

Essay

The Basics Matter: At the Periphery of Intellectual Property

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Abstract

Controversies often arise at the interfaces where intellectual property (“IP”) law meets other topics in law and economics, such as property law, contract law, and antitrust law. Participants in the debates over how to mediate these interfaces often view each interface as a special case deserving unique treatment under the law. The doctrines of copyright and patent misuse are cases in point: they graft select antitrust principles onto copyright or patent law, even though there is an entirely distinct body of law, antitrust law, designed to deal with the putative concerns about competition that allegedly give rise to misuse. In this Essay, we argue that a better approach for mediating disputes at the periphery of IP law focuses on what we term the “basics,” or core principles

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and features, of each area of law and rarely requires specialized frameworks. For example, according to our “basics approach,” there is no need to create special doctrines or approaches to address issues relating to matters such as price discrimination or restrictive licensing arrangements involving IP. Rather, analyzing the legality of such arrangements simply requires one to look to the basics of substantive IP law, antitrust law, and what some people call the “general law”—property law, contract law, and the like. Applying the basics of each area of the law gives us a workable and more predictable framework of analysis than creating one-off doctrines at the periphery of IP law that are unique to IP. In contrast with more specialized approaches, such as the doctrines of copyright or patent misuse, using the basics results in easier to apply rules for resolving disputes that transacting parties can better understand and rely on in advance. By reducing legal uncertainty, the “basics approach” facilitates the ex ante coordination necessary to promote innovation through the commercialization of the inventions, symbols, and creative works that are protected by patents, copyrights, and trademarks, which is the primary goal of IP law and an important goal of antitrust law.

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Introduction

Controversies often arise at the interfaces where intellectual property (“IP”) law meets other topics in law and economics, such as property law, contract law, and antitrust law.¹ Participants in the debates over how to mediate these interfaces often view each interface as a special case deserving unique treatment under the law.² The doctrines of copyright and patent mis-

¹ See, e.g., WARD S. BOWMAN, JR., PATENT AND ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL, at xii (1973); Symposium, *The Interface Between Intellectual Property Law and Antitrust Law*, 87 MINN. L. REV. 1695 (2003); William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966); Michael A. Carrier, *Unraveling the Patent-Antitrust Paradox*, 150 U. PA. L. REV. 761 (2002); Wendy J. Gordon, *Intellectual Property as Price Discrimination: Implications for Contract*, 73 CHI.-KENT L. REV. 1367 (1998); Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813 (1984); Glynn S. Lunney, *Copyright and the Supposed Efficiency of First-Degree Price Discrimination* (2002) (abstract), http://papers/ssrn.com/sol3/papers.cfm?abstract_id=293904; Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55 (2001).

² Indeed, these debates often take on status as their own specialized disciplines bearing new “and”-based names, such as “intellectual property and antitrust,” which in turn spawn new subspecialties, such as “copyright and antitrust.”

use are cases in point: they graft select antitrust principles onto copyright or patent law, even though there is an entirely distinct body of law, antitrust law, designed to deal with the putative concerns about competition that allegedly give rise to misuse.

We argue that such specialized approaches to IP are built by selectively exalting and ignoring particular aspects of the positive and normative frameworks from distinct substantive areas of law—IP law, antitrust law, property law, and contract law. Overlooking the totality of these frameworks frustrates the nuanced equilibria to which they each have evolved, as well as the full complement of important dynamic forces each framework experiences towards further evolution.³ Instead, we argue that the better approach focuses on the “basics,” or core principles and features, of each distinct area of law.⁴ Our approach avoids specialized frameworks for analyzing IP law and the interfaces it shares with other bodies of law. To do so, the “basics approach” has both a procedural and a substantive component.

The procedural aspect of our approach emphasizes that the analysis in any particular case carefully should apply whatever legal regimes the issue at hand implicates—IP law, antitrust law, contract law, etc. In short, courts should not create new doctrines and approaches unique to IP when other bodies of law already apply. At a minimum, courts should take better care to consider accurately and fully the framework of the existing positive law regimes, as well as the history of the normative debates leading to their evolution. Courts, then, should expressly identify the perceived failures of these regimes, if any, before creating new doctrines and approaches to resolve the putative failures. The mere formality of identifying and rigorously considering the different bodies of law that apply to some IP-related matter can result in greater respect for the dignity of those bodies of law and ultimately can bring important discipline and restraint to judicial decision-making.

The substantive aspect of our approach emphasizes judicial adherence to the full range of established positive and normative frameworks within each body of law that the court applies. Consequently, as we understand the basics of the various bodies of law we consider in this Essay, our proposed approach will in some cases yield different substantive outcomes than if judges take what we see as a more activist stance toward IP.

When it comes to IP law in particular, it is regrettable that courts and commentators have demonstrated a surprising willingness to abrogate, if not ignore, the express language of the statutes Congress has passed in this area,

³ For earlier articulations of the views at the core of the “basics approach” developed below, see, for example, DONALD S. CHISUM, CRAIG ALLEN NARD, HERBERT F. SCHWARTZ, PAULINE NEWMAN & F. SCOTT KIEFF, *PRINCIPLES OF PATENT LAW* 1066–1155 (2d ed. 2001); Troy Paredes, *Copyright Misuse and Tying: Will Courts Stop Misusing Misuse?*, 9 *HIGH TECH. L.J.* 271 (1994).

⁴ We do not use the word “basics” pejoratively, such as in the sense of an unduly simple characterization of the law or legal process. In addition, we recognize that there is sufficient path dependency and context dependency to the development of the “basics” that our discussion here is most applicable to the regimes that have evolved in the United States. That being said, we do think that the comparative institutional analysis offered here may be useful in elucidating relative strengths and weaknesses of different strategies to shaping IP and other commercial laws outside the United States as well.

as well as the reasons for these legislative enactments. Two examples from patent law are demonstrative: the doctrine of misuse and the doctrine of nonobviousness.⁵

Before the enactment of the present institutional framework for the patent system, the 1952 Patent Act,⁶ the doctrines of misuse and the precursor to nonobviousness (the former “requirement for invention”) were at best unpredictable, and at worst so predictably antipatent that no patent benefited from either. This caused the expected value of patents to plummet.⁷ The

⁵ See generally CHISUM ET AL., *supra* note 3, at 514–19, 1066–99 (discussing evolution of the nonobviousness and misuse doctrines).

⁶ Patent Act of 1952, ch. 950, 66 Stat. 792 (codified as amended in scattered sections of 35 U.S.C.). Section 271 provides in pertinent part:

- (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.
- (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
- (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.
- (d) No patent owner otherwise entitled to relief for infringement or contributory infringement for a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:
 - (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent;
 - (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent;
 - (3) sought to enforce his patent rights against infringement or contributory infringement;
 - (4) refused to license or use any rights to the patent; or
 - (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

35 U.S.C. § 271(a)–(d) (2000). Note that subsections (a), (b), (c), (d)(1), (d)(2), and (d)(3) were added by the 1952 Act; subsections (d)(4) and (d)(5) were added by the 1988 Act. Patent Act of 1952, ch. 950, 66 Stat. at 811, *amended by* Act of 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676. Other amendments to other parts of § 271 are not relevant to the discussion here.

⁷ Although there was some variation in the way courts treated patents under these doctrines, a sufficient number of powerful courts (including the Supreme Court) were treating the patents that came before them so poorly under these doctrines that the expected value for all patents plummeted. On nonobviousness, courts applied a tautological and unpredictable subjective decisional framework then called the “requirement for invention”: to be patentable, an invention had to constitute an “invention.” This standard became so vague and yet so difficult to satisfy that Justice Jackson remarked, “the only patent that is valid is one which this Court has not been able to get its hands on.” *Jurgensen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949) (Jackson, J., dissenting). On misuse, courts applied such a broad definition of misuse that for all intents and purposes patents could no longer be asserted against indirect infringers. See *gener-*

1952 Act statutorily overruled both of these aspects of patent law.⁸

Yet, on the issue of nonobviousness, over ten years passed after implementation of the 1952 Act before the Supreme Court in the famous case of *Graham v. John Deere Co.*⁹ instructed lower courts to apply the framework of the Act's new § 103 requirement of nonobviousness.¹⁰ And then soon afterwards, the Court reinjected confusion into the nonobviousness doctrine by contriving new requirements for "synergism" and "combination" patents.¹¹ It then took until the creation of the Federal Circuit, a full thirty years after the passage of § 103 in the 1952 Act, before these "innovations" in applying the law of § 103 were eliminated and the decisional framework of the 1952 Act was applied consistently according to its own terms.¹²

Even more strikingly, on the issue of misuse, almost thirty years passed before the Supreme Court issued an opinion instructing the lower courts to apply the framework of the new § 271 provisions about what does not constitute misuse and what does constitute indirect infringement.¹³ And even after this Supreme Court case, Congress acted again in 1988 to add subsections (4) and (5) to § 271(d) to make it emphatically clear that subsections (1) through (3) were to be applied according to their terms.¹⁴

ally infra notes 42–43 and accompanying text (discussing evolution of the misuse doctrine in relation to the doctrines of contributory infringement and inducement of infringement). R

⁸ On nonobviousness, Congress passed 35 U.S.C. § 103 as part of the 1952 Act to replace the requirement for "invention" with the requirement for "nonobviousness." Far more than a different word, this test for patentability set forth a much clearer and more objective decisional framework. For a comparative institutional analysis of these decisional frameworks, see F. Scott Kieff, *The Case for Registering Patents and the Law and Economics of Present Patent-Obtaining Rules*, 45 B.C. L. REV. 55, 86–95 (2003) (comparative institutional analysis of patent-obtaining rules). On misuse, Congress passed 35 U.S.C. § 271 as part of the 1952 Act to revive the doctrines of contributory infringement and inducement of infringement and to make clear what does not constitute misuse. *See infra* notes 42–43 and accompanying text (discussing evolution of the misuse doctrine in relation to the doctrines of contributory infringement and inducement of infringement). R

⁹ *Graham v. John Deere Co.*, 383 U.S. 1 (1966).

¹⁰ *Id.* at 17–19 (describing new framework). Although there is some language in the *Graham* opinion to suggest that the 1952 Act did *not* change the law, it is important to note that the opinion ties the statutory objective standard of nonobviousness to eighteenth-century case law that employed a similar objective standard while specifically rejecting the nineteenth-century case law that employed a subjective standard. *See Kieff, supra* note 8, at 88–95. R

¹¹ *See Sakraida v. Ag Pro, Inc.*, 425 U.S. 273, 282 (1976) (holding patent invalid because it was a mere combination of old elements and had no synergistic effect); *Anderson's-Black Rock, Inc. v. Pavement Salvage Co., Inc.*, 396 U.S. 57, 61 (1969) (holding patent invalid because "[n]o such synergistic result is argued here"). Of course, the problem with treating so-called "combination" patents differently is that all patent claims in the present U.S. patent claiming system can be viewed as combinations of "old elements." *See Kieff, supra* note 8, at 111 (explaining how a claim operates as a simple logical list of elements and that infringement is only found when each and every element on that list is present in the allegedly infringing product or process). R

¹² *See George M. Sirilla, 35 U.S.C. § 103: From Hotchkiss to Hand to Rich, the Obvious Patent Law Hall-of-Famers*, 32 J. MARSHALL L. REV. 437, 445 (1999) (describing importance of the Federal Circuit's creation for application of the § 103 framework).

¹³ *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980) (setting forth history of § 271 and then applying the statute to hold no misuse where the holder of a patent on a method of using a chemical as a herbicide charges customers of the herbicide an above-market price for the chemical itself and sues competing chemical company for contributory infringement). R

¹⁴ *See infra* note 45 and accompanying text.

Although this Essay emphasizes judicial decision-making, the “basics approach” provides guidance for policy makers deciding what laws and regulations to promulgate.¹⁵ Similar to courts applying existing legal regimes, legislators and regulators setting new policy also carefully should take into account existing positive law regimes and their normative and historical underpinnings before adopting new laws or regulations that might run afoul of the substantive basics of existing legal institutional frameworks.

At bottom, we argue that the dignity of each separate and distinct area of law should be respected and applied on its own terms to settle disputes involving IP. Under our approach, the basics matter to a very large extent. The basics matter in the sense that they are where the analysis of any dispute or transaction involving IP should begin. The basics also matter in that they are where the analysis should end.

For example, in our “basics approach,” there is no need to create special doctrines or approaches to address matters such as price discrimination or restrictive licensing arrangements involving IP.¹⁶ Rather, analyzing the legality of such arrangements simply requires one to look to the basics of each applicable substantive law regime: IP law, antitrust law, and what some people call the “general law”—property law, contract law, and the like. The “basics approach” gives us a workable and more predictable framework of analysis than creating one-off doctrines that are unique to IP at the periphery of the law of IP where it intersects with other areas of the law.

The “basics approach” yields rules for resolving disputes that are easier to apply and that transacting parties can better understand and rely on in advance, compared with more specialized approaches tailored for IP, such as the doctrines of copyright or patent misuse. Misuse doctrines are unpredictable in several respects. First, they include various limitations on restrictive licensing arrangements beyond what antitrust law or contract law would prohibit. Second, misuse doctrines do not even impose such additional limitations in a predictable fashion because the decisional frameworks themselves for misuse are unpredictable—except, of course, to the extent the doctrines become so firmly entrenched as essentially to eviscerate entire areas of IP.¹⁷ By reducing legal uncertainty, the “basics approach” facilitates the *ex ante* coordination necessary to promote innovation through the commercialization of the inventions, symbols, and creative works that are protected by patents, copyrights, and trademarks, which is the primary goal of IP law and an important goal of antitrust law.

We proceed in Part I to discuss the broad framework of the “basics approach,” using the topic of price discrimination as a representative example. Part II reviews the basics of the core substantive areas of law that IP typically implicates: IP law itself, as well as antitrust law and the so-called general law,

¹⁵ That is, we do not suggest that legislative promulgation is itself infallible. *See also infra* note 25.

¹⁶ For the most influential articulation of the “basics approach” that we explore in this Essay and the earliest we could find, see Giles S. Rich, *The Relation Between Patent Practices and the Anti-Monopoly Laws*, 24 J. PAT. OFF. SOC'Y 85, pts. 1–5, at 85, 159, 241, 328, 422 (1942).

¹⁷ *See infra* notes 84–87 and accompanying text (discussing evisceration of the areas of contributory infringement and inducement of infringement by the doctrine of patent misuse).

which includes property law and contract law. Part III shows how to solve various problems at the periphery of IP law by employing the “basics approach,” as opposed to an approach, such as copyright or patent misuse, that selectively emphasizes or alternatively ignores particular features of various legal disciplines in crafting specialized doctrines for IP. By focusing on the basics, our approach suggests an important way to reconceptualize IP law with important implications for bringing new ideas to market.

I. *The Theoretical Framework*

IP rights generally operate as rights of exclusion.¹⁸ As a result, many worry that their enforcement will result in too little use of whatever they cover. Further, the subject matter IP rights cover generally is understood to show prototypical attributes of public goods in that it is nonrival and nonexclusive. Classic work by Professor Demsetz, however, has shown that private producers can produce and sell an efficient level of public goods under appropriate conditions and that price discrimination can advance a competitive equilibrium outcome for public goods, resulting in little, if any, deadweight loss.¹⁹ When an owner of IP rights is permitted to price discriminate, the owner may adopt a pricing regime and licensing scheme that increases output, eating into any deadweight loss otherwise associated with market power and the underproduction of public goods.²⁰

Yet, an IP owner's use of price discrimination may not always lead to this welfare-enhancing outcome. Recent works by Professors Gordon, Lunney, and Meurer have shown that while price discrimination by IP owners might lead in theory to more use in certain instances, in practice some price discrimination strategies can result in less output than if such price discrimination were prohibited, depending, in part, on the licensing arrangements employed to discriminate among users.²¹ Put simply, price discrimination has its own shortcomings, and sometimes results in less, not more, use.

¹⁸ IP rights are rights to exclude others from doing something. IP rights are not rights to do something. Their impact is more precisely viewed as being exclusionary than exclusive. The impact of IP rights is only properly viewed as being exclusive in those cases where the one exercising the right to exclude happens otherwise to be free (such as from other rights of exclusion or other regulations) to do the excluded activity.

¹⁹ Harold Demsetz, *Toward a Theory of Property Rights*, 57 AM. ECON. REV. 347, 354 (1967); Harold Demsetz, *The Private Production of Public Goods*, 13 J.L. & ECON. 293 (1970). For a basic overview of the economics of price discrimination, see JEAN TIROLE, *THE THEORY OF INDUSTRIAL ORGANIZATION* 133–68 (1997).

²⁰ See generally F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 727–32 (2001).

²¹ See generally Gordon, *supra* note 1; Lunney, *supra* note 1; Meurer, *supra* note 1. For more on the debate over the impact of imperfect price discrimination on output, see Richard A. Posner, *Antitrust in the New Economy*, 68 ANTITRUST L.J. 925, 932 n.10 (2001):

Perfect price discrimination would bring about the same output as under competition, because no customer willing to pay the seller's marginal cost would be turned away. But perfect price discrimination is infeasible, and imperfect price discrimination can result in a lower or higher output than under competition, or the same output. See F.M. SCHERER & DAVID ROSS, *MARKET STRUCTURE AND INDUSTRIAL PERFORMANCE* 494–96 (3d ed. 1990); PAUL A. SAMUELSON, *FOUNDATIONS OF ECONOMIC ANALYSIS* 42–45 (1947); JOAN ROBINSON, *THE ECONOMICS OF IMPERFECT*

The indeterminate results of price discrimination caused us to think more critically about IP and price discrimination and ultimately about the interface IP law shares with other disciplines, such as antitrust law and the general law, including property law and contract law. More specifically, there are different types of price discrimination with different potential consequences, both positive and negative from the perspective of social welfare. Price discrimination can be done by the explicit use of different stated prices, in the extreme case by charging each user her reservation price. Price discrimination can also be done through more complex licensing arrangements, like tying, which can allow each user more specifically to reveal her own demand for the tying good by how much of the tied good she uses. The “basics approach” is particularly useful for analyzing the legality of each form of price discrimination since each implicates aspects of IP law, antitrust law, contract law, and property law.

As discussed more fully below, approaching IP from the basics of IP law, antitrust law, and the general law of property and contracts enables transacting parties to know better *ex ante* how to structure transactions that will be enforced later. In addition to reducing legal uncertainty, when a court disciplines itself to using an analysis that applies each body of law on its own terms, there is less opportunity for courts to fashion new and unique doctrines of IP law that undercut private ordering by effectively rewriting *ex post* the parties’ contract, let alone the legislature’s actions.²² Courts are ill-equipped to second-guess the substance of contracts entered into by sophisticated parties merely because the courts believe that some different arrangement would promote better the use of the underlying IP rights. Such judicial meddling is particularly troublesome when its downstream incentive effects on parties—including owners of IP rights and financiers such as venture capitalists—are taken into account. Not only do specialized doctrines such as misuse and preemption create uncertainty, but more times than not they have the effect of eroding the legislatively created property rule protection for IP rights, further compromising commercialization and private ordering by cabining an IP holder’s rights both to use his IP and to exclude others from having access to the subject matter it covers.²³

There are at least three additional advantages to the “basics approach” besides facilitating private ordering and predictability. First, each substantive

COMPETITION 188–95 (1933). Many economists believe that even crude discrimination is more likely to expand than to reduce output, *see, e.g.*, ROBINSON, *supra*, at 201; SCHERER & ROSS, *supra*, at 494–96; Peter O. Steiner, Book Review, 44 U. CHI. L. REV. 873, 882 (1977), but there does not appear to be a firm basis for this belief. *See* Hal R. Varian, *Price Discrimination*, in HANDBOOK OF INDUSTRIAL ORGANIZATION, at 597, 629–33 (Richard Schmalensee & Robert D. Willig eds., 1989).

²² The court must discipline itself in several respects. In part, this means limiting, or at least connecting, judicial analysis to established positive and normative decisional frameworks. In part, this also means expanding the analysis sufficiently to include the panoply of established positive and normative decisional frameworks of both IP and non-IP areas of law.

²³ For an example of the powerful effect of one such specialized doctrine, patent misuse, *see infra* notes 84–87 and accompanying text. For more on the importance of property rule protection of intellectual property and the legislative history of the present statutory regimes, *see* Kieff, *supra* note 8.

area of law provides a more informed forum for debate of the issues that arise in that field. Courts, for example, should not reach out to “solve” perceived shortcomings in antitrust law or contract law through the law of IP, which itself has specific statutory components passed to overturn similar court action in the past.²⁴ Second, as the product of a long history of adjudication, lawmaking, and academic debate, each area of law presumably reflects a relatively efficient framework and set of principles that is actually workable, having stood the test of time. Such longstanding bodies of law are in contrast to special approaches that judges certainly can employ to deal with IP but that are untested and that might simply reflect a particular normative viewpoint that is not satisfied when more appropriate legal regimes are applied. Third, good cases can be made for each legal regime to continue to evolve, and they certainly will. The one-off, *sui generis*, or specialized approaches courts have used at the interface where IP law meets these other regimes, however, have the effect of skirting many of the diverse views present in the vibrant debates that persist over how each such regime should develop. Put differently, these special judicial approaches to IP subvert the open and constructive debate that exists within each body of law regarding whether and how it should evolve going forward.

Given our view of the present substantive basics of antitrust law, property law, and contract law, the “basics approach” shows greater respect for private ordering than the IP-specific approaches that we question. To be clear, however, we would urge courts to follow the “basics approach” so as to apply each applicable body of law on its own terms when considering matters involving IP, even if each such body of law was more restrictive presently or in the future than we understand it or might prefer it to be. That is, the virtues of the procedural component of the “basics approach” are independent of our or any other particular interpretation of the substantive basics of each body of law that courts would apply.²⁵

Courts that adopt special approaches to address matters at the periphery of IP law run the risk of crafting judicial doctrines that inappropriately override well-established bodies of law that are informed by longstanding judicial and scholarly thought and consideration of each area. Put simply, when considering disputes and transactions at the periphery of IP law where it intersects other bodies of law, courts often take select principles from each body of law out of their larger context and legal framework, while ignoring other basic features and principles of relevant legal regimes. For example, the misuse doctrine overlooks a number of considerations involving vertical restraints of trade that drive the present conclusion under antitrust law that few vertical restraints are anticompetitive and that many are in fact procompetitive. Such selective picking and choosing not only creates uncertainty, but, as suggested, often gets it wrong. In part, the “basics approach” reflects humility toward the complexity and values embodied in each area of law.

²⁴ See *infra* notes 84–87 and accompanying text.

²⁵ Although, again, we do urge those promulgating IP policy at any level to integrate the procedural aspects of our approach into their decision-making processes. See *supra* note 15 and accompanying text (describing procedural aspect of our approach when applied to substantive analysis of potential new policies).

The kind of respect for private ordering associated with the “basics approach,” together with the corresponding benefit of greater predictability, promotes the commercialization of IP and the subject matter it protects. Our approach is in contrast to the approaches offered elsewhere by academics such as Baxter, Bowman, and Kaplow, who each offer analytical tools that only can be applied *ex post* to evaluate the validity of any particular licensing arrangement and as a result have limited utility *ex ante* for parties seeking to structure their affairs in a mutually beneficial way.²⁶

II. *The Basics*

Antitrust law, IP law, and the general law of property and contracts are each well-established disciplines and bodies of law. To be sure, numerous debates exist within each field, and the law continues to develop. But we believe that general agreement can be found on the broad positive legal frameworks of each field and the core principles that undergird them. Although further development within each discipline may be advantageous, it will be realized best if reached through a debate that is fully informed of all diverse views by occurring within the context of that field.

Approaching from the basics embraces the established frameworks and principles, even as they may evolve in the future, and affords each area of the law equal dignity. The “basics approach” applies each area of the law according to its own terms and leaves the debates within each legal field to be had and resolved within such field. In other words, questions about restraints of trade are left to the field of antitrust law, and questions of contract validity are left to the field of contract law. More to the point, focusing on the basics avoids the fashioning of new doctrines within IP law that skirt the basics of IP law, antitrust law, or contract law, such as happens when some licensing arrangement that does not violate the antitrust laws or that is otherwise a valid contract is held invalid as a matter of some form of *sui generis* IP law like misuse.

To help frame the “basics approach,” the following discussion highlights, at a general level, what we understand to be the core of each discipline—antitrust law, IP law, property law, and contract law. The discussion is designed to be a summary, by nature; and so does not attempt to fully review

²⁶ Baxter would require that the licensing arrangement be confined “as narrowly and specifically as . . . technology . . . and . . . administration permit.” Baxter, *supra* note 1, at 313. Bowman would endeavor to determine the extent to which the arrangement deals with something that a court later determines to be competitively superior to other available options—presumably rejecting the views of parties to the particular arrangement under scrutiny who must have elected to enter into it over other options available at the time of entering the arrangement. Bowman, *supra* note 1. Kaplow would examine the ratio between the reward the patentee receives if the arrangement is enforced and the monopoly loss that would result. Kaplow, *supra* note 1. More recently, Carrier has argued to look even more broadly to *ex post* data about how particular industries have experienced innovation to determine whether it has tended to be driven more by competition or by innovation, without offering devices for measuring any of these many factors. Carrier, *supra* note 1.

For an interesting comparative institutional analysis that stresses the importance of certainty and predictability in judicial decision-making, see generally Cass R. Sunstein & Adrian Vermeule, *Interpretation and Institutions*, 101 MICH. L. REV. 885 (2003).

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the entirety of each discipline, which in each case fills volumes. Nevertheless, this summary discussion does endeavor to represent fairly the basic principles and positive framework of each body of law.

A. Antitrust Law

Antitrust law is designed to root out unreasonable restraints of trade and transactions that substantially lessen competition or tend to create monopoly.²⁷ But it is well established that antitrust law does not prohibit market power as such. Nor does antitrust law prohibit a monopoly, if it is achieved by having lawfully outcompeted other competitors. As Judge Learned Hand famously put it: “The successful competitor, having been urged to compete, must not be turned upon when he wins.”²⁸ And increasingly, antitrust law takes account of dynamic efficiency, as well as allocative efficiency. Even specific types of conduct that are often associated with restraining trade and that partly drove the passage of the federal antitrust laws—such as price discrimination, tying, and exclusive dealing—are not prohibited in every instance. Rather, such conduct generally is prohibited only to the extent it unreasonably restrains trade. Indeed, many such practices are procompetitive. The usual test for unreasonableness in this context is highly fact-dependent and generally is based on a “rule of reason” analysis as opposed to treating such conduct as an antitrust violation *per se*.²⁹ Furthermore, antitrust law generally allows unilateral refusals to deal.³⁰ As Justice Holmes and then-attorney Giles Rich, who later was the chief architect of the Patent Act of 1952 and a Federal Circuit judge, also pointed out, it makes no sense to tell a property owner that she can absolutely exclude others on the one hand but that she cannot on the other hand be more generous and allow limited access to her property without giving away the entire store.³¹ Accordingly, restric-

²⁷ See generally PHILLIP AREEDA & LOUIS KAPLOW, ANTITRUST ANALYSIS: PROBLEMS, TEXT, CASES 174–250, 447–77, 785–806 (5th ed. 1997).

²⁸ United States v. Aluminum Co. of Am., 148 F.2d 416, 430 (2d Cir. 1945).

²⁹ For more on the rule of reason generally, see AREEDA & KAPLOW, *supra* note 27, at 203–51. We recognize that a number of competing interests motivated the evolution of the field of antitrust law, including concern for *competitors* (as opposed to *competition*), concern for competition, concern for efficiency (minimizing dead weight loss), political and economic worries about *bigness* as such, and concern about substantive fairness and equity. As antitrust law developed, however, it became clear that the core goal of the regime was efficiency. In addition, while in the past static efficiency was the primary focus, contemporary antitrust jurisprudence is at least equally concerned with dynamic efficiency.

³⁰ See generally *id.* at 663–784.

³¹ I suppose that a patentee has no less property in his patented machine than any other owner, and that in addition to keeping the machine to himself the patent gives him the further right to forbid the rest of the world from making others like it. In short, for whatever motive, he may keep his device wholly out of use. So much being undisputed, I cannot understand why he may not keep it out of use unless the licensee, or, for the matter of that, the buyer, will use some unpatented thing in connection with it. Generally speaking the measure of a condition is the consequence of a breach, and if that consequence is one that the owner may impose unconditionally, he may impose it conditionally upon a certain event. . . . [T]he domination [over a material used in a patented device] is one only to the extent of the desire for the [patented device].

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 519–20 (1917) (Holmes, J.,

tive licensing arrangements also generally are permitted.³² To use a simple analogy, as a homeowner, I have the right to exclude you entirely from my house, sell you my house, lease you a room for a limited period of time, or grant you a limited easement across my front yard.³³ Even though refusals to deal and restrictive licenses might technically restrain trade, they generally do not do so unreasonably and may be procompetitive.

B. Intellectual Property Law

Intellectual property law is designed to and indeed does facilitate the downstream commercialization or realization of the protected subject matter.³⁴ While intellectual property law does positively reward, and thereby en-

dissenting) (citations omitted); Rich, *supra* note 16, pt. 4, at 330 (citing same and providing English translation from Latin for the Justinian Maxim cited by Holmes: “[One] to whom the greater is lawful ought not to be debarred from the less as unlawful”).

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³² See generally AREEDA & KAPLOW, *supra* note 27, at 413–44, 686–784. To be sure, the enforcement of restrictive licensing arrangements involving an IP right would still be subject to basic constitutional law principles.

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³³ What is particularly troubling about the approaches we criticize is that they would have striking implications if applied in analogous fashion to the real estate transactions mentioned here, which, of course, they are not. As discussed *infra* in Part III.C, the approaches we criticize in the IP context treat restrictive contractual arrangements as illegal. As a result, they are not only unenforceable, but also efforts to use them would be viewed as misuse and so would lead to the property to which those transactions relate to be essentially forfeited. See *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (holding that a finding of misuse renders the IP right unenforceable). Consider the implication of this reasoning for a real estate transaction involving the sale of half of a parcel where the half that is sold is encumbered by a negative easement, such as a promise not to build a factory that produces smelly emissions. The preemption approach we criticize would allow the buyer to argue that the proper domain of restrictions on emissions is the body of federal environmental law and that, therefore, under the doctrine of conflict preemption the contract term to limit use, which is a matter of state law, is preempted and thus not enforceable. What is more, the reasoning of the misuse approach we criticize would further allow the buyer to argue that it is a misuse of that property right to attempt to extract or extort such a promise, and as a result the property right in the entire parcel itself is forfeited. Put simply, the one-two punch of the approaches we criticize would allow even a buyer who is sophisticated, not resource constrained, advised by counsel, and fully possessed of contractual intent (and therefore not a good candidate for the contract law defenses to formation of unconscionability, adhesion, duress, mistake, etc.) effectively to take possession of the entire parcel of land without paying a cent by simply waiting for the seller to offer half the parcel encumbered by the negative easement at a price lower than for the whole. For an example of this type of one-two punch in the case of IP, see *infra* note 105 and accompanying text.

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³⁴ Although there are a number of incentive-based theories for IP that are mentioned in the literature—including “incentive to invent,” “incentive to disclose” or “teach,” “incentive to innovate,” and “incentive to design around”—there are essentially three dominant theories today: (1) some version of the “incentive to invent” and “incentive to disclose” theories treated together under the rubric of “reward”; (2) the “prospect” theory; and (3) the commercialization theory. IP law certainly does have a number of important effects, and each of these theories of IP is useful in elucidating these effects. We emphasize here the commercialization theory and its associated focus on coordination for two reasons: first, at a minimum, this theory motivated the shaping of present IP regimes, and second, we see the commercialization effect as the most important in that the regimes in many cases are most easily and effectively adapted to achieve that goal. For a recent review of the patent literature on incentive theories and a collection of sources, see CHISUM ET AL., *supra* note 3, at 58–90 (reviewing various incentive theories for the patent system); Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1024–46 (1989) (same); A. Samuel Oddi, *Un-Unified*

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courage invention and innovation,³⁵ it is not adaptable to being finely tuned to this goal. It is quite difficult to figure out how appropriately to reward invention and innovation, and it turns out that a great deal of inventive and innovative activity would not predictably be responsive to direct rewards.³⁶ In practice, IP law facilitates commercialization by forcing parties to negotiate with each other under the threat of suits for infringement.³⁷

IP law recognizes that limiting the property owner's causes of action to be against only those who directly infringe would unduly undermine or even eviscerate the role of IP rights in important cases. As a result, the doctrines of indirect infringement, induced and contributory, arose to capture those activities that, at the time conducted, clearly cause essentially the same economic effect as direct infringement.³⁸ In the patent context, for example, by requiring the IP owner to prove not only that his IP rights have been directly infringed by the one induced, but also that the alleged inducer intended to induce the infringement, the inducement doctrine captures only those who clearly intend to induce infringement and who are successful in doing so.³⁹ The contributory infringement doctrine operates similarly. It requires proof of direct infringement and proof that the alleged contributor knew that the allegedly contributing conduct was "especially made or especially adapted for use in an infringement," although broad safe harbor is given to those who provide something that is "a staple article or commodity of commerce suitable for substantial noninfringing use."⁴⁰ Indirect infringement is not accidental. If so desired, it can be avoided relatively easily through *ex ante*

Economic Theories Of Patents—The Not-Quite-Holy Grail, 71 NOTRE DAME L. REV. 267 (1996) (same). For recent reviews of the copyright literature on incentive theories and a collection of sources, see MICHAEL ABRAMOWICZ, COPYRIGHT REDUNDANCY (George Mason Law & Econ. Research Paper No. 03-03), <http://ssrn.com/abstract=374580> (last visited Sept. 8, 2004) (reviewing and collecting sources and highlighting the opportunity cost issues discussed by Lunney as well as showing how additional works on the margin may contribute little while at the same time causing rent dissipation); Glynn S. Lunney, Jr., *Reexamining Copyright's Incentives-Access Paradigm*, 49 VAND. L. REV. 483 (1996) (reviewing and collecting sources and suggesting that incentives may draw efforts away from other productive activities). It should be noted, though, that the "basics approach" would hold even if the incentive-based theories for IP were stressed.

³⁵ Innovation is a broader term than invention and is generally understood to include the downstream dissemination of inventions. It is sometimes also called commercialization.

³⁶ For a discussion of the problems with efforts to reward inventive activities, see, for example, CHISUM ET AL., *supra* note 3, at 70–72 (reviewing so-called "incentive to invent" theory of patents and criticisms thereto); Kieff, *supra* note 20, at 707–17 (reviewing problems with reward alternatives to patents).

³⁷ For a more thorough model of the commercialization goals of IP law, see Kieff, *supra* note 20.

³⁸ For an overview of contributory and induced infringement and their history in the patent context, which is representative of the rest of IP, see, for example, Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 35 J. PAT. OFF. SOC'Y 476, 481–89 (1953).

³⁹ See, e.g., *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464 (Fed. Cir. 1990) (holding that inducement of patent infringement requires proof of both intent to induce and actual direct infringement by the one induced) (citing 35 U.S.C. § 271(b)).

⁴⁰ 35 U.S.C. § 271(c) (2000) (setting forth requirements for contributory patent infringement).

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consideration of known patent rights in view of these basic legal rules, which are expressly provided by statute and thereby knowable relatively easily.⁴¹

The ability of an IP owner to elect to sue or license those who would otherwise be guilty of direct or indirect infringement facilitates both price discrimination and coordination among complementary users. For this reason, the 1952 Patent Act expressly provides that neither efforts to price discriminate nor the granting of a restrictive or unrestrictive license to a potential infringer shall constitute misuse.⁴² This provision was ignored by many courts until 1980, when the Supreme Court decided *Dawson Chemical Co. v. Rohm & Haas Co.*,⁴³ which finally recognized its impact.⁴⁴ To be certain this was clear, Congress acted again in 1988 by adding subparts (4) and (5) to § 271(d) of the Patent Act to provide expressly that neither a refusal to license nor a tying arrangement in the absence of market power is patent misuse.⁴⁵

Importantly, because the doctrines of copyright misuse and trademark misuse are based on the doctrines of patent misuse and patent law's indirect

⁴¹ To be sure, the ease of predicting outcomes of indirect infringement is attenuated by the uncertainties in other aspects of IP law on which indirect infringement may depend, such as the basic scope of IP subject matter. For example, in patent law the basic scope of the patent right to exclude hinges on the body of law governing the field called "claim construction," which is presently the topic of substantial debate because it is considered by many to be too uncertain. For more on claim construction, see the recent important empirical work by Polk Wagner at www.claimconstruction.com. Polk Wagner, The Federal Circuit Assessment Project, Claim Construction at the Federal Circuit, <http://www.claimconstruction.com> (last visited Sept. 8, 2004). For another example, the extent of the home recording and person sharing exemptions in copyright law caused a great deal of the uncertainty surrounding the indirect infringement claims in the famous *Aimster* and *Napster* cases. See *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

⁴² Patent Act of 1952, ch. 950, 66 Stat. 792, 811 (codified as amended at 35 U.S.C. § 271(d) (2000)). Before the 1952 Act, courts had used the misuse doctrine to erode the ability for intellectual property owners to price discriminate or engage in restricting licensing. Section 271(d) expressly states that such conduct shall not be misuse. See 35 U.S.C. § 271(d)(1)–(3) (added by the 1952 Patent Act); see also Kieff, *supra* note 20, at 736–38 (discussing history of § 271 of the 1952 Patent Act).

⁴³ *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

⁴⁴ *Id.* at 200–02.

⁴⁵ See 35 U.S.C. § 271(d)(4)–(5) (originally enacted by Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (1988)). In its entirety, augmented § 271(d) provides:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

Id.

infringement, our discussion has focused on patents.⁴⁶ The lessons learned from the “basics” view of patents are also applicable throughout IP law.

Under the basics of IP law, contracts facilitating price discrimination or imposing restrictions on a licensee are allowed—indeed, they are contemplated—at least to the extent they are enforceable under the general law of contracts. IP rights only give IP owners rights of exclusion, not rights to use.⁴⁷ The uses to which an IP owner can put her IP or the subject matter protected by it is (or at least should be) determined by other areas of law. IP law does not limit the rights of an IP owner to use her IP or the subject matter covered by it in any way that otherwise would be permissible under other areas of law, including antitrust law, property law, and contract law. At bottom, to rely on the express statutory rights of exclusion against others that IP law grants to IP owners as a basis for restricting the IP owner’s rights to use conflicts with the basics of IP law; an owner of IP should enjoy similar rights to use as an owner of tangible property enjoys. On the other hand, the ownership of IP rights does not magically immunize the owner from whatever limitations on use of IP, or the subject matter it covers, that are imposed by other areas of law, including antitrust law and the general law of property and contracts. For example, an IP owner’s exercise of his IP rights should (and does) remain subject to the antitrust laws, and a restrictive licensing arrangement should not be enforced if it is not validly entered into under contract law.⁴⁸

C. *The General Law: Property and Contracts*

Property law and contract law operate to facilitate private ordering, a key to commercialization of IP assets and to the exploitation of their value. While property law generally eschews restraints on alienation and, through

⁴⁶ See, e.g., *Video Pipeline, Inc. v. Buena Vista Home Entm’t, Inc.*, 342 F.3d 191, 203–04 (3d Cir. 2003) (noting that although “[n]either the Supreme Court nor this Court has affirmatively recognized the copyright misuse doctrine[,] [t]here is . . . a well-established patent misuse doctrine, and . . . other courts of appeals have extended the doctrine to the copyright context” (citations omitted)); see Carl W. Schwarz, *The Intellectual Property/Antitrust Interface*, 7 No. 6 ANDREWS INTELL. PROP. LITIG. REP. 15 (2000), WL 7 No. 6 ANIPLR 15, at *15 n.44 (stating that copyright and trademark misuse are each derived from the law of patent misuse) (citing *Juno Online Servs., L.P. v. Juno Lighting, Inc.*, 979 F. Supp. 684 (N.D. Ill. 1997) (trademark misuse)). For a review of intellectual property misuse, including trademark misuse, see generally ANTITRUST SECTION, AMERICAN BAR ASSOCIATION, *INTELLECTUAL PROPERTY MISUSE: LICENSING AND LITIGATION* (2003).

⁴⁷ Patents give the patentee the right to restrict use of what is claimed in the patent. Copyrights give the copyright holder the right to restrict copying of the creative expression embodied in the protected work. Trademarks give the trademark owner the right to restrict use of symbols that are confusingly similar to (and in some cases that dilute) the protected mark. For none of these IP systems does the IP right give its holder an affirmative right to use. Indeed, rights to use are entirely controlled by other areas of law. For example, a patent on a drug does not allow the patentee to avoid FDA or EPA restrictions on the drug’s use. Similarly, various criminal and other public safety laws would restrict a gun patent holder’s right to use that gun. See generally F. Scott Kieff, *Patents for Environmentalists*, 9 WASH. U. J.L. & POL’Y 307, 308 (2002) (discussing how the right to restrict use conferred by IP law does not interfere with other restrictions on use).

⁴⁸ See *supra* note 47.

its *numerus clausus* principle, seems to recognize only certain estates in land, these doctrines only operate as default rules in practice, and a nearly infinite range of dealings can be carried out through contract.⁴⁹ Moreover, even within the traditional forms of property, transferors and transferees have a great deal of flexibility to carve up interests in property along the dimensions of time, use, and the number of property owners.⁵⁰ For example, when it comes to real property, highly particularized defeasible fees can be created and will be enforced, and a real property owner can create any number of leasehold interests in his property. All of these transactions are, of course, facilitated by a general regime of property rule protection, as opposed to liability rule protection, for rights in both real and personal property.⁵¹

To be sure, when parties order their affairs through contract, they must comply with certain formation details, such as consideration and no unconscionability. With very few exceptions, positive contract law does not regulate the substance of the parties' arrangement, focusing instead on the contracting process.⁵²

At bottom, whatever strictures property law and contract law impose on private ordering, parties are generally free to carve up rights, duties, and obligations as they see fit. The basics of the general law of property and contracts should extend to the use and licensing of IP rights, just like they do to other types of property. Nothing under property or contract law provides any particular reason to be skeptical about IP contracts that facilitate price discrimination, exclude certain parties from having access to IP rights, or impose restrictions on licensees. What is more, special approaches to disputes and transactions involving IP rights often ignore or intentionally override purposeful normative and positive features of antitrust law, IP law, or the general law and, in so doing, risk upsetting well-developed frameworks without adequately accounting for competing considerations.

III. *When Applied, the Basics Solve the Problem*

Applying the "basics approach" to prototypical cases at the periphery of IP law, including price discrimination, restrictive licensing arrangements, and suits against indirect infringers, provides a set of rules that are usable *ex ante* by all market participants in a way that helps them order their affairs while at the same time being fair and efficient. The "basics approach" has important normative implications. Judicial fidelity to the basics ultimately allows market actors to have greater freedom in structuring their interactions in welfare-enhancing ways and reduces legal uncertainty.

The cases we explore are appropriately viewed as prototypical for several reasons. They involve representative fact patterns. They have actual his-

⁴⁹ See Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 *YALE L.J.* 1, 3–4 (2000).

⁵⁰ *Id.* at 3.

⁵¹ For more on property rules versus liability rules in the context of IP, see, for example, Kieff, *supra* note 20, at 732–33.

⁵² See generally Russell Korobkin, *Bounded Rationality, Standard Form Contracts, and Unconscionability*, 70 *U. CHI. L. REV.* 1203 (2003) (reviewing debates in contract law about the applicability of the unconscionability doctrine).

torical significance through their particularly important roles in the body of case law. And the cases were discussed extensively by the primary architect of the present patent system—the 1952 Patent Act—in a five-part series of articles about these cases before he drafted the statute designed to change fundamentally the way courts applying the law would look at the issues raised by the cases.⁵³

As discussed below, the cases can be divided fairly into two sets: cases involving indirect infringement and indirect participation in breach of contract and cases involving creation of special *sui generis* law. A review of both sets of cases shows that the “basics approach” is not merely a veiled effort to promote pro-patent or pro-copyright—or more generally, pro-business—positions. Rather, the basics framework, as a method of judicial decision-making, is offered as a coherent approach that more predictably can be engaged *ex ante* and that reflects fidelity to, and respect for, separate areas of the law. Although we focus on patents, since the core features of other areas of IP law largely derive from patent law, the basics framework and the essence of the following analysis extend to copyrights and other forms of IP as well.

A. *Indirect Infringement vs. Breach of Contract*

The first set of cases involves the tension between indirect infringement and indirect participation in a breach of contract. Indirect infringement may be actionable as a matter of IP law, as discussed earlier. Indirect participation in a breach of contract may be actionable as a matter of contract law under doctrines such as tortious interference with contract, as in the famous multibillion dollar judgment from the *Texaco, Inc. v. Pennzoil, Co.*⁵⁴ litigation. The happenstance that a contract relates to patents, however, should not transform interference with that contract into patent infringement. Both the facts that need to be proven and the potential remedies are different under these distinct frameworks.⁵⁵

Wallace v. Holmes,⁵⁶ the classic case of indirect infringement, involved a patent on an oil lamp having a new burner, together with a standard fuel reservoir, wick, and chimney.⁵⁷ In the case, a competitor of the patent owner

⁵³ See Rich, *supra* note 16, pts. 1–5, at 85, 159, 241, 328, 422. As suggested *supra* note 16, this is one reason why Rich’s views have been so influential.

⁵⁴ *Texaco, Inc. v. Pennzoil, Co.*, 729 S.W.2d 768 (Tex. App. 1987). For some examples of the practical differences between suits for IP infringement and breach of contract, compare *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121–23 (9th Cir. 1999) (stating that irreparable harm is not presumed on a breach of contract claim relating to IP license, as it would have been for IP infringement), with *Microsoft Corp. v. Harmony Computers & Elecs., Inc.* 846 F.Supp. 208, 211–12 (E.D.N.Y. 1994.) (finding a sufficient showing of irreparable harm on infringement claim to support a preliminary judgment order because defendant failed to prove existence of IP license).

⁵⁵ The transformation of breach of contract into patent infringement is significant. At least one essential difference between patent infringement and breach of contract is that the remedies for infringement include a right to exclude (i.e., property rule protection), whereas a contract is generally viewed as little more than a promise either to perform or to breach and pay actual damages (i.e., liability rule protection).

⁵⁶ *Wallace v. Holmes*, 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100).

⁵⁷ *Id.*

had sold a rival product, which included the new burner and other lamp parts but not the chimney.⁵⁸ The court reasoned that the defendant had contributed to infringement on the part of its customers because they would inevitably add a chimney.⁵⁹ A judgment of contributory infringement makes sense under the “basics approach” because the intended and actual impact of the competitor’s efforts were to make sure that its customers acted in an infringing manner. Indeed, *Wallace* is the case that gave rise to the entire doctrine of indirect infringement throughout all of IP law.⁶⁰

By way of comparison, if the plaintiff-patentee in *Wallace* instead had entered into arrangements with its customers obligating them to buy chimneys from the patentee, the analysis under the basics of IP law would be different. A rival seller of chimneys might be liable for tortious interference with contract, or the tying arrangement might violate the antitrust laws. The competing chimney seller, however, would not be liable for contributory infringement under the basics of IP law.⁶¹

*Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*⁶² involves an example of just this type of tying arrangement. *Heaton* involved a patentee who sold a patented machine with a label license⁶³ that restricted the machine’s use to certain unpatented inputs (staples, literally).⁶⁴ The label license stated, “This machine is sold and purchased to use only with fasteners made by the Peninsular Novelty Company, to whom the title to said machine immediately reverts upon violation of this contract of sale.”⁶⁵ The court seemed to reason that the defendant was contributing to breach of the label contract by providing its staples for use in the machine. Once the license under the patent was gone, the use of the machine became infringing. Rather than sue for interference with the contract, the plaintiff sued the competing seller of staples for indirect infringement of the patent.⁶⁶ The court decided that the defendant was, indeed, committing contributory infringement of the patent.⁶⁷ But this turned a case about indirect participation in breach of contract into patent infringement. By deciding the case the way it did under IP law, the court in effect extended inappropriately the scope of IP rights. A collateral inappropriate consequence of the court’s reasoning in *Heaton*, of

⁵⁸ *Id.*

⁵⁹ *Id.* at 79–80.

⁶⁰ See CHISUM ET AL., *supra* note 3, at 950–55 (discussing history of contributory infringement doctrine and the role of the *Wallace* case). **R**

⁶¹ Because the chimneys are usable with non-infringing lamps and are not specially adapted for infringing uses, their sale falls within the safe harbors of § 271(c). See *supra* notes 38–40 and accompanying text (discussing safe harbors of § 271(c)). Put differently, the patent could not be asserted against the sale of the chimneys as a matter of direct or indirect infringement. **R**

⁶² *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288 (6th Cir. 1896) (Lurton, C.J.) (also known as the “*Button Fastener Case*”).

⁶³ That is, the contract for sale of the machine included a set of contract terms relating to the patent that were written on the label that was affixed to the machine itself.

⁶⁴ *Heaton*, 77 F. at 290.

⁶⁵ *Id.*

⁶⁶ *Id.* at 291.

⁶⁷ *Id.* at 301.

course, would be to immunize potentially anticompetitive licensing arrangements from the antitrust laws.

The “basics approach” rejects the analysis of *Heaton*. Under the “basics approach,” and as pointed out by Rich, this decision was inappropriate because it “transformed the law of contracts into ‘patent law.’”⁶⁸ It may have been appropriate for the plaintiff to consider an interference with contract argument, if sufficient facts could be proven to substantiate the claim under contract law.⁶⁹ It may even have been appropriate for the defendant to consider an antitrust tying argument, if the case could be proven under antitrust law.⁷⁰

By not addressing these contract and antitrust arguments head on, cases like *Heaton* allow parties and judges selectively to mix features of various bodies of law and to extrapolate from them to forge new hybrid doctrines of law that run afoul of the basics of each area. In many instances, selective application of the law leads to doctrines, such as misuse, that erode IP rights. In other cases, such as *Heaton* or those cases in which courts have subjected transactions involving IP to less scrutiny under antitrust law, the new doctrines can work to expand IP rights. What is more, in all cases, the courts fail to give any meaningful test for determining when those IP rights should be eroded or expanded.

The Supreme Court applied the same approach as *Heaton* in *Henry v. A.B. Dick Co.*,⁷¹ which involved a patent on a mimeograph machine sold with a label restriction limiting the brand of unpatented ink that could be used in the machine.⁷² As in *Heaton*, the Court agreed with the plaintiff-patentee in *A.B. Dick*, and held that there was contributory infringement of the patent.⁷³ Because this was a Supreme Court case, its reasoning had a longer lasting impact in pushing IP law in a direction contrary to the “basics approach.”⁷⁴

⁶⁸ Rich, *supra* note 16, pt. 3, at 251. The successful argument in *Heaton* held out the sales of the staples as proxies, or counters, for measuring use of the patented machine for purposes of collecting royalties. *Heaton*, 77 F. at 296. (Interestingly, this argument was offered by Frederick P. Fish, founding partner of the law firm formerly known as Fish, Richardson, & Neave, which later became the firms of Fish & Richardson and Fish & Neave.) The staples may have served as measuring devices, and such an arrangement would likely have been efficient. But the cause of action against the defendant, if any, would then be some form of interference with contract, not patent infringement. Depending on the ultimate interpretation of the label contract, the plaintiff may have had a cause of action against the party who was a customer of both the plaintiff and the defendant for both breach of contract and patent infringement.

⁶⁹ A reading of the court opinion as a whole suggests there may have been sufficient facts to mount such an argument.

⁷⁰ The court opinion does not discuss these facts, but it is likely there was no evidence of market power. It is curious that the court did not discuss the antitrust argument, because, as Rich pointed out, the opinion was written against a background in which antitrust law was recently enacted: “The Sherman Act had been passed six years before!” Rich, *supra* note 16, pt. 3, at 254.

⁷¹ *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912) (Lurton, J.).

⁷² *Id.* at 11. The license restriction read as follows: “This machine is sold by the A.B. Dick Co. with the license restriction that it may be used only with the stencil paper, ink and other supplies made by the A.B. Dick Company, Chicago, U.S.A.” *Id.*

⁷³ *Id.* at 49.

⁷⁴ These cases supported the improper view that causes of action for patent infringement could be maintained in situations where the basics would only allow a cause of action for some

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The “basics approach” rejects the reasoning of *A.B. Dick* for the same reason it rejects the reasoning of *Heaton*. Indeed, eventually, these cases were effectively overturned.⁷⁵ As Rich pointed out later in his testimony before Congress concerning the provisions he drafted on indirect infringement in the 1952 Patent Act, any effort to follow this inappropriate body of law “would kill itself in time.”⁷⁶

An understanding of the basics suggests why *Heaton*, *A.B. Dick*, and their progeny were not sustainable over the long run. The problem is not merely one of courts going too far one way (e.g., effectively extending the scope of IP rights to anything connected to IP and simultaneously immunizing all transactions involving IP from serious antitrust scrutiny) or the other (e.g., eliminating the doctrine of indirect infringement, thereby eroding IP rights). The problem is more fundamental. Namely, cases like *Heaton* and *A.B. Dick* ignore the basics of each implicated body of law—IP law, antitrust law, and the general law of property and contracts. As a result, they lead to unpredictable results and, in the name of IP law, encroach upon the boundaries of other well-established bodies of law that reflect more nuanced and time-tested doctrines that have staying power and that are perfectly capable of resolving the disputes on their own terms.

form of contractual business tort, at most. This led pro-patent courts to unduly stretch the reach of patent law and to the inevitable response by anti-patent courts that the entire body of indirect infringement should be eliminated. See *infra* note 76 and accompanying text.

⁷⁵ See *infra* note 76 (reviewing history of these cases).

⁷⁶ As the Supreme Court later pointed out in *Dawson*, when Rich was testifying in support of what became § 271 of the 1952 Patent Act, “Rich warned against going too far. He took the position that a law designed to reinstate the broad contributory infringement reasoning of [*A.B. Dick*] ‘would kill itself in time.’” *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 208 (1980) (citing *Hearings on H.R. 3866 before the House Comm. on the Judiciary*, 81st Cong. 17 (1949) (statement of Giles Rich)).

As the Court also pointed out in *Dawson*, *A.B. Dick* “was followed by what may be characterized through the lens of hindsight as an inevitable judicial reaction.” *Dawson*, 448 U.S. at 191 (citing *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (reaching result opposite to *A.B. Dick* on similar facts involving a patent on a film projector and a restrictive label contract limiting use to certain film)). Cf. *Motion Picture Patents*, 243 U.S. at 519–21 (Holmes, J., dissenting) (arguing that the patentee should be entitled to capture all the market generated by the invention and expressing concerns about the transactions that had been entered in reliance on the rule of *A.B. Dick*).

The law continued to fluctuate after *Motion Picture Patents*. In *United States v. United Shoe Machinery Co.*, 247 U.S. 32 (1918) (also known as “*Shoe Machinery I*”), a case also argued for the patentee by Frederick P. Fish, the Court returned to reasoning similar to that in *A.B. Dick* to permit a complex leasing arrangement. Soon thereafter, the Clayton Act was passed partly in response to cases like *A.B. Dick* and *Shoe Machinery I*, and its § 3 was directed to sales and leases of articles of commerce “whether patented or unpatented.” 15 U.S.C. § 14 (2000). Not surprisingly, in *United States v. United Shoe Machinery*, 258 U.S. 451 (1922) (also known as “*Shoe Machinery II*”), the Court found that the leases violated the Clayton Act, *id.* at 465. Similarly, in *International Business Machines Corp. v. United States*, 298 U.S. 131 (1936) (also known as “*IBM*”), the Court found a set of complex leasing arrangements accompanied by sales of punch cards to violate the Clayton Act, *id.* at 140.

This brief review of the evolution from *A.B. Dick* to *IBM* is provided here only for historical context. A significantly more complete treatment is provided in Rich, *supra* note 16, pt. 3, at 241–83.

B. *Infringement Under IP Law vs. Sui Generis Law*

The second set of prototypical cases involves the question of what body of law should govern determinations of infringement: the body of organic IP law—patent, copyright, or trademark—or some special *sui generis* body of law. In many of the cases involving charges of indirect infringement and misuse, which are admittedly somewhat difficult doctrines, too many courts and commentators have not followed the “basics approach” and have instead tried to rehash the normative case for IP to develop new specialized approaches in these doctrinally difficult cases that they hope will get IP scope just right. The fundamental problem with these specialized approaches is that they recast the entire legal institutional framework for IP in a way that has pernicious ripple effects throughout IP law by ignoring the many choices that have been made over IP law’s development.

One basic trap into which these courts and commentators have fallen when adopting such *sui generis* approaches to IP is focusing on the wrong party when considering whose behavior should matter in cases of possible indirect infringement. The behavior of the putative indirect infringer to facilitate or encourage direct infringement is relevant to the analysis under both inducement of infringement and contributory infringement. The patentee’s engaging in conduct that leverages his IP rights with the goal of extracting value is not relevant to inducement or contributory infringement. Indeed, in such instances, the patentee is simply exercising his rights to exclude and to use, as the basics of IP law and the general law anticipate. Put simply, the question of a putative defendant’s infringement should not turn on whether or not the patentee was trying to get as much out of the patent as possible through some restrictive licensing arrangement, tie-in, or otherwise. If the patentee, or any property owner for that matter, behaves in a way that antitrust law or contract law properly prohibit, then that is a matter of antitrust law or contract law.

The modern trend towards *sui generis* analysis of infringement has its most visible roots in the Supreme Court’s decision in *Leeds & Catlin Co. v. Victor Talking Machine Co.*⁷⁷ Just like the classic indirect infringement case of *Wallace*, discussed previously, *Leeds & Catlin* involved a patentee’s competitor selling an item that had no substantial non-infringing use.⁷⁸ In *Leeds & Catlin*, the defendant-infringer sold specially grooved records that could only be used in a patented record player known as a “Victrola.”⁷⁹ The Supreme Court reasoned that the defendant’s selling of the records was infringement because the records were the “distinction [or key element] of the invention.”⁸⁰ This reasoning is flawed. Although the “basics approach” might reach the same result—a finding of contributory infringement—it would do so for an entirely different reason than offered by the Court. Under the basics of patent law, there is no “distinction,” or key element, of subject matter claimed under the patent. The patent system operates using

⁷⁷ *Leeds & Catlin Co. v. Victor Talking Mach. Co.*, 213 U.S. 325 (1909).

⁷⁸ *Id.* at 331.

⁷⁹ *Id.*

⁸⁰ *Id.* at 335.

what is known as “peripheral claiming”—as distinct from “central claiming”—in which the function of the patent claim is not to set forth the heart of the protected subject matter but rather to set forth its outer bounds.⁸¹

Direct infringement is measured against these outer bounds. Indirect infringement is premised upon some occurrence of direct infringement. But the reach of indirect infringement does not turn on whether the putative defendant is targeting some key element of the claim. Rather, as discussed earlier, for a proper analysis of contributory infringement under the basics, a key question is instead whether there were any substantial non-infringing uses for the allegedly infringing items. Because there were no substantial non-infringing uses for the grooved records in *Leeds & Catlin*, and because the other elements of contributory infringement were established (i.e., direct infringement and knowledge of the patent), applying the basics would have resulted in a finding of contributory infringement. Hanging determinations of indirect infringement on the factors outlined earlier in our discussion of the basics—such as intent for induced infringement and absence of non-infringing substitutes for contributory infringement—may seem like an effort to exalt form over substance. After all, the reasoning the Court adopted in *Leeds & Catlin* seems to strike at the heart of substance by focusing on the key element. But the Court fails to give any instruction on how to determine which element is key, and neither has any other court or commentator of which we are aware.

The tests for indirect infringement have the essential advantage of being comparatively easy to administer. They look to facts well within the control of the putative infringer and are strongly biased in favor of the putative infringer in the types of errors one would expect the tests to generate. The intent requirement under an inducement analysis and the broad and readily identifiable safe harbors under a contributory analysis ensure that these im-

⁸¹ For more on peripheral claiming, see F. Scott Kieff, *Perusing Property Rights in DNA*, in PERSPECTIVES ON PROPERTIES OF THE HUMAN GENOME PROJECT 125, 135–40 (F. Scott Kieff ed., 2003). A determination of infringement under a central claiming system requires the court to determine the heart of the invention and whether the putative infringement is close enough to that heart to justify a judgment of infringement. A determination under peripheral claiming requires the court to determine only the outer bounds of the claim. Anything within those bounds infringes and anything outside does not. The so-called “doctrine of equivalents” (“DOE”) that exists under the present patent system, even though not provided for in the statute, is an odd exception to the peripheral nature of our present peripheral claiming system because it allows the patentee to capture something outside the claim. Although some commentators like this doctrine because it gives flexibility, they fail to see how the patentee can achieve this same flexibility in a manner that is not only less costly to the patentee but also to all third parties by simply drafting a better patent disclosure at the outset. F. Scott Kieff, *Property and Biotechnology*, in CHISUM ET AL., *supra* note 3, at 318–23 (showing how as a matter of positive law and practice the disclosure rules of § 112 of the Patent Act can operate better than the DOE for both patentees and third parties and citing F. Scott Kieff, *The Case for Registering Patents and the Law and Economics of Present Patent-Obtaining Rules*, 45 B.C. L. REV. 55, 99–105, 109–14 (2003) (discussing the normative case for the disclosure rules and showing how they are a better institutional choice in terms of minimizing social costs for allowing both patentees and third parties to manage the problem of claim breadth than other institutional approaches such as the DOE)).

portant biases persist and that the doctrines are relatively easy to administer.⁸²

Importantly, the improper reasoning of the Court in *Leeds & Catlin* is not mere harmless error. It matters which approach is adopted by courts, especially the Supreme Court, even if the results are the same in a particular case. By suggesting in *Leeds & Catlin* that the case turned on the heart of the invention, the Court advanced a line of precedent that focused on the wrong issues in patent cases. One of the most pernicious cases in this line of precedent was *Carbice Corp. of America v. American Patents Development Corp.*,⁸³ in which the Court denied relief to a patentee after reasoning that the patentee was trying to extend the patent beyond the key elements of the claim.⁸⁴ The plaintiff-patentee in *Carbice* had a patent on a packaging method that used dry ice to transport refrigerated foodstuffs, such as ice cream.⁸⁵ What troubled the Court was that the patentee had a practice of entering into licensing arrangements obligating the licensee to use only certain containers for packaging products with the dry ice.⁸⁶

The facts of *Carbice* are somewhat similar to those of *Leeds & Catlin* with one important difference: in *Carbice*, the defendant sold a product, dry ice, that was a staple article of commerce usable in many non-infringing manners other than in the patented method of ice cream packaging. The “basics approach” would again yield the same result as the Court’s analysis—in this case, no contributory infringement—but again for a different reason. Instead of focusing on the patentee’s alleged extension of the patent beyond its key elements, the “basics approach” would turn on the many non-infringing uses for dry ice.

As Rich emphasized, it is the behavior of the putative contributory infringer that is relevant to a determination of contributory infringement, not the behavior of the patentee.⁸⁷ Under the “basics approach,” it makes sense that the organic IP law—in this case patent law—evolved so that as implemented in the 1952 Act’s provision of § 271, focus is on the behavior of the putative infringer precisely because it is comparatively easy to judge.

Furthermore, an IP holder should not be denied relief for contributory infringement, or direct infringement, simply because the IP holder is exercising his rights to exclude and to use through a tying arrangement or restrictive license. Such conduct is properly a subject for antitrust law and contract law and should have no bearing on a court’s analysis of indirect (or direct) infringement under patent law. Courts should not recast such conduct as an effort by the IP holder to “extend” his patent rights and, thereby, transform a

⁸² Again, as discussed *supra* note 41, the relative crispness of these doctrines can be muddied in practice by their interaction with other, fuzzier doctrines of each IP law regime.

⁸³ *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931).

⁸⁴ *Id.* at 33. A similar approach was followed in *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938) (Brandeis, J.) (also known generally as “*Barber*”) (describing a patentee “attempting . . . to employ the patent to secure a limited monopoly of unpatented material”).

⁸⁵ *Carbice*, 283 U.S. at 29.

⁸⁶ *Id.* at 30–31.

⁸⁷ Rich *supra* note 16, pt. 4, at 345 (describing the opinions of the Court in *Carbice* and *Barber* as revealing “a very significant preoccupation by the Court with the *objective of the plaintiffs* rather than with the doings of the defendant”).

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matter for antitrust and contract law into a matter for some new version of IP law.

To be sure, the Court has not always reached the right result, as it did in *Leeds & Catlin* and *Carbice*.⁸⁸ Because the Court continued to misplace its focus on the putatively key elements of patent claims, by the time of the *Mercoïd* cases, *Mercoïd Corp. v. Mid-Continent Investment Co. (Mercoïd I)* and *Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co. (Mercoïd II)*,⁸⁹ judicial reasoning that precluded any action for indirect infringement almost entirely eliminated the doctrine of indirect infringement. In essence, because by its nature every indirect infringement case involves a defendant who does not trigger at least one element of the patent claim,⁹⁰ the focus on the “key element” in the Court’s reasoning allowed every putative indirect infringer to argue that the missing element was the one that was “key” and that, therefore, no action for indirect infringement could lie.⁹¹

In response, Rich drafted what became § 271 of the 1952 Patent Act to statutorily overrule cases like *Mercoïd I* and *Mercoïd II* and to revive indirect infringement.⁹² Under the basic framework of patent law established after the 1952 Act, the essential inquiry for indirect infringement is based on the comparatively easy to administer framework discussed earlier.⁹³ While it may be appropriate to debate the benefits and costs of allowing actions for indirect infringement, the above review is designed to show at least two important things. First, *sui generis* attempts to rehash the proper scope of an organic IP right, when addressing cases of misuse or indirect infringement will yield a test that is comparatively more difficult to administer, that eliminates the doctrine, or both. Second, unlike prior approaches commentators have offered for addressing issues at the periphery of IP law,⁹⁴ the “basics approach” provides a set of clearer rules and doctrines on which market participants can rely better *ex ante* in structuring their affairs.

⁸⁸ In both *Leeds & Catlin* and *Carbice*, the Court reached the same result through its *sui generis* analysis as it would have reached under the “basics approach.”

⁸⁹ *Mercoïd Corp. v. Mid-Continent Inv. Co. (Mercoïd I)*, 320 U.S. 661 (1944); *Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co. (Mercoïd II)*, 320 U.S. 680 (1944) (discussing a patent on a new furnace stoker switch).

⁹⁰ Direct infringement occurs when all elements are satisfied.

⁹¹ The court used this same approach earlier in *American Lecithin Co. v. Warfield Co.*, 105 F.2d 207 (7th Cir. 1939) (also known generally as “*Warfield*”) (patent on use of lecithin as an emulsifier in chocolates to improve its properties by, for example, preventing “whitening” after only a few days) (“The underlying question . . . is directed to the inquiry as to whether the patentee’s activities are within or beyond his domain.”).

⁹² *Mercoïd I*, 320 U.S. at 661; *Mercoïd II*, 320 U.S. at 680; *see also* Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 214 (1980) (“Respondent’s method of doing business is thus essentially the same as the method condemned in the *Mercoïd* decisions, and the legislative history reveals that § 271(d) was designed to retreat from *Mercoïd* in this regard.”). Section 271 achieved this result by codifying in subsections (a), (b), and (c) those acts that would constitute direct, induced, and contributory infringement, respectively, while at the same time codifying in subsection (d) that it would not be misuse for a patentee to sue or license anyone who could be sued under subsections (a), (b), or (c). *See supra* note 6.

⁹³ *See supra* notes 38–41 and accompanying text.

⁹⁴ In contrast with the “basics approach,” many of these prior approaches urge a nearly impossible *ex post* balancing of dynamic and allocative efficiency that inappropriately emphasizes trying to achieve some optimal reward to inventors as opposed to commercialization.

C. Other Pernicious Ripple Effects

The “basics approach” has important implications for resolving matters involving at least three current and controversial issues found at the periphery of IP law: patent and copyright misuse, restrictive licensing arrangements, and preemption. Applying the basics to these and other tough cases that simultaneously implicate IP law, antitrust law, and contract law avoids a host of pernicious ripple effects—namely, undercutting innovation and the commercialization of IP—that arise from more specialized approaches to disputes and transactions involving IP.

I. Misuse

The “basics approach” is not compatible with the Federal Circuit’s⁹⁵ present view of patent misuse, which seems to leave a broad and vaguely defined space for misuse. In *Virginia Panel Corp. v. MAC Panel Co.*,⁹⁶ the Federal Circuit suggested the following test for determining whether a patentee has misused his patent: “When a practice alleged to constitute patent misuse is neither *per se* patent misuse nor specifically excluded from a misuse analysis by § 271(d) [of the Patent Act], a court must determine if that practice is reasonably within the patent grant.”⁹⁷ But, the patent statutes make no provision for *per se* misuse.⁹⁸ Rather, § 271(d) provides specific safe harbors for conduct that is not misuse.⁹⁹ Further, it is inappropriate to suggest that some uses of a patent are not within its scope, since patents only give a right to exclude. The right to use is derived from sources external to IP law.

⁹⁵ The United States Court of Appeals for the Federal Circuit has jurisdiction over most appeals in patent cases. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (creating a uniform forum for patent appeals in the Federal Circuit by merging the Court of Claims with the Court of Customs and Patent Appeals and transferring to the new court jurisdiction over appeals from patent cases that were tried in the district courts). Patent cases for purposes of making this jurisdictional decision are those in which the well-pleaded complaint alleges a claim arising under federal patent law. *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002).

⁹⁶ *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997).

⁹⁷ *Id.* at 869 (citations omitted).

⁹⁸ According to the Federal Circuit in *Virginia Panel*:

The courts have identified certain specific practices as constituting *per se* patent misuse, including so-called “tying” arrangements in which a patentee conditions a license under the patent on the purchase of a separable, staple good, *see, e.g.*, *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 491 (1942), and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties, *see, e.g.*, *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964). Congress, however, has established that other specific practices may not support a finding of patent misuse. See 35 U.S.C. § 271(d) (1994); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 202 (1980) (construing earlier version of § 271(d)). A 1988 amendment to § 271(d) provides that, *inter alia*, in the absence of market power, even a tying arrangement does not constitute patent misuse. See 35 U.S.C. § 271(d)(5) (1994) (added by Pub. L. No. 100-703, § 201, 102 Stat. 4676 (1988)).

Id. (internal citations modified).

⁹⁹ 35 U.S.C. § 271(d) (2000); *see supra* note 6.

When the “basics approach” is employed, other bodies of law, such as antitrust law, provide the proper legal lens through which to inspect a patentee’s use of a patent and the subject matter it covers. For example, the basic thrust of misuse is that an IP holder should be denied relief for infringement when he has used his IP in some allegedly anticompetitive way. Yet, if the challenged conduct is indeed anticompetitive, it ought to trigger the antitrust laws. As discussed earlier, patentees and copyright holders, like other property owners, are subject to antitrust law because patents and copyrights give only a right to exclude, not a right to be free from the constraints of other laws. In brief, the pernicious effect of the misuse doctrine is that it erodes IP rights, at least at the margin, and risks rooting out procompetitive and competitively neutral behavior that the antitrust laws recognize as such and permit.¹⁰⁰ If the antitrust laws are too lax, the appropriate remedy is to fix the antitrust laws. As Rich pointed out in commenting on the unfortunate habit of courts to treat potential antitrust concerns as more serious and in greater need of policing when IP is involved:

The patent right is not the only form of property subject to such misuse. But it is so little understood, as compared with other forms of property, that much mystery attaches to it and much confusion surrounds it. The prevalence of [practices that restrain trade] is not due to the patent law It is due to failure to enforce the anti-monopoly laws. The advocates of reform would do well to restrict the attack to the latter aspect and not confuse the issue by abortive attempts to emasculate the patent law¹⁰¹

2. Restrictive Licensing Arrangements

The “basics approach” suggests that courts generally should enforce restrictive licenses involving IP as long as they are enforceable under contract law and do not run afoul of the antitrust laws. Indeed, affording IP holders the right to carve up interests in their IP and the subject matter it covers is consistent with the basics of property law and the right to use enjoyed by owners of tangible property.¹⁰² Even when a potential or actual IP owner

¹⁰⁰ For an expanded discussion of this point in the context of copyright misuse, which derives from patent misuse, see Paredes, *supra* note 3. We recognize that other important and insightful criticisms of the misuse doctrine have been offered. See, e.g., Mark A. Lemley, *The Economic Irrationality of the Patent Misuse Doctrine*, 78 CAL. L. REV. 1599 (1990) (pointing out that the misuse remedy is disproportional to actual injury, duplicative of antitrust remedies, and can yield a windfall for infringers).

¹⁰¹ Rich, *supra* note 16, pt. 3, at 245.

¹⁰² Courts adopted the “basics” reasoning in considering the validity of restrictive licenses of copyrights in the *ProCD* case and of patents in the *Mallinckrodt* case. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996) (holding noncommercial use restriction in shrink-wrap copyright license for computer program to be as valid and enforceable as a contractual limit on use); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992) (holding single-use restriction in a label license valid and enforceable on a grant of authority so that unauthorized acts could support suit for infringement). Efforts to respond statutorily to these cases and others at the interface between contract law and IP law, such as the proposed Article 2B of the Uniform Commercial Code and the Uniform Computer Information Transactions Act

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tries to extract payments for activities that fall outside the protection of IP,¹⁰³ courts should enforce these contracts to pay as long as the arrangement, which may amount to little more than an effort to ease either the risk burden or the financing burden of the transaction, is properly enforceable under contract law.¹⁰⁴

By way of contrast, in practice courts are skeptical of contracts that happen to be tied to royalty payments beyond the patent term, even though the economic justification for this skepticism is lacking.¹⁰⁵ Further, courts that do not stick to the basics will often err by finding that restrictive licensing arrangements, including tie-ins, constitute some sort of impermissible extension of IP rights.¹⁰⁶

3. Preemption

Finally, the “basics approach” is not compatible with the Supreme Court’s approaches to preemption, which generally can be “seen as efforts to place limits on the ability for [IP owners] to avail themselves of various State laws.”¹⁰⁷ The Court’s approaches make no sense in part because IP rights

(“UCITA”), should be conducted, if at all, along the lines of the procedural aspects of our “basics approach” discussed *supra* notes 15, 25 and accompanying text.

¹⁰³ For example, the payment may be for an activity that is not protectable by IP generally, happens not to have been protected by any particular piece of IP, or was formerly protected by some particular piece of IP.

¹⁰⁴ Chief Justice Burger, writing for the majority of the Court in *Aronson v. Quick Point Pencil Co.*, even allowed a promise to pay royalties to reach activity that was never patented so long as at the time the contract was executed it reflected both parties’ reasoned assessment of the likelihood and payoff of the different states of the world under which patent rights might or might not materialize. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (contract to pay royalty on a technology was enforceable even though no patent ever issued on the technology where at the time the contract was entered into the technology might have been patented and the contract provided a low royalty rate for the case where no patent issued and a higher rate for the case where a patent did issue).

¹⁰⁵ See, e.g., *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (Posner, C.J.) (discussing at length the strength of the reasoning of the dissenting opinion of Justice Harlan in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), but nonetheless following the majority opinion in that case in refusing to enforce a properly formed IP licensing contract—indeed, a settlement agreement from prior litigation—among commercial parties simply because some payments happened to extend beyond patent term at the request of the licensee). The case at the root of this line of precedent, *Brulotte*, involved a patentee who sold a hop-picking machine to farmers and who had several patents that would be infringed by such a machine. *Brulotte*, 379 U.S. at 29–30. The machines were not sold for a simple one-shot price. *Id.* at 29. Instead, payment was to be made over time and based on the actual economic advantage the machine generated for the farmer over alternative hop-picking approaches. *Id.* Because this meant that payment would extend beyond the last of the patent terms, the Court held the contract to be unenforceable beyond that term in an opinion written by Justice Douglas, who was well known for his dislike of patents. *Id.* at 33–34. In dissent, Justice Harlan pointed out that this holding would make unenforceable deals that were actually advantageous to farmers who either were liquidity constrained at the time of purchase or who were skeptical of the economic value of such capital equipment. *Id.* at 37 (Harlan, J., dissenting).

¹⁰⁶ See *supra* notes 67–70 and accompanying text.

¹⁰⁷ CHISUM ET AL., *supra* note 3, at 1155. See generally *id.* at 1155–96 (reviewing preemption).

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confer *rights of exclusion* on IP owners, not additional *restrictions on use* on IP owners and not additional *rights to use* on third parties.¹⁰⁸

For example, in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,¹⁰⁹ the Court's approach is premised on the contrivance that federal patent law creates a right to copy.¹¹⁰ The Court in *Bonito Boats* decided that this right to copy would be frustrated by the state law at issue, which regulated one particular form of copying boat hulls, called "plug molding."¹¹¹ The case arose because a party seeking to engage in plug molding in violation of the state statute argued that federal patent and copyright law preempted the state statute based on the Supremacy Clause of the U.S. Constitution.¹¹² The Court invalidated the state statute under the doctrine of conflict preemption.¹¹³

There are several problems with the Court's reasoning. There is no right to copy—indeed, no affirmative right at all—that is conveyed on the public by patent law, or for that matter by copyright or trademark law.¹¹⁴ These IP regimes only create under certain situations specific rights of exclusion vested in the IP holder, as explained above. Although the plug molding activity was not covered by any of these federal IP rights, the mere absence or expiration of any such right of exclusion says nothing about a third party's affirmative right to use the subject matter such right of exclusion might have covered. Indeed, use of IP rights, whether by the IP holder or some third-party licensee, often is restricted, if not outright blocked, by other IP rights and by regulation, but this should not be grounds for finding that such restrictions are preempted by IP law.

¹⁰⁸ Nor do IP rights give IP owners any affirmative right to use.

¹⁰⁹ *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).

¹¹⁰ *Id.* at 165 (discussing right to copy).

¹¹¹ *See id.* at 167–68 (holding that state law against so-called "plug molding" of boat hulls was preempted by federal patent law and citing Fla. Stat. § 559.94 (1987)). To be sure, the reasoning explored in this Essay is not new and indeed was more thoroughly set forth in the opinion by Judge Rich in the case that was in conflict with the decision by the Florida Supreme Court in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 515 So. 2d 220 (Fla. 1987). *See Interpart Corp. v. Italia*, 777 F.2d 678 (Fed. Cir. 1985) (Rich, J.), *overruled by Bonito Boats*, 489 U.S. at 141, *overruled on other grounds*, *Midwest Ind., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999) (holding no preemption because patent law says nothing about a right to copy and because the state statute did not even prevent copying—it merely prevented one form of copying). Similarly, the reasoning of *Bonito Boats* is not new either and its roots can be found in the earlier cases of *Sears and Compco*. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). As reviewed in detail throughout CHISUM ET AL., *supra* note 3, *Sears and Compco* did not raise as many alarms as *Bonito Boats* because these earlier cases came so soon after the 1952 Patent Act. It took the Court until 1980, for the most part, to recognize the total overhaul in the framework of patent law that was implemented by the 1952 Act. For more on the conflict between preemption and the basics of IP law, see generally F. Scott Kieff, *Contrived Conflicts: The Supreme Court vs. the Basics of Intellectual Property Law*, 30 WM. MITCHELL L. REV. 1717 (2004) (invited piece for symposium entitled *The United States Supreme Court's Effect on Intellectual Property Law This Millennium* at William Mitchell College of Law held Apr. 24, 2004).

¹¹² *Bonito Boats*, 489 U.S. at 145.

¹¹³ *Id.* at 165 (discussing right to copy).

¹¹⁴ *Cf., e.g., id.* at 151–52 ("[T]he federal patent laws must determine not only what is protected, but also what is free for all to use. . . . We have long held that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law.").

The *Bonito Boats* Court essentially rejected, or at least glossed over, these arguments by suggesting that the purpose of the state statute somehow conflicted with a purported “strong federal policy favoring free competition in ideas which do not merit patent protection.”¹¹⁵ But this analytical framework is unworkable in that it would seem to block any state law or enforcement of contracts that interferes with a right to use or copy. Consider, for example, a state law against cheating on exams or, to be closer to the case, a contract term against plug molding. Also consider a contract term making a promise to do or to abstain from doing any activity in a way that allegedly conflicts with the IP law regime putatively doing the preempting.¹¹⁶ Under the reasoning of *Bonito Boats*, each such state law or contract term would not be enforceable. In addition, the *Bonito Boats* reasoning may eviscerate the rights of exclusion that the patent, copyright, and trademark statutes are designed to create and that are both properly justified and authorized.¹¹⁷ That is, every IP right and every form of market regulation or other exercise of police power will impact, to some extent, competitive economic concerns of the type that also underlie each of the federal IP regimes, thereby providing under the *Bonito Boats* rationale an extensive basis for preemption and interference with private contracting. What is more, to anyone informed by public choice theory, every IP right, market regulation, and other exercise of police power can be seen as motivated at least in part by its impact on these same competitive economic concerns. Put differently, the reach of the preemption analysis in *Bonito Boats* would allow any potential defendant to select a federal IP regime that does not reach such party—say patent law—and then use that federal IP regime to justify a finding of preemption against any other state (or even federal)¹¹⁸ law that impacts competitive economic concerns. If the federal IP regime that is said to have this preemptive effect is

¹¹⁵ *Id.* at 168 (citation omitted).

¹¹⁶ Also consider the real estate analogy discussed *supra* note 33.

¹¹⁷ It is well recognized that Congress has the power to promulgate the statutes that create the institutional framework for the positive law IP regimes. Patent and copyright laws are promulgated pursuant to express authorization in Article I of the U.S. Constitution, while the trademark laws are promulgated under the general Commerce Clause power of Article I that is now recognized to be quite expansive. U.S. CONST. art. I, § 8, cl. 8; U.S. CONST. art. I, § 8, cl. 3. Compare *In re Trade-Mark Cases*, 100 U.S. 82, 96–99 (1879) (holding trademark laws to be improper exercise of the power to promulgate patent and copyright laws and of the commerce clause power because the trademark laws regulate activity that is not sufficiently interstate), with *Wickard v. Filburn*, 317 U.S. 111, 128–29 (1942) (holding that even growing wheat for personal consumption in one’s own back yard has sufficient nexus to interstate commerce that it may be regulated by Congress using Commerce Clause power).

¹¹⁸ Even though the federalism and Supremacy Clause concerns of the U.S. Constitution are not applicable, the Court essentially used this same preemption approach against federal IP law in *Dastar* and to a lesser extent in *Traffix*. See *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33–34 (2003) (holding that the Lanham Act does not prevent unaccredited copying of uncopyrighted work and expressing concerns that otherwise the Lanham Act would interfere—or conflict—with the Copyright Act); *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 32–35 (2001) (holding that the existence of expired utility patents in which certain design elements were mentioned created sufficiently strong evidentiary inference of design’s functionality that the design was not eligible for trademark or trade dress protection and suggesting that otherwise there might be conflict between the Lanham Act and the Patent Act); see also Kieff, *supra* note 111, at 1725–26, 1727 (discussing *Dastar* and *Traffix* cases).

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itself weaker—such as when it does not reach indirect infringement or is limited by misuse—then the overall power of the *Bonito Boats* preemption approach is even greater.

In contrast, the “basics approach” recommends the Federal Circuit’s alternative analytical framework for conflict preemption called the “extra element test,” which does not suffer the shortcomings of *Bonito Boats* and which, indeed, facilitates the smooth operation of each IP and competition law regime, federal and state alike.¹¹⁹ That test simply asks whether the basic legal elements of the cause of action that is putatively preempted are exactly the same as those of the cause of action that is putatively doing the preempting; the presence of extra elements means no preemption. The state statute at issue in *Bonito Boats* would be analyzed easily under this test because liability under it turns on a host of elements that are unconnected to patent law, including copying via the plug mold technique. Even closer cases, such as those involving state laws regulating statements about patents themselves, can be decided using the extra element test.¹²⁰

The “basics approach” also provides guidance for policy makers evaluating whether to promulgate IP laws that interface with other state law regimes. For example, in derogation of principles of state contract law and trusts and estates law, the copyright regime gives authors a nontransferable right to terminate transfers of their copyrights and even sets forth its own trusts and estates provisions governing who gets this termination right upon the author’s death so as to expressly preempt other arrangements authors might make by testamentary will as well as state default rules of intestacy.¹²¹ By way of another example, the anticircumvention provisions of the recently promulgated Digital Millennium Copyright Act (“DMCA”),¹²² which prohibits manufacture or distribution of any technology, product, service, or device that circumvents copy protection technology, does not make sense under the substantive component of the “basics approach” because the transactions it regulates are better governed by either state contract law or by the IP law of indirect infringement, discussed earlier.¹²³ In short, the “basics approach” would urge policy makers considering each such positive law framework instead to leave these issues to be decided as a matter of state law. That having

¹¹⁹ See, e.g., *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1473 (Fed. Cir. 1998) (exploring interaction between patent law and a state law providing a business tort for interference with contract).

¹²⁰ See, e.g., *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336–37 (Fed. Cir. 1998) (finding no conflict-type preemption of various state law claims based on publicizing an allegedly invalid and unenforceable patent in the marketplace as long as the claimant can show that the patent holder acted in bad faith in publication of the patent, which is the “extra element” beyond patent law).

¹²¹ See 17 U.S.C. § 203 (2000) (governing grants executed on or after Jan. 1, 1978); see also *id.* § 304 (governing grants executed before Jan. 1, 1978). Before the 1976 Copyright Act, a copyright term was shorter, but the copyright owner was given a nontransferable renewal right. Since the implementation of the 1976 Copyright Act, copyright term has been very long, but the original copyright owner is given a right to terminate any transfers of that right during a statutorily defined period within this longer term.

¹²² Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified at 17 U.S.C. § 1201(a)(1)–(2), (b)(1) (2000)).

¹²³ See *supra* Parts II.B, II.C (discussing indirect infringement and contract, respectively).

been said, even if the wisdom of some legislative or regulatory action can be challenged under the “basics approach,” once policy makers have acted, courts should apply the law on its terms and refrain from crafting new doctrines or from engaging in other creative decision-making, which would have the effect of end running the legislative or regulatory body.

Conclusion

Like the Supreme Court in *Dawson* and earlier work by commentators such as Baxter, Bowman, Gordon, Kaplow, Lunney, Meurer, and Rich, we strike a balance between a view of IP that is too restrictive and one that goes too far. Following more closely the writing of Rich, who, after all, drafted the statutory framework that Congress adopted for patent law, we look not only to the direct impact that applying the basics at the periphery of IP law has on the commercialization of the subject matter it protects. We separately believe that it is important to respect the different legal institutional frameworks of the various bodies of law that are involved—IP law, antitrust law, and the general law—each of which strikes its own balance among the competing needs of those who interact with these disciplines. We do not dispute here that it is important for doctrine to develop over time toward more efficient and equitable outcomes. Such doctrinal developments, however, should occur within the context of the applicable body of law. IP law, for example, should not be a vehicle for restructuring contract or antitrust law from outside those legal regimes. Although in practical terms, the “basics approach” often reaches results that are similar to the outcomes of other approaches, we provide a normative justification for a positive law framework that is more predictable and that captures the distinct and important balances that are struck within each separate body of law that is implicated.

We offer, in the end, a framework for understanding IP law and the broader interfaces that IP law shares with a number of bodies of law, such as antitrust law, property law, and contract law. Our framework is in large part animated by a property rights perspective that places priority on ensuring the appropriate *ex ante* incentives to facilitate the complex transactions needed to ensure wider use of the subject matter IP rights cover, such as through information dissemination and commercial sales of embodiments. Our framework is equally motivated by attention to the basics of each body of law we discussed with an understanding that only through coherent discussion of each area in a piece-wise fashion can the right progress be made on both positive law and normative fronts. A further advantage of the “basics approach” is that it should reduce legal uncertainty, which itself is a source of inefficiency.

Finally, the “basics approach” reflects a general skepticism about the institutional capability of courts to make *ex post* determinations regarding how to facilitate the complex commercialization process that must occur for the public to derive the benefits of the various works protected by IP rights. Put differently, we believe that private ordering and markets are more effective than courts, all things considered, at solving what at bottom are industrial organization matters.