NOTE

NOERR-PENNINGTON: UNOCAL'S SAVIOR – OR IS IT?

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TABLE OF CONTENTS

I. INTRODUCTION

Since 1996, the Federal Trade Commission ("FTC") has targeted

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corporations that participate in a standard-setting organization ("SSO")[1] and then patent the resulting standard the SSO adopts.[2] The FTC argues that these patents have grave antitrust implications,[3] that they threaten the future viability of SSOs,[4] and that this conduct violates Section 5 of the Federal Trade Commission Act.[5] The FTC first filed a complaint against Dell Computer Corporation ("Dell") for patenting the VL-bus standard[6] and subsequently sued Rambus, Inc. ("Rambus") for participating in the creation of the SDRAM standard.[7] Presently, the FTC is scrutinizing the Union Oil Company of California ("Unocal") for its patent on a reformulated gasoline standard.[8] Perhaps the most striking aspect of the Unocal case is that, unlike in the earlier cases, the California legislature mandated the creation of the SSO to research and develop cleaner burning summertime gasoline.[9]

Under the *Noerr-Pennington* doctrine, an effort to influence the exercise of government power— even for the purpose of gaining an anticompetitive advantage—does not create liability under the antitrust laws.[10] Thus, *Noerr-Pennington* protects entities that use the power of government organs,

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[1] A standard-setting organization is an industry group that establishes common standards for that industry. *See infra* Part II.A.

[2] *See infra* Part II.C-E.

[3] Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (Oct. 2003) [hereinafter FTC Report], *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf (last visited Feb. 6, 2005) (analyzing the proper balance between competition and patent law and identifying purported deficiencies in the patent system).

[4] *See infra* Part II.C-E (alleging in all cases that the corporation's conduct constituted an unfair method of competition that conferred upon it market power and had several anticompetitive effects, including interfering with the acceptance of the standard, or raising the cost of using the standard, and chilling future participation in standard-setting organizations).

[5] *See* 15 U.S.C. § 45(a)(2) (2003) ("[FTC] is hereby empowered and directed to prevent persons, partnerships, or corporations . . . from using unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce.").

[6] *See In re* Dell Computer Corp., 121 F.T.C. 616 (1996) (consent order).

[7] *See* Compl. at ¶¶ 122-23, *In re* Rambus Inc., FTC File No. 0110017, Docket No. 9302 (June 19, 2002) [hereinafter Rambus Complaint], *available at* http://www.ftc.gov/os/2002/06/rambuscmp.htm (last accessed Feb. 6, 2005).

[8] *See* Compl. at ¶¶ 77, 80, *In re* Union Oil Co. of Cal., FTC File No. 0110214, Docket No. 9305 (Mar. 4, 2003) [hereinafter Unocal Complaint], *available at* http://www.ftc.gov/os/2003/03/unocalcmp.htm (last accessed Feb. 6, 2005).

[9] *See* Unocal Complaint, *supra* note 8, ¶ 21.

[10] *See* United Mine Workers of Am. v. Pennington, 381 U.S. 657, 670 (1965); E. R.R. Presidents Conf. v. Noerr Motor Freight, Inc., 365 U.S. 127, 136 (1961).

including the judiciary, to further private ends.[11] There are, however, two exceptions to this doctrine, namely sham[12] and misrepresentation.[13] In November 2003, a FTC Administrative Law Judge ("ALJ") found that these exceptions did not apply in the Unocal case and employed the *Noerr-Pennington* doctrine to dismiss the complaint.[14] The FTC subsequently reversed and remanded the Initial Decision finding that "as a matter of law misrepresentation may sometimes vitiate the *Noerr-Pennington* doctrine."[15]

This Note analyzes whether the *Noerr-Pennington* doctrine was properly applied in the Unocal case and, if so, what prophylactic measures can be enacted to both protect the valuable standard-setting process and maintain the integrity of industry standard-setting. Additionally, this Note analyzes the past and pending Federal Trade Commission decisions alleging antitrust violations stemming from SSO participation. Part II provides background information essential to assess standard-setting organizations and the FTC suits against Dell, Rambus, and Unocal. Part III examines the *Noerr-Pennington* doctrine and its exceptions, applies the doctrine to the Unocal case, and then analyzes the ALJ's interpretation. Part IV proposes a mandatory licensing statute that will address anticompetitive concerns. Finally, Part V concludes that any statutory solution should clearly define its prohibitions and consider the benefits industry standard-setting provides.

II. BACKGROUND INFORMATION

A. Standard-Setting Organizations

Standard-setting organizations are industry groups that establish common standards in a variety of significant areas.[16] A standard is "any set of technical specifications which either does, or is intended to, provide a common design for a product or process."[17] Industry standard-setting generally involves two

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[11] *See infra* Part III.A.

[12] *See infra* Part III.C.

[13] *See infra* Part III.D.

[14] *See* Initial Decision at 1, *In re* Union Oil Co. of Cal., FTC File No. 0110214, Docket No. 9305, (Nov. 25, 2003) [hereinafter Unocal Initial Decision], *available at* http://www.ftc.gov/os/2003/11/031126unionoil.pdf (last accessed Feb. 6, 2005).

[15] *See* Opinion of the Commission at 1, 10, *In re* Union Oil Co. of Cal., FTC File No. 0110214, Docket No. 9305 (July 7, 2004) [hereinafter Unocal Opinion of the Commission], *available at* http://www.ftc.gov/os/adjpro/d9305/040706commissionopinion.pdf (last accessed Feb. 6, 2005).

[16] Mark A. Lemley, Essay, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1892 (2002).

[17] HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 35.1a (2002 & Supp. 2003) (noting

types of standards: performance standards and design standards.[18] Performance standards delineate the proper thresholds of performance to ensure the compatibility of products made by different manufacturers.[19] Design standards describe the specific design required for a particular product.[20]

Although there are both public and private standard-setting organizations,[21] the majority of SSOs are composed of private companies in a given market who collaborate in order to design a particular product.[22] There is also "de facto" standardization, which occurs without a formal standard-setting organization.[23] Public SSOs consist of government agencies that establish standards and then compel market participants to comply.[24]

Given that a number of SSOs involve innovative technological standards, it is important to explore the greatly varied ways in which those organizations treat intellectual property ("IP") rights.[25] Some SSOs—usually the smaller and more specific organizations—have no official written policy on the treatment of intellectual property rights.[26] In contrast, most large SSOs have detailed, well-developed policies.[27] The majority of large SSOs require members to disclose any known IP rights, and others also mandate disclosure of pending patent applications.[28] SSOs that do not require disclosure may impose other conditions, such as royalty-free licensing to members.[29] Most commonly,

that standards apply not only to sophisticated technology but also to everyday technology, such as electrical plugs and sockets).

[18] *See* Edward F. Sherry & David J. Teece, *Standards Setting and Antitrust*, 87 MINN. L. REV. 1913, 1916 (2003).

[19] *See id.*

[20] *See id.*

[21] *See* Lemley, *supra* note 16, at 1899.

[22] *See id.* at 1889.

[23] *See id.* (citing the Microsoft operating system as a de facto standard—even though no SSO adopted it as the standard—because it is widely used and most software programs are only Windows compatible).

[24] *See id.* at 1899.

[25] *See id.* at 1892–93, 1904.

[26] *See id.* at 1904. The author surveyed the policies of forty-three telecommunications and computer-networking industries standard-setting organizations and found that "thirty-six had written policies governing ownership of IP rights, four had no policy at all, two had statements on their website about IP right but no official policy and one had a policy that was still in development." *Id.*

[27] *See* Lemley, *supra* note 16, at 1904.

[28] *See id.* (noting that most of the SSOs with policies required either an "express or implied obligation that members disclose IP rights of which they are aware").

[29] *See id.* (stating that the conditions apply whether or not the IP rights were disclosed to the SSO).

SSOs require "that IP rights be licensed on 'reasonable and nondiscriminatory' terms."[30] Despite this broad language, few SSOs explain the meaning of this phrase or establish a mechanism for resolving licensing disputes.[31] Thus, the practical implication of these requirements remains unclear[32] and there is no guarantee that a corporation will be immune from antitrust liability.[33]

Even if a SSO does have rules governing intellectual property rights, participants can still be liable for antitrust violations even without breaking one of those rules.[34] The FTC sued Dell,[35] Rambus,[36] and Unocal[37] solely for conduct stemming from their *participation* in a standard-setting organization. Whereas there were arguably no deliberate misrepresentations in the Rambus case[38] and even fewer misrepresentations in the Dell case,[39] Unocal presents a slightly different factual situation.[40] Not only did Unocal make deliberate misrepresentations, but it also blatantly attempted to conceal its pending patent applications from the SSOs in which it participated.[41]

B. General Policy Considerations

Industry standard-setting is pervasive.[42] Consumers, as well society at large, benefit enormously from standard-setting[43] because it creates market conditions that encourage compatibility between products made by different manufacturers.[44] A product becomes more valuable if consumers can use it interchangeably with other products.[45] Standard-setting is a powerful engine

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[30] *See id.* at 1906 (representing twenty-nine of the thirty-six SSOs surveyed).

[31] *See id.*

[32] *See id.*

[33] *See* Rambus Complaint, *supra* note 7.

[34] *See id.* Rambus alleged it did not break any of the SSO's rules regarding intellectual property rights but the FTC nevertheless is pursing the company for antitrust violations stemming from its brief period of SSO participation. For a detailed discussion of the Rambus facts, see *infra* Part II.D.

[35] *See In re* Dell Computer Corp., 121 F.T.C. 616 (1996).

[36] *See* Rambus Complaint, *supra* note 7, ¶¶ 122–23.

[37] *See* Unocal Complaint, *supra* note 8, ¶¶ 77, 80.

[38] *See infra* Part II.D.

[39] See *infra* Part II.C.

[40] See *infra* Part II.E.

[41] *See id.*

[42] *See* Sherry, *supra* note 18, at 1914 (acknowledging that "standards have become an increasingly significant aspect of many industries").

[43] *See* James Surowiecki, *Turn of the Century*, WIRED, Jan. 2002, at 84 (stating "without standardization there wouldn't be a modern economy").

[44] *See* Lemley, *supra* note 16, at 1896 (noting that without standardization no one could stay in a hotel room and know that their electrical products would work in the outlets).

[45] *See id.*

for change and progress,[46] but with that power comes the potential for serious harm. In this respect, standard-setting can produce immense anticompetitive results by creating opportunities for select companies to control a significant market share for a particular standard.[47] Given this great risk, why allow standard-setting at all? The answer must be that the consumer benefits substantially outweigh the anticompetitive risk.

C. In the Matter of Dell Computer Corporation

In 1996, the FTC settled its complaint against Dell Computer Corporation.[48] The complaint alleged that Dell engaged in unfair methods of competition and thus violated Section 5 of the FTC Act.[49] Dell's alleged liability stemmed from its participation in the Video Electronics Standards Association (VESA).[50] In accordance with VESA's rules and allegedly believing that no conflicting proprietary interests existed, Dell's representative certified that the company did not have any intellectual property rights that would conflict with VESA's standards.[51] The representative made this certification during the standards voting process for the VL-bus, a device that transmits commands from a computer's central processing unit to its peripherals.[52] After the VL-bus technology standard was adopted, Dell pursued patent infringement claims against companies that had begun to implement the standard.[53] The FTC alleged that Dell's conduct constituted unfair competition that conferred market power on Dell and produced several anticompetitive effects, including interference with the acceptance of the VL-bus standard, raising the cost of using the standard, and chilling future participation in SSOs.[54]

The FTC, however, never specified what market Dell allegedly monopolized.[55] The FTC also relied on a rather tenuous agency theory to establish intentional misrepresentation.[56] Despite these shortcomings, the

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[46] *See, e.g.*, *id.*

[47] *See id.* at 1990 (stating that standardization can also act to impede certain output).

[48] *See In re* Dell Computer Corp., 121 F.T.C. at 616.

[49] *See id.*

[50] *See id.*

[51] *See id.* at 624.

[52] *See id.*

[53] *See id.*

[54] *See In re* Dell Computer Corp., 121 F.T.C. at 632 (dissenting statement of Comm'r Mary L. Azcuenaga).

[55] *See id.* (stating that not only did the complaint not allege market power in any relevant market, but also that the list of anticompetitive effects does not prove that Dell acquired any market power).

[56] *See id.* at 624 n.1 (stating that the representative's certification qualified as misrepresentation because someone at Dell knew there was a patent).

consent decree's penalties were quite severe: not only does the decree prohibit Dell from enforcing its VL-bus patent, it also prohibits Dell from enforcing any other patent that it fails to disclose to a SSO when required to do so.[57]

D. In the Matter of Rambus Incorporated

In 2002, the FTC filed a complaint against Rambus alleging monopolization and attempted monopolization of the market for synchronous dynamic random access memory ("SDRAM") technology.[58] The corporation's alleged liability stemmed from its almost five-year participation in a SSO known as the Joint Electron Devices Engineering Council ("JEDEC").[59] The FTC complaint alleged that Rambus breached a known duty to disclose when it failed to reveal its relevant pending patent applications.[60] Eventually, JEDEC adopted Rambus's patented SDRAM technology as the organizational standard.[61] The FTC alleged that Rambus joined JEDEC to obtain access to the preliminary research on the SDRAM standard,[62] which it then used to draft new patent applications and amend existing applications to include the eventual standard.[63] Currently, Rambus receives royalties on approximately fifty percent of the worldwide production of SDRAM memory chips and related technologies.[64]

The FTC alleged that Rambus's conduct produced a number of anticompetitive effects, including: 1) increased royalty payments for SDRAM technology; 2) price increases and decreased output of SDRAM memory chips and related technologies; 3) decreased incentives for companies to participate in standard setting organizations; and 4) a decreased willingness of industries to rely on private SSO standards.[65] The FTC requested that Rambus be precluded from enforcing any of its current or future patents claiming priority back to its original application and relating to the JEDEC SDRAM standard.[66] The FTC also requested that Rambus hire a compliance officer to ensure proper disclosures in future SSO participation.[67]

In a 334-page decision, ALJ Stephen J. McGuire dismissed the complaint against Rambus and essentially held that the FTC had not satisfied its burden

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[57] *See id.*

[58] *See* Rambus Complaint, *supra* note 7, ¶¶ 122–23.

[59] *See* Rambus Inc. v. Infineon Techs. AG, 318 F.3d 1081, 1086 (Fed. Cir. 2003).

[60] *See id.*; *see also* Rambus Complaint, *supra* note 7, ¶ 71.

[61] *See Rambus*, 318 F.3d at 1086.

[62] *See* Rambus Complaint, *supra* note 7, ¶¶ 42–48.

[63] *See id.*

[64] *See id.* ¶ 96.

[65] *See id.* ¶ 120.

[66] *See id.*

[67] *See* Rambus Complaint, *supra* note 7, ¶ 120.

of proof on any of its allegations.[68] Acknowledging that Rambus does have a monopoly in the SDRAM as well as in other markets, Mr. McGuire noted that the FTC failed to show Rambus achieved its monopoly position unlawfully.[69] Most importantly, he found that JEDEC's rules did not obligate Rambus to disclose its pending patents.[70]

E. In the Matter of Union Oil Company of California

In March 2003, the FTC brought a complaint against Union Oil Company of California ("Unocal"). The complaint alleged that Unocal committed antitrust violations in two markets by engaging in conduct involving misrepresentation to the California Air Resources Board ("CARB"), the Auto/Oil Air Quality Improvement Research Program ("Auto/Oil"), and the Western States Petroleum Association ("WSPA").[71]

To combat increased air pollution due to automotive exhaust, in 1998 the California legislature directed CARB to develop standards for summertime, low-emission, reformulated gasoline ("RFG").[72] After learning of the mandate, Unocal began an intensive in-house research program to develop compliant gasoline and later filed a patent application based on the results of that research.[73] In February 1994, the Patent and Trademark Office ("PTO") issued a patent to Unocal conferring exclusive rights on various gasoline compositions that satisfy the heightened emission quality standards.[74]

The FTC alleged that, while its patent application was pending, Unocal urged CARB to adopt an emissions standard that would require use of Unocal's technology.[75] Unocal also allegedly amended its patent application after CARB drafted the final regulations to bring the pending patents closer to the adopted standard.[76] Furthermore, the FTC contended that Unocal made false and misleading statements to CARB that induced CARB to adopt RFG standards that substantially overlapped with Unocal's patent.[77] The FTC argued that CARB would not have adopted those standards—or in the very least would have negotiated better licensing terms—but for Unocal's deceptive

[68] *See id.* at 329.

[69] *See id.*

[70] *See id.* at 265.

[71] *See* Unocal Complaint, *supra* note 8, ¶¶ 77, 80, 82, 85.

[72] *See id.* ¶ 21; *see also* Sherry, *supra* note 18, at 1920 (discussing the facts of the Unocal case from a first-hand perspective).

[73] *See* Unocal Complaint, *supra* note 8, ¶¶ 28, 32.

[74] *See* Union Oil Co. of Cal. v. Atl. Richfield Co., 208 F.3d 989, 991–93 (Fed. Cir. 2000) (discussing the patent in detail).

[75] *See* Unocal Complaint, *supra* note 8, ¶¶ 34–47, 78.

[76] *See id.* ¶ 60.

[77] *See id.* ¶¶ 77, 80.

statements.[78]

The FTC relied on the following alleged misrepresentations: 1) a letter from Unocal to CARB describing the Unocal research results as "non-proprietary";[79] 2) persistent Unocal representations that its method would be cost-effective, when the company knew that its intellectual property rights would substantially increase the cost of the technology;[80] and 3) a Unocal statement to Auto/Oil that its research results were in the "public domain."[81]

Unocal's actions allegedly created five antitrust violations in two markets.[82] The first market is the worldwide market for Unocal's patented technology and "any alternative technologies that enable firms to refine, produce, and supply CARB-compliant 'summer-time' RFG for sale in California at comparable or lower cost, and comparable or higher effectiveness, without practicing the Unocal technology."[83] Unocal allegedly monopolized, attempted to monopolize, and unreasonably restrained trade in both this market[84] and the market for "CARB-compliant 'summer-time' RFG produced and supplied for sale in California."[85] Unocal's actions have increased royalties for RFG technology, increased the price of low-emission gasoline, lowered the supply of low-emission gasoline, and decreased incentives for manufacturers to supply low-emission gasoline to California.[86] In this case, the FTC requested a remedy similar to that in the Rambus case, namely, prohibiting Unocal from enforcing any current or future patents that claim priority and ordering Unocal to hire a compliance officer.[87]

On April 2, 2003, Unocal filed two motions to dismiss.[88] The first was premised on immunity under the *Noerr-Pennington* doctrine (the "Immunity Motion") and the other argued that the FTC had not made sufficient allegations of monopoly power (the "Market Power Motion").[89] Agreeing with Unocal on the *Noerr-Pennington* immunity theory, ALJ Chappell dismissed the complaint

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[78] *See id.* ¶ 80.

[79] *See id.* ¶¶ 78, 39, 41 (describing a Unocal letter in response to CARB's request that Unocal make the information public after Unocal had originally represented that the information was "confidential" and had a potential "competitive advantage").

[80] *See id.* ¶¶ 78, 17, 27.

[81] *See* Unocal Complaint, *supra* note 8, ¶¶ 82, 90.

[82] *See id.* ¶¶ 74-75.

[83] *Id.* ¶ 74.

[84] *See id.* ¶¶ 99, 100, 102.

[85] *See id.* ¶¶ 75, 101, 103.

[86] *See id.* ¶ 8.

[87] *See* Unocal Complaint, *supra* note 8, ¶¶ 1-5.

[88] *See* Unocal Initial Decision, *supra* note 14, Summary of Decision at 1.

[89] *See id.*

against Unocal on November 25, 2003 with regard to CARB.[90] ALJ Chappell also dismissed the complaint with regard to Auto/Oil and WSPA, stating that the FTC lacks jurisdiction to decide the "fundamental and substantial patent law issues raised by the allegations."[91] FTC Complaint Counsel appealed the decision on December 2, 2003[92] and the FTC heard oral arguments on March 10, 2004.[93] Many states and one oil company filed *amicus curiae* briefs in the matter.[94] Chairman Muris reversed and vacated the Initial Decision, reinstated the Complaint, and remanded it for further consideration of the Complaint's allegations.[95] On remand ALJ Chappell is to gather information supporting or dispelling the factual allegations asserted in the complaint to determine whether Unocal may be protected for its alleged misrepresentations to CARB, Auto/Oil, and WASP.[96]

III. *NOERR-PENNINGTON* IMMUNITY

A. *Background*

Noerr-Pennington immunity is premised on two Supreme Court cases[97] conferring antitrust immunity with regard to actions to petition the government to take a certain course of action, even if the action has anticompetitive results.[98] The most probable basis for this immunity stems from the First Amendment's right to petition the legislature to enact laws that favor one group over another.[99] "The scope of this protection depends . . . on the source,

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[90] *See id.* at 1-2.

[91] *Id.* at 2.

[92] *See* Document List, *In re* Union Oil Co. of Cal., FTC File No. 0110214, Docket No. 9305 [hereinafter Unocal Document List], *available at* http://www.ftc.gov/os/caselist/d9305.htm (last accessed Feb. 6, 2005).

[93] Notice Scheduling Oral Argument, *In re* Union Oil Co. of Cal., FTC File No. 0110214, Docket No. 9305, *available at* http://www.ftc.gov/os/adjpro/d9305/040112ordschedoralargue.pdf (last accessed Feb. 6, 2005).

[94] Unocal Document List, *supra* note 92.

[95] *See* Unocal Opinion of the Commission, *supra* note 15, at 1.

[96] *See id.* at 54-55 (listing five areas into which the ALJ should inquire if Unocal continues to claim *Noerr-Pennington* protection).

[97] United Mine Workers of Am. v. Pennington, 381 U.S. 657 (1965); E.R.R. Presidents Conf. v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961).

[98] *See In re* Cardizem CD Antitrust Litig., 105 F. Supp. 2d 618, 634 (E.D. Mich. 2000) (stating that petitioning activity also includes litigation).

[99] *See, e.g.*, HOVENKAMP ET AL., *supra* note 17, § 11.3b1 (citing David McGowan & Mark A. Lemley, *Antitrust Immunity: State Action and Federalism, Petitioning and the First Amendment*, 17 HARV. J.L. & PUB. POL'Y. 293 (1994)).

context, and nature of the anticompetitive restraint at issue."[100] The *Noerr-Pennington* doctrine also has two important exceptions:[101] there can be no immunity for deliberate misrepresentation to an agency dependent on the petitioner for information[102] or for "sham" litigation or petitioning.[103]

In 1961, the Supreme Court held that the Sherman Antitrust Act does not prohibit "persons from associating together in an attempt to persuade the legislature or the executive to take particular action with respect to a law that would produce a restraint on trade or a monopoly in a particular market."[104] The Court reaffirmed this holding four years later[105] and subsequently extended this doctrine in 1972 to cover administrative and court proceedings.[106] Although the *Noerr-Pennington* doctrine was established to provide an affirmative defense for violations of the Sherman Antitrust Act, this defense has long also been allowed as a defense to Section 5 of the FTC Act.[107]

B. The Misrepresentation Exception

Sometimes called the "*Walker Process* exception," the misrepresentation exception applies when a patent holder monopolizes a market based on fraudulent representations to the government or a government agency and then

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[100] Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 499 (1988).

[101] *See In re* Buspirone Patent Litig., 185 F. Supp. 2d 363, 368 (S.D.N.Y. 2002).

[102] *See id.* at 368 (allowing another exception to *Noerr-Pennington* immunity in some circumstances for "conduct in which a party knowingly and willfully makes false misrepresentations to the government").

[103] *See* HOVENKAMP ET AL., *supra* note 17, § 11.3b1.

[104] *See Noerr Motor Freight*, 365 U.S. at 136 (1961) (rejecting plaintiff truckers' antitrust claims against defendant railroads for an ad campaign that resulted in the Government vetoing the Fair Truck Bill because recognizing their claims would in effect render legitimate government petitioning activity – in this case the ad campaign – illegal). *See also* 1 P. AREEDA & H. HOVENKAMP, ANTITRUST LAW ¶ 201a at 148 (rev. ed. 1997) (stating that "when the anticompetitive harm results from the government action – as when a private petitioner requests and receives anticompetitive legislation – then the government itself becomes the 'cause' of the restraint, and the private petitioner is relieved from liability").

[105] *See Pennington*, 381 U.S. at 669 (granting antitrust immunity regardless of anti-competitive intent to union and large coal companies for conduct in getting the Department of Labor to impose a minimum wage requirement for employees of contractors selling coal to the Tennessee Valley Authority and thus excluding small coal companies from participation in these contracts).

[106] *See* California Motor Transp. Co. v. Trucking Unlimited, 404 U.S. 508, 510 (1972); TRW Fin. Sys., Inc. v. Unisys Corp., 835 F. Supp. 994, 1011 n. 25 (E.D. Mich. 1993).

[107] *See* City of Columbia v. Omni Outdoor Adver., Inc., 499 U.S. 365, 380 (1991) (citing *Noerr Motor Freight*, 365 U.S. at 141) (stating that the principles of *Noerr-Pennington* generally apply to all antitrust cases and not just to cases arising under § 2 of the Sherman Antitrust Act).

attempts to enforce its patent against others in the market.[108] In *Walker Process Equipment v. Food Machinery and Chemical*, Food Machinery brought a patent infringement suit against Walker.[109] Walker counterclaimed, arguing that because Food Machinery had obtained the patent only by defrauding the PTO, it should not be entitled to any immunity from antitrust liability.[110] Additionally, because the PTO relies heavily on information presented in a patent application and only spends an average of eighteen hours over the course of three years per patent application, every patent application must reveal all the necessary information and any intentional misrepresentation should be punished.[111] Food Machinery allegedly included false information in its patent application, without which the PTO would not have issued the patent.[112] The Court held that Food Machinery would not benefit from its fraud upon the government and that *Noerr-Pennington* immunity did not apply.[113] The Court found that allowing Food Machinery to enforce its patent would unduly reward the company for its deliberate misrepresentations to the patent office.[114]

C. The "Sham" Exception

Perhaps the more important exception to *Noerr-Pennington* immunity is the sham exception. The sham exception has two basic parts: sham petitioning and sham litigation.[115] Sham petitioning refers to acts designed to influence the government that are merely put forth to cover up a desire to interfere with the business relationships of a competitor.[116] An action does not automatically fail as a sham because a party's sole purpose is to harm the competitor.[117]Instead, a court objectively judges what constitutes a sham petition.[118]

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[108] *See* Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 174–78 (1965) (holding that a party who had monopolized a market based on a patent obtained by making fraudulent representations to the Patent Office did not qualify for *Noerr-Pennington* immunity).

[109] *See id.*

[110] *See id.* (alleging Food Market failed to disclose its own prior use of the patented product).

[111] *See* Mark A. Lemley, *Rational Ignorance at the Patent Office*, 75 NW. U. L. REV 1495, 1496 (2001) (describing the patent application process in detail).

[112] *See Walker Process Equip.*, 382 U.S. at 174–78.

[113] *See id.*

[114] *See id.*

[115] *See In re Buspirone Patent Litig.*, 185 F. Supp. 2d at 368.

[116] *See id.* (citing *Noerr Motor Freight*, 365 U.S. at 144).

[117] *See Pennington*, 381 U.S. at 670 (recognizing that *Noerr Motor Freight* shields from liability "a concerted effort to influence public officials regardless of intent or purpose").

[118] *See Allied Tube & Conduit Corp.* v. Indian Head, Inc., 486 U.S. 492, 500 n.4 (regarding sham as "private action that is not genuinely aimed at procuring favorable

Sham litigation refers to litigation initiated solely to interfere with the business relationships of a competitor by using the judicial process itself, not the outcome of the case.[119] The plaintiff in sham litigation has no interest in the outcome of the case and thus abuses the judicial process merely for anticompetitive ends.[120] In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, the Supreme Court developed a two-part test to determine when litigation aimed at a competitor becomes sham litigation.[121] The test has both objective and subjective components and a reviewing court must find the objective prong satisfied before considering the subjective component.[122] First, the suit must be "objectively baseless" such that "no reasonable litigant could realistically expect success on the merits."[123] Second, if the suit is found to be objectively baseless, the focus shifts to "whether the baseless lawsuit conceals 'an attempt to interfere directly with the business relationships of a competitor.'"[124] Repeated litigation is often a sign that the suits are objectively baseless and that the litigant has ulterior motives.[125]

D. Application of the Noerr-Pennington *Doctrine to Unocal*

1. Does CARB Qualify as a "Legislative Body" Under the Doctrine?

Before a court may apply the *Noerr-Pennington* doctrine, it must first determine whether the object of the alleged activity was a legislative or judicial body.[126] Auto/Oil and WSPA are clearly not legislative bodies, but the

government action," and not "a valid effort to influence government action").

[119] *See* Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 60-61 (1993) (holding that an "objectively reasonable effort to litigate cannot be sham regardless of subjective intent").

[120] *See id.*

[121] *See id.* (refusing to strip defendant's *Noerr-Pennington* immunity because plaintiffs failed to establish that the litigation was objectively baseless).

[122] *See id.*

[123] *See id.* (stating that the inquiry rests on the notion that a litigant must have probable cause to believe there is some chance of success on the merits, if there is no probable cause then there is a presumption that the defendant instituted civil proceedings for an "improper, malicious purpose").

[124] *See id.* (stating that the inquiry ceases if the litigation has merit) (citing *Noerr Motor Freight*, 365 U.S. at 144).

[125] *See* Otter Tail Power Co. v. United States, 410 U.S. 366, 380 (1973) (stating that sham is "evidenced by repetitive lawsuits carrying the hallmark of *insubstantial* claims") (emphasis added).

[126] *See* Livingston Downs Racing Assoc. v. Jefferson Downs Corp., 192 F. Supp. 2d. 519, 533 (M.D. La. 2001) ("As a necessary prologue to any *Noerr-Pennington* immunity analysis . . . the Court must determine whether . . . an executive agency is more akin to a

circumstances of CARB are a bit cloudy. Concerned with the environmental effects of fuel-burning, in 1998 the California legislature called upon CARB to develop cleaner-burning summertime gasoline.[127] CARB in turn assembled a task force to develop RFG, which included Auto/Oil and WSPA.[128]

The rule-making procedures were neither clearly legislative nor adjudicative. Although Unocal argued that CARB's activity was quasi-legislative, FTC Counsel alleged it was quasi-adjudicative.[129] In determining the proper classification, the ALJ considered the following four factors: 1) the level of political discretion granted to CARB; 2) whether CARB was setting policy; 3) the procedures used during the rulemaking; and 4) the authority invoked by CARB in adopting the Phase 2 RFG regulations.[130]

The ALJ ultimately held that CARB was not a mere conduit of legislative intent, but rather had significant discretion in deciding which rules to adopt.[131] ALJ recognized that the California legislature provided statutory guidelines for CARB to follow, but found it critical that CARB has final authority on which standards to impose "to achieve the maximum degree of emission reduction possible from vehicular or other mobile sources."[132]

Although CARB has some discretion in deciding which rules to implement, its ultimate authority came from the California Health & Safety Code.[133] CARB's powers are limited to the extent that it may only implement rules concerning the reduction of vehicular emissions.[134] The fact that CARB has some discretion should not be determinative of the political discretion inquiry. In this regard, it is essential to remember that CARB itself was a legislative creation[135] and that its legislative discretion was arguably limited by the California legislature.[136] Therefore, any CARB decision not advancing the

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political entity or to a judicial body."); *see also* Unocal Initial Decision, *supra* note 14, at 34.

[127] *See* Unocal Complaint, *supra* note 8, ¶ 21.

[128] *See id.* ¶ 90.

[129] *See* Unocal Initial Decision, *supra* note 14, at 34.

[130] *See id.*

[131] *See id.* at 35 (stating that "[t]he statutory guidelines that govern CARB's rulemaking give CARB broad discretion to do such acts as may be necessary, consistent with the goal of providing a suitable living environment for every Californian"). *But see* Unocal Complaint, *supra* note 8, ¶ 18 (stating that "[a]ll CARB regulations are subject to review by California's Office of Administrative Law to ensure that such regulations meet statutory guidelines of necessity . . . .").

[132] *See* Unocal Initial Decision, *supra* note 14, at 35.

[133] *See id.*

[134] *See id.*

[135] *See id.*

[136] *See* Unocal Complaint, *supra* note 8, ¶ 18. CARB is governed by statutory authority which could presumably be revoked at the discretion of the California Legislature. CARB

purpose of CARB's rulemaking in the mind of the legislature would jeopardize the organization's existence.[137]

The second factor to consider is whether CARB was "granted the authority to create policy on its own, or [was] limited in its authority to apply policy that was established to a particular sets of facts."[138] Arguably, the California legislature granted CARB the authority to create policy on its own.[139] Although CARB was endowed with authority to set policy, it again only retained that authority by virtue of the California Health and Safety Code.[140] Conceding that CARB was not taking sets of rules and applying them to certain facts to reach a decision does not convert its quasi-adjudicative role to a quasi-legislative one.[141] Although CARB was not deciding cases, CARB was in pursuit of rules to solve a particular problem.[142] It had no discretion in the type of problem it had to solve, but instead had to address the particular problem of vehicular emissions.[143]

The third factor to consider is the procedures CARB used in carrying out its rulemaking activities.[144] CARB held various hearings, meetings, workshops, and collected input from any party interested in the outcome of the rulemaking.[145] The ALJ found that CARB did not participate in adjudicatory proceedings requiring adherence to due process[146] but rather carried out its rulemaking functions by adhering to the California Administrative Procedure Act.[147] This Act required CARB to comply with certain due process requirements, such as notice, allowing comments, and conducting hearings.[148] This certainly weighs against the argument that CARB had great political discretion. It also shows that although there was no opportunity for cross-

action is also subject to judicial review.

[137] *See id.*

[138] *See* Unocal Initial Decision, *supra* note 14, at 36 (citing Israel v. Baxter Labs, Inc., 466 F.2d 272, 276-77 (D.C. Cir. 1976)).

[139] *See* Unocal Complaint, *supra* note 8, ¶ 1; *see also* Unocal Initial Decision, *supra* note 14, at 36 (citing Unocal Complaint, ¶ 1) (stating that "CARB convened it rulemaking to enact regulations 'governing the composition of law emissions, reformulated gasoline . . . .'")

[140] *See* Unocal Initial Decision, *supra* note 14, at 36.

[141] *See id.* (arguing that CARB was not engaged in adjudicative activities because it had discretion in choosing which rules to adopt in reducing vehicular emissions and was not simply applying law to facts).

[142] *See supra* note 127 and accompanying text.

[143] *See* Unocal Initial Decision, *supra* note 14, at 37.

[144] *See id.*

[145] *See* Unocal Complaint, *supra* note 8, ¶¶ 26, 35, 36, 47.

[146] *See* Unocal Initial Decision, *supra* note 14, at 37.

[147] *See id.* at 38.

[148] *See id.*; *see also* Unocal Complaint, *supra* note 8, ¶ 17.

examination,[149] CARB was nonetheless required to hold hearings and render some sort of "decision" on the testimony and evidence presented.[150] CARB was also, in a sense, deciding for or against a party when it decided whether to consider certain information when choosing which rules to implement.[151]

The final factor to consider is what authorities CARB invoked.[152] The ALJ found that the procedures which CARB was required to follow were "customary in rulemaking, but not in adjudication."[153] He found it particularly telling that CARB operated under the section of the California Administrative Procedures Act designated as "Administrative Regulations and Rulemaking," which states: "the provisions of this chapter are applicable to the exercise of any quasi-legislative power conferred by any statute . . . . "[154] Although this determination sheds light on the nature of CARB's activity, it should not be dispositive of its characterization. Furthermore, the included statement does not exclude the possibility that CARB's function could be considered quasi-adjudicative. Although not used in the RFG rulemaking, CARB also had the power to hold adjudicative proceedings.[155]

In analyzing whether CARB was acting in a quasi-legislative or quasi-adjudicative capacity, the ALJ failed to acknowledge that CARB's responsibility for preparing economic analysis data was dependent on receiving information from Unocal and other participants.[156] This information necessarily had to be correct for CARB to produce reports that accurately reflected the economic impact of its rulemaking.[157] This should tip the scales

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[149] *See* Unocal Initial Decision, *supra* note 14, at 37 (finding it significant that the CARB proceedings were not full fledged adjudicatory proceedings which allowed opportunities for cross-examination as in formal adjudication).

[150] *See id.* (CARB used the information from the hearings, meetings, etc. to decide which standard would be the most cost-effective and agreeable to the members of the oil industry).

[151] *But see* Unocal Initial Decision, *supra* note 14, at 39; *see also* Wilson v. Hidden Valley Mun. Water Dist., 256 Cal. App. 2d 271, 278–79 (1967) (stating that the fact that the body performs some judicial functions does "not change the basically quasi-legislative nature of the subject proceedings"). This finding should not foreclose the possibility of the reverse happening as well, such that just because a body engages in legislative activity does not change the adjudicative nature of the proceedings.

[152] *See id.* at 38.

[153] *See id.* This activity included consultations with organizations that would be impacted by its rulemaking, preparing an economic analysis of the impact of its rules, conducting workshops, and reporting its findings to the legislature. *Id.*

[154] *Id.* at 39.

[155] *See id.* at 40. The ALJ found that since those procedures were not used in this action or alleged in the complaint that they did not need to be considered in determining CARB's characterization in this instance. *Id.*

[156] *See* Unocal Complaint, *supra* note 8, ¶¶ 17, 21.

[157] *See id.*

in favor of finding that CARB was engaged in quasi-adjudicative activity because the dependent nature of its relationship on obtaining truthful information.

The FTC Counsel argued that CARB engaged in activity that was quasi-adjudicative and not quasi-legislative.[158] The ALJ disagreed. After considering the preceding four factors, the ALJ held that CARB was clearly engaged in quasi-legislative activity, therefore placing Unocal's actions one step closer to *Noerr-Pennington* immunity.[159] The debate is close because CARB was capable of engaging in both types of activity. The difficulty of the legislative versus adjudicative determination should encourage the Court to adopt a new test for determining whether the object of "petitioning" activity qualifies as legislative for purposes of antitrust immunity. The test should be more like that proposed in *Allied Tube*, which considered the totality of the circumstances.[160] A test that takes into account the role the agency played should lead to the correct result. In the instant case, CARB was participating in the development of a standard, instead of merely enacting new law. The fact that CARB was a governmental arm should not automatically convert the standard-setting process into a forum where intentional misrepresentation and deception are protected.

2. Did Unocal Engage in Petitioning Activity?

The *Noerr-Pennington* doctrine only covers petitioning activity that is directed toward some legislative body and not an adjudicative body.[161] Once the target of the activity is classified, one must determine whether the alleged conduct qualifies as petitioning activity.[162] Petitioning activity refers to any activity that is used to influence the government to pursue some course of action versus another.[163] Assuming that CARB engaged in quasi-legislative activity, Unocal's actions seem to fit the definition of petitioning activity.[164] But should the corporation be allowed to escape antitrust liability simply because it was trying to influence CARB - a blurred legislative/adjudicative body - to adopt certain rules that covered its own patents? The California legislature entrusted CARB with the duty of implementing energy-safe

[158] *See* Unocal Initial Decision, *supra* note 14, at 34.

[159] *See id.* at 38.

[160] *See Allied Tube*, 486 U.S. at 507 n.10 (stating that that activity should be judged by its context and the nature of the activity).

[161] *See supra* Part III.D.i notes and accompanying text.

[162] *See infra* Part IV. The *Noerr-Pennington* doctrine only protects petitioning activity. SULLIVAN & HOVENKAMP, ANTITRUST CASEBOOK: ANTITRUST LAW, POLICY, AND PROCEDURE 1001 (4th ed. 1999).

[163] *See supra* note 104 and accompanying text.

[164] *See* Unocal Complaint, *supra* note 8, ¶¶ 33-49.

gasoline that was also cost efficient.[165] CARB would not have consciously adopted rules resulting in significantly higher production costs, and thus expensive RFG, simply because of Unocal's proprietary rights.[166] At the very least, if there was no way to avoid paying the royalties to Unocal, CARB could have negotiated more favorable licensing agreements than the ones the oil manufacturers eventually obtained.[167]

One could argue that Unocal's activity in the present case more closely resembled commercial than political activity. Unocal began its research on RFG after it became aware of CARB's task to reduce vehicular emissions.[168] This would seem to be the type of activity that is part of Unocal's business. Commercial activity with political impact is not immune from antitrust liability.[169] To maintain its success, it was in Unocal's best interest to participate in the creation of a standard for reformulated gasoline.[170] Unocal's activity was not really a publicity campaign but rather commercial activity done in the hopes that the results of its research would become law. Consequently, Unocal should not be immune from antitrust scrutiny.[171]

3. Unocal and the Misrepresentation Exception

If CARB is viewed as an administrative agency like the PTO, which depends on organizational candor, then Unocal would lose *Noerr-Pennington* protection because of its deliberate misrepresentation to CARB.[172] The ALJ found that CARB was not solely dependent on Unocal for information and thus the misrepresentation exception did not apply to strip away *Noerr-Pennington* immunity.[173] The ALJ cited several reasons for this conclusion, including: cases cited by FTC's counsel which were distinguishable from the facts of the Unocal case; the political discretion of CARB; the fact that CARB was to conduct independent cost analysis; and that numerous other entities provided information to CARB to assist in its rulemaking function.[174]

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[165] *See id.* ¶ 21(c).

[166] *See id.* ¶ 95 (stating that Unocal's actions have led to significant consumer harm).

[167] *See id.* ¶ 80.

[168] *See* Unocal Complaint, *supra* note 8, ¶ 28, 32.

[169] *See* Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 507 (1988) (recognizing that parsing the difference between commercial activity that has a political impact and political activity that has a commercial impact, but stating that the difference would depend on the context and nature of the activity).

[170] *See* Unocal Complaint, *supra* note 8, ¶ 28, 32.

[171] *See Allied Tube*, 486 U.S. at 505.

[172] *See supra* Part III.B notes and accompanying text; *see also* Unocal Initial Decision, *supra* note 14, at 40.

[173] *See* Unocal Initial Decision, *supra* note 14, at 41-43.

[174] *See id.*

The ALJ's analysis ignores the fact that CARB was dependent on Unocal *and all the other entities*, to provide the agency with accurate and truthful information with which to execute its rulemaking responsibilities.[175] CARB had to perform cost analyses and other functions for which it conducted hearings and held meetings—all in an effort to collect information that was crucial to its rulemaking functions.[176] CARB relied on the industry experts for this information and from the facts of the case all the entities, except Unocal, provided CARB with truthful information.[177]

Unocal deliberately misrepresented its proprietary interests and provided CARB with false information when asked about its interests in the research presented to CARB.[178] With regard to Unocal's research, CARB was solely dependent on Unocal to disclose its corporate interests. Because the standard-setting process is premised on honesty among SSO members,[179] CARB was justified in relying on Unocal's representation that it had no proprietary interest in the research presented when it enacted emission standards that inadvertently included the results of Unocal's research.[180] Unocal should not be allowed to "change its story" now in order to reap the enormous royalties.[181] Unocal only obtained its desired standard from CARB by "knowingly and willfully misrepresenting facts" to CARB.[182] Seen in this light, Unocal's actions appear to be precisely the type of conduct condemned by *Walker Process*.[183]

4. Unocal and the Sham Exception

The exception for sham litigation does not apply to the facts of the Unocal case.[184] The FTC did not allege that Unocal brought any frivolous claims against the infringers of their patents. In fact, Unocal has been successful in

[175] *See* Unocal Complaint, *supra* note 8, ¶ 17.

[176] *See id.* ¶¶ 22-26.

[177] *See id.* ¶¶ 25, 35, 38, 39.

[178] *See id.*

[179] *See Allied Tube*, 486. U.S. at 504.

[180] *See* Unocal Complaint, *supra* note 8, ¶¶ 25, 41.

[181] *See id.* ¶¶ 68-72. In private litigation, Unocal received royalty payments of 5.75 cents per gallon of RFG. Unocal has received $91 million in damages, court costs, and attorneys' fees. Unocal also has various licensing agreements ranging from 1.2 cents to 3.4 cents a gallon, depending on usage. *Id.*

[182] *See* Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 177 (1965) (holding that "proof that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office" is enough to strip Food Machinery of antitrust immunity).

[183] *See id.* (condemning deliberate misrepresentations made to an administrative agency which is dependent on organizations to report truthfully to it when considering issues).

[184] *See supra* Part III.C.

enforcing all of its RFG patents.[185]

However, there may be an argument for sham petitioning.[186] Unocal was "petitioning" CARB to adopt standard rules that were favorable to its own corporate interests.[187] One could argue that Unocal's conduct was aimed less toward getting its research results adopted as a standard and more toward obtaining market power in RFG.[188] Viewed in that light, Unocal's petitioning could be considered a sham because obtaining favorable legislation, which would have been permissible, was not its goal.[189]

Although the complaint did not allege that Unocal "attempted to gain a monopoly through the use of CARB's process in adopting the Phase 2 regulations,"[190] the ALJ found that it was a relevant factor in determining that the sham exception did not apply in this case.[191] If FTC Counsel had drafted the complaint in such a way that alleged that Unocal used the CARB rulemaking process to gain a monopoly on RFG, the sham exception most likely would have applied.[192] Regardless of whether FTC Counsel alleged that Unocal attempted to gain a monopoly through the rulemaking process, the facts tend to show that this is exactly what Unocal did. Unocal's ultimate goal was to convince CARB that its research results should be adopted into the standard.[193] Unocal even amended its patent applications after the standards were adopted so that its patents would substantially cover the adopted standards.[194] This evidence tends to directly prove Unocal's intent to use the rulemaking process to achieve market power and a monopoly of reformulated gasoline and thus should qualify as sham petitioning to strip Unocal of *Noerr-Pennington* immunity.[195]

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[185] *See* Unocal Complaint, *supra* note 8, ¶¶ 60–72.

[186] *See supra* Part III.C.

[187] *See* Unocal Complaint, *supra* note 8, ¶¶ 33–49.

[188] *See id.* ¶ 35.

[189] *See id.*

[190] *See* Unocal Initial Decision, *supra* note 14, at 48.

[191] *See id.*

[192] *See id.*

[193] *See id.*

[194] *See* Unocal Complaint, *supra* note 8, ¶ 60.

[195] *See Allied Tube*, 486 U.S. at 502 (stating that the sham petitioning exception applies where the petitioning conduct was for a purpose other than obtaining favorable government action). In the instant case, Unocal's petitioning conduct was solely to achieve market power.

IV. PROPOSAL FOR CHANGE

A. Mandatory Licensing through Legislation

Assuming that the ALJ's interpretation of Unocal's activity toward CARB was correct, the result nevertheless seems to contradict the basic principles of law and equity. If nothing else, Unocal's activity was clearly manipulative, misleading, and borderline fraudulent.[196] Given the importance of intellectual property rights in modern society,[197] a rule that would forbid the acquisition of patent rights for SSO participants would stifle participation and technological advancement.[198] It seems that the only way to level the playing field would be to require full disclosure of all proprietary interests in the subject of the standard-setting process. Only then could a SSO make an informed decision to either infringe the patent and negotiate favorable licensing terms or adopt a standard which does not infringe on the member's proprietary interests.

Unocal repeatedly represented to CARB, WSPA, and Auto/Oil that it did not have any proprietary interest in the research result it was presenting.[199] Unocal's counsel claimed that the corporation did not know what CARB meant when it asked whether Unocal had any proprietary interests.[200] This seems highly unlikely as proprietary interests generally refer to some sort of patent or other enforceable right.[201] Unocal was aware that one of CARB's goals was to implement rules that would be the most cost-effective.[202] WSPA and Auto/Oil even prepared cost estimates for CARB detailing the cost of implementing the new low emission gasoline production procedures.[203] Unocal must have known that the cost of paying royalty fees would have an enormous effect on the decision to adopt one set of rules over another.[204]

Relying on Unocal's misrepresentations, WSPA and Auto/Oil recommended the RFG emission standards that substantially overlapped with Unocal's patents.[205] The oil industry also spent a huge amount of resources converting

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[196] *See supra* Parts II.E, III.D.3.

[197] *See supra* Parts II.A, II.B.

[198] *See* Lemley, *supra* note 16, at 1892; *see also supra* notes 26–30 and accompanying text.

[199] *See* Unocal Complaint, *supra* note 8, ¶¶ 77, 80.

[200] *See id.* ¶¶ 41, 77, 80.

[201] *See* BLACK'S LAW DICTIONARY 816 (7th ed. 1999) (defining proprietary interest as "[t]he interest held by a property owner together with all appurtenant rights, such as a stockholder's right to vote").

[202] *See* Unocal Complaint, *supra* note 8, ¶ 41.

[203] *See id.*

[204] *See id.* ¶ 27.

[205] *See id.* ¶ 90.

its factories to produce the mandated RFG.[206] Unocal should not avoid liability based on the mere fact that the California legislature mandated CARB to develop RFG. It seems inequitable that Unocal should benefit from its deliberate misrepresentations to all three entities.[207] Unocal's behavior affects not only the oil industry, which must pay Unocal royalties, but also consumers who must use RFG up to eight months out of the year.[208]

Much of the increased cost of implementing the rule is passed to the consumers.[209] This directly contradicts one of the purposes of standardization.[210] Standardization is valuable when it keeps pricing competitive among manufacturers. If the cost of production drastically increases because a market participant has wrongfully achieved a monopoly on the product's technology, the possibility of being able to price competitively drastically decreases.[211] This leaves the consumer paying more to make up for lost profits.

This "loophole" seems ripe for a legislative remedy.[212] Given the wide range of treatment of intellectual property rights in SSOs and the great potential for consumer harm, legislation could make participation in SSOs more stable and predictable.[213]

Of course, complete derogation of intellectual property rights in the context of SSO participation might be unfair, stifling innovation and competition and running afoul of antitrust principles.[214] Thus, it seems that the ideal solution to the present problem would require mandatory disclosure of intellectual property rights and provide for the collection of a reasonable royalty from the other SSO members.

B. What is a Reasonable Royalty?

Although an ideal reasonable royalty seems like a perfect solution to the problem created in the Unocal case, the term has never really been defined in

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[206] *See id.* ¶ 93.

[207] *See id.* ¶¶ 77, 82, 85. The ALJ did not decide the issue of whether Unocal should be liable for its misrepresentations to WSPA and Auto/Oil because those issues involved in-depth question of patent technology. Unocal Initial Decision, *supra* note 14, at 64-65.

[208] *See* Unocal Complaint, *supra* note 8, ¶ 5.

[209] *See id.* ¶ 10.

[210] *See supra* Part II.B.

[211] *See* Unocal Complaint, *supra* note 8, ¶ 5.

[212] *See* ROBERT B. SEIDMAN & CYNTHIA BARR, BOSTON UNIVERSITY LEGISLATION CLINICS, DRAFTER'S HANDBOOK, Assignment, "There oughtta be a law" 1, 2 (2004) (suggesting that there ought to be a law when you can identify a particular harm that needs to be ameliorated and when you can identify the actors causing the harm).

[213] *See supra* Part II.A.

[214] *See* Lemley, *supra* note 16, at 1892.

the context of standard-setting organizations.[215] The difficulty lies in defining what is reasonable in regards to a royalty. Is reasonable the market value of the intellectual property right? Or should SSO participants get a discount off that market rate? Should the rate be a function of the extent of patent infringement necessary to comply with the standard set by the SSO? The goal is to make the computation as simple as possible while also providing enough guidance such that the licensor is not left with complete discretion to define the term "reasonable." A definition that is unclear or that gives the licensor a great amount of discretion likely will result in an increase in lawsuits over the reasonableness of charged royalty.

One can easily debate what constitutes reasonableness. Given that reasonable minds can differ as to what constitutes reasonableness, one must start with an objective basis. The most logical basis would be the fair market value of the patent. The remainder of the analysis is, unfortunately, subjective. At first glance, it would seem fair to allow the patent owner to charge market value for the use of the patent in the standard. However, when a patent is adopted into a standard it becomes significantly more valuable because the patent gains wide spread use. Therefore the fair market value measured after the adoption of the standard may represent an excessive royalty.

Furthermore, charging the market price for royalties will only drive up the cost of using the standard, which defeats standardization's purpose of reducing consumer cost. SSOs are usually composed of the top corporations in the industry, which means that the high production cost will be passed on to the majority of the market. It follows that the benefit of having your patented technology included in a standard should be incorporated into the determination of reasonableness.

Relevant to the discussion of the calculation of reasonable royalties is the treatment of damages for actual instances of patent infringement. Damages for patent infringement suits are governed by statute.[216] The relevant section provides that damages for patent infringement may "in no event [be] less than a reasonable royalty for the use made of the invention by the infringer . . . ."[217] Other than providing for the availability of expert testimony in determining what a reasonable royalty under the circumstances consists of, the statute provides no guidance for defining a "reasonable royalty."[218] Courts have incorporated several factors in deciding what affects the calculation of a reasonable royalty.[219] The majority of courts have considered the facts of each

[215] *See id.* at 1906; *see also supra* Part II.A.

[216] *See* 35 U.S.C. § 284 (2000).

[217] *See id.*

[218] *See id.*

[219] *See* Wesley Kobylak, 66 A.L.R. Fed. 186, § 2a, Factors To Be Considered In Determining A "Reasonable Royalty" For Purposes Of Calculating Damages For Patent

case as having a dominant role in determining a reasonable royalty.[220]

Making use of that methodology makes the most sense and meshes perfectly with the suggested approach. When determining reasonable royalties in the context of a SSO, it becomes critical that the inquiry be immensely fact specific. Some factors that should be considered are the value added to the patent by virtue of being included in a standard, the cost of producing the standard without infringing on the patent, the market value of the patent (if this is not available, some approximation of a license fee), and the added cost to the consumer of paying a royalty on patented portions of the standard. This list of factors is by no means exhaustive and may be modified by the particular facts of each case.

In addition, patent holders should be prohibited from charging increased royalties to members of the SSO.[221] Thus, the method for determining royalties should also ensure that the royalty fee is non-discriminatory. SSO members should not have to pay more for the "privilege" of using the patent in the standard.

C. Model Statute

The challenge in crafting a model statute is that it would have to be written in a manner that provides clear guidance and permits SSOs to understand and implement its allowances and prohibitions. The following statutory formulation aims to address the concerns created by Dell, Rambus, and most importantly, Unocal.

MANDATORY DISCLOSURE OF PRORIETARY INTERESTS FOR PARTICIPANTS IN STANDARD-SETTING ORGANIZATIONS AND RECOVERY OF REASONABLE ROYALTY FOR PATENT RIGHTS

I. MANDATORY DISCLOSURE OF PROPRIETARY INTERESTS

A. An affirmative duty of disclosure of proprietary interests, regarding any aspect of the subject of standardization, is imposed on every participant in a standard setting organization.

1) For purposes of this section, a standard setting organization is any group, public or private, of industry professionals who come

Infringement Under 35 U.S.C.A. § 284 (2003) (compiling important federal cases that have considered the determination of reasonable royalties when the patent holder does not have license fees actually charged as a basis for an actual damage calculation).

[220] *See id.* § 3b (listing cases which have held that "a determination of a reasonable royalty for purposes of fixing damages for patent infringement must include a consideration of pertinent factors present in each case").

[221] In Rambus, the corporation charged higher royalties to the members of JEDEC. *See* Rambus Complaint, *supra* note 7, ¶ 2.

together to develop a standard for a certain product or market.[222]

2) For purposes of this section, "proprietary interests" refers to any patent, license, or other intellectual property right, which can be enforced for royalties and infringement.[223]

B. Subject to the defense of good faith,[224] failure to disclose a proprietary interest, intentional or not, shall render a patent unenforceable against the members of the SSO if the members relied on the non-existence of proprietary interests in adopting the particular standard.

II. DETERMINATION OF REASONABLE ROYALTY

A. If a disclosure is made pursuant to section I, then the participant making the disclosure may enter into an agreement with the other participants to charge a reasonable royalty for use of the proprietary information based on the nature of the enforceable right, its value in the open market, and any other facts which make the proprietary right more or less valuable, pursuant to the following limitations:

1) The royalty may not exceed the amount that may be charged in the open market for the use of the proprietary information;

2) The agreed upon rate shall not be such that the participant is unjustly enriched by his decision to join the SSO.

B. In lieu of charging royalties, participants may enter into an agreement for royalty-free licensing.

III. DECISION NOT TO ENTER INTO LICENSING AGREEMENTS

If a participant decides not to enter into licensing agreements with members of the SSO, the participant foregoes all rights to enforce the patent against the other members of the SSO.

IV. MODIFICATION BY CONTRACT; GOOD FAITH REQUIREMENT

A. Any provision of this statute may be modified by contract among the participants of the SSO, subject to the condition that any modification does not dispense with the requirement of good faith.

B. Any contract made between the participants of the SSO shall be void, if the member seeking to enforce the contract engaged in

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[222] *See supra* Part II.A.

[223] *See supra* notes 201–202 and accompanying text.

[224] As used in this statute, good faith means honesty in fact and observance of reasonable commercial standards of fair dealing.

intentional misrepresentation or misleading, evidencing a lack of good faith.

D. Benefits of the Statute and its Application to Dell, Rambus, and Unocal

This statute represents a middle ground because it would require mandatory disclosure of proprietary interests by all SSO participants, while also recognizing that participants may modify the terms of the statute by contract. The statute makes unlikely the formation of a SSO that will fail to protect all members from secret proprietary interests. Most importantly, the statute would explicitly remove protection for intentional misrepresentation. The statute creates a level playing field for all actors involved in the standard-setting process. Nothing in the statute prevents the adoption of a standard that overlaps with one of the member's proprietary interests. At the same time, it protects members from "surprise" patent infringement suits and extortionate royalties.

Applied to Unocal, the corporation would lose all rights to enforce its patents against the other members of the RFG standard-setting process because of its deliberate misrepresentations.[225] Unocal clearly exhibited bad faith, evidenced by its amended patent application and repeated misrepresentations to all groups involved.[226] Application of the statute would avoid the potentially unsatisfactory results of applying the *Noerr-Pennington* doctrine to the case.[227] As a result, the RFG market, which consumers must use for most of the year, would more fairly reflect RFG's production costs.

V. CONCLUSION

Standard-setting organizations play an important role in our modern society.[228] A majority of SSOs consist of private companies that come together to develop a particular product. These SSOs largely involve innovative technological standards. Because a substantial segment of the market is affected by standard-setting, it becomes increasingly important to evaluate the treatment of intellectual property rights in these organizations. Most commonly, these organizations require that patents be licensed on reasonable and nondiscriminatory terms, but few explain what constitutes reasonableness or provide explicit guidance regarding this broad language. Even with these policies, a SSO participant is not immune from antitrust violations. In light of the prospect of such violations, it becomes imperative to protect the consumer benefits of standard-setting.

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[225] *See supra* notes 74–86 and accompanying text.

[226] *See id.*

[227] *See supra* Part III.D.

[228] *See supra* Parts II.A, II.B.

Beginning with Dell in 1996, the FTC has consistently condemned conduct that violates Section 5 of the Federal Trade Commission Act through an organization's participation in a standard-setting organization.[229] The FTC Complaint Counsel argues that participants who patent the resulting standard create serious antitrust concerns and threaten the future of SSOs.

Unocal differs from Dell and Rambus in that the *Noerr-Pennington* doctrine may protect it from antitrust liability because the California legislature mandated the creation of the SSO to research and develop cleaner burning summertime gasoline.[230] The doctrine immunizes petitioning activity designed to influence government decisions. The doctrine applies regardless of the petitioner's desire to gain an anticompetitive advantage, provided the conduct is not a sham or misrepresentation.

In November 2003, an Administrative Law Judge held that the doctrine applied to the facts of the Unocal case and dismissed the complaint against it.[231] The ALJ's analysis of the doctrine as applied to CARB and Unocal is questionable, and the result seems unjust considering the corporation's blatant misrepresentations to the California Air Resources Board. The difficulty lies in the analysis of whether CARB qualifies as a quasi-legislative body, which would allow *Noerr-Pennington* immunity, or as a quasi-adjudicative body, which prevents application of the doctrine. Additionally, the two doctrinal exceptions arguably apply to the facts of the Unocal case.

Nonetheless, if the ALJ was correct in his decision and current law required this seemingly unjust decision, the issue is one ripe for a legislative band-aid.[232] This Note proposed one such band-aid, and advocates the adoption of a statute requiring mandatory disclosure of proprietary interests for all SSO participants. Realizing that a rule requiring disclosure is insufficient, this proposed statute also provides a more precise framework for determining what constitutes a reasonable royalty in practice. Moreover, it incorporates a good faith exception to protect innocent parties from potential liability and enumerates penalties for violators. The proposed statute recognizes the sensitivity of regulating participation in standard-setting organizations and allows organizations the opportunity to opt out of the statute. Consequently, it addresses the fear that a "one size fits all approach" will chill participation in standard-setting organizations.[233]

The moral of the Unocal story is that at times certain doctrines may serve to

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[229] *See supra* Part II.C.

[230] *See supra* Part III.A.

[231] *See* Unocal Initial Decision, *supra* note 14, at 1.

[232] *See supra* Part IV.C.

[233] Sherry, *supra* note 18, at 1986 (expressing concern that antitrust regulation would make participation in standard-setting organizations less reliable). Contrary to this concern, a statute requiring disclosure and providing for consequences will make participation in standard-setting organizations more, rather than less, reliable.

cause more harm than good when indiscriminately applied. Consumers in California are now required to pay the high RFG price eight months out of the year and the FTC ALJ has condoned Unocal's behavior by shielding it from liability. We must learn from this experience and implement mechanisms to prevent such an illogical result from occurring in the future.