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Living with Patents: Insights from Patent Misuse

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ARTICLES

LIVING WITH PATENTS: INSIGHTS FROM PATENT MISUSE

VINCENT CHIAPPETTA*

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INTRODUCTION

Patent owners have managed to offend almost everyone. Patented pharmaceuticals come at breathtakingly high prices,¹ while their owners pay others not to produce cheaper generics.² Dense patent thickets hamper competitive entry and waste existing participants' energies and resources on defensive portfolios and intramural litigation.³ Patents on the stuff of life constrain agricultural activity⁴ and medical innovation,⁵ making it harder to eat well and obtain treatment for what ails us.⁶ Patent owners attach conditions to goods we buy, limiting our ability to use and sell them to others.⁷ Non-producing patent-holding companies

1. The United States Government Accountability Office report provides a good description of the concerns. U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-10-201, BRAND-NAME PRESCRIPTION DRUG PRICING: LACK OF THERAPEUTICALLY EQUIVALENT DRUGS AND LIMITED COMPETITION MAY CONTRIBUTE TO EXTRAORDINARY PRICE INCREASES (2009), available at <http://www.gao.gov/new.items/d10201.pdf> (last visited August 2, 2010).

2. The issue has garnered judicial, administrative and legislative attention. See, e.g., Ark. Carpenters Health and Welfare Fund, Paper, A.F. of L. v. Bayer AG (*In re* Ciprofloxacin), 604 F.3d 98 (2d Cir. 2010), *rehearing en banc denied*, 2010 WL 3464382 (C.A. 2); *In re* Ciprofloxacin Hydrochloride Antitrust Litig., 544 F.3d 1323 (Fed. Cir. 2008), *cert. denied*, 129 S. Ct. 2828 (2009); Schering-Plough Corp. v. F.T.C., 402 F.3d 1056 (11th Cir. 2005), *cert. denied*, 548 U.S. 919 (2006); Tony Dutra, "Senate Judiciary Committee Likely to Modify Bill Banning Reverse Payment Agreements," Pat. Trademark & Copyright Law Daily (BNA) (Sept. 11, 2009), *reprinted in* 9/11/2009 PTD d10 (Westlaw); "House Subcommittee Approves Bill to Ban Reverse Payments to Generic Drug Firms," Pat. Trademark & Copyright Law Daily (BNA) (June 4, 2009), *reprinted in* 6/4/2009 PTD d4 (Westlaw); Jacqueline Bell, *FTC Pushes Congress to Pass Drug Settlement Bill*, LAW 360 (June 3, 2009), http://www.law360.com/print_article/104204.

3. See, e.g., *In re* Fisher, 421 F.3d 1365, 1378 (Fed. Cir. 2005) (discussing the thicket concern); Stuart Minor Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 303-08, 321 (2006-07); Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, 1 INNOVATION POL'Y AND THE ECON. 119 (2000).

4. See, e.g., *Monsanto Co. v. McFarling*, 488 F.3d 973 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 871 (2008); *Monsanto Co. v. Scroggs*, 459 F.3d 1328 (Fed. Cir. 2006), *cert. denied*, 549 U.S. 1342 (2007).

5. See, e.g., *In re* Fisher, 421 F.3d at 1378; Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 439-49 (2003-04) (discussing the effects of Reach-Through Royalties).

6. *Id.* See also *Ass'n for Molecular Pathology v. USPTO*, 669 F. Supp. 2d 365 (S.D.N.Y. 2009) (an on-going lawsuit in the Southern District of New York involving patents on breast and ovarian cancer genetic diagnostics which gate access to related testing); *Lab. Corp. of Am. Holdings v. Metabolite Lab., Inc.*, 548 U.S. 124 (2006) (writ of *certiorari* dismissed as improvidently granted); *Prometheus Lab., Inc. v. Mayo Collaborative Serv.*, 581 F.3d 1336 (Fed. Cir. 2009), *cert. granted, remanded*, 130 S.Ct. 3543 (2010).

7. See, e.g., *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) (addressing the validity of such restrictions); Daniel L. Reisner, *Patent Licensing and Misuse*

ambush industry standards that improve quality and ease of use⁸ and demand tolls from anyone doing anything successfully.⁹

There ought to be a law. There is. It is called patent misuse.¹⁰ When a patent owner overreaches, the courts refuse to enforce the patent until the related harm has been undone. That sounds eminently reasonable. When patent owners interfere with society, society takes their patents

Issues, in DEVELOPMENTS IN PHARMACEUTICAL AND BIOTECH PATENT LAW 2008 (PLI Pats., Copyrights, Trademarks, & Literary Prop., Course Handbook Ser. No. 17180, 2008), 944 PLI/Pat 87 (Westlaw) and Patricia A. Martone & Richard M. Feustel, Jr., *The Patent Misuse Defense—Does it Still Have Vitality?*, in *INTELLECTUAL PROPERTY ANTITRUST 2005* (PLI Pats., Copyrights, Trademarks, & Literary Prop., Course Handbook Ser. No. 6250, 2005), 832 PLI/Pat 145 (Westlaw) (both discussing the myriad forms of licensing restrictions, their practical effects and legal validity); Katherine E. White, *A Rule for Determining When Patent Misuse Should Be Applied*, 11 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 671 (2001) (analyzing the effects of such restraints). The extensive use of conditional conveyances has given rise to renewed interest in the doctrine of patent exhaustion. See, e.g., *Quanta Computer, Inc. v. LG Elec., Inc.*, 553 U.S. 617 (2008); Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective* (Univ. of Iowa Legal Stud. Res., Paper No. 10-08, 2010), available at http://ssrn.com/abstract_id=1540527; Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Elec., Inc.*, 49 *IDEA* 517 (2008–09). As patent exhaustion constrains imposing post-sale restrictions on patented products, it overlaps with misuse. See *infra* note 54 (discussing the overlap in the Court's analysis in its seminal misuse case).

8. See, e.g., *Rambus Inc. v. F.T.C.*, 522 F.3d 456 (D.C. Cir. 2008), *cert. denied*, 129 S. Ct. 1318 (2009), and *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004 (Fed. Cir. 2008) (both dismissing standards ambush allegations). See also Vincent Chiappetta, *Patenting Industry Standards*, in *PATENT LAW AND THEORY* ch. 26 (Toshiko Takenaka ed., 2008) [hereinafter Chiappetta, *Standards*]; Apostolos Chronopoulos, *Patenting Standards—A Case for US Antitrust Law or a Call for Recognizing Immanent Public Policy Limitations to the Exploitation Rights Conferred by the Patent Act?*, 40 *INT'L REV. OF INTELL. PROP. AND COMPETITION LAW* 782 (2009); Janice M. Mueller, *Patent Misuse Through the Capture of Industry Standards*, 17 *BERKELEY TECH. L.J.* 623 (2002).

9. The literature is legion, but the Supreme Court decision in *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), provides useful judicial insight into the concern, particularly Justice Kennedy's concurrence. Current congressional efforts regarding patent reform also focus on the issue. See Tony Dutra, "Patent Trolls Focus of House Judiciary Committee Hearing on Patent Reform Bill," *Pat., Trademark & Copyright Law Daily* (BNA) (May 1, 2009), reprinted in 5/1/2009 PTD d1 (Westlaw).

10. The history and details of the regime are discussed in detail *infra* at Part I.B. The misuse doctrine has also been applied in other intellectual property regimes, in particular copyright law. Although the economic efficiency arguments made with regard to patent misuse apply equally to other regimes, distinct policy considerations and the resulting adjustments to the right to exclude (for example the fair use and idea-expression dichotomy free speech considerations in copyright law) make direct application inappropriate. Those differences make the intriguing effort to produce a unified approach to misuse extremely problematic. See Christina Bohannon, *IP Misuse as Foreclosure* (Univ. of Iowa Legal Stud. Res., Paper No. 09-41, 2009), available at <http://ssrn.com/abstract=1474407>; Thomas F. Cotter, *Misuse*, 44 *HOUS. L. REV.* 901 (2007–08); Gary Myers, *Toward a Unified Theory of Intellectual Property Misuse* (Univ. of Miss. Sch. of Law, Working Paper), available at <http://ssrn.com/abstract=1507173>. The arguments and conclusions in this discussion are explicitly limited to patent misuse.

away.

But not everyone feeling patent pain can legitimately claim misuse. Patent law expressly intends and depends upon patent owners interfering with others' desires.¹¹ Misuse only occurs when the pain exceeds the inherent costs of the system—the harm society has decided individuals must bear to obtain the regime's benefits.

Distinguishing between inherent and excessive/misuse costs has proven problematic.¹² We do not even agree that the misuse doctrine should exist, much less when it should apply. Some argue misuse stands as a vital guardian of patent policy, particularly the regime's mission of promoting innovation.¹³ Others argue that, at best, the doctrine uselessly duplicates the role of other laws (notably antitrust); while at worst it affirmatively interferes with efficient market operation.¹⁴

Unsurprisingly, confusion also reigns at the coalface of application. The Supreme Court created the doctrine almost a century ago¹⁵ when society was feeling the powerful effects of unchecked monopoly, patent and otherwise, and determining how best to respond. Despite the considerable refinement of the patent and antitrust regimes, the Court

11. The patent system is discussed *infra* at Part I.A.

12. For examples of the myriad changes in the doctrine see, e.g., Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 178–92 (1988–89); Daniel P. Homiller, *Patent Misuse in Patent Pool Licensing: From National Harrow to “The Nine No-Nos” to Not Likely*, 7 DUKE L. & TECH. REV. 1, 3–18 (2006); Robert J. Hoerner, *The Decline (and Fall?) of the Patent Misuse Doctrine in the Federal Circuit*, 69 ANTITRUST L. J. 669 (2001–02).

13. See, e.g., Feldman, *supra* note 5, at 401; Joe Potenza et al., *Patent Misuse—The Crucial Balance, A Patent Lawyer's View*, 15 FED. CIR. B.J. 69, 71 (2005–06).

14. See, e.g., *USM Corp. v. SPS Tech., Inc.*, 694 F.2d 505, 511–12 (7th Cir. 1982); Mark A. Lemley, Comment, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599, 1600 (1990) (arguing misuse and antitrust should be coextensive); David McGowan, *What Tool Works Tells Us about Tailoring Patent Misuse Remedies*, 102 NW. U. L. REV. 421, 428 (2008) (also focusing on the doctrine's remedial disconnection from related harm). Professor Lemley appears to have recanted the more general position (without specific explanation of where the error lies), but stands by the argument that the misuse remedy is improperly calibrated to resulting harms. See Mark A. Lemley, *Beyond Preemption: the Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 152 n. 188 (1999). See also Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine* (Univ. of Minn. Law Sch. Legal Stud. Res. Paper Series, Paper No. 10-30, 2010), available at <http://ssrn.com/abstract=1616275> (offering a useful review of four possible misuse justifications, which he ultimately rejects while stopping short of calling for unqualified abolition of the doctrine).

15. The first inklings of misuse are found in the Supreme Court's 1917 decision in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). Challenges to patent use, of course, arose earlier, but were initially resolved in favor of the patent owner. See Calkins, *supra* note 12, at 178 and *infra* Part I.B (discussing the origins and development of the misuse doctrine).

has not revisited the substantive law of patent misuse for almost forty years.¹⁶ Congress, the legislative custodian of the patent system, has only kibitzed, indicating that market power is important, but (perhaps) only sometimes.¹⁷ The Court of Appeals for the Federal Circuit (the “Federal Circuit”) finds itself in the inopportune middle, seeking to reconcile the Supreme Court’s past with its present. The resulting misuse chimera first attempts to apply the vague misuse “exceeding the scope of the patent” test to identify problematic provisions, then makes the determination by awkwardly relying on modern antitrust anticompetitive effects assessment except when Court precedent explicitly requires otherwise.¹⁸

The time has come to dispense with patent misuse entirely. In the prevailing market efficiency paradigm, the doctrine’s limitations on exploitation of patent rights are not only superfluous, but affirmatively harmful. Misuse’s purely defensive posture, incoherent and inaccurate “scope of the patent” inquiry, and poorly-calibrated, one-size-fits-all blanket unenforceability remedy have been rendered obsolete by subsequent, more nuanced legal responses to potential patent power. Antitrust law draws more appropriate balances between maximizing patent incentives while minimizing undue interference with market operation and innovation. Inequitable conduct, abuse of process, antitrust sham litigation, and *Walker Process* liability more effectively control abuses of the patent prosecution process and improper assertions of patent rights. Granted, these regimes remain imperfectly implemented, but their approach and experience provide a far more

16. The last substantive misuse case was *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) (providing flexibility in the doctrine’s application, as discussed *infra* notes 166–72 and accompanying text). The Court did reference misuse in *Blonder-Tongue Lab. v. Univ. of Ill. Found.*, 402 U.S. 313 (1971), but not for substantive application. Rather, the Court discussed the doctrine’s public policy-based “invention” limitation on the reach of the patent “monopoly” as a justification for applying *res judicata/collateral estoppel* when a patent has been invalidated. Since *Blonder-Tongue*, the Court has twice discussed misuse, but in both cases only to note the evolution away from the doctrine’s assumption that a patent creates market power and related market harms and toward an antitrust net effects assessment. See *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221–23 (1980).

17. See *infra* notes 91–103 and accompanying text (discussing Congressional actions regarding misuse).

18. The Federal Circuit’s most recent attempt was the en banc decision in *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010). The case reaffirmed the applicability of the “scope of the patent” and “anticompetitive effects” tests (the six judge majority, joined on the issue by the two concurring justices and the two dissenters) but featured a disagreement over how they related to one another and should be applied. See *infra* notes 84–89 and accompanying text (discussing in more detail the Federal Circuit’s attempt to reconcile *per se* misuse precedent with antitrust anticompetitive effects inquiry).

effective foundation for making the necessary adjustments. Continued availability of the misuse defense wastes time and resources on a pointless struggle to update an antiquated doctrine that unnecessarily decreases access and, contrary to its defender's claims, interferes with rather than advances patent policy.

The Federal Circuit's current "mixed" approach does much to mitigate the problem. But as a circuit court, it remains constrained by Supreme Court precedent.¹⁹ That latter Court should take the earliest opportunity to eliminate its now outdated doctrine.²⁰ Failing prompt judicial action, Congress should use the current reform effort as a vehicle for legislative abolition.

Beyond clarifying that misuse has outlived its purpose, the inquiry into the doctrine's justifications provides useful insights regarding how to ease the difficult problem of living with patents. An appropriate relationship must be predicated on two facts: first, patents unavoidably cause pain and unhappiness and second, people feeling the adverse effects inevitably will complain. The misuse inquiry reveals that legitimate complaints only arise from two sources: (1) improper implementation producing harms unnecessary to achieve an agreed upon goal, or (2) unhappiness with the goal (currently, that frequently means with the consequences of the prevailing market efficiency paradigm).

The misuse inquiry also clarifies the appropriate response. Punishing those who obtain and use patents in accordance with existing laws resolves neither problem. Our many implementation debates require application of legal expertise to adjust patent law's issuance requirements, rights and remedies, and antitrust and other general law requirements governing market exploitation. But we must avoid conflating those primarily technical problems resolved by applying metrics reflecting the stated goal with complaints arising from the efficiency paradigm's intrinsic inability to produce certain social outcomes. For example, many seeking limitations on pharmaceutical patent holder reverse payments are unhappy with the existing patent system's distributional consequences. Similarly, those labeling patent owner interferences with industry standards "ambushes" and royalty seeking, non-practicing patent owners "trolls" are expressing "moral" disapproval of the intensely self-interested competitive behavior which,

19. See *infra* notes 84–89 and accompanying text (discussing the Federal Circuits efforts to cabin the doctrine while remaining consistent with Supreme Court precedent).

20. See *infra* notes 260–74 and accompanying text (discussing the justification for Supreme Court reversal of these long-standing precedents).

as Adam Smith explained, serves as the essential driver of an efficient market economy.²¹

Coherent debate in these latter situations requires explicit identification and discussion of our underlying normative differences. Until we have determined what the patent/legal system should produce, there is little value in proposing and assessing specific implementation strategies. That unproductively jumbles what is to be achieved with how an unresolved “it” can best be produced, guaranteeing the confusion and discord of talking past rather than to each other. It is better to recognize our disagreements on the “right” and seek a mutually acceptable compromise. In that difficult process, we should not only recognize that one person’s “justice” is another’s “misuse,” but that our differing beliefs have, and importantly, are frequently predicated on, their practical consequences. In particular, distributional and behavioral outcomes can profoundly affect our social relationships, including others’ ultimate continued participation. When considered from the perspective of preserving the fabric of society, making concessions on patent policy may prove a much simpler proposition.

Part I below provides the general context for the misuse inquiry. It first describes the prevailing efficiency-driven legal paradigm and its implementation in patent and generally applicable law (including antitrust). It then discusses the history of and rationale for the misuse doctrine. Part II explains why misuse cannot be justified within the existing legal paradigm and how its continued existence causes affirmative social harm. Part III discusses appropriate next steps: the prompt legislative or judicial elimination of patent misuse and how we can use the misuse experience to more productively discuss our difficulties in living with patents.

PART I: THE CONTEXT

A. Patent Policy—The Economic Efficiency Paradigm, in Brief

A doctrine designed to prevent the misuse of a patent system must start from understanding its proper operation. Patents give their owners the legal right to prevent others from using the covered invention.²²

21. See ADAM SMITH, WEALTH OF NATIONS (Everyman’s Library, 1991) (1776) (“It is not from the benevolence of the butcher, brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”).

22. Under current United States patent law, that generally means the right to prevent others from making, using, offering to sell, selling or importing the patented invention. See 35 U.S.C. § 271(a) (2006).

That exclusionary right restricts access and produces related individual and social costs.²³ The decision to grant patents indicates that society has determined some goal justifies absorbing those costs. By definition, a patent owner can only misuse a patent right if the use generates costs exceeding those required to produce the desired outcome.

There are many possible justifications for creating patent rights.²⁴ The primary justification for current United States patent law can, however, be readily identified.²⁵ The regime forms an integral part of a larger commercial law system designed to foster efficient operation of our primarily market-based economy.²⁶ Because patent law does not exist in isolation, understanding its role and what constitute its inherent costs requires a brief look at the overall system.

The efficient market model serves as the primary organizing principle for economic relationships in the United States.²⁷ The invisible hand of self-interested competition, acting through individually

23. The harms can be individual (inability to obtain desired or necessary resources) and/or societal (for example, harm to efficient market operation in the aggregate) as discussed *infra* in Part II.A.

24. The diverse list of justifications can usefully be focused on three core concepts: Lockean labor theory, personal autonomy/personhood interests, and economic market efficiency/utility theory. See, e.g., ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGY AGE 2–19 (Aspen Revised 4th ed. 2007) (one of many casebooks ably introducing law students to the range of justifications for granting individual intellectual property rights to exclude). The initial decision to create a patent regime must, of course, also address normative positions which reject granting individual rights, in particular communitarian visions of society. See, e.g., Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things*, 21 MICH. J. INT'L L. 333, 375–81 [hereinafter Chiappetta, *International*].

25. Identification of the justification does not make it “right” in the normative sense. It merely means that, for better or worse, it is in fact what currently drives United States patent law.

26. Of course, the entire United States legal system does not implement market efficiency goals. Many laws impose requirements on our social interactions independently of efficiency considerations. But the significant core of commercial law regulating our economic relationships, of which patent law forms an integral part, does, for the reasons discussed below in the text. See, e.g., RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW ch. 2 (5th ed. 1998) (summarizing the use and limitations of economic theory as an analytical tool for explaining and assessing law) and generally (providing numerous examples of its application); *infra* notes 27–34 identifying various examples. See also Vincent Chiappetta, *Trademarks: More Than Meets the Eye*, 2003 U. ILL. J. L. TECH. & POL. 35, 39–40 (discussing the triumph of market efficiency/utility theory over other justifications for United States intellectual property rights).

27. The development of modern antitrust law provides a clear example of the primacy of market efficiency in the US commercial law system. See PHILLIP AREEDA ET AL., ANTITRUST ANALYSIS 38–39 (6th ed. 2004) (“the vast majority of congressmen were sincere proponents of a private enterprise system,” that is the market economy); HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY, ch. 1–2 (3d ed. 2005); POSNER, *supra* note 26, ch. 10. See also Nat'l Soc'y of Prof'l Eng'rs v. U.S., 435 U.S. 679, 695 (1978).

negotiated and agreed exchanges, drives the vast bulk of production and consumption decisions, as well as ultimate resource allocations. The related bias against directive governmental intervention has produced a complex, integrated commercial law system primarily focused on process.²⁸ In lieu of dictating outcomes, these laws reduce the disconnection between the theoretical assumptions essential to efficient market operation (in the economic theory meaning of “efficiency”) and the real world in which actual market exchanges take place.²⁹ For example, fraud and the securities laws mandate disclosures to reduce asymmetrical information.³⁰ Environmental and nuisance laws constrain negative externalities.³¹ Contract and business organization statutes provide templates reducing transaction costs.³²

The overall system objective of maximizing market efficiency has two important consequences regarding legal interventions. First, it means that every legal intervention must be assessed with the overall framework. Although specific laws will target improvements in a particular theoretical assumption, it must do so by producing a “net” efficiency improvement, taking into account the adverse effects of its requirements. For example, a proposed residential seller disclosure law might mandate disclosure of latent defects to reduce information asymmetries.³³ Those efficiency enhancing improvements are not, however, sufficient to justify the legal intervention standing alone. If the related compliance costs exceed the benefits of the additional information (particularly in light of alternatives such as buyer inspections) then the requirement must either be adjusted to produce a net benefit or be abandoned.

Antitrust law provides the most explicit doctrinal articulation of the net improvement requirement. The regime exists primarily to maximize the “perfect competition” assumption vital to an efficiently operating market.³⁴ Although interference with competition triggers antitrust

28. Antitrust law also provides a good example of the process versus outcome orientation of most U.S. commercial laws. See AREEDA, *supra* note 27, at 10.

29. See, e.g., HOWELL E. JACKSON ET AL., *ANALYTICAL METHODS FOR LAWYERS* ch. 6 (5th ed. 2003) (discussing basic microeconomic theory and the market “failure” problems of monopoly, information, externalities and public goods). See generally POSNER, *supra* note 26 (discussing these problems in connection with various legal regimes).

30. See, e.g., JACKSON ET AL., *supra* note 29, at 329–34; POSNER, *supra* note 26, at 122–26, 486–90.

31. See, e.g., JACKSON ET AL., *supra* note 29, at 351–61; POSNER, *supra* note 26, at 68–72, 410–16.

32. See, e.g., POSNER, *supra* note 26, at 108.

33. See, e.g., JACKSON ET AL., *supra* note 29, at 334; POSNER, *supra* note 26, at 68–72, 410–16.

34. See AREEDA, *supra* note 27, at 5–10, 37–40; HOVENKAMP, *supra* note 27, at ch. 1

concern, it does not, standing alone, constitute a violation under the regime's primary assessment mechanism—the Rule of Reason.³⁵ That rule permits even clear restraints when “reasonable,” that is, found essential to producing other greater efficiency improvements resulting in an overall net gain.³⁶ For example, a price-fixing agreement among competitors significantly impairs competition. Nonetheless, such agreements will pass Rule of Reason muster when it plays an essential role in producing the offsetting benefit of a collaborative new product offering.³⁷

Second, an efficient market system focuses exclusively on net *aggregate* outcomes.³⁸ The distributional effects of a legal intervention producing a net overall improvement are irrelevant. Concerns over who specifically receives what benefits or suffers what burdens involve distinct and frequently conflicting normative considerations requiring separate discussion and resolution.

Patent law's specific role in the efficiency system focuses on innovation.³⁹ Innovation performs a vital market function—producing

(indicating that other values may play a role, but the central objective is to “police the highways of commerce” to ensure “full and free competition”).

35. Fed. Trade Comm'n & Dep't of Justice, *Antitrust Guidelines for Collaboration Among Competitors* (Apr. 2000), available at <http://www.ftc.gov/os/2000/04/ftcdojguidelines.pdf> [hereinafter *Collaboration Guidelines*] (providing a helpful overview of the Rule of Reason approach). Those agencies provide useful insight into Rule of Reason analysis as applied to intellectual property exploitation. See Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* (Apr. 6, 1995), available at <http://www.justice.gov/atr/public/guidelines/0558.htm> (last visited March 12, 2010) [hereinafter *Licensing Guidelines*].

36. See *Chicago Bd. of Trade v. U.S.*, 246 U.S. 231, 238 (1918) (articulating the fundamental rule of reason proposition that as every agreement restrains trade to some extent, the antitrust inquiry is whether it promotes or suppresses competition based on its overall effects); *Broad. Music v. Columbia Broad. Sys.*, 441 U.S. 1, 20 (1979) (showing that the rule of reason inquiry requires determining whether the agreement is “one designed to ‘increase economic efficiency and render markets more rather than less competitive’”); LAWRENCE A. SULLIVAN & WARREN S. GRIMES, *THE LAW OF ANTITRUST: AN INTEGRATED HANDBOOK* 229–43 (2d ed. 2006).

37. See, e.g., *Broad. Music*, 441 U.S. at 19–24 (creation of the new product—a portfolio use license—requires pricing agreement for the product among the individual copyright owners); *Collaboration Guidelines*, *supra* note 35.

38. The market efficiency approach to economic organization reflects what John Rawls labels a “pure justice” system (one which defines generally applicable rules of the game rather than dictates outcomes) in contrast with a “perfect justice” system (one which produces specific outcomes). See JOHN RAWLS, *A THEORY OF JUSTICE* 74–75 (HARVARD UNIV. PRESS 1999) (1971). This system structure generates some of our more profound disagreements (patent and otherwise), particularly visible in the vigorous debates over appropriate economic distributional outcomes and behavioral norms. See *infra* Part III.B.2.

39. See MERGES ET AL., *supra* note 24, at 127; Vincent Chiappetta, *Defining the Proper Scope of Internet Patents: If We Don't Know Where We Want to Go, We're Unlikely to Get*

the new products and processes that increase output and reduce price. Efficiency theory posits that optimal levels of innovation depend on prospective inventors' abilities to internalize returns on their investments.⁴⁰ Third party use of an inventor's innovations ("free-riding") interferes with capturing those returns resulting in under-investment in, and related under-production of, innovation.

The Framers found this free-riding "market failure" of sufficient concern to address it in the Constitution.⁴¹ Among Congress' enumerated powers in Article I, section 8 is the right to "secure" to inventors the exclusive rights to their inventions for limited times in order "to Promote the Progress of [the] useful Arts."⁴² Congress used this power to pass the first federal patent statute in 1790.⁴³

The patent law solution is a classic efficiency-driven legal intervention. Rather than dictating specific innovation investments or outcomes, it leaves those decisions to market dynamics.⁴⁴ Individuals target innovations they believe merit investment based on projected market success. The patent exclusionary right prohibits free-riding and permits the inventor/investor to capture associated returns.⁴⁵ However, obtaining actual returns depends on the transactional demand for the resulting invention. Success can generate monopoly profits. Market failure extinguishes the pursuit, redirecting energy and resources to other activities.

There, 7 MICH. TELECOMM. & TECH. L. REV. 289, 306–07 (2000–01) [hereinafter Chiappetta, *Internet*] (elaborating on the argument which follows in the text).

40. See *supra* note 21 (discussing Adam Smith's vision of what motivates individual action). If this is not true, then we might reconsider whether we want a patent law at all.

41. See *Graham v. John Deer Co.*, 383 U.S. 1, 7–11 (describing the discussion between Thomas Jefferson and James Madison regarding the former's monopoly concerns, with Madison's limited incentive position eventually prevailing).

42. U.S. CONST. art. I, § 8, cl. 8.

43. See *Graham*, 383 U.S. at 6–7; MERGES ET AL., *supra* note 24, at 121–24 (describing the evolution to present day). The Patent Act is currently codified in 35 U.S.C. §§ 1–376 (2006).

44. Patent law requires the inventive effort involve the "useful Arts," a term whose breadth remains unclear. See *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). Beyond that, the current regime imposes virtually no constraints regarding the field of invention, leaving the decisions of where to invest, when to invest, and how much to invest to individual decision. See, e.g., *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364 (Fed. Cir. 1999) (unless Congress specifically limits the field of invention, which it has declined to do in all but one limited situation involving nuclear weapons; the courts do not make further "utility" determinations concerning the desirability of particular innovations).

45. As the Court and commentators point out, although the returns flow to the patent-owner, patent law does not exist to reward the inventor. The patent "reward" serves merely as the means for achieving the system goal of preventing free-riding distortion of aggregate investment decisions. See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917); *supra* note 41.

As with other laws implementing the system's efficiency objective, patent law does not "progress the useful arts" at all costs.⁴⁶ The regime must do more than maximize overall investment in innovation. It must produce a net improvement in efficient market operation, taking into account the decreased access resulting from the exclusionary right, such as interference with competitive use, deadweight loss, and impaired follow-on innovation.⁴⁷

The net improvement requirement can be readily identified in the regime's requirements governing issuance and rights. The novelty, non-obviousness and operational (utility) requirements ensure that actual innovation benefits exist before society incurs any patent exclusionary costs.⁴⁸ The Constitutional "limited times" constraint⁴⁹ mitigates costs by capping access restrictions and supra-competitive returns to the patent term set by Congress. Inventor enablement and publication obligations provide public notice and knowledge, reducing duplicative investment and inadvertent use as well as facilitating improvements and post-term implementation by others.

Whether these requirements in fact generate a net improvement in efficiency remains the subject of vigorous debate.⁵⁰ There is no question, however, that this goal (at least for now) remains the regime's primary objective, meaning that patent law's exclusionary rights should only be granted when they generate optimal increases in innovation in light of the related harms to efficient market operation.

Understanding the overarching efficiency goal provides three important guidelines for the misuse inquiry. First, when internal patent

46. The compromise between Thomas Jefferson and James Madison balanced the former's monopoly harms concerns against incentives for innovation as epitomized in Jefferson's summing up that allowing patents requires "drawing a line between the things which are worth to the public the embarrassment of a patent, and those which are not" (*see Graham*, 383 U.S. at 10–11 (describing the debate and quoting Jefferson)).

47. *See generally* HOVENKAMP, *supra* note 27, § 1.3 (discussing the adverse economic effects of monopoly).

48. *See* Vincent Chiappetta, *Patentability of Computer Software Instruction as an "Article of Manufacture: Software as Such as the Right Stuff,"* 17 J. MARSHALL J. COMPUTER & INFO. L. 89, 99–106 (1998) [hereinafter Chiappetta, *Software*].

49. *See* U.S. CONST. art. I, § 8, cl. 8; *supra* note 41.

50. That discussion ranges across the full range of patent law cost concerns, including whether the covered subject matter is overly inclusive, *see Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (reinforcing the proposition that not all innovation is patentable but leaving open the question of how that determination should be made), the legal sufficiency of the "invention" requirements (evolving standard of obviousness after *KSR Int'l. Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007)), the capacity of the United States Patent Office to perform adequate evaluations, the efficacy of post-issuance challenge processes and the scope of the exclusionary right, including the appropriate remedies. *See infra* Part III.B.1 (discussing how these issues might be approached).

rules governing issuance, rights, and remedies produce net inefficiencies on their own terms, those harms do not constitute patent misuse. If patent law inevitably produces unwarranted harms, punishing owners of validly acquired patents for exercising the related rights entirely misses the point and certainly cannot solve the problem. Improper doctrinal implementation (for example, inadequately stringent standards for novelty/obviousness or an excessive term for the exclusionary right) requires a direct doctrinal response–recalibration of the faulty requirements.⁵¹

Second, merely because a patent causes individual unhappiness does not make it “misuse.” A legitimate complaint only arises when harm inessential to accomplishing the system goal occurs. Current patent law may well focus too intently on producing maximal efficiency market outcomes and insufficiently on distributional consequences. But as with improper calibration, using misuse as the corrective device illogically sanctions patent owners for doing what the present regime not only permits but is affirmatively designed to encourage. The desire to temper or redirect patent law’s objectives should be raised transparently, not through a cloud of vague misuse complaints.

Finally, treating patent and antitrust law as components of an overall system substantially clarifies the complicated relationship between them.⁵² Although antitrust law seeks to maximize competition, while patent law affirmatively impairs it, neither pursues its role single-mindedly and autonomously. Rather they (together with other regimes) operate cooperatively in pursuit of the same larger goal—better aligning

51. The distinction drawn in the text explains why the “exceeds the scope of the patent” misuse inquiry proves so unworkable in practice. The only inherent costs within the “scope of the patent” are those resulting from the exercise of the right to exclude – the refusal to grant access to the invention. Although that refusal can impose excess costs, they arise from faulty implementation calling for statutory adjustment, not “misuse” by the patent owner. In contrast *any* grant of access goes beyond the patent right to exclude and raises the possibility of excessive “misuse” costs arising from the terms of grant. Ironically, the Court clearly recognized the distinction between inherent “patent rights” costs and additional “private access rights” costs, but then unhelpfully framed the inquiry as based on conditions which exceed the scope of the patent. That test implies some access conditions constitute an inherent cost of a patent grant and are, therefore, exempt from review. *Compare infra* notes 110–121 (the Court’s identification of misuse as arising from privately created rights) with notes 54–72 (creation of the “scope of the patent” assessment).

52. See, e.g., Michael A. Carrier, *Unraveling the Patent-Antitrust Paradox*, 150 U. PA. L. REV. 761 (2002); Robin Feldman, *Patent and Antitrust Differing Shades of Meaning*, 13 VA. J.L. & TECH. 3 (2008); Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 2 MEADOR LECTURES (U. OF ALA.) 49 (2007–08); Mark A. Lemley, *A New Balance Between IP and Antitrust*, 13 SW. J. L. & TRADE AM. 237 (2007); Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 ANTI. L. J. 913, 917 (2001).

an imperfect real world with the assumptions required for maximally efficient overall market operation. When they interact, the issue is not determining which regime should prevail. It is ensuring their joint application produces a maximally efficient market.

Together these understandings cabin the appropriate justifications for misuse. Internal implementation errors and unhappiness with patent law's existing goals raise problems antecedent to misuse. They are better addressed directly, not by punishing those doing what the law allows. Valid misuse concerns only arise when a patent owner's activities impose costs beyond those necessary to accomplish the regime's established objective. But even in such cases, merely causing harm does not justify legal prohibition. The "system" question must also be answered—are the "excess" costs essential to producing a net overall efficiency gain? If so, then no misuse has occurred.

B. The Origins and Evolution of the Patent Misuse Doctrine

A perfectly calibrated patent system producing an optimum net improvement in innovation does not eliminate costs. It affirmatively imposes them. The regime explicitly intends patent owners will use their exclusionary right to maximize individual returns, thus realizing on the incentives driving them to invest and produce the increase in innovation. The result is unavoidable interference with others' use.

The more successful the patent, the greater the resulting pain, as owners will increase price and constrain output to ensure the greatest personal surplus possible. Consumers who can afford access will transfer significant wealth to the patent owner, while the others will be left to pursue such second-best alternatives as may exist. These limitations will constrain follow-on research and related development of new products and applications. That in turn will increase the price and reduce availability of those resulting products and services, adversely affecting those desiring to acquire or improve them.

Self-interested patent exploitation also produces a wide variety of non-price interferences.⁵³ For example, licensees may only be granted the right to make a particular product or sell in a specific geographic or consumer market. Or, they may be required to purchase other goods and services from the patent owner, not to deal with third party competitors, or to grant-back rights to improvements they develop. End-users may be similarly constrained by, for example, a single use, no-refill restriction on products incorporating the invention. At the extreme, patent owners may suppress the invention entirely—

53. See *supra* note 7.

prohibiting all use and requiring that society forego the benefits of the invention during the entire patent term.

These restrictions made licensees and end-consumers unhappy and others (particularly competitors) suspicious that patent holders were unfairly maximizing individual return at theirs and the public's expense. In response to such complaints, aired by way of legal action, the Supreme Court created patent misuse.

The doctrine's origins trace back to the Court's 1917 decision in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*⁵⁴ The case involved two patents owned by a patent holding company. The first patent covered a uniquely functional film feeder for movie projectors. The second patent involved certain less-desirable film-making techniques. Under an agreement the Court somewhat quaintly referred to as "a paper styled 'License Agreement,'" the holding company limited use of all projectors incorporating its patented film feeder to showing movies made by authorized licensees of its film making techniques. The defendant used a projector incorporating the patented feeder to show a film not meeting the License Agreement limitation. The holding company sued the projector owner for infringing the film feeder patent based on non-licensed use.

The Court found against the plaintiff patent owner. Doing so required it to reverse nearly twenty years of prior decisions upholding similar patent owner licensing requirements mandating licensee use of "supplies . . . which are no part of the [patented machine]."⁵⁵ The Court's analysis focused on such limitations' inconsistency with patent policy. Finding that patent law's primary purpose was to benefit the public by encouraging innovation and not "the creation of private

54. 243 U.S. 502 (1917). Professor Hovenkamp makes the good point that the Court's reasoning in *Motion Picture* invokes the related doctrine of patent exhaustion. See HOVENKAMP, *supra* note 7; *Motion Picture*, 243 U.S. at 515–16. And certainly the Court only later expressly identifies and creates the distinct misuse defense and unenforceability sanction in *Morton Salt*. See *infra* notes 67–75. However, as both doctrines seek to prevent inappropriate patent use, they bear a close relationship to each other. Consequently, the inquiry into misuse justifications benefits substantially from examining the foundational reasoning for restricting patent licenses in *Motion Picture*. In its recent *Princo* decision, the Federal Circuit majority indicates that misuse may complement exhaustion—the latter applying to unconditional sales of patented goods, the former governing terms imposed in "conditional sales or licenses." *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010). That statement will likely trigger another round of debate over the proper reach of the exhaustion doctrine, in particular whether it prohibits post-sale conditions in all circumstances. See *supra* note 7. That in turn will require sorting out any related effects on misuse. Better to eliminate misuse and avoid the confusion, leaving exhaustion to stand or fall independently.

55. See *Motion Picture*, 243 U.S. at 514–18 (discussing the prior law permitting such requirements). See also Calkins, *supra* note 12, at 179–80.

fortunes for the owners of patents,”⁵⁶ the Court reasoned that although “inventors should be fairly, even liberally, treated”⁵⁷ protecting the public against unjustified costs required that an inventor’s rights “must be limited to the invention described in the claims of his patent.”⁵⁸ Delivering on that policy limitation made it “not competent for the owner of [a] patent . . . to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation”⁵⁹ Specifically, as “[t]he patent law furnishes no warrant for such a practice . . . the cost, inconvenience and annoyance to the public . . . forbid it.”⁶⁰

Applied to the facts, the Court found the film feeder patent claims did not extend to the mandated film making techniques, thus putting them outside the plaintiff’s legal right to exclude. As a result, enforcing the License Agreement limitation on the use of the film feeder would be “wholly without the scope and purpose of our patent laws” and “gravely injurious to . . . public interest.”⁶¹ The Court concluded that the restriction must, therefore, be declared “plainly void.”⁶² Finally, the Court affirmed the lower court’s holding that without the limitation, no infringement occurred, apparently agreeing that the challenged use of the projector fell within the “implied right to use the machine as it had been used.”⁶³

The Court concluded by noting that the newly minted Clayton Act antitrust statute prohibition on “tying” (in this case requiring use of the film-making technique to obtain the highly desirable film feeder) was “a most persuasive [supporting] expression of the public policy of our country with respect to the question before us.”⁶⁴ However, having already reached the unenforceability conclusion on independent patent policy grounds, the Court declined to determine whether the License Agreement restriction also violated antitrust laws.⁶⁵

After *Motion Picture*, the Court continued to apply the patent

56. See *Motion Picture*, 243 U.S. at 511. This finding reflects the prevailing economic efficiency justification for patent law, focusing on the benefit to society as a whole, rather than on rewarding the efforts of the individual inventor. See *supra* notes 38–50 and accompanying text.

57. See *Motion Picture*, 243 U.S. at 511.

58. *Id.*

59. *Id.* at 516.

60. *Id.*

61. *Id.* at 519.

62. *Id.*

63. *Id.* at 508.

64. *Id.* at 517–18.

65. *Id.* at 517.

policy-based rationale to render limitations imposed by patent owners unenforceable.⁶⁶ However, it was not until its *Morton Salt Co. v. G.S. Suppiger Co.*⁶⁷ decision twenty-five years later that the Court expressly labeled the defense “misuse” and created the present blanket unenforceability-of-the-patent remedy. The Morton Salt Company held patents on machines used to deposit salt tablets during the canning process. All licenses covering the patented machines limited their use to salt tablets purchased from a Morton Salt subsidiary. When a third party began selling the patented machines, Morton Salt sued for infringement. The defendant argued that the machine patents should be held unenforceable because the related licenses tied use of the machines to purchase of salt in violation of the Clayton Act. The court of appeals found for Morton Salt, holding that the Clayton Act requirement that the challenged act must “substantially lessen competition” had not been satisfied.⁶⁸

The Supreme Court reversed; however, instead of addressing the lower court’s antitrust holding, the Court invoked patent misuse. The reasoning started from the proposition that the patent holder was using “its patent monopoly to restrain competition in the marketing of unpatented articles” (in this case the salt).⁶⁹ The Court then applied the *Motion Picture* patent policy rationale, finding the “public policy adopted by the Constitution and the laws of the United States ‘to promote the Progress of Science and the useful Arts . . .’” precludes uses of a patent which extends the owner’s rights beyond the scope of the covered invention.⁷⁰ As Morton Salt’s tie produced “an exclusive right or limited monopoly not granted by the Patent Office” (that is, on the salt which was not included within the machine claims), the related license limitation was “contrary to the public interest.”⁷¹ The Court concluded that Morton Salt’s abuse of its patent rights triggered the doctrine of unclean hands, and the related equitable considerations dictated that the courts should refuse to enforce not just the specific restriction, but the patent.⁷²

Withholding patent enforcement on equity and public policy grounds had two important remedial consequences. First, the Court found that the adverse effect on the public interest “disqualifies the

66. See Calkins, *supra* note 12, at 181.

67. 314 U.S. 488 (1942).

68. *Id.* at 490.

69. *Id.* at 491.

70. *Id.* at 492.

71. *Id.*

72. *Id.*

[patentee] to maintain . . . suit regardless of whether the particular defendant has suffered from the misuse of the patent.”⁷³ That made misuse a complete defense to infringement by *any* party, even those unaffected by the specific action constituting misuse. It therefore applied not just to potential contributory infringers (those selling salt for use with the machines in violation of the license) but even direct infringers, such as the defendants, who made and sold the patented invention. Second, in order to repair the damage to the public interest, the Court found the bar to enforcement must continue “at least until it is made to appear that the improper practice as been abandoned and the consequences of the misuse of the patent have been dissipated.”⁷⁴

Beyond establishing the “misuse” defense, the *Morton Salt* decision also reaffirmed the *Motion Picture* position that the doctrine’s application does not depend on an antitrust violation, expressly finding it “unnecessary to decide whether respondent violated the Clayton Act.”⁷⁵ In short, misuse exists to prevent interference with the proper implementation of *patent* public policy, a role independent of (although perhaps over-lapping with) antitrust law’s objectives.

The separation of misuse doctrine enforcement and remedies from antitrust law produced a number of important differences. Procedurally, misuse is an exclusively defensive regime. Neither those whose actions have not been challenged by the patent owner nor the government have standing to affirmatively attack possible patent owner over-reaching. Substantively, to prevail a defendant need only show the action exceeds the scope of the patent right, not harm to the market itself.⁷⁶ Remedially, misuse only renders the specific action and the related patent unenforceable. No damages can be claimed for actual harms to either the individuals or the marketplace, nor can other affirmative corrective actions be required.

In contrast, antitrust law permits (and contemplates) affirmative claims by private plaintiffs suffering cognizable antitrust harm,⁷⁷ whether or not they have been challenged by the patent owner, as well as by governmental authorities whenever they believe it necessary to prevent

73. *Id.* at 494.

74. *Id.* at 493.

75. *Id.* at 494.

76. Applying the foundational “beyond the physical or temporal scope of the patent” misuse test creates substantial difficulties in practice. *See infra* notes 118–21 and accompanying text; *supra* note 51.

77. *See AREEDA, supra* note 27, at 60–69 (discussing standing and antitrust injury); HOVENKAMP, *supra* note 27, ch. 16.

harm to the market.⁷⁸ Antitrust plaintiffs must, however, show that the challenged action has a net anti-competitive effect on the overall market, not merely that it exceeds the scope of the patent or causes individual harm. Finally, the regime offers a much wider range of remedial options allowing courts to match relief to specific harm. Injunctive relief prohibiting and requiring actions as necessary to prevent and repair interference with the market⁷⁹ can be granted along with damages in compensation for injury caused.⁸⁰ A court must also award exemplary treble damages and reasonable attorneys' fees as encouragement to private plaintiff enforcement and deterrence to would-be violators.⁸¹ Egregious per se violations also trigger the additional deterrence of criminal sanctions, in the form of substantial fines and jail time.⁸²

For the forty years following *Morton Salt*, the lower courts followed the Court's lead in treating misuse as distinct from and farther reaching than antitrust law's Rule of Reason net effects inquiry.⁸³ Consequently, the 1986 Federal Circuit decision in *Windsurfing International, Inc. v. AMF, Inc.*⁸⁴ surprised many by articulating misuse as "impermissibly broaden[ing] of the 'physical or temporal scope' of the patent grant with anticompetitive effect" (emphasis added).⁸⁵ The addition of the anticompetitive effects requirement was clearly not inadvertent. It was specifically reiterated when framing the misuse claimant's burden as follows: "[t]o sustain a misuse defense in a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal the overall effect of the license tends to restrain competition unlawfully in an appropriately defined market."⁸⁶

Despite commentator criticism of *Windsurfing* as inconsistent with

78. See HOVENKAMP, *supra* note 27, ch. 15. Both the federal Department of Justice and the Federal Trade Commission have express statutory authority to enforce the Sherman and Clayton Acts. Only the Federal Trade Commission can proceed under Federal Trade Commission Act, § 5. State governmental authorities enforce state antitrust laws which are not preempted. See AREEDA, *supra* note 27, at 90.

79. See AREEDA, *supra* note 27, at 50–58.

80. See HOVENKAMP, *supra* note 27, ch. 17.

81. See AREEDA, *supra* note 27, at 58; HOVENKAMP, *supra* note 27, ch. 17.3.

82. See AREEDA, *supra* note 27, at 45–46; HOVENKAMP, *supra* note 27, ch. 15.1a.

83. In *Zenith Radio*, the Court left even less doubt than in *Motion Picture* and *Morton Salt* regarding misuse's independence from antitrust law, stating that "if there was . . . patent misuse, it does not necessarily follow that the misuse embodies the ingredients of an [antitrust violation]." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969).

84. 782 F.2d 995 (Fed. Cir. 1986), *cert. denied*, 477 U.S. 905 (1986).

85. *Id.* at 1001.

86. *Id.* at 1002.

the Supreme Court's articulation of the misuse doctrine,⁸⁷ subsequent Federal Circuit misuse decisions have continued to apply its two-step analysis.⁸⁸ It must first be ascertained whether or not the challenged action (generally a licensing requirement or limitation) broadens (seeks advantage beyond) the physical or temporal scope of the patent's claims. If not, the action is per se valid. If the limitation or restriction falls outside the patent's scope it must then be determined whether it "impermissibly" expands the patent right. Impermissible expansion only occurs if (1) Supreme Court precedent has held the specific action per se invalid, or (2) under the anticompetitive effects test it imposes an unreasonable restraint on competition.⁸⁹

87. See, e.g., Feldman, *supra* note 5, at 418–31 (noting the nod to precedent by excepting the Supreme Court's per se holdings and criticizing the addition of the anticompetitive effects requirement in other situations); Hoerner, *supra* note 12, at 682–85. These commentators (and others) make the fair point that the *Windsurfing* justification for adding the requirement ("recent economic analysis question[ing] the rationale behind holding any licensing practice per se anticompetitive," *Windsurfing*, 782 F.2d at 1002 n.9) finds no direct support in the case cited for the proposition, *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 402 U.S. 313, 343 (1971). That case only references the *Motion Picture/Morton Salt* line of cases (discussed *supra* notes 54–74 and accompanying text) and the restriction of a patent holders' rights to the "physical or temporal scope of the patent." *Blonder-Tongue*, 402 U.S. at 343. However, although the *Blonder-Tongue* Court did not explicitly mention "anticompetitive effects," a strong logical connection can be found in its analysis. The line of earlier misuse cases cited expressed serious concern with the adverse market effects of the patent "monopoly" which connect directly to present day, albeit more nuanced, antitrust doctrinal competition concerns. From that perspective the Federal Circuit may merely have been doing an artful job of using its limited ability to cabin the adverse effects of a Supreme Court doctrine that had outlived its usefulness. See Mark D. Janis, *Transitions in IP and Antitrust*, 2002 ANTITRUST BULLETIN 253, 282 (2002) (noting the Federal Circuit's "grudging acceptance" of the Court's precedent); *infra* notes 251–56 and accompanying text (explaining the antitrust evolution justification for the Court's overruling its misuse precedents); *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1329 n. 2 (Fed. Cir. 2010) (acknowledging the need to follow the Court's existing misuse precedents); *id.* at 1321 (noting the judge-made doctrine should not be applied "expansively"). Additionally, although no certain inference can be drawn from a negative, the Supreme Court denied *certiorari* in *Windsurfing*, 477 U.S. 905 (1986), meaning fewer than four of the Justices (if any) found the case sufficiently aberrational to merit review.

88. See *Princo*, *supra* note 87; *B. Braun Med., Inc. v. Abbott Lab.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997); *Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868–70 (Fed. Cir. 1997). The Federal Circuit may have briefly backed away from *Windsurfing* in *Senza-Gel Corp. v. Seiffart*, 803 F.2d 661 (Fed. Cir. 1986). See Feldman, *supra* note 5, at 419–420; Hoerner, *supra* note 12, at 673–74. However, *Senza-Gel* had not only an odd procedural posture but involved tying, which being governed expressly by *Morton Salt* thus fell within the exception expressly carved out under *Windsurfing* to the anticompetitive effects requirement. That would also be consistent with the Federal Circuit citing to *Senza-Gel* when making the point it remained bound by, and continued to honor, Supreme Court precedent. See *supra* note 87. In all events, the Federal Circuit clearly has resolved whatever concerns it may have had in favor of requiring anticompetitive effects whenever not explicitly prohibited by Supreme Court precedent.

89. See *id.*; Janis, *supra* note 87, at 282–83.

The Supreme Court has yet to address the Federal Circuit's "anticompetitive effects" test, having remained silent on the misuse doctrine's substantive requirements for some forty years.⁹⁰ Congress has acted twice, once before and once after *Windsurfing*. Neither action provides definitive guidance regarding the Federal Circuit's anticompetitive effects test.

The first Congressional action, the 1952 codification of federal patent law, acknowledged the existence of the Court's misuse doctrine. However, rather than expressly adopting and incorporating the Court's patent policy-based "exceeds the scope" test, Congress instead added provisions limiting the doctrine's application.⁹¹ Sections 271(b) and (c) defining inducement and contributory patent infringement were intended to override the doctrine's threatened elimination of indirect infringement liability.⁹² Section 271(d) identified specific behaviors which do not constitute misuse. In particular, responding to the Court's evolving per se "tying equals misuse" jurisprudence, it explicitly confirmed a patent owner's right to derive revenue from the sale or use of components which constituted less than the whole, but a material part of the invention.

The 1988 Patent Misuse Reform Act came after *Windsurfing* and offers better insight into Congressional thinking regarding the proper role of anticompetitive effects in misuse. Once again the Act did not adopt misuse. It only cut back on its judicial expansion. Section 271(d)(4) expressly precluded a misuse finding based solely on the owner's decision not to use or a refusal to license a patent.⁹³ The legislative history indicates Congress intended the provision to codify existing law, in effect confirming that misuse does not reach mere exercise of the patent right to exclude.⁹⁴

New Section 271(d)(5) explicitly addresses anticompetitive effects but only in a limited context. It requires an affirmative showing that "in

90. Not only did the Court deny *certiorari* in *Windsurfing*, 477 U.S. 905 (1986), but it has only made a few indirect references to the doctrine since that time. See *supra* note 16.

91. See *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221–23 (1980); Charles W. Adams, *A Brief History of Indirect Liability for Patent Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH L.J. 369, 379–88 (2006); Mueller, *supra* note 8, at 674–76; Giles S. Rich, *Infringement under Section 71 of the Patent Act of 1952*, 21 GEO. WASH. L. REV. 521 (1953).

92. The sections legislatively overruled the Supreme Court's *Mercoid* decisions. In those cases, the Court held a patent owner's contributory infringement claims against suppliers of components having no other non-infringing use constituted patent misuse. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

93. See 35 U.S.C. § 271(d)(4) (2006).

94. See Calkins, *supra* note 12, at 199; Mueller, *supra* note 8, at 678–79.

view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product” as a predicate to finding misuse when a patent license is conditioned on “acquisition of a license to another patent or purchase of a separate product.”⁹⁵

What Congress intended by the 1988 statutory changes is ambiguous. Regarding tying, it certainly substantially restricted the *Morton Salt* holding that insisting on use of goods falling outside the patent’s claims constitutes per se misuse. The language does leave open the argument that Congress was merely limiting the per se violation to cases involving market power.⁹⁶ The legislative record, however, makes it far more likely Congress wanted the misuse determination to be “guided by Supreme Court decisions in the context of unlawful tie-ins under the antitrust laws.”⁹⁷ That means that whether or not tying constitutes a per se violation will be determined by the Court’s evolving antitrust analysis, not by misuse “scope of the patent” limitations.⁹⁸

In all events, Section 271(d)(5) clearly did not affirmatively adopt the Federal Circuit’s much broader anticompetitive effects requirement. Commentators convincingly argue that by failing to enact a contemporaneous Senate bill which would have expressly required an antitrust violation to find misuse, Congress intended to preserve the doctrine’s independence.⁹⁹ By not acting, Congress certainly left the rest of the Court’s existing misuse doctrine intact. However, reading non-action as freezing misuse in its then existing form (whatever that might be) goes too far.¹⁰⁰ The language of the Misuse Reform Act clearly did not explicitly codify any particular version of misuse (including whatever reading one might give to Supreme Court precedent). It merely imposed limitations. The failure to affirmatively adopt an “antitrust/competitive effects” standard does not constitute its permanent rejection. It merely reflects the decision to leave in place the

95. 35 U.S.C. § 271(d)(5).

96. See Calkins, *supra* note 12, at 197–98.

97. *Id.* As Professor Calkins points out, those antitrust decisions may still trigger per se liability (the Court’s antitrust tying jurisprudence is less than clear), but that would be a result of the antitrust assessment, and not because an independent misuse rule has been applied.

98. The Court’s split decision in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984), has left the antitrust per se-tying issue confused. See HOVENKAMP, *supra* note 27, § 10.3a.

99. See Calkins, *supra* note 12, at 193–200; Feldman, *supra* note 5, at 420–24.

100. See Feldman, *supra* note 5, at 425 (“The fact that Congress failed to approve . . . an antitrust analysis left the Federal Circuit still lacking the authority to alter the doctrine in this way, yet that is precisely what the court did in *Mallinckrodt*.”). Whether the Federal Circuit had the authority to act as it did in light of Supreme Court precedent is a different issue. See *supra* note 87.

status quo.¹⁰¹ Regarding misuse, that status quo leaves control over the doctrine with its originators and managers, the courts, subject only to the specific legislative limitations explicitly required by statute.¹⁰²

Whatever Congress may have intended (or how flagrantly the Federal Circuit may have flaunted that institution or Supreme Court precedent) the “anticompetitive effects” inquiry remains the practical reality at the coalface of judicial misuse determinations.¹⁰³ As a result, it is more productive to leave these technical legal issues aside for the moment and address the antecedent underlying policy question: how useful is the misuse doctrine in today’s world? That answer in hand, the Court or Congress can readily make the doctrinal adjustments necessary to produce the desired outcome, whether by directing the Federal Circuit to drop its anticompetitive frolic, fine-tuning the doctrine’s existing rules and remedies, or eliminating the doctrine entirely.

PART II: THE ARGUMENT FOR ELIMINATING PATENT MISUSE

A. *The Current Situation—Why Worry?*

Misuse proponents correctly argue that the Federal Circuit’s approach substantially limits the misuse doctrine’s ability to constrain patent exploitation.¹⁰⁴ Every patent owner action falling below the

101. See Calkins, *supra* note 12, at 198 (noting Senator Deconcini’s statement that the rest of the misuse question was left to “address in the future”) and Feldman, *supra* note 5, at 424 (noting Senator Leahy’s statement that rejection of the broader Senate proposal “does not mean that Congress has rejected” that position “and now believes that the traditional misuse doctrine should be retained intact It only means that, because of the short time available at the end of this Congress, the House and Senate Committees interested in these issues were able to agree on a narrower reform.”).

102. See *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1329–1330 (Fed. Cir. 2010). The *Princo* decision also makes apparent the futility of trolling through the congressional history to discern greater limitations on court management of the doctrine. Compare *id.* at 1331 with *id.* at 1332. Members of Congress undoubtedly had differing views on the reach of the doctrine (to the extent they had any at all—see *supra* note 101 (noting Senator Leahy’s point about the limited time available to devote to the issue)). Better to stick to what the Act actually says and leave the rest to the courts. If Congress becomes unhappy with the direction the courts take, it can make further adjustments. An additional benefit of the status quo interpretation is it parallels the relationship between Congress and the courts regarding antitrust law. That allows the two doctrines’ approach to patent power to evolve in tandem. See *infra* notes 262–71 and accompanying text. The approach does leave the Federal Circuit constrained by existing Court precedent, but allows the Court itself to make such changes as it deems appropriate. See *supra* note 87; *infra* notes 262–74 and accompanying text (arguing the Court should use that power to eliminate the misuse doctrine in its entirety).

103. See *supra* note 88 (citing the numerous Federal Circuit cases to the present in which it has been applied, including the 2010 en banc decision in *Princo*, 616 F.3d 1318).

104. That concern has been considerably heightened by the Federal Circuit’s en banc decision in *Princo*, 616 F.3d 1318. The majority expressly stated its intent to limit misuse,

anticompetitive effects/antitrust standard, even those producing rights well beyond the physical or temporal scope of the related patent, will go unsanctioned.

Recent events make the concern more than theoretical. Patent owners have moved well beyond demanding returns from products or services outside the patent claims or for time periods after the patent's expiration. Disruption of industry standards, reverse settlement payments from patent owners to alleged infringers, non-producing patent owners' interference with others' productive activities and licensing terms limiting access to medical treatment and impairing innovation raise serious issues about the proper scope of patent exploitation.¹⁰⁵ Efforts to address many of those issues through antitrust law have been resoundingly rejected by the courts based explicitly on the absence of demonstrable anticompetitive effects.¹⁰⁶ One can reasonably suspect that the Federal Circuit's heightened misuse standard creates a serious enforcement gap.

In the existing efficiency driven legal paradigm, it is insufficient merely to point out that misuse prevents patent owners from imposing these costs on others. As a properly functioning patent law intentionally limits third party access, it is necessary to determine whether the challenged action creates net system harms.¹⁰⁷ Additionally, misuse does not come for free. It is frequently pled, vigorously discovered and argued, and commonly appealed (albeit infrequently upheld).¹⁰⁸ That direct expense, its uncertain application, and the draconian blanket unenforceability sanction both impose significant social costs and put a significant thumb on the scales in favor of refusing to deal,¹⁰⁹ potentially

characterizing it as “a judge-made doctrine that is in derogation of statutory patent rights against infringement.” *Id.* See also *id.* at 1342 (Dyk, J., dissenting) (stating that “evidently the majority thinks it appropriate to emasculate the doctrine so it will not provide a meaningful obstacle to patent enforcement”).

105. See *supra* notes 1–9 and accompanying text.

106. See, e.g., Ark. Carpenters Health and Welfare Fund, Paper, A.F. of L. v. Bayer AG (*In re* Ciprofloxacin), 604 F.3d 98 (2d Cir. 2010), *rehearing en banc denied*, --- F.3d ----, 2010 WL 3464382 (C.A.2); *In re* Ciprofloxacin Hydrochloride Antitrust Litig., 544 F.3d 1323 (Fed. Cir. 2008), *cert. denied*, 129 S. Ct. 2828 (2009); Schering-Plough Corp., v. FTC, 402 F.3d 1056 (11th Cir. 2005), *cert. denied*, 548 U.S. 919 (2006) (pharmaceutical reverse payments); Rambus Inc. v. F.T.C., 522 F.3d 456 (Fed. Cir. 2008), *cert. denied*, 129 S. Ct. 1318 (2009) (standards ambush). These cases indicate that antitrust doctrine could stand recalibration, but the issue in the text is not whether antitrust currently does an adequate job, but whether it cannot and thus justifies a separate misuse doctrine. See *infra* Part II.B.1.b (discussing the point).

107. See *supra* notes 46–50 and accompanying text.

108. See, e.g., Potenza et al., *supra* note 13, at 69.

109. See, e.g., USM Corp. v. SPS Technologies, Inc., 694 F.2d 505, 512 (7th Cir. 1982) (noting the effects of “debilitating uncertainty”).

reducing patent access. The misuse doctrine must produce some unique overall net improvement to justify its existence.

The next section discusses how patent use can produce costs in excess of those inherent to the patent regime, justifying some form of legal intervention. The following section looks at whether retaining an independent misuse doctrine provides sufficient distinct benefits to support its continued application, ultimately concluding that it does not.

B. Excess Costs from Patents

Early judicial decisions took a generous view of patent rights, leaving wide latitude in how related licensing transactions could be structured.¹¹⁰ In net efficiency improvement terms, that approach reflected a straight-forward calculation. Society having decided to grant the patent owner the legal right to prevent *all* access by others, any permitted access, whatever the terms, must produce social benefits. Justice Holmes eloquently articulated the position his *Motion Picture* dissent:

I suppose that a patentee has no less property in his patented machine than any other owner, and that, in addition to keeping the machine to himself, the patent gives him the further right to forbid the rest of the world from making other like it. In short, for whatever motive, [the patent owner] may keep his device [the film feeder] wholly out of use [citation omitted]. So much being undisputed, I cannot understand why he may not keep it out of use unless the licensee, or, for the matter of that, the buyer, will use some unpatented thing in connection with it There is no predominant public interest to prevent a patented teapot or film feeder being kept from the public, because, as I have said, the patentee may keep them tied up at will while his patent lasts [I]f the owner prefers to keep the pot or film feeder unless you will buy his tea or films, I cannot see, in allowing him the right to do so, anything more than an ordinary incident of ownership.¹¹¹

110. See Calkins, *supra* note 12, at 178–80.

111. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 519–20 (1917) (Holmes, J., dissenting). It bears passing mention that Justice Holmes treatment of a patent as a property right does not explore whether different rights may attach to different kinds of resources and, in particular, the possibility that public policy (patent or otherwise) may limit a patent owner's "bundle of sticks," including the right to impose conditions on access.

In short, having given the patent owner the unilateral right to prevent all access, the owner's decision to grant conditional access is better than nothing and, consequently, legal constraints on increased patent exploitation must worsen the public's position.

The majority opinion in *Motion Picture* provides the response:

The [earlier Court decisions permitting ties] proceed upon the argument that as the patentee may withhold his patent altogether from public use, he must logically and necessary be permitted to impose any conditions which he chooses upon any use which he may allow of it. The defect . . . springs from . . . [the] failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against the entire world and rights which he may create for himself by private contract, which, however, are subject to the rules of general law, as distinguished from those of the patent law.¹¹²

As the majority points out, the logical flaw in the “some access is better than none” analysis is its exclusive focus on the benefits side of the equation. It is true that a patent impairs efficient market operation by limiting access (the “rights given to the inventor by patent law”) and patent owners are generally free to refuse to deal with others at all. It is also true that any increased access produces some efficiency improvement. It is not true, however, that every increase in access produces a *net* improvement. That determination requires examining the harms produced by the terms of access. If those harms exceed the benefits then the transaction reduces efficient market operation overall and should be legally prohibited.

In making the net assessment, the majority draws the important distinction between the costs arising directly from the patent right to exclude and those produced by “private contract”—the terms of access. The former reflects the inherent costs of the existing patent system. A patent owner doing no more than exercising the right to exclude—preventing access by refusing to deal—causes only the harms built into the regime. If that produces net inefficiencies, the problem lies exclusively in the regime's internal implementation.¹¹³ The appropriate fix involves adjusting the regime's standards governing issuance and

112. *Id.* at 514.

113. The right to unilaterally refuse to deal and the right to unilaterally decide not to use a patent impose the only inherent harms from the patent right to exclude. *See supra* notes 45 and 51 and accompanying text.

rights and/or remedies, not sanctioning owners for doing what patent law expressly permits.

Privately constructed terms of access can produce *additional* costs. Those costs may be purely financial—a royalty paid for access. Or they may arise from imposing other conditions on the licensee. As the *Motion Picture* majority properly observes, such rights must be examined to determine whether their harms outweigh the benefits (including increased access).

That net efficiency determination is the purview of “general laws.”¹¹⁴ The extreme example of a patent royalty extracted at gunpoint provides a hyperbolic but instructive illustration.¹¹⁵ General law requires all market transactions comport with the efficient market assumption that the exchange reflect the voluntary decision of rational economic actors. Payments made under physical duress fail that requirement, so despite the increased access to the patented invention, contract law renders the transaction legally unenforceable. Other general law requirements, such as fraud and antitrust law, similarly constrain the agreements regarding terms of access when they produce harms in excess of benefits.¹¹⁶

Absent these general law constraints, increased access may, in efficiency terms, be worse for society than no access at all. While the latter merely produces patent law’s internal net system efficiency improvement (additional innovation justifying the costs of reduced access), the former can impose additional costs producing a net overall efficiency decrease. Such transactions must be legally prohibited. The question is whether misuse doctrine contributes to accomplishing that goal.¹¹⁷

114. General laws act as general limitations on every form of property ownership, a point that apparently failed to make an impression on Justice Holmes. *See supra* note 111. Their role, however, is not to ensure the related property regime’s “internal” balances produce a net efficient outcome (in patent law the right to deny access and not to use oneself, *supra* notes 45 and 51 and accompanying text), but to ensure the use of any resulting rights does not impose additional costs.

115. *See* POSNER, *supra* note 26, at 126 (making the point and noting the *ex ante* analysis leading to the result).

116. For example, a similar analysis would apply to a patent license obtained through fraud. Although such a license increases access, its terms do not reflect a net efficiency improvement (the licensee having been misled in some material way regarding the benefits to be obtained thus violating the perfect information assumption), and it will be rendered unenforceable by general laws addressing that requirement. Although it operates in the same fashion, the key guardian of net efficient outcomes is antitrust law. That regime’s operation is discussed *infra* notes 130–54 and accompanying text.

117. As discussed earlier, the Court also supports the *Motion Picture* holding by reference to patent exhaustion. *See supra* note 54. Rather than providing independent support for misuse, exhaustion targets the same concern (albeit in a more limited context,

Before turning to that question, it should be noted that the above analysis clarifies why misuse's "exceeding the scope of the patent" inquiry fails to provide either useful guidance or proper outcomes.¹¹⁸ That approach presupposes that some licensing terms are inherently "within" the patent right while others are not and that by distinguishing between them, undue social harms can be avoided. But that assumption is false. The only inherent patent costs, those technically "within the scope of the patent," are those arising from exercise of the right to exclude—that is doing nothing more than refusing to use or license to others. Ensuring that right produces optimal innovation outcomes requires patents only apply to invention (the qualification inquiry) and play a significant enough role in its production to merit the costs of excluding others during the patent term.¹¹⁹ The "within the scope of the patent" inquiry is therefore, entirely unrelated to the licensing terms inquiry. In contrast, *whenever* a patent owner *allows* access, they have done more than exclude and any related condition may produce additional social costs. Consequently, regardless of their nature, financial or otherwise, such terms lie "beyond the scope of the patent" and must be assessed for undue harms.¹²⁰ The misuse requirement that a

post-sale restrictions on patented devices) and thus its existence requires a similar demonstration that it provides unique value in policing against excessive costs/improper use of patent rights.

118. As Professor Bohannon succinctly states the point: although the scope inquiry constitutes an "understandable attempt to ground the doctrine of IP misuse in IP policy," it provides "little guidance on determining what falls 'within' or 'outside' the patent grant" and "produces both false positives and false negatives." See Bohannon, *supra* note 10, at 19–20.

119. See MERGES ET AL., *supra* note 24, at 14–17; Chiappetta, *Internet*, *supra* note 39, at 320–23 (discussing the role of alternative forms of incentives).

120. The Federal Circuits' latest word on misuse in *Princo*, provides a useful illustration of how easily the "scope of the patent" inquiry can lead to dramatically under-identifying problematic licensing terms. See *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318 (Fed. Cir. 2010). The majority makes the following observation regarding the inquiry into impermissible broadening of the patent grant: "[It] begins with substantial rights under the patent grant 'includ[ing] the right to suppress the invention while continuing to prevent all others from using it, to license others, or to refuse to license, . . . to charge such royalty as the leverage of the patent monopoly permits,' and to limit the scope of the license to a particular 'field of use.'" [citation omitted]. Given that the patent grant entitles the patentee to impose a broad range of conditions in licensing the right to practice the patent, the doctrine of patent misuse 'has largely been confined to a handful of specific practices . . .'" *Id.* at 1328–29. Starting by assuming the patent owner has "substantial rights" vastly understates the potential problem. A patent only "inherently" gives its owner the right to exclude others. Every effort to exploit that right must be assessed for adverse effects under the circumstances. See *supra* note 51 and accompanying text. The fact that in some, even many, cases no undue harms will be identified, does not obviate the need to check; it is only by inquiring in each case that the proper determination can be made. But that same logic argues powerfully against per se violations based solely on "exceeding the scope of the patent." See *infra* notes 178–89 and accompanying text (making the point that standing alone

court distinguish between conditions within and beyond the scope of the patent causes significant confusion and distraction while serving no useful purpose.¹²¹

That understanding also defines the proper scope of the misuse justification inquiry. Internal calibration errors, such as inadequate standards for grant or an excessively long patent term, are internal design flaws. Attempting to make the necessary adjustments through misuse deploys an indeterminate doctrine to illogically punish a patent owner for errors beyond his control. Implementation shortcomings should be addressed through direct legislative modification of the offending statutory provisions. If misuse has a useful role, it must come from some special value it produces in controlling the exploitation of properly calibrated patents.

post-term royalties are not necessarily harmful). And, ultimately, it argues for eliminating the doctrine entirely, doing away with its artificial distinctions and focusing on the actual effects of the particular licensing terms. *See infra* note 121. That may well be precisely what the *Princo* majority, constrained by Supreme Court precedent, was seeking to do—by expansively defining the scope of the patent right and requiring the harm come directly from licensing terms gives misuse very little range of application. *See supra* note 104.

In all events, the *Motion Picture* majority had the point fundamentally correct, articulating the crucial distinction as between “rights which are given to the inventor by patent law” (the right to exclude) and those “rights which he may create for himself by private contract” (the terms of access). *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 514 (1917). Unfortunately, the Court’s subsequent misuse jurisprudence failed to follow this sound approach, ultimately framing misuse as involving those actions which extend the physical or temporal scope of the patent. *See supra* note 51; *infra* note 123.

121. The problem is clearly visible in the *Princo* case. The majority found the harm arose from an alleged separate agreement between two patent holders to license one patent and suppress the availability of the other. As that collateral arrangement did not produce anticompetitive conditions imposed in the resulting patent license, it “had no bearing on the physical or temporal scope of the patents in suit,” no extension could occur and misuse did not apply. *Princo*, 616 F.3d at 1340. The dissent vigorously protested that the agreement protected the licensed patent from competition and therefore extended the scope of that right (monopoly). *Id.* at 1342–1343. But the debate fails to advance what all agreed was the actual concern—whether the patent licensing arrangement caused undue social harm. Forcing courts to engage in a distracting and ultimately meaningless scope of the patent debate only makes an already complicated inquiry more difficult. Moreover, the pointlessness of the effort ultimately argues for eliminating the doctrine entirely—focusing the inquiry explicitly on assessing the efficiency effects of licensing terms, rather than going through the charade of labeling those which are found permissible as “within the scope of the patent.” The theatre of the absurd discussion in *Princo* over whether misuse can be predicated on an “ancillary” antitrust violation reinforces the point. *See id.* at 1336, 1354 (Dyk, J., dissenting). Misuse proponents generally argue the doctrine should extend *beyond* antitrust law to fill gaps left by that regime (*see infra* Part II.C.1). That they find themselves seeking to define the “exceeds the scope of the patent” misuse trigger by anti-competitive effects makes the actual misuse issue clear.

C. *The Argument against an Independent Misuse Doctrine*

The Supreme Court clearly intended that misuse would apply independently of violations of general law, most specifically antitrust law.¹²² The articulated purpose was to prevent patent owners from extending their rights beyond the physical (claims) and temporal (term) of the patent,¹²³ thus avoiding costs beyond those necessary to “carr[y] out [the] public policy adopted by the Constitution and the laws of the United States ‘to promote the Progress of Science and the useful Arts.’”¹²⁴

The judicial creation of a distinct, patent-policy based misuse doctrine does not justify its continued existence.¹²⁵ Within the efficiency paradigm, a potential problem exists any time patent exploitation generates costs exceeding those inherent in the patent right to exclude. The law should provide appropriate mechanisms for reviewing such actions and preventing those that produce net harms.¹²⁶ Preserving misuse as the vehicle for doing so requires identifying some specific value that only defensive application of the scope of the patent inquiry and blanket unenforceability remedy can provide.

1. The Antitrust “Gap” Justification for Misuse

The most frequent justification is made in the negative: because numerous patent transactions escape antitrust sanction, misuse examination fills an essential “gap” in that regime’s application.

122. In *Motion Picture* and *Morton Salt*, the Court expressly declined to determine whether the identified harms to the competitive environment constituted an antitrust violation. See *supra* notes 64–65, 75 and accompanying text. In *Zenith Radio*, the Court went further, explicitly stating that misuse did not turn on the existence of an antitrust violation. See *supra* note 83. Although recent Federal Circuit decisions include an antitrust-like anticompetitive effects requirement, that court has confirmed that “patent misuse is viewed as a broader wrong than antitrust violation . . . [that] misuse may arise when the conditions of antitrust violations are not met” (*C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (1998)) and “[t]he patent misuse doctrine, born from the equitable doctrine of unclean hands, is a method of limiting abuse of patent rights separate from the antitrust laws” (*B. Braun Med., Inc. v. Abbott Lab.*, 124 F.3d 1419, 1426 (1997)). Ironically, the most recent misuse decision, *Princo*, 616 F.3d 1318, triggered the opposite argument—whether misuse can be found based merely on an antitrust violation. See *supra* note 121.

123. See *Blonder-Tongue Lab. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971).

124. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942).

125. If a change is appropriate, then conflicting Supreme Court precedent must be addressed. But that is an easily resolved matter of mechanical implementation. See *infra* notes 260–74 and accompanying text.

126. When that happens is not clearly identified under current misuse doctrine, which was originally developed primarily in reaction to the (relatively) straightforward tying requirements. See *supra* notes 54–74, 118–21 and accompanying text. But that problem remains secondary to determining whether the misuse doctrine should exist at all.

a. The Market Power Gap

The problematic gap is commonly attributed to antitrust law's "market power" requirement.¹²⁷ The argument runs as follows: most patents face sufficient (frequently stiff) competition from alternatives. As a result, their owners lack the power to cause antitrust competitive harm and consequently fall below the antitrust radar. As a result, the vast majority of owners can extend their patent rights without fear of antitrust sanction. Misuse is necessary to avoid the resulting excess social costs.

The first three statements are correct. Antitrust law does permit many conditional patent transactions because the patent owner has insufficient market power.¹²⁸ The last statement is not. The antitrust market power is not a flaw in the system causing the regime to "miss" harmful transactions. Rather it serves an essential role in ensuring antitrust law fosters overall efficient market operation. Filling the gap by prohibiting these transactions through an independent misuse constraint does not prevent market harms. It interferes with an assessment mechanism specifically designed to ensure the law advances the overall system net improvement goal.¹²⁹

A brief review of the role of power in antitrust law provides the explanation. At the far power extreme, Sherman Act Section 2¹³⁰ applies to individual market participants either holding monopoly power or having a dangerous probability of acquiring such power.¹³¹ A patent conferring such power triggers serious concerns and close scrutiny imposing substantial constraints on exploitation.

Although misuse proponents do not identify the "power gap" with Section 2, examining how it deals with potential patent exploitation

127. The more specific form of the argument is that antitrust law's market power focus makes it inadequately sensitive to patent policy concerns, in particular, ensuring compliance with the claims and term limitations designed to prevent excessive costs and interference with innovation. *See, e.g.,* Bohannon, *supra* note 10, at 13–18; Feldman, *supra* note 5, at 400–01 (but also noting that even with market power, antitrust may provide insufficient constraint); Mueller, *supra* note 8, at 654–56, 671–72 (also noting the focus of misuse is on expansion of the patent grant, while antitrust focuses on anticompetitive effects in a relevant market). The excessive costs and innovation impairment arguments are separately considered below in Part II.C.2.

128. The Court having (properly) done away with the presumption that a patent produces market power, in fact, makes this much more likely. *See* *Ill. Tool Works Inc., v. Indep. Ink, Inc.*, 547 U.S. 28, 43–45 (2006).

129. *Cf.* *Copperweld Corp. v. Indep. Tube Corp.*, 467 U.S. 752, 774–77 (1984) (pointing out that the market power "gap" is "the sensible result of a purposeful policy decision by Congress").

130. Codified at 15 U.S.C. § 2 (2006).

131. *See* HOVENKAMP, *supra* note 27, ch. 6.

harms provides useful insights into antitrust law's basic approach. Despite the fact that monopoly power poses a serious threat to market efficiency, Section 2 distinguishes between acquiring/using such power "on the merits" and the "monopolization" offenses.¹³² That distinction reflects the key role net efficiency plays in all antitrust policy and doctrine. Monopoly power is the ultimate motivation for market competition and the logical consequence of its successful pursuit. Fining and jailing the winners would considerably chill desirable market behavior, including curbing enthusiasm for participating at all.¹³³ To avoid that problem, antitrust "monopolization" violations require more than a dominant market position or the reasonable possibility of obtaining the same. It must be accompanied by a "predatory act"—some interference with competition beyond the unavoidable consequences of the monopolist's own skill, foresight, and industry. The latter permits capture of the returns from "winning on the merits"—for example, by creating better products at lower costs or through a legitimately acquired natural or legal advantage, including a patent.¹³⁴

The inevitable consequences exception precludes imposing antitrust liability on owners of legitimately acquired patents merely for denying access to others. Even when the patent produces monopoly power, a unilateral, unconditioned exclusion produces no more harm than expressly contemplated by patent law. To treat such refusals to deal as an independent misuse violation would make nonsense of the patent system. The appropriateness of that antitrust outcome has been explicitly acknowledged in misuse doctrine, both by the Court's exemption of patent owner actions falling within the "physical and temporal scope" of the patent¹³⁵ and by Congress in Section 271(d)(4) of the Patent Act.¹³⁶

When a patent owner goes beyond refusing to deal, antitrust law assesses every condition for unjustified anticompetitive effects. When monopoly power is present, anything beyond the "inevitable

132. *See id.* at 269–71.

133. *See Verizon Commc'n Inc. v. Law Offices of Curtis V. Trinko L.L.P.*, 540 U.S. 398, 407 (2004) ("The mere possession of monopoly power, and the charging of monopoly prices, is not only not unlawful; it is an important element of the free-market system."); *U.S. v. Aluminum Co. of Am.*, 148 F.2 416, 430 (2d Cir. 1945) (criminalizing mere possession of a monopoly would "not only be unfair, but contrary to the intent of Congress . . . [t]he successful competitor, having been urged to compete, must not be turned upon when he wins").

134. *See, e.g., Verizon Commc'n Inc.*, 540 U.S. at 407; *U.S. v. Grinnell Corp.*, 384 U.S. 563, 570–71 (1966); *Aluminum Co. of Am.*, 148 F.2d at 430.

135. *See supra* note 123 accompanying text.

136. Codified at 35 U.S.C. § 271(d)(4) (2006).

consequences” of the patent, that is, merely refusing to deal,¹³⁷ will trigger significant Section 2 concerns. A violation will be found if no offsetting efficiency justification is shown, something which has proven exceedingly difficult for monopolists to do in practice.¹³⁸ As applied, Section 2 enforcement arguably exceeds the limitations imposed by misuse, preventing every net harmful use of a patent right.¹³⁹ Doctrinally, however, the antitrust approach is more consistent with the system efficiency goal. Rather than focusing on the patent’s “scope,” it examines the transaction’s actual market effects, permitting those few arrangements that, even with monopoly power, produce a net overall gain.

Understandably, the misuse proponents’ antitrust market power gap argument focuses on the vast majority of patent owners who do not meet the substantial Section 2 monopoly power requirements. As a result, those potent antitrust restrictions do not reach, much less prevent, actions by myriad patent owners who may cause significant harm. However, those owners do not receive an antitrust free pass. Those falling below the Section 2 power requirements remain subject to Sherman Act Section 1¹⁴⁰ and Clayton Act Section 3.¹⁴¹

137. Even a refusal to deal can be an antitrust violation if it is accompanied by a predatory act. See *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 605 (1985) (the termination of an existing relationship found predatory on the facts). *But see Verizon Comm’n*, 540 U.S. at 409–10 (noting *Aspen* lies at the outer limits of liability). Additionally, there has been off and on discussion of an antitrust “essential facilities doctrine” which would address the clog on competition from legitimately gained advantage, even absent a predatory act. See *U.S. v. Terminal R.R. Ass’n of St. Louis*, 224 U.S. 283 (1912). *But see Trinko*, 540 U.S. at 410–11 (expressing considerable skepticism regarding its existence or usefulness but not explicitly repudiating it); Mueller, *supra* note 8, at 655–56 (discussing other commentators’ proposals to use the essential facilities doctrine to address industry standards capture and concluding (correctly in my view) that the courts are unlikely to extend antitrust law along these lines). The essential facilities doctrine improperly ignores that when a patent owner does no more than refuse to deal, it does not create any efficiency harms beyond those inherent in the patent regime. If the patent regime is internally inefficient, then we should adjust its rules of grant and rights/remedies. See *infra* Part III.B.1. If it is efficient, but we desire outcomes different than those produced by an efficient market, then we should address that issue directly. See *infra* Part III.B.2.

138. If monopoly power is present or likely to be obtained, virtually every condition has the potential to “unnecessarily exclude,” and will require a substantial showing. In most cases that will be impossible to do. See *Aluminum Co.*, 148 F.2d at 430–31 (“It was not inevitable . . .”); *U.S. v. United Shoe Mach. Corp.*, 110 F. Supp. 295, 344 (1953) (“Yet they are not practices that can be properly described as the inevitable consequences . . .”), *aff’d per curiam*, 347 U.S. 521 (1954); HOVENKAMP, *supra* note 27, § 6.4a.

139. If a monopolist can convince a court that the condition falls within the scope of the patent, misuse would not apply even if it produced net harms to the marketplace. See *supra* notes 118–21, 123 and accompanying text.

140. Codified at 15 U.S.C. § 1 (2006).

141. Codified at 15 U.S.C. § 14. The Federal Trade Commission can also proceed

Sherman Act Section 1 applies to “every contract, combination or conspiracy . . . in restraint of trade.”¹⁴² To be “in restraint of trade,” an arrangement must both harm competition and have a net adverse effect on efficient market operation.¹⁴³ Although a small number of Section 1 per se violations exist, such as naked horizontal price fixing and market divisions, the vast majority of arrangements undergo Rule of Reason assessment.¹⁴⁴

Finding a violation under the Rule of Reason requires demonstrating the challenged arrangement have some adverse effect competition.¹⁴⁵ If plausible adverse effects exist, the defendant then may offer justification. Justification requires showing the restriction is essential to, and the least restrictive means of, producing a specific market efficiency improvement.¹⁴⁶ If that cannot be done, the restriction violates Section 1, whether or not the defendant has market power.

A properly justified restriction then undergoes net positive effects assessment to determine if the identified efficiency improvements outweigh the harms.¹⁴⁷ Market power plays a significant role in this inquiry.¹⁴⁸ If those involved control a large share of a relevant market, the likelihood that power can be used to produce net negative outcomes tips the balance in favor of finding an antitrust violation. However, when competition sufficiently limits their ability to insist, the

under Federal Trade Commission Act § 5 (15 U.S.C. § 45). Some question remains as to whether that antitrust authority extends to situations which do not constitute violations of the Sherman Act or Clayton Act (which are clearly included). See HOVENKAMP, *supra* note 27, § 15.2.

142. 15 U.S.C. § 1.

143. See *supra* notes 34–37 and accompanying text (describing the operation of the antitrust Rule of Reason).

144. See HOVENKAMP, *supra* note 27, ch. 5. The assessment occurs on a continuum requiring varying levels of factual inquiry, including a quick look which can vary from a “twinkling of an eye” to a more “sedulous” factual review. See, e.g., *Cal. Dental Ass’n v. F.T.C.*, 526 U.S. 756 (1999); *Ind. Fed’n of Dentists v. F.T.C.*, 476 U.S. 447 (1986) (the inquiry turns on the specific circumstances of the case).

145. Inherently suspect restrictions may be deemed sufficiently problematic that harm is presumed. See *NCCA v. Regents*, 468 U.S. 104, 110 (1984); *Licensing Guidelines*, *supra* note 35. Other restrictions may necessitate a more detailed look at the restriction in the specific market context to assess if it will produce any adverse effects. See *supra* note 144, discussing the variability of the “quick look” inquiry. Misuse proponents point to this antitrust law’s focus on competition as a separate rationale for an independent misuse doctrine which focuses primarily on innovation. That issue is discussed *infra* at Part II.B.2.b.

146. See *Ariz. v. Maricopa Cnty Med. Soc’y*, 457 U.S. 332, 353–54 (1982); *Law v. NCAA*, 134 F.3d 1010, 1019 (10th Cir. 1998); HOVENKAMP, *supra* note 27, § 5.1c; *Collaboration Guidelines*, *supra* note 35.

147. See *supra* notes 34–37 and accompanying text (describing the antitrust Rule of Reason).

148. See *Collaboration Guidelines*, *supra* note 35, §§ 1.2, 1.32–1.33, 4; *Licensing Guidelines*, *supra* note 35, § 4.3.

determination can be left to the market's invisible hand.¹⁴⁹ If the arrangement produces net efficiencies (e.g., better products and/or lower prices despite the competitive restrictions), demand will migrate to the participants. If not, demand will move to better performing alternatives.

Clayton Act Section 3 adds an additional nuance to the Section 1 net effects inquiry regarding foreclosure effects arising from tying and exclusive dealing arrangements.¹⁵⁰ A Clayton Act Section 3 violation requires showing the arrangement's effect "may be to substantially lessen competition or tend to create a monopoly."¹⁵¹ The courts have treated that requirement as placing a modest thumb on the net-negative outcome side of the Rule of Reason scale. Specifically, Clayton Act liability can arise even when the direct effects of the defendant's actions do not produce net harms, but create overall problematic foreclosure when combined with others' actions, either in the aggregate or as reflecting a market trend.¹⁵² As a result, even relatively weak players

149. When a transaction is characterized as vertical, it receives much more circumspect antitrust review. *See, e.g., AREEDA, supra note 27, at 567 n.48* (citing, among others, Judge Richard Posner, *The Rule of Reason and the Economic Approach: Reflections on the Sylvania Decision*, 45 U. CHI. L. REV. 1, 14 (1977) (to the effect that the Rule of Reason applied to vertical agreements is "in practice it is little more than a euphemism for nonliability")). Reduced scrutiny does not, however, mean antitrust law ignores the possibility of harm. The decision to permit vertical restrictions must still be based on an affirmative determination that under the circumstances the restraint is a necessary element in producing sufficient offsetting benefits to produce a net improvement. Market power plays an important role in that decision. But as in other Rule of Reason assessments, the decision to permit a vertical restraint based on lack of market power is not a gap in enforcement. It reflects the affirmative determination that sufficient competitive alternatives exist to reasonably assume that the restraint will in fact produce net overall benefits. *See, e.g., State Oil Co. v. Khan*, 522 U.S. 3, 15–16 (1977) (citing Chief Judge Posner's decision below noting that attempts to impose undue restrictions "would just drive the dealers into the arms of a competing supplier"); *Cont'l T.V. v. GTE Sylvania*, 433 U.S. 36, 52, n. 19 (1977) ("[W]hen interbrand competition exists . . . it provides a significant check on the exploitation of intrabrand market power because of the ability of consumers to substitute a different brand of the same product."). Vertical transactions involving end-users will receive yet more relaxed scrutiny as they constitute the basic engine of the market economy. *See Nynex Corp. v. Discon, Inc.*, 525 U.S. 128, 137 (1998). But again, a failure to sanction reflects that on net, such transactions produce more benefit than harm. *See id.* (rejecting application of a per se rule).

150. Professor Bohannon identifies foreclosure as the key issue in misuse situations. *See Bohannon, supra note 10, at 3* (identifying market efficiency/innovation adverse effects as well as the need to ensure access to the public domain; also noting the latter justification applies to non-patent regimes lacking patent law's virtually absolute right to exclude, as discussed *supra* note 10). As argued below in the text, identifying the foreclosure concern does not justify misuse; that requires that misuse provide a better response than antitrust law to the problem.

151. 15 U.S.C. § 14 (2006).

152. *See HOVENKAMP, supra note 27, § 10.9e* (making the point that the relevant inquiry is not the defendant's share of market sales but the level of overall market

can face antitrust prohibition when the overall market situation produces substantial barriers to entry.

In setting the intervention threshold for Clayton Act Section 3 foreclosure concerns, the Court uses power/market share as a tool for reaching a proper balance between avoiding foreclosure harms and the benefits of aggressive competition.¹⁵³ As with other antitrust assessments, the absence of power can tip the balance toward a net benefits finding, allowing the arrangement to survive scrutiny because competitive market forces can reliably determine whether the arrangement is net superior to the alternatives.

Finally, the antitrust violation thresholds under the Sherman and Clayton Acts reflect one important additional consideration. If bringing and maintaining an expensive legal action is too easy or sanctions are too quickly imposed, antitrust law can itself interfere with the aggressive competition which drives market efficiency.¹⁵⁴ The thresholds must, therefore, reflect a balance between avoiding actual or incipient harms and permitting too-ready pursuit and sanction of “false positives” which can unduly chill desirable activity.

Many patent transactions will meet neither the Sherman Act Section 1 nor even the, perhaps, lower Clayton Act Section 3 market power requirements. Misuse proponents are, therefore, entirely correct that antitrust law will permit many transactions which cause harms beyond those inherent in the patent right to exclude. However, that does not result from an inadvertent enforcement “gap” in antitrust law. Rather it reflects an affirmative decision to accept harms when they produce net improvements. Applying an independent misuse doctrine would indeed

foreclosure).

153. The courts presently require a significant showing of power or foreclosure to intervene. In *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984), the Court indicated that a tying violation might require over a thirty percent market share, at least absent showing of other market harms. Similarly, exclusive dealing violations currently are rarely found when aggregate market foreclosure is under forty percent. See HOVENKAMP, *supra* note 27, §§ 10.3a, 10.9e. Professor Bohannon makes the valid point that these levels fail to prevent many incipient harms, most particularly foreclosure affecting innovation. See Bohannon, *supra* note 10, at 21–24, 31–34. That does not make the antitrust outcome “incorrect.” As explained in the text, the objective is not to prevent all harms, but to ensure net benefits from restrictions on competition. In all events, even if antitrust law has it wrong that does not alone justify misuse. If lower thresholds are necessary, recalibrating antitrust law (including perhaps returning to the Court’s earlier views on exclusive dealing foreclosure effects) is preferable to deploying the even less suitable misuse doctrine. See *infra* notes 159–67 and accompanying text. The specific application to patent policy innovation concerns is considered below in Part II.B.2.b.

154. See, e.g., *Brooke Grp. Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 226–27 (1993); *Cargill, Inc. v. Monfort of Colo., Inc.*, 479 U.S. 104, 122 n. 17 (1986); *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 594 (1986).

prevent the costs. But it would also deny society the related net benefits, thus impeding the pursuit of the system objective of enhancing overall market efficiency.¹⁵⁵ Moreover, by putting patent owners at a disadvantage relative to other market participants (who would only be subject to antitrust constraints), misuse unnecessarily undermines the value of patents and the innovation incentive policies pursued by the regime.¹⁵⁶

b. Antitrust Enforcement Uncertainties/Costs and Doctrinal/Remedial Shortcomings

Commentators have also identified the practical uncertainty and costs of applying the Rule of Reason as well as various doctrinal and remedial antitrust insufficiencies, as justifying misuse.¹⁵⁷

Antitrust law is extremely fact intensive and its vague and complex real world application requires substantial time and financial resources from both private litigants and the public. These and other practical considerations, such as standing requirements, frequently prevent bringing or succeeding in an otherwise meritorious antitrust case.¹⁵⁸

Additionally, there are good arguments that the regime has moved too far toward avoiding false positives and non-intervention. Current doctrine imposes extremely stringent proof requirements on plaintiffs with regard to pleading, proof and substantive showings.¹⁵⁹ The D.C. Circuit decision in *Rambus v. Federal Trade Commission*¹⁶⁰ and the Federal Circuit decision in *Princo Corp. v. International Trade*

155. See *supra* notes 26–36. This straightforward analysis begs the question of how the Supreme Court could have missed the point in its early cases establishing the misuse doctrine. The answer is all in the timing. Those seminal cases were decided well before the Court had established the more-nuanced net efficiency Rule of Reason inquiry in antitrust law. As such, they are best understood as representing a temporary fix, holding the line until a more refined analysis could be developed. See *infra* notes 262–66 and accompanying text.

156. See *infra* Part II.B.2.b (discussing the innovation policy justifications for misuse).

157. See Bohannon, *supra* note 10, at 9; Feldman, *supra* note 5, at 420 (noting the point and citing to Robert P. Merges, *Reflections on Current Legislation Affecting Patent Misuse*, 70 J. PAT. & TRADEMARK OFF. SOC'Y, 793, 794 (1988)).

158. See AREEDA, *supra* note 27, at 61–69 (discussing standing limitations); Cotter, *supra* note 14, at 8 (making the point in connection with misuse).

159. See, e.g., *Matsushita Elec.*, 475 U.S. at 595 (regarding proof of agreement); *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 557–558 (2007) (pleading requirements to survive a motion to dismiss for failure to state a claim); *Cal. Dental Ass'n v. Fed. Trade Comm'n*, 526 U.S. 756, 789 (1999) (regarding proof of competitive harm); *Brooke Grp. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 225 (1993) (regarding the recoupment requirement in predatory pricing cases); *supra* notes 149, 153 (respectively discussing vertical restraint review and the substantial the market shares and foreclosure required to prove a tying or exclusive dealing violation).

160. *Rambus v. Fed. Trade Comm'n*, 522 F.3d 456 (D.C. Cir. 2008).

*Commission*¹⁶¹ provide two good misuse-relevant examples. In *Rambus*, the defendant belonged to a trade group considering adoption of an industry standard. The Federal Trade Commission found it violated the antitrust laws by failing to disclose and then asserting patents it held covering the standard ultimately adopted. The court of appeals reversed. It found that the FTC had not demonstrated the necessary predicate anticompetitive harm because its evidence did not *eliminate* the possibility the standard might have been adopted even with full disclosure.¹⁶² That holding appears to impose a “but for” standard of causation in antitrust cases; a burden of proof notoriously difficult to carry.¹⁶³

In *Princo*, the defendant infringer alleged that the patent owner had engaged in licensing practices which foreclosed competition in a potential alternative technology. The Federal Circuit, sitting en banc, held that to prove misuse the defendant infringer must establish that the action had anticompetitive effects. Applying antitrust principles, the majority found that this required the defendant to present evidence demonstrating that “there is a ‘reasonable probability’ that the . . . technology . . . would have matured into a competitive force.”¹⁶⁴ That means to prove a violation involving suppression of an as yet fully developed technology, the proponent must carry the very substantial burden of overcoming the myriad technical and commercial uncertainties associated with moving from concept to viability.¹⁶⁵

These cases raise legitimate concerns that current antitrust law will not produce the net benefit outcomes required of the regime. However, these are errors of implementation, not policy. They call for bettering aligning antitrust doctrine with its policy mandate, not revisiting the goals themselves. Using misuse to accomplish these same ends would involve not merely addressing the same cost/uncertainty issues,¹⁶⁶ but

161. *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010).

162. *See Rambus*, 522 F.3d at 464–67.

163. *See* Michael A. Carrier, *The D.C. Circuit’s Error in Rambus and a More Justifiable Framework for Causation and Standard-Setting* 13 (Apr. 8, 2010) (unpublished manuscript), available at <http://ssrn.com/abstract=1586430> (criticizing the standard as too high a bar and arguing for “legal cause” as a more workable alternative).

164. *Princo*, 616 F.3d at 1351.

165. *See infra* notes 210–11 and accompanying text (discussing the issue in connection with the innovation-fostering justification for misuse). The dissent in *Princo* also made the valid argument that the majority erroneously placed the burden of proof on the defendant infringer in the first instance. *See Princo*, 616 F.3d 1318 at 1353–54 (Dyk, J., dissenting).

166. The absence of a clear justification guiding the “scope of the patent” inquiry also makes misuse exceedingly complex, uncertain, and expensive in practice. *See supra* note 108 (discussing the expense); *supra* note 121 and accompanying text (discussing the practical effects of applying the “scope of the patent” test).

would require dramatic change in the doctrine's fundamental approach.¹⁶⁷ Moreover, the result of even a successful effort would be to create a doctrine largely paralleling and duplicating antitrust law.

Finally, it has been argued that the misuse blanket unenforceability sanction both more immediately and effectively addresses the adverse access effects of patent overreaching and provides stronger deterrence reducing the problem in the first instance.¹⁶⁸ As others have cogently explained, the doctrine's lack of remedial nuance makes it far more likely to over or under-react.¹⁶⁹ Antitrust law provides for substantially more flexible relief based on the actual harm. Injunctions and damages address the adverse effects on individual participants and the market, while mandatory trebling and criminal liability for the most egregious, per se violations more appropriately calibrate deterrence to the specific wrong.

2. Patent Policy Justifications for Misuse

The alternative misuse justification points to the special role the Court assigned misuse in *Motion Picture* and *Morton Salt*—ensuring proper implementation of patent policy.¹⁷⁰ The approach produces three possible justifications: Misuse is essential to prevent (1) excessive financial returns through escape from patent regime's internal temporal

167. The “scope of the patent” inquiry would have to be significantly adjusted to avoid prohibitions on transactions producing net benefits. *See id.* Moreover, its defensive-only application and remedial approach would need to be reconsidered. *See supra* notes 76–82 and accompanying text; *infra* notes 220–21 and accompanying text.

168. *See* Chronopoulos, *supra* note 8, at 800–01 (making the argument in the industry standards setting); *Princo*, 616 F.3d at 1354 (Dyk, J., dissenting). *But see generally* Chiappetta, *Standards*, *supra* note 8 (arguing that standards setting requires more nuanced remedies to avoid interfering with desirable private ordering).

169. *See supra* note 14.

170. *See* Calkins, *supra* note 12, at 187 (articulating the point rather than advocating it and properly noting this is the “strongest argument”); Feldman, *supra* note 5, at 400; Mueller, *supra* note 8, at 671–72; Potenza, *supra* note 13, at 96–99; *supra* notes 54–72 and accompanying text (discussing *Motion Picture* and *Morton Salt*). It can also be validly argued that antitrust law fails to consider important non-efficiency related harms, for example, distributional outcomes or behaviors regarded as morally repugnant for non-efficiency reasons. There are two related responses. First, those normative issues play little role (in fact arguably no role) in current patent policy. If we want our patent law to pursue goals other than economic efficiency, that requires a wholesale revisiting of goals falling well beyond anything misuse can accomplish. *See infra* Part III.B.2. Second, other existing laws specifically address those concerns, for example tax and social program regimes implementing redistributive objectives and criminal statutes enforcing behavioral norms despite related inefficiencies. *Cf. Nynex Corp. v. Discov. Inc.*, 525 U.S. 128, 137 (1998). If they are not producing the desired outcomes, we should expand our inquiry to examine the larger legal picture rather than focus solely on adjusting patent law.

(term) and physical (claims) cost mitigating limitations;¹⁷¹ (2) harms to innovation inadequately addressed under antitrust law Rule of Reason assessment;¹⁷² and (3) unjustified acquisition or assertion of patent rights.¹⁷³ Each is considered and rejected below.

a. Excessive Financial Returns

The argument is straightforward: to ensure an appropriate net beneficial outcome, patent law specifically restricts the right to exclude to the claimed invention¹⁷⁴ for a specified period of time.¹⁷⁵ When patent owners obtain financial returns beyond those limitations, they exceed their due causing harms beyond those society has agreed to bear. That reasoning captured the Court's imagination in its seminal misuse cases,¹⁷⁶ leading to the formulation that actions exceeding a patent's scope constitute per se misuse.¹⁷⁷

This appealing analysis, however, fundamentally misconstrues the operation of patent law's claims and terms limitations. The Court holding in *Brulotte v. Thys Co.*¹⁷⁸ prohibiting all post-term royalty obligations provides a good framework for demonstrating the

171. See Feldman, *supra* note 5, at 400, 436–39.

172. See *id.* at 400–01, 439–49; Potenza, *supra* note 13, at 98.

173. Commentary on misuse generally treats acquisition and assertion issues as distinct concerns. Although that tracks the Court's approach to misuse, a complete inquiry into justifications must consider whether it adds value by preventing *any* use of the patent system creating unjustified harms. See *infra* Part II.C.2.c (discussing improper acquisition and assertion).

174. Infringement occurs when there is any making, use, sale, offer to sell, or importation into the United States of the *patented invention*. See 35 U.S.C. § 271(a) (2006). That invention is defined by the claims. See 35 U.S.C. § 112.

175. See 35 U.S.C. § 154.

176. The Court's early misuse decisions explicitly focused on confining patents to the regime's internal restrictions on returns, in particular to the patented invention as defined by the claims. See *supra* notes 54–72 and accompanying text. Professor Feldman takes the Court's argument to the important next step, focusing on why misuse is required to produce that outcome. The argument starts from the proposition that “[w]here no market power exists, antitrust would be unconcerned by extensions of the time or scope of the patent” leaving an enforcement gap which can be usefully filled by the misuse doctrine's automatic prohibition on any conditions “beyond the scope of the patent.” See Feldman, *supra* note 5, at 436–38. As discussed in the preceding section, antitrust law is concerned with such extensions and prevents them when and only when they produce net efficiency harms. The more precise issue, therefore, is whether the harms permitted by antitrust law net assessment are inconsistent with patent policy. The possibility of excessive financial returns is examined in the following text. Other harmful effects on patent law's innovation objectives are addressed in the following section.

177. See *supra* notes 54–72 and accompanying text; *supra* note 123.

178. See *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), *rehearing den.*, 379 U.S. 985 (1965). The decision has been roundly criticized by commentators in the past, for much the same reasons discussed in the following text. See, e.g., Cotter, *supra* note 14, at 2 n. 18.

problem.¹⁷⁹ In *Brulotte*, the Court reasoned that imposing such a royalty requirement constituted a “bald attempt to exact the same terms and conditions for the period after the patents have expired,” projecting the monopoly beyond the patent period.¹⁸⁰ As a result the Court held post-term royalty requirements were per se misuse.

Patent law’s fixed term clearly serves to cap the patent owner’s financial returns and related social cost of the right to exclude. The *Brulotte* decision equally clearly assumes that for the term limitation to have the desired cost-limiting effect it must act as an absolute prohibition on royalty payments after the patent has expired.¹⁸¹ Although the first statement is accurate, the second does not survive scrutiny.

The “excessive returns” inquiry starts by determining the inherent, and thus acceptable (or at least accepted), maximum payment for access to a patent as contemplated by patent law’s “limited times” restriction. Neither the Constitutional nor the statutory time limitation speaks in terms of when return on the patent can be received. Instead they restrict the period of time during which a patent owner can prevent access/use by others.¹⁸² The contemplated maximum financial return and related social cost is, therefore, equal to the value to others of accessing/using the patent during that period of exclusive control. In “misuse” patent policy terms, that means excessive returns only exist when a patent owner receives more than that value. The relevant “extension of the monopoly” post-term royalty inquiry, therefore, is not

179. Professor Feldman uses this example in her discussion of the time and scope extension financial returns problem. See Feldman, *supra* note 5, at 400, 436–39. The argument starts from the proposition that such extensions could continue in perpetuity free of antitrust objection in the absence of market power, meaning antitrust law effectively changes the “patent rules to say that a patent lasts for twenty years, but the twenty-year limit only applies fully to patent holders who have market power” and, therefore, “limiting the inquiry to behavior that violates antitrust law ignores significant issues for patent policy.” See Feldman, *supra* note 5, at 438. The argument is cogently made, but to clarify, antitrust law’s Rule of Reason assessment would permit post-term royalties whenever the extension produces net benefits, *even if* the patent owner has market power. See *supra* notes 34–37 and accompanying text.

180. *Brulotte*, 379 U.S. at 32.

181. See *id.*

182. The Constitution provides that Congress may “secur[e] for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. CONST. art. I, § 8, cl. 8. Section 271(a) of the Patent Act defines infringement as the making, using, etc of the patented invention “during the term of the patent therefor.” 35 U.S.C. § 271(a) (2006). It can, of course, be argued that the Constitution and the statute have it wrong, but that would make nonsense of the misuse “scope of the patent” inquiry. Moreover, the efficiency arguments in the text indicate that if the incentive is to come from a patent right to exclude, then fixing the term of the control, not when returns can be received, produces the better net outcome.

when payment occurs, but whether the discounted present value of the aggregate royalty payments exceeds the value of accessing the patent during its (remaining) term.¹⁸³

The market ensures that equivalence will always exist regardless of when actual payment is made. In a hypothetical completely efficient market, patent owners cannot “project the patent monopoly beyond the patent period” because they lack the requisite power.¹⁸⁴ Any attempt to extract royalties exceeding the value of access during the term will push licensees to the less expensive alternatives. When, as is more likely the case, the patent owner has some (or even substantial) market power, a surplus will be obtained. However, that surplus will not exceed the extra value to licensees of using the invention over the alternatives during the period they are legally denied access.¹⁸⁵ Any attempt to obtain more will make the otherwise less satisfactory alternatives competitive, causing potential licensees to forgo the patented solution. Any “monopoly surplus” will, therefore, equal the return (and incentive to invent) contemplated by patent law’s “limited time” restriction.¹⁸⁶

In the absence of excess financial returns a misuse prohibition of post-term royalties causes affirmative social harm. By unnecessarily limiting flexibility in private-ordering regarding timing of payments, it prevents licensing arrangements involving non-conforming financial circumstances (for example, using time payments as a financing

183. The total absolute amount of royalties paid will vary depending on timing, with longer payouts generally exceeding shorter term payouts in the aggregate amount. Those differences, however, reflect deferred payment considerations such as time-value of money and uncertainty/risk allocations. Justice Harlan’s dissent in *Brulotte* makes these points. See *Brulotte*, 379 U.S. at 34 (Harlan, J., dissenting).

184. As the Court recently discussed in *Illinois Tool Works v. Independent Ink, Inc.*, 547 U.S. 28, 41–45 (2006), the early misuse cases confusingly use the market power term “monopoly” to identify patent exclusivity. That was not, however, inadvertent. The misuse cases, including *Brulotte*, were specifically concerned that patent owners would distort the market by using the power afforded by their patent. See *Brulotte*, 379 U.S. at 32 (“We are . . . unable to conjecture what . . . resultant arrangement might have emerged had the provision for post-expiration royalties been divorced from the patent and *nowise subject to its leverage.*” (emphasis added)).

185. Justice Harlan’s dissent provides a helpful analysis along these lines. See *Brulotte*, 379 U.S. at 36–38 (Harlan J., dissenting). The more likely explanation for *Brulotte* is the fear of patent power before antitrust filled the gap. See *infra* notes 263–66 and accompanying text.

186. This analysis identifies an important remedial issue. Post-term royalties are later payment for value already received (the value of access to the patent during its term). Consequently the post-term failure to pay should likely be treated exclusively as a damages matter. Granting an injunction prohibiting practicing the invention would produce in *terrorem* leverage related to sunk costs and prevent competitive use despite the clear indication that money provides a sufficient remedy. See *infra* note 290. Only if other considerations are in play would an injunction be appropriate.

mechanism or tool for allocating uncertainty risks)¹⁸⁷ and individual preferences (use now, cash later).¹⁸⁸ That, in turn, unduly restricts access and exploitation of the patented invention, producing unjustified inefficiencies.¹⁸⁹ Moreover, imposing these unjustified limitations on exploitation of patented inventions makes them less competitive than unpatented alternatives. The resulting impairment of the regime's incentives needlessly (and ironically) interferes with the very patent law promotion of innovation policy misuse purportedly exists to protect.

Interestingly, the Court's assessment of non-tying extensions of a patent's physical scope came out very differently. In *Zenith Radio Corp. v. Hazeltine Research, Inc.*¹⁹⁰ the Court considered a royalty computed based on the licensee's total sales, including products not incorporating the patented invention. Under *Morton Salt*, the attempt to obtain payment based on matter "not embraced in the invention" should have been per se misuse.¹⁹¹ Instead the Court permitted flexibility in structuring, holding that "if convenience of the parties rather than patent power dictates the total-sales royalty provision there

187. Professor Feldman makes the additional argument that post-term payments may permit the patent owner to extend the time-limited opportunity to obtain returns as, for example, when the market is not yet ready to appreciate the invention's value. *See* Feldman, *supra* note 5, at 445. But as explained in the text, potential licensees will only commit to post-term royalties equal to the value of access during the patent term. That calculation will reflect both timing benefits and risks. Only if obtaining access during the term provides sufficient value (for example, reduced present cash flow, head-start, market share capture) will a licensee sign on, and then only for the value obtained from access prior to expiration. Otherwise, they will wait until the patent expires.

188. The argument might be made that if post-term royalties are prohibited, rather than forego these transactions, patent holders will simply reduce the price to get whatever the licensee is willing and able to pay during the term (something is better than nothing). *Cf.* Feldman, *supra* note 5, at 448 (noting the choice, not arguing the point). But that is not how the market and the patent system interact. In a fully competitive market, the royalty rate will reflect the lowest profitable price. Consequently, rather than produce incremental returns, additional sales at lower rates will not only produce an economic loss but adversely affect the return on all licenses to the extent the owner cannot effectively discriminate. If power produces a premium, the patent owner will structure its license output to maximize its return in light of demand. Again, additional lower-cost transactions generally will not only fail to produce incremental gains, but harm the owner's overall return. In the messy real world, such reductions will, of course, occur and produce extra access. But that does not justify imposing barriers to flexibility which can produce yet further improvements.

189. Post-term royalty obligations do have foreclosure effects on competitors, both existing and potential new entrants. A rational licensee will consider those effects from their perspective (incorporating the effects on their freedom to change) and insist on related concessions (such as optional outs or reductions in price). However, power may preclude getting the desired concession and, in all events, merely because a term benefits both parties does not mean it causes no social harm. *See infra* Part II.C.2.b (discussing foreclosure and related effects on innovation).

190. *See Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

191. *See Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942).

is no misuse of the patents and no forbidden conditions attached to the license.”¹⁹² In short, misuse requires the patentee to have used “the power of his patent to insist on a total-sales royalty.”¹⁹³ Stated affirmatively, when the licensee voluntarily accepts a royalty formula extending the physical scope of the patent, not only is there no per se misuse, but there is no misuse at all.¹⁹⁴

The Court’s *Zenith Radio* analysis can be readily connected to the logic against treating post-term royalty payments as misuse. A licensee will voluntarily accept (and may even propose) the administratively cheaper total-sale royalty provision when it does not impose overall costs exceeding the value of gaining access to the claimed invention. The Court, however, failed to go the next step. The focus on patent power obscures the fact that even when “coerced” a total sale royalty will not produce excess royalty returns.¹⁹⁵ Even under market power pressure no rational licensee will agree to pay more in aggregate than the value of obtaining access to the patented invention.¹⁹⁶ Although they will accept a surplus over the alternatives, that surplus will not exceed the market value of the patented invention’s superior performance over those alternatives. If it does, they will move to the alternatives. Any surplus produced by a “beyond the claims” royalty formula will merely reflect the incentive that patents are expressly

192. See *Zenith Radio Corp.*, 395 U.S. at 138 (citing to the rationale of convenience and efficiency in royalty computation acknowledged in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 399 U.S. 827 (1950)). The Court, perhaps rethinking its ringing per se finding in *Brulotte*, noted that case was not to the contrary as it only “articulated in a particularized context the principle that a patentee may not use the power of his patent to levy a charge for making, using, or selling products not within the reach of the monopoly granted by the Government.” *Zenith Radio Corp.*, 395 U.S. at 136–37.

193. *Zenith Radio Corp.*, 395 U.S. at 139.

194. *Id.* at 135, 140. Reading the Court’s holding regarding the absence of power/coercion in the misuse context as indicating in such circumstances resulting terms are always per se valid goes too far. As implied by the Court’s analysis and as discussed below in the text and *infra* notes 218–25 and accompanying text, every licensing term must undergo an antitrust assessment.

195. The holding in *Zenith Radio* does not explicitly make a total sale royalty imposed through power/coercion per se misuse, but it might fairly be interpreted as implying that outcome. The Court’s focus on power and its adverse effects is not surprising. It is consistent with the reasons it developed misuse. That concern is now better addressed by modern antitrust law, making the power/coercion versus voluntary “misuse” distinction drawn in *Zenith Radio* as irrelevant as the doctrine itself. See *infra* notes 263–67 and accompanying text.

196. The same “no harm” argument has been made regarding the impossibility of excess financial returns from tying. See Bohannon, *supra* note 10, at 16–17 (discussing the discrediting of the dual monopoly theory); HOVENKAMP, *supra* note 7, at 10, 36; HOVENKAMP, *supra* note 27, § 8.3c. That is not to say that licensees (and licensors for that matter) will not make mistakes. But that problem is distinct from the argument that such arrangements always impose excess costs and, therefore, justify per se prohibition.

designed to produce. As with post-term royalties, treating total sales royalties as misuse, to say nothing of a per se violation, *merely* because they exceed the patent's claims unnecessarily reduces beneficial flexibility in licensing transactions. That, in turn, artificially constrains access, reducing patent returns and impairing the regime's incentives to innovation.

Preventing licensing terms exceeding patent law's term and claim limitations to avoid excessive "internal" financial returns not only fails to justify misuse, it raises serious concerns about the doctrine's efficacy in application.¹⁹⁷ However, that does not conclude the matter. Access conditions can have other kinds of adverse efficiency effects. Post-term and total sale royalty obligations interfere with migration to alternatives. Additionally, patent returns need not be received as cash payments. They can impose limitations on licensee behavior (for example restricting sourcing or research and development activities). Although for the reasons explained above, such restrictions will produce an equivalent transactional "price" (and return), they can raise other concerns, in particular those articulated in the second patent policy justification for misuse, adverse effects on innovation.

b. Harm to Innovation

This patent policy justification derives directly from the Court's early misuse reference to the regime's constitutional mandate that patents should only impose social costs essential to progress the useful arts—that is, spur innovation.¹⁹⁸ Unquestionably patent licensing terms can adversely affect innovation. Post-term and total sales royalties and minimum use and exclusivity requirements reduce market demand for

197. The internal balances analysis reinforces the fundamental difficulty with misuse's "scope of the patent" test. Because it does not accurately reflect the crucial difference between inherent costs from refusing to deal and the potential harms arising from *any* term imposed on access, it will both over-react (the beyond the term and claims per se violations) and under-react (failing to consider conditions on access found to be within the patent's scope). See *supra* notes 118–21 and accompanying text.

198. See *supra* notes 54–72 and accompanying text (discussing the early misuse cases). Although the Court's seminal misuse decisions do explicitly reference patent law's innovation promotion goals, the cases focus on ensuring that patent owners do not exceed the "scope of the patent" as defined by their invention; that is, they do not obtain rights or impose costs beyond those necessary to the regime's promotion of innovation. Proponents of the innovation justification discussed in this section seem to go a step further, arguing that the Court sought to protect future innovation itself. See Feldman, *supra* note 5, at 401, 431, 445–49; Potenza, *supra* note 13, at 98–99. See also Bohannon, *supra* note 10, at 1–4, 20–22 (noting that innovation is one justification offered for the doctrine). Whether or not that latter argument finds technical support in the Court's misuse decisions, it makes sense to inquire into whether it can support misuse.

new products. Agreements not to develop alternative offerings or improvements and grant-back provisions prevent or reduce research and development by those perhaps most motivated and particularly well-suited to do so. Tying provisions can impair new entry/improved performance in the primary market and stifle innovation in adjacent markets. Reach-through royalty stacking burdens upstream implementations and new developments, including extensions into new markets.

Antitrust law examines every licensing term for net adverse efficiency effects including those identified above.¹⁹⁹ The innovation justification for misuse must therefore identify some way the antitrust inquiry fails to sufficiently address patent policy innovation concerns. That argument can take two somewhat overlapping forms.²⁰⁰ The pure form treats promoting innovation as an independent goal, something pursued apart from all other considerations.²⁰¹ That would make antitrust law's willingness to trade-off harms to innovation to obtain other benefits entirely inappropriate. The second accepts antitrust law's net outcome approach but argues its doctrinal application inadequately addresses innovation concerns.

The pure "no trade-off" position is untenable. Pursuing innovation at all costs would put patent law at odds with the overall system goal, a goal the regime's own internal structure clearly reflects. Absolute priority would require foregoing net improvement transactions, thus affirmatively moving the market away from, rather than toward, the goal of maximum operational efficiency.²⁰² Even patent law, which

199. *See supra* notes 142–47 and accompanying text.

200. Commentators making the innovation argument are not precise in their concerns, both articulating innovation as a distinctly important goal of the patent system (and therefore perhaps having primacy and exempting innovation harms from Rule of Reason net effects assessment) and arguing that some innovation harms escape antitrust notice (perhaps as a consequence of the market power gap, perhaps because antitrust law fails to give proper attention to innovation concerns (either failing to see them or failing to give them extra weight)). *See* Feldman, *supra* note 5, at 401, 431, 445–49; Potenza, *supra* note 13, at 98–99. *See also* Bohannon, *supra* note 10, at 20–22 (noting innovation as one aspect of the doctrine's justification). The various arguments are discussed in the following text.

201. No one appears to rely on the pure argument; it is included only for completeness. *Cf.*, Potenza, *supra* note 13, at 99 (arguing that antitrust fails to address "stifling of innovation in an unfair manner" implying perhaps that innovation deserves at least some level of preferential treatment).

202. *See supra* Part I.A (discussing the integrated system effort required to align the real world with the efficient market theory). The Court's misuse holdings are consistent with the position in the text. They do focus on patent policy and, in particular, the regime's objective of promoting the useful arts, but rather than arguing for progress of the useful arts at all costs, they impose limitations designed to ensure patent law incentives cause no unmerited harm to the market. *See supra* note 198.

exists primarily, if not exclusively, to foster innovation, explicitly rejects the innovation first approach. Its internal rules are explicitly designed not to maximize innovation at all costs, but to produce optimal incentives in light of the countervailing costs.²⁰³

The second argument, that antitrust assessment does not properly consider innovation concerns, also comes in a pure and more nuanced form. The pure form—that antitrust entirely fails to consider innovation at all—can be quickly dismissed. Even assuming antitrust law constrains Rule of Reason inquiry to harm to competition,²⁰⁴ interference with innovation easily qualifies. Innovation plays a particularly critical role in market competition, producing the essential elements of the invisible hand—alternative offerings, improved functionally, and lower production and distribution costs. Every term impeding the ability to innovate will be taken seriously by antitrust law.²⁰⁵

If an antitrust insufficiency exists, it must arise from a specific deficiency in actual application. Proponents have raised a number of related arguments. The most common identifies antitrust law’s alleged “market power gap” as the culprit, arguing that it causes antitrust law to permit many transactions that interfere with innovation.²⁰⁶ The reasons for dismissing that argument in its general form discussed earlier²⁰⁷ provide a useful starting point for addressing it in the innovation context. Every licensing term, including those harmful to innovation, triggers antitrust analysis. Some (even many) survive review because the patent owner possesses insufficient market power. That is not because antitrust law failed to give innovation its due. Rather, it reflects a finding that despite the innovation harms, the transaction produced a net efficiency gain under the circumstances. Treating these transactions differently merely because they involve innovation constraints would

203. See *supra* notes 46–50 and accompanying text.

204. Antitrust law’s focus on market “competition” does not mean it only considers direct impediments such as agreements not to compete. Net “competition” assessment is broadly read to reach anything that may impair or improve effective operation of the invisible hand, including transactions costs, foreclosure effects, and information asymmetries. See *supra* notes 34–37, 146 and accompanying text.

205. See, e.g., Sullivan, *supra* note 33, § 1.5c; Verizon Commc’n Inc. v. Law Offices of Curtis V. Trinko L.L.P., 540 U.S. 398, 407 (2004) (discussing the need in antitrust law to “safeguard the incentive to innovate”).

206. See Bohannon, *supra* note 10, at 4, 20–22; Feldman, *supra* note 5, at 446–47; Potenza, *supra* note 13, at 98–99. If the reason for giving primacy to innovation involves non-efficiency goals (for example, protection of the small inventor or preventing “morally” reprehensible interferences), those justifications involve fundamental changes to the existing efficiency paradigm and are better addressed directly rather than through the misuse label or adjustments to existing legal doctrine. See *infra* Part III.B.

207. See *supra* Part II.C.1.a.

produce two unmerited consequences. First, it would mirror the “innovation first” position, thus moving the overall system and patent law away from their goal of maximizing efficient market operation. Second, it would treat patents less favorably than alternative offerings, thus affirmatively interfering with, rather than promoting, patent law’s innovation agenda.

A more specific variation on the market power argument focuses on “incipient” harms to innovation.²⁰⁸ Exclusive dealing transactions provide one good illustration. Even when few have adopted the approach, the limitations imposed can nonetheless restrict ready access to necessary inputs and markets by smaller or more locally constrained innovators. Another example involves ensuring appropriate protection for emerging technologies having unclear and uncertain paths to success because of development and market risks.²⁰⁹

Misuse proponents correctly point out that although antitrust law identifies and considers these foreclosure problems, their limited or uncertain effects can lead the courts to find no sufficiently demonstrable harm.²¹⁰ As a result, no net outcome assessment will be made, letting potential harms to innovation slip through the antitrust net. Again, mere lack of antitrust prohibition does not justify misuse; the latter doctrine must improve the situation. Making that determination requires exploring the reasons behind current antitrust law non-intervention. An appropriate legal response to limited or incipient/uncertain harms to innovation must do more than identify such harms exist. It must effectively deal with the costs of prohibiting the challenged restrictions. The current antitrust proof of harm standards and incipency thresholds do this by considering the adverse effects of too ready legal intervention as part of the net benefit assessment process.²¹¹ That requires setting the bar sufficiently high (and absorbing some related innovation harms at the margin) to prevent legal claims

208. See Bohannon, *supra* note 10, 27–35; Feldman, *supra* note 5, at 447–48 (antitrust law focuses on anticompetitive effects on particular markets; patent policy concerns extend to “system-wide effects that may hinder the overall progress of science”). The “incipiency” problem is not unique to innovation; it raises difficulties for every plaintiff seeking to demonstrate cognizable antitrust harm exists. See *supra* notes 153–54, 159 and accompanying text.

209. The protection of nascent technologies was a central issue in *Princo*. *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318 (Fed. Cir. 2010). The majority specifically found that the defendant infringer’s failure to prove that a potentially competitive, but as yet undeveloped, technological alternative was sufficiently viable to raise antitrust anticompetitive concerns. *Id.* at 1334–1335; see *supra* notes 164–65 and accompanying text.

210. See *supra* note 208.

211. See *supra* notes 153–54 and accompanying text.

which are too easily made from chilling desirable vigorous market competition.

Current antitrust doctrine likely does not adequately perform this delicate balancing act.²¹² But once again, the misuse doctrine's defensive only application, poorly calibrated "scope of the patent" inquiry and blanket unenforceability lack the necessary nuance to provide a useful alternative solution. Although we might make adjustments to misuse, they would go well beyond tinkering with its doctrinal implementation to revisiting its overall structure.²¹³ The existing antitrust shortcomings regarding harms to incipient innovation are better addressed within the approach and experience of that regime.

Professor Feldman offers an interesting variation on the "incipient harm" concern in her discussion of Reach-Through Royalties.²¹⁴ Such provisions provide patent owners returns from products developed by the licensee through use of their patents. The arrangement allows licensors and licensees to share the risks of research and development investment by predicated returns on successful outcomes. As such, they increase access and use of the patent. However, they also create remote and potentially numerous down-stream rights-holders. That fragmentation of rights can create anti-commons type interference with "efficient exploitation of the [follow-on] invention" thus impairing innovation.²¹⁵ Again, antitrust law's net effects approach takes these adverse effects on innovation into account, but also considers the gains from improved access.²¹⁶ When an arrangement produces a net improvement, permitting the transaction advances both the overarching system goal and patent policy. If current antitrust doctrinal requirements fail to produce this outcome, the appropriate response is to adjust its rules, not apply the even less effective doctrine of patent misuse.²¹⁷

212. See *supra* notes 159–65 and accompanying text (discussing the likely over-concern with false positives).

213. See *supra* notes 165–69 and accompanying text.

214. See Feldman, *supra* note 5, at 439–48.

215. *Id.* at 447.

216. See *supra* notes 174–97 and accompanying text (discussing the same access issue in connection with post-term and total sale royalties).

217. The conclusion in the text does not mean patent rights fragmentation and anti-commons concerns are not serious problems. It only argues that misuse does not provide the appropriate response. The problem arises from patent law's virtually absolute right to exclude as the mechanism for providing incentives to invest in innovation. When patent owners holding such rights employ net efficient mechanisms for increasing access, they promote rather than hinder the overall system goal. It makes no sense to take such owners' patents away from them. If the joint patent and antitrust law outcome does not produce what we desire, that shortcoming should be addressed directly. If the problem lies in

The final variation argues antitrust law's market power focus creates a "blind spot" regarding voluntary transactions.²¹⁸ Many antitrust opinions focus on power/coercion as the touchstone for finding a violation.²¹⁹ That may mean that the regime will fail to consider harms to innovation caused by terms willingly accepted by licensees.

The response both reinforces that the antitrust approach is superior to misuse, doctrinally and as a matter of policy, and demonstrates why the voluntary transaction concern is a non-issue.²²⁰ To trigger misuse, the patent holder must first assert the patent, substantially limiting the doctrine's ability to address and rectify innovation concerns arising from voluntary transactions. For example, if mutually agreed total-sales royalties are causing foreclosure, non-infringing competitors seeking to open the market to a non-infringing offering have no misuse standing to complain. The existing licensees, who have taken those effects into account when deciding to enter into the agreement, are unlikely to feel challenging the requirement merits the associated costs and risks (including to the licensor relationship), particularly as misuse gives them no right to any monetary compensation. Additionally, if misuse ultimately renders the patent unenforceable, the licensee and the overall market may find the now royalty-free patented invention more attractive than the alternatives, actually increasing the barriers to the new entry by innovators.

Antitrust challenge is far more likely and effective. Anyone harmed by the related impairment of competition can challenge the arrangement, including innovators suffering foreclosure effects on their alternative offerings.²²¹ Additionally, the federal or a state government agency may bring an action, either in response to a private complaint or

implementation, we should make the related adjustments. If it arises because we desire something other than efficient market outcomes, we should expressly add those considerations to our antecedent normative debate. *See infra* Part III.B.

218. *Cf.* Feldman, *supra* note 5, at 447–48 (raising a concern in connection with the Court's focus on "coercion" in *Zenith Radio*, a misuse case).

219. The Court's focus on market power is a proxy for the ability to coerce by escaping the constraints of competition. *See supra* notes 149, 153, 195 and accompanying text. *See also Collaboration Guidelines*, *supra* note 35 (discussing the Guidelines which use the absence of power as a safe-harbor).

220. *See supra* notes 74–80 and accompanying text (describing the differences in approach); *supra* note 14 (noting commentators making the remedial superiority point).

221. Professor Bohannon raises the good question of whether alleged foreclosure of a new product not yet introduced (or even developed) is sufficient to give its developer antitrust standing. *See* Bohannon, *supra* note 10, at 35. *Cf. Princo*, 616 F.3d at 1350 (Dyk, J., dissenting; noting the related problem of proving damages). However, for the reasons discussed in the text, in the likely event antitrust standing is not appropriately calibrated the appropriate response is to make changes to those rules, not application of the even more poorly calibrated misuse doctrine.

on its own initiative. The sanctions for violation will include an injunction requiring adjustments to the terms of access (which likely will be less than making the patent available royalty-free to all) and compensatory damages. Moreover, mandatory treble damages and the grant of reasonable attorneys' fees provide substantial incentives to bringing private actions and, together with fines, provide considerable deterrence to a patent owner imposing over-reaching access restrictions in the first instance.

On the merits, antitrust law subjects all agreements to Rule of Reason assessment.²²² That an arrangement was entirely voluntary (or mutually beneficial) neither exempts it from review nor dictates the outcome. The efficiency review focuses on net market effects, not participant desires. Antitrust law's application to horizontal price fixing and market divisions provides a ready example.²²³ The parties to such agreements affirmatively seek the individual benefits of limiting competition between them. However, to survive antitrust review they must demonstrate the arrangement is an essential element in producing a net *market* efficiency improvement.²²⁴ If they cannot, the transaction will constitute a per se violation triggering treble damages and in many instances criminal sanctions.²²⁵ In such cases, the agreement falls not merely despite the parties' voluntary agreement and their desire to obtain its benefits but in large part for those very reasons.

Patent transactions are similarly assessed. If a term adversely affects innovation, it must be justified by showing a net overall improvement in

222. See *supra* notes 34–37, 145–49 and accompanying text (discussing the Rule of Reason). Interestingly, misuse raises a potentially even more serious problem, exempting all conditions, whether voluntary or involuntary, which fall within the scope of the patent. See *supra* notes 118–21 and accompanying text (discussing the problems with the scope of the patent inquiry).

223. See Sullivan, *supra* note 36, § 1.5a.

224. In the early days of Sherman Act § 1 enforcement, defendants did attempt to argue the individual benefits defense, albeit articulated in “system” terms, such as avoiding the damaging effects of cutthroat competition, guaranteeing fair (reasonable) returns and preserving future capacity. The courts rejected those arguments, focusing instead on efficient market operation as the means for producing the appropriate outcomes. See *U.S. v. Socony-Vacuum Oil Co.*, 310 U.S. 150 (1940); *U.S. v. Trenton Potteries Co.*, 273 U.S. 292 (1927); Sullivan, *supra* note 36, §§ 5.3e, 5.3f. See also AREEDA, *supra* note 27, at 115–19.

225. In fact, in such cases, no showing of market power is required. See *Socony*, 310 U.S. at 845 n. 59 (finding it was “the illegal character of the restraint not the amount of commerce affected” and a violation exists “though it is not established that the conspirators had the means available for accomplishment of their objective”). Although *Socony* was the high water mark of per se liability, those rules still apply to naked (unjustified) horizontal price-fixing and market divisions. The Department of Justice aggressively pursues such arrangements and significant sanctions are imposed, including jail time for the individuals involved.

market performance. If that cannot be done, the term violates antitrust law despite its voluntary and mutually beneficial nature.

In summary, whether the patent transaction is coerced or voluntary, whether the harm is existing, incipient or uncertain, antitrust law identifies and addresses all actual or potential adverse effects on innovation. Imposing antitrust sanction, however, requires such effects must be harmful on net to efficient market operation, both in light of the benefits produced and the chilling effects of overly aggressive legal intervention. To the extent existing antitrust doctrine does not produce that outcome, the problem is an implementation short-coming, not one of approach. Attempts to rectify such problems through misuse would require a far more complex, time-consuming, and expensive effort merely to create a duplicative cause of action.

c. Unjustified Acquisition or Enforcement of Patents

A conditioned licensing transaction at least provides the benefit of increased access. In contrast, the unjustified acquisition or assertion of a patent is undesirable by definition. The law recognizes the difference and has developed separate doctrines addressing these special patent concerns. A gap in their application might justify a distinct misuse doctrine.²²⁶

i. Improperly obtained patents.

Limiting issuance of unjustified patents is a substantial concern of any patent regime. Such patents produce no social benefit and all related costs are inherently excessive. Even if never asserted, their existence causes distortions in market behavior, requiring inquiry into their scope and validity, which triggers attempts to design around and causes foregone use, for fear of infringement.

Many “bad” patent problems involve patent applicants who follow the rules but because of improper legal standards governing grant or errors in review, obtain undeserved patents.²²⁷ An independent misuse

226. It might be argued that these doctrines form part of a general patent misuse regime. Although they certainly police against abuse of the patent system, that semantic argument misses the point of the justification inquiry. It would be equivalent to claiming that antitrust law constitutes part of the patent misuse doctrine. The question is whether the misuse doctrine as currently defined and applied by the courts—defensive, scope of the patent inquiry, blanket unenforceability—should continue to exist, not redefined to include other existing legal doctrines designed to prevent the identified harm.

227. Numerous factors contribute to the existing problems, ranging from the need to refine standards for patentability (subject matter, novelty/obviousness), inadequate funding of the Patent and Trademark Office access to prior art and the need to improve post-grant review. *See supra* note 50; *infra* notes 287–88 and accompanying text; Chiappetta, *Internet*,

doctrine targeting behavior conforming to existing requirements and procedures makes no sense. It illogically punishes compliance while doing nothing to address the actual problem. Implementation failures require modification of the problematic internal issuance standards and examination by an adequately funded and staffed Patent Office equipped with the necessary tools and review procedures.²²⁸

If “misuse” occurs, it involves applicant acts or omissions that interfere with the application of properly calibrated rules and examination procedures. Patent law’s inequitable conduct doctrine specifically targets that issue.²²⁹ It sanctions applicant misrepresentations (affirmative or by omission) to the Patent Office when found material to the patentability inquiry (not merely when determinative to the outcome on the merits) and made with intent to deceive.²³⁰ Such a misrepresentation is sufficient for finding a violation; it need not affect the actual validity of the patent on the merits. The doctrine’s application and remedy roughly parallel misuse—providing a defense to alleged infringements (rather than an affirmative claim) and resulting in the blanket unenforceability of the related patent’s claims.²³¹

Many question the efficacy of the current inequitable conduct

supra note 39, at 333–39 (discussing the issues in connection with ensuring the quality of business method patents).

228. See generally *supra* note 227. The issue is complicated by the fact that such adjustments themselves impose costs, requiring a separate net assessment of the related changes and investments. See *infra* Part III.B.1. One way to reduce the public cost would be to internalize it into the acquisition of the patent right by requiring patent applicants provide affirmative assistance, such as performing a search and providing the results with their application. See *infra* note 235 and accompanying text. The failure to do so might be considered “misuse” as discussed below in the text.

229. See ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, PATENT LAW AND POLICY: CASES AND MATERIALS 1102 (4th ed. 2007); Janis, *supra* note 87, at 262–68 (discussing the origins and evolution of the doctrine). The “Walker Process doctrine” permits antitrust claims using the act of fraudulently obtaining a patent as the predatory act for proving monopolization or attempt to monopolize under Sherman Act § 2. See *Walker Process Equip. Inc. v. Food Mach. and Chem. Corp.*, 382 U.S. 172, 175–79 (1965). Although the *Walker Process* doctrine thus constrains improper patent acquisition, it fits more comfortably with, and is discussed in connection with, improper assertions of such patents *infra* at notes 242–52 and accompanying text.

230. See, e.g., *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008), *cert. denied*, 129 S. Ct. 1595 (2009) (“To successfully prove inequitable conduct, the accused infringer must present “evidence that the applicant (1) made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information, and (2) intended to deceive the [PTO].”). The specifics of both the “materiality” and “intent” requirements remain, or to put it tactfully, elusive. See *Therasense v. Becton, Dickinson & Co.*, 593 F.3d 1289, 1300 (Fed. Cir. 2010), *rehearing en banc granted*, 374 Fed.Appx. 35 (Fed.Cir.(Cal.) Apr 26, 2010).

231. See MERGES & DUFFY, *supra* note 229, at 1106–07 (citing to *J.P. Stevens & Co. v. Let Tex Ltd.*, 747 F.2d 1553 (Fed. Cir. 1984)).

doctrine.²³² Serious concerns have been raised concerning its practical effect on patent prosecution, both as a result of confusion over its requirements and the substantive obligations it imposes (whatever they may be). Commentators point out that its uncertain disclosure and intent requirements drive over-submission and under-explanation,²³³ increasing the burdens and costs of obtaining a patent (as well as the public costs of administration). Substantive ambiguity also makes infringement claims riskier, more time consuming and expensive. These problems make patents less desirable and less able to perform their incentive function.

Finding the appropriate balance involves numerous considerations: the costs imposed by improperly issued patents, the costs of eliminating them (including dealing with unavoidable ambiguity and error in patent prosecution) and the patent regime's need to deliver appropriate incentives at reasonable cost in a reasonable time.²³⁴ Some have so despaired of the possibility of repair that they have urged Congress to eliminate the doctrine entirely and replace it with some mix of increased applicant submission requirements and PTO investigative powers, enhanced post-issuance review proceedings, and deterrence through fines (in lieu of the unenforceability remedy) penalizing non-compliance.²³⁵

The issue here, however, is not the failings of existing inequitable conduct doctrine but whether misuse provides a better solution.²³⁶ Abuse of the patenting process clearly is inconsistent with the patent

232. *Therasense v. Becton, Dickinson & Co.*, 593 F.3d 1289 (Fed. Cir. 2010), *rehearing en banc granted*, 374 Fed.Appx. 35 (Fed.Cir.(Cal.) Apr 26, 2010); *ABA Delegates to Weigh in on; Support Fixing Inequitable Conduct Defense*, Pat., Trademark & Copyright Law Daily (BNA) (Aug. 6, 2009), *reprinted in* 8/6/2009 PTD d1 (Westlaw); *ABA Section Urges Leahy, Specter to Limit, Not Eliminate Inequitable Conduct Defense*, Pat. Trademark & Copyright Law Daily (BNA) (Feb. 24, 2009), *reprinted in* 2/24/2009 PTD d1 (Westlaw); *IPO Annual Meeting Panel Debate: Inequitable Conduct Doctrine Worth Saving?*, Pat., Trademark & Copyright Law Daily (BNA) (Oct. 6, 2008), *reprinted in* 10/6/2008 PTD d3 (Westlaw).

233. *See id.*

234. *See Walker Process*, 382 U.S. at 177, 179–80 (Harlan, J., concurring) (pointing out the need to distinguish between cases of “deliberate fraud” and patents voidable “under one or more of the numerous technicalities attending the issuance of a patent” to avoid adverse effects on patent law’s encouragement of innovation).

235. *See supra* note 232.

236. Requirements limiting the application of antitrust and other general laws mean they will not reach or sanction much problematic applicant behavior during prosecution. For example, the heightened “fraud” standard for *Walker Process* antitrust liability, discussed *infra* note 236, likely does not reach less egregious actions that may, nonetheless, increase costs or errors in prosecution. Similarly, the substantial constraints on finding common law fraud prevent its use to reach much applicant behavior which impedes reaching proper prosecution outcomes. *Cf., J.P. Stevens*, 747 F.2d at 1559 (“Conduct before the PTO that may render a patent unenforceable is broader than common law fraud.”).

regime's goal of promoting innovation, the asserted primary justification for misuse.²³⁷ Additionally, obtaining an unmerited patent meets the doctrinal requirement of exceeding the scope of the invention, as mere acquisition produces unwarranted rights.²³⁸

The difficulty lies (again) in the doctrine's lack of nuance. Appropriately addressing improper applicant prosecution behavior requires more than identifying an improper outcome. It also must consider the same cost-benefit²³⁹ and deterrence issues²⁴⁰ causing the present difficulties in inequitable conduct. An independent misuse doctrine adds nothing to that discussion. At best, it would incorporate the ultimate inequitable conduct outcomes, adding only duplication and another set of costs. At worst, it would introduce the confusion of conflicting requirements, generating additional rounds of expensive and time consuming attempts to reconcile the two approaches seeking to accomplish the same end.²⁴¹

ii. Inappropriate enforcement of patents

A patent permits the owner to threaten and seek judicial enforcement for alleged infringement. Although enforcement is by its nature disruptive, time-consuming and expensive, the costs cannot be entirely avoided. They represent the logical consequences of

237. See *supra* notes 170, 198 and accompanying text.

238. See *Blonder-Tongue Lab. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971); *supra* notes 54–72 and accompanying text (discussing the patent policy “limitation to the invention” on which misuse is based).

239. See *supra* notes 232–34 and accompanying text.

240. Misuse applied to behavior that results in an invalid patent claim, at most, only adds the deterrent downside of rendering all the patent's claims unenforceable. When the patent is entirely invalid there is no downside at all, making the attempt to mislead “worth the risk”. Inequitable conduct's unenforceability remedy suffers from the same short-coming, leading advocates for its reform to argue for financial penalties instead. See *supra* note 235. Adding the ability to affirmatively assert the improper conduct and claim damages rather than merely raise it as a defense to infringement, a serious flaw in misuse as well, would also go far toward resolving the issue. See *infra* notes 242–52 (discussing the “Walker Process” antitrust claims predicated on improper prosecution behavior).

241. Protecting the patent regime's ability to implement its innovation goals certainly justifies some form of legal intervention. Cf. *Precision Instrument Mfg. Co. v. Auto. Maintenance Mach. Co.*, 324 U.S. 806, 815–20 (1945) (making the point and citing to *Morton Salt*, but not specifically applying the patent misuse doctrine). See also *Walker Process Equip. Inc. v. Food Mach. and Chem. Corp.*, 382 U.S. 172, 175–78 (1965) (citing to *Precision Instrument*). As noted above, although a logical argument can be made that the inequitable conduct issue is a form of patent misuse, that semantic argument misses the point of the justification inquiry. See *supra* note 226. The question is whether the *existing* misuse doctrine provides a uniquely useful mechanism for resolving the concern. As in this case it does not, it makes more sense to leave the courts and Congress to refine the inequitable conduct doctrine in light of that experience rather than compound the problem with parallel and duplicative misuse modifications simply to preserve the doctrine's name.

implementing the patent regime's incentive through a legal right to exclude. Such costs are, however, much more problematic when enforcement activities involve an invalid patent or target a non-infringer. As such situations do not advance the incentive goals of the regime, in a perfect world they should never arise. In the real world, uncertainty and legitimate error must be given their due. To hold patent owners strictly accountable for every improper assertion would substantially reduce the value of patents, seriously undermining the regime's ability to provide the desired incentives.²⁴²

Non-misuse (general) law seeks to reconcile these competing interests through the tort of abuse of process²⁴³ and antitrust law's "sham" litigation and *Walker Process* doctrines.²⁴⁴ These laws seek an appropriate balance by expressly requiring proof of the patent owner's bad faith. The first two laws sanction claims made without probable cause (without a reasonable, objective basis for believing the patent valid) and for an ulterior motive (a purpose other than obtaining substantive adjudication of the claim).²⁴⁵ The last requires intentional fraud during patent prosecution.²⁴⁶ Because these requirements

242. See, e.g., *Walker Process*, 382 U.S. at 179–80; *USM Corp. v. SPS Tech., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982) (both discussing the adverse effects of over-sanctioning patent owners on the patent regime). In addition seeking judicial assistance in enforcement is a form of government petition and raises First Amendment concerns. See *E.R.R. Presidents Conference v. Noerr Motor Freight*, 365 U.S. 127, 137–38 (1961); *infra* note 250 (discussing related possible limitation on misuse).

243. See RESTATEMENT (SECOND) OF TORTS §§ 674–75 (1977).

244. See *Calkins*, *supra* note 12, at 200–20; *Janis*, *supra* note 87, at 268–77; *MERGES & DUFFY*, *supra* note 229, ch. 12.D. The precise relationship between *Walker Process* claims and "sham" litigation is unclear. The Federal Circuit distinguishes between the former's foundational antecedent "fraud" on the patent office and the latter's focus on abuse of the litigation process. See, e.g., *Dippin' Dots Inc. v. Mosely*, 476 F.3d 1337 (Fed. Cir. 2007), *cert. denied*, 552 U.S. 948 (2007); *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998); *Janis*, *supra* note 85, at 276–77; *Merges & Duffy*, *supra* note 229, at 1277–79.

245. See *Prof'l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 62–63 (1993). The Court has emphasized that antitrust liability requires *both* objectively baseless and subjectively motivated by anticompetitive purpose, but discussed the former requirement by reference to the tort abuse of process. See *id.* at 60–63. To the extent they are equivalent, abuse of process and sham litigation provide alternative bases for challenging the same action, assertion of an objectively baseless claim for ulterior motives. However, antitrust sanctions will only apply if the action harms competition, not merely a competitor. See *id.* at 60–61. See also *Nobelpharma*, 141 F.3d 1059; *MERGES & DUFFY*, *supra* note 219, at 1278–79 (discussing the narrowing of the antitrust "sham" litigation doctrine by the Court in *Professional Real Estate Investors*). Additionally, antitrust recovery also requires satisfying all the elements of an antitrust violation, including demonstrating a net harm has occurred.

246. Because a *Walker Process* claim exposes the patent owner to antitrust remedies (including treble damages), its fraud requirement is substantially higher than under inequitable conduct or common law fraud. See *Janis*, *supra* note 87, at 268–75 (discussing the evolution of the standard); *MERGES & DUFFY*, *supra* note 229, at 1278.

significantly reduce the likelihood of liability for asserting invalid rights or making claims against non-infringers, society unquestionably bears some excess costs. The question is whether the misuse defense better addresses the problem.

Improper assertion cases bear a strong conceptual connection to misuse's focus on preventing patent over-reaching.²⁴⁷ They clearly involve actions beyond the scope of the patent right producing unmerited social costs. The difficulty, again, lies in the particulars of application. Under existing doctrine, the misuse defense would be triggered by finding that the assertion went beyond the physical or temporal scope of the patent.²⁴⁸ That technically occurs in every case lost by the patent owner, including those based on non-infringement. Imposing liability on that basis would make patent assertion a perilous proposition. The vagaries of litigation coupled with the risk of losing even an otherwise valid patent would heavily bias any rational owner toward limiting claims having a substantially certain positive outcome. That would significantly reduce the value of patents, making the regime much less effective in accomplishing its incentive function.²⁴⁹

Adding appropriate "wobble room" is precisely what drives the abuse of process, "sham" litigation, and *Walker Process* requirements. Although these doctrines may provide imperfect solutions, as with the earlier antitrust and inequitable conduct inquiries, the failure of existing law to fully deliver on its assigned goal does not justify misuse. Misuse must provide a better solution.

Achieving a proper balance through misuse would require a complete overhaul of the doctrine. To avoid over-sanction, its "scope of the patent" inquiry would need to be jettisoned in favor of an inquiry permitting reasonable error (likely involving the objective merits and subjective motivations) and acknowledging First Amendment limitations.²⁵⁰ To provide proper relief and deterrence, the blanket unenforceability remedy would be replaced by relief offering the nuance of the tort and antitrust law approaches—injunctions and damages

247. Cf. *In re Indep. Serv. Org. Antitrust Litig.*, 203 F.3d 1322, 1327–28 (2000) (indicating, perhaps, room may exist for a misuse claim even absent fraud on the patent office or sham litigation, but ultimately being circumspect regarding the appropriate bases for such a claim).

248. See *supra* notes 237–38 and accompanying text (making the same point with regard to inequitable conduct).

249. See *In re Indep. Serv. Org.*, 203 F.3d at 1327–28 ("misuse law and precedent need not be enlarged into an open-ended pitfall for patent supported commerce").

250. See *id.* (The conduct to which the jury instruction on misuse generally refers — "wrongful" enforcement of patents, is actively protected under *Noerr* and *California Motor*, and is not subject to collateral attack as a new ground of "misuse.").

addressing the actual harms caused and exemplary damages deterring unjustified assertions in the first instance.²⁵¹

Making such dramatic changes to misuse would entail an unnecessary and expensive process merely to address the general law concerns and adopt similar solutions.²⁵² Moreover, even if the necessary adjustments were made, avoiding confusion and waste would lead to eliminating one of the regimes, making the misuse exercise a meaningless duplicative exercise. The better solution lies in making the changes directly to the existing general law regimes.

PART III: WHAT NEXT?

A. Eliminating Misuse

Misuse cannot be justified under the existing market efficiency paradigm.²⁵³ The doctrine should be eliminated. Although the Federal Circuit's anticompetitive effects requirement²⁵⁴ mitigates the concern, two arguments strongly support more definitive action. First, as long as the doctrine exists it will be asserted. That will trigger unhelpful and expensive debates over the doctrine's appropriate reach and, most particularly, if, how, and when the anticompetitive effects requirement should be applied.²⁵⁵ As no reason exists for preserving misuse at all, no time or resources should be wasted on discussing its proper application. Second, even should that process ultimately successfully cabin most misuse applications to antitrust principles, the Federal Circuit cannot eliminate the continuing damage done by the Supreme Court's per se misuse precedents.²⁵⁶ Full resolution requires direct and immediate

251. *See supra* note 221 and accompanying text (discussing the shortcomings of the patent misuse unenforceability remedy compared to antitrust law's more flexible approach).

252. As with inequitable conduct, existence of the specialized legal doctrines governing inappropriate patent assertion support some supplemental legal constraint beyond that provided by other "general law" (including fraud and antitrust). Although these doctrines might be viewed as addressing forms of "patent misuse," they differ significantly from current misuse doctrine, procedurally, substantively and remedially. The relevant question is whether misuse adds something which justifies its independent existence. *See supra* notes 226 (discussing the error in treating these other doctrines as forms of "misuse"), 236–41 and accompanying text (discussing the same "changes" point in connection with inequitable conduct).

253. The above analysis confirms Judge Posner's wry but insightful observation that in the current economic efficiency paradigm "our law is not rich in alternative concepts to monopolistic abuse." *USM Corp. v. SPS Tech., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982).

254. *See supra* notes 85–89 and accompanying text.

255. *See supra* notes 118–21 and accompanying text (discussing the unhelpful "scope of the patent" distraction and the problems it raised in *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318 (Fed. Cir. 2010)).

256. *See supra* note 87.

intervention.

Theoretically, congressional action provides the cleanest solution. That body clearly has the authority under its Constitutional mandate to set patent policy²⁵⁷ and could definitively resolve the issue by legislatively overruling the judicial doctrine. Moreover, adding misuse to the ongoing patent reform discussion would provide useful assistance in understanding other issues on the agenda, such as helping distinguish between internal calibration and exploitation implementation shortcomings, as well as identifying underlying normative disagreements.²⁵⁸ Despite these benefits, the present polarized political environment makes it unlikely the legislature can engage in coherent, much less productive, expanded patent policy debate.²⁵⁹

Fortunately, an alternative exists. The Supreme Court created misuse and has the ability to bring down the curtain on its now overly long run. The Federal Circuit's anticompetitive effects approach generates a myriad of appeals, offering ready opportunity for Supreme Court review.²⁶⁰ The emergence of modern antitrust law provides the necessary jurisprudential justification for reversing the long-standing misuse precedents.²⁶¹

The Court originally created the misuse doctrine to deal with use of patent power²⁶² in the absence of other effective legal constraints.²⁶³ As

257. See MERGES & DUFFY, *supra* note 229, at 7; U.S. CONST. art. I, § 8, cl. 8; see also *supra* notes 39–43 and accompanying text (discussing the origins of United States patent law).

258. See *infra* Part III.B.

259. The reality of how hard it is to obtain political consensus even in “good” times was evident in the early effort to tie misuse to antitrust law. See *supra* note 101 (discussing the issue in connection with the 1988 amendments to § 271(d)).

260. Ironically, the better job the Federal Circuit does of cabining the doctrine, the less likely those most directly affected (patent holders) are to appeal. The best avenue to the Court may therefore lie in questioning the Federal Circuit's proper application of antitrust principles, giving the Court the opportunity to dispense with the unnecessary intermediary misuse doctrine as well as to clean up antitrust law in the innovation context. See *supra* notes 164–65 (discussing the disagreement between the Federal Circuit majority and dissent over the proper application of antitrust law in *Princo*); *supra* notes 208–13 (discussing the concern more generally).

261. The doctrine of stare decisis demands more than the Justices' belief that the prior decisions are incorrect. It requires a clear rationale for abandoning the precedent. Of direct relevance to misuse, the Court has recently revisited a number of long standing antitrust precedents and determined that the evolution of antitrust analysis has sufficiently undermined their original foundations to justify overruling them. See, e.g., *Leegin Creative Leather Prod., Inc. v. PSKS, Inc.*, 551 U.S. 877, 887–88, 899–907 (2007) (albeit over a very vigorous dissent); *State Oil, Inc. v. Khan*, 522 U.S. 3, 20–22 (1997). As discussed in the text, that evolution applies with equal force to the continued usefulness of misuse.

262. See, e.g., *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 519 (1917) (“A restriction which would give to the [patent owner] such a potential power of evil over an industry . . .”); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491 (1942)

the Court recently noted in *Illinois Tool Works*,²⁶⁴ modern antitrust law now provides a better understanding of patent power and its effects than the presumptions reflected in misuse precedent. The mere possession of a patent does not create sufficient market power to disrupt the invisible hand; in fact, in most cases, it does not.²⁶⁵ Nor does every patent related transaction produce an undesirable outcome;²⁶⁶ in fact, most do not. The Rule of Reason provides a superior legal tool for making those important distinctions and antitrust remedies permit better calibrated responses to any resulting harms. Together they render the much blunter misuse scope of the patent/blanket unenforceability approach obsolete.

Nor does past Congressional action²⁶⁷ prevent Court action. That institution's statutory misuse interventions should be interpreted in the light of the legislative-judicial relationship regarding the management of anticompetitive market activity. The Sherman Act left creation and evolution of appropriate responses to the courts; a task they equally clearly accepted.²⁶⁸ The legislative limitations on misuse²⁶⁹ no more

("respondent is making use of its patent monopoly to restrain competition" and "the use of [a patent monopoly] to suppress competition"); *Brulotte v. Thys Co.*, 379 U.S. 29, 32–33 (1964) ("using the licenses to project its monopoly beyond the patent period," "to exact the same terms and conditions," "subject to [the patent's] leverage," and "negotiate with the leverage of that monopoly"); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 137–140 (1969) ("may not use the power of his patent," "used its patent leverage to coerce a promise," "use the power of his patent to insist," and "using that monopoly to coerce agreement"); *Carbice Corp. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 34 (1931) (The Court found "analogous to the use of a patent as an instrument for restraining commerce which was condemned under the Sherman Anti-trust Law . . ."). The Federal Circuit majority in *Princo* clearly saw the connection, but lacked the authority to fully implement its ramifications. See *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010).

263. Misuse arose before "there was any significant body of federal antitrust law, and reached maturity long before that law . . . attained its present broad scope." See *USM Corp. v. SPS Tech., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982). The Court's last substantive misuse case was decided in 1969, well before the Rule of Reason net efficiency calculus which emerged in the late 1970s. See HOVENKAMP, *supra* note 25, § 2.2b–2.2e (discussing the emergence of the "Chicago school" and its effect on antitrust policy during the 1970s and 1980s). Most importantly, that opinion reflected the emerging net outcome antitrust approach in its dismissal of the per se approach based on the patents physical and temporal scope in favor of "balancing." See *supra* notes 16, 166–70 and accompanying text (discussing *Zenith Radio*).

264. *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006); see also *Cnty. Materials Corp. v. Allan Block Corp.*, 502 F.3d 730, 735–36 (7th Cir. 2008).

265. *Ill. Tool Works*, 547 U.S. at 45–46.

266. *Id.* at 44–45 ("Many tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market.").

267. See *supra* notes 90–102 and accompanying text (describing the two Congressional actions involving patent misuse).

268. See *State Oil, Inc. v. Khan*, 522 U.S. 3, 20–21 (1977); AREEDA ET AL., *supra* note 25, at 35–38; Sullivan, *supra* note 36, at 8.

269. See *supra* notes 92–95 and accompanying text.

signaled Congress's intention to freeze misuse in its then-current state than passage of the Clayton Act mandated termination of judicial changes in antitrust doctrine. Rather, Section 271(d) reflects a legislative desire to prevent *over-expansion* of the judicial doctrine, otherwise leaving the status quo of court management intact.²⁷⁰ Moreover, interpreting misuse intervention more expansively would incongruously leave the courts far-ranging freedom to adjust "statutory" antitrust law (which it does, frequently making significant doctrinal changes)²⁷¹ but without authority to adjust its own misuse doctrine as necessary to produce compatible results.

Nor would judicial elimination of misuse render Congressional action meaningless. The relevant statutory sections operate entirely in the negative. They contain nothing mandating misuse; they merely prevent its application in particular situations.²⁷² Those restrictions would simply be subsumed into a more general judicial determination that the doctrine no longer serves any valid purpose as a whole.²⁷³

Finally, private reliance interests are of little, if any, concern.²⁷⁴ Eliminating misuse would leave licensing term assessment to antitrust and other general laws' already independently applicable requirements. As a result, no existing transactions would require adjustment. Increased flexibility may disadvantage some earlier prospective licensees. Misuse prohibitions may have forced them to pursue alternatives, producing sunk costs and existing agreements impairing their transition to the patented solution. Those problems, however, stem from misuse's elimination of alternatives, not an assumption that misuse would continue to protect their interests. In all events, to the extent such individual harms occur, they will be temporary in nature, hardly meriting forcing society to bear the misuse doctrine's much greater inefficiencies.

The Court should take immediate action, granting *certiorari* at the first opportunity.²⁷⁵ Merely adopting the Federal Circuit's competitive effects approach as the general misuse test would needlessly leave the doctrine in place, leading to superfluous claims and pointless debates

270. See *supra* notes 92–102 and accompanying text.

271. See *supra* note 261; *Cont'l T.V. v. GTE Sylvania*, 433 U.S. 36, 52, n. 19 (1977) (overruling *U.S. v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967)).

272. See *supra* notes 92–95 and accompanying text; *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1329 (Fed. Cir. 2010).

273. Cf. *Leegin Creative Leather Prod., Inc. v. PSKS, Inc.*, 551 U.S. 877, 905–07 (2007).

274. *Id.* at 906–07.

275. *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318 (Fed. Cir. 2010); See *supra* note 260 (discussing the possibility of an appeal based on the *Princo* application of antitrust law).

over its proper application. The Court should instead explicitly overrule its earlier decisions creating the doctrine and affirmatively place the related patent concerns exclusively within the province of “general law,” including antitrust, inequitable conduct, abuse of process and antitrust sham and *Walker Process* claims.

B. Living with Patents: Getting What We Want from Patent Law

Taking misuse out of the equation does not ensure proper patent outcomes. Patent law’s significant internal difficulties have produced spirited reform debate over issues ranging over the entire possible range, from subject matter through remedies.²⁷⁶ The primary misuse replacement, antitrust law, similarly raises serious concerns.²⁷⁷ Rule of Reason assessment is uncertain, time-consuming and expensive. Existing doctrinal standards severely constrain application to minimize false positives, making it a questionable tool for dealing with problematic issues such as pharmaceutical reverse-payments²⁷⁸ and standards capture.²⁷⁹

The reason misuse comes so readily to mind as a solution and the logic for nonetheless abandoning it tell us much about how best to approach these important concerns. Labeling a patent problem “misuse” because it “exceeds the scope of the patent” is an apparently logical recognition of a patent’s inherent limitations. Taking away an offending owner’s patent provides an emotionally satisfying response. However, the doctrine most frequently produces either an over, or under response, providing no useful assistance in addressing, much less resolving, the problems we actually face when it comes to living with patents.

Finding appropriate solutions requires acknowledging that the regime by its nature makes some pain inevitable. As a result, when responding to complaints we must distinguish between those complaints meriting action and those which do not. That, in turn, means we should only respond to pain arising from adverse effects not essential to accomplishing the goals we have set for the regime. Thus redefined, legitimate “misuse” concerns only arise from two sources: (1) improper

276. See, e.g., *Senate Judiciary Committee’s Amendment Seeks to Restart Patent Reform Discussion and Patent Community Mostly Supports Senate’s Substitute Amendment on Patent Reform*, Pat., Trademark & Copyright Law Daily (BNA) (Mar. 9, 2010) reprinted in 3/9/2010 PTD d1 (Westlaw); *Patent Reform Compromise Won’t End Debate*, LAW 360 (Mar 5, 2010), http://www.law360.com/print_article/153905.

277. See *supra* notes 157–67 and accompanying text.

278. See *supra* note 2.

279. See *supra* note 8.

doctrinal implementation generating harms unnecessary to produce the agreed goal, or (2) disagreement over the goal, making even harms necessary to produce the rejected objectives unacceptable.

Beyond identifying the two sources of proper complaints that should frame our patent discussions, the “improper implementation-goals disagreement” formulation of misuse provides an additional important insight. The two sources of patent difficulty involve very different concerns and require very different solutions. Without agreement on what we want to achieve addressing how best to accomplish our goal makes little sense. That makes it vital to avoid confusing and unproductive conflation of discussion over where we want to go with how to get there.

1. Complaints Involving Improper Implementation

Many (and likely, most) current complaints about patents raise concerns, make arguments, and suggest solutions within the patent regime’s existing efficiency paradigm.²⁸⁰ These discussions should be treated exclusively as doctrinal implementation concerns with that goal providing the exclusive assessment metrics. An appropriate outcome requires that internal patent law issuance requirements, rights, and remedies produce the optimal increase in innovation taking into account the access harms produced by a legal right to exclude others. Similarly, proper general law constraint of patent exploitation, in particular by antitrust law, must prevent additional net reductions in efficiency caused by conditions on permitted access. These two straight-forward guidelines control regardless of the effects on specific individuals. If complaints persist, then non-efficiency concerns are in play. That requires we first address the antecedent normative question of “what we want” before pursuing implementation.²⁸¹

The effectiveness of the approach is demonstrated by its application to the hotly contested issues on the current patent reform agenda.²⁸² The highly contentious debate over patentable subject matter (including

280. When proponents explicitly state their proposal implicates non-efficiency normative drivers, then implementation should give way to goal discussion. *See infra* Part III.B.2.

281. *See infra* Part III.B.2. In many cases the value of the implementation-normative dichotomy will be to “smoke out” either disingenuous or latent desires for either enhanced individual returns or avoidance of individual distributional harms. Once normative resolution has been reached, the problem again becomes assuring proper implementation, with the identified outcome providing the necessary metric for determining appropriate doctrinal outcomes as described for efficiency in the text.

282. *See supra* note 276.

business methods,²⁸³ DNA and “natural law” medical diagnostic techniques)²⁸⁴ provides a good baseline example. Advocates for patentability argue the patent incentive is essential to spurring adequate innovation in those fields. Those wary of such patent’s adverse consequences, in particular competitors and end-users, argue the additional innovation produced (if any) does not justify the associated costs.

The efficiency-implementation metric clarifies how these conflicting positions should be assessed: will such patents produce optimal increases in innovation, in light of the related inefficiencies? A positive response means such patents should be granted,²⁸⁵ while answering in the negative means they should be withheld. Granting the patents will undeniably cause harm to those feeling the exclusionary effects. Refusing such patents will equally certainly produce free-riding harms to those investing and, ultimately, to some reduction in such activity. In either case, however, the harms reflect only the inherent cost of pursuing the efficiency goal.

The above does not mean that the complaints of those suffering adverse effects have no merit, only that they raise concerns inappropriate to the implementation debate. An efficient market does not ensure we each receive everything we desire. Nor will it protect individuals from, sometimes substantial, harm. However, these personal outcome concerns require a very different inquiry, one which explicitly assesses, rather than assumes, the desirability of an efficiency-based patent law. Addressing them as implementation issues looks in the wrong place for resolution. It makes no logical sense to discuss the *how* before we have determined *what* we want.²⁸⁶

The efficiency-implementation metric similarly clarifies the myriad “bad patent” discussions, such as the appropriate level of pre-issuance examination,²⁸⁷ proper forms of post-issuance review, and the standards governing inequitable conduct.²⁸⁸ Within the efficiency paradigm, the only relevant metric is whether the rules optimally produce “good and

283. See *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); Chiappetta, *Internet, supra* note 39.

284. See *supra* note 6.

285. There are, of course, a variety of possible forms such patents might take. The same metric applies to specific proposals as to the simplified “yes-no” question discussed in the text. See Chiappetta, *Internet, supra* note 39, at 310 (discussing the range of options, including allowing patent protection but adjusting the related rights and remedies).

286. See *infra* Part III.B.2 (discussing the nature of normative disagreement and how it affects the related debates).

287. See, e.g., *Tight Budget May Delay Kappos’ Plans For USPTO*, LAW 360 (March 10, 2010), http://www.law360.com/print_article/150390.

288. See *supra* notes 232–35 and accompanying text.

timely” patents in light of the related efficiency costs. Those suffering the consequences, whether of undeserved patents or increased costs of review, have merely been tapped to bear the unavoidable consequences of an efficiency driven system. If that bad distributional karma proves unacceptable, the appropriate response is to argue for changing the regime’s goals, not for adjustments in its doctrine.

The intense debate over injunctions and apportionment of damages is similarly simplified.²⁸⁹ Market efficiency dictates an injunction whenever specific enforcement produces optimal net incentives in light of the related costs.²⁹⁰ Damage apportionment proposals should be tested against that same standard, taking into account unavoidable error and costs of administration. Patent owners disgruntled by reduced individual returns will complain of injustice. Disfavored competitors and consumers will bemoan hold-out compensation extorted by “unproductive trolls”²⁹¹ and the disconnection between damage awards and the patent’s actual contribution.²⁹² But when, in aggregate, patent remedies cause no more harm than that necessary to produce the regime’s targeted outcome of maximally efficient market operation under the real world circumstances, such complaints challenge the desirability of its goal, not its implementation.

Although when an owner grants access to a patent, the concern moves beyond internal patent law calibration to general law governance of terms of access,²⁹³ the implementation metric remains the same. Patent owners’ actions must be assessed for *additional* unmerited costs. Within the current efficiency maximizing paradigm, proper implementation depends exclusively on whether general law (including antitrust) appropriately identifies and sanctions activities that on net

289. See *supra* note 9.

290. The focus in *eBay* on using traditional equitable factors in its multi-opinion *eBay* decision only vaguely helps apply the efficiency metric. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). Justice Kennedy’s concurrence provides more guidance, in particular, by looking to the sufficiency of monetary damages under the circumstances (which the lower courts seem to have pursued in the emerging “competitor” inquiry). See *supra* note 9.

291. Viewed through the lens of patent policy, a patent troll does not act inappropriately by refusing access until payment is made. Society has assigned them control over their patent bridge explicitly to exact the toll for crossing as an incentive to innovate for the common good. If the implementation of the right to exclude produces a net harm, that is a short-coming in patent law, not the patent owner’s actions, and should be adjusted by changing the law not punishing the owner. See *supra* note 290 (discussing one such adjustment, the change in availability of injunctions).

292. See *supra* note 9.

293. As discussed in Part II.B, any action beyond a mere refusal to grant access should be subjected to general law review. See *supra* notes 118–21 and accompanying text (discussing the point in the context of the misuse “scope of the patent” inquiry).

decrease efficient market performance. When properly calibrated, general law will still permit social costs and a variety of individual harms, but they will only be those required to produce the targeted system goal. Complaints over those negative effects may have normative merit, but they have no role in an efficiency-driven implementation discussion.

The industry standard's ambush²⁹⁴ and reverse payments "misuse" concerns²⁹⁵ illustrate the point. Within the market efficiency paradigm, the only relevant question is whether these actions produce net efficiency losses. If so, and they are not captured by applicable general law, then an implementation adjustment should be made. But those changes should only go as far as necessary to produce the targeted net efficient outcome. Any remaining concerns, for example with the "ethical" propriety of an "ambusher's" behavior, or the distributional consequences of suppressing lower cost generics, are irrelevant to the discussion. They may have merit, but they belong in a separate debate which explicitly considers the desirability of moving away from market efficiency to incorporate other considerations.

Segregating the implementation inquiry from debate over goals and focusing on the net efficiency metric does not make implementation easy in practice.²⁹⁶ The related factual determinations trigger contentious debates over relevant benefits and costs, require expensive and time-consuming data collection and necessitate complex interpretation, quantification, and doctrinal decisions. However, interjecting other metrics reflecting other goals only exacerbates the situation, particularly when proponents articulate their concerns in market paradigm terms and frame their solutions as doctrinal adjustments. Developing a patent system that produces what we want requires that we first agree upon the goal. Combining the two activities will only produce a very poorly constructed and expensive road to nowhere, if it produces anything useful at all.

2. Complaints Involving Goal Disagreements

Many "misuse" issues and reform proposals (including some purporting to improve market operation) seek outcomes in conflict with the current efficiency paradigm.²⁹⁷ A common objective involves

294. *See supra* note 8 and accompanying text.

295. *See supra* note 2 and accompanying text.

296. *See* Chiappetta, *Internet, supra* note 39, at 310–11.

297. The innovation policy concerns of misuse proponents provide a useful example beyond those discussed in the text. The innovation primacy argument goes beyond whether existing legal doctrine fails to produce optimally net efficient outcomes to advocacy of

changing the distributional consequences. Reflecting only real supply and demand, an efficient market will deny some (even many) what they believe to be their “due,” others their “needs” and yet others any allocation at all. The “losers” (and others sympathetic to their situation) find that outcome unacceptable and demand adjustments, not because the market is operating inefficiently, but based on notions of what constitutes a “fair” and “just” society. Similarly, the standard “ambush” and patent “troll” rhetoric can reasonably be interpreted as raising concerns over the “ethics” of the challenged behavior.²⁹⁸ But attaching moral approbation to such patent owners’ activities requires a significant change from the current efficiency drivers. In that paradigm, aggressive pursuit of self-interest is affirmatively promoted, subject only to the constraints of a properly operating competitive marketplace.²⁹⁹

The distinction between implementation shortcomings and goal disagreement debates provides the way forward. First, it ensures we do not conflate these two very different kinds of patent problems.³⁰⁰ Addressing undesirable consequences of an efficient market by ensuring existing laws produce maximum efficiency will only serendipitously even address, much less resolve, these complaints.³⁰¹ Similarly, arguing for rules implementing distributional or behavioral goals without addressing the resulting inefficiencies will gain no traction with those firmly in the market economy camp. At best, doctrine-based arguments seeking to resolve normative disagreement cause us to talk past each other and, more frequently, polarize and poison debate.³⁰²

Second, it clarifies that unlike implementation, no ready metric

protecting innovation in its own right. *See supra* notes 200–03 and accompanying text. Although there is nothing normative inappropriate with the latter view, it will not be produced by laws designed to ensure an efficient market. If it is to be pursued as social policy, it should be raised explicitly and the related decision made prior to embarking on implementation.

298. *See supra* notes 8–9, discussing the complaints.

299. *See supra* note 21 and accompanying text.

300. *Cf. generally* Chiappetta, *International*, *supra* note 24 (discussing the issue in connection with resolving conflicting normative approaches to intellectual property law).

301. Frequently, of course, such debates will involve questions of degree. For example, a substantial majority of the United States citizenry may agree that the efficient market approach produces the best possible basic means for allocating resources in a constrained real world (particularly given experience with the alternatives). Disagreement arises because some significant minority believes that a “just” society will *also* ensure some threshold level of access to particular resources (for example, food, shelter and health care). Whether in whole or in part, these disagreements cannot be resolved by looking at the problem exclusively through the lens of market efficiency.

302. *See* Vincent Chiappetta, *The (Practical) Meaning of Property*, 46 WILLAMETTE L. REV. 297, 335–55 (2009) [hereinafter Chiappetta, *Property*] (discussing the problematic nature of normative debate in the context of property law).

exists to resolve our normative differences.³⁰³ Economic efficiency can claim no precedence based merely on its consistency with the status quo. That is the precise source of the opponents' complaint (citing to existing law as somehow definitive constitutes a particularly egregious failure in this regard). Normative disagreement puts all positions back on the table. But neither can the opponents argue the self-evident "justice" or "morality" of their distributional or behavioral objectives. After the facts, positions, and their consequences have been articulated, advocacy for any particular outcome (whether efficiency, distributional or behavioral) constitutes no more (nor less) than an expression of personal preference.

The practical solution lies (perhaps) in acknowledging our differences and seeking compromise. Shifting debate from an effort to show others the error of their ways to finding workable outcomes requires reviewing all potential options for mutually acceptable concessions. For example, the debate over reverse pharmaceutical payments triggers conflict among those who view patents as a matter of labor-based natural rights, those seeking to promote net "efficient" settlements in a market economy and those believing healthcare constitutes a fundamental personal right. The range of options is equally extensive. They range from complete freedom to make whatever payments the patent owner feels reasonable (giving labor its due, trumping all other positions) at one end to outright bans (healthcare access as an individual natural right) at the other. In between lie the myriad more nuanced compromises such as a presumption of invalidity (patent owners must prove the payment reflects something other than collusion with a prospective competitor—an economic efficiency focus, but with a procedural thumb on the scales in favor of a right of access) and a presumption of validity (opponents must prove collusion—an economic efficiency preference with the procedural thumb now favoring labor natural rights). The objective, however, is not identifying the normatively "correct" position, but to find an outcome that permits us to agree despite our conflicting views of the "right" answer.

The same process applied to standards "ambush" behavioral norm concerns would shift debate from the relative efficiency merits of private ordering versus fraud/antitrust law intervention³⁰⁴ to consideration of the full range of alternatives. Those would include

303. *See id.* at 338–42.

304. *See supra* note 8 (citing references discussing the standard setting issue in the efficiency context).

variations on the current patent/general law approach (such as shifting burdens of proof or a universal and unwaivable obligation of good faith and fair dealing), mandatory disclosure, and/or requiring reasonable and nondiscriminatory licensing terms be made available to all. Again, the goal would be finding an outcome which best accommodates the varying competing views regarding what matters “most”—efficiency, behavior or, perhaps, something else.

The pursuit of compromise does not guarantee success. Some normative disagreements involve intractable differences.³⁰⁵ Those believing in the intrinsic “justice” of the competitive marketplace system may find other distributional outcomes or constraints on pursuit of individual self interest wholly unacceptable. Those who feel “justice” requires threshold need-based allocations or believe baseline civility is essential to a “good” society will find other outcomes anathema. And, even when some concessions can be made, they may not produce the necessary common ground for compromise.

In these “hard” cases, resort will be made to the political tools such as legislative voting, which allow action in the face of unresolved normative conflict.³⁰⁶ In these circumstances, and particularly when demanding an “up or down” vote, we would do well to keep in mind that the winners do not prevail because the losers have seen the light. They prevail because they have the power to demand adoption and enforcement of their preferred outcome. In such cases, one person’s “justice” remains another’s “misuse”. The real world consequences of patent law’s right to exclude means such losers will not only find the outcome “unfair” but have that unfairness made all the more unpalatable by having to suffer the distributional and behavioral consequences (whatever they might be). That potent combination can produce serious questioning of the desirability of the overall social enterprise—few deprived of necessary medical care or food by a patent are likely to find sufficient solace in the fact that “in aggregate” it produces the “greater good.” Attention to these practical consequences may not ultimately produce solutions, but it should at least cause us to consider the desirability of resolutely standing on principle in patent policy debate.

CONCLUSION

Patent misuse was created by the Supreme Court almost a century ago to address growing concerns over the effects of unchecked patent

305. See Chiappetta, *Property*, *supra* note 302, at 352–54.

306. See *id.* at 354.

power on the marketplace. That problem has now been more appropriately addressed by the nuanced inquiries under antitrust law, the inequitable conduct doctrine and abuse of process and antitrust sham and *Walker Process* claims. These legal tools maximize flexibility in obtaining, enforcing, accessing, and using patented inventions while ensuring the overall system advances its (current) primary goal of maximizing efficient market operation. Continued application of misuse wastes time and resources on the wholesale revision of an obsolete and affirmatively harmful doctrine to produce, at best, the same outcome. The patent misuse doctrine should be eliminated.

The misuse experience provides valuable insights regarding how we might live, if not comfortably and least appropriately, with our patent regime. It clarifies that every patent right to exclude unavoidably produces pain which will trigger complaint. The instinct to punish patent owners when their actions cause discomfort will only serendipitously produce the desired outcome. Proper response requires identifying and responding appropriately to the varying sources of patent unhappiness. If the problem arises from patent law's improper implementation of the task we have set for the regime, we should recalibrate its internal rules governing grant, rights and remedies. If it arises from inadequate general law supervision of patent use, we should tighten those regulations. If the complaints reflect the inherent consequences of implementing patent law in accordance with existing goals, we must reassess what we desire, but with the understanding that, however fervently we may wish it, in patents (as with the rest of life) we cannot have it all.