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AFTERWORD: THE ROLE OF THE COMPETITION COMMUNITY IN THE PATENT LAW DISCOURSE

HILLARY GREENE*

The Federal Circuit is the most visible point of the intersection between competition and patent law. When a single case contains both competition and patent issues, precedents of that court, including those pertaining to governing legal burdens or presumptions, will be critical.[1] It is worth considering whether and how actual or assumed consumer welfare trade-offs are reflected in those decisions. Additionally, the basic decision to confer patents, and the attendant choices regarding their breadth, scope, and other aspects, also reflect social value judgments that directly implicate competition. The competition community can help both to focus attention upon and to illuminate certain consumer welfare trade-offs that inhere in our system for both granting patents and resolving patent disputes.

Clarifying the nature of the trade-offs patents require, in turn, will help society refine its treatment of issues implicating both patent and competition law. The importance of these trade-offs, coupled with the uncertainty surrounding them, may explain why the legal and economic assumptions upon which the patent system is based are undergoing a broad-based review in academia and elsewhere. Given the important role that patent protection plays in the economy, and the fact that both patent and antitrust laws are intended to promote consumer welfare[2] by

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[1] *See, e.g.*, Eugene Crew, *Microsoft's Copyright Defense* 233, 242–43, *in* INTELLECTUAL PROPERTY ANTITRUST (PLI Patents et al. Course Handbook Series No. G-00CZ 2000) (noting the importance of "shifting presumptions and burdens of proof" in deciding cases involving "potential conflict between antitrust and intellectual property law").

[2] The consumer welfare perspective is often contrasted with a natural or moral rights perspective. *See, e.g.*, John Shepard Wiley, Jr., *Copyright at the School of Patent*, 58 U. CHI. L. REV. 119 (1991). The consumer-oriented perspective believes "the point of patent . . . law is to create incentives for producers so that they will serve consumers' needs." *Id.* at

"encouraging innovation, industry and competition,"[3] the competition community has an affirmative obligation to participate in this review. Such an interdisciplinary discourse between the patent and competition communities is essential if society is to best promote innovation.[4]

This *Afterword* focuses on the role the competition community, through an understanding of antitrust law and its economic underpinnings, can play in patent policy debate. Towards that end, three distinct aspects of the discourse surrounding patent trade-offs are analyzed: (1) how the constitutional underpinning of the patent system itself recognizes patents as trade-offs; (2) how the attempted banishment of the word "monopoly" may obscure those trade-offs; and (3) how patents are assumed to enhance innovation, without adequate recognition of the potential trade-offs involved. Significantly, this assumption is extended to specific aspects of patents, as well as to the patent system as a whole. Ideally, increased clarity in identifying the trade-offs patents impose will underscore the importance of the competition community's role in a broader social assessment of the consequences of those trade-offs.

I. CONSTITUTIONAL RECOGNITION OF TRADE-OFFS

The unique character of the U.S. Constitution's provision for a patent system, which the Supreme Court has aptly characterized as "both a grant of power and a limitation," suggests recognition of some of the

139. The producer-oriented perspective views the purpose of patents as being to "vindicate the moral entitlements that creators earn through their creation." *Id.* This Afterword will address the consumer welfare perspective. As one commentator has observed:

> [T]his debate about values [whether to adopt a consumer welfare or producer oriented perspective] is exciting mostly in the abstract. The two analyses tend to converge as a practical matter, because law governing innovation policy usually must treat creators fairly in order to give them incentives to act in ways that benefit consumers.

Id. at 140.

[3] Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990) (further characterizing antitrust and patent law as "complementary" regimes).

[4] Clearly this discourse must be two-way, thereby enabling the competition community to learn from the patent community. Moreover, this discussion must be part of a broader public policy debate. Associate Justice Stephen Breyer has expressly recognized the value of a social "conversation" regarding how well patent law is accomplishing its "basic job" of "developing financial incentives that, as they operate in the marketplace, will encourage useful discovery and disclosure without unduly restricting dissemination of those discoveries . . . ." He believes that, "[t]he best answers will arise when the legal issue is focused by previous conversations between science, business, economics, and law. Neither courts nor legislatures may yet find wise answers in the absence of such earlier interaction." Associate Justice Stephen G. Breyer, U.S. Supreme Court, Genetic Advances and Legal Institutions, Plenary Session Speech Before the Whitehead Policy Symposium, Genes and Society: Impact of New Technologies on Law, Medicine, and Policy 5 (May 2000), *available at* http://classes.lls.edu/fall2001/biotech/materials/breyer.

social trade-offs involved.[5] While the Constitution does not establish a "right to patent protection," Article 1, Section 8 (the Patent Clause) does provide Congress with the "Power ... To Promote Progress of Science and useful Arts, by securing for limited Time to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . ." The enumeration of this Congressional power reflects, among other things, basic social recognition of the need for the federal government to help foster invention and innovation. But an express time limit on what was the most obvious and likely method for promoting innovation—granting inventors exclusive rights—also appears to have been of central importance to the Framers.[6] It is the Patent Clause's explicit provision of one specific but limited method of exercising its power that renders the clause "unique among the [enumerated] congressional powers. . . ."[7]

Long before the Constitution was drafted, patents had issued under the English system. In 1624, even as the Statute of Monopolies generally voided all state-granted monopolies, section 6 of that same statute expressly exempted patents.[8] Given the ostensible tension between the Framers' general aversion to state-sponsored monopolies and their limited embrace of patent grants in Article I, Section 8, it becomes clear why the Framers found it necessary to explicitly grant authority to create patents.[9] Beyond authorizing the creation of patents, the Framers delegated to Congress the task of actually designing the system and, at least in theory, the decision of whether to have a patent system at all.[10] Thus, the mere presence of the Patent Clause in the Constitution should not in itself shield the features of the system actually established from an objective and comprehensive assessment of whether, through the trade-offs struck, it is achieving its underlying objectives. Rather, like other legal regimes, the patent system should remain subject to periodic re-

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[5] Graham v. John Deere Co., 383 U.S. 1, 5 (1966).

[6] Edward C. Walterscheid, *To Promote the Progress of Useful Arts: American Patent Law and Administration, 1787–1836*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 11, 23–24 (1998).

[7] *Id.*

[8] FIVE HUNDRED YEARS OF PATENTS: TUDORS AND STUARTS (UK Patent Office), *available at* www.patent.gov.uk/patent/fivehundred/tudors.htm. Section 6 excepted patents "for a term of 14 years or under hereafter to be made of the sole working or making of any manner of new manufactures within this Realm to the true and first inventor." *Id.* Such monopolies would not be "contrary to the law nor mischievous to the State by raising prices of commodities at home or hurt of trade." *Id.*

[9] Walterscheid, *supra* note 6, at 27.

[10] *Id.* at 23 (The Framers of the Constitution sought "[t]o insert essential principles only, lest the operations of government should be clogged by rendering provisions permanent and unalterable, which ought to be accommodated by time and events. . . .").

evaluation and, given its Constitutional province, even more searching scrutiny. The competition community can contribute to such a review.

II. MONOPOLIES AS TRADE-OFFS

The competition community's role in patent policy debate is reflected, in part, by the very terms of that debate. A brief review of the evolution of the word "monopoly" to describe patents reveals how the patent community has responded to the trade-offs it perceives the term to suggest. This is *not* to suggest that patents ought to be routinely referred to as "monopolies." That term can have connotations that might unnecessarily inflame the debate. On the other hand, extreme avoidance of the term may obscure the fact that, by their very nature, government-conferred grants of patent protection for extended periods of years can, on balance, promote or injure competition. Patents, after all, are designed to affect competition.

Shortly after the Federal Circuit was created, its first Chief Judge, Howard T. Markey, denounced the use of what he called "water-muddying words" by the courts.[11] In particular, he stated that "it is at best incongruous to find the courts . . . calling that property right by the nasty name 'monopoly.'"[12] Moreover, Judge Markey counseled that "[a]voidance of that nasty buzzword might also relieve judges and academes of much heartburn and unfounded fear in dealing with patents."[13] Since that time, "the Federal Circuit has gone to great lengths to cleanse the patent lexicon of the term 'patent monopoly.'"[14]

Hostility to the term "patent monopoly" likely reflects confusion regarding both its meaning and its legal consequences, confusion that is rooted, at least in part, in instances of what has since been rejected as misuse of the term. "Monopoly" has multiple definitions and, as a consequence, it is important to make clear how the term is being used in a given context.[15] In lay terms, anyone with "exclusive possession or control" of a particular product or service has a monopoly.[16] The focus of the competition community, however, is on the use and abuse of

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[11] Howard T. Markey, *Why Not the Statute?*, 65 J. PAT. & TRADEMARK OFF. SOC'Y 331 (1983).

[12] *Id.* at 333.

[13] *Id.* at 332.

[14] Glen P. Belvis, *An Analysis of the En Banc Decision in* Festo Corp. v. Shoketsu, Kinzou Kogyo Kabushiki Co. *and the Doctrine of Equivalents*, 11 FED. CIR. B.J. 59, 101 (2001–2002). *See also* Glynn S. Lunney, Jr., *E-Obviousness*, 7 MICH. TELECOMM. & TECH. L. REV. 363, 366–67 (2000–2001).

[15] *See, e.g.*, Edmund W. Kitch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 55 VAND. L. REV. 1727 (2000) (discussing such "linguistic confusion").

[16] MERRIAM-WEBSTER'S COLLEGIATE DICTIONARY 754 (10th ed. 1985).

market power. Antitrust law concerns itself with settings in which the monopoly confers a substantial amount of market power over a relevant antitrust market, that is, the ability to raise prices or exclude competition for a significant period of time. A patent's legal monopoly may not rise to this level. If, for example, many substitutes exist for a patented technology, the patent holder would have a legal monopoly over the subject matter of the patent grant but would not possess monopoly power in the antitrust sense.

Even the possession of monopoly power in the antitrust sense is not a law violation; the monopolization offense further requires that the monopoly have been willfully acquired or maintained.[17] Thus, the Antitrust Guidelines for the Licensing of Intellectual Property expressly provide, "If a patent . . . does confer market power, that market power does not by itself offend the antitrust laws."[18] Moreover, the Intellectual Property Guidelines further provide that "the [Federal Trade Commission and Department of Justice] will not presume that a patent . . . necessarily confers market power upon its owner."[19]

The avoidance of the term "monopoly" to describe the patent grant, driven, at least in part, by the recognition that a patent does not necessarily confer market power, may mask the trade-offs inherent in the grant. Patents can certainly aid competition by creating rewards for innovation and making palpable the incentives for further inventive efforts. On the negative side, they can grant persistent, government-enforced control over a market or over property that can become the foundation for acquiring market dominance or for fostering conditions conducive to express or tacit collusion. Society cannot, consistent with protecting consumer welfare, ignore such potential side effects of patents on competition. As one commentator aptly captured the role of trade-offs in shaping assumptions critical to the patent system:

> By rejecting the characterization of a patent as a monopoly, [this] . . . perspective rejects the view that patents can impose deadweight losses. Absent the specter of these deadweight losses, the cost-benefit equation associated with granting a patent shifts sharply in favor of patents.

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[17] United States v. Grinnell Corp., 384 U.S. 563, 570–01 (1966)(Monopolies are lawful, provided their acquisition and retention results from "growth or development as a consequence of superior product, business acumen, or historical accident."); Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 479 n.29 (1992)(identifies patents as among the lawful and natural means for acquiring a monopoly).

[18] U.S. Dep't of Justice and Federal Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 2.2 (1995), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132.

[19] *Id.*

> And if patents do not generate monopolistic deadweight losses, there appears to be little reason to 'weed out' undeserving advances. . . .[20]

Given the competition community's extensive experience in analyzing market power and its implications, that community has a valuable perspective to contribute to the dialogue regarding the consumer welfare trade-offs that the current patent system may impose.

III. EVALUATION OF TRADE-OFFS

The competition community's role in patent policy discourse may also be undermined by uncertainty about the validity of the assumptions regarding the trade-offs patents represent. Thomas Jefferson, an inventor himself and the father of the American patent system, "saw clearly the difficulty in 'drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not.'"[21] Contemporary recognition that trade-offs are required will not undermine social support for the patent system. To the contrary, the failure to adequately acknowledge, gauge, craft, and periodically reexamine the trade-offs could affect social support.

There has been increasing scrutiny of whether in fact the patent system has a uniformly positive effect on innovation or whether, under certain circumstances, patents can adversely affect innovation.[22] And, assuming that the current system does consistently promote innovation, is it performing as well as it might? Federal Circuit Court Judge Pauline Newman, speaking as an audience member at a National Academies conference

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[20] Lunney, *supra* note 14, at 366–67. If one believes that patents impose only minimal, if any, dead-weight loss, that still must be accounted for when assessing the effect of these exclusive grants. *See, e.g.*, Kitch, *supra* note 15:

> [I]ntellectual property rights systems have costs as does any system of property rights. Any system of property rights involves costs in defining the scope of the rights, and detecting and preventing trespass and in foreclosing particular productive opportunities that might be possible if the property system did not exist. Any system of property rights is appropriately subject to examination as to whether the benefits of the property system outweigh these costs, but that examination has nothing to do with the social welfare loss caused by economic monopolies. Unfortunately, the monopoly issue has served to distract attention from this conceptually simpler, yet important, issue.

Id. at 1733.

[21] *Graham v. Deere*, 383 U.S. at 11 (quoting Thomas Jefferson).

[22] Among the most extensive examinations currently underway is the National Academies' *Intellectual Property Rights in a Knowledge-Based Economy, available at* http://www4.nationalacademies.org/PD/step.nsf. The National Academies is a non-governmental organization "created by the federal government to be an advisor on scientific and technological matters." The study considers "the impact of IPR [Intellectual Property Rights] policies on . . . initial and subsequent innovation, and competition and industry structure."

on the patent system, recently commented on the dearth of solid and rigorous economics studies in the area, noted her own unsuccessful search for studies about "the substructure on which we have constructed this [ ]very elaborate house of cards," and focused particularly on the need for studies to illuminate whether patents are a "boon for investment in research and development, for technological competition [and] industrial growth."[23] At a minimum, it appears that patent protection can have a range of effects on innovation. The social desirability of the trade-offs that underlie aspects of the prevailing system may not be entirely clear-cut.

Patents do not operate in a vacuum. They cannot be presumed costless either in theory or as embodied in the prevailing systems for applications, grants, and enforcement. Patents are meant to restrain competition; it is only logical, therefore, to expect that there may be countervailing "side effects" to the benefits patents produce. As with innovation, patent protection can have a range of effects on competition regarding price and output (the more static allocative efficiency considerations). In addition, by constraining competition, patents may indirectly reduce innovation (dynamic efficiency considerations) below optimal macroeconomic levels.[24] If we add these potential side effects to the range of possible effects on innovation, still further evaluation of the trade-offs may be necessitated. The competition community can contribute not only directly through input regarding specific trade-offs, but also indirectly through demonstrating the more general value of industrial organization economics in weighing trade-offs.[25]

This is not meant to convey a false sense of precision regarding the extent to which society can calibrate the trade-offs patents entail. What exactly does society know about the impact of the patent system upon

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[23] Remarks Before The National Academies' Committee on Intellectual Property Rights in the Knowledge-Based Economy, *supra* note 21, Conference on The Operation of the Patent System: Insights from New Research at 315–16 (Oct. 22, 2001). Transcript *available at* http://www4.nationalacademies.org/PD/step.nsf/files/transcript1022.pdf/$file/transcript1022.

[24] *See, e.g.*, Richard J. Gilbert & Steven C. Sunshine, *Incorporating Dynamic Efficiency Concerns in Merger Analysis: The Use of Innovation Markets*, 63 ANTITRUST L.J. 569, 581 (1995) (Though generally not conclusive, they determine there is evidence to support that "protection from competition is inimical to technological progress."); 1 FEDERAL TRADE COMM'N STAFF, ANTICIPATING THE 21ST CENTURY: COMPETITION POLICY IN THE NEW HIGH-TECH, GLOBAL MARKETPLACE ch. 6, at 16 (1996) ("[T]he information currently available supports antitrust enforcement that is assertive in maintaining competition as a spur to innovation, yet cautious to avoid unwarranted interference with intellectual property incentives for innovation.").

[25] *See, e.g.*, William E. Kovacic, *Creating Competition Policy: Betty Bock and the Development of Antitrust Institutions*, 66 ANTITRUST L.J. 231, 242–44 (1997).

innovation and competition? The short answer is that we know more than we used to but far less than would be ideal for a matter of such social import. The question, therefore, becomes how to formulate patent policy on the basis of information that is incomplete or ambiguous. Society must continue to learn about the effects of patents, with the recognition that gaps may emerge between what society believed to be the relevant trade-offs and what subsequent experience has shown them to be. At those times, society may need to reassess and potentially realign some of the explicit or implicit assumptions characterizing patent policy. New trade-offs then may have to be struck—trade-offs that more accurately reflect both what we do know and do not know. The competition community should not be required to show, before meaningful participation in the public debate regarding patent policy, an unqualifiedly negative effect of the patent system on innovation and competition. In fact, those who fully support the status quo are themselves often unable to provide strong empirical support. Uncertainty should not be an absolute bar to the participation of the competition community. To the contrary, it heightens the need for that participation.

As a society we are required routinely to formulate public policy with imperfect information. Our decisions with regard to patents are no different. Whether the placement and weight of the legal presumptions or burdens applied in either granting or litigating patents reflects proper assessments of trade-offs is an issue worth exploring. Though not always framed in those terms, some of the articles in this issue do just that for the multiple levels on which patent and competition law interact. To note a few, several articles discuss *Independent Service Organizations Antitrust Litigation (CSU v. Xerox)*, a case involving both competition and patent issues. Ronald Katz and Adam Safer, for example, criticize that decision as substantively changing the presumption of legality an intellectual property owner enjoys when refusing to deal so that it is more difficult for the party challenging the refusal to deal to overcome the presumption. Whereas Peter Boyle, Penelope Lister, and Clayton Everett argue that, even though the decision establishes presumptions different from those of the Ninth Circuit, it nonetheless reflects mainstream antitrust principles. Robert Hoerner's subject is the doctrine of patent misuse, a doctrine expressly incorporating competition law, and he argues that the Federal Circuit has effectively raised the burden of proof in patent misuse cases by requiring proof of anticompetitive effect in order to invoke the doctrine. Finally, John Barton addresses the basic impact of patent grants on competition generally. Though not the focus of his article, he does assert that "raising patent utility standards . . . and raising obviousness standards" is necessary "to keep the intellectual property system from

becoming a mechanism of rigidity rather than of innovation."[26] Whether one agrees or disagrees with the authors' positions, they each make invaluable contributions to the patent law discourse. The competition community has a vested interest in the functioning of the patent system that transcends the direct interface between patent and antitrust law. Consumer welfare as a whole would benefit from greater discourse between these two communities.

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[26] *But see, e.g.*, Mark D. Janis, *Second Tier Patent Protection*, 40 HARV. INT'L L.J. 151, 210 (1999) (stating that Edmund Kitch's prospect theory "calls for a soft obviousness standard" or the elimination of or reduction in the importance of the obviousness criterion to better promote innovation).