

## Convergence?

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The Supreme Court's decision in *FTC v. Actavis, Inc.*<sup>1</sup> is the most important pronouncement about the relationship between patent and competition policy since the Statute of Monopolies.<sup>2</sup> Although it is hyperbole, the preceding statement also contains more than a kernel of truth. Through the Statute of Monopolies, the English Parliament established patents on inventions as an exception to the general prohibition against grants of monopoly privileges.<sup>3</sup> The majority opinion in *Actavis*, authored by Justice Breyer, rejected a sharp separation between patent and antitrust laws—the position voiced in dissent by Chief Justice Roberts, joined by Justices Scalia and Thomas.<sup>4</sup> The dissent rests on the assumption that antitrust and patent are distinct and largely non-overlapping bodies of law,<sup>5</sup> an assumption that can be traced back to the Statute of Monopolies. Consequently, the majority opinion represents a reworking of the relationship between intellectual property law and antitrust. It may even signal a convergence of these two battling areas of law into a broader discourse of competition law and policy. But to end this paragraph on a low note, contrasting with the upbeat opening, it is unlikely that the *Actavis* opinion will have much influence beyond the narrow, but critical, confines of the Hatch-Waxman Act.<sup>6</sup> That is unfortunate for competition law and policy.

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1. *FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013).

2. Statute of Monopolies, 1623, 21 Jac., c. 3 (Eng.).

3. *Id.* §§ 5–6.

4. *Actavis*, 133 S. Ct. at 2238 (Roberts, C.J., dissenting) (“A patent carves out an exception to the applicability of antitrust laws . . . . The [majority], however, departs from this approach . . .”).

5. *See id.*

6. Drug Price Competition and Patent Term Restoration (Hatch-Waxman) Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified as amended in scattered sections of 15, 21, 28, and 35 U.S.C.).

Since participants in this symposium are well-versed in the facts of *Actavis*, I will not repeat them here. Instead, let me lay out a summary of the majority and dissenting opinions and a roadmap for my comments. The dissenting opinion is my starting point because it represents what I consider the traditional view of antitrust and patent law, as two competing rival statutory schemes. What I demonstrate is that the dissent represents a view going back to the Statute of Monopolies. What it ignores is the common law and statutory developments of patent and antitrust laws in the United States and the long standing conflict between exclusionary rights and legislative power, dating back to the Supreme Court chestnuts of *Trustees of Dartmouth College v. Woodward* (1819),<sup>7</sup> *Gibbons v. Ogden* (1824),<sup>8</sup> and *Charles River Bridge v. Warren Bridge* (1837).<sup>9</sup> For reasons of analytical convenience and forgetfulness about history, the patent-antitrust debate was reduced to convenient antipodes. Neither the twain shall meet, one hoped, but the two did meet through the poor draftsmanship of the Hatch-Waxman Act. Now Justice Breyer's majority opinion pragmatically sets the course straight by reminding us that patent law and antitrust law need to be considered together.

The following comments flesh out these basic points. After presenting the idea of convergence as represented in the dissent and majority opinions in *Actavis*, I present the case for convergence of antitrust and patent law. My pessimistic conclusion is that, despite the need for convergence, intellectual property and antitrust will remain, under the terms of the *Actavis* decision, as dueling (and divided) fields except within the narrow area of the Hatch-Waxman Act. Tempering my pessimism is the suggestion that future litigants and future courts can press the case for convergence by cultivating the seeds that Justice Breyer has planted in his opinion.

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7. 17 U.S. 518, 712 (1819) (finding that the New Hampshire legislature lacked authority to impair the obligations of its charter to Dartmouth College); see also HERBERT HOVENKAMP, ENTERPRISE AND AMERICAN LAW 1836–1937, at 32–33 (1991) (summarizing commentary on *Dartmouth College*).

8. 22 U.S. 1, 239–40 (1824) (finding New York laws regulating water navigation unconstitutional); see also PHILIP KURLAND, THE SUPREME COURT AND PATENTS AND MONOPOLIES, at ix (1975).

9. 36 U.S. 420, 551 (1837) (holding that the Charles River Bridge grant-holders did not have exclusive rights).

## I. PATENT & ANTITRUST

From a pedagogical standpoint, the majority and dissenting opinions illustrate starkly the longstanding debate over the relationship between patent and antitrust. This section uses the dissenting and majority opinions, in that order, to comment on that debate and show how the *Actavis* opinion potentially leads us to a convergence of patent and antitrust under the broader umbrella of competition law.

### A. THE DISSENT AND ITS ROOTS

“A patent carves out an exception to the applicability of antitrust laws.”<sup>10</sup> In his now-familiar straightforward and pellucid writing style, Chief Justice Roberts presented the basis for his dissent, joined by Justices Scalia and Thomas. As I explain below, the Chief explained the basis in policy for this exception and argued that the exception is deeply rooted in the Court’s precedent. Through this straightforward language, the Chief Justice also echoed the more archaic language of the Statute of Monopolies of 1623 through which the English Parliament struck back at the excesses of royal grants of exclusive privileges. While the Statute voided all such grants, it permitted patents for the “sole working or making[ ] of any manner of new[ ] Manufacture within this Realm[ ].”<sup>11</sup> In other words, the exception Chief Justice Roberts identifies can be traced back to the 1624 voiding of monopolies granted by the crown, which created an exception for what would be described as utility patents.<sup>12</sup>

Chief Justice Roberts does not cite the Statute of Monopolies, largely because it would be inapposite for the legal arguments in contention in *Actavis*. As a historical matter, the grant of power to Congress to create patent law in Article I, Section 8, Clause 8 of the Constitution reflected the recognition that patent rights would be useful for society.<sup>13</sup> However, the power to grant patents was created narrowly in terms of the purpose of the grant (to promote progress in the useful arts)

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10. *Actavis*, 133 S. Ct. at 2238 (Roberts, C.J., dissenting).

11. Statute of Monopolies, 1623, 21 Jac., c. 3, § 5 (Eng.).

12. *Id.* § 6.

13. U.S. CONST. art. I, § 8, cl. 8 (“To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .”).

and in the grant's scope (limited Times, Inventors, Discoveries). The common law's aversion to restraints on trade was recognized in the United States, and the case law before the enactment of the Sherman Act in 1890 does not suggest that patents were an exception to the common law.<sup>14</sup> Instead, the Supreme Court recognized limitations on the patent owner's rights to impose licensing restrictions based on the common law's regulation of restrictions on competition.<sup>15</sup>

While the exception identified by the Chief Justice may parallel the Statute of Monopolies, the patent exception does not reflect the law before the Sherman Act. The Court, for example, read into the Patent Act the first sale doctrine, whose parameters were shaped in a number of cases nearly twenty years before the Sherman Act.<sup>16</sup> The first sale doctrine in patent law, or patent exhaustion, developed out of the scrutiny of restraints on alienation under the common law.<sup>17</sup> Such scrutiny was consistent with the concern over state created monopolies, as evinced by the Court's decisions in *Gibbons v. Ogden* and in *Charles River Bridge v. Warren Bridge*. Given the Court's extensive discussion about restraints on alienation and state-created monopolies throughout the nineteenth century before the enactment of the Sherman Act, the exception announced by the Chief Justice would be a relatively recent one.

It is, however, doubtful that the exception even exists under the Sherman Act. To the extent that the Sherman Act was codifying a common law tradition, it is not the case that the exception articulated by the Chief Justice is a completely accurate statement of the status of patents under the Sherman

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14. See, e.g., *Kinsman v. Parkhurst*, 59 U.S. 289, 293 (1855) (applying restraint of trade analysis to a partnership involving joint patent ownership and not finding a restraint). For a general discussion of the period before the Sherman Act in the United States, see HANS B. THORELLI, *THE FEDERAL ANTITRUST POLICY: ORIGINATION OF AN AMERICAN TRADITION* 47 (1954).

15. *Mitchell v. Hawley*, 83 U.S. 544, 550–51 (1872).

16. *Adams v. Burke*, 84 U.S. 453, 456 (1873). The Roberts Court affirmed this and other pre-Sherman Act precedents relating to patent law and competitive restraints in *Quanta Computer, Inc. v. L.G. Electronics, Inc.*, 553 U.S. 617 (2008), and most recently in *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013). In the latter case, the Court affirmed not only patent exhaustion but also an established exception (although in my opinion incorrectly). See *id.* at 1766.

17. See *Quanta*, 553 U.S. at 625–28 (summarizing Supreme Court case law regarding the patent exhaustion doctrine).

Act. The Chief Justice states that patents would come under antitrust scrutiny in two cases.<sup>18</sup> The first is the case of sham litigation, which arises when a patent infringement lawsuit is brought pretextually, masking an anticompetitive purpose.<sup>19</sup> The second is the case of fraud on the patent office, when the patent owner has obtained exclusive patent rights fraudulently.<sup>20</sup>

These two situations do not exhaust the possibilities that exist under the Sherman Act for an antitrust-based challenge to a patent owner's conduct in the marketplace.<sup>21</sup> Patent exhaustion was recognized after the enactment of the Sherman Act. Although the Court did give the patent owner some leeway in how patent licenses are negotiated, the Court recognized that after the sale of the patented invention, patent rights were exhausted, leaving only contractual claims.<sup>22</sup> As a species of contract, licensing provisions were not immunized from antitrust scrutiny.<sup>23</sup> The discussion of the majority opinion below highlights these precedents. Put briefly, the presence of a patent did not immunize licensing agreements from the antitrust scrutiny of tying arrangements, cross-licensing, or patent pooling.<sup>24</sup> The dissent simplifies a fairly complicated area into a pair of narrow rules. It would be a valid point that the antitrust scrutiny of the business practices of patent owners did not result in liability. But that result is a far cry from the characterization of a patent immunity from antitrust.

The majority opinion poses a challenge to the dissenters to identify any statutory basis for a patent immunity from antitrust, either in the Patent Act, Sherman Act, Clayton Act,

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18. *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2239 (2013) (Roberts, C.J., dissenting).

19. *See Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60–61 (1993).

20. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965).

21. *See Actavis*, 133 S. Ct. at 2231 (citing *United States v. Line Material Co.*, 333 U.S. 287, 310 (1948)).

22. *See, e.g., Quanta*, 553 U.S. at 625 (“The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”).

23. *Actavis*, 133 S. Ct. at 2232 (“[T]he Court has struck down overly restrictive patent licensing agreements . . .”).

24. *See id.* at 2231–34 (summarizing the Court's historic treatment of patent issues under antitrust law).

or related provisions. Antitrust laws have no express or implied immunities for patents.<sup>25</sup> The 1995 Department of Justice/Federal Trade Commission Antitrust Guidelines for Intellectual Property Licensing make no reference to patent immunity.<sup>26</sup> Furthermore, the conclusion that intellectual property licensing should fall under the rule of reason for antitrust analysis is consistent with this lack of immunity and with the majority's ruling in *Actavis*. In his dissent, Chief Justice Roberts cites to neither antitrust statute nor guidelines. There are not even any citations to the Patent Act. Section 271(d) exempts certain business practices from the defense of patent misuse.<sup>27</sup> This statutory exemption would not support the broad immunity that the dissenters rely upon for their judgment. Furthermore, the language of section 271(d) was in part the basis for the Court's 2006 ruling in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*<sup>28</sup> that ownership of a patent was not sufficient for the existence of market power, a big move away from per se rules of illegality for tying arrangements involving patents. The discussion of patents and antitrust in the 2006 ruling provided no basis for patent immunity from antitrust laws.

Most importantly, the three dissenting judges ignore the Hatch-Waxman Act itself, which accords no immunity to patent holders and whose passage supports placing limitations on patent rights based on principles of competition policy. Enacted to overrule in part the *Roche Products, Inc. v. Bolar Pharmaceutical Co.* Federal Circuit decision,<sup>29</sup> the Hatch-Waxman Act recognized the anticompetitive effects of patents on the entry of generic competition in the pharmaceutical

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25. *United States v. U.S. Gypsum Co.*, 333 U.S. 364, 390–91 (1948) (finding that courts considering antitrust challenges against patent holders must “balance the privileges of [the patent holder] and its licensees under the patent grants with the prohibitions of the Sherman Act”).

26. See U.S. DOJ & FTC, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 3 (1995), available at <http://www.justice.gov/atr/public/guidelines/0558.pdf>.

27. 35 U.S.C. § 271(d) (2006 & Supp. V 2011) (addressing the patent misuse doctrine).

28. 547 U.S. 28, 31 (2006) (noting that Congress amended the Patent Act in 1988 to remove the market power presumption in patent misuse cases).

29. 733 F.2d 858 (Fed. Cir. 1984).

industry.<sup>30</sup> The Court in *Roche* did adopt a position favorable to the patent owner by allowing owners of patented pharmaceuticals to enjoin generic drug manufacturers from engaging in experiments to prepare competing versions of the patented compound.<sup>31</sup> Congress responded through the Hatch-Waxman Act to provide a basis for generic competition. The Chief Justice's opinion ignores the background to and the purpose of the Act in finding a strong immunity for patent from antitrust. In the dissent's view, Congress created a mechanism for generic drug competition that could readily be trumped by the rights of the patent owner. Such immunity is in tension with the need for limitations on patent rights that generic competition would demand and that the Hatch-Waxman Act attempts to implement.<sup>32</sup>

The broad patent immunity described in the dissent has no basis in precedent or in the patent or antitrust statutes. It is inconsistent with the Hatch-Waxman Act itself. Chief Justice Roberts' opinion grounds the immunity in the contrasting goals of antitrust law and patent law. The former forbids anticompetitive behavior in order to promote consumer welfare. The latter allows limitations on competition in order to promote innovation. For the dissent, these two goals are inconsistent. The compromise is to limit antitrust law in situations where patent law can serve the goal of innovation, as presumably is the case with pharmaceuticals. These two allegedly divergent policies are identified in the secondary literature and are repeated throughout the opinion as incontrovertible.

However, the dissent does not acknowledge that the goals of antitrust and patent law are complementary rather than antithetical. Competition and patent rights in innovative technologies can work in tandem to benefit consumers. Patent owners are not immunized from antitrust law as long as they are exercising their patent rights. Instead, business activities of the patent owner need to be policed by antitrust law to

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30. H.R. REP. NO. 98-857, pt. 1, at 14 ("The purpose of Title I of the [Hatch-Waxman Act] is to make available more low cost generic drugs by establishing a generic drug approval procedure for pioneer drugs . . .").

31. *Roche*, 733 F.2d at 863 (finding that the generic producer's experimentation infringed upon the patent).

32. See, e.g., Adam R. Young, Note, *Generic Pharmaceutical Regulation in the United States with Comparison to Europe: Innovation and Competition*, 8 WASH. U. GLOB. STUD. L. REV. 165, 167-80 (2009).

ensure that markets for innovative technologies are, in fact, competitive. What the dissent misses, and the majority fails to contend with, is that competition is a spectrum of activities, not just part of a binary relationship with monopoly standing in contrast. The choice is not between pure competition and no competition, but in designing legal rules promoting the range of competitive activities that patent owners engage in.

## B. DISSECTING THE MAJORITY OPINION

Like the dissent, the majority opinion can also be distilled into a simple proposition. As Justice Breyer states, even if the patent owner is operating within the legally recognized boundaries of the patent right, antitrust scrutiny can still apply.<sup>33</sup> The five-judge majority opinion grounds this proposition in the Court's precedent permitting antitrust suits to proceed against patent owners engaged in questionable patent pools and in exclusionary conduct aimed at preventing new entrants into the marketplace.<sup>34</sup> The accommodation of patent and antitrust law occurs through the rule of reason standard.<sup>35</sup> While the opinion addresses the FTC's argument in support of a "quick look" rule of reason, one in which there would be a presumption of anti-competitive behavior potentially rebuttable by the patent owner, the majority rejects the truncated approach, citing its 2000 opinion in *California Dental*.<sup>36</sup> Patent immunity is rejected, and rule of reason consequently is the legal standard, requiring a consideration of both anticompetitive effects and procompetitive justifications.<sup>37</sup>

A central criticism of the rule of reason is that it is too open ended.<sup>38</sup> Effectively, given litigation costs, the rule may serve to immunize patent owners from suit. In practice, the

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33. *FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2232 (2013).

34. *Id.* (citing various cases in support of this proposition).

35. *Id.* at 2237 (finding that "the FTC must prove its case as in other rule-of-reason cases" due to the complexities of patent settlement disputes).

36. *Id.* (citing *Cal. Dental Ass'n v. FTC*, 526 U.S. 756 (1999)).

37. *Id.* at 2231 ("[I]t would be incongruous to determine antitrust legality by measuring the settlement's anticompetitive effects solely against patent law policy, rather than by measuring them against procompetitive antitrust policies as well.").

38. See, e.g., Andrew I. Gavil, *Moving Beyond Caricature and Characterization: The Modern Rule of Reason in Practice*, 85 S. CAL. L. REV. 733, 743-44 (2012) (describing problems with the open-ended approach within the rule of reason).



rule of reason, unlike immunity, invites scrutiny but also requires fact-intensive analysis to find net effects that are anti-competitive. Given the inherently qualitative dimensions of identifying anti-competitive effects, rule of reason would predictably result in little imposition of liability. The obvious open question is how the rule will be applied by litigants and assessed by courts.

Justice Breyer's opinion sets forth five anticompetitive concerns. Acknowledging that settlement has benefits, reverse payment settlements raise specific concerns under the antitrust law. Preventing entry of new firms is anticompetitive and is not justified in the scenario of generic drug entry.<sup>39</sup> Presumably, in the case of patented pharmaceuticals, the main purpose of patent law to incentivize invention of a new compound has been realized. The issue is how intensively and extensively the invention can be marketed by the patent owner. Since there are consumer benefits to generic entry, the justification for preventing such entry is far from clear. Furthermore, given the size of the companies and the concentrated markets for pharmaceuticals, patent owners are in a position to bring about the potential anticompetitive effects from preempted entry.<sup>40</sup> Antitrust scrutiny is possible and, Justice Breyer asserts, is administrable to limit the business practices of patent owners.<sup>41</sup> Finally, alternative forms of settlement exist that do not involve reverse payments and the highly likely division of the market that such reverse payment settlements entail.<sup>42</sup>

Read in the narrowest possible way, the holding of *Actavis* applies only to reverse payment settlements. Read as a rejection of the position espoused by the dissent, the *Actavis* decision opens up all business decisions by patent owners to rule of reason analysis through the denial of any immunity based in patent rights. A frustration with Justice Breyer's opinion is the ambiguity with which he writes. He starts the opinion with a reference to *Palmer v. BRG of Georgia, Inc.*<sup>43</sup> as standing for the illegality of agreements not to compete.<sup>44</sup> This

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39. *Actavis*, 133 S. Ct. at 2234–36.

40. *Id.* at 2236.

41. *Id.* at 2236–37.

42. *Id.* at 2237.

43. 498 U.S. 46, 48 (1990).

44. *Actavis*, 133 S. Ct. at 2227 (citing *Palmer*, 498 U.S. at 46).

broad holding is echoed in a citation to *Verizon v. Trinko* for the proposition that “collusion” is “the supreme evil of antitrust.”<sup>45</sup> Such language suggests that the majority had a broad holding in mind. But the majority opinion always returned back from such broad language to the specific facts of the case. Common law reasoning was at work, and the analysis provides a framework that addresses the case at hand but also leaves open application to other situations.

What keeps the opinion from perhaps being a great one is that there was no consideration of the competing policies with an attempt to reconcile them. While the dissent takes for granted the opposing policies of patent and antitrust, the majority states that this tension is an assumption rather than a reasoned conclusion. But the majority is equally facile in asserting that competition policies apply to patent owners despite arguments in support of the contrary, such as the Statute of Monopolies. There is no attempt to deal with the treatment of patents under common law rules against restraint of trade. There is no engagement with the case law on patents and monopoly before the Sherman Act. There is no discussion of the meaning of competition and the economic, political, and social policies that support competition norms. Of course, all that discussion may be the substance of scholarly articles rather than judicial opinions. But such policy engagement would have been interesting to read and perhaps even enlightening.

Arguably, we saw an example of such policy analysis in *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>46</sup> the other big case from the 2012 Supreme Court Term dealing with intellectual property and competition. At issue in that case was the right of a copyright owner to prevent resale of an imported, copyrighted work.<sup>47</sup> Previous confrontations of the issue resulted in split courts struggling over the literal meaning of the statute.<sup>48</sup>

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45. *Id.* at 2233 (citing *Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 408 (2004) (internal quotation marks omitted)).

46. 133 S. Ct. 1351 (2013).

47. *Id.* at 1355.

48. See *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011) (holding that the first sale doctrine does not apply to copies of copyrighted works manufactured outside of the United States); *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) (holding that the first sale doctrine applies only to copies of copyrighted works lawfully made in the United States).

Some light appeared as the Justices ventured into the policies and consequences of different statutory readings. Engaging in a pragmatic form of common law reasoning, the Court reached the result of limiting the rights of copyright owners by expanding the first sale doctrine.<sup>49</sup> Arguably the Court was concerned, in part, with what the impact of a contrary ruling might be on free trade and the well-being of consumers.<sup>50</sup>

Justice Breyer's opinion in *Actavis*, much like his majority opinion in *Kirtsaeng*, engaged with the consequences of allowing reverse payment settlements. But the engagement is limited to the context of the Hatch-Waxman Act and the identified goal of promoting generic competition. The holding of *Kirtsaeng* is a broad one that cuts across different markets and industries. By contrast, the holding's reach in *Actavis* is more limited. The Court identified an overlap between patent and antitrust law and clearly rejected the separation of the statutory schemes of patent and antitrust accepted by the dissent. But it failed to explain how the situation of generic drug competition might generalize to other situations where patent owners may be acting anti-competitively. Does the Court's adoption of the rule of reason apply to all business practices by patent owners, or is it limited to the Hatch-Waxman context? To answer that question, one would need to develop a theory of how antitrust and patent laws converge. I conclude my comments with a sketch of what such a theory might look like and implications for intellectual property law beyond the Hatch-Waxman Act.

## II. IDENTIFYING CONVERGENCE

Two policy questions arise in the controversy over reverse payment settlements. The first is the question of the relationship between intellectual property and competition. The second is whether business practices involving patents should give rise to antitrust scrutiny. The Court in *Actavis* is concerned with the second, much narrower question, with its implications for judicial administrability, litigation threats for private parties, and availability of adequate remedies. Understandably, the Court's attention turns to the second,

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49. *Kirtsaeng*, 133 S. Ct. at 1358.

50. *Id.* at 1364–67.

narrower and more justiciable question. But a satisfactory answer requires some engagement with the first.

Chief Justice Roberts' dissent assumes an answer to the first, namely that patent law's concern is with innovation, not competition. This assumption is never explained. Presumably, it reflects the view that antitrust law deals with the market conditions for a competitive price while patent law deals with the conditions for the creation and commercialization of new technologies. While academic scholarship supports this view, it may also be justified by the two separate statutory schemes that Congress has adopted for antitrust and for patent.

But academic scholars do not all readily accept a distinction between competition and innovation.<sup>51</sup> The latter is a form of competition that takes place with respect to an economic variable other than price: perhaps quality, perhaps technological improvement. Economist Kenneth Arrow famously argued that at least with respect to cost-saving technologies, competitive markets would provide more incentives to innovate than monopolized ones.<sup>52</sup> Professor Arrow was considering the case in which the innovative firm develops technology that lowers its costs and potentially those of other firms in the industry. His analysis would be different if the technological innovation would permit product differentiation. However, competition may foster innovation better than strong exclusivity even in the case of technology-induced product differentiation. Professor Arrow's argument suggests that competitive conditions matter for innovation. Put another way, antitrust and patent laws may reside in separate provisions of the United States Code, but they are not independent of each other.

Justice Breyer's majority decision recognizes this interdependence. Unfortunately, the majority opinion also fails to engage the first question of how intellectual property relates to competition. Like the dissenters, the majority does not

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51. See, e.g., WILLIAM J. BAUMOL, *THE FREE-MARKET INNOVATION MACHINE* 93 (2002); MICHAEL A. CARRIER, *INNOVATION FOR THE 21ST CENTURY: HARNESSING THE POWER OF INTELLECTUAL PROPERTY* (2009); ALBERT O. HIRSCHMAN, *EXIT, VOICE AND LOYALTY: RESPONSES TO DECLINE IN FIRMS, ORGANIZATIONS, AND STATES* 21–22 (1970).

52. Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Innovation*, in *THE RATE AND DIRECTION OF INNOVATIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS* 609, 619–22 (Nat'l Bureau of Econ. Research ed., 1962).

engage with the pre-Sherman Act case law in which concerns with competition informed the application of patent law, such as the cases involving patent exhaustion and other areas of patent licensing.<sup>53</sup> These cases are not anti-patent by any means. Patent owners did not inevitably and predictably lose once under scrutiny from competition policy. Instead, what these pre-1890 cases teach is that patent law is developed and applied with considerations of competition issues and concerns that the scope of the patent right might be construed in ways that would be anticompetitive. The underlying conviction is arguably that market competition drives innovation, and patent law should be applied with that principle in mind.

The difficulty is that with the enactment of the Sherman Act, the search for the correct model of market competition drives the legal and policy analysis of antitrust. If the ideal is one of perfect price competition, then the model of a patent owner licensing access to the market for an innovative technology is antithetical to the goals of antitrust laws. But these contrasting idealized models are not representative either of the type of competition antitrust law tries to protect or of the way in which innovation occurs. Firms compete on variables other than price and in market settings where there might be a concentration of firms, contra the idealized perfect competition model. Antitrust law functions within these market settings as well. Furthermore, patent owners face competition from other innovators who have created substitute technologies and from design-around by unwilling licensees. The competitive norms of antitrust and patent are not as stark and contrasting as one might first think. Unfortunately, the *Actavis* Court does not engage with these points.

This lack of engagement is surprising given the Court's 2006 decision in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, in which the Court unanimously ruled that patent ownership does not create a presumption of market power.<sup>54</sup> Logically, if one accepts that proposition, then patent ownership could in principle be consistent with competitive markets, and would be one factor to consider in the broader competitive analysis of antitrust. Justice Stevens wrote the majority opinion in *Independent Ink*, signed on to by the three

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53. See *supra* notes 14–16 and accompanying text.

54. 547 U.S. 28, 31 (2006); see also *supra* note 28 and accompanying text.

dissenters in *Actavis* and three of the five justices who signed onto the *Actavis* majority.<sup>55</sup>

Are the dissenters being inconsistent? One way to reconcile the contrasting positions of Justices Roberts, Scalia, and Thomas is that in both *Independent Ink* and *Actavis*, the three are urging a strong separation between patent and antitrust. In *Independent Ink*, patent ownership alone cannot buttress the antitrust claim. The three may even go so far as to suggest patent ownership has no bearing on the antitrust analysis. By contrast, the three justices in the majority for both *Independent Ink* and *Actavis* would most likely reason that patent ownership might have some bearing on the competitiveness analysis. How much, we can only speculate. It would be interesting to see what type of opinion Justice Stevens would have written in *Actavis*. His keen eye on the shared goals of competition in antitrust law and patent law was shown in his *Independent Ink* decision and came out in the failed majority opinion (but strong concurrence) he penned for *Bilski v. Kappos*, the 2010 decision about the patentability of business method patents.<sup>56</sup>

One may finish reading the *Actavis* opinions, and this Comment, with the unsettling feeling that there is just an ideological divide among the Justices with some being pro-patent and others being pro-antitrust. Of course, that reading would be frustrating and would, I think erroneously, accept the very divide between patent and antitrust assumed by the three dissenters.

What might be more helpful is to understand the divisions among the Justices in terms of deference to Congress. The dissenters view the antitrust statutes and the patent act as having independent significance. Each is a separate enactment by Congress, aimed at distinct policies. As I have suggested, this position ignores the historical developments of the two statutory schemes since the Statute of Monopolies, and specifically the treatment of patents before the enactment of the Sherman Act. As pointed out above, the 1623 Statute itself carved out an exception for patents of invention from the prohibition against monopoly grants. I do not see evidence that

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55. Justice Sotomayor replaced Justice Souter, and Justice Alito recused himself in both *Independent Ink* and *Actavis*.

56. 130 S. Ct. 3218, 3231 (2010) (Stevens, J., concurring).

the Chief Justice took a cue from this 1623 enactment in writing his dissent, although the earlier pronouncement does resonate in the 2013 opinion. My sense is that the Chief Justice is looking at what contemporary Congress has done and does not see evidence of overlap between the two statutory schemes.

The majority, I would argue, also is showing deference to Congress, but its deference is to the Hatch-Waxman Act, the heart of the controversy in reverse payment settlement disputes. Justice Breyer confronts this statutory scheme directly and concludes that reverse payment settlements subvert the goals of the scheme to promote the entry of generic competition. The remedy he proposes is found in antitrust law. As many critics of the *Actavis* decision have pointed out, the ideal remedy would be to amend the Hatch-Waxman Act and implement a more effective means of promoting generic competition. But that remedy is not available to a Supreme Court Justice. Instead, what the majority does is identify two conflicting legislative schemes, that of separate patent and antitrust statutes, and that of Hatch-Waxman, which intertwines patent and antitrust law. Instead of deferring to the first, as the dissenters do, the majority deferred to the goals of the second by allowing an antitrust claim to serve as a basis for reviewing settlements that deter generic competition. How far this review will go is for the lower courts to determine, possibly with the Supreme Court offering guidance in the distant future. The majority, however, does not pronounce a convergence of antitrust and patent law under the canopy of competition law and policy. Instead, the court seeks to implement its understanding of Congress' vision of competition as enacted in the Hatch-Waxman Act.

What supports deference to Congress as the key to understanding *Actavis* is the striking citation to the Court's unanimous decision in *Verizon v. Trinko*, from 2004.<sup>57</sup> Justice Breyer cites the case for the proposition that collusion is an evil that antitrust law combats.<sup>58</sup> This quote is odd because *Trinko* was not about collusion; it was a monopolization case. Furthermore, it was a case in which the Court unanimously agreed that no antitrust claim could be brought, because of

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57. *Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 408 (2004); *see also supra* note 45 and accompanying text.

58. *See FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2233 (2013).

Congress' scheme for deregulating (really reregulating) the telecommunications industry. Justice Scalia, writing for the Court,<sup>59</sup> famously stated that antitrust law "does not give judges *carte blanche* to insist that a monopolist alter its way of doing business whenever some other approach might yield greater competition."<sup>60</sup>

Justice Breyer signed on to Justice Scalia's opinion in *Trinko* and might be accused of exercising such *carte blanche* in *Actavis*. Actually, Justice Breyer, through his majority opinion, is doing precisely what Justice Scalia was urging in *Trinko*: deferring to a Congressional scheme for competition. Arguably, it is Chief Justice Roberts and his fellow dissenters who are engaging in judicial *carte blanche* by ignoring Congress's goals in the Hatch-Waxman Act. But I would hold all the Justices guilty for not better engaging in how both antitrust and patent laws serve the goals of competitive markets.

A comparison with the approach to reverse payment settlements in the European Union is instructive. A few days after the Supreme Court announced its decision in *Actavis*, the European Competition Commission levied a substantial fine against the Danish company Lundbeck for engaging in anticompetitive reverse payment settlements with generic drug companies. In its press release, the Commission pronounced what is tantamount to a *per se* rule:

But instead of competing, the generic producers agreed with Lundbeck in 2002 not to enter the market in return for substantial payments and other inducements from Lundbeck amounting to tens of millions of euros. Internal documents refer to a "club" being formed and "a pile of \$\$\$" to be shared among the participants. Lundbeck paid significant lump sums, purchased generics' stock for the sole purpose of destroying it, and offered guaranteed profits in a distribution agreement. The agreements gave Lundbeck the certainty that the generics producers would stay out of the market for the duration of the agreements without giving the generic producers any guarantee of market entry thereafter. These agreements are very different from other settlements of patent

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59. Justices Stevens, Thomas, and Souter concurred as to the judgment, but reasoned that the case should be dismissed for lack of standing by *Trinko*, who was not an actual competitor of Verizon and therefore was not injured. See *Trinko*, 540 U.S. at 416–18 (Stevens, J., concurring).

60. *Id.* at 415 (majority opinion).



disputes where generic companies are not simply paid off to stay out of the market.<sup>61</sup>

The Commission based its decision on general principles of competition policy and the dynamics of the pharmaceutical market in Europe.<sup>62</sup> While the European Parliament has not adopted legislation similar to the Hatch-Waxman Act, the member states of the European Union use price controls to regulate the pharmaceutical sector<sup>63</sup> and allow generic competition through hybrid forms of identified compounds.<sup>64</sup> In addition, parallel importation from one member nation to another permits competition in the pharmaceutical industry.<sup>65</sup> In contrast, the Supreme Court's decision in *Actavis* does not appeal to general competition principles and does not open up broad antitrust scrutiny of agreements of patents. Instead, the majority is inviting scrutiny of reverse patent settlements that are inconsistent with the model of generic competition provided by the Hatch-Waxman Act. Hence my conclusion that what underlies the *Actavis* decision is deference to Congressional judgments.

A more optimistic reading of the *Actavis* opinion is that it invites antitrust scrutiny under the rule of reason for all agreements involving patents, whether patent licenses, assignments, or settlements. Peter Carstensen, an anointed

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61. Press Release, Eur. Comm'n, Antitrust: Commission Fines Lundbeck and Other Pharma Companies for Delaying Market Entry of Generic Medicines 1 (June 19, 2013), available at [http://europa.eu/rapid/press-release\\_IP-13-563\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-13-563_en.htm?locale=en). Lundbeck was fined €93.8 million, with several generic medicine producers fined a total of €52.2 million. *Id.*

62. *Id.*

63. See Young, *supra* note 32, at 180–83.

64. See *id.* at 184 (describing use of generic substitutes). Allowing substitutes for patented compounds, known as hybrid compounds, is permitted under the European Union directive regulating pharmaceuticals. Article 10(3) of the directive defines hybrid compounds and Article 10(6) excludes them from patentability. See Directive 2001/83/EC, of the European Parliament and of the Council of 6 November 2001 on the Community Code Relating to Medicinal Products for Human Use 2001/83/EC, arts. 10(3), 10(6), 2004 O.J. (L 311) 67; see also *Generic/Hybrid Applications: Questions and Answers*, EUR. MEDICINES AGENCY, [http://www.ema.europa.eu/ema/index.jsp?curl=pages/regulation/general/general\\_content\\_000179.jsp&mid=WC0b01ac0580022717](http://www.ema.europa.eu/ema/index.jsp?curl=pages/regulation/general/general_content_000179.jsp&mid=WC0b01ac0580022717) (last visited Nov. 10, 2013) (providing general information on generic and hybrid applications in Europe).

65. See *Parallel Imports of Proprietary Medicinal Products*, EUROPA.EU, [http://europa.eu/legislation\\_summaries/internal\\_market/single\\_market\\_for\\_goods/pharmaceutical\\_and\\_cosmetic\\_products/l23110\\_en.htm](http://europa.eu/legislation_summaries/internal_market/single_market_for_goods/pharmaceutical_and_cosmetic_products/l23110_en.htm) (last updated June 10, 2005).

distinguished professor who has published about twenty-nine articles over forty years of being a professor at Wisconsin Law School according to the School's own searchable bibliography, pronounced to me that out of Justice Breyer's opinion may bloom an ancillary restraint doctrine for the intersection of patent and antitrust. As I understand his point, the *Actavis* decision may be a re-articulation of the rule of reason adopted by the Supreme Court in its 1899 decision, *Addyston Pipe & Steel Co. v. United States*.<sup>66</sup> In that case, the Court scrutinized an agreement among competitors to raise the price of steel in order to avoid a ruinous price war. The Court found this was impermissible under the rule of reason because of the unreasonable market harm caused by the increased price.<sup>67</sup> The Court, however, did not adopt the ancillary restraint doctrine used by Judge Taft in his opinion for the United States Court of Appeals for the Sixth Circuit.<sup>68</sup> Under the ancillary restraint doctrine, an agreement among competitors is illegal unless it is ancillary to the main purpose of a lawful contract or it is necessary to protect the enjoyment of legitimate fruits from an enterprise or to prevent injury.<sup>69</sup> Without doing harm to Professor Carstensen's position,<sup>70</sup> I understand his point to be that the rule of reason in *Actavis* may serve to promote scrutiny of the conduct of patent owners, especially if modeled on the ancillary restraint doctrine.

We can only see how future courts apply *Actavis* to see if the ancillary restraint doctrine comes into its own or if deference to the legislatively-prescribed terms of generic competition prevails. What I am confident of is that the dissent's narrow view of the relationship between patent and antitrust law has been rejected. We are, however, far away from their convergence.

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66. 175 U.S. 211 (1899).

67. *Id.* at 234–35.

68. *United States v. Addyston Pipe & Steel Co.*, 85 F. 271 (6th Cir. 1898).

69. *Id.* at 282.

70. Although the comments discussed in this text are derived from oral conversation, a published account of Miller Professor Carstensen's over-the-top thinking of the ancillary restraint doctrine, which may be alienating to some, can be found in Peter Carstensen, *Post-Sale Restraints Via Patent Licensing: A "Seedcentric" Perspective*, 16 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1053, 1054–55 (2006).

## III. CONCLUSION

A friend made the following comment to me about two recent Supreme Court cases relating to intellectual property: “I guess you must have liked the *Myriad* decision<sup>71</sup> and disliked the *Bowman* decision.”<sup>72</sup> My response was that I liked the *Bowman* decision because it could have been worse and disliked the *Myriad* decision because it could have been better. If he had asked about the *Actavis* decision, my response would have been that it came out just like I expected it would. Antitrust law poses a facile choice for judges: per se illegality or rule of reason. There may be some room for nuance, but only a little. More engagement with the policies underlying competition would be desirable. Instead, those thinking about antitrust engage with models of markets that may provide some guidance but lead invariably to the rule of reason. Ultimately, in my opinion, the best way to realize effective competition policy in intellectual property is more targeted intellectual property doctrines. The prize for most important case about intellectual property and competition policy during the 2012 Supreme Court term goes not to *Actavis*, but to *Kirtsaeng*.

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71. *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2120 (2013) (invalidating patents on naturally occurring DNA sequences).

72. *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1768–69 (2013) (holding that patent exhaustion does not permit making another copy of a patented seed germplasm).

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