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INTERNATIONAL APPLICATION OF A
DOMESTIC INTELLECTUAL PROPERTY
PROTECTION STRATEGY: EXTENDING A
PREDATORY LITIGATION STRATEGY TO THE
EUROPEAN COMMUNITY

Kim H. Jordan†

Time was, as soon as a product was perfected in the laboratory, its developers headed straight for the market. For a growing number of American companies, though, the first step is into the courtroom.1

American business’ use of intellectual property2 protection has increased dramatically since 1982. The increased use has been attributed to the creation3 of the Court of Appeals for the Federal Circuit in 1982;4 pressures on the U.S. Patent and Trademark Office to award patents on minor advances;5 and the use of a business litigation strategy to protect a firm’s intellectual property and consequent market share.6

This essay 1) surveys several current decisions indicative of the present state of domestic IP protection; 2) discusses the forums a domestic firm has available when confronted with a foreign firm’s infringement of a domestic IP right; 3) defines a domestic business or predatory litigation strategy which protects a firm’s market share or slows competition; and 4) analyzes the concerns a domestic firm faces when pursuing a business litigation IP protection strategy in the EC.

Copyright © 1995 by Kim H. Jordan.
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2. Intellectual property ["IP"] refers to a broad collection of rights relating to things such as works of authorship, inventions, trademarks, designs and trade secrets.
I. INTRODUCTION

As the scope of U.S. business becomes more international, domestic firms need to determine how to project their domestic IP protection strategy abroad. By discovering the difference in application, enforcement and scope of protection between domestic and foreign schemes, domestic firms may be able to successfully project their IP protection strategies abroad. As an example, a patent granted in the United States gives the holder the exclusive right to use a particular process or make a particular product for 17 years. It does not require a holder to work or license the product or process. The 'exclusive' right to exploit a patent puts the U.S. in the minority of jurisdictions which do not require local working, or other use of the patent, for it to remain viable. This may result in an unpleasant surprise when, for instance, a foreign country notifies the U.S. holder of a foreign patent that a compulsory license of the patent for a 'reasonable royalty' based on 'abuse' of 'dominant position' has been awarded. The justification for the compulsory license being that the patent owner should not be entitled by law to deny the benefits of the patented invention to the public.

After the International Trade Commission ruling, settlement agreements have brought "Texas Instruments more than 400 million in royalties. Now that landmark victory has come back to haunt . . . TI."9

In the domestic market, firms have used IP protection for many years to protect assets. With the playing field being fairly level, the rules remain clear but their application unclear despite being under one jurisdiction. Over the last five years, though, the value of intellectual property has increased dramatically, with a corresponding increase in what is at stake. More importantly, companies have tried

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7. This will be changed by the enabling legislation for the GATT treaty to 20 years form date of filing.


10. TEXAS LAWYER, supra note 4, at 8.

11. If the court is perceived to be pro-patent, companies — foreign and domestic — apply for more patents, partly for offensive and partly for defensive reason. This can spur speculative suits by patent holders fearing infringement . . . sometimes . . . win large damage awards and possibly even the right to shut down a competitor who has actually independently researched and developed a similar product.

Garry Sturgess, *From Chaos to Complacency*, LEGAL TIMES, June 17, 1991, at 11 (Supp.).
to build up their patent portfolio to make it a profit center\textsuperscript{12} and have tried to use existing patents to protect their market share.\textsuperscript{13}

The issue of infringement suits as a business intimidation strategy comes up often at young companies . . . The scenario . . . often involves a patent holder who threatens all potential competitors in the same area of technology with scorched-earth infringement litigation, unless the other companies, especially those that are foreign-owned, will cave in, and pay the license fees rather than risk all in a lengthy court fight.\textsuperscript{14}

For example, Intel's strategy warranted a judicial note. In \textit{Cryix Corp v. Intel Corp},\textsuperscript{15} the court found as fact that:

In the 1970's, Intel's licensing strategy was consistent with the industry-wide strategy — to grant broad, unlimited patent licenses in exchange for cross-licenses back of equal scope. Today, Intel has changed its strategy. Now . . . Intel believes that its patent position is so unbalanced relative to others in the industry that it seeks significant monetary compensation for patents in the process of negotiating licenses.

Once a company decides to do business abroad, besides the usual competitive and commercial analysis of a market, the firm must investigate the IP laws and practices of the country. The company must be aware that generally U.S. IP protection laws do not reach outside the U.S. and its possessions.\textsuperscript{16} The IP protection that is available may be conferred by treaties such as the Paris Convention for the Protection of Industrial Property; the Patent Cooperation Treaty; the Berne Convention for the Protection of Literary and Artistic Works;\textsuperscript{17} or the Universal Copyright Convention.

However, problems exist. For example, the U.S. did not become a party to the Berne Convention until March 1, 1989, which means that only works published on or after that date may rely on it for protection. These issues must be addressed when attempting to apply a domestic IP protection strategy to a foreign market.\textsuperscript{18}

There are two instances where a domestic company will be faced with the complications of foreign competition, IP protection and consequent threat to market share. In the first, a domestic firm discovers

\begin{itemize}
  \item \textsuperscript{12} \textit{Legal Times}, \textit{supra} note 5, at S29.
  \item \textsuperscript{13} \textit{See Infoworld}, \textit{supra} note 6, at 90.
  \item \textsuperscript{15} 803 F. Supp 1200, 1205(E.D. Tex. 1992); \textit{appeal dismissed without op.}, 9 F.3d 978 (Fed. Cir. 1993).
  \item \textsuperscript{16} \textit{But see} section IV below: Extraterritorial effect of U.S. court holdings.
  \item \textsuperscript{17} All EC member states are members of the convention except Belgium and Ireland.
  \item \textsuperscript{18} \textit{Bus. Am.}, July 1, 1991, at 2.
\end{itemize}
the import of goods which may infringe its domestic IP protection. In the second, the firm may find foreign producers manufacturing and/or selling goods abroad which infringe foreign IP protections. Each issue has different aspects and implications and will be considered separately, specifically with respect to the non-traditional market share use. As a foundation to that consideration, this comment surveys the domestic IP protection environment and how this experience may translate abroad.

II. Domestic IP Protection

There are several types of IP protection available to a domestic company. Patents, trademarks, copyrights and technology licenses are the major protections available.\(^{19}\)

... [A]s an outsider looking in, I would have bet anyone money that Intel would have come after them. Intel has a monopolistic position to protect. They don't take kindly to someone entering the marketplace.\(^{20}\)

In *Cyrix v. Intel*,\(^{21}\) Intel granted SGS-Thomson a cross-license covering technology in its line of math co-processors. Texas-based Cyrix Corp, contracted with SGS-Thomson for the manufacture of co-processors engineered to Cyrix's specifications. Intel claimed that Cyrix infringed an Intel patent. Cyrix argued that even if there was infringement, Cyrix was immune from an infringement suit by virtue of the cross-license between SGS-Thomson and Intel. Cyrix relied on the ruling in *Intel Corp. v. ULSI System Technology Inc.*,\(^{22}\) which insulated a similarly situated licensee from patent infringement action due to a cross-license.\(^{23}\) The court in *Cyrix* found that the license placed Cyrix beyond the reach of infringement actions by Intel.

*Unidisco, Inc. v. Schattner*\(^{24}\) was an authorized sale by licensee case. The court found that an authorized sale of a patented invention by a licensee to a third party places any resale by the third party beyond the reach of the infringement statute in the U.S. by reason of the third party's authority to resell the product derived from the licensee.

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19. It is beyond the scope of this paper to do an in-depth analysis of the different types of IP protection available to domestic firms.
In *MAI Systems Corp v. Peak Computer Inc.*, the court extended copyright protection. The court held that turning on a computer and loading the operating system software into RAM makes a copy of the computer program, which is an act of copyright infringement when done by a licensee of the software instead of the owner of a copy. The copy made when the computer was turned on was "fixed" in such a manner to be perceived, reproduced or otherwise communicated for a period of more than transitory duration. The court did not reach how long a copy had to be in RAM to be fixed or if the repair of a computer was a "fair use" of the software or even if there is an implied license to have anyone repair an owner's software. However, *MAI Systems* is an example of how much protection a holder of a valid domestic copyright can expect when participating in the U.S. market. (See *Intel v. Terabyte International Inc.*, where the court applied the Lanham Act in a trademark infringement action to find willful misappropriation of Intel's trademark. Similarly, in *Two Pesos, Inc. v. Taco Cabana, Inc.*, the court found that proof of secondary meaning is not required to prevail on a claim under § 43(a) of the Lanham Act where the trade dress at issue is inherently distinctive.)

One of the lessons learned from the Intel-AMD litigation, which started with a technology-sharing agreement signed in 1976, is that the trend in the computer industry suggests that trademarks will play an increasingly important role for computer companies. The necessity to be compatible with products of other manufacturers reduces technological differentiation and increases the importance of marketing. Trademarks and unfair competition law play a crucial role in such marketing. As personal computer products are increasingly sold like other consumer products, trademarks will play an important role in such sales, with federal trademark registration the best method of protection within the U.S. market.

Federal trademark registration is advantageous because: it serves as *prima facie* evidence of ownership of the mark and exclusive right to use it; it serves as constructive notice of this claim of ownership throughout the United States. Five years after registration and continuous use, the registration can become incontestable which substantially reduces the basis for challenge to the mark. Also, lawsuits may

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25. 991 F.2d 511 (9th Cir. 1993), cert. denied, 114 S. Ct. 671.
26. Random Access Memory
27. 6 F.3d 614 (9th Cir. 1993).
be brought in federal court and registered marks may be filed with U.S. Customs to help prevent importation of goods bearing infringing trade marks.31

In addition to the offensive IP protections above, a domestic firm also has four major defenses to a patent infringement claim against it: 1) invalidity of the patent, where the accused infringer escapes liability by establishing that the invention fails to meet the requirements of patentability; 2) fraudulent conduct in the procurement of the patent, where the patent holder who owes a duty to the Patent and Trademark Office (PTO) can be shown to have breached that duty; 3) violation of the antitrust laws, where the patent holder exploits the patent in an improper manner by violating the antitrust laws; or 4) delay in filing suit resulting in laches or estoppel.

III. Domestic firms vs. Foreign firms in the U.S.

Texas Instruments (TI) has dramatically asserted its rights to profit from the invention of fundamental semiconductor technology. In a spate of lawsuits being filed against Japanese and South Korean competitors, the company accuses the foreign groups of infringing its patents by manufacturing . . . chips and selling them in the U.S. without having licenses under TI's patents . . . with its suits, TI is adopting a 'more assertive policy with respect to licensing and protection of patents than in the past . . . In addition, TI plans to file an action with the ITC seeking relief from injury due to patent infringement.32

When a domestic firm is faced with an infringement of a domestic IP right by a foreign company, it has a choice of two forums in which to proceed domestically. It can take it's complaint either to the Federal District Court (FDC) or the International Trade Commission (ITC) or to both simultaneously.

A. Characteristics of ITC proceedings vs FDC proceedings

ITC and FDC proceedings have different jurisdictional foundations, final adjudications, purposes, proof, time constraints, remedies, issues on appeal, and foreign perceptions. Similarities can be found, though, in the criteria for bad faith/predatory litigation.

ITC investigations are instituted by the ITC whether on its own initiative or after receipt of a complaint which the ITC has evaluated

31. Id. at 454.
for its sufficiency.\textsuperscript{33} The complaint must be supported by a detailed statement of facts\textsuperscript{34} because of the stringent time restrictions. This requirement is greater than the Federal Rules require.\textsuperscript{35} After being instituted the matter is referred to an administrative law judge (ALJ) who conducts the investigation.\textsuperscript{36}

After the ITC determination, it is transmitted to the President who has sixty days in which to disapprove the determination.\textsuperscript{37} If the president approves (or does not disprove) the ITC determination, then an adversely affected party may appeal to the Court of Appeals for the Federal Circuit.\textsuperscript{38}

Conversely, a FDC proceeding is brought by an private party with the standing to bring the suit. The complaint must state "... a short and plain statement of the claim showing the pleader is entitled to relief ...".\textsuperscript{39}

The two proceedings overlap where the district court attempts to determine whether a domestic patent has been infringed and where the ITC attempts to determine whether articles which have been imported infringe a domestic patent. Both proceedings share proof of patent validity,\textsuperscript{40} enforceability, and infringement. But the ITC proceeding is a much broader investigation and the district court adjudication is but one relevant component of the ITC investigation.

\textsuperscript{33} In the Matter of CERTAIN PERSONAL COMPUTERS WITH MEMORY MANAGEMENT INFORMATION STORED IN EXTERNAL MEMORY AND RELATED MATERIALS, Investigation No 337-TA-352. 1993 ITC LEXIS 363, June 9, 1993.

Intel filed a complaint against Twinhead Corporation of Taiwan under 19 U.S.C. § 1337 in May 1993. The complaint alleged violations of § 1337 in the importation into the U.S., the sale for importation, and the sale within the U.S. after importation of ... by reason of direct and induced infringement of ... as required by subsection of § 1337. The complaint requested an investigation and issuance of a permanent exclusion order and permanent cease and desist orders.

Once the complaint is filed the respondent must file a timely response to each allegation in the complaint and answer the notice of investigation. Failure to do so may be deemed to constitute a waiver of the right to appear and contest the allegations of the complaint and this notice, and to authorize the ALJ and the Commission, without further notice to such respondent, to find the facts to be as alleged in the complaint and to enter both an initial determination and a final determination containing such findings, and may result in the issuance of a limited exclusion order or a cease and desist order or both directed against such respondent.


\textsuperscript{35} FED. R. CIV. P. 8(a).


\textsuperscript{37} 19 U.S.C. § 1337(g) (1994).

\textsuperscript{38} 19 U.S.C. § 1337(a) (1994).

\textsuperscript{39} FED. R. CIV. P. 8(a): the general rule of notice pleading.

\textsuperscript{40} "A patent's validity may be challenged on several grounds such as anticipation or obviousness." Texas Instruments v. U.S.I.T.C., 988 F.2d 1165, 1177 (Fed. Cir. 1993).
B. Jurisdiction

Patent law is based upon Article 1, § VIII, of the U.S. Constitution. Congress placed original jurisdiction over patent actions exclusively in the federal district courts. Therefore, only a federal district court may adjudicate patent validity, enforceability and infringement issues. Appeal of the district court decision may be taken to the Court of Appeals for the Federal Circuit. On the other hand, original jurisdiction over unfair practices in import trade lies exclusively with the ITC. Appeals from ITC decisions may also be taken to the Court of Appeals for the Federal Circuit. The ITC makes a determination as to patent issues, but it has no jurisdiction to make a binding adjudication on patent matters. Jurisdiction in an ITC proceeding is in rem as opposed to in personam which removes the problem of establishing jurisdiction over foreign parties. Neither a federal district court nor the ITC may transgress upon the jurisdiction of the other.

C. Are re-imports within section ITC jurisdiction?

In In the Matter of CERTAIN SPUTTERED CARBON, domestic and foreign corporations were accused of unfair competition by manufacturing infringing products in the U.S. These corporations then sold the products to entities in the Far East with the expectation that they would be assembled into systems outside the U.S. and re-imported into the U.S. The respondents argued that the ITC did not have in rem jurisdiction over the products in question as they were produced in the U.S. and the ITC was given jurisdiction only over foreign manufactured goods. The court held that the infringement took place during manufacture which occurred in the U.S. This gave the complainant a remedy in federal district court against infringement occurring in the U.S. and that such infringement was beyond the scope of the Commission’s jurisdiction conferred in the statute.

In Texas Instruments Inc. v. U.S.I.T.C., an administrative law judge found that several foreign and domestic companies were infring-
ing Texas Instruments' valid patents. The ITC affirmed the ALJ's ruling and both sides appealed to the Federal Circuit. In affirming the ITC's order the Federal Circuit found that 19 U.S.C. § 1337 applies to U.S. manufacturers. The plain language of § 1337 prohibits the importation of articles found to infringe a valid and enforceable U.S. patent by any importer or consignee. There is no exemption or immunity for domestic firms when importation of infringing articles manufactured abroad occurs. Both decisions indicate that firms which have shifted abroad portions of their operations and export semi-finished parts for finishing and then re-import them may be vulnerable to § 1337 proceedings. Domestic firms are subject to ITC jurisdiction when attempting to re-import infringing articles and consequently cannot expect to be immune from a § 1337 ITC action.

D. Purposes of bringing an action in the FDC vs. the ITC

A district court decides validity, enforceability and infringement of U.S. patents. The district court determination has no extraterritorial effect. However, the U.S. Supreme Court has held that a finding of cognizable injury under the Lanham Act may allow for extraterritorial injunction when infringement of a patent is found. An ITC investigation of unfair competition based upon patent infringement always contains an international element. The ITC focuses on preventing the importation of the infringing article or process if unfair methods of competition (i.e. patent infringement) are shown to injure a domestic industry.

While the majority of investigations under § 1337 have involved patent infringement, other investigations have included trademark infringement, 'passing off', false advertising, false representation, misappropriation of trade dress, trademark dilution, copyright infringement, misappropriation of trade secrets, and interference with contractual relations.

50. But see, Baldwin Hardware Corp v. Franksu Enterprise Corp, 1991 U.S. Dist LEXIS 20039; 1992-1 Trade Cas.(CCH) P69,723. (Finding of cognizable injury under the Lanham Act could allow for extraterritorial injunction when infringement of a patent is found.)
51. Timberlane Lumber v. Bank of America, 549 F.2d 597 (9th Cir. 1987).
52. Amgen Inc. v. U.S.I.T.C., 902 F.2d 1532, 1539 (Fed.Cir. 1990), where the court held that the Tariff Act, 19 U.S.C. § 1337, was not intended to prohibit the importation of articles made abroad by a process in which a product claimed in a U.S. patent was used.
53. Massachusetts Institute of Technology vs. AB Fortia, 774 F.2d 1104 (Fed. Cir. 1985).
54. A practitioner's guide to Section 1337 litigation before the international trade commission, 17 LAW AND POL'Y INTER'L BUS. 521 (1985).

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53. Massachusetts Institute of Technology vs. AB Fortia, 774 F.2d 1104 (Fed. Cir. 1985).
54. A practitioner's guide to Section 1337 litigation before the international trade commission, 17 LAW AND POL'Y INTER'L BUS. 521 (1985).
E. Proof and timing

Proof in a FDC patent case centers on validity, enforceability, and infringement. There are no statutory time limits with respect to patent litigation. In an ITC action, there must be a determination within 12 months (or 18 months in complicated cases) whether: a) there are imports into the U.S.; b) there is a domestic industry; and c) there are unfair acts of competition. If the ITC cannot make an affirmative finding as to each component of the injury, it may not issue a remedial order.\textsuperscript{55} However, when the subject-matter of the controversy is intellectual property then:

\begin{quote}
[W]hen determining injury, \ldots the holder of an intellectual property right has a smaller quantum of proof of injury than would be required in a non-intellectual property based case. This smaller quantum of proof is in the sense that fewer incidents of lost sales might be sufficient to establish injury.\textsuperscript{56}
\end{quote}

The ruling was not directed to lessening the quality and quantum of evidence necessary to establish the facts on which the injury determination is based. Once the ITC has made affirmative findings it may order the exclusion of the articles from entry into the U.S. or issue a cease and desist order to a party requiring them to stop all unfair acts of competition.

F. An example of an ITC determination

In the matter of Certain Erasable Programmable Read Only Memories,\textsuperscript{57} an investigation was begun by the ITC in September 1987 under 19 U.S.C. § 1337. The commission issued a final determination on March 16, 1989. The determination and orders were affirmed on appeal to the United States Court of Appeals for the Federal Circuit.\textsuperscript{58} In July 1989 Intel filed a request for formal enforcement proceedings, alleging that defendant was violating the exclusion order and the cease and desist order. The commission designated an administrative law judge who came to a recommended determination in June 1990 that Atmel had violated the commission’s orders and recommended a civil penalty. The recommended determination was appealed to the commission. In March 1991 the commission adopted the recommended determination and issued its opinion in August 1991.

\begin{footnotes}
\textsuperscript{55} See Fischer and Porter vs. U.S.I.T.C., 831 F.2d 1574 (Fed. Cir. 1987).
\textsuperscript{56} Fischer, 831 F.2d at 1577.
\end{footnotes}
Both parties executed a settlement agreement in March 1992 and pursuant to that agreement both parties filed motions to dismiss formal enforcement proceedings. The commission vacated its order imposing penalties in May 1992.

G. Remedies

In an FDC action, the successful plaintiff may obtain injunctive and monetary relief against the defendant for infringement which occurs in the U.S. The court can enjoin future infringement and award damages for past infringement.

The successful ITC plaintiff can normally obtain an exclusion order, or a cease and desist order. The order is in rem, and it is directed to exclusion of the product. Therefore, it is not limited to the respondents named before the ITC. This allows the plaintiff to obtain a remedy against the entire spectrum of importers by suing only one or a few of the importers of the infringing merchandise. However, the ITC order only covers present or future acts, it is not remedial in nature.

H. Issues of Appeal

Appeal from both ITC and FDC patent-related actions are placed with the Court of Appeals for the Federal Circuit. However the issues of appeal are different. For FDC adjudications, the appellate court reviews issues of patent validity, enforceability and infringement. An appeal from an ITC decision, though solely determines whether the ITC made a correct determination with respect to unfair practices in import trade, and issued an appropriate remedial order under 19 U.S.C. § 1337.

I. Preclusion

Once the issue of patent validity has been heard by the ITC and the appeal by the Federal Circuit, the Preclusion Doctrine may be used to bar further litigation of the issue in the district courts. This doctrine has its roots in the common law principle that a right, question, or fact distinctly put in issue and directly determined by a court of competent jurisdiction cannot be disputed in a subsequent suit be-

60. 19 U.S.C. § 1337(0)(1).
tween the same parties.\textsuperscript{64} The effect of this doctrine is that if the ITC in its determination of unfair trade practices rules on the validity of the patent in question \textit{and} the Federal Circuit affirms, then the ITC ruling precludes the losing party from re-litigating the issue in Federal District Court.

\textbf{J. Foreign View of the FDC and ITC Proceedings}

The foreign viewpoint is that by authorizing the barring of imports, 19 U.S.C. § 1337 appears, in effect, to be a non-tariff trade barrier.\textsuperscript{65} This view holds that the differences in patent enforcement procedure in proceedings against imports using the ITC as opposed to the federal court's constitutes 'less favorable treatment' of imports contrary to Article III, § 4 of GATT.\textsuperscript{66} A GATT panel specified 1) the shorter time limits under § 1337; 2) inadmissibility of counter-claims under § 1337; 3) \textit{in rem} exclusion orders available under § 1337; and 4) the possibility of double proceedings against imports but only single proceedings against domestic products, as tending to show the 'less favorable treatment.'\textsuperscript{67}

A companion [to the ITC case] patent infringement action has been simultaneously filed in the Federal District Court . . . [T]hese actions are necessitated by acts of infringement by these companies in transferring technology to foreign manufacturers, and the subsequent importation of unlicensed products into the U.S.\textsuperscript{68}

This GATT Panel report came out before the Omnibus Trade and Competitiveness Act of 1988 became effective. This is important because the 1988 Act impacted the GATT recommendations in four ways. \textit{First}, the act removed the requirement of injury to an industry as a condition for granting relief in intellectual property-related proceedings before the ITC. \textit{Second}, it is no longer necessary to demonstrate that the industry is efficiently and economically operated.\textsuperscript{69} \textit{Third}, the Act makes process patents subject to an ITC proceeding.

\textsuperscript{67} In response to the GATT Panel report, a bill was introduced in 1992 that would amend 1337, 1) it would delete strict time limits and substitute "the earliest practicable time;" 2) it would allow counterclaims that are directly related to the substantive violation; and 3) it would require the District court to stay its proceedings until the ITC's determination became final.
\textsuperscript{68} Bus. Times, Aug. 6, 1987, at 36.
\textsuperscript{69} 19 U.S.C. § 1337(a)(1)(B).
Finally, the Act increases the statutory definition of activities that qualify a firm as an industry in the U.S. for purposes of bringing a § 1337 action (i.e. substantial investment in the exploitation of an intellectual property right).  

K. Bad Faith in an FDC and ITC proceeding

In addition to the above changes, the 1988 Act also expressly authorized the ITC to prescribe by rule sanctions for abuse of process or discovery based on the Federal Rules of Civil Procedure. It granted the ITC the power to impose on parties and their counsel the same obligations as Rule 11 of the Federal Rule of Civil Procedure [i.e. it requires counsel to sign the complaint to verify that the facts alleged are accurate on information and belief upon reasonable inquiry; it prohibits filing of any document for improper purposes]. The possible remedies for violations include, sanctions and dismissing a complaint or defense.

These changes make the criteria for bad faith the same whether the case is before the ITC or the district court. For example, in Chemical Engineering Corp v. Marlo, Inc. the court found plaintiff’s statements were a “flagrant attempt to mislead” the court and an “abuse of the judicial process of the part of counsel . . . [N]o authority anywhere supports the notion that a preliminary injunction against infringement may issue in response to rumors of a threat of infringement.” The court then affirmed the summary judgment order of the lower court. While in Al-Site Corp. v. Opti-Ray Inc. the court said, “[N]o basis, other than continued harassment of a possible contract partner of [defendant], can be seen for the filing of the present appeal” and dismissed the appeal.

The party defending patent infringement has the burden of proving bad faith. “A patentee’s infringement suit is presumptively in good faith and that this presumption can be rebutted only by clear and


71. “[A] court has the inherent authority to assess attorney fees against party who has acted in bad faith, vexatiously, wantonly, or for oppressive reason.” Jaquette v Black Hawk County, 710 F.2d 455, 462 (8th Cir. 1983).


73. Courts have illustrated what incidents may constitute bad faith “. . . every issue was disputed and thoroughly over briefed . . . a motion to reconsider was filed after essentially every ruling . . . the second counterclaim was clearly frivolous . . . [they] filed all pleadings under seal claiming a privilege where there was no legitimate argument for such claim.” Exxon Chemical v. Lubrizol, 1993 U.S. Dist. LEXIS 4966, *7-*8; 26 U.S.P.Q. 2d (BNA) 1871 (1993).

74. 754 F. 2d 331, 334 (Fed. Cir. 1984).

convincing evidence.” Courts have emphasized that when bringing a suit for patent infringement, if the plaintiff has sought advice by outside patent counsel, conducted tests and analyzed the patent before commencing the suit, a finding of bad faith could not be supported. The patentee is also allowed to warn competitors, “... [a patentee] may notify a competitor’s customers of the pendency of an infringement suit and warn them of similar actions, if the patentee acts in good faith... infringement suits cannot be threatened in bad faith for the purpose of inhibiting customer purchases and injuring the competitor’s business.”

L. Bad faith and predatory litigation

Intel... one of Silicon Valley’s most litigious companies... tough and savvy, willing to protect its extensive research investment... [or just] a bully that would rather litigate than compete in the marketplace.

If bad faith can be shown in the bringing of the infringement suit then the plaintiff faces a possible antitrust action under § 1 and/or § 2 of the Sherman Anti-Trust Act. The court found in Handgards, Inc. v Ethicon that bringing a series of ill-founded patent infringement actions, in bad faith, can constitute an antitrust violation. It is sufficient if such suits are initiated or pursued with intent to monopolize a particular industry and other elements of § 2 of the Sherman Anti-Trust Act are present.

To bring the alleged behavior under § 2 the plaintiff must show a specific intent to monopolize and a “dangerous probability” that the attempt will be successful in achieving a monopoly in the relevant market. In Handgards, the court expanded that definition when attempting to establish a § 2 antitrust liability in a bad faith patent litigation. There the plaintiff had to prove 1) by clear and convincing evidence.

76. Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986, 996 (9th Cir. 1979).
80. “... [T]he requisite motive... is the intent to harm one’s competitors not by the result of the litigation but by the simple fact of the institution of litigation.” MCI Communications Corp v. AT&T, 708 F.2d 1081, 1157 (7th. Cir. 1983).
81. Section 2: “Every person who shall monopolize or attempt to monopolize, or combine or conspire with any other person or persons... shall be deemed guilty of a felony.” Section 1: “Every contract, combination in the form... in restraint of trade or commerce... is declared to be illegal.”
83. 743 F.2d 1282 (9th Cir 1984); cert. denied, 469 U.S. 1190 (1985).
84. Loctite, 781 F.2d at 875.
evidence that the patentee prosecuted the patent suit in bad faith; 2) that the patentee had a specific intent to monopolize the relevant market, and 3) that a dangerous probability of success existed.

The proper use for a patent is for excluding others from making, using, or selling the invention described in the patent. The inventor cannot extend the monopoly to suppress competition. 85 "When a patent owner uses his patent rights not only as a shield to protect his invention, but as a sword to eviscerate competition unfairly, that owner may be found to have abused the grant and may become liable for antitrust violations." 86 This sort of predatory behavior 87 in patent litigation by firms can be found in the plaintiff's litigation history. "The litigation history of the plaintiff is valuable in determining antitrust liability." 88

Cyrix had the fortune or misfortune of selecting an area where you have a dominant competitor, Intel Corporation. . . . The company [Cyrix] was founded in 1988. The first product was introduced in 1989, the first lawsuit filed in 1990. And it's pretty much been escalating ever since. . . " 89

The firm's object in predatory litigation may be to hamper competition 90 by imposing burdensome litigation costs; to limit their access to funds; to deny a competitor entry into the field; 91 or to reveal confidential information through the discovery process.

. . . [E]ven if only partially or temporarily successful, a lawsuit may entail a damage award, temporary injunctive relief that hampers the

85. See Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 491 (1942); reh'g denied, 314 U.S. 488 (1942). There the court found that stating that a patent grants only a monopoly for making, using, or selling the invention described in the patent; the inventor cannot extend the monopoly to suppress competition.
87. Robert Bork defines predatory behavior thusly:
Predation may be defined, provisionally, as a firm's deliberate aggression against one or more rivals through the employment of business practices that would not be considered profit maximizing except for the expectation either that 1) rivals will be driven from the market, leaving the predator with a market share sufficient to command monopoly profits, or 2) rivals will be chastened sufficiently to abandon competitive behavior the predator finds inconvenient or threatening.
89. TEXAS LAWYER, supra note 4, at 10.
90. "Hampering a competitors ability to compete by imposing a burdensome cost of litigation can be a reason for litigation." Myers, supra note 87, at 589.
91. "[P]redatory behavior may be used to deter potential competitors from entering a market." Id. at 592.
target's ability to compete . . . [it] may be forced to divulge proprietary information, such as trade secrets, new product developments, and marketing strategies in the course of discovery . . . while a suit is pending, the target firm may also be forced to disclose its contingent liability to creditors [and others] . . . hampering its ability to obtain funds.92

If any of the criteria can be met for bringing the suit in bad faith, the defendant may be able to have the court impose sanctions, dismiss the suit or to award Sherman Act treble antitrust damages to the innocent defendant.93

M. Inequitable conduct

When an entity institutes an action before the ITC, the commission is empowered to apply standards to pre-institution conduct of complainants and their counsel.94 The complainant has a duty of candor. A breach of that duty is found through a two-part test. To find a breach there must be clear and convincing evidence of: 1) a failure to disclose or submission of false material information; and 2) an intent to mislead the commission.95 Such a finding by clear and convincing evidence would lead to a finding of no unfair competition by the complainant.

In an FDC proceeding, a patent may be held unenforceable upon a showing that the applicant engaged in inequitable conduct before the Patent and Trademark Office. The test for such a contention is twofold: first, do the withheld references satisfy a threshold level of materiality, and second, does the applicant's conduct satisfy a threshold showing of intent to mislead? The intent96 of the patentee may be shown through direct evidence of intentional fraud or it may be inferred from the facts and circumstances of the case.97 In this showing intent requires more than gross negligence.98

92. Handgards, 743 F.2d at 1296.
93. See Hydro-Tech Corp v. Sundstrand Corp, 673 F.2d 1171 (10th Cir. 1982). For an example of entry deterrence involving vigorous and perhaps unjustified enforcement of IP rights.
95. Id. Intent includes gross negligence in this test. Id. at *12.
96. However, "simple negligence, oversight, or an erroneous judgment made in good faith does not give rise to a charge of inequitable conduct." J.P. Stevens & Co. v. Lex Tex Ltd., 747 F.2d 1553, 1560 (Fed. Cir. 1984).
97. Paragon Podiatry v. KLM Labs, 984 F.2d 1182, 1190 (Fed. Cir. 1993).
If both threshold inquiries are satisfied, the court then balances the materiality and intent to determine whether the misrepresentation or omission and level of culpable intent make it inequitable to enforce the patent.\textsuperscript{99} If inequitable conduct is shown with respect to some of the claims in a patent application, the entire patent is unenforceable.\textsuperscript{100} Before the District Court, a showing of inequitable conduct can invalidate a patent, while before the ITC it can only lead to a finding of no unfair competition in the import of the specified products.

IV. EXTRA-TERRITORIAL EFFECT OF DOMESTIC RULING

The three-part test for the extra-territorial application of an injunction under the Lanham Act\textsuperscript{101} was set forth in \textit{Timberlane Lumber Co. v. Bank of America Nat'l Trust and Savings Assoc.}.\textsuperscript{102} First, there must be an effect on American foreign commerce; second, the effect must be a cognizable injury to the plaintiff; and finally, the interests and links to American foreign commerce must be sufficiently strong in relation to those of other nations to justify an assertion of extra-territorial authority.

The concern a domestic company has when using the Federal District Courts is the effect and enforcement of any judgment it might receive. How does a company show the three-part \textit{Timberlane} test in order to secure the extraterritorial effect of domestic judgments? In \textit{Timberlane} itself the plaintiff was unable to satisfy the first prong of the test, namely an effect on American foreign commerce, so the court did not reach the third prong of the test with its eight criteria.\textsuperscript{104}

The extraterritorial reach of U.S. law has been a concern for both the court and domestic businesses for many years.\textsuperscript{105} While the early cases were anti-trust or due process centered, the principles applied are valid to IP law today. In \textit{Mannington Mills, Inc. v. Congoleum

\textsuperscript{100} Kingsdown Medical Consultants, Ltd. v. Hollister Inc., 863 F. 2d 867, 877 (Fed. Cir. 1988).
\textsuperscript{102} 549 F.2d 597 (9th Cir. 1987).
\textsuperscript{103} 549 F.2d at 613.
\textsuperscript{104} "The elements to be weighed include the degree of conflict with foreign law . . . the nationality . . . of the parties . . . principal places of businesses . . . extent to which enforcement can achieve compliance . . . relative significance of effects on U.S. . . . extent to which there is explicit purpose to harm U.S. commerce . . . foreseeability of such effect . . . relative importance of violation within the U.S. as compared with conduct abroad." 549 F.2d at 614.
\textsuperscript{105} See Vermilya-Brown Co. v. Connell, 335 U.S. 377 (1948).
the court used the Timberlane analysis to dismiss an antitrust complaint which charged fraudulent procurement of patents by a domestic corporation in foreign countries.

The Restatement (Third) Foreign Relations Law § 402, allows a state to exercise jurisdiction to prescribe laws with respect to: 1) conduct that takes place within its territory; 2) conduct outside its territory that has or is intended to have substantial effect within its territory; 3) activities and interests of its nation, and; 4) activities against the state’s security interest.

Section 403 requires that the exercise of jurisdiction be ‘reasonable’ and gives a non-exclusive list of concerns to weigh in order to determine ‘reasonableness’. The list includes the location of challenged conduct, the effects within the regulating state, the nationalities of the parties, the importance of the regulation to the regulating state, the likelihood of conflict with another states laws, and the extent to which the regulation is consistent with the international system.

With respect to trademark protection, the Lanham Act provides for undefined jurisdiction by U.S. courts. The Supreme Court has applied it to a U.S. citizen operating a factory in Mexico and violating a valid U.S. trademark. Lower courts have found the Lanham Act applicable in cases where a U.S. national engages in trademark infringement abroad that injures domestic trademark holders. In the case of foreign defendants who violate a domestic trademark, the Lanham Act may apply where it can be shown that the violation has U.S. effects.

In deciding whether U.S. anti-trust laws can apply to conduct abroad, the three-part Timberlane test has been applied The first two prongs taken together require a showing that foreign conduct had a direct and substantial anti-competitive effect on U.S. commerce. The third prong predicates jurisdiction upon a showing that the “inter-

106. 595 F.2d. 1287 (3d Cir. 1979).
108. Any person who shall, in commerce, use without the consent of the registrant . . . shall be liable to civil action by the registrant for any or all of the remedies provided. 15 U.S.C. § 1114(1).
110. See American Rice, Inc. V. Arkansas Rice Growers Coop. Ass’n, 701 F.2d 408 (5th Cir. 1983).
111. See Reebok Int’l Ltd. V. Mamatech Enters, 970 F.2d 552 (9th Cir 1992).
113. Id.
ests of and links to the U.S. are sufficiently strong, . . . to justify an assertion of extraterritorial authority." 114

In addition to the reach of substantive domestic law above, the Supreme Court has given an extraterritorial reach to discovery requests in domestic suits. 115 Until 1987, both federal and state courts found that a domestic party wanting to secure discovery would first have to attempt to follow the Hague Convention procedures with respect to evidence abroad. In James Vincent v. Motobecane, 116 the New Jersey court held that before a court can impose sanctions 117 or enter a default judgment because of a foreign defendant's failure to comply with the court's discovery orders, the plaintiff must attempt to use the Hague Convention procedures for discovery requests. 118 This was especially true where the foreign country has indicated that it would entertain the request. In General Electric Co. v. North Star International, 119 the court required the plaintiff to first use the Hague Convention and then apply to the court for an order to compel under the Federal Rules if the defendant was uncooperative in discovery proceedings. 120

In Societe Nationale Industrielle Aerospatiale v. United States District Court, 121 the Court found that "the concept of international comity [something more than mere international manners, but less than obligation]" 122 determines the appropriate reach of extraterritorial U.S. discovery in cases 123 where the Hague Convention applies" (parenthetical added). 125 However, it is not the exclusive or mandatory procedure for obtaining documents and information located in a foreign country. The convention is rather an optional procedure that is available whenever it will facilitate the gathering of evidence

114. Timberlane, 549 F. 2d at 613. See discussion supra part IV.
115. Supra note 112, at 48.
120. However, see Murphy v. Reifenhauser KG, 101 F.R.D. 360; 39 Fed. R. Serv. 2d(Callaghan) 500 (April 1984). (The court held that a party did not have to use the Hague Convention to secure discovery of evidence abroad.)
122. "courtesy, respect, a willingness to grant a privilege, not as a matter of right, but out of deference and good will." Blacks Law Dictionary.
124. Although this applies only with respect to litigants already before the court.
125. Societe Nationale, 482 U.S. at 543-44.
from a party. This decision has led courts to require extraterritorial
discovery where significant U.S. connections and interests were in-
volved\(^{126}\) or not allow it where the U.S. interests were slight.\(^{127}\)

Some foreign countries have passed ‘blocking statutes’\(^{128}\) to in-
hhibit the reach of U.S. courts. These statutes come into conflict with
U.S. litigants attempting to apply the extraterritorial reach of domestic
decisions.\(^{129}\) U.S. courts have given little deference to these statutes.
In USA v. Earl Tripplett, Revenue Officer, IRS v. The First National
Bank of Chicago\(^{130}\) the court found that the fact that foreign law may
subject a person to criminal sanctions in the foreign country if he
produces certain information does not automatically bar a domestic
court from compelling production. In doing so the court is required to
engage in a sensitive balancing of the competing interests at stake in
compelling such production. The court listed the factors to balance in
United States v Vetco as: 1) vital national interests of each of the
states; 2) the extent and the nature of the hardship that inconsistent
enforcement actions would impose upon the person; 3) the extent to
which the required conduct is to take place in the territory of the other
state; 4) the nationality of the person; 5) the extent to which enforce-
ment by action of either state can reasonably be expected to achieve
compliance with the rule prescribed by that state.\(^{131}\)

Consequently, when a domestic business is attempting to assert
an IP protection, regardless of the motive, the business must decide in
which forum to bring the action, and whether that forum will be able
to reach the respondent with any judgment it makes. The business
litigation strategy can be successfully pursued in either forum, with
the most effective tactic being to pursue the target company in both
forums. This allows for the relative speed of the ITC forum to stop
‘infringing’ goods from being imported, while the FDC action allows
the remedy of damages. The key to litigation in either is a docu-


\(^{127}\) See United States v. First Nat’l Bank of Chicago, 699 F.2d. 341 (7th Cir. 1983).

\(^{128}\) The French Blocking Statute: Law No. 80-538 of July 16, 1980:

Article 1-bis: Subject to any treaties or international agreements and the laws and
regulations in force, it is prohibited for any person to request, to investigate or to
communicate in writing, orally or by any other means, documents or information
relating to economic, commercial, industrial, financial or technical matters lead-
ing to the establishment of proof with a view to foreign administrative or judicial
proceedings or as a part of such proceeding.

\(^{129}\) The U.K. [blocking] Act prohibits domestic courts from complying with proscribed
foreign court orders .. a foreign request for information can be found objectionable if it simply
infringes upon the jurisdiction of the U.K. or is otherwise prejudicial to its sovereignty. SEC

\(^{130}\) 699 F.2d 341 (7th Cir. 1983).

\(^{131}\) 644 F.2d 1324 (9th Cir. 1981).
mented, good faith basis to enforce valid IP rights, not to just suppress competition.

V. PROCEEDINGS IN THE EUROPEAN COMMUNITY

Intel and the U.S. semiconductor industry are focusing upon protecting our investments in research and development. The suits ... are part of a larger process in which the company is stepping up its efforts to protect its intellectual property rights ... Intel is seeking an exclusion order (from the ITC) that would prevent EPROMS from being sold in the U.S. 132

The European Community (EC) has historically been an important export market for U.S. semiconductor producers. In 1990, the EC accounted for about 16 percent of total semiconductor exports from the U.S., Texas Instruments set up a state of the art semiconductor fabrication plant in Italy, and Intel announced plans for a plant in Ireland. Growth of capital expenditures was expected to exceed every other region of the world, from 1991 to 1995. 133

As the EC increases in importance to domestic companies, the need for firms to investigate IP protection there is growing as well. When firms enter a foreign market and use the foreign countries IP protection to aid in the marketing of their products, the foreign firms are responding by either creating their own technologies or by taking advantage of their IP laws to use the U.S. firm's intellectual property.

A firm which has pursued a business litigation strategy domestically is faced with several twists when attempting to extend that strategy to the EC. These include EC treaties, national law, unsettled case law, and most importantly, the Treaty of Rome.

The Treaty of Rome 134 prohibits the owner of an IP right from preventing the importation and marketing of a product which has been lawfully marketed in another Member State by the owner, with his consent or by a person connected with him legally or economically. 135 This applies whether the product was first marketed under the IP right in question or in a Member State where no protection is available. 136 Further, it is impossible for individuals to contract out of the binding

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134. See appendix I for article 85 and 86, the competition rules of the treaty.
provisions of the Treaty for the free movement of goods. All contracts involving trade between member states come under the Treaty.

Articles 85 and 86 of the Treaty of Rome are the principle statutes concerning how firms compete in the EC. Article 85 prohibits (and declares void) all agreements between undertakings . . . which may affect trade between member states . . . and which have as their effect the prevention, restriction or distortion of competition . . .”. Article 86 prohibits the ‘abuse’ of a ‘dominant position’ within the EC or in a substantial part of it and gives general definitions of ‘abuse’.

A. Article 85

Article 85 is directed against anti-competitive agreements. It prohibits ‘any agreements between enterprises, any decisions by associations of enterprises and any concerted practices which are likely to affect trade between the Member State and which have as their object or result the prevention, restriction or distortion of competition within the Common Market.’ The last two clauses may cause problems for firms attempting to use IP protection to safeguard or increase market share. The business litigation strategy can be seen as a concerted practice which affects trade between member state and has as its objective the distortion of competition within the EC.

One result of a litigation strategy is a settlement agreement ending litigation. In order to comply with Article 85, an IP settlement agreement and ancillary license should restrict the defendant from infringing, rather than restrict him from manufacturing or selling a category of products some of which may not infringe the rights. The agreement should avoid no-challenge clauses except in very limited circumstances, particularly in the case of trademark delimitation agreements. Further, it should avoid geographical market partitioning and adopt the least restrictive solution in the circumstances. In ancil-

138. Article 85 § 2.
139. Warner-Lambert/Gillette & Ors; BIC/Gillette & Ors (Decision 93/252), [1993] 2 CEC 2,039, 2,046 (Commission of the European Communities). In Warner, a Swedish company sold the rights to a shaving business to an American company and an EC company. Warner, a U.S. company, complained to the Commission alleging an infringement of Article 85 and 86 in the sale. After a determination of dominance, abuse and effect in the EC, the commission held that the parties abused a dominant position by the sale and rescinded it. Id. at 2,051-2.
142. Id.
lary licenses it should ensure that so far as possible the terms of the patent, the block exemptions are followed.\textsuperscript{143}

\textbf{B. Article 86}

1. Dominant position within the EC

Article 86 states that any abuse of a dominant position within the Common Market shall be prohibited.\textsuperscript{144} It does not address the exact definition of dominant position but an EC court has found that "... an intellectual property right such as a patent can give a patentee a dominant position."\textsuperscript{145} While in \textit{Hilti AG v. Commission of the European Communities}, the court found that when attempting to find whether Articles 85 and 86 of the Treaty of Rome were violated, the court must first determine if the firm occupies a 'dominant position.'\textsuperscript{146} This is found by defining the relevant product market, the geographic market, and defendant's position in the market.\textsuperscript{147} The court's decision indicates that an exclusive patent in one member state may be enough to establish a dominant position as long as its behavior reflects its ability to act independently and without due regard to, either competitors or customers in the markets in question.\textsuperscript{148} Generally, a dominant position may be defined as having the power to act without paying attention to rivals, suppliers or purchasers, with 'independence of conduct as the yardstick.'\textsuperscript{149}

2. Abuse of dominant position

Achieving a dominant position is not a violation of EC law. But once a dominant position has been established, the possible existence of abuse must be investigated to establish if there is a violation. There is a two-prong definition for abuse of dominant position.\textsuperscript{150} First, there must be a restraint on competition; second, the dominant enterprise must have used different methods from those which govern normal competition in products or services on the basis of the transactions of traders. The court looks for improper behavior which frustrated or

\textsuperscript{144. See} Appendix I.
\textsuperscript{146. Id. at T-30/89), [1992] 1 CEC 155,156.}
\textsuperscript{147. Id.}
\textsuperscript{148. Id.}
\textsuperscript{150. Id. at 149.}
delayed legitimately available licenses of right, or behavior which was discriminatory against the business of competitors and their customers. This may be found by pricing the grant of licenses much higher than the figure ultimately appointed by the Comptroller of Patents. The Hilti court reasoned that by demanding such a large fee Hilti was needlessly protracting the proceedings for the grant of licenses of right and that such behavior “undeniably constitutes an abuse.”151 The court also found that Hilti was selective and discriminatory in its policies towards its competitors and their customers which also indicated abuse and that the evidence could not justify Hilti’s subsequent behavior.

At the other end of the spectrum, in Chiron Corp, et al v. Orga-
non Teknika Limited, et al., the court found that “it is well settled that the refusal to license a patent or registered design cannot per se amount to an abuse of a dominant position.”152 It may not be an abuse, but the refusal to grant a license may be grounds for the application by the rejected licensee to the government for the issuance of a compulsory license. In Dansk Supermarket v. Imerco153 the court found that importation into a Member State of goods lawfully marketed in another Member State could not be classified as an improper or unfair commercial practice.

These decisions indicate that the law with respect to the abuse of dominant position is unsettled. A firm trying to protect its IP rights may have to grant a license so as not to abuse its ‘dominant’ position, because if it doesn’t it may be sued for violating Article 86, in addition to having a compulsory license granted as well.

3. Effect of abuse between member states

After the court finds abuse and dominant position it looks to the effect on trade between member States.154 The court applied the rule that under Article 86 any abuse which may affect trade between member States is prohibited as incompatible with the Common Market.

In Hilti, the court looked at Hilti’s behavior to determine if it was likely to have repercussions on trade between member States. The repercussions they were concerned with included limiting the entry of independent manufacturers into the market which could harm com-

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151. While the court didn’t say it was a 'per se' rule, “undeniably” leaves little room for argument.
commercial interests in the United Kingdom or hamper or halt exports between the member States.

The abuses found were those which sought to prevent or limit the entry of competitors into the market, or to damage or even eliminate existing competitors. The commission contended that the acts were designed to impair the whole structure of competition. Once a dominant position was found and abuse effecting trade between member states was determined, the court found Hilti violated Article 86 and sustained the lower court.

_Hilti_ provides lessons for U.S. firms attempting to protect their IP or market share in Europe. Hilti’s share of the market was around 55 percent. In addition, Hilti’s market share was dominant because it was protected by patents, Hilti had a strong research and development position, and a strong and well-organized distribution system in the EC. Hilti’s behavior evidenced its ability to act independently of, and without due regard to, either competitors or customers in the markets in question. That behavior justified the conclusion that its primary concern was the protection of its commercial position rather than a disinterested wish to protect users of its products.

U.S. firms attempting to protect their IP rights in Europe must show one of the following: a primary concern for the protection of the consumers of its goods, and not the protection of market share; or no effect of the agreement in question on trade between the member states; or that they are not a ‘dominant’ firm in the relevant market, either for product or geographically; or that their actions were objectively justified by market concerns and not an ‘abuse’ of dominant position.

4. Bad faith and abuse of dominant position

Case law relating to the use of a predatory litigation strategy in the EC is limited. In _Pitney Bowes In. v. Francotyp-Postalia GmbH and Another_, the American plaintiff sued for infringement of its franking machine patent in the U.K. Defendants denied infringement and counterclaimed an Article 86 of the Treaty of Rome abuse of dominant position defense. The court found that allegations of bad faith must be unambiguously alleged, which they were not in the instant case; and even if they had been clearly pleaded, bad faith prosecution is not an abuse of dominant position as much as it is an independent tort of malicious prosecution. The court found that the

plaintiff did not have to reach to the treaty when a national statute would be enough, and thus did not apply the Treaty of Rome.

However, in its opinion the court cited to *Volvo AB vs. Erik Veng*\(^1\)\(^5\)\(^6\) as a “clear affirmation of the view that the abuses need not be a direct or even an indirect consequence of the relief claimed in the particular action. It is sufficient that the existence of the IP right creates or buttresses the dominant position which the plaintiff is abusing.” By referring to ‘dominant position’ the court seemed to be reaching for the treaty while at the same time saying it was not necessary.

The *Pitney Bowes* ruling should be regarded in the light of the finding in *Commission Decision 88/501 of 26 July 1988 Relating to a Proceeding under Articles 85 and 86 of the EC Treaty (Tetra Pak I (BTG-license))*\(^1\)\(^5\)\(^7\) \([\text{Hereinafter Tetra Pak}]. In Tetra Pak the Commission found that a non-EC firm had violated EC competition law. As a result of an exclusive license, Tetra Pak had prevented potential competitors from entering its market. This led to unduly strengthening its own position in the market and an abuse of dominant position in violation of Article 86. Even though both parties to the license were non-EC, the Commission held that the EC had jurisdiction over agreements between non-EC firms which affect competition within the Common Market. Therefore, as far as the EC was concerned, it could force Tetra Pak to relinquish its exclusive license within the EC. The court emphasized the ‘unduly strengthening’ of Tetra Pak’s commercial position. This could be applied when a firm develops a litigation strategy which in its application goes beyond ‘malicious prosecution’ and becomes the ‘unduly strengthening’ of a commercial position.

5. Compulsory license

In the U.S., once a patent has been issued the patentee has the exclusive use of the patent for a set number of years. The EC has a different regime for patents. If a patent is not ‘worked’ within the patent granting country within a specified period, the government may award a compulsory license, for a reasonable royalty, to a firm to work the patent within the country. Although there is some discussion of what constitutes ‘working’ (see below), it is generally considered to be manufacturing or importing into the country in question.

In *Re Compulsory Patent Licenses: EC Commission v. United Kingdom, Court of Justice of the European Communities*\(^1\)\(^5\)\(^8\) the court

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discussed the applicable patent conventions and the grant of compulsory licenses. The Paris Convention, Article 5(A), §§ 2, 4 addresses the issue of compulsory patents and the criteria for issuance. The Convention for the European Patent, Article 47 addresses the issue of compulsory licenses as well.

Both conventions also accept the efficacy of national patents, but only as far as they not infringe the convention. For example, in the United Kingdom patents are covered by the Patents Act of 1977. It provides for the grant of compulsory patent licenses at any time after the expiration of three years from the date of the grant of the patent, on the grounds such as, not working the patent to fulfill reasonable demand for the product. The UK doesn’t recognize imports as a substitute for domestic working of the patent. This is in violation of the Conventions and has been ruled invalid.

In Italy, the Civil Code §§ 2584 - 2591 governs compulsory licenses. It provides that non-exploitation of a patent is grounds for a compulsory license and that imports don’t constitute exploitation. This section has been found to violate the Conventions as well, and has been found void. [Denmark’s and Spain’s rules for compulsory licenses has also been ruled void. Belgium, France, Germany, Greece, Ireland, Luxembourg, Netherlands and Portugal have been found in compliance with the Conventions.]

159. PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY (amended 1967):
   Article 5(A):
   Section 2. Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.
   Section 4. A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last, it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory license shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license.

160. THE EUROPEAN PATENT CONVENTION (1973). Signed in 1973, all EC member states are members as well as Austria, Switzerland, Liechtenstein, Sweden and Monaco.
   The objective of the Convention is to enable an applicant who seeks patent protection in more than one Convention country to achieve this by making a single application in a single language to the European Patent Office. The effect of this patent in any of the countries applied for is the same as that of a national patent in that country (except for duration and nullification).
   It requires that when ascertaining if a patent has not been worked in a state, that the importation of the patented goods in question from another member state satisfies the ‘working’ requirement. (It doesn’t address the importation of goods from non-member states.)


163. Id.
As re Compulsory Patent Licenses indicates, the lawful import of a product from another member state satisfies the 'working' requirement before an EC compulsory license can be issued. A domestic firm still must abide by the convention, however, with respect to the time (four years) to begin working the patent. With respect to the business litigation strategy, this means once a patent is secured in the target country, litigation or the threat of litigation can continue for four years with little product exposure. This might impact the courts determination of bad faith in the patent infringement suits (see above), but beyond that a firm could have four years of royalties without going to the expense of actually having a product in the target country.

CONCLUSION

This essay discusses the options facing a U.S. firm when trying to protect IP assets by pursuing a business litigation strategy, in the U.S. and the EC. A company pursuing this strategy in the EC needs to frame its actions to conform to the Treaty of Rome, Articles 85 and 86, as well as the small amount of case law on point. This will allow the firm to avoid the 'abuse of dominant position' that articles 85 and 86 prohibit. In the U.S., the strategies will be effective as long as they conform to the requirements of the Sherman Act and related anti-trust considerations.

APPENDIX I
TREATY OF ROME164

Rules on Competition

Article 85

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object of effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

(a) directly or indirectly fix purchase or selling prices or any other trading conditions;
(b) limit or control production, markets, technical development, or investment;
(c) share markets or sources of supply;

(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no commotion with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

— any agreement or category of agreements between undertakings;

— any decision or category of decisions by associations of undertakings;

— any concerted practice or category of concerted practices;

which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of there objectives;

(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Article 86

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States.

Such abuse may, in particular, consist in:

(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;

(b) limiting production, markets or technical development to the prejudice of consumers;

(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.