

**STATEMENT OF**  
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**CHAIR**  
**ABA SECTION OF INTELLECTUAL PROPERTY LAW**  
**on behalf of the**  
**AMERICAN BAR ASSOCIATION**  
**before the**  
**SUBCOMMITTEE**  
**on**  
**COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY**  
**COMMITTEE ON THE JUDICIARY**  
**of the**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**on the subject of**  
**MARKET POWER AND INTELLECTUAL PROPERTY**  
**LITIGATION**

**November 8, 2001**

Mr. Chairman and Members of the Subcommittee:

We thank you for letting us present the views of the American Bar Association on market power presumptions based on intellectual property in antitrust actions.<sup>1</sup>

The ABA is convinced that Congress should enact legislation which would eliminate any presumption that intellectual property defines a market or

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<sup>1</sup> In 1990 the House of Delegates of the American Bar Association adopted a policy position, which was reaffirmed in 2000, in support of H.R. 469, 101st Cong., a bill to provide that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws. The ABA testified in support of that bill. See testimony of Norman P. Rosen in “Intellectual Property Antitrust Protection Act of 1989,” Hearing on H.R. 469 Before the Subcommittee on Economic and Commercial Law of the House Judiciary Committee, 101st Cong., 2nd Sess., 59-70. In 1996 the ABA testified in support of H.R. 2674, which had essentially the same provisions as H.R. 469. See testimony of John R. Kirk, Jr., “Intellectual Property Antitrust Protection Act of 1995,” Hearing Before the Committee on the Judiciary, House of Representatives, Serial No. 75, 104th Congress, May 14, 1996.

establishes market power in actions under the antitrust laws.<sup>2</sup> Because such presumptions are arbitrary, ignoring real world facts, they have no proper basis from the point of view of either intellectual property or antitrust law,<sup>3</sup> and they lower incentives created by intellectual property law to invest in new jobs and new industrial facilities based on technical advances.

To illustrate how misguided such presumptions are, let me refer to DuPont's patents on its super-strong fiber known as Kevlar®, about which I have some personal knowledge. DuPont invested for years in extensive research related to the chemistry of the fiber, and in research into methods of extruding the fiber. For example, the strength of the fiber makes extrusion of it very difficult. Eventually DuPont discovered a successful method of extrusion, but it uses hot, concentrated sulfuric acid. Based in part on the patents it had obtained, DuPont then invested

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<sup>2</sup> The 1990 ABA resolution states: "BE IT RESOLVED, That the American Bar Association favors in principal legislation such as H.R. 469, 101st Cong., 1st Sess. (1989) (Fish) and S. 270, 101st Cong., 1st Sess. (1989) (Leahy) which provides that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws;

RESOLVED, That the Association recommends such legislation cover specifically the licensing of or refusal to license such rights."

<sup>3</sup> The antitrust law and the patent law are "complimentary" because they "both are aimed at encouraging innovation, industry and competition." Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990).

hundreds of millions of dollars more in building a completely new plant to make Kevlar®, which was necessary because of the new chemistry and the new extrusion process involved.<sup>4</sup>

While there have been markets in fibers for thousands of years, Kevlar® has unique properties. One pound of Kevlar® is as strong as five pounds of steel. Kevlar®, however, is not a perfect fiber. For example, it is particularly subject to abrasion. Therefore, for some uses, such as bullet-proof jackets, where strength is paramount and abrasion resistance is a minor factor, Kevlar® is highly preferred, though heavier bullet-proof jackets can be made from other fibers.<sup>5</sup> For other uses, however, where abrasion is a primary factor, as in reinforcing tires or in conventional ropes, Kevlar® is less preferred, or if used, special precautions must

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<sup>4</sup> This example shows an important thing about patents. They are not entirely for the inventors. Patents are also largely for investors -- people who might otherwise invest in real estate or other forms of property, but who, having patents to protect their investments from copiers within the United States, and from unfair foreign competition, are encouraged to invest to create new jobs and even new industries based on new technologies.

<sup>5</sup> A market is essentially a group of products or services that are reasonably interchangeable with each other. United States v. E.I. du Pont de Nemours & Co., 351 U.S. 377, 394-95 (1956); Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451, 469 & n.15 (1992).

be taken to avoid abrasion. Whether considering Kevlar's more preferred uses, such as bullet-proof fabrics, or its other uses, there are possibilities of substitution that must be considered before deciding whether the maker of Kevlar® has "market power."<sup>6</sup>

It is plain that it does not make sense to say, in a knee-jerk way, that solely because there are patents on Kevlar®, the owner of those patents has market power. Rather, a fact-specific inquiry must be made to determine the demand for Kevlar® relative to possible substitutes. For some of its uses Kevlar® may provide market power, but for others it may not, yet patents cover Kevlar® for all uses and markets.

As Congress knows, these three concepts -- relevant market, market power, and monopoly power -- are important elements in establishing various types of antitrust violations. They are essential to prove monopolization and attempted monopolization in violation of Sherman Act § 2,<sup>7</sup> and an illegal tie-in in violation

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<sup>6</sup> In a relevant market, market power is essentially the ability to raise prices above or restrict output below the competitive level, and monopoly power is the extreme form of market power. National Collegiate Athletic Assoc. v. Board of Regents, 468 U.S. 85, 109 n.38 (1984); Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 503 (1969); du Pont, 351 U.S. at 391; see Kodak, 504 U.S. at 481 (1992) ("Monopoly power under §2 requires, of course, something greater than market power under §1").

<sup>7</sup> United States v. Grinnell Corp., 384 U.S. 563, 570 (1966); Spectrum Sports, Inc. v. McQuillan, 506 U.S. 447, 455 (1993).

of Sherman Act § 1.<sup>8</sup> In addition, courts require or allow evidence of market power as an element of proof of an illegal restraint of trade under the rule of reason in violation of Sherman Act § 1.<sup>9</sup>

At least as early as 1965 the Supreme Court in the Walker Process case recognized that market power could not be presumed from the existence of a patent.<sup>10</sup> In remanding with respect to Section 2 of the Sherman Act, the Court explained,

“There may be effective substitutes for the device which do not infringe the patent. This is a matter of proof, . . . .” 382 U.S. at 178.

The Supreme Court, however, has not been entirely consistent and clear on this. In 1962, before Walker Process, in United States v. Loew’s Inc., 371 U.S. 38, 45, the Court expressly endorsed the presumption that an intellectual property

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<sup>8</sup> Kodak, 504 U.S. at 462; Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 13-14 (1984).

<sup>9</sup> United States v. Brown Univ., 5 F.3d 658, 668 (3d Cir. 1993); Wilk v. American Medical Ass’n, 895 F.2d 352, 359 (7th Cir.), cert. denied, 498 U.S. 982 (1990).

<sup>10</sup> Walker Process Equipment Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965).

right gives rise to market power.<sup>11</sup> In 1984, after Walker Process, in Jefferson Parish Hospital District No. 2 v. Hyde, 466 U.S. 2, the Supreme Court in *dicta* split on the issue. The majority in a comment repeated the presumption stated in Loew's,<sup>12</sup> while four Justices in a concurring opinion concluded that a patent or copyright alone would not demonstrate market power:

“A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.”

466 U.S. at 37 n.7 (O'Connor, J., concurring).

One year later, in 1985, Justices Blackmun and White dissented from the Court's decision to deny a petition for a writ of *certiorari* in Digidyne Corp. v.

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<sup>11</sup> Though not discussed in terms of market power, arguably market power was presumed from patents in early tying cases, IBM v. United States, 298 U.S. 131 (1936), and International Salt Co. v. United States, 332 U.S. 392, 395 (1947).

<sup>12</sup> “[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power.” United States v. Loew's Inc., 371 U.S. 38, 45-47, 83 S.Ct. 97, 102-03, 9 L.Ed.2d 11 (1962). Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer makes all his purchases of a separate tied product from the patentee is unlawful.” Jefferson Parish, 466 U.S. at 16.

Data General Corp., 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985), urging the Court to address the issue of “what effect should be given the existence of a copyright or other legal monopoly in determining market power.” 473 U.S. at 909.

In the absence of clear guidance from the Supreme Court, some lower courts have followed Walker Process and the concurring opinion in Jefferson Parish,<sup>13</sup>

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<sup>13</sup> E.g., C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1367 & n.7 (Fed. Cir. 1998), *cert. denied*, 526 U.S. 1130 (1999); Town Sound and Custom Tops, Inc. v. Chrysler Motors Corp., 959 F.2d 468, 479-80 (3d Cir. (en banc) (Chrysler trademark does not confer market power), *cert. denied*, 506 U.S. 868 (1992); Abbott Labs. v. Brennan, 952 F.2d 1346, 1354 (Fed. Cir. 1991) (“[a] patent does not of itself establish a presumption of market power in the antitrust sense”), *cert. denied*, 505 U.S. 1205 (1992); Mozart Co. v. Mercedes-Benz of N. Am., Inc., 833 F.2d 1342, 1346 n.4 (9th Cir. 1987) (noting that presumption of market power in copyright cases has been rejected by several courts and commentators), *cert. denied*, 488 U.S. 870 (1988); A.I. Root Co. v Computer Dynamics, Inc., 806 F.2d 673, 676-77 (6<sup>th</sup> Cir. 1986) (holding that a copyright did not confer a presumption of market power for tying purposes); American Hoist & Derrick Co. v. Sowa & Sons, 725 F.2d 1350, 1367 (Fed. Cir.) (“patent rights are not *legal monopolies* in the antitrust sense of that word”), *cert. denied*, 469 U.S. 821 (1984); Will v. Comprehensive Accounting Corp., 776 F.2d 665, 672 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986); In re Pabst Licensing, 2000 U.S. Dist. LEXIS 12076 (E.D. La. 2000).

while other courts have applied the presumption.<sup>14</sup> To mention only one recent example, the Eleventh Circuit, using the presumption in MCA Television Ltd. v. Public Interest Corp.,<sup>15</sup> reasoned that the “licensor by virtue of its copyright is presumed to have economic leverage sufficient to induce customers to take the tied product along with the typing item.” This split among the courts shows the need for clarifying legislation.

The problem of different circuits adopting different approaches to the market power presumption may be a particular problem for the Federal Circuit, which decides appeals in most patent cases. That Court has rejected a market power presumption for patents in the antitrust context.<sup>16</sup> On antitrust issues, where the Federal Circuit perceives a patent policy issue that would benefit from

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<sup>14</sup> E.g., Virtual Maintenance, Inc. v. Prime Computer, Inc., 11 F.3d 660, 666 (6th Cir. 1993) (licensee had market power in the derivative aftermarket for software support by virtue of its exclusive software license and a manufacturer’s requirement that all suppliers use the licensed software), *cert. dismissed*, 512 U.S. 1216 (1994); MCA Television Ltd. v. Public Interest Corp., 171 F.3d 1265, 1277-79 (11th Cir. 1999); Digidyne Corp. v. Data General Corp., 734 F.2d 1336, 1341-42 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985) (presuming defendant’s computer software enjoyed market power because it was copyrighted); Sea-Land Service, Inc. v. Atlantic Pacific International, Inc., 61 F. Supp. 2d 1102 (D. Hawaii 1999).

<sup>15</sup> 171 F.3d 1265, 1277-79 (1999).

<sup>16</sup> CSU, L.L.C. v. Xerox, 203 F.3d 1322, 1325 (2000); Abbott Labs. v. Brennan, 952 F.2d 1346, 1354 (Fed. Cir. 1991), *cert. denied*, 505 U.S. 1205 (1992).

uniformity, it follows its own precedent. Otherwise it will follow precedent of the circuit court of appeals for the region of the trial court in the particular case,<sup>17</sup> even though those courts of appeals may vary in applying the presumption.<sup>18</sup> The Federal Circuit may find itself rejecting the presumption for patent matters, but adopting it for other forms of intellectual property, in the same case.<sup>19</sup>

The two federal antitrust enforcement agencies -- the U.S. Department of Justice Antitrust Division and the Federal Trade Commission -- have rejected the presumption. Their Guidelines for the Licensing of Intellectual Property provide:

“The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there

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<sup>17</sup> See Nobelpharma AB v. Implant Innovations, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998).

<sup>18</sup> Compare Abbott Labs., 952 F.2d at 1354 (applying law of Sixth Circuit, which rejects presumption), with Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990) (applying in another context the law of Ninth Circuit, which endorses presumption).

<sup>19</sup> Compare treatment of patent issues and copyright issues in CSU, 203 F.3d at 1325.

will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power.”<sup>20</sup>

Congress also has indicated that market power should be proven rather than presumed. Congress clarified the problem of divided circuit law in the closely related patent misuse context by providing that a patent owner must have market power to establish a tie-in misuse.<sup>21</sup>

In sum, we are no longer in a period, as we were in the middle of the last century, where patents and other forms of intellectual property were automatically considered to be evil monopolies. The public, Congress, the executive branch and most judicial opinions recognize that properly obtained and issued patents promote investment, create new jobs and protect our industries from unfair foreign competition. While the public pays a price for a limited period of time, the rewards to the public justify the price in terms of new jobs and a higher, healthier standard of living. As mentioned above, antitrust law and intellectual property

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<sup>20</sup> Antitrust Guidelines for the Licensing of Intellectual Property issued by the U.S. Department of Justice and Federal Trade Commission §2.2, 1995 WL 229332 (April 6, 1995).

<sup>21</sup> “1988 Amendments to 35 U.S.C. “271(d)(5) provide in pertinent part that misuse shall not exist in the case of tying unless “the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.” See also, CSU, 203 F.3d at 1326 and In re Recombinant DNA Technology Patent and Contract Litigation, 850 F. Supp. 769, 775 (S.D. Ind. 1994) (indicating that no presumption of market power would suffice to establish misuse under §271 (d)(5)).

law are complimentary in the common goal of encouraging innovation and competition. Arbitrary presumptions about market power hinder reaching that goal.

The ABA agrees with the antitrust enforcement agencies, the Supreme Court in Walker Process, the concurring opinion in Jefferson Parish, and the other courts that have rejected the presumption. As illustrated above, the presumption defies common sense. When reasonable substitutes exist for a product protected by intellectual property -- as is often the case in the American marketplace -- the intellectual property confers no real ability to raise or control prices. Similarly, where others can readily enter the market if prices rise significantly, the intellectual property confers no real market power. Thus, in many cases, intellectual property does not yield market power, and any presumption of market power is unwarranted.

We understand that some lawyers will argue that in view of recent decisions such as CSU v. Xerox and the recent guidance from executive branch, there is no need for legislation. We respectfully disagree. The interface between antitrust and intellectual property law, if not examined carefully, can be misunderstood.

For example, the Federal Circuit stated in CSU v. Xerox that a patent holder has the “right” to refuse to sell or license in markets within the scope of the statutory patent grant:

“Xerox’s refusal to sell its patent and parts [does not exceed] the scope of the patent grant . . . . Therefore, our inquiry is at an end. Xerox was under no obligation to sell or license its patent parts and did not violate the antitrust laws by refusing to do so.” 203 F.3d at 1328.

Thus, CSU v. Xerox stands for the proposition that as long as a patent owner does not exercise power beyond the scope of the patent coverage (for example, by tie-ins, by extensions in time or by price fixing in licenses), the owner may dominate the market covered by the patent, even if that is a relevant product market for antitrust purposes.<sup>22</sup> According to the reasoning of that decision, by the grant of market exclusivity to the patent owner, the public obtains disclosure of the patent owner’s improvements and encourages investment in developing that improvement to make it available to the public; only when the patent owner seeks to exercise that power beyond the patent coverage does the owner run afoul of the antitrust laws.

Legislation is needed because a presumption that market power arises from

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<sup>22</sup> We recognize that the Ninth Circuit may disagree with this (see Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195, *cert. denied*, 523 U.S. 1094 (1998)), but that Court seems to be alone among the Circuits in its view.

intellectual property can harm competition. With the presumption to assist in proving an antitrust violation where intellectual property is involved, the risk of antitrust treble damage liability for licensing intellectual property increases.

Common sense teaches us that as that risk increases, the value of the intellectual property decreases. And decreased value lowers the incentives for American companies to invest in developing new and improved technologies, and to license those improvements to others. Yet these improvements in technology, used in the marketplace to compete with older technologies and with other developments, keep competition vibrant in our economy. As long as the Supreme Court or any courts of appeals employ that presumption, that risk and those disincentives to developing, disseminating, and competing with improved technology will continue.

Though it lessens the incentives for intellectual property owners to develop and disseminate these tools for competition, the presumption does not further the antitrust law's objective to prevent anticompetitive practices. Removing the presumption, on the other hand, will simply require antitrust plaintiffs in intellectual property cases to meet the same requirements as antitrust plaintiffs in

other types of cases.

Consequently, the ABA endorses the approach of bills such as H.R. 2674 of the 104th Congress.

The ABA, however, suggests certain changes to language previously considered by Congress. Section 2 of H.R. 2674 would have prohibited the market power presumption in any action involving conduct “in connection with the marketing or distribution of a product or service protected by [an intellectual property] right . . . .” This language appears to leave many situations in which the presumption could still exist. For example, a court might not construe the quoted language to also include provisions in agreements in connection with the licensing of or refusal to license an intellectual property right, or in connection with intellectual property rights that may result from research and development that have not yet resulted in a product or service. No reason exists for the presumption in these circumstances, just as none exists in the circumstances already covered by Section 2 of the bill as introduced. The presumption can nonetheless work its harm in these types of situations as well, especially in the development of technology through research and development and in the dissemination of technology through licensing.

We therefore suggest including in the legislation language such as the following, which would preclude a presumption of market power - - including

related issues of economic power and product uniqueness or distinctiveness - -  
from being based on arbitrary presumptions in contexts in addition to litigation.

In any action in which the conduct of an owner, licensor, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws, such right shall not be presumed to define a market, to establish market, or to establish monopoly power.

To summarize, the American Bar Association recommends that Congress eliminate this unwarranted and harmful presumption by enacting a bill such as H.R. 2674 from the 104<sup>th</sup> Congress, with the suggested modification.