The Basics Matter: At the Periphery of Intellectual Property

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THE BASICS MATTER: AT THE PERIPHERY OF INTELLECTUAL PROPERTY

F. Scott Kieff & Troy A. Paredes *


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 and features – of each area of law, and rarely requires specialized frameworks. For example, according to our “basics matter” 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 the 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 matter” 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 – the entire goal of IP law and an important goal of antitrust law.

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(printed 12/29/2003)
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Table of Contents

I. Introduction .......................................................................................................................... 1
II. The Theoretical Framework .................................................................................................. 3
III. The Basics ........................................................................................................................... 6
   A. Antitrust Law ..................................................................................................................... 7
   B. Intellectual Property Law ................................................................................................. 8
   C. The General Law: Property and Contracts ..................................................................... 11
IV. When Applied, the Basics Solve the Problem .................................................................... 12
   A. Indirect Infringement vs. Breach of Contract ............................................................... 13
   B. Infringement under IP Law vs. Sui Generis Law ............................................................ 16
   C. Other Pernicious Ripple Effects ...................................................................................... 20
V. Conclusion ............................................................................................................................ 24

I. 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 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


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 sub-specialties, such as “copyright and antitrust.”

(printed 12/29/2003)
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 have each evolved and the full compliment of important dynamic forces each framework experiences towards further development.\(^3\)

Instead, we argue that the better approach focuses on the “basics” – or core principles and features – of each area of law, and rarely requires specialized frameworks for IP law and the interfaces it shares with other bodies of law. In short, 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 just about where the analysis should end. For example, in our “basics matter” approach, there is no need to create special doctrines or approaches to address matters such as price discrimination or restrictive licensing arrangements involving IP.\(^4\) 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. Fidelity to the basics of each area of law gives us a workable – and more predictable – framework of analysis than creating one-off doctrines at the periphery of the law of IP that are unique to IP. In contrast with more specialized approaches tailored for IP – such as the doctrines of copyright or patent misuse, which include various limitations on restrictive licensing arrangements beyond what the antitrust laws would prohibit – 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 matter” 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 – the entire goal of IP law and an important goal of antitrust law.

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

\(^4\) For the most influential articulation of the “basics matter” approach 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 (pts. 1-5), 24 J. PAT. OFF. SOC’Y 85, 159, 241, 328, 422 (1942).
We proceed in Part II to discuss the broad framework of the problem of ignoring the basics, using the topic of price discrimination as a representative example. Part III 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, which includes property law and contract law. Part IV shows how to solve various problems at the periphery of IP law by using the basics of each implicated legal regime, 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. We argue that the dignity of each separate and distinct area of law can and should be respected and applied on its own terms to settle disputes involving 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. Part V concludes.

II. THE THEORETICAL FRAMEWORK

IP rights generally operate as rights of exclusion.\(^5\) 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 is generally understood to show prototypical attributes of public goods in that it is nonrival and nonexclusive. Classic work by Demsetz, however, has shown that private producers can produce and sell an efficient level of public goods if they can exclude non-purchasers, and that price discrimination can advance a competitive equilibrium outcome for public goods, resulting in little, if any, deadweight loss.\(^6\) 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 typically associated with market power and the underproduction of public goods.\(^7\)

Yet, an IP owner’s use of price discrimination may not always lead to this welfare-enhancing outcome. Recent works by Gordon, Meurer, and Lunney have

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\(^5\) IP rights are rights to exclude others from doing something. IP rights are not rights to do that 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 to be otherwise free (such as from other rights of exclusion or other regulations) to do the excluded activity.


shown that while price discrimination by IP owners can lead to more use in many instances, some price discrimination strategies – depending, in part, on the licensing arrangements employed to discriminate among users – can result in less output than if such price discrimination were prohibited. Put simply, price discrimination has its own shortcomings, and sometimes results in less, not more, use.

The indeterminate results of price discrimination caused us to think more critically, and more broadly, 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 and strategies 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 to more specifically reveal her own demand for the tying good by how much of the tied good she uses. It is particularly useful to apply the basics to 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 better know ex ante how to structure transactions that will be enforced

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8 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, 933 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 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).
later. For example, when a court limits its analysis to applying the basics of each body of law, there is less opportunity for courts to fashion new and unique doctrines at the periphery of IP law that undercut private ordering by effectively rewriting *ex post* the parties’ contract, let alone the legislature’s actions. 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 better promote 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. In addition to creating uncertainty, specialized doctrines such as misuse more times than not uniquely disadvantage the holder of IP. These doctrines often 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 it.\(^9\)

There are at least two additional advantages to using the basics, besides facilitating private ordering and predictability. First, each substantive 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 directly reject similar court action in the past. 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 the well-established basics are applied.

Courts who 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, 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

\(^9\) For more on property rule protection of intellectual property and the legislative history of the present statutory regimes, see Kieff, *supra* note 7.
of trade that drive the 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 matter” approach reflects a humility toward the complexity and values embodied in each area of law.

The kind of respect for private ordering associated with fidelity to the basics, 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 can only 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.10

III. THE BASICS

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

Approaching from the basics embraces these consensus frameworks and principles, and affords each area of the law equal dignity. The “basics matter” 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

10 Baxter, supra note 1, would require that the licensing arrangement be confined “as narrowly and specifically as . . . technology . . . and . . . administration permit.” Baxter, supra note 1, at 313. Bowman, supra note 1, 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. Kaplow, supra note 1, would examine the ratio between the reward the patentee receives if the arrangement is enforced and the monopoly loss that would result. More recently, Carrier, supra note 1, 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 even offering devices for measuring any of these many factors.
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.

To help frame the “basics matter” approach, the following discussion highlights what we understand to be the basics of each discipline – antitrust law, IP law, and the general law of property and contracts. The discussion is designed to be a summary, by nature; and so does not attempt to fully review the entirety of each discipline, which in each case fills volumes. Nevertheless, this summary discussion does endeavor to fairly represent the consensus views.

### 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.\textsuperscript{11} 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.”\textsuperscript{12} 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*.\textsuperscript{13} Furthermore, antitrust law generally allows unilateral refusals to deal.\textsuperscript{14} As Justice Holmes and then-attorney Rich also pointed out, it makes no sense to tell a property owner


\textsuperscript{12} United States v. Aluminum Co. of America, 148 F.2d 416, 430 (2d Cir. 1945).

\textsuperscript{13} For more on the rule of reason generally, see AREEDA & KAPLOW, supra note 11, at 203-50.

\textsuperscript{14} See generally id. at 663-784.
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.\textsuperscript{15} Accordingly, restrictive licensing arrangements also generally are permitted.\textsuperscript{16} To use a simple analogy, as a homeowner, I have the right to exclude you entirely from my house or to sell you my house, lease you a room for a limited period of time, or grant you a limited easement across my front yard. Even though refusals to deal and restrictive licenses might technically restrain trade, they do not do so unreasonably and may by procompetitive.

\section*{B. INTTELLECTUAL PROPERTY LAW}

Intellectual property law is designed to facilitate the downstream commercialization or realization of the protected subject matter. While intellectual property law does positively reward, and thereby encourage, invention and innovation,\textsuperscript{17} it is not adaptable to being finely tuned to this goal. It is quite difficult to figure out how to appropriately reward invention and innovation, and it turns out that a great deal of inventive and innovative activity would not be predictably responsive to direct rewards.\textsuperscript{18} In practice, IP law facilitates

\begin{footnotesize}
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\item 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…. The domination [over a material used in a patented device] is one only to the extent of the desire for the [patented device].”

\textit{Motion Picture Patents Co. v. Universal Film Mfg.}, 243 U.S. 502, 519-20 (Holmes, J., dissenting) (citations omitted); Giles S. Rich, \textit{The Relation Between Patent Practices and the Anti- Monopoly Laws} (pt. 4), 24 J. PAT. OFF. SOC’T 328, 330 (1942) (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”).

\item See generally AREEDA & TURNER, \textit{supra} note 11, at 413-44, 686-784.

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

\item For a discussion of the problems with efforts to reward inventive activities, see, e.g., CHISUM et al., \textit{supra} note 3 at 70-72 (reviewing so-called “incentive to invent” theory of patents and criticisms thereto); Kieff \textit{supra} note 7, at 707-17 (reviewing problems with reward alternatives to patents).
\end{enumerate}
\end{footnotesize}
commercialization by forcing parties to negotiate with each other under the threat of suits for infringement.19

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 the same economic effect as direct infringement.20 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.21 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.”22 Indirect infringement is not accidental. If so desired, it can be avoided easily through ex ante consideration of known patent rights in view of these basic legal rules, which are expressly provided by statute and thereby easily knowable.

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 – and, indeed, this was a major impetus for the writing of the Act – that neither efforts to price discriminate nor the granting of a restrictive or unrestrictive license to a potential infringer shall constitute misuse.23 This provision was ignored by many courts until the 1980 Dawson

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19 For a thorough model of the commercialization goals of IP law, see Kieff, supra note 7.


21 See, e.g., Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464 (Fed. Cir. 1990) (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)).

22 35 U.S.C. § 271(c) (contributory patent infringement).

23 See Kieff, supra note 1, at 736-38. 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.
decision,\textsuperscript{24} which finally recognized its impact. To be certain this was clear, Congress acted again in 1988 by adding subparts 4 and 5 to Section 271(d) of the Patent Act to expressly provide that neither a refusal to license nor a tying arrangement in the absence of market power is patent misuse.\textsuperscript{25}

Importantly, because the doctrines of copyright misuse\textsuperscript{26} and trademark misuse\textsuperscript{27} are based on the doctrines of patent misuse and patent law’s indirect infringement, our discussion has focused on patents. The lessons learned from the “basics matter” view of patents are equally applicable throughout IP law.

Under the basics of IP law, it is clear that contracts facilitating price discrimination or imposing restrictions on a licensee are allowed – indeed, they are contemplated – at least to the extent they are otherwise properly formed and enforceable under the general law of contracts, as explored below. IP rights only give IP owners rights of exclusion, not rights to use.\textsuperscript{28} The uses to which an IP

\begin{footnotesize}
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\item Dawson Chem. v. Rohm and Haas Co., 448 U.S. 176 (1980).
\item See, e.g., Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc., 342 F.3d 191, 203-4 (3rd 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.”).
\item 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 also those that dilute) the protected mark. For none of these IP systems does the IP right give its holder some 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 the holder of a patent on a gun’s right to use that gun. See generally F. Scott Kieff, Patents for Environmentalists, 9 WASH. U.J.L. & POL’Y 307, 307-08 (2002) (invited symposium piece for National Association of Environmental Law Societies annual meeting entitled “Sustainable Agriculture: Food for the Future,” held March 15-17, 2002, at Washington University School of Law) (discussing how the right to restrict use conferred by IP does not interfere with other restrictions on use).
\end{enumerate}
\end{footnotesize}
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 afford an IP owner fewer rights to use than an owner of tangible property enjoys simply because an IP owner has an express statutory right of exclusion conflicts with the basics of IP law. 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 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.

C. THE GENERAL LAW: PROPERTY AND CONTRACTS

Property law and contract law operate to facilitate private ordering, a key to commercialization of IP assets. While property law generally eschews restraints on alienation and, through 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.\(^{29}\) 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.\(^{30}\) 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.\(^{31}\)

To be sure, when parties order their affairs through contract, this requires a valid contract, which in turn requires compliance with proper formation details, such as consideration and no unconscionability. With very few exceptions, contract law does not regulate the substance of the parties’ arrangement, focusing instead on the contracting process.


\(^{30}\) *Id.*

\(^{31}\) For more on property rules versus liability rules in the context of IP, see, e.g., Kieff *supra* note 7, at 732-33.
At bottom, whatever strictures property law and contract law impose on private ordering, parties are generally free to order their affairs and to carve up rights, duties, and obligations as they see fit. These 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 crafted to balance a number of competing considerations.

IV. WHEN APPLIED, THE BASICS SOLVE THE PROBLEM

Applying the basics 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 useable 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 matter” approach has important normative implications, in that judicial fidelity to the basics ultimately affords parties greater freedom and ability to structure their interactions in welfare-enhancing ways.

The cases we explore are appropriately viewed as prototypical for several reasons. They involve fact patterns that are representative. They have actual historical significance through their contribution to the case law. And the primary architect of the present patent system – the 1952 Patent Act – wrote a five-part series of articles about these cases before drafting the statute designed to fundamentally change the way courts applying the law would look to the issues raised by the cases.32

As discussed more fully below, the cases can be fairly divided into two sets. Importantly, a review of both sets of cases shows that the “basics matter” approach is not merely a veiled effort to promote pro-patent or pro-copyright – or more generally, pro-business – positions. Rather, the basics framework 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 multi-billion dollar judgment from the *Texaco, Inc. v. Pennzoil, Co.* litigation. However, the happenstance that a contract relates to patents should not transform interference with that contract into patent infringement. The facts that need to be proven are different under these different frameworks. The potential remedies are different as well.

*Wallace*, 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. In the case, a competitor of the patent owner had sold a rival product, which included the new burner and other lamp parts but not the chimney. The court reasoned that the defendant had contributed to infringement on the part of its customers, because they would inevitably add a chimney. A judgment of contributory infringement makes sense under the “basics matter” 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.

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. However, the competing

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34 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).

35 Wallace v. Holmes, 29 F.Cas. 74 (No. 17,100) (C.C.D. Conn. 1871).
chimney seller would not be liable for contributory infringement under the basics of IP law.

The *Heaton* case is an example of just this type of arrangement. *Heaton* involved a patentee who sold a patented machine with a label license under the patent that restricted the machine’s use to certain unpatented inputs (staples, literally) – a tying arrangement – and a defendant who sold competing inputs.\(^{36}\) The court seemed to reason that by providing its staples for use in the machine, the defendant was contributing to breach of the label contract, which had given the permission through the label patent license to use the machine. Once that license under the patent was gone, the use of the machine became infringing. Rather than sue for interference with the contract, the plaintiff sued for indirect infringement of the patent under patent law. The court decided that the defendant was, indeed, committing contributory infringement of the patent. 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 the scope of IP rights. A collateral consequence of the court’s reasoning in *Heaton*, of course, would be to immunize potentially anticompetitive licensing arrangements from the antitrust laws.

The “basics matter” approach rejects the analysis of *Heaton*. Under the “basics matter” approach, and as pointed out by Rich, this decision was inappropriate because it “transformed the law of contracts into ‘patent law.’”\(^ {37}\) 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.\(^ {38}\) It may even have been appropriate for the defendant to consider an antitrust tying argument, if the case could be proven under antitrust

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

37 Rich, supra note 32, at 251. The successful argument in *Heaton* – 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 – held out the sales of the staples as proxies, or counters, for measuring use of the patented machine. They may have been, 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.

38 The court opinion suggests there may have been sufficient facts to mount such an argument.
By not addressing these contract and antitrust arguments head on, cases like *Heaton* allow parties, and judges, to selectively 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.  

The Supreme Court applied the same approach as *Heaton* in the *A.B. Dick* case, 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.  

As in *Heaton*, the Court agreed with the plaintiff-patentee in *A.B. Dick*, and held that there was contributory infringement of the patent. Because this was a Supreme Court case, its reasoning had a longer lasting impact in pushing IP law in a direction that did not reflect fidelity to the basics.

The “basics matter” 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. 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 body of law “would kill itself in time.”

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39 The court opinion does not discuss these facts, but it is likely there was no evidence of market power, which would have been required to mount an antitrust argument. 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 very active: “The Sherman Act had been passed six years before!” Rich, supra note 32, at 254 (punctuation emphasis in original).

40 In many instances, such 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 totally fail to give any meaningful test for determining when those IP rights should be so eroded or expanded.


42 As the Supreme Court later pointed out in *Dawson*, when he was testifying in support of what became Section 271 of the 1952 Patent Act, “Rich warned against going too far [and] 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. v. Rohm and Haas Co., 448 U.S. 176, 208 (1980) (citing Hearings on H.R. 3866 before Subcommittee No. 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess., 17 (1949) (testimony 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)). Compare *Motion Picture Patents*, 243 U.S. at 519-21 (Holmes, J., dissenting) (arguing that the patentee should be entitled to capture all the
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 lack coherence 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 and rules that have staying power and that are perfectly capable of resolving the disputes on their own terms.

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 ignored the basics and instead tried to re-hash 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 re-cast 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.

The law continued to fluctuate after Motion Picture Patents. In United States v. United Shoe Machinery, 247 U.S. 32 (1918) (“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, in part, in response to cases like A.B. Dick and Shoe Machinery I, and its Section 3 was directed to sales and leases of articles of commerce “whether patented or unpatented.” 15 U.S.C. § 14. Not surprisingly, in United States v. United Shoe Machinery, 258 U.S. 451 (1922) (“Shoe Machinery II”), the Court found that the leases violated the Clayton Act. Similarly, in International Business Machines Corp. v. United States, 298 U.S. 131 (1936) (“IBM”), the Court found a set of complex leasing arrangements accompanied by sales of punch cards to violate the Clayton Act.

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 32, at 241-283.
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 behavior of the patentee – in the sense of the patentee 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 – as compared with an analysis based in IP law – has its most visible roots in the Supreme Court’s *Leeds & Catlin* decision. Just like the classic indirect infringement case of *Wallace*, discussed previously, *Leeds & Catlin* involved a patentee’s competitor selling something that had no substantial non-infringing use. In *Leeds & Catlin*, the defendant-infringer sold specially grooved records that could only be used in a patented record player known as a “Victrola.” 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.” This reasoning is entirely flawed.

Although the “basics matter” 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 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. Direct infringement is measured against these outer bounds. "

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44 Id. at 335.
45 For more on peripheral claiming, see F. Scott Kieff, *Perusing Property Rights in DNA*, in F. SCOTT KIEFF, PERSPECTIVES ON PROPERTIES OF THE HUMAN GENOME PROJECT 135 (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
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 grooved records. Because there were no such uses 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. 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 these important biases and that the doctrines are easy to administer.

Importantly, the improper reasoning of the Court in Leeds & Catlin is not mere harmless error. The approach courts – especially the Supreme Court – adopt matters, 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, in which the Court denied relief to a patentee after reasoning that the patentee was trying 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” 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 of the claim. Although some commentators like this doctrine because it gives some 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, The Case for Registering Patents and the Law and Economics of Present Patent-Obtaining Rules, 45 B.C. L. REV. ___ (forthcoming 2003).
extend the patent beyond the key elements of the claim.\footnote{Carbice Corp. v. American Patents Corp., 283 U.S. 27, 33 (1931). A similar approach was followed in \textit{Lietch Mfg. v. Barber Co.}, 302 U.S. 458 (1938) (also known generally as \textit{“Barber”} (Brandeis, J.) (patentee “attempting… to employ the patent to secure a limited monopoly of unpatented material”).} The plaintiff-patentee in \textit{Carbice} had a patent on a packaging method using dry ice. 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.

The facts of \textit{Carbice} are somewhat similar to those of \textit{Leeds & Catlin} with one important difference: 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 ice-cream packaging. The “basics matter” 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 matter” 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 that of the patentee.\footnote{Rich \textit{supra} note 32, at 345 (describing the opinions of the Court in \textit{Carbice} and \textit{Barber} as revealing “a very significant preoccupation by the Court with the \textit{objective of the plaintiffs} rather than with the doings of the defendant”) (emphasis in original).} Under the “basics matter” approach it makes sense that the organic IP law – in this case patent law – has evolved to focus 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 even 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, but 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 for the purpose of transforming a matter for antitrust and contract law into a matter for some new and contrived version of IP law.

To be sure, the Court did not always reach the right result, as it did in \textit{Leeds & Catlin} and \textit{Carbice}. Because the Court continued to misplace its focus on the putatively key elements of patent claims, by the time of the \textit{Mercoid cases}, the entire doctrine of indirect infringement had been almost entirely eliminated as
a result of judicial reasoning that precluded any action for indirect infringement. In essence, because its nature every indirect infringement case involves a defendant who is not triggering at least one element of the patent claim – direct infringement occurs when all elements are satisfied – the focus on “key element” in Court’s reasoning allowed every putative indirect infringer to argue that the missing element was the one that was “key” and therefore no action for indirect infringement could lie.\textsuperscript{48}

In response, Rich drafted what became Section 271 of the 1952 Patent Act to statutorily overrule cases like \textit{Mercoid} and to revive indirect infringement.\textsuperscript{49} Under this established basic framework of patent law after the 1952 Act, the essential inquiry for indirect infringement is on the comparatively easy to administer framework discussed earlier. 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, \textit{sui generis} attempts to re-hash 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 – many of which urge a nearly impossible \textit{ex post} balancing of dynamic and allocative efficiency that inappropriately emphasizes reward to inventors as opposed to commercialization – the “basics matter” approach provides a set of clearer rules and doctrines that market participants can better rely on \textit{ex ante} in structuring their affairs.

C. OTHER PERNICIOUS RIPPLE EFFECTS

The “basics matter” approach has important implications for resolving matters involving at least two current and controversial issues found at the

\textsuperscript{48} Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661 (1944) (“\textit{Mercoid I}”), and Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1944) (“\textit{Mercoid II}”) (patent on new furnace stoker switch). The same approach was used earlier in \textit{American Lecithin Co. v. Warfield Co.}, 105 F. 2d 207 (C.C.A. 7, 1939) (also known generally as “\textit{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).

\textsuperscript{49} \textit{See, e.g.}, Dawson Chem. v. Rohm and 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 \textit{Mercoid} decisions, and the legislative history reveals that § 271(d) was designed to retreat from \textit{Mercoid} 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).
periphery of IP law: patent and copyright misuse and restrictive licensing arrangements. Applying the basics today 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.

Concerning the misuse doctrine, the “basics matter” approach is not compatible with the Federal Circuit’s present view of patent misuse, which seems to leave a broad and vaguely defined space for misuse. In Virginia Panel, the Federal Circuit suggested the following test for determining whether a patentee has misused his patent: “[w]hen a practice alleged to constitute patent misuse is neither per se patent misuse nor specifically excluded from a misuse analysis by Section 271(d) [of the Patent Act], a court must determine if that practice is reasonably within the patent grant.” But importantly, the patent statutes make no provision for per se misuse. [Rather, Section 271(d) provides specific safe

50 Although properly a topic of a separate paper because of the many complex approaches the Court has taken on it, the doctrine of preemption is another of the serious pernicious ripple effects caused by approaches that ignore the basics. In essence, the preemption cases can generally be “seen as efforts to place limits on the ability for [IP owners] to avail themselves of various State laws.” CHISUM ET AL. supra note 3 at 1155. See generally id. at 1155-96 (reviewing preemption). This makes no sense because the IP rights confer rights on IP owners, not additional restrictions. For more on the conflict between preemption and the basics of IP law, see F. Scott Kieff, Pretend Preemption: The Supreme Court & IP, 30 WM. MITCHELL L. REV. __ (forthcoming 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 April 24, 2004).


52 Virginia Panel Corp. v. MAC Panel Co., 133 F.3d 860, 869 (Fed. Cir. 1997) (internal citations omitted).

53 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., 314 U.S. 488, 491 (1942), and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration
harbors for conduct that is not misuse. Further, it is a misnomer to suggest that some use of a patent is not within its scope, since patents only give a right to exclude. The right to use is derived from sources external to IP law.

If the basics are applied, 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, especially when it comes to putative misuse, the basic thrust of which is that an IP holder should be denied relief for infringement when he has used his IP in some allegedly anticompetitive way. 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.54 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 some how 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 to other forms of property, that much mystery attaches to it and much confusion surrounds it. . . . [Practices that restrain trade are] not due to the patent law . . . . [They are] 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 law . . . .

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54 For an expanded discussion of this point in the context of copyright misuse, which derives from patent misuse, see Paredes, supra note 3.

Concerning restrictive licensing arrangements, the “basics matter” approach suggests that courts should generally 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. Courts adopted the “basics” reasoning in considering the validity of restrictive licenses of copyrights in the ProCD\textsuperscript{56} case and of patents in the Mallinckrodt case.\textsuperscript{57} Even when a potential or actual IP owner tries to extract payments for activities that fall outside the protection of IP,\textsuperscript{58} 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 financial liquidity burden of the transaction – is properly enforceable under contract law.\textsuperscript{59} By way of contrast, courts that do not stick to

\textsuperscript{56} ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (non-commercial use restriction in shrink-wrap copyright license for computer program held valid and enforceable as a contractual limit on use).

\textsuperscript{57} Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992) (single use restriction in label license held valid and enforceable limit on grant of authority so that unauthorized acts may support suit for infringement).

\textsuperscript{58} 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.

\textsuperscript{59} Chief Justice Burger, writing for the majority of the Court, 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). To be sure, there nevertheless remains deep skepticism in the courts towards contracts that happen to be tied to royalty payments beyond patent term, even though the economic justification for this skepticism is lacking. See, e.g., Scheiber v. Dolby Labs., Inc. 293 F.3d 1014 (7th Cir. 2002) (Posner, 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, 34 (1964) (Harlan, J., dissenting), 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. The machines were not sold for a simple one-shot price. 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. 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
the basics will often err by finding that restrictive licensing arrangements, including tie-ins, constitute some sort of impermissible extension of IP rights.

V. CONCLUSION

Our conclusions are mostly modest. Like the Supreme Court in *Dawson* and earlier work by commentators such as Baxter, Bowman, Gordon, Kaplow, Meurer, Lunney, and Rich, we strike a balance between a view of IP that is too restrictive and one that goes too far. But 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 invention. 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. Although in practical terms, the “basics matter” 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 other 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.

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for his dislike of patents. 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.
Finally, the “basics matter” approach reflects a general skepticism about courts’ ability 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.

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