Patent Trolls: Broad Brush Definitions and Law Enforcement Ideas

J. Thomas Rosch, Commissioner[1]
Federal Trade Commission
Before the Newport Summit on Antitrust and Economics
Newport, RI
May 31, 2008

I. Introduction

The nominal topic for discussion in our panel this mornin

---

[1] The views stated here are my own and do not necessarily reflect the views of the Commission or other Commissioners. I am grateful to my attorney advisor, Holly Vedova, for her invaluable assistance in preparing these remarks.

[2] 126 S.Ct. 1837 (2006).

[3] Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Intellectual Property Law and Policy (Oct. 2003)("IP Report"), *at*

government's Amicus Brief.[4] The IP Report and Brief warned that in certain situations, injunctions can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. For example, when the patented invention is a small component of the product produced, and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages are often sufficient to compensate for the infringement and an injunction would not serve the public interest. My remarks will focus on this concern, and how else it might be addressed.[5]

II. Defining "Troll"

The threshold issue is what is meant when we refer to a person or firm (I'll just use the word firm) as a patent "troll." At one extreme – and this occurs in the context of standard setting

~~x~~/vt0 cm0.Prr.0400 g

http://www.ftc.gov/opa/2003/10/ipreport.htm.

[4] Brief for the United States as *Amicus Curiae* Supporting Respondent, eBay Inc. v. MercExchange, L.L.C., No. 05-130 (S.Ct.), 2006 WL 622120 (Mar. 10, 2006)("Brief").

[5] Some of my remarks here are similar to those I gave last year before Law Seminars International. *See* Remarks of J. Thomas Rosch, FTC Litigation at the Antitrust/Intellectual Property Interface, Law Seminars International, Pharmaceutical Antitrust, Washington, D.C., April 26, 2007, *available at* <http://www.ftc.gov/speeches/rosch/070426si_pharma.pdf>.

FTC addressed in its *Negotiated Data Solutions LLC* settlement. At the other extreme is a firm that obtains a patent on a product or service (or a component of the same) that it makes, uses or sells. There are no antitrust issues with this type of conduct in and of itself; it is perfectly legal and efficient and what the patent laws are designed to encourage. In between is a situation involving a firm that obtains all of the patents required to make, use or sell a product that it itself makes uses or sells, and thereafter refuses to license those patents to any other potential entrant into the product (or service) market. A fourth scenario is where a firm with a patent right which, like the first firm, does not itself make, use or sell any product or service but instead lies in wait until some other firm (or firms) does so and becomes locked into the technological process covered by the patent, and then sues that firm for infringement, but, unlike the patent in the first hypothetical, in this case the patents do not cover any standard or at least the firm's predecessor made no monetary commitment if there is a relevant standard.

I think we can all agree that the firm in the second hypothetical is not a "troll." Indeed, to treat it as such would chill patent licensing for no good reason--it would inhibit i

In the Matter of

[7] *See* Remarks of J. Thomas Rosch before the National Economic Research Associates 2006 Antitrust & Trade Regulation Seminar, Sante Fe, New Mexico, July 6, 2006, "Perspectives on Three Recent Votes: the Closing of the Adelphia Communications Investigation, the Issuance of the Valassis Complaint, & the Weyerhaeuser Amicus Brief," at 8, 11, *available at* <http://www.ftc.gov/speeches/rosch/rosch-nera-speech-july6-2006.pdf> (arguing that Section 5 unfair methods of competition claims may not be appropriate when there is a viable Section 2 claim, *citing* Boise Cascade v. FTC, 637 F.2d 573 (9th Cir. 1980)).

In the Matter of *Negotiated Data Solutions LLC,*

[9] 405 U.S. 233 (1972).

[10] *Sperry & Hutchinson*, 405 U.S. at 239.

[11] Statement of the Federal Trade Commission, In the Matter of Negotiated Data Solutions LLC, FTC File no. 051 0094 at 5-6,

commitment is unlikely to constitute an unfair method of competition.[12] Standard setting displaces the normal give and take of competition, thus any subversion of that process can have extremely detrimental effects on competition.

The Commission also analyzed N-Data's conduct as an unfair act or practice under Section 5. Unfairness claims under Section 5 must involve an "act or practice that causes or is likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition."[13] The Commission found that N-Data's conduct met these criteria because National made non-expiring royalty commitments that N-Data later repudiated and then unilaterally increased it licensing fees (causing substantial consumer injury), which the industry could not have reasonably anticipated before the market wide adoption of the standard, and which consumers had no chance of avoiding due to network effects and lock-in.[14] As with the unfair method of competition analysis, the Commission stated that the standard-setting context in which National made its commitment was critical to the legal analysis. The Commission stated that merely breaching a prior commitment would not be enough to constitute an unfair act or practice under Section 5.[15]

---

[12] *Id.* at 6.

[13] 15 U.S.C. § 45(n) (1992). The Eleventh Circuit in *Orkin Exterminating Co. v. FTC*, 849 F.2d 1354, 1364 (11th Cir. 1988) emphasized how the Commission has applied limiting principles under Section 5's unfair act or practice authority, requiring a showing that (1) the conduct caused "substantial consumer injury," (2) that injury is "not . . . outweighed by any countervailing benefits to consumers or competition that the practice produces," and (3) it is an injury that "consumers themselves could not reasonably have avoided."

[14] Aid to Public Comment at 8-9.

[15] *Id.* at 9.

[16] Dissenting Statement of Chairman Majoras, In the Matter of Negotiated Data

a firm independently develops and manufactures a product that competes in what constitutes a relevant market for antitrust purposes, and then files multiple patent applications covering certain features of the product and the patents issue. After competing products are brought to market, the firm acquires additional patents from third parties. It then uses those patents, and its prior existing patents, to threaten its present and potential competitors with litigation and "build a wall" around the market, eliminating competition and preventing entry. I would suggest that Section 7 of the Clayton Act and the Sherman Act are viable law enforcement tools in this scenario.

In fact, this is not a new scenario. In *United States v. Singer Manufacturing Co.*,[18] the Supreme Court held that, in the context of a broad monopolistic scheme, the transfer of a patent from a Swiss manufacturer to its U.S. licensee to facilitate bringing infringement actions against Japanese competitors violated Section 1. Similarly, in *Kobe, Inc. v. Dempsey Pump Co.*,[19] the Tenth Circuit found the acquisition, nonuse and enforcement of "every important patent" in the field with a purpose to exclude competition, together with other anticompetitive acts, constituted a violation of Section 2. And in *Xerox Corp.*,[20] the Commission entered into a consent decree with Xerox settling a Commission challenge to Xerox's acquisition of the Battelle patents on plain paper copiers allegedly with the purpose and effect of monopolizing the plain paper copier market.

---

[18] 374 U.S. 174 (1994).

[19] 198 F.2d 416 (10th Cir. 1952).

[20] 86 F.T.C. 363 (1975).

These claims are not bullet-proof. In *SCM v. Xerox Corp.*,[21] the Second Circuit held that the same acquisitions at issue in the FTC case against Xerox did not violate either Section 7 or Section 2 because, inter alia, the acquisitions were made many years before there was a plain paper copier market. Thus, in a challenge to the creation of a patent wall it may be important from a legal standpoint to challenge acquisitions made only after the product market came into existence.

A policy concern also arises when antitrust claims are based on acquisitions of intellectual property alone. In this situation, the difference between procompetitive and anticompetitive effects may be a slippery slope. This is best illustrated in the Commission's investigation of Genzyme's 2001 acquisition of Novazyme, where in 2004 the Commission voted 3-1-1 to close the investigation (Chairman Muris, Commissioners Swindle and Leary voted in favor of closing, Commissioner Thompson dissented, and Commissioner Harbour voted NP, though she issued a separate statement expressing concerns about closing).[22]

At the time of the acquisition, Genzyme aingfd he acquiq

[21] 645 F.2d 1195 (2d Cir. 1981).

[22] *See* FTC Press Release, FTC Closes Its Investigation of Genzyme Corporation's 2001 Acquisition of Novazyme Pharmaceuticals, *available at* <http://www.ftc.gov/opa/2004/01/genzyme.htm>.

flt

[23] Statement of Chairman Timothy J. Muris, In the Matter of Genzyme Corporation/Novazyme Pharmaceuticals, Inc. at 1 ("Muris Statement"), *available at*

the Commission has obtained a number of consent decrees which, according to the Aids To Public Comment, have been based on effects in a technology licensing and/or innovation market (as opposed to a product market)[27] neither the Commission nor the Justice Department has ever vindicated that theory in an appellate court. For another thing, generally a patent troll amasses its patent portfolio *before* there is a product market and then sits and waits for that market to develop in order to maximize the patent "hold up." As previously discussed, in *SCM v. Xerox* the Second Circuit rejected a challenge under Section 7 and Section 2 to patent acquisitions that were made by Xerox before the deve

[27] *See, e.g.*, In the matter of Summit Technology, Inc. and VISX Inc., Docket No. 9286, <http://www.ftc.gov/os/caselist/d9286.htm>.

[28] 637 F.2d 573 (9th Cir. 1980).

[29] 630 F.2d at 926.

"absence of a legitimate business purpose."[30] Such evidence – whether direct or circumstantial – would be essential to support a challenge under either the Sherman Act or Section 5.

I think it is more difficult to identify limiting principles applicable to the use of Section 5 when there is no standard-setting process, or when there is no evidence of the firm reneging on a prior commitment made by a predecessor. In those instances, industry members rely in good faith on representations that critically influence their decision making at the competitive stage of a standard setting process. Thus, the competitive process is extremely vulnerable to actions that, while they may not equate to the type of "exclusion" actionable under Section 2 of the Sherman Act, g3 limitwhile theylimit star6

[30] *E.I. DuPont de Nemours & Co. v. FTC ("Ethyl"),* 729 F.2d 128, 139-140 (2d Cir. 1984).