



IP-related refusals to deal

Part 2 1/2: A postscript

RICHARD H. STERN

r.stern@computer.org

..... In the last two issues of *IEEE Micro* (Jan.-Feb., Mar.-Apr. 2000), *Micro Law* addressed the *Kodak*, *Intel*, and *Xerox* cases. As the last issue went to print, the Federal Circuit decided the *Xerox* case pending before it. This *Micro Law* is more a short postscript to the last two columns than a further analysis of previously unvisited issues.

Xerox decision

As might have been guessed from the Federal Circuit's decision, earlier in the *Intel* case, the court ruled in favor of *Xerox*, the intellectual property owner. Consistent with *Intel*, the court held that the IP owner and antitrust defendant was not obliged to grant software copyright licenses to the antitrust plaintiff independent service organizations (ISOs). Neither did it have to sell them patented repair parts needed to service *Xerox* copiers.

The court acknowledged the conflict between its *Xerox* decision and that of the San Francisco federal appeals court in the *Kodak* case, but it made no attempt to harmonize the decisions. The Federal Circuit simply opined that the other court was wrong. (It said, "We decline to follow" *Kodak*.)

However, in response to the ISO argument that the conceded conflict among courts required a rehearing *en banc* (by the full complement of Federal Circuit judges of the three-judge panel's decision), the Federal Circuit took a rare step. It ordered *Xerox* to file a response to the

ISO petition for rehearing. Nevertheless, after the court ordered a response and *Xerox* responded, the court decided not to rehear the case *en banc*. That decision was less surprising than the request for a response. It was most unlikely that an *en banc* Federal Circuit would want to overturn the three-judge panel decision in this case.

The pro-IP owner decision in this case is consistent with an earlier *Intel* pro-IP owner decision by a different Federal Circuit panel. It is consistent with the general trend of decision in the Federal Circuit as a whole. Only the Supreme Court can resolve the conflict between courts of appeals about IP rights and antitrust principles.

As a preliminary matter, the Federal Circuit addressed which body of law governed whether a refusal to license IP rights—whether directly under a license or indirectly by selling a patented repair part—violates the antitrust laws. Two possible bodies of precedent exist. One is that of the "regional circuit"—the part of the US where the trial court is located (here, the North Central states). The other is that of the Federal Circuit.

In most cases, when an issue other than patent infringement comes before the Federal Circuit in an appeal, the court decides the case on the basis of regional circuit law. Congress gave the Federal Circuit nationwide authority over patent appeals to make patent law uniform throughout the US. Congress did not intend to have other kinds of law subject to different rules from the

usual ones just because the case also involved a patent issue.

However, the Federal Circuit has been developing a doctrine that Federal Circuit law applies to nonpatent issues that have a substantial impact on patent policies. The court held that resolving a conflict between patent rights and antitrust principles was within that doctrine. However, the Federal Circuit held the comparable issue as to copyright-protected software to be an issue of regional circuit law.

The merits

The Federal Circuit opined that a patentee had a right to refuse to license its patents regardless of subjective anti-competitive motivation, subject to only a few very unusual exceptions. Say that the patent had been procured fraudulently, was being used in "sham" litigation, or was the vehicle for a tie-in. Then a refusal could be held an antitrust violation, but not otherwise. Only in those circumstances would a refusal "exceed the scope of the patent grant" and thus be illegal. The court did not explain in more detail what it meant by exceeding the scope of a patent grant.

Perhaps it is just as well that the court didn't try to explain. The concept probably defies sensible explanation in the context that the court used it. For example, how does suing someone when there is no rational justification for bringing suit (sham suit) constitute "exceeding the scope of the patent grant"? Or, just because a

patent on purple widgets was procured by fraud, why is the infringement suit under that patent beyond the scope of the patent grant? If the patent covers purple widgets, the fact that a defendant obtained the patent by fraud doesn't make the suit one beyond the scope of the fraudulently obtained patent grant. If the defendant makes purple widgets, the suit is one for conduct *within* the grant, regardless of whether the grant shouldn't have been made in the first place.

The court's analysis

Turning to the copyright and regional circuit law, the Federal Circuit came to much the same conclusions. The court adopted the First Circuit's "rebuttable presumption" rule from the *Data General* case, which also involved diagnostic software. (The rule is discussed in the previous Micro Law columns on this case.) The Federal Circuit held that the subjective intent of Xerox to exclude the ISOs did not rebut the presumption of legitimacy, and

therefore found no antitrust violation.

Thus, the Federal Circuit did not accept Intel's or Xerox's arguments that, absent a background of conspiracy to fix prices or the like, they enjoy an "absolute and inviolable" right to refuse to sell or license to ISOs things that their IP covered. However, the Federal Circuit came very close to that position. The Federal Circuit's concept of within and without the scope of the patent or copyright grant, as applied in practice, comes almost indistinguishably close to such a rule.

A more nuanced analysis might have led the court to the same result, but on more densely reasoned grounds. For example, the court might have addressed section 271(d) of the patent statute as creating a *statutory* presumption of legitimacy of refusals to deal in one's IP, rather than relying simply on judge-made law. The court might then have attempted to chart what Congress tried to accomplish when it entered this field with legislation authorizing patent owners to refuse to deal.

The court might also have considered the Supreme Court's various endorsements and condemnations of comparable refusals to deal, and then have tried to use them as a guide for the case at bar. Under such an analysis, the court could well have concluded that the present refusal to deal was more like those which the Supreme Court had endorsed than it was like those that the Court condemned. A particularly cogent example is a case in which the Supreme Court upheld the right of the owner of a process patent on killing weeds to refuse to license its patent to competitors in the sale of weed-killing chemicals.

The decision of the Federal Circuit is supportable on its merits, given the particular facts and record of the case before the court. But the sparseness of the court's reasoning may pave the way for further review in the Supreme Court. That is particularly so, given the conflict with the *Kodak* decision, which the Federal Circuit made no effort to blur on the basis of the different facts of the two cases.

EDITOR-IN-CHIEF

Ken Sakamura
University of Tokyo
University Museum
7-3-1 Hongo, Bunkyo-ku, Tokyo 113-0033 Japan
phone +81-3-5804-7597;
fax +81-3-3779-5753; saskamura@um.u-tokyo.ac.jp

EDITORIAL BOARD

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IBM T.J. Watson Research Center
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Picosoft
s.diamond@computer.org

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Kellogg Graduate School of Management
s-greenstein1@nwu.edu

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GMD
grosspietsch@gmd.de

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hubert.kirmann@ch.abb.com

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rblee@ee.princeton.edu

Richard Mateosian
xrm@pacbell.net

Gary S. Robinson
gsrobin@worldnet.att.net

Richard H. Stern
r.stern@computer.org

Osamu Tomisawa
Mitsubishi Electronics, America
tomisawa@msai.me.com

Uri Weiser
Intel Israel, Ltd.
uweiser@iil.intel.com

Stephen C. Winter
University of Westminster
wintersc@wmin.ac.uk