

NOTE

IN THE FACE OF STRONG PATENT RIGHTS: USING THE FOREIGN ANTITRUST IMPROVEMENTS ACT TO COMBAT PATENT ABUSE IN INTERNATIONAL COMMERCE

*Diane Lu **

INTRODUCTION

“Patent abuse” occurs when a patentee exploits its patent rights in a manner or with an effect that significantly and adversely disrupts competitors’ or licensees’ business operations. The United States patent regime currently tolerates and facilitates such abuse by providing patentees overly robust protective rights.¹ The U.S. patent laws are unequivocally pro-patentee² and continually face proposals for reform.³ However, U.S. patent law has proven resistant to reform due to general disagreement over the appropriate changes to be made.⁴ Against this backdrop in which patentees enjoy excessively strong

* Many thanks to Professor Keith Hylton, A.J. Pepper, and Doug Scott for all of their invaluable feedback and support during my note-writing process. Special thanks to Karyn Tan, Victoria Lu, Qui Lu, and Carlos Torres for always rooting for me. Most importantly, a big thank you to my mother, Julie Tao, to whom I owe all of my accomplishments. She taught me to be hungry for knowledge, to work hard towards my goals, and to be ambitious. Also, to my young nieces, I am adding my note to your bedtime story list!

¹ See, e.g., *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1328-29 (Fed. Cir. 2010) (A patentee has “substantial rights under the patent grant” and can “impose a broad range of conditions,” including “suppress[ing] the invention while continuing to prevent all others from using it” (citations and internal quotation marks omitted).

² See Carl Shapiro, *Patent Reform: Aligning Reward and Contribution*, 8 Innovation Pol’y & Econ. 111, 112 (2008); *Princo Corp.*, 616 F.3d at 1328-29. See generally 35 U.S.C. § 271 (2012) (providing a patent owner relief against a patent infringer).

³ See *Current Legislative Proposals for Patent Reform*, ELECTRONIC FRONTIER FOUND., <https://www EFF.org/issues/current-legislative-proposals-patent-reform#stop> (last updated Dec. 9, 2013) (archived at <https://perma.cc/4VZU-XWES>).

⁴ For example, the latest legislative bill, The Patent Transparency and Improvements Act of 2013, S.1720, 113th Cong. (2013), headed by Senate Judiciary Committee Chairman Patrick Leahy, to reform the patent laws was recently delayed for the fourth time. See Alex Wilhelm, *Senate Patent Reform Bill Delayed Yet Again*, TECHCRUNCH (Apr. 9, 2014), <http://techcrunch.com/2014/04/09/senate-patent-reform-bill-delayed-yet-again> (archived at

patent rights,⁵ complainants have turned to antitrust law.⁶ While antitrust law, in particular the Sherman Act, has been helpful in addressing patent abuse in the domestic context, its use in international commerce has been limited because of an inaccurate interpretation of the Foreign Trade Antitrust Improvements Act.

The Foreign Trade Antitrust Improvements Act (“FTAIA”) is a provision within the Sherman Act that various courts interpret as a jurisdictional limit keeping companies from using the Sherman Act to target anticompetitive conduct in international business.⁷ Before the FTAIA’s enactment, companies could have theoretically turned to the Sherman Act in the international arena. However, after Congress enacted the FTAIA to “clarify” the Sherman Act’s application overseas,⁸ courts have interpreted the statute as a rigid jurisdictional threshold that companies must meet just to be heard in court. This interpretation is improper not only as a matter of policy but also as a matter of law.

In today’s modern economy, U.S. antitrust law cannot be restrained to cover only purely domestic concerns because modern business is inherently international.⁹ The FTAIA offers an opportunity to use the Sherman Act in international commerce, but debate remains over whether the FTAIA should be interpreted as a jurisdictional or substantive statute. If jurisdictional, the FTAIA overly limits the reach of the Sherman Act. If substantive, the FTAIA

<http://perma.cc/4RJJ-83J2>).

⁵ See Shapiro, *supra* note 2, at 112 (“[T]he patent system predictably provides excessive rewards to patent holders.”).

⁶ See *infra* text accompanying notes 70-81.

⁷ See, e.g., *Filetech S.A. v. France Telecom S.A.*, 157 F.3d 922, 931-32 (2d. Cir. 1998) (vacating district court decision that found pleadings sufficient for subject matter jurisdiction under the FTAIA); *Dee-K Enters., Inc. v. Heveafil Sdn. Bhd.*, 299 F.3d 281, 287 (4th Cir. 2002) (noting that the FTAIA is the relevant “threshold jurisdictional standard” for foreign trade disputes); *Den Norske Stats Oljeselskap As v. HeereMac Vof*, 241 F.3d 420, 427-28 (5th Cir. 2001); *United States v. LSL Biotechnologies*, 379 F.3d 672, 679 (9th Cir. 2004) (“[W]e must adhere to the FTAIA in determining whether a district court has subject matter jurisdiction over an alleged foreign restraint of trade.”); *United States v. Anderson*, 326 F.3d 1319, 1329 (11th Cir. 2003) (noting Congress enacted the FTAIA as jurisdictional limit); *Caribbean Broad. Sys., Ltd. v. Cable & Wireless P.L.C.*, 148 F.3d 1080, 1085 (D.C. Cir. 1998) (court has subject matter jurisdiction if it meets the FTAIA).

⁸ H.R. Rep. No. 97-686, at 2 (1982).

⁹ See Makan Delrahim, *Drawing the Boundaries of the Sherman Act: Recent Developments in the Application of the Antitrust Laws to Foreign Conduct*, 61 N.Y.U. ANN. SURV. AM. L. 415, 416 (2005) (“As global commerce expands and barriers to international trade erode, it is only natural that the laws governing economic activity must respond to the changes.”); see also *A troubling trajectory*, THE ECONOMIST, (Dec. 11, 2014), <http://www.economist.com/news/finance-and-economics/21636089-fears-are-growing-trades-share-worlds-gdp-has-peaked-far> (archived at <http://perma.cc/9EVJ-3LSB>) (cross-border trade volume makes up approximately sixty percent of global GDP).

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would enable foreign and international companies an opportunity to use the Sherman Act to address patent abuse affecting U.S. commerce. Because current patent law refuses to address patent abuse, the FTAIA should be substantive. Moreover, under recent U.S. Supreme Court law on statutory interpretation, the FTAIA is *properly interpreted* as substantive rather than jurisdictional.

I. BACKGROUND

Derived from the U.S. Constitution, patent law is based on the public interest, incentivizing creators with exclusive rights so that the public could benefit from the information that the creators disclose.¹⁰ Patent protection involves a *quid pro quo* relationship in which a balance is struck between the strong rights patentees receive and the information they give to the public in return.¹¹ Thus, an innovator's private profits from its creation are only a secondary consideration.¹² As the U.S. Supreme Court famously stated: "[A] patent is not a hunting license. It is not a reward for the search, but compensation for its successful conclusion."¹³ In short, only where the public would receive something of benefit would patent rights be justified.¹⁴

Yet, the balance or *quid pro quo* relationship behind patent law is sometimes lost.¹⁵ Because of their strong exclusionary rights, patents give rise to anticompetitive behavior and are thus more likely to raise antitrust concerns.¹⁶ Such concerns have gone international as globalization opened up communication between countries, leading to increased patent licensing, distributorships, and various other relationships between and among

¹⁰ 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.").

¹¹ See *Brenner v. Manson*, 383 U.S. 519 (1966) (no patent rights given to invention lacking utility). See also HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 1.3 (2012), available at 2012 WL 5831889; Christopher A. Cotropia & James Gibson, *The Upside of Intellectual Property's Downside*, 57 UCLA L. REV. 921, 926 (2010) (noting that patent law allows innovators to recover upfront expenses of innovation).

¹² *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948) (patent laws place public benefit above an owner's private fortunes).

¹³ *Brenner*, 383 U.S. at 536.

¹⁴ See *id.*

¹⁵ See CHRISTINA BOHANNAN & HERBERT HOVENKAMP, *CREATION WITHOUT RESTRAINT: PROMOTING LIBERTY AND RIVALRY IN INNOVATION* 61 (2012) (noting that patent law often creates rights that are "not related in any coherent way" to promoting innovation).

¹⁶ See, e.g., *Fed. Trade Comm'n v. Actavis*, 133 S.Ct. 2223, 2231 (2013) ("[A] valid patent excludes all except its owner from the use of the protected process or product . . . the improper use of [a patent] monopoly is invalid under the antitrust laws." (citations and internal quotation marks omitted)). See also 35 U.S.C. § 271 (2012) (A person or entity may not "without authority make, use, offer to sell, or sell any patented invention").

international companies.¹⁷ Foreign players are now infiltrating once-local markets, increasing not only technological advancement but also global competition.¹⁸ With its IP exposed to the global community, a patentee has reason to enforce its rights more strongly, restraining the behavior of its foreign competitors or licensees.¹⁹ International competitors and licensees are left vulnerable.

A. Patent Abuse: What Is Legal Is Not Necessarily Free of Abuse

The exercise of patent rights—including its aggressive enforcement—is not per se illegal.²⁰ The current patent regime offers patentees exclusive rights and robust safe harbors.²¹ Patentees have a right of action against those engaging in literal, non-literal, and indirect infringement.²² Additionally, Congress has stated that patentees are entitled to take advantage of their patents without adverse consequence.²³ Specifically, Congress prohibits allegations of “misuse or illegal extension of the patent right” against patentees that

- (1) derive revenue from their patents;
- (2) license or authorize acts allowed under the patent laws (i.e., make, use, sell, etc.);
- (3) seek to enforce their patent rights;
- (4) refuse to license or use any patent rights; or
- (5) condition a license of any patent rights, or sale of a patent, unless the owner has market power in the concerned market.²⁴

Patentees generally enjoy such rights and safe harbors for twenty years from the date they file a patent application.²⁵ Such rights are to constitute the “quid” to the “quo” in patent law.

Regardless of legality, some types of conduct, including some listed above, impose substantial obstacles on businesses and constitute patent abuse. “Patent

¹⁷ See Delrahim, *supra* note 9, at 415, 416 (“[A]n ever-increasing number of antitrust cases in our courts involve foreign conduct or foreign commerce.”); Herbert Hovenkamp, *Antitrust and the Movement of Technology*, 19 GEO. MASON L. REV. 1119 (2012) (discussing the growth of high technology connecting various markets and the significant role of antitrust).

¹⁸ See Delrahim, *supra* note 9, at 415 (noting “increasing interdependency of the global economy”).

¹⁹ Cotropia & Gibson, *supra* note 11, at 926.

²⁰ *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1329 (Fed. Cir. 2010). See also *id.* at 1352 (Dyk, J., dissenting) (explaining that “patents give competitors the legal right to foreclose competition”).

²¹ See 35 U.S.C. § 271.

²² See *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605 (1950) (describing the doctrine of equivalents); 35 U.S.C. § 271(c) (explaining indirect infringement).

²³ 35 U.S.C. § 271(d).

²⁴ *Id.*

²⁵ 35 U.S.C. § 154(a)(2) (2012).

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abuse” occurs when a patentee enforces its patent rights in such an aggressive way or to such an extent that the conduct significantly and adversely disrupts competitors’ or licensees’ business operations.²⁶ Such conduct is abusive because it hurts the competitive process. In today’s international business environment, patent abuse arises in various forms but commonly in the context of cross-licensing and patent hold-up.²⁷ Such activities are generally legal under U.S. patent laws.²⁸ As stated by the Federal Circuit, if a patentee is acting within its statutory patent rights, then the court “will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect.”²⁹

The Supreme Court has frowned upon anticompetitive behavior resulting from the exercise of strong patent rights.³⁰ In *United States v. Singer Manufacturing Co.*, the Court found that cross-licensing among Singer and some European competitors—despite the patents’ validity—violated U.S. antitrust laws for aiming to “destroy” sales of Japanese imports.³¹ This case demonstrates the uniquely strong patent regime in the United States: the European sewing machine manufacturers deliberately transferred a patent right to Singer because patent enforcement against the alleged Japanese infringers

²⁶ “Patent abuse” is a term created for the purposes of this paper. “Patent abuse” is not synonymous with “patent misuse,” a defense provided to alleged patent infringers based on a patentee’s unlawful behavior. *See generally* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917). Patent misuse is a *narrower* type of conduct than the type that this Note seeks to cover with “patent abuse.” *See* Princo Corp. v. Int’l Trade Comm’n, 616 F.3d 1318, 1329 (stating anticompetitive behavior is not necessarily patent misuse).

²⁷ *See* *United States v. Singer Mfg. Co.*, 374 U.S. 174, 196-97 (1963) (stating global patent pooling is invalid when it goes beyond the extent of a “patent monopoly”); *Apple, Inc. v. Samsung Elecs. Co., Ltd.*, No. 11-CV-01846-LHK, 2012 WL 2571719, at *27 (N.D. Cal. June 30, 2012) (stating patent hold-ups may have anticompetitive effects). *But see* *Cutter Labs. v. Lyophile-Cryochem Corp.*, 179 F.2d 80, 93 (9th Cir. 1949) (stating patent-pooling and cross-licensing are not per se illegal). Other types of patent abuse include tying (patentees conditioning license upon use or sale of another patented or unpatented product), reverse payment settlements (patentees paying competitors not to compete or sue them), and unreasonable royalty payments (such as sales-based as opposed to use-based royalties). *See, e.g.*, HOVENKAMP ET AL., *supra* note 11 (tying); *Fed. Trade Comm’n v. Actavis*, 133 S.Ct. 2223, 2232 (2013) (reverse payment settlements); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 139 (1969) (unreasonable royalties).

²⁸ *See* *Singer*, 374 U.S. at 196-97; *Cutter Labs. v. Lyophile-Cryochem Corp.*, 179 F.2d 80, 93 (9th Cir. 1949) (“[F]ixing prices or charging unreasonable royalties . . . could not constitute unlawful monopolization.”).

²⁹ *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1327-28 (Fed. Cir. 2000).

³⁰ *Princo Corp.*, 616 F.3d at 1352-53 (Dyk, J., dissenting) (discussing Supreme Court opinions finding certain patent agreements invalid based on the rule of reason).

³¹ *Singer*, 374 U.S. at 195-97; WILLIAM C. HOLMES, *INTELLECTUAL PROPERTY AND ANTITRUST LAW* § 38:4 (2013).

would be more effective in the United States.³² A modern case of patent abuse, and one that was dismissed by the trial court and affirmed on other grounds, is *Lotes*.³³ *Lotes* is based on a patent hold-up situation among competing foreign corporations.³⁴ Though both parties agreed to license their standard-essential patents, the defendant refused to license its patents to the plaintiff, which had already invested in implementing such patents for its Universal Serial Bus connector (“USB”) manufacturing business.³⁵ *Lotes* will be further discussed below. As these cases and the statutory rights show, patent protection empowers patentees in international commerce to exploit their respective markets at the detriment of fair competition.³⁶

B. IP and Antitrust: Too Much Patent Protection Can Be a Bad Thing

Circuit courts have been viewing patent and antitrust laws as having a conflicted relationship in which the two legal areas have opposing objectives.³⁷ Patent law protects the patent owner.³⁸ Antitrust law protects market competition.³⁹ Because patent law to a certain extent tolerates patent abuse, the current U.S. patent regime allows undue restrictions upon competitors’ and licensees’ business operations and thus provides a safe haven for anticompetitive behavior.⁴⁰ Although it encourages innovation and disclosure by providing exclusive rights, patent protection can ultimately harm consumers if patentees unfairly exploit their rights and inhibit companies from developing

³² *Singer*, 374 U.S. at 191-92, 195-97.

³³ *Lotes Co. v. Hon Hai Precision Indus.*, No. 12 Civ. 7465(SAS), 2013 WL 2099227 (S.D.N.Y. May 14, 2013).

³⁴ *Id.* at *2.

³⁵ *Id.* at *1.

³⁶ HOVENKAMP, *supra* note 11.

³⁷ Thomas Cheng, *Putting Innovation Incentives Back in the Patent-Antitrust Interface*, 11 Nw. J. Tech. & Intell. Prop. 385, 390 (2013) (discussing circuit court views of the inherent tension between patent law and antitrust).

³⁸ *See Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (“The heart of [the patentee’s] legal monopoly is the right to invoke the State’s power to prevent others from utilizing his discovery without his consent.”).

³⁹ *See* FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, 2003 WL 22507757, at *2 (F.T.C.) (“Antitrust law seeks ‘to maximize consumer welfare by encouraging firms to behave competitively.’”); Hovenkamp, *supra* note 17, at 1119.

⁴⁰ *See Princo Corp. v. Int’l Trade Comm’n.*, 616 F.3d 1318, 1329 (Fed. Cir. 2010) (“While proof of an antitrust violation shows the patentee has committed wrongful conduct having anticompetitive effects, that does not establish misuse of the patent in suit unless the conduct in question restricts the use of that patent and does so in one of the specific ways that have been held to be outside the otherwise broad scope of the patent grant.”). *See also id.* at 1352 (Dyk, J., dissenting) (“[I]t is perfectly lawful for the owner of a patent to refuse to license it for any reason or no reason at all.”).

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new or improving old technologies.⁴¹ Such conduct can raise the cost of goods and services for others (e.g., through royalty payments or companies' precautionary efforts to prevent infringement suits) and discourage innovation.⁴² As Professor Cotropia explains, "too much intellectual property protection can actually limit access to information and slow down, rather than speed up, the pace of innovation."⁴³ When exercising patent rights becomes patent abuse, the social benefit derived from providing those rights diminishes. Given that patent protection is based on restricting the behavior of other innovators and allows to an extent anticompetitive conduct, too much patent protection can be a bad thing.

C. Current Patent Regime Provides Inadequate Mechanisms Against Patent Abuse

Current patent laws do provide competitors and licensees some mechanisms to combat excessive enforcement of patent rights.⁴⁴ They include the exhaustion doctrine (where, generally, a patentee's exclusive rights are extinguished after the first sale of a chattel that encompasses the patented invention at issue), experimental use (patent rights do not extend to experimental uses of patents that are "reasonably related" to making disclosures to regulatory agencies), and patent misuse (patent rights do not extend beyond what is actually stated in the patent claims).⁴⁵ Out of these three mechanisms, patent misuse is the one that to a certain extent addresses a

⁴¹ Cheng, *supra* note 37, at 391; U.S. DEP'T OF JUSTICE AND FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 2 (2007) ("[F]ailure to challenge illegal collusive or exclusionary conduct, involving intellectual property . . . can have substantial negative consequences for consumers.").

⁴² Shapiro, *supra* note 2, at 112.

⁴³ Cotropia & Gibson, *supra* note 11, at 923 (overprotection creates "artificial scarcity": there is no innovation given to consumers when innovators cannot get authorization from patentees to make improvements). *But see* JOHN G. MILLS ET AL., § 19:26 ANTITRUST ANALYSIS AND CRITIQUE—SHERMAN ACT § 1 (15 U.S.C.A. § 1) (2013) (patent rights motivate entities that cannot fully exploit their patents to license to other entities for monetary gain).

⁴⁴ *See* 35 U.S.C. §§ 273, 282(b) (2012) (providing defenses against a patentee).

⁴⁵ *See, e.g.,* Quanta Computer, Inc. v. LG Elecs., Inc., 553 U.S. 617 (2008) (exhaustion doctrine); Merck KGaA v. Integra Lifesciences I, Ltd., 545 U.S. 193 (2005) (experimental use – sole use of patents "reasonably [but broadly] related" to provide information under federal law to agencies regulating "drugs or veterinary biological products" not infringement); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917) (patent misuse). In addition to these mechanisms, non-patent holders can challenge the validity of the patents themselves. *See, e.g.,* KSR Int'l Co. v. Teleflex Inc., 550 U.S. 398 (2007) (holding that defendant successfully challenged validity of plaintiff's patents involving car pedals as non-obvious under 35 U.S.C. § 103).

patentee's aggressive enforcement of its patent rights.⁴⁶ The patent misuse doctrine protects against restrictions enforced by a patent owner that are outside the owner's statutory right.⁴⁷ In *Motion Picture Patents Co. v. Universal Film Mfg.*, the seminal patent misuse case, the Supreme Court explained why a patent owner's restrictions were excessive beyond law:

[The] restriction [upon the licensee to use only a certain film with the licensed projectors] is invalid because such a film [with an expired patent] is obviously not any part of the invention of the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired, and because to enforce it would be to create a monopoly in the manufacture and use of moving picture films, wholly outside of the patent in suit and of the patent law as we have interpreted it.⁴⁸

As further (and ardently) explained, a restriction that "would give to the [patentee] such a potential power for evil over an industry . . . is plainly void . . . and because, if sustained, it would be gravely injurious to [the] public interest."⁴⁹ Accordingly, the patent misuse doctrine has been interpreted as an equitable doctrine against the hostile patent owner.⁵⁰

However, there are two significant problems with patent misuse in helping against the type of patent abuse discussed herein.⁵¹ First, like the doctrines of exhaustion and experimental use, the doctrine of patent misuse is a *defensive* mechanism against patent infringement.⁵² Inherent to its role as a defense, the patent misuse doctrine comes into play only after a patentee sues for alleged infringement. That is, competitors or licensees of the patent rights at issue cannot rely on the doctrine until they are actually sued.⁵³ The second problem is that various courts have established patent misuse as a specific, narrow type of behavior that they would condemn only where the patent laws themselves

⁴⁶ See *Motion Picture Patents*, 243 U.S. at 519.

⁴⁷ *Id.* at 518.

⁴⁸ *Id.* See also Christina Bohannon, *IP Misuse as Foreclosure*, 96 IOWA L. REV. 475, 479 (2011) (*Motion Picture Patents* as seen as "seminal" case on patent misuse).

⁴⁹ *Motion Picture Patents*, 243 U.S. at 519.

⁵⁰ *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998) (citing *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), but also criticizing such a view as "too vague a formulation to be useful" and threatening to patent rights).

⁵¹ See *supra* notes 26-27 and accompanying text.

⁵² 35 U.S.C. § 273 (2012). See, e.g., *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) (exhaustion doctrine invoked by defendant against contributory patent infringement claim); *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005) (FDA experimental use defense invoked by defendant against patent infringement claim); *Commissariat A L'Energie Atomique v. Samsung Elecs. Co.*, 430 F. Supp. 2d 366, 369 (D. Del. 2006) (discussing how defendant would allege a patent misuse defense).

⁵³ See, e.g., *Quanta Computer*, 553 U.S.; *Merck KGaA*, 545 U.S.; *Commissariat A L'Energie Atomique*, 430 F. Supp. 2d.

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are violated.⁵⁴ In other words, what constitutes anticompetitive behavior does not necessarily constitute patent misuse.⁵⁵ “[W]rongful commercial conduct” would only satisfy the patent misuse doctrine when the patentee’s conduct goes beyond the restrictions that the “*broad* scope” of patent law permits.⁵⁶ Therefore, the patent misuse defense lacks the scope necessary to help competitors or licensees combat patent abuse in today’s global market. The patent misuse defense is as limited as the patentee’s rights are robust.

D. United States Antitrust Laws Address Patent Abuse in International Commerce

Because patent law’s misuse defense does not consider anticompetitive conduct, which can unduly restrain competition, antitrust law is a more suitable area of law with which competitors and licensees can address patent abuse.⁵⁷ Traditionally, courts view patent law as the determining body of law for examining a patentee’s alleged anticompetitive behavior; however, such behavior should first be viewed against an antitrust background.⁵⁸ In the IP realm, much of antitrust doctrine has been built with the help of challenges involving patent licensing.⁵⁹ After all, antitrust law is “society’s designated and generally applicable vehicle for deciding what is anticompetitive”⁶⁰ since it aims to protect fair competition for consumer welfare.⁶¹ Although a patent gives exclusionary rights, those rights are secondary to the public’s benefit.⁶²

⁵⁴ “Recognizing the narrow scope of the doctrine, we have emphasized that the defense of patent misuse is not available to a presumptive infringer simply because a patentee engages in some kind of wrongful commercial conduct, even conduct that may have anticompetitive effects.” *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1329 (Fed. Cir. 2010). *But see C.R. Bard*, 157 F.3d at 1372 (“Patent misuse is viewed as a broader wrong than antitrust violation because of the economic power that may be derived from the patentee’s right to exclude. Thus misuse may arise when the conditions of antitrust violation are not met.”).

⁵⁵ *Princo Corp.*, 616 F.3d at 1329; *see also Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (noting that patent misuse “does not necessarily . . . embod[y]” Sherman Act violation).

⁵⁶ *Princo Corp.*, 616 F.3d at 1329 (emphasis added).

⁵⁷ *See Bohannon*, *supra* note 48, at 490 (discussing that leading antitrust scholars believe that patent misuse “should be judged according to antitrust principles”).

⁵⁸ *See id.* *But see MILLS*, *supra* note 43, § 19:26 (“[I]t is fruitless to attempt to judge the legality of a particular limitation contained in a license in terms of the competition that it prevents from coming into existence. The legality of a limitation or series of limitations can only be judged with reference to the scope of the monopoly created by the patent.”)

⁵⁹ Hovenkamp, *supra* note 17, at 1121.

⁶⁰ 10 PHILLIP E. AREEDA ET AL., *ANTITRUST LAW* § 1781d4 (2d ed. 2004).

⁶¹ FED. TRADE COMM’N, *supra* note 39, at *2.

⁶² *See Fed. Trade Comm’n v. Actavis*, 133 S.Ct. 2223, 2232 (2013) (citing *United States v. Singer Mfg. Co.*, 374 U.S. 174, 199 (1963) (White, J. concurring)).

As the Supreme Court recently reminded lower courts in *Actavis*, a 2013 case involving reverse settlement payments, antitrust laws should be considered with patent law in evaluating a patentee's anticompetitive conduct.⁶³ When determining Sherman Act violations, courts should not first determine whether the conduct at issue falls outside the patent's specific scope (i.e., do not initially concentrate on patent law) but rather first consider antitrust laws.⁶⁴

In today's globalized world, where lower courts applying U.S. patent law are unwilling to consider anticompetitive behavior, antitrust law can step in and provide an effective, alternative approach to addressing patent abuse in international commerce.

1. The Sherman Act

Among U.S. antitrust laws, sections one and two of the Sherman Act are the most popular provisions to be invoked in allegations of anticompetitive conduct.⁶⁵ Congress enacted the Sherman Act in 1890 to prohibit restraints on "trade or commerce among the several States, or with foreign nations" that were imposed via, *inter alia*, contract, monopolization, collusion, and conspiracy.⁶⁶ Unique among governments globally, the antitrust laws in the U.S. allow not only the government but also *private individuals* to enforce antitrust laws.⁶⁷ This significant difference in U.S. antitrust laws may empower businesses in international commerce with the opportunity to combat anticompetitive conduct on their own. As recognized by the former Deputy Assistant Attorney General of the U.S. Department of Justice, Antitrust Division, U.S. courts are experiencing an "ever-increasing" amount of antitrust cases involving international commerce.⁶⁸ The availability of the Sherman Act to firms in international businesses would allow the truncation of certain anticompetitive conduct affecting the United States.

⁶³ *Id.* at 2231.

⁶⁴ *See id.* at 2231-32 ("Whether a particular restraint lies beyond the limits of the patent monopoly is a conclusion that flows from that analysis and not . . . its starting point.") (internal quotation marks omitted). Yet, it is important to note that, even while emphasizing its history of patent cases considering antitrust laws, the Supreme Court stated that the cases found the terms and conditions at issue unlawful "*unless patent law policy offsets the antitrust policy* strongly favoring competition." *Id.* at 2233 (emphasis added). In other words, patent law still ultimately determines a patent's anticompetitiveness.

⁶⁵ Michael G. McKinnon, Comment, *Federal Judicial and Legislative Jurisdiction Over the Entities Abroad*, 21 Pepp. L. Rev. 1219, 1260 (1994).

⁶⁶ 15 U.S.C. §§ 1-7 (2012). *See also* McKinnon, *supra* note 65, at 1260 n.196.

⁶⁷ *See* 15 U.S.C. § 15(a) (providing private right of action). The Clayton Act "authorizes private suits by 'any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws,'" including the Sherman Act. In re Publ'n Paper Antitrust Litig., 690 F.3d 51, 62 (2d Cir. 2012).

⁶⁸ Delrahim, *supra* note 9, at 416.

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2. The Sherman Act Addressing Patent Abuse in the United States

The Sherman Act has been used to combat patent-related anticompetitive behavior in the U.S.⁶⁹ In *United States v. Line Material Co.*, the government sued Line Material and other companies for restraint of trade in electrical devices (section one of the Sherman Act).⁷⁰ The Supreme Court ruled that the defendants' cross-licensing agreement violated the Act because it allowed the patentees to fix prices of electrical devices that encompassed their patents.⁷¹ The Court acknowledged that a patentee has a right to cross-license and demand royalties as part of its rightful reward for its invention.⁷² However, even if a patentee may lawfully fix prices based on its own patents, when two or more patentees "join in an agreement as here to maintain prices . . . , that agreement, however advantageous it may be to stimulate the broader use of patents, is unlawful per se under the Sherman Act."⁷³ A patentee may exploit its patent monopoly in general, but it may not exploit its patent without regard to antitrust law.⁷⁴ In *Line Material*, the patentees improperly used their patents, and the Sherman Act prohibited such behavior.⁷⁵

In *Broadcom Corp. v. Qualcomm Inc.*, another domestic case, Broadcom sued its competitor under section two of the Sherman Act for refusing to license its standard-essential patent by agreed upon terms.⁷⁶ The Third Circuit held that Qualcomm's behavior was "actionable anticompetitive conduct" where, *inter alia*, Qualcomm induced a standard-setting organization ("SSO") to accept its patent as an industry standard by promising to license on fair, reasonable, and non-discriminatory ("FRAND") terms and then breached that promise by charging more.⁷⁷ The court explained that, in an SSO, deception "*harms the competitive process* by obscuring the costs of including proprietary technology in a standard and increasing the likelihood that patent rights will confer monopoly power on the patent holder."⁷⁸ Qualcomm may not have violated any patent law, but the way the company exploited its patent—

⁶⁹ See, e.g., *United States v. Line Material Co.*, 333 U.S. 287, 314 (1948) (holding patentee violated Sherman Act by price-fixing in patent pool); *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297 (3d Cir. 2007) (holding patentee violated Sherman Act by refusing to license standard-essential patent despite agreement); *Xerox Corp. v. Media Sciences Int'l, Inc.*, 511 F. Supp. 2d 372 (S.D.N.Y. 2007) (holding patentee violated Sherman Act by redesigning product and patenting complimentary goods to exclude competitors).

⁷⁰ *Line Material Co.*, 333 U.S. at 288.

⁷¹ *Id.* at 312-13.

⁷² *Id.* at 315.

⁷³ *Id.* at 311, 315.

⁷⁴ *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964).

⁷⁵ *Line Material Co.*, 333 U.S. at 308-10.

⁷⁶ *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007).

⁷⁷ *Id.*

⁷⁸ *Id.* (emphasis added).

inducing SSO members to adopt its patent by promising FRAND terms and then reneging on that promise— was anticompetitive and triggered Sherman Act concerns.⁷⁹ The Sherman Act enabled Broadcom to target Qualcomm’s anticompetitive use of its patent.⁸⁰

Line Material and *Broadcom* present how the Sherman Act can address patent abuse in the domestic sphere. In each case, the patentees’ conduct seemed to be of no patent law concern given the robust rights that attach with a patent.⁸¹ However, that same conduct struck at U.S. antitrust laws by hurting competition. In both cases, complainants used the Sherman Act to combat patent abuse. Yet, patent abuse affecting U.S. commerce is not limited to the physical confines of U.S. borders. If the Sherman Act can effectively address domestic patent abuse, it may also effectively address similar conduct affecting U.S. commerce in international business. The Sherman Act can have significant implications for patent abuse in international commerce, and thus its interpretation is crucial in determining whether such abuses could be curtailed.

3. The Sherman Act Abroad

The Sherman Act can only be helpful in addressing patent abuse in the international context if it can actually be applied. In response to confusion over the applicability of the Sherman Act in international business transactions, Congress enacted the FTAIA in 1982 as an amendment to the Sherman Act.⁸² On a very general and simplistic level, the FTAIA draws a line to prohibit the extension of the Sherman Act to international commerce.⁸³ However, if the alleged anticompetitive conduct has a “direct, substantial, and reasonably foreseeable effect” on U.S. domestic commerce, and may be deemed in violation of the Sherman Act, then the FTAIA makes an exception and allows the Sherman Act to be applied to the conduct at issue.⁸⁴ Thus, in theory, companies in international business can turn to the Sherman Act to combat patent abuse if the conduct at issue meets the exception under the FTAIA.⁸⁵

As discussed below, despite Congress’s attempt to clarify the applicability of the Sherman Act by enacting the FTAIA, the wording of the FTAIA itself is

⁷⁹ *See id.* at 314, 317.

⁸⁰ *See id.* at 314.

⁸¹ *See Line Material Co.*, 333 U.S. at 315; *Broadcom*, 501 F.3d at 314.

⁸² H.R. REP. NO. 97-686, at 14; 4A LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 27:30 (4th ed. 2013).

⁸³ 15 U.S.C. § 6a (2012).

⁸⁴ *Id.*

⁸⁵ Although the Sherman Act does not expressly provide a private right of action, such a right is provided under “section 4 of the Clayton Act, which authorizes private suits by ‘any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws.’” *In re Publ’n Paper Antitrust Litig.*, 690 F.3d 51, 62 (2d Cir. 2012); *see also* 15 U.S.C. § 15(a) (2012).

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confusing.⁸⁶ Circuit courts today are grappling with whether the FTAIA is a jurisdictional statute (a statute on subject matter jurisdiction) or a substantive statute (a statute on merit) to determine the Sherman Act's application to anticompetitive behavior in international business.⁸⁷ If the FTAIA were a jurisdictional statute, a court would have to dismiss the pending case for lack of subject matter jurisdiction if the plaintiff failed to allege the requisite domestic effects under the FTAIA.⁸⁸ On the other hand, if the FTAIA were a statute based on substantive merit under the Sherman Act, a court is not limited by jurisdictional concerns under the FTAIA but only looks for the required conduct to see if the Sherman Act has been violated.⁸⁹ Thus, for those alleging patent abuse in international commerce, whether the FTAIA is a jurisdictional or substantive statute brings great significance to their antitrust proceedings.⁹⁰

As stated, the current mechanisms available in U.S. patent laws to combat patent abuse are limited in availability and in scope.⁹¹ Approaching patent abuse from an antitrust perspective, the Sherman Act—if available—would provide the scope to address the anticompetitive conduct for which patent law has little concern. The question of availability can be resolved by the FTAIA. As a substantive statute (not one based on subject matter jurisdiction), the FTAIA can possibly make the Sherman Act available to those in international commerce.

II. THE SHERMAN ACT BEFORE THE FOREIGN TRADE ANTITRUST IMPROVEMENTS ACT OF 1982

The Sherman Act was enacted in 1890 to protect consumer welfare by prohibiting restraints on trade and commerce.⁹² Generally, section one of the Sherman Act prohibits contracts or conspiracies “in restraint of trade or commerce among the several States, or with foreign nations,” and section two prohibits monopolies or attempts to establish a monopoly “among the several States, or with foreign nations.”⁹³

⁸⁶ ALTMAN & POLLACK, *supra* note 82, § 27:30.

⁸⁷ Compare *U.S. v. LSL Biotechnologies*, 379 F.3d 672, 672 (9th Cir. 2004) (holding the FTAIA is a subject matter jurisdictional bar), with *Minn-Chem, Inc. v. Agrium, Inc.*, 683 F.3d 845 (7th Cir. 2012), and *Animal Sci. Prods., Inc. v. China Minmetals Corp.*, 654 F.3d 462 (3d Cir. 2011) (holding the FTAIA is a not jurisdictional bar because statute makes no mention of jurisdiction). See ALTMAN & POLLACK, *supra* note 82, § 27:30.

⁸⁸ ALTMAN & POLLACK, *supra* note 82, § 27:30 (discussing various cases where courts dismissed for lack of subject matter jurisdiction under the FTAIA).

⁸⁹ See *Minn-Chem, Inc.*, 683 F.3d at 850-53; ALTMAN & POLLACK, *supra* note 82, § 27:30.

⁹⁰ See *infra* Part IV(B) for a thorough discussion of the jurisdictional versus substantive debate.

⁹¹ See *supra* text accompanying notes 51-56.

⁹² 15 U.S.C. §§ 1-7 (2012).

⁹³ *Id.*

A. The Antitrust and Patent Law Dynamic

From the enactment of the Sherman Act towards the 1930s, patent owners enjoyed a period of minimal antitrust scrutiny.⁹⁴ Courts primarily excused patent owners from antitrust concerns because of what they thought was the inherent nature of the patent: The “very object of these [patent] laws is monopoly”⁹⁵ The notion that a patent can be misused⁹⁶ and the resulting growth of antitrust law came forth between 1930 and 1980.⁹⁷ However, despite what the Federal Trade Commission called an “antitrust backlash,” the Supreme Court still upheld the concept of the “patent monopoly,” where only conduct beyond the exclusive rights of the patent owner would be under antitrust scrutiny.⁹⁸ The 1960s and 1970s strengthened the role of antitrust as many patents were held invalid in court.⁹⁹ Around this period and towards 1990, the U.S. patent system was made stronger by the Patent Act of 1952 and various executive, legislative, and judicial decisions,¹⁰⁰ all of which imposed more requirements upon applicants seeking a patent but also left patentable subject matter quite broad.¹⁰¹

B. Extraterritoriality: The Sherman Act’s Application to International Commerce

The determination of whether the Sherman Act applies to a certain case involving international commerce has moved from a strict territorial inquiry to an assessment of the “effects” of the antitrust conduct upon U.S. commerce.¹⁰²

⁹⁴ FED. TRADE COMM’N, *supra* note 39, at *14-15.

⁹⁵ *Id.* (internal quotation marks omitted) (quoting *E. Bement & Sons v. Nat’l Harrow Co.*, 186 U.S. 70, 91 (1902)). The full context found in *E. Bement & Sons* reveals how earlier courts typically left patent owners untouched even when they committed anticompetitive conduct: “The very object of these laws is monopoly, and *the rule is, with few exceptions*, that any conditions which are not in their very nature illegal with regard to *this kind of property*, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, *will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.*” *E. Bement & Sons*, 186 U.S. at 91 (emphasis added).

⁹⁶ Although not yet termed “patent misuse” at the time, the concept of patent misuse first appeared in 1917 in *Motion Picture Patents Co. v. Universal Film Mfg.*

⁹⁷ FED. TRADE COMM’N, *supra* note 39, at *24.

⁹⁸ *Id.* (quoting *United States v. Line Material Co.*, 333 U.S. 287, 308 (1948)).

⁹⁹ *Id.* at *18 n.122 (discussing how the United States Department of Justice engaged in “overzealous antitrust enforcement” where certain conduct would be automatically illegal, and how the Second Circuit in 1971 stated that eighty percent of patents litigated on the appellate level were held invalid).

¹⁰⁰ *Id.* at *16-23.

¹⁰¹ *Id.* at *21-22 (discussing, e.g., *Diamond v. Diehr*, 450 U.S. 175 (1981), which held that a process claim that involved an (inventive) application of a formula was patentable).

¹⁰² See generally ALTMAN & POLLACK, *supra* note 82, § 27:30 (discussing the “effects”

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The Supreme Court first considered the Sherman Act's application to international commerce in 1909.¹⁰³ In *American Banana Co. v. United Fruit Co.*, which involved an American company's attempt to monopolize the banana trade and to push another company out of the Central American market, the Court held that the Sherman Act did not apply because the alleged acts "were not torts by law of the place [Costa Rica] and therefore were not torts at all, however contrary to ethical and economic postulates of that statute."¹⁰⁴ Focusing on the territorial lines to determine the application of the Sherman Act, the Court stated, "[i]n case of doubt [courts should adopt] a construction of any statute as intended to be confined in its operation and effect to the territorial limits within the jurisdiction of the lawmaker"¹⁰⁵

The Supreme Court stepped away from its strict territorial interpretation three years later. In *United States v. American Tobacco*, the Court established the "rule of reason"¹⁰⁶ and invalidated an agreement between an American firm and a British firm, which aimed to divide the world's markets.¹⁰⁷ Although the conduct was lawful in the United Kingdom, the Court nonetheless held that the agreement violated the Sherman Act for its "substantial effect" on the U.S. market.¹⁰⁸

In 1927, in *United States v. Sisal Sales Corp.*, the Court upheld the extraterritorial reach of the Sherman Act in a case involving an anticompetitive act *outside* the U.S.¹⁰⁹ The defendants pushed for predatory legislation in Mexico, which drove all others out of the sisal (plant fiber) market, and then established a monopoly through various anticompetitive mechanisms.¹¹⁰ The monopoly was in Mexico, but the anticompetitive acts "brought about forbidden results within the United States," and so the Court applied the Sherman Act.¹¹¹ In 1945, the Second Circuit under Judge Learned Hand put an end to the strict standard of territoriality in *United States v. Aluminum Co. of America (Alcoa)*.¹¹² Judge Hand extended the Sherman Act to cover a

test of the Sherman Act, and later the FTAIA).

¹⁰³ See *Am. Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909), *vacated*, 278 U.S. 268 (1927).

¹⁰⁴ *Id.* at 357.

¹⁰⁵ *Id.*

¹⁰⁶ *United States v. Am. Tobacco*, 221 U.S. 106, 179-80 (1911).

¹⁰⁷ *Id.* See also *ALTMAN & POLLACK*, *supra* note 82, § 27:30, where Altman explains that the Court distinguished *American Banana* because the conduct in the case at bar involved a restraint from entering the American market, whereas *American Banana* involved the Central American market.

¹⁰⁸ *Am. Tobacco*, 221 U.S. at 179-80.

¹⁰⁹ *United States v. Sisal Sales Corp.*, 278 U.S. 268 (1927).

¹¹⁰ *Id.* at 272, 276; see also *ALTMAN & POLLACK*, *supra* note 82, § 27:30 (discussing *Sisal Sales Corp.*).

¹¹¹ *Sisal Sales Corp.*, 278 U.S. at 276.

¹¹² *United States v. Aluminum Co. of America (Alcoa)*, 148 F.2d 416 (2d Cir. 1945);

completely foreign cartel formed among European and Canadian producers.¹¹³ Though there was no proof of adverse effect on U.S. commerce,¹¹⁴ and most of the conduct was abroad, the court found the defendants in violation of the Sherman Act based on an “effects test” where the cartel’s agreements, “though made abroad, . . . were intended to affect [U.S.] imports and did affect them.”¹¹⁵ The court further explained that the U.S. could enforce its laws upon foreign parties for foreign conduct as long as that conduct gave rise to effects within U.S. borders.¹¹⁶

By the time of the FTAIA’s enactment, Congress accepted the effects test and included the test in the FTAIA.¹¹⁷ Within a few decades, *American Banana*’s strict territoriality standard proscribing the Sherman Act’s application to international commerce appeared to be obsolete.

III. THE SHERMAN ACT’S AVAILABILITY TO COMBAT ABUSIVE ENFORCEMENT OF PATENT RIGHTS DEPENDS ON THE INTERPRETATION OF THE FOREIGN TRADE ANTITRUST IMPROVEMENTS ACT

The Foreign Trade Antitrust Improvements Act was enacted in 1982 to clarify the extraterritoriality issues of the Sherman Act.¹¹⁸ Though the FTAIA might be “inelegantly phrased,” “cumbersome,” and “couched in dense and opaque terms,” a “reasonably readable paraphrase” would be that it generally limits the Sherman Act to antitrust issues of a domestic nature with a few exceptions.¹¹⁹ The FTAIA states as follows:

15 U.S.C. § 6a. Conduct involving trade or commerce with
foreign nations
Sections 1 to 7 of this title shall not apply to conduct involving
trade or commerce (other than import trade or import commerce)
with foreign nations unless—
(1) such conduct has a direct, substantial, and reasonably
foreseeable effect—

McKinnon, *supra* note 65, at 1263. At that point, the Supreme Court did not have a quorum and so the Second Circuit acted as the “court of last resort.” McKinnon, *supra* note 65, at 1263.

¹¹³ *Alcoa*, 148 F.2d at 445.

¹¹⁴ *ALTMAN & POLLACK*, *supra* note 82, § 27:30.

¹¹⁵ *Alcoa*, 148 F.2d at 444.

¹¹⁶ *Id.* at 443.

¹¹⁷ McKinnon, *supra* note 65, at 1265.

¹¹⁸ The Foreign Trade Antitrust Improvements Act, 15 U.S.C. § 6a (2012). “Sections 1 to 7” refers to the Sherman Act. *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 161 (2004).

¹¹⁹ *ALTMAN & POLLACK*, *supra* note 82, § 27:30.

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- A. on trade or commerce which is not trade or commerce with foreign nations, or on import trade or import commerce with foreign nations; or
 - B. on export trade or export commerce with foreign nations, of a person engaged in such trade or commerce in the United States; and
- (2) such effect gives rise to a claim under the provisions of sections 1 to 7 of this title, other than this section.

If sections 1 to 7 of this title apply to such conduct only because of the operation of paragraph (1)(B), then sections 1 to 7 of this title shall apply to such conduct only for injury to export business in the United States.¹²⁰

Overall, the FTAIA excepts from the Sherman Act, conduct “involving trade or . . . commerce with foreign nations.”¹²¹ However, within this exception is an exception.¹²² Although conduct involving trade or commerce with foreign nations generally falls outside U.S. antitrust scrutiny, if such conduct (1) has a “direct, substantial, and reasonably foreseeable effect” on (a) domestic commerce or (b) export trade *and* (2) “such effect gives rise” to a Sherman Act claim, then the conduct involving trade or commerce with foreign nations is pulled back into the sphere of U.S. antitrust law.¹²³ If the conduct at issue generally falls under the FTAIA, then the Sherman Act does *not* apply (because the FTAIA is an exception to the Sherman Act). However, if the conduct satisfies the exception found within the FTAIA, then the Sherman Act *does* apply (because the FTAIA and the exception within act as a double negative). Accordingly, the opportunity for a non-patent holder to combat patent abuse comes in the latter scenario, when a patentee affects U.S. commerce through its exercise of patent rights and triggers the Sherman Act.

Because patent law provides only defenses to non-holders, the availability of the Sherman Act can provide a broader, more effective avenue to companies facing patent abuse in international commerce.¹²⁴ However, whether the Sherman Act can be applied to foreign commerce depends on the interpretation of the FTAIA. Congress enacted the FTAIA to clarify the Sherman Act’s extraterritorial application, but the statute has caused much confusion as circuit courts disagree over its interpretation.¹²⁵ Companies have been heading to court to enforce antitrust law, claiming the FTAIA as a substantive statute to apply the Sherman Act,¹²⁶ but despite new Supreme Court law on statutory interpretation,¹²⁷ not all circuit courts agree.¹²⁸

¹²⁰ 15 U.S.C. § 6a (2012).

¹²¹ *Id.*

¹²² *See id.*

¹²³ *See* *Minn-Chem, Inc. v. Agrum, Inc.*, 683 F.3d 845, 856 (7th Cir. 2012) .

¹²⁴ *See supra* text accompanying notes 51-56.

¹²⁵ *ALTMAN & POLLACK, supra* note 82, § 27:30.

¹²⁶ *See, e.g., Lotes Co. v. Hon Hai Precision Indus.*, No. 12 Civ. 7465(SAS), 2013 WL

A. The History and Purpose of the Foreign Trade Antitrust Improvements Act

Congress stated that the FTAIA's "ultimate purpose" is to "promote certainty in assessing the applicability of American antitrust law to international business transactions and proposed transactions."¹²⁹ The legislative history of the FTAIA further identifies two primary concerns driving the legislation. Concerned that businesses were viewing U.S. antitrust law as a "barrier" to international transactions,¹³⁰ Congress wanted to encourage businesses to engage in exports by making an exception in the Sherman Act for exports that did not harm the American economy.¹³¹ In other words, businesses that might be in violation of the Sherman Act would be free from the Act's scrutiny if their U.S. exports were without harm to the American economy.¹³² More importantly, for our purposes, Congress generally wanted to enact the FTAIA to clarify when antitrust law applied to international transactions.¹³³

The Supreme Court recognizes that the FTAIA is a mechanism to promote international comity.¹³⁴ If the conduct at issue does not affect U.S. commerce, applying the Sherman Act "creates a serious risk of interference with a foreign nation's ability to independently regulate its own commercial affairs."¹³⁵ Consistent with the principles of international comity, "the FTAIA's language and history suggest that Congress designed the FTAIA to clarify, perhaps to limit, but not *to expand* in any significant way, the Sherman Act's scope as applied to foreign commerce."¹³⁶ However, the notion of international comity does not mean that the FTAIA is inapplicable to foreign transactions or to conduct outside the U.S. As explained above, under the effects test, the exception under the FTAIA allows the Sherman Act to be applied to conduct with "direct, substantial, and reasonably foreseeable effect" on U.S. commerce

2099227 (S.D.N.Y. May 14, 2013).

¹²⁷ *Arbaugh v. Y&H Corp.*, 546 U.S. 500, 515-16 (2006). See *infra* Part IV(C) for a discussion of the *Arbaugh* standard of statutory interpretation.

¹²⁸ Compare *U.S. v. LSL Biotechnologies*, 379 F.3d 672 (9th Cir. 2004), with *Minn-Chem*, 683 F.3d 845, and *Animal Sci. Prods., Inc. v. China Minmetals Corp.*, 654 F.3d 462 (3d Cir. 2011).

¹²⁹ H.R. REP. NO. 97-686, at 9 (1982).

¹³⁰ *Id.* at 2.

¹³¹ *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 796 n.23 (1993).

¹³² H.R. REP. NO. 97-686, at 2-3, 9-10.

¹³³ *Id.* at 2.

¹³⁴ *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 165, 169 (2004). Viewing the FTAIA to promote international comity can also be perceived as a form of statutory interpretation to avoid brushing up against the sovereignty of other nations. *Id.* at 164-65.

¹³⁵ *Id.* at 165.

¹³⁶ *Id.* at 169.

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or export trade that may violate antitrust laws.¹³⁷ When looking at the conduct's *effects*, neither the location of the conduct nor the "nationality or the situs" of the business matters.¹³⁸ As to the actual conduct, for the Sherman Act to apply, the FTAIA exception requires that the alleged anticompetitive conduct raise a Sherman Act claim.¹³⁹ Thus, under the FTAIA, not all conduct would automatically fall under Sherman Act scrutiny—"this is a standard with teeth."¹⁴⁰ Even when recognizing the importance of international comity, it is only reasonable that the Sherman Act would apply where there is domestic injury regardless of the conduct's location.¹⁴¹

B. Is the Foreign Trade Antitrust Improvements Act a Jurisdictional or Substantive Statute?

The FTAIA is a statute of substantive merit and is most effective against patent abuse as a statute of substantive merit for reasons discussed later below. Yet, select parts of the FTAIA's House Report frame the Act as "jurisdictional."¹⁴² Most explicitly, the report states: "This bill only establishes the standards necessary for assertion of United States jurisdiction, the substantive antitrust issues on the merits of the plaintiffs' claim would remain unchanged."¹⁴³ Comparing the FTAIA's legislative history and the FTAIA language itself reveals an inconsistency as to the FTAIA as a jurisdictional statute. While the report at times claims the FTAIA as a "jurisdictional test," the substance of the report¹⁴⁴ and the statute's express language¹⁴⁵ appear to

¹³⁷ 15 U.S.C. § 6a (2012).

¹³⁸ H.R. REP. NO. 97-686, at 10, 12.

¹³⁹ See *id.* at 12 (noting that the effects test "does not, however, mean that the impact of the illegal conduct must be experienced by the injured party within the United States. As previously set forth, it is sufficient that the conduct providing the basis of the claim has had the requisite impact on the domestic or import commerce of the United States, or in the case of conduct lacking such an impact, on an export opportunity of a person doing business in the United States"); *Minn-Chem, Inc. v. Agrum, Inc.*, 683 F.3d 845, 858 (7th Cir. 2012).

¹⁴⁰ *Minn-Chem*, 683 F.3d at 858. See also *Lotes Co. v. Hon Hai Precision Indus. Co.*, 753 F.3d 395, 398 (2d Cir. 2014) (discussing the limitations of the FTAIA).

¹⁴¹ *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 165 (2004) (explaining "courts have long held that application of our antitrust laws to foreign anticompetitive conduct is nonetheless reasonable, and hence consistent with principles of prescriptive comity, insofar as they reflect a legislative effort to redress *domestic* antitrust injury that foreign anticompetitive conduct has caused").

¹⁴² See, e.g., H.R. REP. NO. 97-686, at 9 ("[T]here should be no American antitrust jurisdiction absent a direct, substantial and reasonably foreseeable effect . . ."); *Id.* at 11 ("[F]ederal courts may assert jurisdiction of the United States antitrust laws if conduct affects the export trade or commerce of a person engaged in such trade or commerce in the United States.") (internal quotation marks omitted).

¹⁴³ *Id.* at 11.

¹⁴⁴ See generally *id.*

¹⁴⁵ *Boyd v. AWB Ltd.*, 544 F. Supp. 2d 236, 243 n.6 (S.D.N.Y. 2008).

focus not on a federal court's authority to hear a case but on the application of the FTAIA as a substantive matter.¹⁴⁶ As recognized by the Supreme Court and lower courts, "[j]urisdiction . . . is a word of many, too many, meanings."¹⁴⁷ Even the Court admits its own confusion in the use of "jurisdiction" so seen in the lower courts.¹⁴⁸

Determining whether subject matter jurisdiction is at issue is sometimes unclear.¹⁴⁹ "Subject matter jurisdiction in federal-question cases is sometimes erroneously conflated with a plaintiff's need and ability to prove that the defendant is bound by the federal law asserted as the predicate for relief—a merits-related determination."¹⁵⁰ In other words, subject matter jurisdiction is confused with what a plaintiff needs to prove for the merits of its case. Courts frequently dismiss for "lack of jurisdiction" without bearing in mind the exact reason supporting the dismissal at hand.¹⁵¹ The Supreme Court denounces such decisions as so-called "drive-by jurisdictional rulings" and gives them no precedential value.¹⁵² In *Steel Co. v. Citizens for a Better Environment*, the Court stated that it is generally improper to dismiss a case for lack of subject matter jurisdiction just because a plaintiff lacked a valid cause of action.¹⁵³ The Court did not follow the district court's view that the statute at issue was jurisdictional given that "nothing 'turned upon whether [the issue] was technically jurisdictional.'"¹⁵⁴ Thus, statutory interpretations asserting "jurisdiction" require deeper examination to distinguish merit from subject matter jurisdiction. Therefore, despite some legislative history claiming the FTAIA is a clear "jurisdictional test," it is time to further analyze the FTAIA and apply the Act according to what it accurately is: a statute of substantial merit.

¹⁴⁶ *Id.* at 243-44.

¹⁴⁷ *Animal Sci. Prods., Inc. v. China Minmetals Corp.*, 654 F.3d 462, 466 (3d Cir. 2011). In litigation, extraterritoriality and subject matter jurisdiction are "often confused" because procedural methods in challenging the two notions are confused. McKinnon, *supra* note 65, at 1252-53. However, the "concepts . . . are conceptually different and stand on different legal grounds." *Id.* (explaining that extraterritoriality is based on customary international law, not the United States Constitution).

¹⁴⁸ *Arbaugh v. Y&H Corp.*, 546 U.S. 500, 510-11 (2006) ("This Court, no less than other courts, has sometimes been profligate in its use of ['jurisdiction'] On the subject-matter jurisdiction/ingredient-of-claim-for-relief dichotomy, this Court and others have been less than meticulous.").

¹⁴⁹ *Id.*

¹⁵⁰ *Id.* at 511 (internal quotation marks omitted).

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *Steel Co. v. Citizens for a Better Env't*, 523 U.S. 83, 89 (1998).

¹⁵⁴ *Arbaugh v. Y&H Corp.*, 546 U.S. 500, 512 (2006) (quoting *Steel Co.*, 523 U.S. 91) (discussing mischaracterization of statutes as pertaining to subject matter jurisdiction).

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1. The Implications of Being Jurisdictional Versus Substantive

First, it is helpful to understand why the difference in statutory interpretation matters in the context of the FTAIA. The reason is ultimately procedural. Suppose we are examining Statute A. If Statute A is jurisdictional, then a plaintiff would have to meet the threshold detailed in Statute A for the court to obtain subject matter jurisdiction, or else, the court must throw the case out regardless of timing.¹⁵⁵ Assume the threshold in Statute A is very low to the extent that any plaintiff could meet the threshold. Because the threshold is so low, the plaintiff can stay in court on subject matter jurisdiction grounds and go to the merits—the substance—of the case. Statute A being jurisdictional then is of no concern: assuming all other requirements are met, plaintiff can always get into court. Thus, where the threshold in the statute is very low, interpreting Statute A as jurisdictional rather than substantive does not affect a plaintiff's initial ability to seek relief. In that case, the difference between a jurisdictional and substantive interpretation does not matter because the subject matter jurisdiction barrier is no barrier at all.

In the FTAIA context, however, the FTAIA is not like Statute A above. It does not have a low threshold that any plaintiff could meet for the court to obtain subject matter jurisdiction. *If* the FTAIA is interpreted as jurisdictional, the FTAIA's "direct, substantial, and reasonably foreseeable effect" test would be the threshold that a plaintiff must continually overcome for the court to obtain and maintain subject matter jurisdiction. In other words, the plaintiff would have to show the defendant's conduct as having a "direct, substantial, and reasonably foreseeable effect" on "trade or commerce" involving the U.S. just to get into court.¹⁵⁶ This effects test, relative to hypothetical Statute A above, would be a high threshold. Because the FTAIA would be a high threshold for subject matter jurisdiction, the interpretation of the statute—whether it is jurisdictional or substantive—*does matter*. If the FTAIA is interpreted as jurisdictional, a plaintiff would have to meet the effects test just to be heard in court. Moreover, there are additional procedural burdens that a plaintiff would have to overcome that would not exist under a substantive interpretation. If the FTAIA is interpreted as substantive, a plaintiff would only have to meet the effects test in support of its merits (assuming subject matter jurisdiction has already been met). Under the latter scenario, whether the plaintiff shows the defendant's conduct as having a "direct, substantial, and reasonably foreseeable" effect impacts the plaintiff's chances of winning its case, *not* its chances to get into court.¹⁵⁷

¹⁵⁵ FED. R. CIV. P. 12(h)(3).

¹⁵⁶ See 15 U.S.C. § 6a (2012).

¹⁵⁷ Specifically, under the substantive interpretation, a plaintiff's ability to meet the FTAIA's effects test would impact its use of the Sherman Act to win its case.

The FTAIA does not expand the scope of the Sherman Act,¹⁵⁸ and viewing the FTAIA as substantive does not expand the Sherman Act's reach. The substantive interpretation merely aligns the requirements of the FTAIA's effects test with the elements to be proven for a Sherman Act violation.¹⁵⁹ Under a substantive interpretation, because it would not be a jurisdictional limit, the FTAIA would not impose the requirement to meet the effects test upon an international plaintiff at the outset of a case, i.e., when the plaintiff seeks to be heard in court. Rather, the effects test would be imposed upon the plaintiff *later in the case, as part of the merits*.

2. The Procedural Specifics

Generally, according to courts with a *jurisdictional* view of the statute, Congress enacted the FTAIA to define the jurisdiction of the federal district courts pursuant to its Article III authority.¹⁶⁰ Under this view, what is outlined in the FTAIA's statutory text is then a requirement of subject matter jurisdiction. On the defendant's motion to dismiss for lack of subject matter jurisdiction ("12(b)(1) motion"),¹⁶¹ the burden is on the plaintiff to prove the existence of subject matter jurisdiction by meeting the provisions pursuant to the FTAIA's exceptions.¹⁶² The trial court can examine evidence and make factual findings.¹⁶³ If the motion to dismiss for lack of subject matter jurisdiction is granted, the complaint is dismissed in its entirety and the case is thrown out.¹⁶⁴ On appeal, trial court findings would be, to a certain extent, subject to deferential review.¹⁶⁵ Because the trial court must always have subject matter jurisdiction to hear a case, a 12(b)(1) motion can be brought at any phase of litigation.¹⁶⁶ Under this procedural perspective, the plaintiff is in a

¹⁵⁸ See *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 169 (2004) (explaining that Congress did not design the FTAIA to expand the scope of the Sherman Act to solely foreign commerce).

¹⁵⁹ See *Animal Sci. Prods., Inc. v. China Minmetals Corp.*, 654 F.3d 462, 469 (3rd. Cir. 2011).

¹⁶⁰ *Id.* at 467.

¹⁶¹ FED. R. CIV. P. 12(b)(1).

¹⁶² *Animal Sci. Prods., Inc.*, 654 F.3d at 470 n.9. See also Howard M. Wasserman, *Jurisdiction and Merits*, 80 WASH. L. REV. 643, 662-63 (2005).

¹⁶³ *Animal Sci. Prods.*, 654 F.3d at 470 n.9. See also Wasserman, *supra* note 162, at 650-51.

¹⁶⁴ *Arbaugh v. Y&H Corp.*, 546 U.S. 500, 514 (2006).

¹⁶⁵ Wasserman, *supra* note 162, at 663.

¹⁶⁶ FED. R. CIV. P. 12(h)(3); see *Arbaugh*, 546 U.S. at 506-07 (A 12(b)(1) motion "may be raised by a party, or by a court on its own initiative, at any stage in the litigation, even after trial and the entry of judgment"); see also *Minn-Chem, Inc. v. Agrium, Inc.*, 683 F.3d 845, 853 (7th Cir. 2012) ("[S]ubject-matter jurisdiction must be secure at all times, regardless of whether the parties raise the issue, and no matter how much has been invested in a case.").

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more vulnerable position than the defendant and must meet all provisions under the FTAIA's exceptions (i.e., the effects test) to avoid being thrown out of court.

Under the *substantive* interpretation, Congress enacted the FTAIA as part of its Commerce Clause authority.¹⁶⁷ Here, the FTAIA does not act as a "door" to be heard in court but as an additional element to a meritorious claim under the Sherman Act.¹⁶⁸ In other words, unlike where the FTAIA is seen as a jurisdictional threshold, the court examining the merits would consider the FTAIA provisions alongside the provisions under the Sherman Act.¹⁶⁹ The focus is "on whether, in fact, [some legal] norm has been violated."¹⁷⁰ Under this interpretation, a challenge to a lawsuit would be brought under a motion to dismiss for failure to state a claim for which relief can be granted ("12(b)(6) motion").¹⁷¹ The claims alleged must have "more than a sheer possibility that a defendant has acted unlawfully."¹⁷² Unlike a 12(b)(1) motion to dismiss for lack of subject matter jurisdiction, a 12(b)(6) motion cannot be brought after trial¹⁷³ and places the burden of proof on the defendant.¹⁷⁴ On such a motion, the trial court cannot make independent factual findings but must instead accept as true the allegations within plaintiff's complaint.¹⁷⁵ If the 12(b)(6) motion is granted, plaintiffs may remain in court on supplemental jurisdiction based on any pendent state law claims.¹⁷⁶ In whole, interpreting the FTAIA as a statute on merit provides a plaintiff greater procedural advantages in litigation.

Thus, for a non-patent-holder, whether the FTAIA is a jurisdictional statute or a substantive one "is not a picky point that is of interest only to [civil] procedure buffs."¹⁷⁷ The interpretation of the FTAIA ultimately determines whether the non-holder can be heard in court and combat patent abuse using the Sherman Act. If courts interpret the FTAIA as substantive, non-holders would be able to have a greater chance at addressing a patentee's abusive conduct than through the limited options under U.S. patent laws. In contrast to a jurisdictional statute, a statute of substantive merit provides the non-holder,

¹⁶⁷ See *Animal Sci. Prods.*, 654 F.3d at 467-68.

¹⁶⁸ See *id.* at 469.

¹⁶⁹ See *id.*

¹⁷⁰ Wasserman, *supra* note 162, at 669-70.

¹⁷¹ FED. R. CIV. P. 12(b)(6).

¹⁷² *Lotes Co. v. Hon Hai Precision Indus.*, No. 12 Civ. 7465(SAS), 2013 WL 2099227, at *3 (S.D.N.Y. May 14, 2013) (citing *Ashcroft v. Iqbal*, 556 U.S. 662, 678), *aff'd on other grounds*, 753 F.3d 395 (2d Cir. 2014).

¹⁷³ *Arbaugh v. Y&H Corp.*, 546 U.S. 500, 507 (2006).

¹⁷⁴ *Animal Sci. Prods.*, 654 F.3d at 470 n.9.

¹⁷⁵ Wasserman, *supra* note 162, at 662-63. See also *Animal Sci. Prods.*, 654 F.3d at 470 n.9.

¹⁷⁶ See *Arbaugh*, 546 U.S. at 514; 28 U.S.C. § 1367 (2012).

¹⁷⁷ *Minn-Chem, Inc. v. Agrum, Inc.*, 683 F.3d 845, 852-53 (7th Cir. 2012).

inter alia, procedural advantages such as having the burden of proof and the facts alleged in favor of the non-holder.¹⁷⁸

3. Circuit Courts on the Jurisdictional-versus-Substantive Debate

Currently, the Fourth, Fifth, Ninth, Eleventh, and D.C. Circuits view the FTAIA as a jurisdictional statute.¹⁷⁹ The First Circuit recognizes that the FTAIA is often viewed as jurisdictional but takes no stance on its own.¹⁸⁰ With the exception of the First Circuit, these courts hold the FTAIA as jurisdictional based either on a decade-old Supreme Court case,¹⁸¹ which relies on the FTAIA's legislative history, or on the legislative history itself.¹⁸² Because the courts take the Act's jurisdictional aspect as given, they do not question and therefore do not analyze why the Act is jurisdictional.¹⁸³ Though representing the courts' recent interpretation of the FTAIA, these cases are all dated *no later than 2004*.¹⁸⁴

On the other hand, the Third, Seventh, and (most recently) Second Circuits hold the FTAIA as substantive.¹⁸⁵ In 2011, the Third Circuit in *Animal Science Products, Inc. v. China Minmetals Corp.* expressly overturned two decisions made years earlier that followed the jurisdictional line of thought.¹⁸⁶ In 2012, the Seventh Circuit followed suit in *Minn-Chem, Inc. v. Agrium, Inc.*, expressly overruling a 2003 decision holding the FTAIA as jurisdictional.¹⁸⁷ On June 4,

¹⁷⁸ See *id.*; Wasserman, *supra* note 162, at 662-63.

¹⁷⁹ *Dee-K Enters., Inc. v. Heveafil Sdn. Bhd.*, 299 F.3d 281, 287 (4th Cir. 2002) (dismissing case for no subject matter jurisdiction based on failure to meet FTAIA); *Den Norske Stats Oljeselskap As v. HeereMac Vof*, 241 F.3d 420, 427-28 (5th Cir. 2001); *United States v. LSL Biotechnologies*, 379 F.3d 672, 679 (9th Cir. 2004); *United States v. Anderson*, 326 F.3d 1319, 1329 (11th Cir. 2003) (noting Congress enacted the FTAIA as jurisdictional limit); *Caribbean Broad. Sys., Ltd. v. Cable & Wireless P.L.C.*, 148 F.3d 1080, 1085 (D.C. Cir. 1998) (court has subject matter jurisdiction if it meets the FTAIA).

¹⁸⁰ *McBee v. Delica Co., Ltd.*, 417 F.3d 107, 117 (1st Cir. 2005).

¹⁸¹ *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 798 (1993).

¹⁸² *LSL Biotechnologies*, 379 F.3d at 679. See also *Anderson*, 326 F.3d at 1329; *Dee-K Enters.*, 299 F.3d at 287; *Den Norske*, 241 F.3d at 427-28; *Caribbean Broad. Sys.*, 148 F.3d at 1085.

¹⁸³ *LSL Biotechnologies*, 379 F.3d at 679; *Anderson*, 326 F.3d at 1329; *Dee-K Enters.*, 299 F.3d at 287; *Den Norske*, 241 F.3d at 427-28; *Caribbean Broad. Sys.*, 148 F.3d at 1085.

¹⁸⁴ *LSL Biotechnologies*, 379 F.3d (2004); *Anderson*, 326 F.3d (2003); *Dee-K Enters.*, 299 F.3d (2002); *Den Norske*, 241 F.3d (2001); *Caribbean Broad. Sys.*, 148 F.3d (1998).

¹⁸⁵ *Animal Sci. Prods., Inc. v. China Minmetals Corp.*, 654 F.3d 462, 466 (3rd Cir. 2011); *Minn-Chem, Inc. v. Agrium, Inc.*, 683 F.3d 845, 852 (7th Cir. 2012); *Lotes Co. v. Hon Hai Precision Indus. Co.*, 753 F.3d 395, at 405 (2d Cir. 2014).

¹⁸⁶ *Animal Sci. Prods.*, 654 F.3d at 467-68 (overruling *Turicentro, S.A. v. Am. Airlines, Inc.*, 303 F.3d 293 (3rd Cir. 2002) and *Carpet Group Int'l v. Oriental Rug Importers Ass'n*, 227 F.3d 62 (3d Cir. 2000)).

¹⁸⁷ *Minn-Chem*, 683 F.3d at 852 (overruling *United Phosphorus v. Angus Chemical*, 322 F.3d 942 (7th Cir. 2003)).

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2014, the Second Circuit followed suit.¹⁸⁸ The Second Circuit decision will be discussed later in this paper. Overall, the timing of the rulings is telling.

C. The Supreme Court Establishes A New Rule of Statutory Interpretation: Arbaugh's "Clearly States" Test

In 2006, in *Arbaugh v. Y&H Corp.*, the Supreme Court issued an opinion setting forth a new test of statutory interpretation.¹⁸⁹ Although the case concerned a Title VII dispute, the issue centered on whether the statute being examined should be interpreted as jurisdictional or substantive¹⁹⁰—the same issue that needs to be resolved here with the FTAIA to combat patent abuse in international commerce. Recognizing the confusion around the term “jurisdiction” and how the district courts’ interpretation of “jurisdiction” is often vague in dismissals,¹⁹¹ the Court established the “clearly states” test:

If the Legislature *clearly states* that a threshold limitation on a statute’s scope shall count as jurisdictional, then courts and litigants will be duly instructed and will not be left to wrestle with the issue. But when Congress does not rank a statutory limitation on coverage as jurisdictional, courts should treat the restriction as nonjurisdictional in character.¹⁹²

In other words, only where the statute at issue “clearly states” language on jurisdiction should courts find the statute jurisdictional. Otherwise, the statute should not be viewed as jurisdictional. Therefore, this test focuses on the statutory text itself and not its history.¹⁹³ In 2011 and 2012, the Third and Seventh Circuits had the opportunity, respectively, to apply the “clearly states” test to the FTAIA.¹⁹⁴ In *Animal Science*, after explaining what constitutes a jurisdictional statute, the Third Circuit overturned prior case law to hold the FTAIA substantive based on the *Arbaugh* test: “In light of the Supreme Court’s subsequent decision in *Arbaugh* and other recent cases, . . . we will now overturn this aspect of our . . . decisions and hold that the FTAIA constitutes a substantive merits limitation rather than a jurisdictional limitation.”¹⁹⁵ The Circuit recognized that the FTAIA still had extraterritorial factors but ultimately found that “the extraterritorial reach of the Sherman Act . . . has nothing to do with the jurisdiction of the courts. It is a question of substantive law turning on whether, in enacting the Sherman Act, Congress

¹⁸⁸ *Lotes*, 753 F.3d 395 (overruling *Filetech S.A. v. France Telecom S.A.*, 157 F.3d 922, 931 (2nd Cir. 1998)).

¹⁸⁹ *Arbaugh v. Y&H Corp.*, 546 U.S. 500, 515-16 (2006).

¹⁹⁰ *Id.* at 510.

¹⁹¹ *Id.* at 511-12.

¹⁹² *Id.* at 515-16 (emphasis added).

¹⁹³ See *Animal Sci. Prods., Inc. v. China Minmetals Corp.*, 654 F.3d 462, 468 (3rd Cir. 2011).

¹⁹⁴ *Id.* at 467-68; *Minn-Chem, Inc. v. Agrum, Inc.*, 683 F.3d 845, 852 (7th Cir. 2012).

¹⁹⁵ *Animal Sci. Prods.*, 654 F.3d at 467-68.

asserted regulatory power over the challenged conduct.”¹⁹⁶ In *Minn-Chem*, the Seventh Circuit acted similarly.¹⁹⁷ The Circuit discussed the “careful line between true jurisdictional limitations and other types of rules” that the Supreme Court wanted courts to draw after *Arbaugh*.¹⁹⁸ Whether the FTAIA was jurisdictional or substantive was “indeed ripe for reconsideration and ought to be settled now.”¹⁹⁹ Accordingly, the Seventh Circuit overturned prior case law and held the FTAIA substantive based on the “clearly states” test.²⁰⁰ The court went on to state that the FTAIA, as an element of a Sherman Act claim, is true to the language of the statute and “sounder from a procedural standpoint.”²⁰¹ According to the court, “[w]hen Congress decides to strip the courts of subject-matter jurisdiction in a particular area, it speaks clearly,” but the FTAIA speaks only of elements and not jurisdiction.²⁰² After *Arbaugh*, it appears that the FTAIA’s legislative history is no longer determinative. What matters is the text of the FTAIA. Despite being criticized as “inelegantly phrased,” “cumbersome,” and “couched in dense and opaque terms,”²⁰³ the FTAIA does not “clearly” state that the statute authorizes federal courts to hear cases involving the conduct it describes within its text.²⁰⁴

Therefore, when *Arbaugh*’s “clearly states” test is applied, the FTAIA is non-jurisdictional because it does not at any point mention jurisdiction.²⁰⁵ In a recent antitrust suit to combat patent hold-up, a plaintiff argued just that.²⁰⁶

IV. *LOTES CO. V. HON HAI PRECISION INDUSTRIES*: THE FOREIGN TRADE ANTITRUST IMPROVEMENTS ACT IS A SUBSTANTIVE STATUTE

Affirmed on other grounds by the Second Circuit, *Lotes Co. v. Hon Hai Precision Industries* is a prime example of the hard-to-balance patent-antitrust relationship and demonstrates how the FTAIA may be used in a case of patent abuse.²⁰⁷ *Lotes* involves a dispute among competing Asian manufacturers of USB 3.0 connectors that are incorporated into computers sold in the U.S.²⁰⁸

¹⁹⁶ *Id.* at 468 n.7.

¹⁹⁷ *Minn-Chem*, 683 F.3d at 852.

¹⁹⁸ *Id.* at 851.

¹⁹⁹ *Id.* at 852.

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² *Id.*

²⁰³ ALTMAN & POLLACK, *supra* note 82, § 27:30.

²⁰⁴ 15 U.S.C. § 6a (2012).

²⁰⁵ *Id.*

²⁰⁶ Brief for Appellant at 21, *Lotes Co. v. Hon Hai Precision Indus. Co.*, 753 F.3d 395 (2d Cir. 2014) (No. 13-2280-cv), 2013 WL 4696415.

²⁰⁷ See generally *Lotes Co. v. Hon Hai Precision Indus. Co.*, No. 12 Civ. 7465, 2013 WL 2099227 (S.D.N.Y. May 14, 2013).

²⁰⁸ See *Lotes Co. v. Hon Hai Precision Indus. Co.*, 753 F.3d 395, 399-400 (2d Cir.

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Both Appellant Lotes and Appellee Hon Hai²⁰⁹ are participants in the USB Implementers Forum, Inc., a U.S.-based SSO that sets industry standards of USB connectors to facilitate interoperability among manufacturers and other companies involved in the technology.²¹⁰ The USB Implementers Forum, like many SSOs, is built upon a network of intricate licensing agreements for the disclosure of technologies to establish the SSO-chosen standards.²¹¹ Because SSO participants commit substantial resources to developing the standards, they “will find it prohibitively expensive to abandon their investment and switch to another standard” when a patentee withholds a patent that is essential to the development of that industry standard.²¹² Such conduct is known as “patent hold-up.”²¹³ Thus, SSOs implement policies based on various procedures and restrictions to avoid such anticompetitive behavior, including royalty-free licenses.²¹⁴ As members of the SSO, Lotes and Appellees agreed to license their patents on “RAND-Zero” terms, reasonable and non-discriminatory terms free of royalties.²¹⁵

However, despite participation in the SSO, Hon Hai refused to license its standard-essential patents to Lotes, which has by its participation in the SSO depended on use of Hon Hai’s patents.²¹⁶ Additionally, according to Lotes, Appellee Foxconn then issued a press release announcing plans to obtain a monopoly over the USB 3.0 connector market—plans that “alarmed the industry.”²¹⁷ Appellees’ counsel then sent a letter to the SSO reaffirming Appellees’ commitment to license their patents.²¹⁸ Despite the sentiment, Lotes’ repeated good faith attempts to negotiate with Hon Hai were without avail.²¹⁹ Thereafter, Appellee Foxconn Kushan sued Lotes’ subsidiaries in China for patent infringement and sought an injunction against Lotes from making and selling USB 3.0 connectors.²²⁰ In response, Lotes filed suit under

2014).

²⁰⁹ Joining Hon Hai were Defendants-Appellees Hon Hai Precision Industry Company, Foxconn International Holdings, Ltd., Foxconn Electronics, Inc., and Foxconn International, Inc. *See id.* at 395.

²¹⁰ *Id.* at 400-01. George S. Cary, et al., *The Case for Antitrust Law to Police the Patent Holdup Problem in Standard Setting*, 77 ANTITRUST LAW J. 913, 914 (2011). For a full discussion on SSOs, *see id.* at 914-20.

²¹¹ *Lotes*, 753 F.3d at 400-01.

²¹² *Lotes*, 2013 WL 2099227, at *1-2 (quoting *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 300 (3d Cir. 2007)).

²¹³ *See Cary, supra* note 210, at 914-15; *Lotes*, 753 F.3d at 400.

²¹⁴ Cary, *supra* note 210, at 916.

²¹⁵ *Lotes*, 753 F.3d at 401. *See also Cary, supra* note 210, at 915-16.

²¹⁶ *Lotes*, 753 F.3d at 401.

²¹⁷ Brief for Appellant, *supra* note 205, at 12; *Lotes*, 753 F.3d at 401.

²¹⁸ Brief for Appellant, *supra* note 205, at 12.

²¹⁹ *See Lotes*, 753 F.3d at 401-02. *See also* Brief for Appellant, *supra* note 205, at 12.

²²⁰ *Lotes*, 753 F.3d at 402.

sections one and two of the Sherman Act in the Southern District of New York.²²¹

The Southern District of New York dismissed the case.²²² The court found that because the FTAIA is a *jurisdictional* statute, and because Hon Hai's conduct was "disconnected" from the U.S. market, the case had to be dismissed for lack of subject matter jurisdiction.²²³ In short, in interpreting the FTAIA as a jurisdictional statute, the court found that it had no authority to hear the case and thus gave Lotes no leave to amend since any amendment would be "futile."²²⁴

Not including Appellees' expressed intent to monopolize the USB 3.0 market, the possible bad faith dealings in the U.S.-based SSO, and the patent suits in China, Hon Hai's patent hold-up falls well under the "patent abuse" discussed earlier in this paper.²²⁵ Yet, under the patent laws, such conduct is not per se illegal despite the anticompetitive effect.²²⁶ Refusing to license for whatever reason is one of the safe harbors Congress expressly permits.²²⁷ In *Lotes*, the FTAIA as a substantive statute is therefore crucial because it provides Lotes an inroads to bring an antitrust claim against Hon Hai's patent abuse. Assuming no other subject matter jurisdiction issues, Hon Hai would not have been able to bring a 12(b)(1) motion under which Lotes not only had the burden to establish subject matter jurisdiction but also could not rely on inferences from pleadings to establish such jurisdiction.²²⁸ If the court interpreted the FTAIA as substantive, Lotes would be better positioned. And based on the Supreme Court's "clearly states" test in *Arbaugh*, the FTAIA is a substantive statute—it makes no mention of jurisdiction at all.²²⁹ It merely describes the conduct required for the Sherman Act to apply.²³⁰ Therefore, the

²²¹ See *Lotes Co. v. Hai Precision Indus. Co.*, no. 12 Civ. 7465, 2013 WL 2099227, at *1 (S.D.N.Y. May 14, 2013).

²²² *Id.* at *11.

²²³ *Id.*

²²⁴ *Id.* Despite noting that "current thinking may point against finding the FTAIA to be jurisdictional," the court followed Second Circuit precedent under *Filetech* and dismissed the case. *Id.* at *7; *Filetech S.A. v. France Telecom S.A.*, 157 F.3d 922, 931 (2nd Cir. 1998) (holding that the FTAIA is jurisdictional).

²²⁵ See *supra* notes 51-56 and accompanying text.

²²⁶ *Princo Corp. v. Int'l Trade Comm'n.*, 616 F.3d 1318, 1329 (Fed. Cir. 2010).

²²⁷ 35 U.S.C. § 271(d)(4) (2012).

²²⁸ *Lotes Co. v. Hai Precision Indus. Co.*, no. 12 Civ. 7465, 2013 WL 2099227, at *4 (S.D.N.Y. May 14, 2013).

²²⁹ *Minn-Chem, Inc. v. Agrium, Inc.*, 683 F.3d 845, 852 (7th Cir. 2012). In its brief, Lotes criticized the district court's granting of Hon Hai's 12(b)(1) motion and specifically relied on the "clearly states" test to argue that the FTAIA is non-jurisdictional. Brief for Appellant, *supra* note 205, at 21-22.

²³⁰ *Minn-Chem*, 683 F.3d at 852.

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FTAIA's requirements should not be requirements to establish subject matter jurisdiction.

In its appellate brief, Hon Hai fixates on Second Circuit precedent and the FTAIA's purpose of international comity.²³¹ First, however, the case law on which Hon Hai relies is pre-*Arbaugh*, before the "clearly states" test.²³² As the District Court itself recognizes before dismissing Lotes' complaint: "[C]urrent thinking may point against finding the FTAIA to be jurisdictional."²³³ Second, holding the FTAIA as substantive does not extinguish international comity inherent under the FTAIA. Interpreting the statute as substantive does not automatically grant any foreign actor success in bringing an antitrust suit against patent abuse.²³⁴ The statute still requires showing that (1) the abuse has a "direct, substantial, and reasonably foreseeable effect" on U.S. commerce and (2) that such effect "gives rise to" a Sherman Act claim.²³⁵

In June 2014, the Second Circuit decided on *Lotes*.²³⁶ Its decision shows that interpreting the FTAIA as a substantive statute does not open the floodgates to international parties suing under the Sherman Act.²³⁷ The court cites the Third and Seventh Circuits, the only circuits holding the FTAIA as substantive, and comes to the same conclusion.²³⁸ The court properly concludes that as "compelled under *Arbaugh* . . . the requirements of the FTAIA are substantive and nonjurisdictional."²³⁹ Overruling *Filetech*, the 1998 decision that viewed the FTAIA as jurisdictional, the court has "little difficulty concluding that the requirements of the FTAIA go to the merits of an antitrust claim rather than to subject matter jurisdiction."²⁴⁰ Yet, though properly concluding the FTAIA as substantive, the court ultimately dismisses Lotes' complaint because Lotes did not meet both FTAIA requirements.²⁴¹ "[E]ven assuming that the defendants' anticompetitive conduct caused a direct, substantial, and reasonably foreseeable effect in the United States, any such effect did not give[] rise to

²³¹ Brief for Appellant, *supra* note 205, at 20-24; Brief for Appellee at 24, 27-28, *Lotes Co. v. Hon Hai Precision Indus. Co.*, 753 F.3d 395 (2d Cir. 2014) (No. 13-2280-cv), 2013 WL 5502474.

²³² See Brief for Appellee, *supra* note 230, at 24, 27-28.

²³³ *Lotes*, 2013 WL 2099227, at *7.

²³⁴ See *Minn-Chem*, 683 F.3d at 858 ("This is a standard with teeth.").

²³⁵ 15 U.S.C. § 6a (2012).

²³⁶ See *Lotes*, 753 F.3d 395.

²³⁷ See *id.* (dismissing case for failure to state a claim, not for lack of subject matter jurisdiction).

²³⁸ *Id.* at 405-06 (citing *Minn-Chem*, 683 F.3d at 852, and *Animal Sci. Prods., Inc. v. China Minmetals Corp.*, 654 F.3d 462, 467-68 (3d Cir. 2011)).

²³⁹ *Id.* at 408.

²⁴⁰ *Id.*

²⁴¹ *Id.* at 408, 415.

Lotes's claim. [The court] therefore affirm[s] the decision below on alternative grounds."²⁴²

Although Lotes ultimately lost its case, it lost based on the *merits* and not for a lack of subject matter jurisdiction. The Second Circuit's decision to overrule *Filetech* and properly conclude that the FTAIA is a substantive statute means that, in future cases within its jurisdiction, companies combatting patent abuse would be able to enjoy the procedural benefits of having the FTAIA as a substantive statute.²⁴³ They would not have to meet the FTAIA's requirement just to be heard in court, for those requirements are now on the merits. Thus, companies suffering from aggressive patent enforcement would have greater access to the Sherman Act to address patentees that disrupt fair competition.

V. CONCLUSION

Based on policy considerations and, more importantly, the Supreme Court decision in *Arbaugh*, the FTAIA is properly interpreted as a substantive statute.

An analysis of case law on patent abuse reveals that patent abuse come in many forms, but mainly in forms accepted as legal under the current U.S. patent regime. Because of the robust legal rights granted to patentees, companies in international commerce are left with limited mechanisms under the current patent regime to fend off anticompetitive conduct that unduly affects their business operations in today's international economy. Accordingly, antitrust law has been the more appropriate and effective resource in addressing patent abuse. Given the growth of international business today, the availability of antitrust law to those engaging in international transactions is crucial to maintain fair competition. The FTAIA provides such availability by permitting international parties to utilize the Sherman Act against conduct with U.S. domestic impact. However, the full advantages of the FTAIA against patent abuse can best come from interpreting the statute as substantive, which is an accurate interpretation according to Supreme Court precedent in *Arbaugh*. Given the Court's clear directions on statutory interpretation, the remaining circuit courts should therefore join the Third and Seventh—and now the Second—Circuits in uniformly interpreting the FTAIA as a non-jurisdictional, substantive statute. Only then will parties like Lotes in international business transactions obtain a true opportunity to combat patent abuse and obtain fair competition. Whether or not the party can meet the FTAIA's requirements to win under the Sherman Act is a separate issue.

²⁴² *Id.* at 415 (internal quotation marks omitted).

²⁴³ *See supra* text accompanying notes 168-176.