹⁸

On the Senate side, Sen. Klobuchar reintroduced her bill¹⁹ to remove the antitrust exemption for railroads. S. 638 is identical to legislation that Sen. Klobuchar (whose home state of Minnesota has a large farming community dependent upon railroads) co-sponsored with Sen. Kohl last term. The bill would terminate the antitrust exemptions under Title 49 for railroads, eliminate the primary jurisdiction of the Surface Transportation Board in civil antitrust matters, and curtail the effect of the filed-rate doctrine in limiting the damages available in civil antitrust cases.

Sen. Klobuchar’s railroad antitrust enforcement bill passed out of committee last Congress, but never made it to the Senate floor for a vote. Even if the bill were to pass the Senate this year, it would not likely move very far in the House. In a May 19, 2009 hearing²⁰ held on a parallel bill introduced on the House side in the 111th Congress, then-Judiciary Committee Member Rep. Goodlatte questioned whether removing the antitrust exemption for railroads, which are already under the jurisdiction of the Surface Transportation Board, would create an additional regulatory burden on the industry.²¹ Should Rep. Goodlatte remain as skeptical of the merits of the bill this Congress, it would then be unclear how far such legislation, even if it were to pass the Senate, could move in the House, as he, now Chairman, could effectively prevent the bill from ever getting to a floor vote simply by not bringing it up for a vote in his Committee.²² Just as tellingly, this year, as in the 112th Congress, the Democrats in the House have not introduced any legislation parallel to the Klobuchar bill.

Sen. Klobuchar’s Preserve Access to Affordable Generics Act²³ would prohibit so-called reverse payments or the practice of “pay for-delay” occurring under the backdrop of the Hatch-Waxman Act, in which a branded drug manufacturer pays a generic rival some amount of money

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¹⁸ The Senate could take up and pass a bill that had already been passed by the House without introducing legislation of its own. However, this is less common when partisan or controversial legislation is involved.

¹⁹ Railroad Antitrust Enforcement Act of 2013, S. 638, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113s638is/pdf/BILLS-113s638is.pdf>.

²⁰ *Railroad Antitrust Enforcement Act of 2009: Hearing Before the Subcomm. on Courts and Competition Policy of the H. Comm. on the Judiciary*, 111th Cong. (2009), transcript available at <http://www.gpo.gov/fdsys/pkg/CHRG-111hhrg49781/html/CHRG-111hhrg49781.pdf>. The author was present at this hearing as Majority Counsel.

²¹ *Id.* 105–07 (questions from Rep. Goodlatte, Member, H. Comm. on the Judiciary).

²² This is assuming a best-case scenario in which it would have passed through Chairman Bachus’s subcommittee, which is by no means a certainty, or even a high probability.

²³ Preserve Access to Affordable Generics Act, S. 214, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113s214is/pdf/BILLS-113s214is.pdf>.

²⁴ See Transcript of Oral Argument at 43 & 51 (Respondents’ counsel arguing that if there is a problem, it is for Congress to fix), *FTC v. Actavis*, 133 S. Ct. 2223 (2013) (No. 12-416, argued Mar. 25, 2013), available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/12-416-8fe5.pdf.

to keep the generic off the market, thus preserving the paying company's exclusivity a while longer. Sen. Klobuchar and Sen. Kohl have consistently introduced similar legislation in prior Congresses (pay-for-delay was a bugbear of outgoing Federal Trade Commission Chairman Jon Leibowitz, himself a former chief counsel to Sen. Kohl). This year, however, the legislation preceded Supreme Court arguments on the legality of those payments.²⁴ After the Supreme Court held 5–3 that the legality of the payments may be challenged under the antitrust laws and subjected to rule-of-reason scrutiny,²⁵ Sen. Klobuchar scheduled a hearing of her subcommittee for July 23, 2013²⁶ to examine the implications of the decision and whether legislation is still needed.

Sen. Al Franken (D-MN) and Rep. Hank Johnson (D-GA) have introduced identical versions of a bill in their respective chambers that would make unenforceable pre-dispute arbitration clauses imposed in a variety of legal disputes, including class action antitrust cases.²⁷ The bill closely tracks bills previously introduced in the 111th and 112th Congresses, in that it too would invalidate such clauses in employment disputes, consumer disputes, and civil rights disputes. The Franken and Johnson bills introduced in this Congress, however, also protect antitrust disputes (defined as putative class actions for antitrust damages under federal or state law) from mandatory arbitration, very likely in response to the February 2013 oral arguments in *American Express Co. v. Italian Colors Restaurant*,²⁸ in which the Supreme Court was expected to uphold (and has now upheld) the enforceability of pre-dispute arbitration clauses individually against plaintiffs trying to unite in a class action.²⁹ Since the bill's introduction and referral to the respective committees, only Democrats and one Independent have signed on as cosponsors in either chamber,³⁰ and given Republicans' historical resistance to class action lawsuits, the bill in its present form is unlikely to progress.

As the first session of the 113th progresses, some new bills have been introduced as well.

Sen. John McCain introduced legislation³¹ that would allow cable companies to purchase programming content on an à la carte basis, as well as require cable companies to sell that content on an à la carte basis to consumers. The legislation stems from an antitrust dispute that erupted between cable company Cablevision Systems Corp. and programming content provider Viacom Inc. in the New York City market. In the context of an ongoing contract dispute, Cablevision filed an antitrust lawsuit against Viacom, claiming that its practice of bundling cable channels togeth-

²⁵ *FTC v. Actavis*, 133 S. Ct. 2223 (2013), available at http://www.supremecourt.gov/opinions/12pdf/12-416_m5n0.pdf. Chief Justice Roberts authored a dissenting opinion, in which Justices Scalia and Thomas joined. Justice Alito took no part in the consideration or the decision of the case.

²⁶ *Pay-for-Delay Deals: Limiting Competition and Costing Consumers: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. (2013).

²⁷ Arbitration Fairness Act of 2013, S. 878, 113th Cong. § 3 (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113s878is/pdf/BILLS-113s878is.pdf>; Arbitration Fairness Act of 2013, H.R. 1844, 113th Cong. § 3 (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113hr1844ih/pdf/BILLS-113hr1844ih.pdf>.

²⁸ See Transcript of Oral Argument at 17 (Petitioners' counsel arguing that Congress, through new legislation, can empower an agency to determine whether class action waivers will be permitted), *Am. Express Co. v. Italian Colors Rest.*, 133 S. Ct. 2304 (2013) (No. 12-133, argued Feb. 27, 2013), available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/12-133.pdf.

²⁹ *Am. Express Co. v. Italian Colors Rest.*, 133 S. Ct. 2304 (2013), available at http://www.supremecourt.gov/opinions/12pdf/12-133_19m1.pdf.

³⁰ S. 878 currently has 19 cosponsors, including one Independent (Sen. Bernie Sanders (I-VT)), and H.R. 1844 currently has 45 cosponsors, all of them Democrats.

³¹ Television Consumer Freedom Act of 2013, S. 912, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113s912is/pdf/BILLS-113s912is.pdf>.

er into packages violated the antitrust laws.³² Even Sen. McCain himself has appeared less than sanguine about the bill's chances of becoming law, telling the *Arizona Republic* that he would be surprised if the bill were to pass "because the cable companies and the satellite companies are such a powerful special interest."³³

In July 2011, the Government Accountability Office (GAO) issued its long-awaited report on the efficacy of the Antitrust Criminal Penalty Enhancement and Reform Act (ACPERA), the criminal cartel whistleblower statute.³⁴ The study had been commissioned as part of ACPERA's reauthorization in 2010. Whereas the Senate had favored a straight reauthorization with no sunset, the House sought amendments to the statute that included antiretaliation provisions and whistleblower protection. In negotiating the language of the final bill, proponents in the House agreed to remove the antiretaliation and *qui tam* provisions in favor of a GAO study on the effect of such provisions on the efficacy of the statute. After surveying a broad array of plaintiff and defense attorneys as well as other stakeholders, the GAO concluded in its report that while there was "no consensus" regarding the net benefit of adding a whistleblower reward to ACPERA, there was "wide support" for adding antiretaliation protection.³⁵ In the wake of that report, Sens. Patrick Leahy (D-VT) and Chuck Grassley (R-IA) have introduced legislation that would create, for the first time, antiretaliation protection in cartel price-fixing cases. Their bill, the Criminal Antitrust Anti-Retaliation Act of 2013,³⁶ prohibits retaliation against employees, contractors, subcontractors, and agents for reporting potential antitrust violations to federal authorities or cooperating with federal authorities in their investigation of potential violations. The antiretaliation provisions would be enforceable, in the first instance, through a complaint filed with the Secretary of Labor, and if the Secretary does not issue a final decision on the complaint within 180 days of its filing, then through a civil suit filed in federal district court by the affected party.

Rep. Alan Grayson's (D-FL) bill, H.R. 1113,³⁷ would make the antitrust laws applicable to political action committees (PACs). This legislation seems to be more of a statement bill than an attempt at serious legislation, given that Rep. Grayson introduced the same bill, H.R. 4433, in the 111th Congress as part of a package of bills under his "Save Our Democracy" Platform to "stave off the threat of 'corpocracy,'"³⁸ in response to the Supreme Court's then-freshly inked decision in *Citizens United v. FEC*.³⁹ H.R. 4433 did not make it out of the committee under a Democrat chair-

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³² See, e.g., Daniel Fisher, *Cablevision's Lawsuit Against Viacom Is All About Shelf Space*, FORBES (Mar. 7, 2013, 7:28 PM), <http://www.forbes.com/sites/danielfisher/2013/03/07/cablevisions-lawsuit-against-viacom-is-all-about-shelf-space/>; Alex Sherman & Edmund Lee, *Cablevision—Viacom Suit Aims to Shake Up \$170B Industry*, BLOOMBERG (Feb. 27, 2013, 2:00 PM), <http://www.bloomberg.com/news/2013-02-27/cablevision-viacom-suit-aims-to-shake-up-170b-industry.html>.

³³ Dan Nowicki, *McCain Bill Pushes "A La Carte" Cable Pricing*, ARIZ. REPUBLIC (May 20, 2013, 10:22 AM), <http://www.azcentral.com/news/politics/articles/20130515mccain-bill-cable-pricing-a-la-carte.html>.

³⁴ U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-11-619, CRIMINAL CARTEL ENFORCEMENT: STAKEHOLDER VIEWS ON IMPACT OF 2004 ANTI-TRUST REFORM ARE MIXED, BUT SUPPORT WHISTLEBLOWER PROTECTION (2011), available at <http://www.gao.gov/assets/330/321794.pdf>.

³⁵ *Id.* at 36.

³⁶ Criminal Antitrust Anti-Retaliation Act of 2013, S. 42, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113s42is/pdf/BILLS-113s42is.pdf>.

³⁷ H.R. 1113, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113hr1113ih/pdf/BILLS-113hr1113ih.pdf>.

³⁸ H.R. 4433, 111th Cong. (2010), available at <http://www.gpo.gov/fdsys/pkg/BILLS-111hr4433ih/pdf/BILLS-111hr4433ih.pdf>; Campaign Finance Reform, CONGRESSMAN ALAN GRAYSON, <http://grayson.house.gov/issues/campaign-finance> (last visited June 30, 2013).

³⁹ 558 U.S. 310 (2010).

man (Rep. Conyers), and there is no reason to think the bill will fare any better this time under Chairman Goodlatte's leadership.⁴⁰

Rep. Tom Marino's (R-PA) Preserving Our Hometown Independent Pharmacies Act of 2013⁴¹ would create an antitrust exemption for community pharmacies to collectively bargain with health plans and health insurers. Variations of the Marino bill, creating antitrust exemptions for community pharmacies for collective bargaining purposes,⁴² have been introduced in the last several Congresses, but none has made it out of committee since the Community Pharmacy Fairness Act of 2007 in the 110th Congress.

Hearings

The sequester, immigration reform, and gun control have sucked up most of the oxygen in the first session of the 113th Congress, and with no scandals in either antitrust enforcement agency (i.e., the Department of Justice's Antitrust Division and the Federal Trade Commission) or enforcement actions that readily lend themselves to speechifying, there has been little interest among the rank and file to hold antitrust hearings. To date, there have been three antitrust hearings this Congress, two of which were about the same merger.

Although Congress lacks a direct role in merger enforcement, it nonetheless likes holding merger hearings. Mergers are perhaps the most intuitive antitrust issues for both nonlawyers on the committees and the general public to grasp. In theory, merger hearings are supposed to explore the need for legislative redress in consolidating industries; in practice, they offer members a bully pulpit from which to voice the concerns and outrage of their constituents.

US Airways/American Airlines merger (House of Representatives). The first antitrust hearing held in the 113th was the House antitrust subcommittee's hearing on the US Airways/American Airlines merger.⁴³ The House hearing was initially quite amicable toward senior executives from the two airlines appearing as witnesses,⁴⁴ with members on both sides of the aisle using their question-and-answer period essentially to petition the airlines to maintain or add service to their districts. For reasons that remain opaque, several members pitched the attractiveness of their airports on the basis of how they smell, from ribs (Memphis) to Paschal's fried chicken (Atlanta) to Cuban coffee (Miami).

Initially, the actual antitrust discussion was thin. Chairman Bachus started the five-minute-per-member question-and-answer session by complimenting the American Airlines witness on US

⁴⁰ Nor is it clear what effect, if any, such legislation would have, given that political action committees, as distinct from their *Noerr*-protected petitioning activity, are already subject to the antitrust laws.

⁴¹ Preserving Our Hometown Independent Pharmacies Act of 2013, H.R. 1188, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113hr1188ih/pdf/BILLS-113hr1188ih.pdf>.

⁴² See Community Pharmacy Fairness Act of 2005, H.R. 1671, 109th Cong. (2005); Community Pharmacy Fairness Act of 2007, H.R. 971, 110th Cong. (as reported by H. Comm. on the Judiciary, Sept. 28, 2008); Community Pharmacy Fairness Act of 2007, S. 885, 110th Cong. (2007); Community Pharmacy Fairness Act of 2007, S. 2161, 110th Cong. (2007); Community Pharmacy Fairness Act of 2009, H.R. 1204, 111th Cong. 1st Sess. (2009); and Community Pharmacy Fairness Act of 2011, H.R. 1839, 112th Cong. (2011). Apparently, a common legislative drafting trick has been to replace the term "antitrust exemption" with "fairness" when proposing bills of this nature.

⁴³ *Competition and Bankruptcy in the Airline Industry: The Proposed Merger of American Airlines and US Airways: Hearing Before the Subcomm. on Regulatory Reform, Commercial and Antitrust Law of the H. Comm. on the Judiciary*, 113th Cong. (Feb. 26, 2013), http://judiciary.house.gov/hearings/113th/hear_02262013_2.html.

⁴⁴ The executives were Stephen Johnson, US Airways' Executive Vice President for Corporate and Government Affairs, and Gary Kennedy, American Airlines' Senior Vice President and General Counsel.

Airways' service, before shutting down the antitrust analysis of Prof. Chris Sagers of Cleveland-Marshall College of Law. Ranking Member Cohen essentially functioned as an unpaid volunteer for the Memphis Visitors Bureau, repeatedly exhorting the executives to increase their routes to his city.⁴⁵

After the initial jocularity, the two airline executives found themselves facing tough questioning from members on both wings of the dais. There was deep skepticism that prices would go down, services would not get cut, and competition in general would go up, with Reps. Blake Farenthold (R-TX), Conyers, George Holding (R-NC), and Marino in particular directing hard-hitting questions at the witnesses. If anything, the hearing reinforced a truism about most antitrust matters before Congress—antitrust tends to be a district-specific issue rather than a partisan one, and thus members of the same party can have markedly different opinions on the same issue.

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US Airways/American Airlines merger (Senate). The Senate antitrust subcommittee also held a hearing on the US Airways/American Airlines merger, with higher wattage in terms of witnesses, with the CEOs of the merging parties, Douglas Parker of US Airways and Thomas Horton of American Airlines, both testifying.⁴⁶ As was the case with the House hearing, members like Sens. Chuck Schumer (D-NY) and Jeff Flake (R-AZ) used their question-and-answer time to extract promises not to decrease service to their respective states. The voluble Sen. Ted Cruz (R-TX), not even a member of the subcommittee, popped by to thank the airlines for deciding to remain post-merger in American Airlines' Fort Worth, Texas headquarters, and went on to wax poetic about the benefits of doing business in Texas generally. The antitrust witness in this hearing fared marginally better than in the House, as Diana Moss's testimony was used at one point to launch a colloquy among the Senators about whether farmers are fat.

Antitrust agencies oversight (Senate). The Senate also held the first and only antitrust oversight hearing so far in this Congress.⁴⁷ As it was held fairly early into the tenures of the new heads of both Agencies, the hearing was relatively uneventful. However, it did provide some insights into the priorities of key players on the committee.

In her opening remarks, Chairman Klobuchar credited the late Justice Thurgood Marshall (and his famous adage that the Sherman Act is the "Magna Carta of free enterprise")⁴⁸ as strongly influencing her approach to antitrust. Ranking Member Lee was again demonstrably fluent with the antitrust laws. In the airline hearing, he had frequently quoted from the Horizontal Merger Guidelines and cited antitrust cases by name in framing his witness questions. In his opening remarks in this hearing, he cited the late Circuit Judge Robert Bork's *The Antitrust Paradox*⁴⁹ as simpatico with his views that the goal of antitrust law should be to maximize consumer welfare and protect competition as opposed to any individual competitor.

⁴⁵ In selling the Memphis airport, Rep. Cohen took a few gratuitous digs at the expense of Atlanta. Of course, his deprecations could not go unanswered, and Rep. Hank Johnson, Jr. (D-GA) showed up later to extoll the fine smells of Atlanta's Hartsfield-Jackson Airport.

⁴⁶ *The American Airlines/US Airways Merger: Consolidation, Competition, and Consumers: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. (Mar. 19, 2013), <http://www.judiciary.senate.gov/hearings/hearing.cfm?id=6f599899d600989e3e380a731d0d247c>.

⁴⁷ *Oversight of the Enforcement of the Antitrust Laws: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. (Apr. 16, 2013), <http://www.judiciary.senate.gov/hearings/hearing.cfm?id=06a161c5a0d082f5c694f027f7eed2fc>.

⁴⁸ *United States v. Topco Assocs.*, 405 U.S. 596, 610 (1972).

⁴⁹ ROBERT H. BORK, *THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF* (1978).

The biggest antitrust news had occurred the prior Friday, when the DOJ filed comments with the Federal Communications Commission articulating criteria for efficiently allocating newly available wireless spectrum.⁵⁰ Assistant Attorney General William Baer homered an underhand pitch from Sen. Richard Blumenthal (D-CT), agreeing that a spectrum screen is the best way to put newly available spectrum back into the market in a competitive manner, and urged that differences in quality of spectrum (low-frequency vs. high-frequency) should be taken into consideration. Ranking Member Lee queried whether steering spectrum toward smaller players interferes with the free market by preventing competitive bidding; Baer responded that the Division's concern is spectrum being "warehoused" by one or two market-dominant players at the expense of smaller competitors or new entrants.

Very little came up in terms of specific legislation. FTC Chairwoman Edith Ramirez voiced support for Chairman Klobuchar's pay-for-delay generic drug bill—hardly surprising given how important the issue was for the FTC under her predecessor. In response to questioning from Chairman Klobuchar, and referencing discussion of her railroad antitrust enforcement bill during his confirmation hearing, Assistant Attorney General Baer assured her that the DOJ would actively advocate within the Administration to have a more active presence in that industry.

In terms of enforcement priorities, Chairman Klobuchar stated that an issue of concern for her is the increasing frequency with which companies take patent disputes to the International Trade Commission. Sen. Blumenthal tried to corner Chairwoman Ramirez into committing to some type of investigation, workshop, or study regarding group purchasing organizations and kickbacks, but Chairwoman Ramirez demurred, saying that because of resource constraints, she could not commit to specific actions.⁵¹ Sen. Franken asked for follow-up to the joint DOJ-Department of Agriculture workshop series from 2010, not surprising given that agriculture plays a significant role in the economy of his state (Minnesota). He also urged the DOJ to continue investigating most-favored-nation clauses, as well as to scrutinize the anticompetitive effects of Verizon Wireless's joint marketing agreements with cable companies. Sen. Franken further expressed concern that cable broadband providers artificially inflate the price of standalone broadband to push consumers into buying cable-broadband bundles, thus reducing the threat posed by (and ensuing competition for) consumers who "cut the cord" with cable providers.

Regarding antitrust policy, Ranking Member Lee asked Assistant Attorney General Baer about former Assistant Attorney General Christine Varney's withdrawal of the DOJ's 2008 Section 2 Report,⁵² and whether the DOJ had plans to offer any guidance on enforcement of Section 2 of the Sherman Act in the report's absence. Baer stated that the DOJ was not ready to put forward meaningful guidance. Ranking Member Lee also chided Chairwoman Ramirez about the FTC's sweeping interpretation of Section 5 of the FTC Act, asserting that the FTC lacked "regulatory humility" and citing the public comments of FTC Commissioner Maureen Ohlhausen,⁵³ who had stated that

⁵⁰ *Ex Parte* Submission of the U.S. Dep't of Justice, Policies Regarding Mobile Spectrum Holdings, WT Docket No. 12-269 (Apr. 11, 2013), available at <http://apps.fcc.gov/ecfs/document/view?id=7022269624>.

⁵¹ Chairwoman Ramirez further pointed out that the anti-kickback statute is not enforceable by the FTC, but did say that there are potentially other actions that the FTC could take.

⁵² U.S. DEP'T OF JUSTICE, COMPETITION AND MONOPOLY: SINGLE-FIRM CONDUCT UNDER SECTION 2 OF THE SHERMAN ACT (2008), available at <http://www.justice.gov/atr/public/reports/236681.pdf>; Press Release, U.S. Dep't of Justice, Justice Department Withdraws Report on Antitrust Monopoly Law (May 11, 2009), http://www.justice.gov/atr/public/press_releases/2009/245710.pdf.

⁵³ Commissioner Ohlhausen is one of two Republican appointees on the FTC.

the agency needs to provide industry with clear guidance on the limits of the statute.⁵⁴ Ranking Member Lee also asked the witnesses about the impact of different preliminary injunction standards between the Agencies, which both Agency heads testified that in practical terms, the effect ended up being the same.

As far as specific companies are concerned, Google appears to be squarely in the sights of Ranking Member Lee. He repeatedly asked the heads of both Agencies whether they would be willing to reopen the investigation into Google. Citing Google's voluntary commitments in settling the FTC's investigation into its search results, Ranking Member Lee questioned the value of obtaining voluntary commitments instead of formalizing them into a consent order, which, echoing former FTC Commissioner Tom Rosch's dissent,⁵⁵ he described as an "informal" and "illegitimate" regulatory approach. Chairwoman Ramirez responded that the Google settlement should not be considered precedent for future FTC actions. Ranking Member Lee also hammered Chairwoman Ramirez on the anticompetitive effects of Google's giving preferential placement on its results page to its partially or wholly owned properties. Chairwoman Ramirez cited the D.C. Circuit's en banc opinion in *United States v. Microsoft Corp.*⁵⁶ as providing the appropriate standard for product improvement cases, reiterating the Commission's finding that the changes Google made to its search results were procompetitive. Ranking Member Lee also asked Assistant Attorney General Baer about the DOJ investigating Google's possible abuse of dominance, to which Baer demurred by referring to the standard clearance process between the Agencies as to which one would pursue hypothetical future actions.

Ranking Member Lee

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What Comes Next

One area of growing interest in Congress is competition with respect to intellectual property. On the heels of recent comments by FTC Chairwoman Ramirez⁵⁷ intimating an upcoming Section 6(b) investigation⁵⁸ into the behavior of patent assertion entities (PAEs, or, as they are less charitably known, "patent trolls"), Chairman Klobuchar sent a letter⁵⁹ to all four Commissioners urging the FTC not to wait for the results of a study but immediately commence enforcement actions against PAEs targeting end-users of patents.

Sens. Klobuchar and Lee have previously expressed interest in examining other issues at the intersection of antitrust and intellectual property, such as the market power conferred by standard-setting and standard-essential patents. As the ongoing patent battles among technology titans such as Apple, Samsung, Motorola, and Oracle become ever more protracted and expensive, Congress may step in and take direct action in advance of whatever Pyrrhic victories may occur.

⁵⁴ See Dissenting Statement of Commissioner Maureen K. Ohlhausen 5, *Motorola Mobility LLC and Google Inc.*, FTC File No. 121-0120 (Jan. 3, 2013), available at <http://www.ftc.gov/os/caselist/1210120/130103googlemotorolaohlhausenstmt.pdf>.

⁵⁵ See Concurring and Dissenting Statement of Commissioner J. Thomas Rosch Regarding Google's Search Practices 7–8, *Google, Inc.*, FTC File No. 111-0163 (Jan. 3, 2013), available at <http://www.ftc.gov/speeches/rosch/130103googlesearchstmt.pdf>.

⁵⁶ 253 F.3d 34, 75 (D.C. Cir. 2001) (en banc).

⁵⁷ Edith Ramirez, Chairwoman, Fed. Trade Comm'n, *Competition Law and Patent Assertion Entities: What Antitrust Enforcers Can Do*, Remarks Before the Computer & Communications Industry Association and American Antitrust Institute Program 8 (June 20, 2013), <http://www.ftc.gov/speeches/ramirez/130620paespeech.pdf>.

⁵⁸ 15 U.S.C. § 46(b).

⁵⁹ Letter from Sen. Amy Klobuchar to Chairwoman Edith Ramirez and Commissioners Julie Brill, Maureen K. Ohlhausen, and Joshua D. Wright, Federal Trade Commission (June 26, 2013), available at http://www.klobuchar.senate.gov/newsreleases_detail.cfm?id=344202&.

On June 21st, President Obama nominated Senior Counsel to the Assistant Attorney General Terrell McSweeney to the open fifth Commissioner slot at the FTC.⁶⁰ The position requires Senate confirmation, and that process goes through the Senate Commerce Committee,⁶¹ which has jurisdiction over the consumer protection arm of the Commission. Typically, committees wait to pair a nominee with at least one other nominee, ideally one representing the interests of the opposing party, before scheduling a nomination hearing. When it finally occurs, the confirmation process for McSweeney should go smoothly. McSweeney is a former staffer to Vice President Joe Biden from his time as a U.S. Senator, and the upper chamber tends not to eat its own.

Conclusion

Just as highly anticipated blizzards failed to materialize in the District last January, so too have promises of more aggressive antitrust oversight. But as some hot-button issues are either stalemated or resolved and Congress's bandwidth begins to free a little, there is the prospect, in theory, that less controversial issues may garner both chambers' attention in the committees and perhaps on the floor.

Practically speaking, however, that is unlikely to happen. Rounding into the second session of the 113th Congress, it is doubtful whether Congress will attempt much serious legislating in 2014 ahead of the mid-term elections, and so what we have seen so far may be as good as it gets for now. ●

⁶⁰ White House Office of the Press Secretary, President Obama Announces More Key Administration Posts (June 21, 2013), <http://www.whitehouse.gov/the-press-office/2013/06/21/president-obama-announces-more-key-administration-posts>.

⁶¹ That is, the Committee on Commerce, Science & Transportation. Sen. Jay Rockefeller IV (D-WV) is the Chairman and Sen. John Thune (R-SD) is the Ranking Member.

Supreme Court to Address Removal of State *Parens Patriae* Actions to Federal Courts Under CAFA

Blake L. Harrop

States have used *parens patriae* actions for some time to ensure that their citizens receive the full protection of their state's consumer protection and antitrust statutes. As these actions have involved greater and greater financial stakes, they have attracted more attacks on the states' *parens* authority. Defendants have increasingly tried to remove the states' actions from state courts and transfer them to a forum outside the state using the Class Action Fairness Act (CAFA).¹ While the majority of federal appellate courts have held that CAFA does not provide federal jurisdiction over a *parens* case,² one federal circuit—the Fifth—has continuously held that it does.³ Since these appellate decisions could affect a wide range of state law enforcement efforts, states have provided amicus curiae briefs to appellate courts to assist them in evaluating these claims of CAFA jurisdiction.⁴

In May, the U.S. Supreme Court granted certiorari to consider one aspect of the issue. In *Mississippi ex rel. Hood v. AU Optronics Corp.*,⁵ the Court agreed to consider whether a state *parens patriae* case is removable as a CAFA “mass action.” The resolution of this question will determine whether a large number of cases traditionally brought in the state courts can be removed to federal court.

Parens Patriae and the Role of States and State Courts

Parens patriae means literally “parent of his or her country.”⁶ The traditional concept derives from the royal prerogative at common law to deal with legal affairs of persons legally unable to act on their own behalf.⁷ American courts traditionally recognized the concept as well,⁸ but expanded it to include governmental representation of all or some of a state's citizens to prevent or remedy

■ **Blake L. Harrop** serves as a Senior Assistant Attorney General, Office of the Illinois Attorney General. The views expressed in this article belong to the author and do not necessarily represent the views of the Illinois Attorney General or her office. A prior version of this paper was presented at the Spring Meeting of the ABA Antitrust Section in April 2013.

¹ Class Action Fairness Act of 2005, 28 U.S.C. §§ 1332(d), 1453, 1711–15.

² See, e.g., *Purdue Pharma L.P. v. Kentucky*, 704 F.3d 208 (2d Cir. 2013); *AU Optronics Corp. v. South Carolina*, 699 F.3d 385 (4th Cir. 2012); *West Virginia ex rel. McGraw v. CVS Pharmacy, Inc.*, 646 F.3d 768 (4th Cir. 2011); *LG Display, Ltd. v. Madigan*, 665 F.3d 768 (7th Cir. 2011); *Washington v. Chimei Innolux Corp.*, 659 F.3d 842 (9th Cir. 2011).

³ *Mississippi ex rel. Hood v. AU Optronics Corp.*, 701 F.3d 796 (5th Cir. 2012), cert. granted, No. 12-1036, 2013 WL 655204 (May 28, 2013); *Louisiana ex rel. Caldwell v. Allstate Ins. Co.*, 536 F.3d 418 (5th Cir. 2008).

⁴ E.g., Brief of Alaska et al. as Amici Curiae, *Washington v. Chimei Innolux Corp. et al.*, No. 11-16862, ECF No. 7 (9th Cir. 2011), available at <http://docs.naag.org/upload/files/antitrust/antitrustLCDs%20Amicus%20Brief%20file%20stamped.pdf> (involving both antitrust and consumer protection statutes); Brief of Kansas, Ohio and 36 Other States as Amici Curiae, *BP America, Inc., v. Oklahoma ex rel. Edmondson*, No. 10-6171 (10th Cir. 2010), available at [http://www.naag.org/assets/files/pdf/BP%20Oklahoma%20Amicus%20Brief%20as%20filed%20092710_1%20\(2\).pdf](http://www.naag.org/assets/files/pdf/BP%20Oklahoma%20Amicus%20Brief%20as%20filed%20092710_1%20(2).pdf) (involving state antitrust statute).

⁵ No. 12-1036, 2013 WL 655204, cert. granted (May 28, 2013).

⁶ BLACK'S LAW DICTIONARY 1144 (8th ed. Bryan A. Garner, ed. 2004).

⁷ See *Hawaii v. Standard Oil*, 405 U.S. 251, 257 (1972).

⁸ See, e.g., *Louisiana v. Texas*, 176 U.S. 1 (1900).

harm to that state's sovereign or quasi-sovereign interests.⁹ Often state constitutions or statutes confer express authority on the state's attorney general to pursue such claims.¹⁰

CAFA's "Class Action" and "Mass Action" Provisions

Federal courts are courts of limited subject matter jurisdiction. Traditionally, that jurisdiction was limited primarily to cases presenting a question of federal law (federal question jurisdiction) or, later, involving complete diversity of the parties where all plaintiffs had different citizenship from all defendants (diversity jurisdiction). CAFA expands the grant of diversity jurisdiction in two specific types of cases where there is only "minimal diversity"—diversity between one plaintiff and one defendant, regardless of the citizenship of all of the other parties to the litigation.¹¹ These two specific kinds of cases are "class actions"¹² and "mass actions."¹³

CAFA's definitions of "class action" or "mass action" make no express reference to *parens* cases. There was an attempt in the Senate to amend the CAFA bill to expressly exclude *parens* actions, but the amendment was defeated.¹⁴ This has led some to argue that Congress intended to include *parens* cases in CAFA jurisdiction. For example, the defendants in *Mississippi ex rel. Hood* supported Mississippi's petition for certiorari, arguing that this legislative history should lead the Supreme Court to adopt the Fifth Circuit's view of the removability of *parens* cases.¹⁵ But each of the Senators who spoke against the amendment did so by noting it was unnecessary because CAFA clearly did not apply to *parens* actions.¹⁶

Instead of relying on the legislative history, the appellate courts have concentrated on CAFA's statutory language. The analysis usually begins with the question of whether a *parens* action is a "class action." As many of the states have noted in their amicus filings, exclusion of *parens* cases from removable "class actions" seems compelled by CAFA's definition of class action: "any civil action filed under Rule 23 of the Federal Rules of Civil Procedure or similar State statute or rule of judicial procedure authorizing an action to be brought by 1 or more representative persons as a class action."¹⁷ Rule 23 does not contain any provisions purporting to govern *parens* actions, nor do the usual equivalent state rules of procedure for class actions. As a result, all four of the circuits to have considered the question have concluded that *parens* actions are not class actions.¹⁸

The other portion of CAFA applies to "mass actions," defined as suits "in which monetary relief claims of 100 or more persons are proposed to be tried jointly on the ground that the plaintiffs' claims involve common questions of law or fact."¹⁹ This raises the question on which the Fifth Circuit has split from three other circuits: who is the plaintiff in a *parens* action? The obvious answer—the party that appears as the plaintiff in the caption of the lawsuit—does not end the

⁹ *Standard Oil*, 405 U.S. at 258–59.

¹⁰ ABA SECTION OF ANTITRUST LAW, ANTITRUST LAW DEVELOPMENTS 649–50 (7th ed. 2012) (noting 26 states and the District of Columbia provide statutory authority; other states draw the authority from other sources).

¹¹ 28 U.S.C. § 1332(d)(2)(A–C).

¹² 28 U.S.C. § 1332(d)(2).

¹³ 28 U.S.C. § 1332(d)(11).

¹⁴ 151 CONG. REC. S1157, S1165 (daily ed. Feb. 9, 2005).

¹⁵ Brief for Respondents at 17, *Mississippi ex rel. Hood v. AU Optronics Corp.*, No. 12-1036, 2013 WL 1770862.

¹⁶ 151 CONG. REC. S1157, 1161–64 (daily ed. Senate Feb. 9, 2005).

¹⁷ 28 U.S.C. § 1332(d)(1)(B).

¹⁸ *Purdue Pharma L.P.*, 704 F.3d at 220–21; *LG Display*, 665 F.3d at 774; *Chimei Innolux*, 659 F.3d at 850; *McGraw*, 646 F.3d at 179.

¹⁹ 28 U.S.C. § 1332(d)(11)(A), (B).

inquiry because of the “real-party-in-interest” test. When the named plaintiff is simply a party in name only with no real interest in the case, the courts have held it appropriate to look beyond that party to determine the real party or parties whose interest is being pursued.²⁰

Three of the four circuits to have considered this issue concluded that the real-party-in-interest test does not change *parens* actions into “mass actions” because the state is a real party in interest. In these cases, the states involved were seeking civil penalties, injunctive relief, recovery of the damages the states themselves had suffered, and damages for their citizens. While a good argument can be made that all four of these are issues in which the state has an interest, no one disputes that it has an interest in at least the first three. Consequently, the Fourth, Seventh, and Ninth Circuits all have concluded that *parens* actions are not mass actions because they involve only one named plaintiff, a plaintiff with a real interest in the litigation.²¹ That is far below the one hundred minimum required by CAFA.²² This result is also consistent with the language of CAFA, which refers specifically to “plaintiffs.”²³

The Fifth Circuit reached a different conclusion in *Louisiana ex rel. Caldwell v. Allstate Insurance Co.*²⁴ Although accepting that the state has a real interest in many of the remedies sought, the Fifth Circuit decided it needed to look at each claim individually. Thus it examined each claim for recovery by each citizen and then asked not whether the state had an interest in that claim, but whether the individual citizen had a greater interest. Concluding that each individual citizen had a greater interest, it held that each of the citizens was a real party in interest who could be counted toward the one-hundred-plaintiffs CAFA mass action threshold.²⁵ The Fifth Circuit then followed *Caldwell*’s approach in *Mississippi ex rel. Hood v. AU Optronics*.²⁶

Some Difficult Issues Raised by the Fifth Circuit’s View of *Parens* Cases as “Mass Actions”

The Fifth Circuit decisions raise some difficult issues when compared to CAFA’s language. For example, in *Caldwell*, the court recognized there needed to be at least one hundred plaintiffs to comply with the express CAFA language, so it ordered the district court to compel joinder of all of the affected Louisiana citizens. This approach, of course, becomes highly problematic when a large number of the state’s citizens—perhaps numbering into the hundreds of thousands, if not millions—are likely to obtain recoveries should the state prevail on its claims. The Fifth Circuit ducked a lower court invitation to address that problem in affirming the *Caldwell* holding in *Mississippi ex rel. Hood v. AU Optronics*.²⁷

²⁰ *Navarro Sav. Ass’n v. Lee*, 446 U.S. 458, 460 (1980); *In re Baldwin-United Corp.*, 770 F.2d 328, 341 (2d Cir.1985).

²¹ *AU Optronics Corp. v. South Carolina*, 669 F.3d 385, 394 (4th Cir. 2012); *LG Display*, 665 F.3d at 774; *Nevada v. Bank of Am. Corp.*, 672 F.3d 661, 673–74 (9th Cir. 2012). In *Purdue Pharma L.P.*, the Second Circuit voiced sympathy for the view of the majority of circuits on this issue, but ultimately found it unnecessary to rule on the matter because the status of a *parens* case as a CAFA class action was the only issue before it. 704 F.3d at 218–20.

²² 28 U.S.C. § 1332(d)(5)(B). This also defeats even minimum diversity since a state is not considered a citizen for diversity purposes. *Moor v. Alameda County*, 411 U.S. 693, 717 (1973).

²³ 28 U.S.C. § 1332(d)(11)(A).

²⁴ 536 F.3d 418 (5th Cir. 2008).

²⁵ *Id.* at 430.

²⁶ 701 F.3d at 800.

²⁷ The district court requested instruction from the Fifth Circuit on how to join the thousands of citizens who would be affected by the states’ *parens* action. *Mississippi ex rel. Hood v. AU Optronics Corp.*, 876 F. Supp. 2d 758, 775 (S.D. Miss. 2012). However, the Fifth Circuit panel made no mention of the issue in its opinion. *Mississippi ex rel. Hood v. AU Optronics Corp.*, 701 F.3d 796 (5th Cir. 2012), *cert. granted*, No. 12-1036, 2013 WL 655204 (May 28, 2013).

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In addition, CAFA contains a “public interest” exception to mass action removability. That provision excludes from CAFA removability suits brought “on behalf of the general public.”²⁸ This would seem to expressly exclude *parens* cases, but the Fifth Circuit takes the view that this provision is surplusage and effectively a “dead letter.”²⁹

Beyond the problems of consistency with statutory language, removal of a *parens* case as a “mass action” presents a practical problem. Usually such removal is designed to try to consolidate the state’s *parens* case with other state or private cases in an MDL action. Unless that MDL happens to be pending in the federal court to which the state case was removed, consolidation should not occur. CAFA does not prevent cases removed as CAFA *class actions* from being transferred as though originally filed in federal court. But the statute also expressly provides that *mass actions* may only be transferred if the majority of plaintiffs request that change.³⁰ Whether the mass action’s “plaintiffs” are all of the affected citizens of the state or only the state itself, such a majority request will not be made in practice. The Judicial Panel on Multidistrict Litigation (JPML) has decided this provision is to be enforced as written.³¹

Most civil actions by a state are brought to enforce the state’s laws for the benefit of some group of the state’s citizens. Will any action brought by a state that benefits individual citizens rather than just the state government be subject to an analysis of whether it benefits at least one hundred of those citizens?

The Supreme Court Grants Certiorari on the Issue of Removal of *Parens* Cases as Mass Actions

Petitions for a writ of certiorari were filed for two of the recent circuit court decisions—those of the Fourth Circuit, adhering to the majority approach, and the recent Fifth Circuit decision affirming that circuit’s adherence to its minority position that *parens* cases are mass actions. On May 28, the U.S. Supreme Court granted the petition from the Fifth Circuit decision, *Mississippi ex rel. Hood v. AU Optronics*³² but did not act on the petition from the Fourth Circuit.³³ The case is set to be heard during the Court’s fall term.

The Fifth Circuit decision arose from a case brought by the Mississippi Attorney General. It is one of several cases brought by individual states alleging a conspiracy to fix the prices of TFT-LCD panels. The Mississippi Attorney General filed Mississippi’s case in the Mississippi state court, but the defendants removed the suit to federal court under CAFA,³⁴ seeking to consolidate and transfer the action to the U.S. District Court for the Northern District of California, where class and individual actions, along with some federally filed state cases, had previously been consolidated for pretrial purposes.³⁵ Mississippi moved to remand. The JPML stayed a decision on transferring the case to the MDL court pending the remand decision.³⁶ The district court granted Mississippi’s motion for remand.³⁷ The Fifth Circuit relied on its previous decision in *Caldwell* to

²⁸ 28 U.S.C. § 1332(d)(11)(B)(ii)(III).

²⁹ *AU Optronics*, 701 F.3d at 802.

³⁰ 28 U.S.C. § 1332(d)(11)(C)(i). In most rulings it has made no difference that part of the relief sought is damages for consumers. In *National Consumers League v. General Mills, Inc.*, 680 F. Supp. 2d 132, 137–38 (D.D.C. 2010), the court explained that so long as the action was for the public benefit, the exception applies. *But see AU Optronics*, 701 F.3d 796 (holding action must be exclusively for public benefit and allowing damages even partially benefiting individuals takes the matter outside the statutory exception).

³¹ *Illinois v. AU Optronics Corp.*, 764 F. Supp. 2d 1338 (J.P.M.L. Feb. 3, 2011).

³² *AU Optronics*, 701 F.3d 796.

³³ *AU Optronics Corp. v. South Carolina*, No. 12-911, 81 U.S.L.W. 3427 (cert. petition filed Jan. 23, 2012).

³⁴ *See Mississippi ex rel. Hood v. AU Optronics Corp.*, 876 F. Supp. 2d 758, 762 (S.D. Miss. 2012).

³⁵ *In re TFT-LCD (Flat Panel) Antitrust Litig.*, No. C07-1827 (N.D. Cal.).

³⁶ *AU Optronics*, 876 F. Supp. at 762.

³⁷ *Id.*

reverse.³⁸ Mississippi petitioned for a writ of certiorari, a petition the defendants supported,³⁹ presumably because many of these same defendants have been remanded to state court in four other *parens* cases.⁴⁰

In considering the applicability of CAFA's mass action provision to state *parens patriae* actions, the Supreme Court faces some interesting analytical choices. If the Court chooses to follow the Fifth Circuit deep into an analysis of each individual likely to benefit from a state's legal action, it will face a difficult line-drawing question. Most civil actions by a state are brought to enforce the state's laws for the benefit of some group of the state's citizens. Will any action brought by a state that benefits individual citizens rather than just the state government be subject to an analysis of whether it benefits at least one hundred of those citizens? Can a line be drawn that will not flood the federal courts with removal and remand actions?

Or, instead, will the Court follow its longstanding view and decide that CAFA, like other grants of federal jurisdiction,⁴¹ should be strictly interpreted, thus limiting removal to cases involving one hundred actual plaintiffs? ●

³⁸ *Id.* at 796.

³⁹ Brief for Respondents, *supra* note 15.

⁴⁰ *AU Optronics Corp. v. South Carolina*, 699 F.3d 385 (4th Cir. 2012); *LG Display, Ltd. v. Madigan*, 665 F.3d 768 (7th Cir. 2011); *Washington v. Chimei Innolux Corp.*, 659 F.3d 842 (9th Cir. 2011).

⁴¹ *Syngenta Crop Protection, Inc. v. Henson*, 537 U.S. 28, 32–33 (2002); *Franchise Tax Bd. v. Constr. Laborers Vacation Trust*, 463 U.S. 1, 21 n.22 (1983) (“considerations of comity” suggest federal courts should be “reluctant to snatch cases which a State has brought from the courts of that State, unless some clear rule demands it”).

The Foreign Trade Antitrust Improvements Act: Did *Arbaugh* Erase Decades of Consensus Building?

Abbott B. Lipsky, Jr. and Kory Wilmot

Congress passed the Foreign Trade Antitrust Improvements Act of 1982 (FTAIA) to help resolve a simple and increasingly important issue: when does U.S. antitrust law apply to foreign conduct? Passage of the FTAIA capped an extended period of debate within the antitrust community (including judicial decisions, antitrust enforcement agency actions, guidelines and policies, and voluminous writings of practitioners and scholars from the U.S. and other jurisdictions) regarding the best answer to that question.

As written, the FTAIA limits and defines the extraterritorial reach of the Sherman Act. From its passage in 1982 until the Third Circuit's decision thirty years later in *Animal Science Products, Inc. v. China Minmetals Corp.*,¹ federal courts (including the Supreme Court itself) interpreted the FTAIA as a statute addressing the subject-matter jurisdiction of the federal courts.²

Animal Science and the more recent *Minn-Chem, Inc. v. Agrium Inc.*³ decision, however, hold that the FTAIA—where applicable—creates a new substantive element of a Sherman Act claim. These decisions are based upon *Arbaugh v. Y&H Corporation*,⁴ a Supreme Court decision under the Civil Rights Act of 1964. *Arbaugh* announced a new standard requiring that statutes not clearly designated as jurisdictional should not be treated as such.⁵

However, there is powerful evidence that the FTAIA is jurisdictional and was intended to be so by the Congress that enacted it. The understandings expressed during the policy debates and in the legislative history that led to its enactment, the structure of the statute itself, and bedrock principles of international comity that are recognized by the Supreme Court support that conclusion. If that weighty evidence does not satisfy the *Arbaugh* test, then perhaps the decision's appealing but simplistic pronouncement should be questioned.

This distinction is more than an academic exercise. The shift in interpretation fundamentally alters the method, cost, and burdens associated with defending antitrust claims that involve international dimensions. Motions to dismiss under Federal Rule of Civil Procedure 12(b)(1) based on lack of subject-matter jurisdiction place the burden on the plaintiff to establish jurisdiction.

■ **Tad Lipsky** is a partner in the Washington, D.C. office of Latham & Watkins, LLP. He served as Deputy Assistant Attorney General for the Antitrust Division of the Department of Justice from 1981–1983 and had lead responsibility for Division input to legislative proceedings that led to enactment of the FTAIA in 1982.

Kory Wilmot is an associate in Latham's Washington, D.C. office.

¹ 654 F.3d 462 (3d Cir. 2011).

² *F. Hoffmann-La Roche Ltd v. Empagran S.A.*, 542 U.S. 155 (2004); PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 272i2 n.83 (3d ed. 2006) (“At this writing all Circuits agree that the FTAIA’s limitations on the reach of the Sherman Act are ‘jurisdictional.’”) (citing *United Phosphorus, Ltd. v. Angus Chem. Co.*, 322 F.3d 942 (7th Cir. 2003) (en banc); *Den Norske Stats Oljeselskap As v. HeereMac V.O.F.*, 241 F.3d 420 (5th Cir. 2001); *Filetech S.A. v. France Telecom S.A.*, 157 F.3d 922, 931 (2d Cir. 1998); *Carpet Group Int’l. v. Oriental Rug Importers Ass’n*, 227 F.3d 62, 69 (3d Cir. 2000); *McGlinchy v. Shell Chem. Co.*, 845 F.2d 802, 813 (9th Cir. 1988); *United States v. Anderson*, 326 F.3d 1319, 1329 (11th Cir.); *Caribbean Broad. Sys., Ltd. v. Cable & Wireless PLC*, 148 F.3d 1080, 1085 (D.C. Cir. 1998)).

³ 683 F.3d 845 (7th Cir. 2012) (en banc).

⁴ 546 U.S. 500 (2006).

⁵ *Id.* at 515–16.

Conversely, if the FTAIA establishes a substantive element of an antitrust claim, motions to dismiss must be filed through Rule 12(b)(6). In this “substantive” 12(b)(6) mode, the facts alleged in the complaint must be *assumed* true and the burden of showing that the plaintiff cannot prevail on the FTAIA “element” rests with the defendant-movant. From a practical perspective, it will be much more difficult for defendants to meet that burden without significant discovery, and neither courts nor litigants are likely to be attracted to the idea of restricting discovery solely to the FTAIA issues in the 12(b)(6) context. Thus, realistically, the shift from “jurisdiction” to “substance” will postpone jurisdictional determinations in most cases until the summary judgment stage.

The inability to put the plaintiff to proof of jurisdiction at the outset thus makes a significant difference. Parties who might otherwise have escaped the notoriously burdensome and expensive antitrust discovery process, which the FTAIA was intended to preclude in certain circumstances, will be compelled to endure that process to a far greater extent than would result from treatment of the FTAIA as jurisdictional.

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In reality, the prospect of shouldering these burdens may lead a defendant to settle a case that might have been dismissed prior to discovery as a result of a Rule 12(b)(1) motion. Given the frequency of private treble-damage actions (at this writing, there are more than fifty pending antitrust multidistrict litigations working their way through the federal system, many, if not most, involving pleas for class treatment⁶), this is a matter of central importance to the private antitrust enforcement process and should be a major concern of federal court administration.

There is a further and potentially more significant long-run international effect to consider as a possible result of a shift in construction of the FTAIA. As antitrust laws have spread from the U.S. to over a hundred jurisdictions worldwide, there is increasing pressure to create systems of private redress (including collective redress such as class actions) for antitrust violations in many of these other jurisdictions. Private litigation is already an active concern in Australia and Canada, for example, where private antitrust class actions are already typical. Major jurisdictions, such as China and the European Union, are actively encouraging private antitrust litigation. The cost and complexity of antitrust litigation could spin out of control if litigants are left at sea for extended periods in every jurisdiction where private claims might be lodged. Litigants would be burdened with discovery and other litigation chores in every antitrust system with a colorable claim to jurisdiction over the conduct in suit.

Quick and efficient sorting out of where jurisdiction is properly asserted may become critical as these international litigation burdens multiply. If it shifts to the substantive model of FTAIA construction, the United States may be increasing the mega-tonnage of the antitrust “cluster bomb”—to use Judge Posner’s vivid metaphor—of multiple antitrust proceedings and remedies (e.g., criminal penalties, direct-purchaser and indirect-purchaser class actions for treble damages, and parens patriae claims) by delaying and adding significantly to the litigation burdens of private damage proceedings. This may further entrench a system in which even innocent defendants (or defendants who deserve to bear minimal liability only) are forced to pay exorbitant sums to claimants simply to avoid intolerable process costs and burdens, even where the facts entitle such defendants to vindication under the law. This is neither just nor tolerable from the enforcement policy perspective. Especially in a shaky global economy where the sacrifice of business flexibility and efficiency through imposition of excessive litigation cost must be considered reckless, the United States should not encourage—much less lead the way toward—this result.

⁶ MDL Statistics Report—Distribution of Pending MDL Dockets, http://www.jpml.uscourts.gov/sites/jpml/files/Pending_MDL_Dockets_By_District-July-10-2013.pdf.

Foreign Reach of Antitrust Law

The basic question of “when does U.S. antitrust law apply to foreign conduct?” was first addressed by the Supreme Court more than a century ago. In *American Banana Co. v. United Fruit Co.*,⁷ Justice Holmes wrote for a unanimous Court that an allegation by one U.S. banana supplier that its competitor sought to eliminate it and thereby “to control and monopolize the banana trade” did not state a Sherman Act claim because the alleged anticompetitive conduct took place entirely in Costa Rica.

Before long, however, this deceptively appealing territorial principle began to be undermined by the Supreme Court. In *United States v. American Tobacco Co.*,⁸ the Court exercised jurisdiction over an antitrust claim aimed at market-division contracts executed in England.⁹ U.S. and British companies, previously engaged in head-to-head competition in each other's markets, were found to be within the jurisdiction of the U.S. federal courts because the market division had a substantial impact on U.S. commerce.¹⁰ The Court continued in this direction in *United States v. Sisal Sales Corp.*, holding that the Sherman Act applied to U.S. conspirators seeking to control trade in sisal through a series of acts carried out in Mexico: “[B]y their own deliberate acts, here and elsewhere, [the conspirators] brought about forbidden results within the United States. They are within the jurisdiction of our courts and may be punished for offenses against our laws.”¹¹

By the time of Judge Learned Hand's pathbreaking decision in *United States v. Aluminum Co. of America*, the governing principles seemed to focus on whether the conduct produced an anti-competitive effect within the United States: “[A]ny state may impose liabilities, even upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders which the state reprehends.”¹² In other words, even a foreign party engaging in foreign conduct can be reached under the Sherman Act so long as there is a prohibited U.S. effect, as suggested earlier by *American Tobacco* and *Sisal Sales*.

The debate over the reach of U.S. antitrust law expanded and evolved as global commercial integration accelerated in the post-World War II era, producing more opportunities to invoke U.S. antitrust law against foreign parties operating in global commerce touching the United States. In the 1970s, U.S. antitrust enforcement, both public and private, directed against foreign participants in an alleged uranium cartel, was viewed with such alarm that many of our closest allies (Australia, Canada, France, and the United Kingdom) passed “blocking” or “claw back” statutes to stiffen resistance of their resident companies to the assertion of U.S. antitrust jurisdiction. Blocking statutes attempted to impede or prohibit compliance with discovery requests and/or enforcement of judgments emanating from U.S. antitrust proceedings, while “claw back” statutes sought to deter attacks on foreign companies through civil suits brought under U.S. antitrust law's treble-damages provisions by enabling a foreign defendant to sue a plaintiff to recover a portion of the damages paid by the defendant. Finally, U.S. companies increasingly complained they were handicapped in competing for off-shore business against foreign firms that were not subject to the strict antitrust constraints imposed by U.S. law.

⁷ 213 U.S. 347, 354 (1909).

⁸ 221 U.S. 106 (1911).

⁹ *Id.* at 172, 181–84.

¹⁰ *Id.*

¹¹ 274 U.S. 268, 276 (1927).

¹² 148 F.2d 416, 443 (2d Cir. 1945).

These conditions led in 1977 to one of the first major initiatives of the President's Export Council, a still-extant advisory committee, which proclaims in the "Recommendations and Accomplishments" section of its website: "After two and one half years of dialogue with representatives of Justice Department's Antitrust unit, the Council helped the Department of Commerce develop the 'Antitrust Guide for International Operations.'"¹³ The reference is undoubtedly to the first version of the Antitrust Division's international guidelines, published under the indicated title.

Designed partly to deflect criticism that U.S. antitrust law inappropriately trenches on the discretion of other sovereigns to police their own markets and partially to define more carefully the conditions under which the Department of Justice would feel free to prosecute foreign parties for foreign anticompetitive conduct, the 1977 Guide presented extended discussion, illustrated by examples, of the various considerations and legal doctrines that often come into play in such cases. The Guide featured the issue of when U.S. antitrust jurisdiction could be asserted and also explained the government's views on such issues as foreign sovereign compulsion, international comity and the act of state doctrine.¹⁴

The debate regarding the proper limits of U.S. antitrust law culminated in the passage of two pieces of related legislation in 1982. First was the Export Trading Company Act, which provided a specific administrative mechanism for protection of U.S.-based export ventures from U.S. antitrust attack. Collaborations meeting certain standards were entitled to apply for and receive certification (Export Trade Certificate of Review) by the Secretary of Commerce. Export Trade Certificates of Review continue to be issued under these provisions.¹⁵

The second and far more consequential product of the jurisdictional debate was the FTAIA. In full, it states:

§ 6a. Conduct involving trade or commerce with foreign nations

This Act [15 U.S.C. §§ 1 et seq.] shall not apply to conduct involving trade or commerce (other than import trade or import commerce) with foreign nations unless—

(1) such conduct has a direct, substantial, and reasonably foreseeable effect—

(A) on trade or commerce which is not trade or commerce with foreign nations, or on import trade or import commerce with foreign nations; or

(B) on export trade or export commerce with foreign nations, of a person engaged in such trade or commerce in the United States; and

(2) such effect gives rise to a claim under the provisions of this Act, other than this section.

If this Act applies to such conduct only because of the operation of paragraph (1)(B), then this Act shall apply to such conduct only for injury to export business in the United States.¹⁶

With its passage, Congress attempted to limit and define the extraterritorial application of the Sherman Act.

¹³ International Trade Administration, President's Export Council History, <http://trade.gov/pec/history.asp>.

¹⁴ After passage of the FTAIA, the Department of Justice twice issued updated versions of the Guide (in 1988 and 1995). See U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Enforcement Guidelines for International Operations (1995); U.S. Dep't of Justice, Antitrust Enforcement Guidelines for International Operations (1988).

¹⁵ Select USA, Export Trade Certificate of Review Program, <http://selectusa.commerce.gov/investment-incentives/export-trade-certificate-review-program>.

¹⁶ 15 U.S.C. § 6a.

FTAIA: From Jurisdictional Prerequisite to Substantive Element

Since the enactment of the FTAIA, courts have struggled to achieve the level of standardization regarding the application of the Sherman Act to foreign conduct that Congress sought to implement. Courts have been asked to apply the difficult language of the statute to determine issues such as the meaning of “direct, substantial, and reasonably foreseeable effect,”¹⁷ and what type of activity constitutes “conduct involving trade or commerce . . . with foreign nations.”¹⁸ Thoughtful analysis led to numerous disagreements regarding the correct application of the statute to foreign conduct. It was for many years, however, relatively uncontroversial that the FTAIA regulated the subject-matter jurisdiction of the federal courts.¹⁹

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The conclusion that the FTAIA determined whether U.S. courts are able to hear claims remained undisturbed for nearly thirty years. After the Supreme Court's ruling in *Arbaugh*,²⁰ however, the federal judiciary began to re-evaluate that principle and some have determined that the FTAIA creates a substantive element of an antitrust claim.

In *Arbaugh*, the Court confronted “the distinction between two sometimes confused or conflated concepts: federal-court ‘subject-matter’ jurisdiction over a controversy; and the essential ingredients of a federal claim for relief.”²¹ Specifically, it addressed whether the minimum numerical requirement to be considered an “employer” under Title VII of the Civil Rights Act is properly related to the subject-matter jurisdiction of relevant federal courts or, alternatively, enumerates a substantive element of a Title VII claim. In that case, the defendant lost at trial, and subsequently (and successfully in the lower courts) moved to dismiss the verdict for want of federal subject-matter jurisdiction because the defendant had fewer than the requisite number of employees.²²

After recognizing that “jurisdiction” is a term that is frequently used imprecisely,²³ the Court in *Arbaugh* sought to simplify the analysis:

If the Legislature clearly states that a threshold limitation on a statute's scope shall count as jurisdictional, then courts and litigants will be duly instructed and will not be left to wrestle with the issue. But

¹⁷ *United States v. LSL Biotechnologies*, 379 F.3d 672, 683 (9th Cir. 2004).

¹⁸ *F. Hoffmann-LaRoche Ltd v. Empagran S.A.*, 542 U.S. 155 (2004). In *Empagran*, the Supreme Court held that foreign purchasers of goods that were injured by a price-fixing agreement could not bring an antitrust claim in the United States simply because a domestic purchaser of the same goods was also injured. *Id.* at 159. This decision was reached, in part, because principles of comity recognize that foreign sovereigns have a legitimate interest in regulating their own commercial affairs. *Id.* at 164–65. The case was on appeal from the Ninth Circuit, which explicitly indicated that the FTAIA governed subject matter jurisdiction. *Empagran v. F. Hoffman-LaRoche*, 315 F.3d 338, 343, 357 (9th Cir. 2003).

¹⁹ AREEDA & HOVENKAMP, *ANTITRUST LAW*, *supra* note 2, (“At this writing all Circuits agree that the FTAIA's limitations on the reach of the Sherman Act are ‘jurisdictional.’”); *see also* cases cited *supra* note 2. However, even briefly before *Arbaugh*, some opined that the FTAIA did not govern subject-matter jurisdiction. *United Phosphorus v. Angus Chem. Co.*, 322 F.3d 942 (7th Cir. 2003) (en banc) (Wood, J., dissenting). In *United Phosphorus*, the Seventh Circuit, in an en banc opinion, concluded that the FTAIA governed subject-matter jurisdiction. *Id.* at 952. In her dissent, Judge Wood stated that “neither the majority nor those earlier opinions have distinguished carefully between judicial and legislative jurisdiction—or, to put it differently, between jurisdiction to decide a case and jurisdiction to prescribe a rule of law. The central question now before us is whether the FTAIA affects the former or the latter power.” *Id.* at 953. She believed that the FTAIA should be viewed as creating a substantive element of an antitrust claim because it was not constructed like a “true jurisdiction-stripping statute[.]” *Id.* at 954. In her view, “The fact that the FTAIA does not contain a clear congressional statement that it is intended to restrict the subject matter jurisdiction of the federal courts (or for that matter even a brief mention of the term ‘jurisdiction’) should be enough to resolve the question before us.” *Id.* at 955.

²⁰ 546 U.S. 500 (2006).

²¹ *Id.* at 503.

²² *Id.* at 503–04.

²³ *Id.* at 510–11.

when Congress does not rank a statutory limitation on coverage as jurisdictional, courts should treat the restriction as nonjurisdictional in character.²⁴

The Court described this as a “readily administrable bright line” test.²⁵ The Court criticized numerous “drive-by jurisdiction rulings” that did not explicitly consider whether a dismissal should be for lack of jurisdiction or for failure to state a claim, but its ruling in *Hoffman-LaRoche Ltd. v. Empagran*²⁶ was not among them, and *Arbaugh* did not mention the FTAIA in any way.²⁷

Although *Arbaugh* did not refer to antitrust law, courts began to apply it in this area given the Supreme Court’s broad articulation of the jurisdiction-versus-merits standard. In *Animal Science*, the Third Circuit determined that under the *Arbaugh* standard, the FTAIA created a substantive element of an antitrust claim rather than a limitation on subject-matter jurisdiction.²⁸ The Court held that the

FTAIA neither speaks in jurisdictional terms nor refers in any way to the jurisdiction of the district courts. Indeed, the statutory text is wholly silent in regard to the jurisdiction of the federal courts. . . . We therefore overrule our earlier precedent that construed the FTAIA as imposing a jurisdictional limitation on the application of the Sherman Act.²⁹

The Seventh Circuit followed suit in *Minn-Chem*, overruling its earlier en banc precedent on that point.³⁰

District courts are divided on the impact of *Arbaugh* on the FTAIA. In *In Re TFT-LCD (Flat Panel) Antitrust Litigation*, Judge Illston in the Northern District of California declined to follow binding Ninth Circuit precedent,³¹ which stated that “[t]he FTAIA provides the standard for establishing when subject matter jurisdiction exists over a foreign restraint of trade.”³² While acknowledging that other district courts in the circuit continue to follow the Ninth Circuit’s holding in *LSL Biotechnologies*, Judge Illston concluded that that precedent could not survive *Arbaugh*.³³ Accordingly, the court concluded that “application of [*Arbaugh*’s] ‘clearly states’ test necessitates the finding that the FTAIA does not affect subject matter jurisdiction.”³⁴ More recently, however, another district court took the opposite approach: Judge Scheindlin in the Southern District of New York analyzed some of the “merits” opinions and concluded that “while current thinking may point against finding the FTAIA to be jurisdictional, this Court is bound by precedent until it is overruled by the Second Circuit or the Supreme Court.”³⁵

²⁴ *Id.* at 515–16 (citation omitted).

²⁵ *Id.* at 516.

²⁶ See discussion *supra* note 18 and *infra* p.9.

²⁷ 546 U.S. at 511–12.

²⁸ 654 F.3d 462, 467–68 (“In light of the Supreme Court’s subsequent decision in *Arbaugh*, and other recent cases, however, we will now overturn this aspect of our *Turicentro* and *Carpet Group* decisions and hold that the FTAIA constitutes a substantive merits limitation rather than a jurisdictional limitation.”) (citation omitted).

²⁹ *Id.* at 468–69 (citations and footnotes omitted).

³⁰ 683 F.3d 845, 851–53.

³¹ 822 F. Supp. 2d 953 (N.D. Cal. 2011).

³² *United States v. LSL Biotechnologies*, 379 F.3d 672, 683 (9th Cir. 2004).

³³ 822 F. Supp. 2d 953, 958–59.

³⁴ *Id.* at 959.

³⁵ *Lotes Co. v. Hon Hai Precision Indus. Co.*, 2013 U.S. Dist. LEXIS 69407 at *25 (S.D.N.Y. May 14, 2013).

The certiorari petition in *Minn-Chem* did not take up the issue. The defendants below filed a petition for review on two grounds: an alleged conflict among the U.S. Courts of Appeals regarding the meaning of direct effect under the FTAIA,³⁶ and an alleged circuit split with regard to the scope of the phrase “conduct involving . . . import trade or import commerce.”³⁷ Both of these issues go to the meaning of the FTAIA requirements, rather than the issue of whether the statute governs the subject-matter jurisdiction of the courts. Despite the glaring circuit split on the jurisdiction-versus-substance issue, the defendants chose not to challenge the Seventh Circuit’s holding on that question. It appears that *Minn-Chem* could not have been the vehicle for the Supreme Court to address the issue in any event; a settlement in the case (a class action) is pending approval before the district court as of this writing. Technically, however, the petition remains pending before the Supreme Court.

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Jurisdictional Evidence

Three different types of evidence support the conclusion that the FTAIA should be considered a limit on the subject-matter jurisdiction of the courts rather than a definition of a new substantive element of an antitrust claim. Although the plain language of the statute does not explicitly use the term “jurisdiction,” each of these sources provides clear evidence that the statute was intended to be jurisdictional.

First, the entire Congressional debate that culminated in adoption of the FTAIA assumed it was meant to regulate jurisdiction. The law was passed specifically to address one basic question: when should U.S. courts have jurisdiction over antitrust claims involving foreign conduct and/or parties? The legislative history confirms this. For example, the key House of Representatives Report contains the following language in a section entitled “Effect of Legislation and Current Law”:

A very important question is the effect of the legislation on current antitrust law. *It is the intent of the sponsors of the legislation and the Committee to address only the subject matter jurisdiction of United States antitrust law in this legislation.* H.R. 5235 does not affect the legal standards for determining whether conduct violates the antitrust laws, and thus the substantial antitrust issues on the merits of a claim would remain unchanged.³⁸

That statement is not the only clear expression in the House Report. The Report goes on to say that “[b]y more precisely defining the subject matter jurisdiction of U.S. antitrust law, H.R. 5235 in no way limits the ability of a foreign sovereign to act under its own laws against an American-based export cartel having unlawful effects in its territory.”³⁹

The Senate Conference Report also supports this position. It made clear that the FTAIA modified the Sherman Act and Section 5 of the Federal Trade Commission Act by creating a “jurisdictional threshold for enforcement actions.”⁴⁰ Furthermore, the principal legislators behind the FTAIA also made statements to support this conclusion. For example, Peter Rodino, then Chairman of the House Judiciary Committee, said that the FTAIA would have a beneficial effect in two

³⁶ Petition for Writ of Certiorari, *Minn-Chem, Inc. v. Agrium Inc.*, 683 F.3d 845 (No. 12-650) 2012 WL 5928328 at *14.

³⁷ *Id.* at *17.

³⁸ H.R. REP. NO. 97-686 at 13 (1982) (emphasis added).

³⁹ *Id.* at 13–14.

⁴⁰ S. REP. NO. 97-644 at 29–30 (1982) (Conf. Rep.).

areas, one of which was to “iron out wrinkles in the jurisdictional fabric that have led to legitimate doubts among exporters about what conduct is or is not permitted.”⁴¹ He provided additional clarity, stating that the changes brought about by the FTAIA do not “affect the substantive standards that a court applies in determining whether the antitrust laws have been violated. Instead, [it] draws a more precise jurisdictional line indicating the point at which U.S. antitrust laws simply do not apply.”⁴² Thus, the legislative history confirms that Congress passed the FTAIA to settle the decades-long debate regarding the extraterritorial reach of the Sherman Act, a jurisdictional issue distinct from whether the foreign conduct at issue constitutes a substantive violation of antitrust law.

Second, the structure of the FTAIA itself demonstrates that the statute addresses jurisdiction. The FTAIA has three operative sections for this analysis.⁴³ First, the prefatory language removes foreign conduct from the reach of the Sherman Act.⁴⁴ Then, generally, subsection 1 brings conduct back within the ambit of U.S. antitrust laws if it had a “direct, substantial, and reasonably foreseeable” domestic effect.⁴⁵ Finally, subsection 2 indicates that, assuming subsection 1 is satisfied, a potential litigant must then satisfy the substantive elements of an antitrust claim.⁴⁶ The dichotomy is clear. The language indicates that once a plaintiff satisfies the threshold requirements of the FTAIA, the court then begins its analysis of the substantive elements, i.e., the merits, of the plaintiff’s claim. The FTAIA does not address the merits at all. The FTAIA’s structure clarifies not only the intended purpose of the legislation, but it also speaks directly to the proper interpretation of the statute as adopted.⁴⁷

Finally, determining that the FTAIA is not jurisdictional undermines the principle of comity, which Congress did not alter with the FTAIA⁴⁸ and the Supreme Court recognized as critical in *Hoffmann-LaRoche Ltd. v. Empagran*.⁴⁹ Both Congress and the Court understood that foreign conduct can be dealt with in foreign jurisdictions where the conduct occurs. Therefore, when that is

⁴¹ 128 CONG. REC. 18952 (Aug. 3, 1982) (statement of Rep. Rodino).

⁴² *Id.*; see also H.R. REP. NO. 97-686 at 18 (statement of Chairman Rodino) (“As explained more fully in the Committee’s Report, the Committee added [the effects language] to make it absolutely clear that the basis of American antitrust jurisdiction has to be a domestic *anticompetitive* effect.”).

⁴³ 15 U.S.C. § 6a.

⁴⁴ *Id.* (“This Act [15 U.S.C. §§ 1 et seq.] shall not apply to conduct involving trade or commerce (other than import trade or import commerce) with foreign nations unless . . .”).

⁴⁵ *Id.*

⁴⁶ *Id.* (stating that foreign conduct having consequences on U.S. commerce will satisfy this requirement of the FTAIA only if “such effect gives rise to a claim under the provisions of this Act [15 U.S.C. §§ 1 et seq.], other than this section.”); see also *F. Hoffman-LaRoche Ltd. v. Empagran S.A.*, 542 U.S. 155, 158 (2004) (“[The FTAIA] excludes from the Sherman Act’s reach much anticompetitive conduct that causes only foreign injury. It does so by setting forth a general rule stating that the Sherman Act ‘shall not apply to conduct involving trade or commerce . . . with foreign nations.’ 96 Stat. 1246, 15 U.S.C. § 6a. It then creates exceptions to the general rule, applicable where (roughly speaking) that conduct significantly harms imports, domestic commerce, or American exporters.”).

⁴⁷ One of the authors (Lipsky) can personally attest—having served as Deputy Assistant Attorney General for the Antitrust Division of the Department of Justice with responsibility (inter alia) for coordinating the Division’s positions on federal antitrust legislation at the time that the FTAIA was under consideration—that the second subsection was specifically inserted at the request of the Administration to assure that proof of jurisdiction under the FTAIA would not be sufficient to establish substantive liability. The language and placement of the provision makes this obvious in any event.

⁴⁸ The House Report states that “[i]f a court determines that the requirements for subject matter jurisdiction are met, this bill would have no effect on the courts’ ability to employ notions of comity or otherwise to take account of the international character of the transaction.” H. R. REP. NO. 97-686 at 13 (internal citation omitted).

⁴⁹ 542 U.S. 155 (2004).

the case, it may be relatively simple to have a U.S. case dismissed in favor of a more appropriate foreign venue. However, by converting the FTAIA from jurisdictional to substantive, the process for assessing the viability of a U.S. claim is made much more difficult, costly, and complex, as discussed in the introduction. Those challenges stem from the differences between filing a motion to dismiss based on Federal Rule of Civil Procedure 12(b)(6) rather than 12(b)(1), which has traditionally governed motions on the application of the FTAIA. Filing under the former requires potential defendants to be subjected to the types of drawn-out proceedings that the Court sought to avoid in *Empagran*.⁵⁰

Furthermore, in *Empagran*, the Court treated the FTAIA as governing subject-matter jurisdiction, as the case arose from a Rule 12(b)(1) motion.⁵¹ Additionally, it quoted legislative proceedings indicating that the FTAIA regulates jurisdiction. For example, it quoted the portion of the House Report that stated that “there should be no American antitrust jurisdiction absent a direct, substantial and reasonably foreseeable effect on domestic commerce or a domestic competitor.”⁵² It also quoted a portion of an antitrust treatise that said, assuming the court of appeals’ broader interpretation of the international scope of U.S. antitrust laws under the FTAIA in that case:

[T]he United States courts would provide worldwide subject matter jurisdiction to any foreign suitor wishing to sue its own local supplier, but unhappy with its own sovereign’s provisions for private antitrust enforcement, provided that a different plaintiff had a cause of action against a different firm for injuries that were within U.S. [other-than-import] commerce.”⁵³

Courts that have concluded that the FTAIA creates a substantive element of an antitrust claim have not directly engaged this evidence. For example, the Third Circuit stated that “[i]n *Arbaugh*, the Supreme Court articulated a ‘readily administrable bright line,’ ‘clearly states’ rule,” and the FTAIA did not meet that standard because it “neither speaks in jurisdictional terms nor refers in any way to the jurisdiction of the district courts.”⁵⁴ Similarly, the Seventh Circuit stated that interpreting the FTAIA as creating a substantive element is “both more consistent with the language of the statute and sounder from a procedural standpoint,” but it did not engage in any real analysis of the evidence, other than a brief discussion of the statute’s language.⁵⁵ Certainly none of these courts meaningfully addressed the potentially significant changes in antitrust litigation—including the possibility of significantly delaying jurisdictional rulings and thus materially enhancing burdens on defendants—that might follow from this change in construction of the FTAIA.

Conclusion

Arbaugh intended to establish a clear and easily applied standard for determining whether a statute governs jurisdiction or enumerates an element of a substantive cause of action. It is equally clear, however, that Congress passed the FTAIA to govern the subject-matter jurisdiction of the courts. Whatever its supposed defects, the FTAIA was a reasonable effort to bring consistency to the extraterritorial application of U.S. antitrust law after decades of uncertainty. Given the extraor-

⁵⁰ *Id.* at 168–69.

⁵¹ *Id.* at 159–60 (citing the district court and court of appeals opinions, which noted that the motion to dismiss was based on, inter alia, Federal Rule of Civil Procedure 12(b)(1), which governs subject-matter jurisdiction).

⁵² *Id.* at 163.

⁵³ *Id.* at 166 (quoting PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶ 273 (Supp. 2003) (emphasis added)).

⁵⁴ *Animal Sci. Prods. Inc. v. China Minmetals Corp.*, 654 F.3d 462, 468 (3d Cir. 2011).

⁵⁵ *Minn-Chem, Inc. v. Agrium Inc.*, 683 F.3d 845, 852 (7th Cir. 2012) (en banc).

Courts that have
concluded that the
FTAIA creates a
substantive element
of an antitrust claim
have not directly
engaged this evidence.

dinary scope and power of the U.S. antitrust enforcement arsenal—a scope and power still virtually unique among the competition laws of the world (lengthy periods of incarceration for individual wrong-doers, mandatory treble damages in civil suits, one-way fee shifting in favor of victorious plaintiffs, and opt-out class action procedures, to name just a few of the most fearsome aspects of U.S. antitrust)—it is regrettable that *Arbaugh* is being applied to undermine Congress’s thoughtful response to this longstanding but increasingly important question. It is especially troubling because *Arbaugh* shows no trace of having considered the possibility that the Court’s decision might have this far-reaching collateral effect.

The legislative history, the structure of the statute, and principles of comity related to the FTAIA dictate the conclusion that Congress passed the statute to address subject-matter jurisdiction. Yet no court or tribunal has concluded that this evidence satisfies the *Arbaugh* standard. Even more alarming, none have even given it serious consideration. It seems unwise to categorically conclude that a statute may govern subject-matter jurisdiction only if it contains the magic words, especially when all indicators suggest that the legislature adopted a law to do just that. Any test that requires courts to interpret a statute in a manner contrary to such clear evidence should be reevaluated. ●

Not as Easy as Advertised: New Challenges in Bringing a Successful § 43(a) False Advertising Case

Christopher A. Cole and Jason M. Crawford

Section 43(a) of the Lanham Act historically has been an important tool for false advertising plaintiffs seeking redress through injunctive relief and money damages. While Section 43(a) remains an important cause of action, two important changes in the past decade have made obtaining relief difficult. First, in the aftermath of *Twombly/Iqbal*, it is harder to bring a Section 43(a) false advertising claim to trial because courts are applying a heightened “plausibility” standard that makes getting past a motion to dismiss more demanding.¹ Second, the Supreme Court’s *eBay* and *Winter* decisions have made it more difficult in some circuits to obtain injunctive relief in false advertising cases because of the need to provide concrete evidence of harm, which can be difficult to do in false advertising cases.²

These four important Supreme Court cases were decided between 2006 and 2009. To research their effect on Section 43(a) litigation, we collected cases from 2003–2005 and 2010–2012 in which false advertising claims were a principal component.³ Based on our research, we conclude that these four Supreme Court decisions have had an impact on Section 43(a) false advertising litigation because fewer false advertising claims are surviving motions to dismiss and courts in some circuits are denying more requests for preliminary injunctions based on an insufficient showing of harm.

Effect of *Twombly/Iqbal* Plausibility Standard on Section 43(a) False Advertising Claims

Our research shows that a large number of Section 43(a) Lanham Act false advertising claims do not make it past a motion to dismiss. And there was a steady increase in the percentage of motions to dismiss granted each year between 2010 and 2013. This trend appears to result from the application of the *Twombly/Iqbal* plausibility standard to Section 43(a) Lanham Act false advertising cases. Indeed, during the 2010–2012 time period, courts dismissed Lanham Act false advertising claims at a rate 8 percent higher than during the 2003–2005 time period.⁴ Under the

■ **Christopher A. Cole** is the co-chair of Crowell & Moring LLP’s Advertising & Product Risk Management Group and Vice-Chair of the ABA Antitrust Section’s Committee on Private Advertising Litigation. **Jason M. Crawford** is an associate in Crowell & Moring’s Washington, D.C. office.

¹ Bell Atl. Corp. v. Twombly, 550 U.S. 544 (2007); Ashcroft v. Iqbal, 556 U.S. 662 (2009).

² eBay v. MercExchange, 547 U.S. 388 (2006); Winter v. Natural Res. Def. Council, Inc., 555 U.S. 7 (2008).

³ We collected all reported and unreported federal district court cases that were available on Westlaw. Discretion was applied in screening out those cases that did not primarily involve false advertising allegations (e.g., the case was a patent case, with an ancillary Section 43(a) count appended). We also supplemented our research with the monthly case filing reports collected by the ABA Private Advertising Litigation Committee, where this information was available. This methodology yielded a collection of 398 cases for the 2003–2005 period and 412 cases for the 2010–2013 period.

⁴ Within our collection of cases, 49 percent of motions to dismiss were granted during the 2003–2005 period. That number increased to 57 percent during the 2010–2012 period.

Twombly/Iqbal decisions, a plaintiff must not only allege a short and plain statement of the claim, it must also plead plausible facts to back up the assertions. In particular, when bringing a Section 43(a) false advertising claim, the plaintiff should allege facts that, if proven true, would support all of the following elements of a prima facie claim:

1. Defendant made false statements of fact about its own product or plaintiff's product. (Plaintiffs falter on this prong most often, because many fail to allege facts showing why the claims are untrue, and instead focus on why the claims are unsubstantiated.)
2. Those advertisements actually deceived or have the tendency to deceive a substantial segment of their audience. (This criterion is emerging as a litmus test, as some judges are refusing to sustain cases involving implied claims where no evidence of consumer interpretation to support a claim of deception has been provided.)
3. The deception is material in that it is likely to influence the purchasing decision. (This criterion has also been increasing in importance to courts, some of which are declining to presume advertising claims are material and are requiring evidence that consumers would change their purchase decisions based on the claims.)
4. Defendant caused the false advertisement or its falsely advertised goods to enter interstate commerce.
5. Plaintiff has been or is likely to be injured as the result of the foregoing either by direct diversion of sales from itself to defendant, or by lessening of the goodwill its product enjoys with the buying public. (As discussed in the next sections, below, this factor is most important in the context of injunctive relief.)⁵

Courts dismiss claims when plaintiffs have not adjusted to the new pleading standards post-*Twombly/Iqbal* and merely recite elements of the prima facie test without including plausible facts to back up the assertions.⁶ For example, in *Ameritox Ltd. v. Millennium Laboratories, Inc.*,⁷ Ameritox sued one of its main competitors in the drug testing and medication monitoring market. Ameritox alleged that Millennium sent false advertisements to physicians regarding billing for clinical laboratory tests. These advertisements allegedly told doctors that they could earn large amounts of money by billing for unnecessary testing. According to Ameritox, these material representations led physicians to choose Millennium for their laboratory services instead of Ameritox. The court dismissed the claims because Ameritox simply alleged Millennium's statements were "likely to deceive a substantial portion of the targeted customers."⁸ Without information about *how* doctors were being misled by the advertisement, the complaint was simply a "naked assertion" reciting an element of the cause of action. Thus, the complaint failed to meet the *Twombly/Iqbal* plausibility standard.⁹

⁵ All circuits have adopted a variation of this test known as the "Skil" test. See *Skil Corp. v. Rockwell Int'l Corp.*, 375 F. Supp. 777, 783 (N.D. Ill. 1974).

⁶ See, e.g., *Reliable Carriers, Inc. v. Excellence Auto Carriers, Inc.*, No. 11-cv-15326, 2012 WL 1931519 (E.D. Mich. May 29, 2012); *Pitney Bowes, Inc. v. ITS Mailing Sys., Inc.*, No. 09-05024, 2010 WL 1005146 (E.D. Pa. Mar. 17, 2010); *Jurin v. Google Inc.*, No. 2:09-cv-03065-MCE-KJM, 2010 WL 3521955 (E.D. Cal. Sept. 8, 2010).

⁷ 2012 WL 33155, at *3 (M.D. Fla. Jan. 6, 2012).

⁸ *Id.* at *3.

⁹ *Id.*

Not only has the *Twombly/Iqbal* plausibility standard forced plaintiffs to plead their false advertising claims with greater particularity, but a minority of district courts in the Seventh and Ninth Circuits have held that Section 43(a) false advertising claims are subject to Federal Rule of Civil Procedure 9(b), which applies a heightened pleading standard to claims involving fraud or deception. When 9(b) is applied in the Section 43(a) context, a plaintiff must not only plead the five *Skil* factors with particularity but also the who, what, where, and when of the alleged deception.

For example, in one case, armored car manufacturer Oshkosh brought a false advertising counterclaim against Control Solutions, a manufacturer of control interface devices.¹⁰ Oshkosh alleged, on information and belief, that Control Solutions falsely advertised to the U.S. military that Control Solutions's power door system was being used on Oshkosh vehicles. The court held that Oshkosh's counterclaim fell short of the 9(b) heightened pleading standard because its allegations based on information and belief failed to state a basis for its suspicion that these allegations occurred. Finding that Oshkosh's counterclaim lacked the required specificity, the court dismissed it.

But whether a Section 43(a) claim is evaluated under Rule 9(b) or the *Iqbal/Twombly* standards, the pleading must include plausible factual allegations addressing all the elements of a false advertising claim. Many plaintiffs have had difficulty pleading facts that would prove specific elements of the *Skil* test. For instance, it can be difficult to plead facts that a defendants' alleged false advertising is material in that it is likely to influence a potential customer's purchasing decision.¹¹ Likewise, Section 43(a) claims have been dismissed when plaintiffs have failed to establish a likelihood of injury by direct diversion of sales or a lessening of goodwill.¹²

Although there is still a great deal of uncertainty about what is "plausible" in false advertising cases post-*Iqbal/Twombly*, it is safe to say that under the new regime, simply labeling a claim as "false advertising" and regurgitating the language of the statute will lead to the claim's disposal on a motion to dismiss.

Impact of *eBay/Winter* on Lanham Act False Advertising Injunction Proceedings

The Lanham Act gives courts the power to grant injunctions to prevent a violation of Section 43(a).¹³ Injunctive relief is often a plaintiff's primary goal when bringing a false advertising claim to protect its brand and reputation from a competitor's false advertising. The *eBay* and *Winter* decisions, however, have made it more difficult in many jurisdictions to obtain injunctive relief in false advertising cases because of the need to show irreparable harm.

The Supreme Court held in *eBay* that a permanent injunction should not be automatically issued based on a finding of patent infringement.¹⁴ Rather, to obtain an injunction, a plaintiff in a patent case must satisfy all four parts of the "traditional" injunction standard:

1. that it has suffered an irreparable injury;
2. that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;

¹⁰ Control Solutions, LLC v. Oshkosh Corp., No. 10 C 121, 2011 WL 1131329, at *1 (N.D. Ill. Mar. 28, 2011).

¹¹ Reliable Carriers, Inc. v. Excellence Auto Carriers, Inc., No. SACV 12-463 DOC(MLGx), 2012 WL 1931519 (E.D. Mich. May 29, 2012).

¹² Ferrington v. McAfee, Inc., No. 10-cv-01455, 2010 WL 3910169 (N.D. Cal. Oct. 5, 2010).

¹³ 15 U.S.C. § 116.

¹⁴ *eBay v. MercExchange*, 547 U.S. 388 (2006).

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advertising claim.

3. that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and

4. that the public interest would not be disserved by a permanent injunction.¹⁵

Traditionally, to obtain a permanent injunction in Section 43(a) false advertising cases, plaintiffs enjoyed a presumption of harm once they won their claim on the merits.¹⁶ A number of courts justified application of this presumption on the grounds that it is exceedingly difficult for a plaintiff to prove that a specific quantum of harm has been created by a particular false advertising or advertising campaign. This tension is particularly acute at the outset of a campaign, before the advertisements have had a chance to work on the consuming public.

The first cases to apply *eBay* to the Section 43(a) setting acknowledged the difficulty of proving harm in a false advertising case, but accepted the Supreme Court's mandate that specific evidence of harm be proved before a permanent injunction would issue. In *Schering-Plough Healthcare Products, Inc. v. Neutrogena Corp.*, Schering-Plough sued rival sunscreen maker Neutrogena for falsely advertising that one of Neutrogena's products contained a photo-stabilizing agent when it did not.¹⁷ The court granted partial summary judgment, finding the challenged advertisements were literally false. Schering-Plough then argued the court did not need to apply the *eBay* factors to determine whether to issue a permanent injunction because the court had already found Neutrogena's advertisements were literally false. The court, however, declined to forgo *eBay*'s four-factor analysis, noting the test could not be supplanted by a presumption of irreparable harm.¹⁸ The court then denied Schering-Plough's motion for a permanent injunction, finding it had not proved any irreparable injury because it had not articulated with any particularity how the false advertising resulted in the loss of sales, customers, or business opportunities.¹⁹ Decisions like *Schering-Plough* demonstrate that even if a competitor's advertisement is false, a plaintiff needs to articulate how the false advertisement is harming its business if it wants to obtain permanent injunctive relief.

Just as *eBay* clarified the standard for permanent injunctions, *Winter* defined the standard for preliminary injunctions. Prior to *Winter*, false advertising plaintiffs enjoyed a presumption of harm in some cases—that is, if the plaintiff was successful in demonstrating that the challenged claim was literally false the court would generally presume that harm existed, thereby bypassing the need for specific evidence of irreparable harm.²⁰ Other courts presumed that harm existed if the false claim directly named or implied a comparison with the competitor.²¹ This presumption was based on the recognition that “it is virtually impossible to ascertain the precise economic consequences of intangible harms, such as damage to reputation and loss of goodwill, caused by such violations.”²² But after *Winter*, most circuits now require evidence that the moving party is likely to suffer irreparable harm.

¹⁵ *Id.* at 391.

¹⁶ *See, e.g., Johnson & Johnson Vision Care, Inc. v. Ciba Vision Corp.*, 348 F. Supp. 2d 165, (S.D.N.Y. 2004).

¹⁷ *Schering-Plough Healthcare Prods., Inc. v. Neutrogena Corp.*, Civ. No. 09-642-SLR, 2011 WL 2312569 (D. Del. June 8, 2011).

¹⁸ *Id.* at 4 n.2.

¹⁹ *Id.* at 3.

²⁰ *See, e.g., United Indus. Corp. v. Clorox Co.*, 140 F.3d 1175, 1183 (8th Cir. 1998).

²¹ *See, e.g., Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 695 (2d Cir. 1994).

²² *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 16 (7th Cir. 1992).

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Winter involved an environmental group's challenge to the U.S. Navy's ability to use sonar during drills because of possible harm to marine mammals.²³ The case came to the Supreme Court from the Ninth Circuit, which had applied a preliminary injunction test that considered whether it was "possible" the plaintiffs would suffer irreparable injury in the absence of an injunction. The Supreme Court ruled that this test was too lenient and that plaintiffs must show that irreparable injury is "likely" in the absence of an injunction. Specifically, the *Winter* Court held that a plaintiff seeking a preliminary injunction must establish that:

1. it is likely to succeed on the merits;
2. it is likely to suffer irreparable harm in the absence of preliminary relief;
3. the balance of equities tips in its favor; and
4. an injunction is in the public interest.²⁴

In the aftermath of *eBay/Winter*, some circuits have expressly disallowed the presumption of harm in Lanham Act cases,²⁵ while other circuits have not yet applied *eBay/Winter* to Section 43(a) false advertising cases. Still others have discussed *eBay/Winter* without entirely doing away with the presumption of irreparable harm.

For instance, a court in the Seventh Circuit applied the circuit's traditional "sliding scale" approach while at the same time citing *Winter* for the proposition that "there must be more than a mere possibility that the harm will come to pass."²⁶ Under this sliding scale approach, the "likelihood of success" and "likelihood of irreparable harm" elements are interdependent. Thus, the greater the likelihood of success on the merits, the less harm the injunction must prevent to warrant a preliminary injunction.²⁷ In *North Star*, the court found the plaintiff established it was likely to succeed on the merits because the defendant's advertisements regarding the plaintiff's snow plows were literally false. As a result, the court presumed irreparable harm and did not address additional reasons the plaintiff offered to suggest irreparable harm, such as website postings and comments received by its dealers.²⁸

Likewise, in *Church & Dwight Co. v. Clorox*, a court in the Second Circuit enjoined a defendant from running an advertisement even though the plaintiff had not submitted evidence to prove harm.²⁹ In this case, the defendant ran an advertisement claiming, based on a sensory lab test, that its cat litter was more effective at absorbing odor than the plaintiff's cat litter.³⁰ The court found the test was unreliable and could not support the defendant's claims.³¹ When applying the likelihood of harm element, the court found that "where the misrepresentation is so plainly material on its face, no detailed study of consumer reactions is necessary to conclude inferentially that Clorox

²³ *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7 (2008).

²⁴ *Id.* at 20 (emphasis added).

²⁵ See, e.g., *PBM Prods., LLC v. Mead Johnson & Co.*, 639 F.3d 111 (4th Cir. 2011); *Osmose Inc. v. Viance LLC*, 612 F.3d 1298 (11th Cir. 2010).

²⁶ *North Star Indus., Inc. v. Douglas Dynamics LLC*, 848 F. Supp. 2d 934, 945 (E.D. Wis. 2012).

²⁷ *Id.* at 945.

²⁸ *Id.* at 950.

²⁹ *Church & Dwight Co. v. Clorox Co.*, 840 F. Supp. 2d 717, 722–23 (S.D.N.Y. 2012).

³⁰ *Id.* at 720.

³¹ *Id.* at 722–23.

is likely to divert customers from C & D's products to its own unless the offending commercial is enjoined."³² After inferring there was a high likelihood of irreparable harm, the court granted the preliminary injunction.³³

The defendant in *Church & Dwight Co.* argued that *eBay* cautioned against the use of presumptions when establishing irreparable harm during injunction proceedings.³⁴ The court, however, cited *Time Warner Cable, Inc. v. DIRECTV, Inc.* a Second Circuit opinion issued after *eBay*, which held that:

the likelihood of irreparable harm may be presumed where the plaintiff demonstrates a likelihood of success in showing that the defendant's comparative advertisement is literally false and that given the nature of the market, it would be obvious to the viewing audience that the advertisement is targeted at the plaintiff, even though the plaintiff is not identified by name.³⁵

Decisions like *Church & Dwight Co.* suggest that the presumption may have continued sticking power in some courts, but the general trend appears to favor doing away with the presumption of harm in Section 43(a) Lanham Act injunction cases. In those circuits where courts have applied the *eBay/Winter* holding to Lanham Act cases, proving likely harm or actual harm is not an insurmountable obstacle, but it has become more difficult for parties to obtain injunctive relief. We provide below examples of how courts applied the *eBay/Winter* analysis in 2012 and 2013 and discuss how potential Lanham Act plaintiffs might structure their cases to maximize their chance of obtaining injunctive relief.

Application of *eBay/Winter* to Recent Lanham Act False Advertising Cases

In *United Fabricare Supply, Inc. v. 3Hanger Supply Co.*, the plaintiff dry-cleaning supply company sought to enjoin preliminarily a competing dry-cleaning supply company from distributing a pamphlet that contained false claims to the plaintiff's customers.³⁶ Before *Winter*, most courts would have presumed harm because the pamphlet was directed explicitly at the plaintiff and contained information that was literally false. But the court, citing *Winter*, reasoned that it had to decide whether there was a likelihood of irreparable harm.³⁷

The court found the plaintiff was unlikely to suffer irreparable harm because the defendant had already received a cease and desist letter and had informed the court that it would no longer distribute the pamphlet.³⁸ Thus, the court held the plaintiff had failed to demonstrate the likelihood of irreparable harm and denied the motion for a preliminary injunction. This conflation of mootness and harm analysis shows that defendants can often avoid an injunction by withdrawing the challenged false claim shortly after learning of the plaintiff's objections. The plaintiff's ability to sustain the motion for an injunction in light of these tactics will depend on whether it is able to show the conduct is likely to recur absent an injunction as, for example, in the classic "cheat and retreat" strategy used by some defendants.

³² *Id.* at 723.

³³ *Id.*

³⁴ *Id.* at 723.

³⁵ *Time Warner Cable, Inc. v. DIRECTV, Inc.*, 497 F.3d 144, 148 (2d Cir. 2007) (emphasis added).

³⁶ *United Fabricare Supply, Inc. v. 3Hanger Supply Co., Inc.*, No. 12-03755-MWF (FFMx), 2012 WL 2449916 (C.D. Cal. June 27, 2012).

³⁷ *Id.* at *2.

³⁸ *Id.* at *6.

By contrast, Del Monte Corp. (DMC) was permanently enjoined from mislabeling its products with claims that they contained fresh fruit after a jury determined there was more than the mere possibility that the infringing conduct would recur.³⁹ In that case, the jury found that DMC had violated the Lanham Act by improperly placing the label “Must be Refrigerated” on merchandise that contained preserved fruit. DMC argued the injunction was unnecessary because it had already stopped committing the practices. Applying *eBay*, the court determined the plaintiff had demonstrated that a permanent injunction was warranted because the record showed that DMC knew consumers might misperceive its refrigerated products as fresh produce, and it continued these marketing and labeling practices throughout the pendency of the trial.

In *Scotts Co., LLC v. Pennington Seed, Inc.*, the court denied a motion for a preliminary injunction because, inter alia, the plaintiff had not shown it was likely to suffer irreparable harm in the absence of preliminary relief.⁴⁰ The plaintiff brought a Lanham Act false advertising claim contending the defendant’s advertisements, which claimed to have “twice the seed” or “twice as many seeds” as the plaintiff’s products, were literally false and misleading.⁴¹ The plaintiff argued those claims were likely to cause irreparable harm and asked the court to enjoin the claims. Noting that in the aftermath of *Winter* there was no presumption of harm, the court held that the plaintiff had not satisfied its burden of showing irreparable harm would result absent preliminary injunctive relief. Relying on the parties’ own representations, the court found most consumers purchased their products at the beginning of the spring grass-seed season, but the season ends in May and the plaintiff was seeking a preliminary injunction in November, so there was no likelihood of irreparable harm.⁴²

Although *Winter* has generally made it more difficult for a plaintiff to obtain a preliminary injunction, some plaintiffs have succeeded by offering evidence to show the likelihood of actual harm. For instance, in *Neighborhood Assistance Corp. of America v. First One Lending Corp.*, the court found the plaintiff was entitled to a preliminary injunction under the *Winter* test.⁴³ The plaintiff, a non-profit advocacy organization, brought an action against the defendant for misleading victims into paying for mortgage modification services the plaintiff made free to the public. The plaintiff alleged that the defendants used false and misleading representations of facts, which caused confusion as to the defendant’s association with plaintiff.⁴⁴ The plaintiff established the likelihood of harm element of the *Winter* test by submitting declarations from the defendant’s customers, saying they had been misled by the defendant’s advertising.⁴⁵ Citing the declarations, the court found that the customers’ conflation of the defendants with the plaintiff was likely harmful to the plaintiff because the defendant’s conduct left customers feeling that they had been cheated, thus tarnishing the plaintiff’s reputation.⁴⁶ Finding that the other elements of the *Winter* test were met, the court granted the preliminary injunction.⁴⁷

³⁹ *Fresh Del Monte Produce Inc. v. Del Monte Foods Co.*, No. 08-8718 (SHS), 2013 WL 1242374 (S.D.N.Y. Mar. 28, 2013).

⁴⁰ *The Scotts Co., LLC v. Pennington Seed, Inc.*, Civ. No. 3:12-cv-168, 2012 WL 6004140 (E.D. Va. Nov. 30, 2012).

⁴¹ *Id.* at *3.

⁴² *Id.* at *5.

⁴³ *Neighborhood Assistance Corp. of Am. v. First One Lending Corp.*, No. SAVC 12-463 DOC(MLGx), 2012 WL 1698368 (C.D. Cal. May 15, 2012).

⁴⁴ *Id.* at *5.

⁴⁵ *Id.* at *3.

⁴⁶ *Id.* at *18.

⁴⁷ *Id.* at *19.

Recommendations for Practitioners

Before *eBay* and *Winter*, the presumption of harm allowed judges to bypass consideration of exactly how a false advertisement was harming a party seeking injunctive relief. But after *eBay/Winter*, moving parties can no longer simply assert that false advertising will lead to the diversion of sales or the loss of goodwill. Thus, it is advisable for plaintiffs to put forth evidence of the harm they will suffer in the absence of an injunction. *Neighborhood Assistance Corp.* points to a successful strategy in false advertising cases, providing concrete evidence from actual consumers, who showed they had been deceived. While consumer surveys are one means to demonstrate the likelihood of deception of the consuming public, they cannot substitute for particularized evidence from specific consumers who can testify to the impact the claims had on their own beliefs and purchase decisions.

Parties who wish
to bring a false
advertising claim under
Section 43(a) of the
Lanham Act should
recognize that recent
developments have
made it harder to obtain
an injunction or survive
a motion to dismiss.

Moreover, because all of the circuits have not fully adopted *eBay/Winter* in the Section 43(a) Lanham Act context, plaintiffs may have more success in some circuits than others. Indeed, in the period from 2010–2012, plaintiffs have had the most success obtaining preliminary injunctions in the Second Circuit, where more than two-thirds were granted. In comparison, during this same time period, courts in the other circuits granted preliminary injunctions only 53 percent of the time. This is a noticeable drop from the 2003–2005 period before *Winter*, when those circuits were granting preliminary injunctions 62 percent of the time. For this reason, plaintiffs seeking preliminary injunctions should strongly consider their forum options before filing suit. Plaintiffs often have several options when deciding where to bring their claims because venue is proper in any judicial district where the advertisements are likely to confuse or deceive consumers or in the district where the advertisements originated.⁴⁸

Conclusion

The *Twombly/Iqbal* plausibility standard has made it more difficult for parties to survive a motion to dismiss while the *eBay/Winter* decisions have made it more difficult for parties in some jurisdictions to obtain preliminary and permanent injunctions. Nonetheless, parties who actually had their Lanham Act claims decided on the merits in the 2010–2012 period had a high rate of success in proving that a competitor had committed false advertising.⁴⁹ This suggests that plaintiffs who clear the *Twombly/Iqbal* hurdle and actually try their cases to verdict frequently succeed. However, plaintiffs need to be ready to show irreparable harm if they hope to obtain injunctive relief because the presumption of harm no longer automatically flows from a showing that an advertisement is false.

Parties who wish to bring a false advertising claim under Section 43(a) of the Lanham Act should recognize that recent developments have made it harder to obtain an injunction or survive a motion to dismiss. While Section 43(a) is still a valuable tool for companies to protect their brand and reputation from false advertising by a competitor, counsel must be prepared to comply with the new pleading standard and tests for injunctive relief. ●

⁴⁸ See, e.g., *Sechel Holdings, Inc. v. Clapp*, Civ. No. 3:12-cv-00108-H, 2012 WL 3150087 (W.D. Ky. Aug. 2, 2012); *Overland, Inc. v. Taylor*, 79 F. Supp. 2d 809, 811 (E.D. Mich. 2000).

⁴⁹ For instance, in *Skydive Arizona, Inc. v. Quattrocchi*, Skydive Arizona sued Quattrocchi and the other operators of Skyride for false advertising, trademark infringement, and cybersquatting. On the false advertising claim, Skydive alleged that Skyride deceived consumers into believing that Skydive would accept Skyride's skydiving certificates and that Skyride owned skydiving facilities in Arizona when both of these facts were false. The jury found that Skyride had violated the Lanham Act and awarded Skydive Arizona \$1 million in damages. The court also granted a permanent injunction against Skyride's operations in Arizona. *Skydive Ariz., Inc. v. Quattrocchi*, CV-05-2656-PHX-MHM, 2010 WL 1743189 (D. Ariz. Apr. 29, 2010). Both the money damages and injunctive relief were affirmed by the Ninth Circuit on appeal. *Skydive Arizona, Inc. v. Quattrocchi*, 673 F.3d 1105, 1112 (9th Cir. 2012).

Paper Trail: Working Papers and Recent Scholarship

Editor's Note: In this edition, we consider three papers that discuss some of the many difficult issues raised by patent owners' commitments to charge only "fair, reasonable, and non-discriminatory" or FRAND royalties in return for inclusion of their patents in an industry standard.

Send suggestions for papers to review to: page@law.ufl.edu or jwoodbury@crai.com.

—William H. Page and John R. Woodbury

Recent Papers

Richard Gilbert, **Competition Policy for Industry Standards**,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2273333

Dennis W. Carlton and Allan Shampine, **An Economic Interpretation of FRAND**,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2256007

Mark A. Lemley and Carl Shapiro, **A Simple Approach to Setting Reasonable Royalties for Standard-Essential Patents**, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2243026

Of the papers considered in this installment of the *Paper Trail*, the one with the broadest scope is Richard Gilbert's survey of competition policy issues raised by industry standards. Standards permit interoperability, which is essential in high-technology markets. At the same time, standardizing products excludes producers who might use nonstandard solutions. When a single company promotes a standard, particularly a platform like the Windows application programming interface, there may be claims that the company will use practices like exclusive contracts to disfavor competing standards. Standards formulated by private standard-setting organizations, or SSOs, also raise competitive concerns. They also may exclude rivals or facilitate price coordination. Unlike competitive processes, which predictably move toward an efficient equilibrium, standard-setting is collaborative and will necessarily reflect the represented producers' self-interest, which may not coincide with the public interest.

Although SSOs must be open and follow regular procedures, they are still subject to possible efforts to skew standards in favor of private interests. For example, members of the SSO may recruit other members in order to stack the vote in favor of their preferred solution, a practice found unlawful in *Indian Head*.¹ In an interesting analysis, Gilbert shows that competitive vote-stacking within an SSO is similar to an auction because the winner is likely to be the faction that invests the most in the effort. Unlike other auctions, however, the outcome is not likely to be socially optimal. Even if SSOs try to reach optimal standards, the presence of uninterested (and uninformed) members may make negotiation on the merits difficult.

¹ *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988).

Private intellectual property rights in standards raise still more competition issues. The principal concern is patent hold-up—assertion of patent rights for standard-essential patents, or SEPs, after inclusion of the technology in the standard. Most organizations require some form of disclosure of patents in applications for the inclusion of technology in a standard. Gilbert critically examines the *Rambus* litigation,² in which the FTC failed to establish that Rambus's failure to disclose to an SSO its applications for patents on the technologies it proposed for inclusion in the standard violated Section 5 of the FTC Act. He also briefly discusses the competitive consequences of overly broad disclosures of patents that are not technically essential to the standard. In many instances, disclosure of every patent may reveal trade secrets or may simply be impractical when there are hundreds of patents involved.

SSOs also impose restrictions on pricing freedom as a condition of inclusion. A few, including the World Wide Web consortium, require owners to agree to license patents royalty-free. Most, however, require patent owners to commit to "reasonable and non-discriminatory" (RAND) or "fair reasonable and non-discriminatory" (FRAND) licensing terms. Gilbert provides a useful survey of recent approaches to the meaning the FRAND commitment. Some, including the FTC,³ have proposed that a reasonable price is the one that would have prevailed in the period before the inclusion of the patent in the standard.⁴ In this formulation, alternative technologies available to the SSO determine the fair value of the chosen technology. Swanson and Baumol⁵ have argued that SSOs should conduct an auction in which competing proponents of technologies specify their licensing terms as well as their technical capabilities. Others have asserted, however, that any royalty that is the product of open bargaining should be considered reasonable.

All of these approaches face added complexities when many complementary patented technologies are essential to a standard. In these circumstances, the parties (or ultimately the courts) must devise some method of allocating royalties, based on, for example, the number of patents involved and their relative importance to the standard. Gilbert considers (without resolving) the complex problems of valuation that can arise in negotiations among firms for cross-licenses of large patent portfolios and the still-contested issue of whether a FRAND commitment entails a forfeiture of the right to seek an injunction (or an ITC exclusion order) against an infringing product. As we will see, both of the other papers under consideration here argue that the FRAND commitment is inconsistent with injunctive relief.⁶

² *Rambus, Inc. v. FTC*, 522 F.3d 456 (D.C. Cir. 2008).

³ Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 23 (2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

⁴ In *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013), which was decided after all of these papers were written, Microsoft argued for an *ex ante* approach to the valuation of Motorola's patents' contribution to standards. The court recognized that the incremental value approach "can be helpful," but found it "hard to implement" for a standard that includes many patents. *Id.* at *13. Instead, the court adopted a (very) modified version of the "hypothetical bilateral negotiation" standard used to calculate damages for patent infringement. *Id.* at *15 (citing *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970)). Of particular importance in the implementation of the approach were benchmark royalties charged by "possible comparable licensing agreements and patent pools." *Id.* at *20.

⁵ Daniel G. Swanson & William J. Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standard Selection, and the Control of Market Power*, 73 ANTITRUST L.J. 15 (2005).

⁶ *But cf.* Elyse Dorsey & Matthew R. McGuire, *How the Google Consent Order Alters the Process and Outcomes of FRAND Bargaining*, 20 GEO. MASON L. REV. (forthcoming 2013) (eliminating injunctive relief raises the danger of "reverse hold-up" by SSOs and licensees), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2252006.

Gilbert also helpfully examines the possible liability of the SSO itself and its members for adoption of standards conditioned on RAND licensing terms. He emphasizes that SSOs themselves compete with other mechanisms to define industry standards. That competition and competition among technology sponsors interact in ways that may limit the nature of any conditions the SSO can practically impose. He considers the possibility of *ex ante* bargaining, either collectively through the SSO or independently by patent owners and potential licensees, as an alternative to reliance on a general RAND commitment. He refers to his own 2011 *Antitrust Law Journal* article,⁷ which argues that rates established in bilateral negotiations between patent owners and licensees before adoption of the standard, together with a requirement of nondiscrimination, can provide a benchmark for royalties after adoption of the standard.

In the second article under consideration, Dennis Carlton and Allan Shampine offer a theoretical analysis of the role of FRAND conditions, particularly the non-discrimination principle, which has drawn less attention than the concept of reasonableness. They propose a general account of nondiscrimination, building on Gilbert's 2011 *Antitrust Law Journal* article.

They begin with an account of the problem that FRAND is designed to resolve. Standards may encourage hold-up if a patent included in the standard allows the owner to extract royalties in excess of those it could have obtained *ex ante*, before being incorporated into the standard, when it may have faced competition from other technologies. *Ex ante*, a patent will command royalties that reflect at most the incremental value the patent confers on the licensee over the next best alternative. *Ex post*, there is a danger that the royalties will reflect market power attributable to the standard itself and to sunk investments that licensees must make to comply with the standards. In the limit, the royalty might capture the entire profit of the licensee, including amounts attributable to product enhancements entirely unrelated to the IP in the standard.

If licensees derive different benefits from the patented technology, Carlton and Shampine show the *ex ante* royalties they pay for the technology might differ legitimately across users. In those circumstances, royalties *ex post* may differ without being discriminatory in an economic sense. In other circumstances, however, the patent owner and a subset of licensees represented in an SSO might select the patent owner's technology in return for the patent owner's commitment to disfavor rival licensees, including new entrants. The disfavored licensee may not make sunk investments in the standard that would benefit consumers. Thus, there is a concern that coalitions might manipulate the standard-setting process to limit competition to the detriment of rivals and consumers.

SSOs have tried to mitigate these dangers by requiring disclosure of patents and FRAND commitments from firms that propose their technology for inclusion in the standard. Economists generally agree that the "reasonable" element of FRAND means that the patent owner is entitled to the incremental value of the SEP over the *ex ante* alternatives, without *ex post* hold-up. They have given less consideration to the "nondiscriminatory" element. Carlton and Shampine propose that nondiscrimination means that firms that implement a standard and are "similarly situated"—in the sense that *ex ante* they derive the same incremental value from the SEP—should pay the same royalty. This interpretation of the nondiscrimination element of FRAND would prevent the SEP from extracting more from licensees who derive the same incremental benefit from the patented technology itself but are more profitable *ex post* for other reasons. It would also provide some measure of protection where it is clear that firms derive similar benefits from the SEP—for example, if they make

⁷ Richard J. Gilbert, *Deal or No Deal? Licensing Negotiations in Standard-Setting Organizations*, 77 ANTITRUST L.J. 855 (2011).

the same product in the same way—even if those benefits are difficult to measure specifically. If one of the firms has negotiated an *ex ante* royalty, the others would pay a comparable amount

The principle would, in theory, allow the SEP owner to charge a higher royalty if the technology increased demand for a licensee's product relatively more (and thus generated greater incremental profits) than for other licensees. The authors recognize, however, that it may be impractical to make the necessary demand estimates to justify any differences in royalties on this basis. The authors suggest as an alternative that courts "define 'similarly situated' as any firm that uses [a] common component [incorporating the SEP] even in cases where some firms derive greater value from the patent than others." (p. 11) The common component would then be the royalty base, regardless of whether the patent owner sought royalties from upstream or downstream producers. The authors suggest such a definition would limit the dangers of hold-up, for example, where the SEP owner tries to increase its royalties by licensing exclusively downstream consumer product manufacturers. Monitoring problems in these circumstances may make it difficult to distinguish efficient price discrimination, where the royalties reflect differences in the *ex ante* value of the patents, from holdup. If so, the authors argue, using a common component as the royalty base may be justified.

In a final section, Carlton and Shampine argue, first, that a FRAND commitment should preclude any right to an injunction or other exclusion order. Such an order, issued before "resolution of the dispute over the FRAND rate and prior to the refusal of a prospective licensee to pay the court determined FRAND rate" (p. 12) would increase the risk of hold-up. They recognize that estimating the *ex ante* incremental value of even a single SEP, much less an entire portfolio of SEPs, may be challenging. In some cases, an improperly placed burden of proof alone could permit hold-up:

[I]f the only way to demonstrate that a licensing offer is not reasonable under FRAND is to perform an *ex ante* valuation analysis for each and every patent in the portfolio, the costs and uncertainty of such an approach likely would render the reasonable principle meaningless and unenforceable since many portfolios consist of thousands of patents. (p. 13)

They propose "requiring the portfolio owner to put forward exemplar patents so that the portfolio could be analyzed through a sample selected by the portfolio owner. If the difficulties and uncertainty of *ex ante* analysis were still substantial, then our alternative definition of non-discrimination [using a common component as the royalty base] could be applied at a portfolio level." (p. 13) Finally, they suggest that, while SEPs may, in principle, increase in value, the FRAND royalty should not be allowed to rise, because the owner might exploit uncertainties to hold up licensees; if, on the other hand, negotiated rates for one licensee fall, they should fall for all.

In the last article I consider, Mark Lemley and Carl Shapiro first describe the many costly uncertainties that plague the implementation of the FRAND commitment in the present legal regime and then propose an extraordinarily specific set of best practices to reform the system. The starting point is that SSOs, as a condition of including patents in an industry standard, require the patent owner to commit to making a "FRAND offer" to license its entire portfolio of SEPs to any "willing licensee" who plans to implement the standard. As part of this commitment, the patent owner would agree not to seek an injunction against the willing licensee. The patent owner and individual implementers would then negotiate "in the shadow" of binding arbitration.

This requirement would avoid many current areas of dispute. For example, the parties would not have to argue over whether the patent owner had breached its commitment by making a non-FRAND offer and, if it had, how to characterize such a breach under contract law. They also would not have to argue about whether the implementer was acting in bad faith in not accepting the offer.

If the parties fail to agree, they would submit to baseball-style arbitration, in which the patent owner and licensee each propose a royalty rate and the arbitrator simply chooses between them, without finding facts or deciding whether any of the patents in the portfolio is valid and infringed. Such a procedure, Lemley and Shapiro argue, would require the parties not only to present the best evidence on the value (including the validity and strength) of the patents, but to make a reasonable proposal of a royalty themselves. The decision of the arbitrator would bind the parties (including, perhaps, on the issue of patent validity) and would then be disclosed to other willing licensees in order to limit discrimination among licensees and reduce the need for future arbitrations of the same issues.

Recognizing that SSOs do not normally specify the meaning of FRAND, Lemley and Shapiro propose a “set of principles” to guide the arbitrator’s inquiry. In a standard patent damage litigation, courts estimate a reasonable royalty by hypothesizing a negotiation between a willing buyer and a willing seller at the point of infringement. To calculate a FRAND royalty, the arbitrator should imagine a similar negotiation, but at the time the SSO adopts the relevant standard. In this construct, the patentee and one potential licensee, unlike most real-world firms, know the available competing technologies and their likely royalties. The patent owner is entitled to, at most, the incremental value its portfolio provides to the licensee over the next best alternative, but not to any increment attributable to its selection as the standard. To account for the problem of royalty stacking, when a product requires numerous SEPs, the hypothetical licensee (and the arbitrator) would limit the amount the licensee would pay in light of the royalties it would have to pay for other SEPs. It would also pay less for a portfolio containing patents of doubtful validity.

To limit strategic behavior by implementers, Lemley and Shapiro propose that the patent owner be permitted to sue the implementer in court for both damages and injunctive relief if the implementer refuses to submit to the arbitration process. The patent owner could also sue the implementer in court for infringement of patents that are not essential to the standard.⁸ However, the implementer in that case could compel arbitration by showing that its standards-compliant product only infringed the owner’s SEPs, including patents pending at the time the standard was adopted.

Lemley and Shapiro also consider whether SEPs in various circumstances are or are not subject to a FRAND commitment. If a prospective licensee holds SEPs, the authors argue, a patent owner subject to a FRAND commitment should be able to invoke “defensive suspension” to condition its license on reciprocal FRAND licenses. Moreover, they argue that SSO rules should make clear that the FRAND commitment “runs with the patent” and thus remains binding even after the patent is transferred to third parties, including patent assertion entities. On the other hand, if a patent owner makes a FRAND commitment with respect to certain patents, that commitment does not extend to other SEPs that it later acquires.

In an interesting section, Lemley and Shapiro argue that their proposal will limit the need for antitrust enforcement in standard-setting contexts. They observe that, under the present regime, patent owners may face antitrust liability if they hide patents from the SSO or otherwise try to circumvent a FRAND commitment, and the SSO may face liability if it acts on behalf of licensees to cap royalties. Most of these issues would disappear under the proposal, they argue, because the patent owner would be subject to the FRAND obligation with respect to its entire portfolio of SEPs, regardless of whether it discloses them to the SSO, and the SSO would not be involved in price setting at all. ●

—WHP

⁸ They suggest that SSOs “define a patent to be essential if any product complying with the standard will infringe on that patent.” (p. 15)