

The Competition Question Unmasked in *Actavis*: What Is the Scope of the Patent Right to Exclude?

BY RUDOLPH J.R. PERITZ

IN *FTC V. ACTAVIS, INC.* THE SUPREME Court recently concluded that patents will no longer serve as trump cards for defendants in antitrust suits contesting pay-for-delay settlements.¹ The Court instructed that liability should be determined by applying a rule of reason to accommodate patent rights to antitrust proscriptions—over a vigorous dissent that would have treated patents as trumps. Although the decision reflects a Court deeply divided over antitrust issues, what is perhaps more significant about the decision is the Court’s seemingly unremarkable consensus that the patent regime is defined by a right to exclude others from practicing the patent. That consensus, however, ignores the competition policy inhering in patent law and conflates the concepts of patent scope and patent remedies. Patent law’s indigenous competition policy not only clarifies the relationship between patent scope and patent remedies but warrants wider recognition in public policy analysis of the patent regime.

Antitrust Summary of *Actavis*

In *Actavis* the Court reviewed the last in a long line of federal appeals court decisions that have almost always dismissed antitrust claims against pay-for-delay agreements. Solvay Pharmaceutical, the maker of a synthetic form of testosterone called Androgel, sued generic drug producers Actavis and Paddock for patent infringement but agreed to settle the case if those companies would accept up to \$342 million to stay off the market and to promote Androgel instead. The FTC challenged this settlement as an agreement in restraint of trade between competitors. The FTC noted that such settlement agreements were costing drug consumers \$3.5 billion annually.²

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The Supreme Court in a 5–3 decision reversed the Eleventh Circuit Court of Appeals and rejected the view dominating the federal courts that pay-for-delay settlements are immune from antitrust scrutiny as long as they “fall within the scope of the patent.” The Court declared instead that “patent and antitrust policies are both relevant in determining the ‘scope of the patent monopoly’—and consequently antitrust law immunity—that is conferred by a patent.”³ More directly to the point, “this Court’s precedents make clear that patent-related settlement agreements can sometimes violate the antitrust laws.”⁴ In short, determining the competitive impact of pay-for-delay settlements calls for a rule-of-reason analysis that takes into account conflicting antitrust and patent policies.⁵

Reframing *Actavis* as a Unanimous Patent Decision

Actavis stands as an antitrust case, one that left the Court deeply divided, but it can be reframed as a unanimous patent decision—unanimous, at least, on the interplay between antitrust and patent law. Both the majority and the dissenting opinions in *Actavis* adopted without discussion the mainstream view that pay-for-delay cases raise a fundamental conflict between patent and antitrust regimes. This adoption involves three elements. First, both opinions acknowledge the relevance of patent policy in determining the antitrust legality of pay-for-delay settlements. Second, both were in agreement that patent scope defines the reach of the holder’s exclusionary power. Third, both proceed from the mainstream view that patent-antitrust intersections pit the exclusionary rights of a patent against the open competition regime of antitrust policy.⁶

What divided the Court is the question of how to resolve the perceived conflict between patent rights and antitrust proscriptions—that is, how to treat the exclusionary scope of the patent. The majority opinion instructs courts “to accommodate patent and antitrust policies” in each particular case.⁷ Like almost all of the lower courts, the *Actavis* dissent rejects accommodation, declaring that “[a] patent carves out an exception to the applicability of antitrust laws.”⁸ This divergence masks an underlying consensus in the *Actavis* majority and dissent about the exclusionary nature of the patent regime and its oppositional relationship to antitrust. This

consensus merits investigation because it ignores the competition doctrines inherent in the patent regime.

Competition Policy Within the Patent Regime

Competition doctrines working in the patent regime have been applied in Supreme Court decisions and are supported by economics scholarship, both recent and long-established.

Baseline of Free Competition. Antitrust's conceptual commitment to free competition is no surprise, but the role of competition within the patent regime is not widely recognized. Perhaps the clearest statement of the latter is found in the Supreme Court's *Bonito Boats* decision. Almost 25 years ago, Justice Sandra Day O'Connor wrote: "[F]ree exploitation of ideas will be the rule, to which the protection of a federal patent is the exception."⁹ At issue was preemption of a Florida statute granting patent-like protection to unpatented designs for boat hulls. Justice O'Connor explained for a unanimous Court that the state law was preempted because its patent-like protection conflicted with fundamental patent policy:

The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the "Progress of Science and useful Arts." . . . [T]he stringent . . . novelty and nonobviousness requirements express a congressional determination that the purposes behind the Patent Clause are best served by free competition and exploitation of either that which is already available to the public or that which may be readily discerned from publicly available material.¹⁰

Justice O'Connor concluded that there is a "baseline of free competition upon which the patent system's incentive to creative effort depends."¹¹

But what exactly does "free competition" mean?¹² The answer becomes clear once we restate the question as follows: What is it that we want to free competition from? In the United States, this question has long received two different responses. First, we want to free competition from political control and government intervention. In this sense, free competition expresses a commitment to entrepreneurial liberty that supports antitrust as a market-based alternative to the heavy hand of government industrial policy. Second, we want to free competition from private economic control, from the oppressive power of accumulated private capital. In this second sense, free competition expresses a commitment to rough equality. In short, "free competition" reflects commitments to both liberty and equality, and concerns about oppressive power, both political and economic.¹³

These commitments to equality and liberty sometimes create tension in the ethic of free competition, and that is clearly the case with patents. Patents infringe on free competition's commitment to entrepreneurial liberty because the patent grant embodies direct government intervention into the marketplace of ideas as well as commercial markets. Second, patents encroach on free competition's commitment

to commercial equality insofar as they grant owners special rights to restrain competitors as a means of pursuing economic monopoly.¹⁴

The majority *Actavis* opinion includes one glimmer of recognition of patent law's baseline of free competition. After discussing the Court's long-standing practice of antitrust scrutiny of patent settlement agreements, Justice Breyer noted that "It would be difficult to reconcile the proposed right [described in the dissent] with the patent-related policy of eliminating unwarranted patent grants so the public will not 'continually be required to pay tribute to would-be monopolists without need or justification.'"¹⁵ Moreover, that particular passage echoes language in Justice Breyer's earlier opinion in *Metabolite*,¹⁶ which had cited *Bonito Boats* for the proposition that patent policy should maintain a "careful balance"¹⁷ between monopoly and competition: "[S]ometimes *too much* patent protection can impede rather than 'promote the Progress of Science and useful Arts,' the constitutional objective of patent and copyright protection."¹⁸

The *Actavis* decision calls for antitrust inquiry to determine the right balance between patent monopoly and competition. But *Actavis* did not consider the *Bonito Boats* question of patent competition, something not strictly necessary to resolve the antitrust issue before the Court. However, that very question will arise for trial courts in following the *Actavis* decision's instruction to include both patent and antitrust policies in their rule-of-reason analysis.

Competition Policy in Recent Supreme Court Patent Cases. Recent Supreme Court decisions have adopted a number of doctrines that effectively expanded the scope of competition by narrowing patent rights. *Myriad Genetics* opened competition in biogenetic research by rejecting the patentability of DNA segments merely because they have been isolated.¹⁹ *KSR International* expanded competition in the enormous field of combination inventions by raising the non-obviousness requirement for patentability.²⁰ *Integra Lifesciences I* broadened the scope of competition in pharmaceutical markets by giving an expansive reading to the Hatch-Waxman Act's grant of a privilege to unlicensed experimentation with patented drugs in the course of seeking FDA approval.²¹ These decisions and the competition policies underlying them run counter to the canonical view of fundamental conflict between the antitrust and patent regimes. As *Bonito Boats* teaches explicitly, the patent regime rests on a baseline of free competition.²²

The Uneasy Case for Patents as Promotion of Innovation. Supreme Court Justices have expressed skepticism about the incentive value of patent rights to promote invention. For example, in his partial dissent in the *Marconi Wireless* case of 1943, Justice Felix Frankfurter remarked:

For all I know the basic assumption of our patent law may be false, and inventors and their financial backers do not need the incentive of a limited monopoly to stimulate invention. But whatever revamping our patent laws may need, it is the business of Congress to do the revamping.²³

Still, the dominant view of judges and scholars remains that patent rights are fittingly understood as constitutionally drawn incentives to encourage inventive activity and its commercialization.²⁴ This jurisprudential principle is consistent with the intuitively attractive economic tenet that patents provide the financial incentive needed for inventors and their investors to engage in research and development. And when patents provide that incentive, the ensuing economic progress improves social welfare. In economic terms, without the incentive of patent protection, new ideas and their embodiments would be too quickly and easily copied, imitated, and reproduced. Without patents, fewer inventors and their investors would gain profit sufficient to undertake the risky venture of research and development. In this economic reformulation of constitutional design, government intervention is justified by the market failure of unfettered competition.

Although the economic incentive rationale for patents is intuitively attractive, the fact is that it does not hold. There are deep problems with the logic, problems that have been recognized by economists and policy makers since the mid-19th century.²⁵ In 1958, economist Fritz Machlup submitted his report to Congress, entitled “An Economic Review of the Patent System.”²⁶ His was the most influential of 15 reports commissioned by a Congress concerned whether the costs of the patent system were justified. Machlup summarized the economic literature as follows: “None of the empirical evidence at our disposal and none of the theoretical arguments presented either confirms or confutes the belief that the patent system has promoted the progress of the technical arts and the productivity of the economy.”²⁷ Nevertheless, Machlup recommended that we continue to “muddle through,” because there has been “a patent system for a long time,” and “it would be irresponsible, on the basis of our present knowledge, to abolish it.”²⁸

The 50 years of empirical studies since Machlup’s report have failed to provide persuasive support for the benefit side of incentive theory. Despite 50 years of trying, economists have found no significant empirical support for the view that the economic benefits of patents are superior to those of open competition in the encouragement of innovation or the advancement of economic growth. Rather, both patents and competition free of patents produce innovation that leads to indeterminate improvements in social welfare. Yet innovation free of patent protection promises advantages in both allocative and dynamic efficiency since lower prices to end users, both consumers and follow-on inventors, tend to increase dissemination and, with it, social welfare.²⁹ For this and other reasons, the social benefits of a patent regime have not been shown to justify its social costs as a general matter.³⁰

But since *Actavis* arose in the pharmaceutical sector, there is at least some support for the narrower argument that patents do spur innovation in that specific sector, given the high cost and easy appropriation of the knowledge produced by research and development.³¹ This argument persuaded

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Congress to amend the Food, Drug & Cosmetics Act with the Hatch-Waxman Act of 1984.³² Congress intended a balanced approach to heed the pharmaceutical industry’s call for an extended patent term, which in practice had been shortened by the lengthy FDA approval process and, at the same time, to invite generic drug makers to contest weak patents and thereby seek earlier market entry, in order to lower drug prices.³³ But the weight of unintended consequences, especially the practice of pay-for-delay settlements, has unbalanced the intended trade-off to the detriment of consumers by taking settling generic drug producers off the market.

eBay: Patent Remedies and Competition Policy

Among recent patent decisions by the Supreme Court, it is the landmark *eBay* case³⁴ that has likely had the broadest impact both within the patent regime and without.³⁵ Although *eBay* is generally viewed as a remedy case, it is also important for its implicit validation of patent law’s concern for competition. Indeed, *eBay*’s more stringent test for granting permanent injunctions has had the shocking result of opening the patent holder to competition by patent infringers.

In sharp contrast to the *Actavis* Court’s unexamined view that the scope of the patent is the measure of its exclusionary power, *eBay* teaches that patent scope is not a unitary concept: “[T]he creation of a right is distinct from the provision of remedies for violations of that right.”³⁶ In other words, the scope of the patent right does not necessarily coincide with the scope of the remedy.

A unanimous Court rejected the Federal Circuit’s “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”³⁷ In rejecting this general rule, *eBay* held that issuance of permanent injunctions summons “familiar principles [of equity that] apply with equal force to disputes arising under the Patent Act.”³⁸ Justice Thomas’ opinion for the Court provides a clear and unembellished basis for the more flexible approach: As the Court has long recognized, “a major departure from the long tradition of equity practice should not be lightly implied.”³⁹ “Nothing in the Patent Act indicates that Congress intended such a departure. To the contrary, the Patent Act expressly provides that injunctions ‘may’ issue ‘in accordance with the principles of equity.’”⁴⁰

In short, the statute instructs judges to apply traditional equity principles to weigh private and public interests in determining the scope of the injunction, an extraordinary remedy that by its nature limits the scope of competition.⁴¹

Since the *eBay* decision, patent holders have found it more difficult to persuade courts to issue injunctions that restrain infringing competitors from selling or otherwise using inventions embodying the patent in suit.⁴² As a result, more infringers are permitted to use the patent in suit to compete against the patent owner. Of course infringers do not get away free; they remain liable for damages and reasonable royalties. The patent holder thus is rewarded for his innovation; but the important point is that infringers are permitted to compete.

In jurisprudential terms, *eBay*'s distinction between property rights and property remedies should be understood as harboring a patent policy to promote competition, an equitable doctrine that allows infringers to compete against the owners with the patent in suit unless extraordinary circumstances warrant an injunction.

Actavis: Missing the Bonito Boat and Sailing Wide of the eBay

Neither the majority opinion nor the dissent in *Actavis* questioned the dominant view that pay-for-delay settlements raise an antitrust-patent policy conflict concerning the patent holder's right to exclude. In effect, the Court did not acknowledge the patent law's concern for competition that *Bonito Boats* explains. Nor did the Court acknowledge its *eBay* teaching that the patent regime does not grant an automatic right to exclude, but rather a more limited right subject to an internal patent-law limitation on a patent's exclusionary power. While determining the nature of the patent regime was not strictly necessary to adjudicate the antitrust issues before the Court in *Actavis*, lower courts may well be called upon to make that very determination.

eBay's Application. A patent owner in seeking an injunction asks the court to restrain infringing competitors on the ground that a patent justifies the restraint. Likewise, the defender of a pay-for-delay settlement asks the court to validate the private-agreement equivalent of an injunction. If the issue were framed in these terms, the *eBay* decision would require the branded drug maker (and its generic confederates) to persuade the court that the pay-for-delay provision satisfies patent law's test to restrain competitors—that on balance, the benefits and harms, public and private, tip in favor of keeping generic drug makers off the market. Only then would the settlement fall within the scope of the exclusionary remedy as prescribed by *eBay*. Likewise, only then should a pharmaceutical patent holder be permitted to deploy a settlement agreement to keep a generic competitor off the market.⁴³

Applying *eBay*'s traditional equity approach to a case like *Actavis* would require the court to determine whether the pay-for-delay settlement's restraint on competition should be approved in the circumstances.⁴⁴ The mere fact that the

private parties have agreed to the injunction-equivalent, however, is not a sufficient ground in itself to justify the pay-for-delay agreement. In pay-for-delay cases, the parties that have agreed to the injunction equivalent all benefit from the settlement agreement's injunction-like delay of market entry (and the consequent loss of competition). A refusal to approve the settlement agreement and the consequent loss of those benefits do not cause irreparable private harm in the eyes of equity because the parties can repair to their patent infringement cases to litigate the claims and seek appropriate remedies. Moreover, still to be considered is the "public interest" factor that an equity court would weigh before issuing an injunction.

Public Interest Factors. In pay-for-delay settlement cases, a strong public interest factor would carry great weight against such weak claims of irreparable private harm: What would be the public harm, the anticompetitive effects of permitting Solvay to pay its generic rivals not to compete but to promote Androgel? Given U.S. antitrust's current definition of public interest, the inquiry would address the impact on consumers. A quick look at antitrust's traditional static efficiency analysis would likely conclude that, in the short run, permitting the settlement would restrain market entry, prolong monopoly prices, and maintain the associated allocative inefficiencies. A quick look at the effects on dynamic efficiency associated with traditional patent and recent antitrust policies would inquire into the longer-term impact on innovation, in particular the likely effects of higher input prices or second-best substitutes on follow-on inventors.

Since most, if not all, pay-for-delay agreements have been made in the pharmaceutical industry, one should also ask whether such agreements in that sector might confer public benefits specific to that industry. Even if there are, Congress appears to have addressed the balancing of those interests in the Hatch-Waxman Act itself. The law provides a trade-off: extending patent terms based on regulatory delay in exchange for earlier entry of generic competition. In pay-for-delay cases, special pleadings should be rejected because Congress has already legislated to promote the early entry to be blocked by the settlement agreements.

eBay and the Actavis Rule of Reason. *Actavis* rejected per se legality for pay-for-delay settlements. Instead, the Court concluded that the complicating presence of patent rights made antitrust's rule of reason appropriate.⁴⁵ A balancing approach to consider the particular circumstances seems equally appropriate from the patent perspective of *eBay*, which also rejected what amounted to a per se legality approach to permanent injunctions. Both the *eBay* injunction test and the *Actavis* rule of reason are fact-based determinations in the circumstances rather than per se approaches. But there is a significant difference between them, a difference in allocation of presumptions and burdens of proof.

According to *Actavis*, it is the antitrust plaintiff who must persuade the court that the settlement agreement is unrea-

sonable. The presumption of reasonableness lies with the parties to the agreement—the patent holder and generic competitors. Indeed, the Court explicitly rejected the argument for a presumption of unreasonableness or even the lesser call for a “quick-look” analysis. In a patent infringement suit, however, *eBay* requires the patent holder to persuade the court that an injunction lies in the particular circumstances. The patent holder’s burden is warranted by the traditional equity doctrine that an injunction (which, after all, blocks market entry in patent cases) is an extraordinary remedy.

How much and what kind of proof is required to prove unreasonableness, however, is not the same in every case. Although the Court rejected the FTC’s urging for a presumption of illegality or the propriety of a “quick-look” analysis “in the context we here discuss,” it left to the lower courts “the structuring of the present rule-of-reason antitrust litigation” in light of the *California Dental* teaching that “[t]here is always something of a sliding scale in appraising reasonableness, and as such the quality of proof required should vary with the circumstances.”⁴⁶

Moreover, a trial court must shape its rule-of-reason inquiry according to the Court’s explicit instruction to accommodate patent and antitrust policies.⁴⁷ In consequence, a trial court has the responsibility and authority to determine that the particular circumstances of a case call for inquiry into the competitive effects of a pay-for-delay settlement that is informed by *eBay*’s patent competition doctrine, an inquiry to determine whether a restraint is unreasonable in light of the public interest served by free competition. A pure *eBay* approach would shift to the patent holders (and the contracting generics) the burden of showing their agreement in restraint of competition to be reasonable in the circumstances.

Although *Actavis* did not adopt a pure *eBay* approach, Justice Breyer’s majority opinion includes language suggesting that evidence of large “reverse” payments might warrant burden shifting at some point:

[A] reverse payment, where large and unjustified, can bring with it the risk of significant anticompetitive effects; one who makes such a payment may be unable to explain and to justify it; such a firm or individual may well possess market power derived from the patent; a court, by examining the size of the payment, may well be able to assess its likely anticompetitive effects along with its potential justifications without litigating the validity of the patent⁴⁸

Other scholars have already noted the doctrinal dissonance between this language and the opinion’s call for a full blown rule of reason.⁴⁹ No matter how this dissonance is resolved, lower courts have a responsibility under *Actavis* (particularly in light of the logic of *eBay*) to consider whether, how, and when, a plaintiff has shown enough to create a presumption of anticompetitive harm and shift the burden to defendants. Indeed, the *Actavis* majority expressly adopts *California Dental*’s teaching that trial courts can “structure antitrust litigation so as to avoid, on the one hand, the use of antitrust theories too abbreviated to permit proper analysis and, on the

other, consideration of every possible fact or theory irrespective of the minimal light it may shed on the basic question—that of the presence of significant unjustified anticompetitive consequences.”

Practical Effects of *Actavis*

The practical result of rejecting settlements like those in *Actavis* promises to be more trials on the merits in drug patent infringement suits. Although increased litigation has its costs, they are small in comparison to the public benefits of the expanded competition that would likely result, especially given that such trials so far have invalidated patent claims more than 70 percent of the time.⁵⁰

In antitrust cases contesting pay-for-delay settlements, trial courts should take heed of *Actavis*’s call for careful structuring of the litigation—structuring that takes into account the competition concerns that *Actavis* outlines. That call follows the instruction to include both patent and antitrust policies, thus providing ample room for lower courts to consider *eBay*’s competition logic in light of *Bonito Boats*’s teaching that the patent regime rests on a baseline of free competition. Indeed, as lower courts work their way through antitrust cases that contest pay-for-delay settlements, their jurisprudence has the potential to revise the mainstream view of a fundamental conflict between patent and antitrust regimes regarding exclusionary rights by recognizing the import of the patent regime’s indigenous competition policy. ■

¹ 133 S. Ct. 2223 (2013), *rev’g* FTC v. Watson Pharms., Inc., 677 F.3d 1298 (11th Cir. 2012).

² FTC v. Watson Pharms., Inc., 677 F.3d 1298, 1302 (11th Cir. 2012).

³ *Actavis*, 133 S. Ct. at 2231.

⁴ *Id.* at 2232 (citing *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963)).

⁵ See *id.* at 2231.

⁶ See *id.* at 2230–32, 2240–42.

⁷ See *id.* at 2233.

⁸ *Id.* at 2238.

⁹ *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989).

¹⁰ *Id.* at 146, 150 (citations and internal quotations omitted). Indeed, the patent prosecution process can be understood as a competition in ideas between those in the prosecuted invention and those in the prior art. See Rudolph J.R. Peritz, *Freedom to Experiment: Toward a Concept of Inventor Welfare*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 245 (2008) [hereinafter Peritz, *Freedom to Experiment*], available at <http://ssrn.com/author=75649>.

¹¹ *Bonito Boats*, 489 U.S. at 156; see also *id.* at 145–47 (“[T]he federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.”).

¹² The broader framework of free competition and property rights was introduced in RUDOLF J.R. PERITZ, *COMPETITION POLICY IN AMERICA: HISTORY, RHETORIC, LAW* (rev. ed. 2000) [hereinafter PERITZ, *COMPETITION POLICY IN AMERICA*]. The view of patent, copyright, trademark, and trade secret regimes as constructed on baselines of competition was developed in Rudolf J.R. Peritz, *Competition Policy and its Implications for Intellectual Property Rights in the United States*, in *THE INTERFACE BETWEEN INTELLECTUAL PROPERTY*

- RIGHTS AND COMPETITION POLICY (Steven D. Anderman ed., 2007).
- ¹³ See PERITZ, COMPETITION POLICY IN AMERICA, *supra* note 12, at 3–8. The commitments to liberty and equality can be understood to some extent in terms of positive and negative liberty, terms best known through Isaiah Berlin, *Two Concepts of Liberty*, in ISAIAH BERLIN, FOUR ESSAYS ON LIBERTY (1969).
- ¹⁴ Of course, this too ultimately calls upon government enforcement.
- ¹⁵ *Actavis*, 133 S. Ct. at 2232–33 (quoting *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (a patent case permitting licensee in good standing to challenge validity of licensor’s patent)). Cf. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (same).
- ¹⁶ *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 125 (2006) (Justice Breyer, joined by Justices Stevens and Souter, dissenting from opinion to dismiss writ of certiorari as improvidently granted).
- ¹⁷ *Id.* at 138 (citing *Bonito Boats*, 489 U.S. at 146).
- ¹⁸ *Id.* at 126–27.
- ¹⁹ See *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2117 (2013).
- ²⁰ *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 421–22 (2007).
- ²¹ *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193, 206–08 (2005). In practical terms, unlicensed experimental use of a patented invention is prohibited in the United States. For further discussion, see Peritz, *Freedom to Experiment*, *supra* note 10.
- ²² *Bonito Boats*, 489 U.S. at 145–47.
- ²³ *Marconi Wireless Telegraph Co. of Am. v. United States*, 320 U.S. 1, 63–64 (1943).
- ²⁴ U.S. CONST. art. I, § 8, cl. 8 (“To promote the Progress of Science and useful Arts, by securing for limited Times, to Authors and Inventors, the exclusive Right to their respective Writings and Discoveries.”). The term “innovation” is used in the text above to denote the commercialization of invention.
- ²⁵ See, e.g., WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 9–10, 294–333 (2003). For references and further discussion, see Rudolph J.R. Peritz, *Competition Within Intellectual Property Regimes—The Instance of Patent Rights*, in INTELLECTUAL PROPERTY AND COMPETITION LAW: NEW FRONTIERS 27 (Steven D. Anderman & Ariel Ezrahi eds., 2011) [hereinafter Peritz, *Competition Within Intellectual Property Regimes*], available at <http://ssrn.com/abstract=2084236>.
- ²⁶ FRITZ MACHLUP, S. COMM. ON THE JUDICIARY, 85TH CONG., AN ECONOMIC REVIEW OF THE PATENT SYSTEM (Comm. Print 1958).
- ²⁷ *Id.* at 79.
- ²⁸ *Id.* at 80.
- ²⁹ See Rudolph J.R. Peritz, *Patents and Progress: The Economics of Patent Monopoly and Free Access: Where Do We Go From Here?*, in THE STRUCTURE OF INTELLECTUAL PROPERTY LAW: CAN ONE SIZE FIT ALL? 40 (Annette Kur & Vytautas Mizaras eds., 2011); Peritz, *Freedom to Experiment*, *supra* note 10. Of course, trade secret protection and other market practices can come into play.
- ³⁰ As a theoretical matter, there is no logical basis for assuming that increasing means (the number of patents) increases ends (social welfare). Moreover, the dominant theory does not take into account opportunity costs of investment in patents. That is, the theory does not factor in the lost benefits of alternative investments, benefits that would have resulted from investment instead in, for example, more production of already existing goods or more unpatentable research and development. See *supra* note 29; see also LANDES & POSNER, *supra* note 25.
- ³¹ For a brief introduction, see Rudolph J.R. Peritz, *Three Statutory Regimes at Impasse: “Reverse Payments” in “Pay-for-Delay” Settlement Agreements between Brand-Name and Generic Drug Companies*, in MORE COMMON GROUND FOR INTERNATIONAL COMPETITION LAW? 90 (Josef Drexler, Warren Grimes, Rudolph J.R. Peritz, Edward Swaine eds., 2010) [hereinafter Peritz, *Three Statutory Regimes*].
- ³² 21 U.S.C. § 301 et seq.
- ³³ See, e.g., Michael Carrier, *Unsettling Drug Patent Settlements: A Framework for Presumptive Illegality*, 108 MICH. L. REV. 37 (2009); C. Scott Hemphill, *Paying for Delay: Pharmaceutical Patent Settlement as a Regulatory Design Problem*, 81 N.Y.U. L. REV. 1553 (2006).
- ³⁴ *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).
- ³⁵ A trio of scholars argues *eBay* has fomented an accidental revolution that goes far beyond the patent domain. See Mark P. Gergen, John M. Golden & Henry E. Smith, *The Supreme Court’s Accidental Revolution? The Test for Permanent Injunctions*, 112 COLUM. L. REV. 203 (2012).
- ³⁶ *eBay*, 547 U.S. at 392 (citing 35 U.S.C. §§ 154(a)(1), 261).
- ³⁷ *Id.* at 391 (quoting *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005)).
- ³⁸ *Id.*
- ³⁹ *Id.* (citations omitted).
- ⁴⁰ *Id.* (citations omitted).
- ⁴¹ *Id.* at 394. The Federal Circuit has applied the *eBay* test to affirm a lower court decision denying an injunction on account of public policy favoring continued competition between the parties to the infringement suit. See, e.g., *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 670 F.3d 1171, 1192 (Fed. Cir. 2012). It should be noted that the Chief Justice and Justice Anthony Kennedy issued separate concurring opinions in *eBay* that put different spins on the Court opinion. For discussion of the concurring opinions, see Rudolph J.R. Peritz, *The Roberts Court After Two Years: Antitrust, Intellectual Property Rights, and Competition Policy*, 53 ANTITRUST BULL. 153 (2008) [hereinafter Peritz, *The Roberts Court*]; see also Peritz, *Competition Within Intellectual Property Regimes*, *supra* note 25.
- ⁴² See Gergen et al., *supra* note 35, at 204–05, 212–14.
- ⁴³ It should be noted that the approach proposed in this article would call upon courts to apply an equity test that looks into the anticompetitive effects of the settlement but not into the patent validity question that lower federal courts have found inappropriate in antitrust cases.
- ⁴⁴ A full analysis would address each of the four factors, but, for the limited purposes of this example, a summary analysis of irreparable harm and public interest is sufficiently illustrative. The *eBay* test requires the proponent to prove four factors: “(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.” 547 U.S. at 391. For an extended discussion of the competition policy expressed in *eBay*, see Peritz, *The Roberts Court*, *supra* note 41.
- ⁴⁵ The Court cites as precedent for determining the reasonableness of agreements not to compete its *per curiam* opinion in *Palmer v. BRG of Ga., Inc.*, 498 U.S. 46 (1990), which treated as *per se* illegal a copyright licensing agreement not to compete. *Actavis*, 133 S. Ct. at 2227.
- ⁴⁶ *Id.* at 2237–38 (citing *Cal. Dental Ass’n v. FTC*, 526 U.S. 756, 780 (1999)) (internal quotations omitted).
- ⁴⁷ This approach satisfies the *Actavis* dissent’s claim that patent policy is paramount in these cases, but with some irony, since it radically reconceives patent policy by calling for recognition of the patent regime’s baseline of free competition.
- ⁴⁸ *Id.* at 2237.
- ⁴⁹ Indeed, other commentators read the decision as allowing proof of a large payment to suffice for a presumption of illegality. See, e.g., Thomas Cotter, *FTC v. Actavis, Inc: When Is the Rule of Reason Not the Rule of Reason?*, 15 MINN. J.L., SCIENCE & TECH. (forthcoming 2013), available at <http://ssrn.com/abstract=2281291>; Robert A. Skitol & Kenneth M. Vorrasi, *FTC v. Actavis: Inviting a More Nimble Rule of Reason*, ANTITRUST, Fall 2013, at 29.
- ⁵⁰ For references, see Peritz, *Three Statutory Regimes*, *supra* note 31.