THE WHITE HOUSE

WASHINGTON

July 27, 1983

MEMORANDUM FOR EDWIN L. HARPER
ROGER B. PORTER

FROM: LEHMANN K. LI

SUBJECT: Agency Comments on Justice Draft Bill: National Innovation and Productivity Act

OMB Legislative Reference has received agency comments on the Justice/Commerce antitrust reform bill. The comments are attached for your information. In general, their comments fall into two major categories:

1. Immunity from all private suits. CEA and NSF have serious reservations about the lack of private actions against those joint R&D ventures that are disclosed to the Attorney General and FTC. The immunity provision denies private parties any means of redress if the government did not take an action.

2. Treble damages. Treasury argues that while treble damages may be excessive, actual damages alone eliminates virtually all of the deterrents against antitrust violations. "The situation would be roughly analogous to informing bank robbers they would only have to return the money if they were caught."

The Small Business Administration unequivocally opposes the bill because the suggested changes would adversely affect the interests of small business and further the image that the Administration is pro-big business. SBA argues that the antitrust laws have not really served as a deterrent to joint R&D ventures, the threat of treble damages is not substantial given the decline in treble damage awards, and changing the standard of violating intellectual property licensing from per se to a "rule of reason" analysis would discourage small businesses from bringing legitimate suits.

Justice is supposed to respond to these changes to OMB by the end of today. If Justice incorporates these changes, the entire legislative package can be ready by next week. If not, it may take much longer to negotiate the differences.

Attachments

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 22, 1983

SPECIAL

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer

Department of Justice

SUBJECT: NSF, DOT, CEA, SBA, and Treasury comments on Justice draft bill/National Innovation and Productivity Act of 1983

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than C.O.B. WEDNESDAY, JULY 27, 1983.

Questions should be referred to William A. Maxwell (395-3890), the legislative analyst in this office.

James C. Murr for
Assistant Director for
Legislative Reference

Enclosures

cc: Adrian Curtis
John Cooney
Karen Wilson
Lehman Li
Kate Newman
Mike Uhlmann
Mike Horowitz

NATIONAL SCIENCE FOUNDATION
WASHINGTON, D.C. 20550

July 18, 1983

OFFICE OF THE
GENERAL COUNSEL

Mr. James M. Frey
Assistant Director for Legislative Reference
Office of Management and Budget
Room 7202, NEOB
Washington, DC 20503

Subject: Revised Justice draft bill/Amends Antitrust Law -- Legislative Referral Memorandum dated July 8, 1983

Dear Mr. Frey:

As we told you in our June 15, 1983, comments on S. 737 and H.R. 1952, the "Joint Research and Development Ventures Act of 1983", the National Science Foundation supports prompt enactment of a measure that would reduce the inhibition of joint research and development ventures by the antitrust laws and believes that the Department of Justice's proposal (titles II, III, and IV of this draft bill) should be the Administration's first choice. We recommend, therefore, that Justice's draft bill be quickly forwarded to Congress and assigned a high priority by the Administration.

Rather than repeat our earlier explanation of the need for an antitrust-R&D measure, we are attaching a copy of our June 15, 1983, letter.

We have one concern about the treatment of joint research and development ventures in the draft bill: it might be too favorable. Title II removes all private rights of action under the antitrust laws for disclosed ventures. Leaving private parties no recourse for their complaints of anticompetitive behavior by a joint research and development venture except petitioning Justice or the Federal Trade Commission might engender political opposition both from portions of the antitrust bar and from Members of Congress. Also, if enacted, such complete immunity could well encourage courts to narrowly construe the exemption. We note that other proposals on this topic -- H.R. 108, H.R. 1952, H.R. 3393, S. 568, S. 737, and S. 1383 -- are all more rigorous in granting protection, requiring joint research and development ventures to obtain approval from Justice, adhere to strict venture formats, or both.

We suggest that private suits to enjoin should be allowed in some form. A good approach would be that taken by Sen. Glenn in S. 1383, where courts are allowed to grant equitable relief in private antitrust suits where anticompetitive effects are shown, but cannot enjoin a joint research and development venture because of "threatened loss or damage". This approach is consistent with the general determination that joint research and development ventures are procompetitive and should be encouraged, but leaves private parties some means of protecting themselves where that general rule proves inapplicable.

Mr. James M. Frey July 18, 1983

We support enactment of titles V and VI, dealing with patent and copyright misuse and infringement of process patents. We believe that these are needed reforms, worthy of Administration support.

We appreciate the opportunity to comment on this bill. Please call (357-9435) if we can help further.

Yours truly,

Charles H. Herz
General Counsel

NATIONAL SCIENCE FOUNDATION
WASHINGTON, D.C. 20550

NSF

June 15, 1983

OFFICE OF THE
GENERAL COUNSEL

Mr. James M. Frey
Assistant Director for
Legislative Reference
Office of Management and Budget
Room 7202, NEOB
Washington, D.C. 20503

Subject: S. 737 and H.R. 1952, the "Joint Research and Development Ventures Act of 1983"

Dear Mr. Frey:

The National Science Foundation supports prompt enactment of some measure that would reduce the inhibition of joint research and development ventures by the antitrust laws. We believe that the antitrust reform initiative being developed by the Department of Justice should be the Administration's first choice in this area, with a modified version of the Justice initiative affecting only joint R&D ventures the preferred "fall back". However, we think the Administration should regard the "Joint Research and Development Ventures Act of 1983" as an acceptable third choice and, while making clear its preference for the Justice initiative, should not oppose these bills.

The extent to which the antitrust laws inhibit joint R&D is unclear. Research not performed cannot be measured and statements by businessmen that fear of antitrust liability prevented them from undertaking this or that R&D project could be merely selfserving or convenient excuses. The Foundation, however, believes that possible antitrust liability does pose an obstacle to joint R&D ventures, if only by increasing the uncertainty surrounding such ventures. Moreover, either the Justice proposal or these bills could serve a useful psychological role as well, reinforcing corporate perceptions that research, including basic research, is important for the firm as well as for the nation.

NSF is concerned that the inhibiting effect of the antitrust laws on joint R&D may be particularly severe -- and particularly unnecessary -- at the basic end of the R&D spectrum. If the threat of antitrust liability prevents firms in an industry from jointly performing applied research or development when that would be most efficient, sufficient economic incentives may exist that individual firms will still perform the applied research or development. The firms and the Nation will get the benefits of the applied research or development, albeit

at a higher cost. (There may be times, of course, even here when the costs or risks are so great that the individual firms will not pursue the research alone.) Basic research, on the other hand, is the quintessential "public good". Great though its benefits to society may be, these benefits usually cannot be appropriated by any individual firm so there is little economic incentive to perform basic research. As a result, basic research may be particularly inhibited by the antitrust laws. And, since basic research is most unlikely to have an anticompetitive effect, the inhibition is particularly unnecessary.

The best solution to this problem is that proposed by the Justice Department: changing the antitrust laws to eliminate treble damages for non-"per se" violations and to provide that R&D ventures are not "per se" violations. The Justice initiative would, of course, affect many activities other than R&D and would also reform the intellectual property "misuse" doctrine. This broad reform of the antitrust and intellectual property "misuse" laws may prove too radical a change to be enacted in this session of Congress and so we suggest that an Administration alternative be drafted that would limit "de-trebling" to R&D ventures. Such a bill would provide immediate relief for research and development; it would also be consistent with later expansion to all activities as Justice originally proposed.

As we said, we believe that the Administration position toward the bills introduced by Sen. Mathias and Rep. Synar should be conciliatory. Despite this, we think it would also be appropriate to express especially serious reservations about two aspects of the bill.

First, the Administration might be well advised to go on record as being opposed to, or at least unenthusiastic about, any proposal to give total immunity from antitrust liability. Beyond the fact that de-trebling may well be an adequate incentive to encourage greater cooperative research, complete immunity might well encourage the Federal judiciary, which has long favored the antitrust laws and narrowly construed any exemption, to begin to limit the scope of the immunity and thus restore uncertainty. Total immunity would also seem to increase the political difficulties of passage, partly because Chairman Rodino of the House Judiciary Committee is on record as opposing elimination of single damages and partly because it might increase the likelihood of opposition from small businesses which are less likely than big business to participate in such consortia.

We also believe that the Administration should oppose, or at least question the wisdom of, prescribing a venture format. The restrictions on participation and exclusive exploitation of results take away so much of the potential return from

joint R&D that even reduced antitrust liability will not make it economically attractive. Furthermore, many of these restrictions could harm competition or innovation. For example, the requirement that ventures be open to all would foreclose a group of small or medium-sized firms from pooling their research efforts in order to compete with a large competitor. Limiting the period of exclusivity in research results could severely reduce commercialization incentives, especially for the fruits of basic or applied research, which often take years to bring to the market.

To repeat our main points, the Foundation believes that the Administration should seek passage in this session of Congress of some measure reducing the inhibition of joint research and development ventures by the antitrust laws. The antitrust reform initiative being developed by the Department of Justice naturally should be the first choice. A modified version of the Justice initiative, limited to joint R&D ventures, should be prepared as a "fall back" position. The "Joint Research and Development Ventures Act of 1983" (S. 737 and H.R. 1952) is an acceptable third choice. Although some of its provisions should be resisted, it is as good as and perhaps better than the other alternatives presently before Congress.

Thank you for providing us an opportunity to comment on these bills. If there are any questions, Ruth Greenstein, Associate General Counsel, 357-9438, and John Chester, 357-9447, are most familiar with these issues.

Sincerely yours,

Charles H. Herz
General Counsel

TF-9/583
Drafted

U.S. Department of Transportation

General Counsel

400 Seventh St., S.W.
Washington, D.C. 20590

JUL 18 1983

The Honorable David A. Stockman
Director, Office of Management
and Budget
Washington, D.C. 20503

Dear Mr. Stockman:

This is in response to your request for the views of the Department of Transportation on a Department of Justice draft bill

> "To promote research and development, encourage innovation, stimulate trade, and make necessary and appropriate amendments to the antitrust laws."

The proposed legislation contains six titles, the first of which entitles the bill as the "National Innovation and Productivity Act of 1983." Title II of the bill is designed to promote research and development (R&D) by providing that no joint R&D program will be regarded as unlawful per se under the antitrust laws, and by giving participants in joint R&D programs immunity from private antitrust actions (including injunction actions) provided they disclose their conduct to the Attorney General and the FTC. Title III would amend the requirement under the Clayton Act that private damages be trebled by providing that only those damages attributable to per se unlawful conduct be trebled and by providing for the recovery of prejudgment interest on actual damages in all cases. Title IV would provide that agreements pertaining to the licensing of intellectual property shall not be deemed unlawful per se under the antitrust laws. Title V would limit the patent misuse doctrine and Title VI would extend the exclusive rights of the holder of a process patent to products made with the patented process.

The transportation sector of the economy is an important beneficiary of innovation in the industrial sector. Vigorous R&D in the areas of energy efficiency, safety and environmental compatibility is essential to future developments in transportation and the competitiveness in international markets of U.S. transportation equipment manufacturers. From this perspective, the Department of Transportation supports this legislation, with one recommended clarification to Title II of the proposal.

Title II would promote joint R&D programs by shielding such conduct from private antitrust action where the nature of that conduct has been disclosed to the Attorney General and the FTC. We support this change. We foresee no significant harm to competition from allowing companies to combine their resources in the R&D area provided private plaintiffs have an adequate opportunity for the redress of damages arising from anticompetitive conduct in the marketing of the products of the R&D. We believe there are significant benefits to be derived from joint R&D programs, and the Department took such a position in the context of its

review of the consent decree entered in United States v. Motor Vehicle Manufacturers Association (the so-called smog decree). Nevertheless, we strongly recommend that the legislation not shelter from private antitrust action any agreement which would prohibit or otherwise restrain the ability of any of the participants in any such R&D program from marketing products which reflect the benefits of the research. Any agreement to not market the results of joint R&D programs, including R&D directed towards compliance with Federal and state health and safety regulations, would be unacceptably anticompetitive and inconsistent with the purposes of this legislation.

It also may be appropriate to propose at this time that the policy enunciated in the President's "Memorandum to the Heads of Executive Departments and Agencies" (Subject: Government Patent Policy), dated February 18, 1983, be enacted into law. This action would extend to all recipients of federal funds for R&D the same treatment in the allocation of rights in inventions now accorded to small businesses and non-profit organizations by Chapter 18, Title 35, United States Code (Section 6 of Public Law 96-517). The effect of this policy has been to enhance the commercial exploitation of such R&D.

We appreciate the opportunity to comment on this proposed legislation.

Sincerely,

Jim Burnley

Jim Burnley
General Counsel

TI-9/833
McFarland

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D. C. 20500

MARTIN FELDSTEIN, CHAIRMAN
WILLIAM A. NISKANEN
WILLIAM POOLE

July 20, 1983

MEMORANDUM FOR JAMES MURR FOR ASSISTANT DIRECTOR
FOR LEGISLATIVE REFERENCE, OMB

FROM: William A. Niskanen WAN

SUBJECT: CEA Comments on the Draft Antitrust Bill

On net, the draft bill would lead to desirable economic effects -- by facilitating joint R&D by eliminating treble damages except for per se violations, and by strengthening rights in intellectual property and process patents.

We have serious reservations, however, about two sections of Title II:

a) Section 203(a) would

-- restrict any action for injunctive relief to the Attorney General or the FTC, and

-- eliminate any action for damages,

both restrictions (presumably) limited to conduct of an R&D program that has been disclosed to the Attorney General and the Commission. (The language of the section, by itself, is not clear whether the restriction on injunctive relief applies to all antitrust laws or only to the joint R&D activities that are disclosed; this should be clarified, either in the bill or the supporting material.)

Given other sections of this bill, specifically the exemption of joint R&D activities from a per se ruling and the elimination of treble damages except for per se violations, we see no overriding reason to eliminate private suits for either injunctive relief or damages. In general, competition in the enforcement of civil law is desirable. In the specific case, the proposed restrictions would deny any redress to a private party if the government did not take an action. For example, a clear violation of Sherman I would be immune from private actions if it was reported to the government. Given the elimination of treble damages except for per se violations, we see no reason for there to be any bias in private behavior in initiating such actions.

For these reasons, we recommend that Section 203(a) be rewritten to permit private actions for both injunctive relief and for damages, including that conduct disclosed to the government.

b) Section 204(d) states that

> "No action by the Attorney General or the Commission under this title shall be subject to judicial review."

The explanatory material (p. 5) states that

> "...as a practical matter (this restriction would) be limited to discretionary determinations regarding confidentiality."

If this is the intent of the bill, the language of this section should be clarified and narrowed. The present language suggests an interpretation that a broader range of actions by the government would be exempt from judicial review.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

JUL 19 1983

Honorable David A. Stockman
Director
Office of Management and Budget
Washington, D.C. 20503

Attention: Assistant Director for Legislative Reference

Dear Mr. Stockman:

This letter is in response to your request for our views on the Justice Department's legislative proposal entitled "National Innovation and Productivity Act of 1983" ("Justice proposal" or "proposal"). The Small Business Administration and the Office of Advocacy strongly recommend that the Administration not support this legislative proposal.

The underlying premise of the Justice proposal is that the antitrust laws serve as a major disincentive to the technological innovation that will assure growth in U.S. international trade opportunities. This assumption is highly questionable. The Justice proposal seeks to remedy the perceived antitrust problem by advancing legislation which would:

(1) immunize joint research and development ventures from private antitrust actions;

(2) create a quasi-regulatory mechanism within the Department of Justice and the Federal Trade Commission to review and monitor joint research and development ventures which seek immunity from the antitrust laws;

(3) eliminate the recovery of treble damages for private actions in all antitrust cases except those in which the per se standard of liability has been adopted;

(4) eliminate the per se liability standard for antitrust offenses arising out of intellectual property licensing arrangements;

(5) limit the patent misuse defense; and

(6) extend the protection of the patent laws to products that are manufactured as a result of a patented process.

An analysis of the Justice proposal indicates that, with the possible exception of the process patent provision contained in Title VI, the suggested changes would, in most circumstances, be adverse to the interests of this nation's small businesses and inconsistent with the previously articulated goals of this Administration. Additionally, certain provisions of the Justice proposal present major problems of political perception that should be actively avoided at this time. The problems with the Justice proposal and the attendant adverse impact of this proposal on the interests of small business are discussed below in greater detail.

TITLE II - Joint Research and Development Ventures

Title II of the Justice proposal would grant almost unlimited antitrust immunity to research and development joint ventures submitted to the Justice Department or the Federal Trade Commission ("FTC"). The proposal would allow the joint venturers to, among other things, establish research facilities, prosecute patent applications and engage in "any other conduct reasonably necessary and appropriate to such program," while being totally immune from private antitrust suits.

The provision has the potential of being adverse to the interests of small business for a number of reasons. The most important of these is that large firms with their attendant economic leverage could join with other large firms and develop insurmountable entry barriers to small businesses by virtue of patent accumulations. Small firms, under the Justice proposal, could be excluded from a number of markets that were heavily research dependent and be left without the ability to challenge such anticompetitive exercises of economic power under the antitrust laws. Moreover, the broad language of the proposal embodied in Title II, and quoted above, could permit members of the joint venture to engage in activity beyond the research and development stage and get into marketing activity which, depending on the level of concentration in the industry and

the remaining competition outside the venture, could facilitate the exchange of price and other sensitive business information which could lead to cartel-like activity by the joint venturers. Surely the Antitrust Division and the FTC cannot assure against the opportunity for this kind of activity under this present proposal. And, by eliminating the private right of action, there is no counterbalancing force that can be implemented by the private sector to assure against such activity.

Another concern we have with Title II of the Justice proposal is that it creates additional regulatory mechanisms in an area of concern - competition policy - where this nation has, historically, actively avoided regulatory intervention and its attendant aspects of economic planning. However, the current proposal would set up such mechanisms within the Justice Department and the FTC. Such a model of regulatory intervention and economic planning in this area presents a dangerous proposition which could be utilized in future years as a model for more substantial undertakings which are practiced in economically planned economies (e.g., industrial policy) and preached by nay sayers to certain aspects of our own free enterprise system (e.g., Ralph Nader's proposal for the Federal chartering of corporations).

While we can appreciate the need for some changes in our innovation and productivity policies, the relevance of antitrust law to these issues is quite clearly overstated. And, as Assistant Attorney General Baxter himself has recently stated in proposed testimony to the Senate Judiciary Committee on S.737, this overstatement has at times been to a very significant degree.

While our antitrust laws may on their face appear to be restrictive in the area of joint research ventures, the fact is that the actual enforcement and practice in this area is, for the most part, quite consistent with our major trading partners. Any differences that do exist are, in fact, more a matter of form than of substance.

The reason that it may appear that certain of our trading partners have a freer hand in the area of joint research and development is that the economies in which they operate are, for the most part, subject to economic planning. We, as a nation, have steadfastly avoided drifting into centrally planned economies such as those of Japan, France and others. In fact, Antitrust has often been described as our own, American form of economic non-planning by Government action.

In order to meet any valid concerns surrounding the application of the antitrust laws to joint research and development ventures, any legislation that might be suggested should assure that both the procompetitive benefits and potential anticompetitive aspects are always considered when such ventures are evaluated under the antitrust laws. The present proposal does not allow for this balancing. Furthermore, it establishes no standards for Justice Department or FTC approval of such joint ventures.

We believe that the present proposal is also totally unnecessary as a practical matter. An examination of the record in the area of joint research and development ventures clearly indicates that neither relevant case law nor government enforcement policy has been unduly harsh towards joint R&D efforts. Historically, government antitrust suits challenging joint research activities are extremely rare, and private antitrust suits are even rarer. In fact, private treble damage actions in this area have been nonexistent for years.

Even if a particular antitrust plaintiff were to challenge a legitimate joint research and development venture in the courts, it would be nearly impossible for such a plaintiff to prove antitrust injury, as required by the Supreme Court's opinion in Brunswick v. Pueblo Bowl-O-Mat, 429 U.S. 477 (1977). Therefore, such a case would most likely be dismissed at an early stage of any such litigation. Only truly anticompetitive activity would remain exposed to private antitrust actions.

To the extent that the possibility of private suits may impair legitimate joint R&D activity where there is nevertheless little danger of anticompetitive effects Congress has already acted.

In 1958, the Small Business Act was amended by P.L. 85-536. Among other things, this amendment added a new subsection (d) to Section 9 of the original Small Business Act. Section 9(d), 15 U.S.C. §638(d), authorizes the Small Business Administration to facilitate agreements and to help establish joint programs involving "representatives of small business concerns with a view to assisting and encouraging such firms to undertake joint programs for research and development carried out through

such corporate or other mechanism as may be most appropriate for the purpose." 15 U.S.C. §638(d)(1). The Act authorizes the Administrator of the Small Business Administration to "approve any agreement between small-business firms providing for a joint program of research and development, if the Administrator finds that the joint program proposed will maintain and strengthen the free enterprise system and the economy of the Nation." 15 U.S.C. §638(d)(2). Such approval may be granted, however, only after the Attorney General has given his own written approval (which may be withdrawn subsequently if the Administrator or the Attorney General finds that the joint program is no longer in the interests of the free enterprise system). Id.

The express antitrust exemption provided by Section 9(d) of the Small Business Act to such joint research and development activity reads as follows:

> No act or omission to act pursuant to and within the scope of any joint program for research and development, under an agreement approved by the Administrator under this subsection, shall be construed to be within the prohibitions of the antitrust laws or the Federal Trade Commission Act. 15 U.S.C. §638(d)(3).

Pursuant to Section 9(d)(1), such joint programs may, among other things, include the following purposes and related activities:

(1) to construct, acquire, or establish laboratories and other facilities for the conduct of research;

(2) to undertake and utilize applied research;

(3) to collect research information related to a particular industry and disseminate it to participating members;

(4) to conduct applied research on a protected, proprietary, and contractual basis with member or nonmember firms, Government agencies, and others;

(5) to prosecute applications for patents and render

patent services for participating members; and

(6) to negotiate and grant licenses under patents held under the joint program, and establish corporations designed to exploit particular patents obtained by it.

In sum, present substantive antitrust analysis is quite adequate to assure that procompetitive joint ventures are fostered, while those that are anticompetitive are proscribed. To quote Mr. Baxter from his recent proposed testimony before the Senate Judiciary Committee on this topic "the case simply has not been made that current antitrust analysis must be supplanted in the area of joint R&D ventures in order to promote economic progress.....The antitrust statutes proscribe business conduct only when it results in the accumulation or exercise of market power without offsetting procompetitive benefits. To the extent that judicial interpretations of the antitrust statutes are true to that principle, antitrust will be compatible with and indeed conducive to JRDV's and other forms of business conduct that increase productivity and business efficiency. Although there are some judicially created antitrust doctrines that can and should be refined and improved in this regard, the underlying statutes themselves pose no obstacle to such refinements."

TITLE III - Treble Damages in Antitrust Cases

The case cannot be made that the threat of treble damages serves as a major disincentive to possibly procompetitive conduct that would be analyzed under the "rule of reason" in an antitrust case.

The antitrust revolution which began approximately 10 years ago is now in its later stages of development. Few antitrust nuisance suits are being brought these days, and in all, the actual number of private treble damages actions being filed is rapidly declining. Between 1977 and 1982 the number of private antitrust suits filed in U.S. District Courts dropped 36%, going from 1,611 in 1977 to 1,037 in 1982. See 1982 Annual Report of the Director of the Administrative Office of the U.S. Courts, p. 105. Arguments that the burgeoning number of private antitrust cases and the threat of treble damage liability are suppressing legitimate business activities are not borne out by these figures. This is particularly true when one considers that relatively few of the cases filed actually result in a treble damage award. For example, in a study of more than 200 private antitrust cases filed in the U.S. District Court for the Southern District of New York between 1973 and 1978 more than 80% were either voluntarily

dismissed or settled out of court. Of the 33 cases that went to trial or were decided on the basis of litigant motions, 27 resulted in summary judgment for the defendant, while only 5 were actually tried to a conclusion. See National Economic Research Associates, Inc., A Statistical Analysis of Private Antitrust Litigation: Final Report (1979) ("NERA Study"); See also The Treble Damage Case: Fact and Fiction, 49 Antitrust L.J. 981 (Summer 1981).

Nationally, the number of actual treble damage actions has been reduced by the consistent and coherent development of judicial standards which have made it more difficult for antitrust plaintiffs to obtain standing and recover damages. To establish standing, a plaintiff must prove that he has suffered an injury to his business or property as the direct result of conduct that violates the antitrust laws. In addition, the injury must be of the type the antitrust laws were designed to prevent. Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477 (1977). The frequency of excessive damage awards is also reduced by judges, who have the authority to reduce or eliminate excessive or highly speculative damages.

Finally, elimination of the treble damage remedy from all "rule of reason" cases would serve as a major impediment for small businesses that seek to challenge anticompetitive activity under our antitrust laws. Antitrust enforcement by "private attorneys general" is a cornerstone of our antitrust experience. Moreover, the legislative history of the Sherman Act indicates that it was the intention of Congress to incorporate in the Sherman Act the English common law principles that dealt with monopolies and unfair competition. See The Remarks of Senators Hoar and Sherman at 21 Cong. Rec. 2456, 2459, 2460, 3146 and 3152 (1890). Part of that English common law tradition derived from the English Statute of Monopolies of 1623, which declared certain monopolies as void, and, in Section IV, extended the right to sue for treble damages to any person or persons aggrieved by such restraints of trade. 21 Jac. 1, c. 3 (1623).

In the vast majority of antitrust cases in which small businesses are involved, they are the plaintiffs. Without the incentive of treble damages these small businesses could not retain antitrust counsel, and therefore would not be able to stand up for their competitive rights under the antitrust laws. When one considers that the government antitrust enforcement agencies have, historically, filed less that 100 cases per year, it is clear that modifications to incentives for private enforcement should be undertaken carefully, and

only after extensive analysis. We do not believe that these small business concerns have been adequately reflected in the current Justice proposal.

As the previously referenced NERA Study revealed, 73% of the antitrust allegations in a sample of 352 private antitrust cases filed in the Southern District of New York during the 1973 to 1978 period were based on claims which grew out of vertical relationships. The largest number of these cases (more than 25%) involved allegations of dealer terminations and refusals to deal. Both dealer termination and refusal to deal cases are evaluated under "rule of reason" analysis. Therefore, limiting treble damage availability only to per se offenses would virtually eliminate the major weapon available to small businesses to address two common issues which relate to distribution practices. The present proposal, in conjunction with current efforts to reclassify offenses such as resale price maintenance from per se to "rule of reason," would leave very few violations that affect small businesses subject to treble damage liability. The small business community would lose much of the deterrence of anticompetitive practices now provided by the antitrust laws.

TITLES IV and V - Intellectual Property Licensing under the Antitrust Laws and Patent and Copyright Misuse.

Title IV of the Justice proposal would change the standard for evaluating price restrictions and tie-ins ancillary to patent licensing and other intellectual property agreements from a per se to a "rule of reason" analysis. This would increase the burden of proof a small business plaintiff would have to meet in order to maintain an action against an intellectual property-holding defendant. If implemented, this proposal would cause an increase in the amount of evidence necessary to prove allegations presently analyzed under the per se standard. This would include price-fixing, tie-in claims and, possibly, resale price maintenance, at least if some quality of intellectual property existed in the product in issue. The end result would be lengthy litigation which would tend to discourage the bringing of legitimate cases by small businesses. As the number of challenges declined, such practices would probably become more prevalent, thereby adversely affecting the ability of small businesses to compete in the marketing of products that are dependent on intellectual property.

Price-fixing has traditionally been regarded as a practice which in itself has such a pernicious impact on competition that a demonstration of anticompetitive effect in the particular circumstances is unnecessary. Price-fixing in the context of a patented product would involve a situation in which the patent owner is acting in concert with another patentee or his licensees to restrict the price at which a patented product could be sold by a manufacturing licensee. Under the Justice proposal, if a small business licensee were to sue the patent owner the small business would, under the "rule of reason," have to prove that the practice has an adverse effect on competition as a whole. This can entail considerable difficulty since many courts have held that the elimination of, or harm to, a single competitor is not anticompetitive if competition in the market remains vigorous despite the violation. This would establish a major departure from long standing antitrust policy which has consistently held that price-fixing of any sort is illegal on its face.

This is perhaps even more true for tie-ins, which like price-fixing, are usually treated as per se violations. In tie-in arrangements, a seller with sufficient economic power conditions his selling one product to the purchase of a second product (the tied product). In patent tie-in cases, the patent owner, economically powerful by virtue of the patent, typically conditions his selling the patented product on the buyer purchasing a non-patented product. In so doing, the patent owner is attempting to extend his monopoly power based on the patent into a second market. The result is that the licensee has to pay non-competitive prices for products necessary to exploit the patent. Under the "rule of reason" approach of Title IV of the Justice proposal, this would not be considered illegal on its face, even though such conduct is clearly anticompetitive.

While the patent laws do allow the patentee to place some restrictions on the price at which the licensee can sell the patented article, attempts by the patentee to control the subsequent reselling of the product have been struck down as per se illegal, constituting resale price maintenance. A slackening of the legal standard for resale price maintenance as it applies to intellectual property could ultimately result in a decline in the number of small business owners willing to compete in the selling or use of the resale price maintained item. Small businesses that would likely be in the market as discount sellers of the patented item could be excluded since distribution would be limited to those willing to sell only at the fixed price.

Title V of the Justice proposal is designed to weaken the value of the patent misuse doctrine as a defense to a patent infringement allegation. Under the misuse doctrine, a patent holder is unable to enforce his patent monopoly against an infringer if the infringer can demonstrate misconduct on the part of the patent holder. An example would be a licensee who refused to adhere to the prices fixed by the patent holder. If the patent holder were to sue for infringement, the licensee could, under present law, defend on the grounds of misuse as a result of the patent holder's price-fixing policy.

Under the Justice proposal, misuse could not be used as a defense in cases involving tie-ins, resale restrictions, discriminatory royalty payments, or any other situation where a patent is used in such a manner that "allegedly suppresses competition," unless such "conduct, in view of the circumstances in which it is employed, violates the antitrust laws." In other words, the practices would apparently be allowed unless the overall competitive structure of the market were adversely affected. This would require plaintiffs to litigate market structure issues in case after case involving practices which clearly restrict competition.

In sum, the Small Business Administration and the Office of Advocacy strongly recommend against adoption of Titles II through V of the Justice proposal. The case simply cannot be made that current antitrust law must be supplanted in order to promote economic progress. Given the tremendous effect the current proposal would have on the private enforcement of the antitrust laws by small businesses, any reform should be thoroughly documented and its impact carefully considered before any actions are taken by this Administration. For all these reasons, we recommend that the Administration not support the Justice Department's proposal.

Sincerely,

for James C. Sanders
Administrator

Frank S. Swain
Chief Counsel for Advocacy

DEPARTMENT OF THE TREASURY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20220

JUL 22 1983

Director, Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Attention: Assistant Director for Legislative Reference

Dear Sir:

This is in response to your request for the views of the Department of the Treasury on the revised Justice draft bill, entitled the "National Innovation and Productivity Act of 1983."

The purpose of the revised bill is to promote research and development, encourage innovation, stimulate trade, and make necessary and appropriate amendments to the antitrust laws.

While the Department of the Treasury supports the revised Justice draft bill amending the antitrust laws, the Department has several specific suggestions. These comments and suggestions are substantially similar to the informal comments submitted on July 13, 1983, to Bill Maxwell, of your office, in response to the Justice Department's initial draft bill. While there are some differences between the Justice Department's initial and revised draft, the bulk of Treasury's comments on the initial draft addressed provisions which remain unchanged by the revision.

The revised bill contains a number of proposed amendments involving the following areas of antitrust law: treble damages; prejudgement interest; joint research and development programs; and intellectual property licensing; patent and copyright misuse; and process patents.

Treble Damages

Under section 4 of the Clayton Act, anyone injured by an antitrust violation and possessing adequate standing may recover damages, which are automatically trebled. Premised

on a distinction between per se antitrust violations and rule of reason antitrust violations, the proposed revised bill would amend this provision of the Clayton Act and only allow compensatory damages in rule of reason antitrust violations. Treble damages would still be available for per se antitrust violations.

Prejudgement Interest

The proposed revised bill would amend present law and provide for the awarding of prejudgement interest for all antitrust violations. Prejudgement interest is interest on any damages awarded to a successful plaintiff that would accrue before entry of the judgement -- normally the period from the date on which the litigation was commenced to the date on which the judgement is entered. Prejudgement interest is currently available to a limited extent in antitrust cases (only upon a showing that defendant's conduct during litigation demonstrated intentional delay, bad faith, or dilatory tactics). The proposed amendments would give the courts power to adjust prejudgement interest awards according to the circumstances of the individual cases.

Joint Research and Development Ventures

Section 202 of the revised bill clearly states that joint research and development programs are not to be considered illegal "per se" under the antitrust laws. This amendment clarifies existing legal standards.

Subsection 203(a) of the bill eliminates the possibility of damage liability and private injunctive suits, provided adequate disclosure of the joint research and development program is made to the antitrust enforcement agencies (Department of Justice and the Federal Trade Commission) prior to its inception. However, section 204(a) clearly states that only conduct specified in such disclosure is entitled to protection.

Subsection 204(b) of the bill also directs the Federal Trade Commission to publish a general notice of any program that is disclosed within 30 days. Together with subsection 204(c)(1), which provides that information and documentary materials submitted as part of a disclosure shall be publicly available, such notice is intended to guarantee

private parties the opportunity to inform the enforcement agencies of any interests they may have in the matter. Subsection 204(c)(2) also provides for confidential treatment of information or documentary materials submitted in connection with these disclosures if the particulars of such a program may be competitively or commercially sensitive.

Process Patents

Process patents would be reinforced with additional provisions to protect owners from the importation of unpatented goods made overseas by utilizing the patented processes. Under existing law, a patent is infringed only if the patent invention is made, used, or sold in the United States. In the case of a process patent, there is often no effective means by which a patentee can prevent a firm from using the process overseas and then selling the product made by that process back in the United States. In such a case, there is technically no infringement because no one has made, used, or sold the patented process in the U.S. The proposed amendments would make the sale of a product in the United States produced overseas by an unlicensed patented process an infringement of the U.S. patent. The amendments also contain safeguards designed to minimize use of the new provisions for frivolous or unsound suits undertaken to interfere with legal import competition.

Intellectual Property Licensing

The proposed bill would also add a new section to the Clayton Act providing that "[a]greements to convey rights to use, practice, or sublicense patented inventions, copyrights, trade secrets, know-how, or other intellectual property shall not be deemed unlawful per se in actions under the antitrust laws." This assures that intellectual property licensing arrangements will be evaluated under the "rule of reason" which requires an economic analysis of the actual competitive effects of a challenged practice.

Patent and Copyright Misuse

Currently, patent or copyright owners may bring an infringement action against those who make, use, or sell their inventions without permission, or disregard the terms of agreements for utilizing their patents or copyrights. However, some courts have refused to enforce the patent or copyright owners' exclusive rights when their behavior is determined to be a "misuse" of the patent or copyright.

Two types of cases have been defined to constitute misuse. One involves patent licensing arrangements outside the scope of the patent claims, such as tie-ins which require the licensee to purchase an unpatented product from a particular source. The other type of case involves decisions concerning whether to license a particular business, and if so, at what royalty. Offenses in the second category have involved such actions as charging discriminatory royalty rates or refusing to license a patent that has been licensed to others.

Justice believes that both types of cases are based upon an erroneous assumption that the practices classified as misuse are necessarily anti-competitive. Accordingly, Justice believes each case should be analyzed to determine whether the conduct in question is in fact anti-competitive, and proposes amendments which would limit the patent and copyright misuse doctrine. The amendments would require the courts to utilize specific economic analyses before condemning patent licensing practices previously classified as a misuse. However, the proposed amendments would not prohibit courts from exercising jurisdiction and refusing to enforce valid patents in circumstances involving fraud or other inequitable conduct.

Treasury Comments

Overall, the antitrust amendments proposed by Justice appear to be thoughtful and well done, with potentially beneficial consequences for both competition and the welfare of consumers. However, the Department of the Treasury believes that the proposed amendments may be improved and has the following comments.

Elimination of the mandatory awarding of treble damages for all antitrust violations appears to be sound, and the basis for differentiation suggested by the amendments appear to be acceptable. However, whether the award of damages should be limited only to compensation of damages in the case of rule of reason offenses is another matter. While treble damages in such cases may indeed be excessive, a damage amount in excess of mere compensation for the plaintiff's injury appears to be in the public interest. Compensation alone, even with prejudgement interest, eliminates virtually all of the deterrents involved for this class of antitrust violations. The situation would be roughly analogous to informing bank robbers they would only have to return the money if they were caught.

The application of such a light penalty to rule of reason violations erroneously presumes that such violations would tend to be inadvertent rather than deliberate. However, the lack of any effective deterrent would invite businesses to crowd the edge of prohibited anti-competitive behavior while covering themselves with some claim to pro-competitive motivations. The potential economic damage which could result from such anti-competitive behavior could easily exceed the economic damage currently being endured, because existing deterrents make businessmen reluctant to engage in borderline business arrangements and practices.

The Department believes that Justice's justification for the amendments concerning patent and copyright misuse is not fully convincing. While it is difficult to argue with the proposition that the competitive consequences of many economic practices are so complex that case-by-case analyses are necessary to determine which ones are truly anti-competitive, the particular case given by Justice, however, is less than persuasive. The use of tie-ins would appear to be particularly difficult to justify on procompetitive grounds.

The success of the amendments reinforcing process patents would seem to depend heavily upon the ability of the safeguards provided to minimize the use of the new provisions for frivolous or unsound suits undertaken to impede legal import competition. However, it is difficult to judge a priori whether the safeguards will prove adequate, and whether monitoring the developments in this area during the first few years after enactment would appear to be worthwhile. Accordingly, designation of a specific office within an agency for the responsibility for such monitoring would be appropriate.

Thank you for the opportunity to provide our comments on the above matter. We would appreciate being kept advised of any further action taken by your office with regard to this matter.

Sincerely yours,

Jack Lee

Acting Deputy General Counsel

DRAFT

THE PRESIDENT'S STATEMENT ON THE NATIONAL INNOVATION AND PRODUCTIVITY ACT OF 1983

The United States is the greatest industrial power in history. The inventive genius of the American people and our reliance on a free-market principles have combined to create an economy that is envied throughout the world. This country's economic success serves as the model that the rest of world seeks to emulate.

While the American economy remains second to none, we are facing ever increasing competition both at home and abroad. Once the dominant force virtually every where that we were permitted to compete, our predominant position is now challenged in market after market. And in a small, but growing, number of important industries, other countries are setting the standard of excellence, to which we now aspire. The National Innovation and Productivity Act of 1983 represents a very important step in reversing this trend so as to enable United States industry to regain the momentum in world competition.

The revitalization of United States industry will depend in large measure on its ability to create and develop new technologies. Advances in technology are crucial to a vibrant economy. Technology provides the economy with the where-with-all to produce new or improved goods and services

and to produce more efficiently the goods and services that already exist. Technology thus serves as the engine driving future increases in our standard of living. Just think of all the products that today we view as commonplace but that, as little as fifty years ago, existed only in our dreams. Computers, the jet engine, and the polio vaccine are only a few of the dramatic technological breakthroughs from which we all now benefit. The technologies that will be as common place to our children and our children's children will make our present day wonders appear as antiquated as the horse and buggy seem today.

It is difficult to overstate the importance of technological advance to this country's economic welfare. Technological advance has a direct and positive effect on the competitiveness of American industry, on the productivity of American labor, and on the well-being of American workers and consumers. For the last eighty years, technological progress has accounted for almost one-half of the growth in real per capita income. More generally, companies that invest heavily in the research and development of new technologies have about three times the growth rate, twice the productivity rate, one-sixth the price increases, and nine times the employment growth as companies with relatively low investments in such R&D. In addition, development of new technology can significantly improve our balance of trade. Since the 1960s our balance of trade in technology-intensive products has been far more favorable than the trade balance for other products.

Advances in technology are therefore a key element in finding a solution to some of the most vexing problems of the last decade: unemployment, inflation, declining real income, and a deteriorating balance of trade.

The benefits of improved technology do not end with an increase in the standard of living. Technology also is crucial to improving our quality of life. New technology has provided the weapons with which to wage successful campaigns against disease, famine and pollution. Lastly, technological progress is extremely important to the national security. Not only does technology strengthen our economy, but it also has permitted this country to develop extremely advanced, effective weapons of war which have enabled us to keep the peace and to maintain our freedom.

While the United States has been, and no doubt continues to be, the leader in the creation and development of new technologies, we have witnessed in the last ten to twenty years increasingly intense competition in this area. Since the end of the 1960s, the rate of growth of this country's investment in R&D (excluding national defense) as a percentage of GNP, has declined, at the same time that the trends in R&D investment of other important economic rivals such as Japan and Germany have steadily risen. Japan and Germany now invest a larger percentage of their GNP in R&D than the United States. Healthy increases in R&D expenditures have become ever more important because the sophisticated R&D necessary today has become increasingly expensive and risky.

The reduction in the growth of this country's investment in R&D has had a direct role in our declining rate of growth of productivity. While labor productivity in this country rose at an average of almost three percent annually between 1945 and 1965, from 1974 until the end of last year, labor productivity increased at an average annual rate of only 0.8 percent. Although the cut in tax rates has spurred recent increases in productivity, we still have a long way to go before we can equal the growth rates of Germany and Japan. While our average annual rate of growth in labor productivity between 1960 and 1978 was 2.8 percent, during the same period, Japan enjoyed a rate of 8.2 percent and Germany experienced an average rate of 5.4 percent.

If United States industry is to grow and prosper and to compete with the industries of other countries, our economic climate must foster investment in R&D. That climate must provide adequate incentives and protection for those that create and develop new technologies.

Research and development of new technology is a very risky business. Although we often hear or read of the spectacular R&D successes that earn their inventors great fortunes, it is far more commonplace for any particular R&D effort to achieve little, if any, commercial success. It is virtually impossible, when beginning a research project, to know precisely what will be discovered and developed, whether it will be economical to produce, or even whether there will be some demand for it. Moreover, because the essence of

technology is ideas that often can be easily duplicated, it may be very difficult for the inventor to obtain compensation for his efforts, even when they are successful.

To off-set these risks, instead of relying on government control and direction of R&D, the United States relies primarily on the potential of private economic rewards. The market rewards successful R&D by providing those who have risked their time, effort and capital with returns that reflect the value of the new technology. In fact, our free market system does an efficient job of assuring that R&D efforts are directed toward the most promising technologies and are made available to consumers at the lowest cost.

Although our free market system has the virtue of eliminating the need for inefficient government bureaucracies to direct R&D investment, even in a free market system the government must establish and maintain a legal framework--the "rules of the game"--within which the market operates. The way this framework is structured has a crucial impact on the ability of the market to induce R&D efforts.

This Administration has already done a great deal to assure that the legal framework is structured in such a way as to promote technological and economic growth. Most importantly, we now have in place the full reduction in tax rates that was enacted in 1981. Combined with the reforms in the system for the recovery of capital costs, the tax cut has begun to spur productivity and innovation and holds the promise of a long and sustained period of economic growth.

The Administration also continues to examine federal rules and regulations that govern the conduct of United States business. Where those regulations serve no useful purpose, we have sought to eliminate them. Where regulations serve the overriding goals of protecting our health and safety, we are endeavoring to insure that they operate in the most efficient and effective way.

The National Innovation and Productivity Act of 1983 represents the Administration's effort to deal with two other aspects of that legal framework--the federal antitrust and intellectual property laws, each of which plays a pivotal role in assuring technological progress. Both laws help to promote competition and the creation of innovations that enhance the efficiency and productivity of our economy.

The antitrust laws have been called the "Magna Carta" of our free market economy. As the Supreme Court has recently noted, those laws are a "consumer welfare prescription." They seek to enhance the well-being of consumers by prohibiting truly anticompetitive behavior. Although the antitrust laws are premised on the notion that our economy is best served by vigorous competition among independent commercial entities, those laws nevertheless are sensitive to the fact that in some areas cooperation among independent entities, even competitors, may be necessary to maximize the well-being of consumers. The creation and development of technology is one very important area where such cooperation frequently may be beneficial.

The various systems of legal protection of intellectual property, most prominently the patent laws, also work to improve the productivity of labor and the welfare of consumers. The intellectual property laws are designed to stimulate technological innovation. They do so by providing inventors and innovators with exclusive rights to the products of their creative genius. By preventing others from copying those inventions and innovations, the intellectual property laws permit the creators to reap financial rewards from the benefits they provide to the rest of society.

The antitrust and intellectual property laws generally have served their objectives well for many years. Nevertheless, after a review of the effect of those laws on innovation, the various federal agencies that administer and enforce these laws, and those that are most familiar with their effects and purposes, have jointly arrived at the conclusion that a few, relatively minor modifications could greatly enhance the ability of those laws to foster increased growth in technology. The National Innovation and Productivity Act of 1983 embodies these modifications.

The National Innovation and Productivity Act of 1983 has two parts: the first would amend the antitrust laws and the second would amend the patent and copyright laws. The amendments of the antitrust laws relate respectively to the treatment of joint R&D ventures, to the amount of damages available in private antitrust suits and to the antitrust rules applied to the protection and use of new technology. The

amendments of the patent and copyright laws would clarify patent and copyright protection and would assure that process patent holders are protected from infringement by unauthorized foreign imports.

Title II of the Act would modify the existing treatment of joint R&D ventures under the antitrust laws. The increasing complexity and sophistication of research and development has made R&D increasingly expensive. In addition, advances in technology have increased the advantages of large scale R&D efforts. As a result, cooperation has become an important avenue for efficiently conducting R&D, and so for enhancing our productivity and competitive strength. Properly interpreted, the antitrust laws act only to prohibit anticompetitive joint R&D; they do not proscribe those ventures, no matter how large, that are necessary to technical progress.

There is a misperception, however, that the antitrust laws discourage joint R&D effort, regardless of its benefits. Although the courts and the Justice Department now are sensitive to these concerns, American industry has indicated that because of uncertainty as to future legal interpretations, the antitrust laws serve as a serious obstacle to procompetitive joint R&D ventures. Even though the risk of an incorrect legal decision may be small, that risk is exacerbated by the length, complexity and cost of antitrust suits and the fact that a successful claimant under the antitrust laws is automatically entitled to three times the damages actually suffered. Industry fears that after investing large amounts of

capital in a venture, they may be faced with the threat of a treble damage suit from a disgruntled competitor who has been excluded from the venture. And of course the risk of such a suit increases in direct proportion to the economic success of the joint venture.

There has been a variety of legislative proposals introduced during the current Congressional term that seek to address this general problem. Several of these proposals seek to alleviate the antitrust risk faced by joint R&D ventures by replacing the current antitrust standard with a different standard for scrutinizing the legality of joint R&D. However, none of the various standards that have been proposed would be as effective as the current antitrust standard in distinguishing procompetitive ventures from anticompetitive ones. In fact, the proposed substitute standards could encourage anticompetitive joint R&D ventures and could inhibit many desirable ones. In addition, some of the proposals are unattractive because they would transform the Justice Department from its traditional role as an enforcer of the law to that of a bureaucracy regulating the structure and conduct of all joint R&D ventures, regardless of their anticompetitive potential.

After thorough consideration of the alternatives, the Administration has determined that the approach represented by Title II of the National Innovation and Productivity Act is the best solution to this difficult problem. Title II would first clarify that joint R&D ventures may not be deemed per se

illegal. This would prohibit the courts from condemning any joint R&D venture under the antitrust laws without first considering its potential benefits. Second, those joint R&D ventures that have been fully disclosed to the Justice Department and the Federal Trade Commission pursuant to procedures established by that title would be immune from any antitrust suit brought by private parties and from damage suits brought by the government. Compliance with the provisions of Title II would not result in a certification that the venture was legal under the antitrust laws, and if the venture, despite compliance, was anticompetitive, the government could still challenge it. Title II thereby would eliminate the deterrent effect that any legal uncertainty may now have on joint R&D efforts, and at the same time it would retain adequate antitrust safeguards against anticompetitive activity occurring under the guise of joint R&D.

Title III similarly deals with an undesired deterrent effect that the antitrust remedy of mandatory treble damages has on procompetitive behavior. The threat of treble damage liability is a strong deterrent to firms engaging in conduct that potentially violates the antitrust laws. Where the conduct is clearly anticompetitive and is carried out in secret, as in the case of price fixing among competitors, such deterrence is appropriate and indeed necessary. However, where the conduct may very well be procompetitive and is carried out in the open, the availability of punitive damage remedies is unfair and counterproductive.

The adverse deterrent effect of mandatory treble damages in antitrust suits is not limited to joint R&D ventures. The antitrust legality of a panoply of business practices that are not clearly anticompetitive frequently may be uncertain at the time the practice is conceived and employed. The legality of these practices will generally turn on the specific circumstances that may never before have been dealt with by the courts. By greatly increasing the cost associated with the risk that a court may find conduct illegal that in fact is procompetitive, the threat of treble damage liability surely inhibits at least some innovative business practices that could increase efficiency and productivity. For example, the threat of treble damage liability may deter a manufacturer of products that uses advanced technology, such as computers, from restructuring its system of manufacturing and distribution in a way that would lower its cost and enable it to disseminate its technology to a greater number of consumers. It is even possible that the overdeterrence of the treble damage remedy is partially responsible for the seeming reluctance of American management to take vigorous steps to meet the challenge of foreign competition.

With the exception of joint R&D activity, the most obvious and potentially devastating effect that the availability of treble damages can have on innovation and productivity appears in the area of intellectual property licensing. Such licensing can have significant procompetitive benefits. It enables businesses to combine their relative strengths and thus bring

products into the marketplace more quickly and at lower cost than would otherwise be possible. However, businesses may hesitate to enter into such arrangements for fear that some court might someday condemn the arrangement as anticompetitive and require the patentee to pay treble damages. This risk may discourage the transfer of technology and so reduce the rewards to the successful inventor. As a result, the overall incentive to invest in R&D is likely to be reduced.

Title III of the National Innovation and Productivity Act would eliminate the potential of treble damage liability under the antitrust laws for all practices except for those that are plainly and inherently anticompetitive. With this one exception, firms that are found to have violated the antitrust laws would be liable for actual damages caused by their conduct plus prejudgment interest calculated from the date the suit is filed. By amending the law to include prejudgment interest for the first time, Title III would assure that those who suffer injury as a result of an antitrust violation will be made whole. At the same time by eliminating treble damage liability for conduct that is not clearly wrong under the law, the deterrence that the antitrust laws may have on potentially beneficial practices would be minimized.

Title IV of the Act also is designed to encourage innovation by assuring that intellectual property licensing is treated reasonably under the antitrust laws. An economic and legal climate that is conducive to the creation and use of intellectual property is essential to the stimulation of

innovation and productivity. To secure such an environment, it is crucial that the courts carefully consider procompetitive benefits when evaluating the lawfulness of intellectual property licensing under the antitrust laws. While many courts appreciate the competitive benefits of intellectual property, others have taken the spurious view that a system of exclusive rights that enables the inventor or innovator to enjoy the fruits of his labor is somehow inconsistent with the antitrust laws.

Title IV would alleviate the occasional judicial hostility shown toward intellectual property in the context of antitrust suits by expressly prohibiting the courts from condemning transactions involving intellectual property as per se illegal. That is, Title IV would require that before a court could find that a particular transaction involving intellectual property violates the antitrust laws, the court must consider the transaction's procompetitive benefits. In combination with Title III, Title IV would also confirm that such transactions are not subject to treble damage liability. Title IV would thus send a clear message that intellectual property enhances, rather than impedes, innovation and productivity and that the antitrust laws must be appropriately sensitive to this fact.

Title V of the Act also concerns the exploitation of intellectual property, but it involves amendments to the patent and copyright laws rather than the antitrust laws. Courts have occasionally employed the judicially created doctrines of patent and copyright misuse to justify a refusal to enforce a

valid patent or copyright against an infringer. The equitable doctrine of misuse was originally developed by the courts in order to deny legal protection to intellectual property until that property was purged of any taint that resulted from its use by the owner in an anticompetitive manner. The notion was that by using the property anticompetitively the intellectual property owner was able to extend his exclusive rights beyond what the law allowed and so was able to earn more from his property than that to which he was entitled under the law.

Over time the doctrine of misuse began to drift away from its original intent. Judges began to use the doctrine to invalidate valid patents on the basis of vague notions of what seemed "unfair" to them. Conduct was deemed to be misuse without subjecting that conduct to the rigorous economic analysis that should be employed under the antitrust laws to determine whether particular conduct is harmful. As a consequence, the courts have condemned beneficial conduct that maximizes the rewards to which the patentee or copyright holder is legitimately entitled.

Title V of the National Innovation and Productivity Act is designed to eliminate the divergence between the misuse doctrine and the economic analysis utilized by the antitrust laws. Title V in effect would preclude courts from classifying conduct as patent or copyright misuse on the ground that the conduct in some way suppressed competition unless, after meaningful analysis, it was determined that the conduct constituted a violation of the antitrust law.

Title VI of the Act is directed at closing a loophole in the United States patent laws that has impaired the ability of process patent holders to earn their rightful reward and so has artificially reduced the incentive to create and develop process inventions and innovations. In addition, this loophole has created a perverse incentive for United States firms to manufacture products outside this country using foreign labor.

Process patents are of particular importance in our nation's effort to increase the productivity of labor and the ability of our industry to compete in transnational markets. Those patents generally are granted for new uses of existing goods or for new ways to produce existing goods. They are therefore particularly important in increasing the efficiency of industry and thereby in enabling United States firms to manufacture products at minimum cost.

Under current law the owner of a patent covering a process has significantly less protection against the unauthorized use of his invention than the owner of a patent covering a product. Where a product patent is involved, a firm cannot avoid infringement by manufacturing the product overseas and then importing it into the United States because the use or sale of the product in the United States would infringe the United States product patent. Where a process patent is involved, however, there is often no effective means by which a patentee can prevent a firm from practicing the process patent overseas and then selling the product made by that process in the United States. Under United States patent law, this

conduct does not constitute infringement of the process patent. This loophole not only discourages firms from investing in R&D aimed at discovering new and better processes, but it also encourages firms to perform the manufacturing overseas with foreign labor when a United States process patent is involved.

Title VI is directed at eliminating both of these undesired effects by classifying the sale in the United States of a product made by a process covered by a United States patent as an infringement of the process patent, regardless of where in the world the patent is practiced.

In conclusion, the National Innovation and Productivity Act of 1983 is important, timely, and economically necessary legislation. The five substantive titles have been carefully drafted to amend the antitrust and intellectual property laws in ways that respond to specific problems. The changes envisioned by the Act will remove impediments to, and add incentives for the creation and exploitation of new technology. By assuring a higher level of innovation in this age of high technology, the Act not only will enhance the competitive position of United States firms in international markets, but it should also materially improve the standard and quality of life for all the citizens of this country. The National Innovation and Productivity Act of 1983 furthers the interests of all Americans and deserves bipartisan support. I urge that this crucial legislation be enacted as quickly as possible.

THE WHITE HOUSE

WASHINGTON

October 6, 1983

MEMORANDUM FOR ROGER B. PORTER
WENDELL W. GUNN
MARY JO JACOBI

FROM: LEHMANN K. LI

SUBJECT: Status of Administration Contacts with Business Groups on Innovation Legislation

Following is a status report of the business groups with which the Administration has met to discuss the "National Productivity and Innovation Act of 1983."

General Business Groups:

National Association of Manufacturers

Jim Carty and Howard Vine (Rule, Li on 9/28)
Jim Carty (Baxter on 9/30)

Business Roundtable

Samuel Maury and Tom Leary (Rule, Li on 9/28)

Chamber of Commerce

Hank Cox (Rule, Li on 9/28)

High Tech Business Groups:

Microelectronics Computer Company (Inman)

(No one)

Semiconductor Research Corporation

Erich Bloch and Larry Sumney (Merrifield on 9/21)

Electronics Industries Association

(No one)

Semiconductor Industry Association

(No one)

Computer and Business Equipment Manufacturers Association

(No one)

American Business Conference

(No one)

American Electronics Association

(No one)

National Electric Manufacturers Association

(No one)

Pharmaceutical Manufacturers Association

(No one)

Health Industry Manufacturers Association

(No one)

Proprietary Association (Over-the-counter drugs)

(No one)

Coalition of High Tech Groups

Emory Sneeden and Frank Polk (Rule on 9/29)

Traditional Industry Business Groups:

American Iron and Steel Institute

(No one)

Motor Vehicles Manufacturers Association

(No one)

Chemical Manufacturers Association

(No one)

National Machine Tool Builders Association

(No one)

Other Groups:

Small Business Legislative Council

Jerold Nagy, Donald Randall, Jered Blum, Tom Mauro, Eric Schellin, A. Everette MacIntyre (Baxter on 9/28)

The Office of Public Liaison (Mary Jo) is arranging a briefing in

the EOB on October 13th for most of the groups listed above. Bill Baxter and Jerry Mossinghoff will be conducting the briefing.

THE WHITE HOUSE

WASHINGTON

October 13, 1983

MEMORANDUM FOR ROGER B. PORTER
WENDELL W. GUNN
MARY JO JACOBI

FROM: LEHMANN K. LI

SUBJECT: Differences Between Administration and Other Innovation Legislation

The Administration's National Productivity and Innovation Act is different from competing joint R&D venture bills on the Hill in several important respects. Our proposed bill:

- o Includes greater incentives for intellectual property licensing that other bills do not have.
- o Avoids setting standards for joint R&D ventures.
- o Avoids requiring joint R&D ventures to allow all firms access to the venture.
- o Avoids requiring mandatory licensing of discoveries resulting from the venture.
- o Avoids Justice Department regulation of ventures.

Attached is a concise Justice Department paper describing the differences in greater detail. I would strongly urge that you read the entire paper (only four pages long) since we will have to explain the differences in the bill to various groups over the next few weeks.

Attachment

THE NATIONAL PRODUCTIVITY AND INNOVATION ACT OF 1983 IS THE BEST APPROACH TO ENCOURAGING INNOVATION AND ENABLING AMERICAN INDUSTRY TO KEEP PACE WITH OVERSEAS COMPETITORS

The National Productivity and Innovation Act ("NPIA") represents a comprehensive approach to improving the incentives for private sector R&D. All other proposals currently before Congress are narrowly focused on the relationship between the antitrust laws and joint R&D. Although the NPIA (H.R. 3878 and S. 1841) also eliminates the adverse deterrent effect the antitrust laws may be having on the formation of joint R&D ventures, the NPIA goes much further.

Certain types of R&D can be performed more effectively and at lower cost by firms acting jointly rather than individually. Nevertheless, businesses perform individually rather than jointly a very large percentage of R&D. More than a solution for joint R&D, therefore, is required if we hope to increase the incentives for R&D. By increasing the protection afforded to the fruits of R&D and by enhancing the efficiency with which those fruits can be developed and marketed, the NPIA will have a long-lasting, broad-scale effect on the private sector's willingness and ability to create, develop and market new technologies. The bill consequently promises a more profound improvement in productivity and competitiveness than the other bills before Congress. To increase such incentives, the NPIA makes several other key improvements in antitrust and intellectual property law:

- Title III of the NPIA eliminates inappropriate "per se illegal" antitrust rules that adversely affect the licensing of patents, technical know-how, and other intellectual property. Courts occasionally have applied such rules in the mistaken belief that the exclusive rights to which an inventor is entitled are somehow inconsistent with the antitrust laws. Judicial hostility has inhibited licensing conduct that enables inventors to obtain adequate rewards for their investment in R&D and that brings new technology to the marketplace in the most efficient manner. Title III assures that courts will not condemn intellectual property licensing under the antitrust laws unless it is truly anticompetitive.

  Title III also limits damages in antitrust cases based on intellectual property licensing to actual, rather than treble damages. Punitive treble damages are appropriate in many antitrust contexts, but can overdeter conduct such as intellectual property licensing that has significant potential societal benefits. Title III preserves an appropriate compensatory antitrust remedy against licensing practices that are, on balance, anticompetitive.

- Title IV of the NPIA modifies in a modest but important way the misuse defense as applied to patent and copyright licensing practices. Originally the courts crafted the defense to counter anticompetitive overreaching by patent holders. Over time, however, judges began to use the misuse defense to deny patentees protection without the careful economic analysis required to distinguish procompetitive from anticompetitive behavior. Title IV makes clear that courts may not condemn certain licensing practices as misuse on competitive grounds unless the practices violate the antitrust laws.

- Title V of the NPIA closes a serious loophole in the patent laws. Currently, a U.S. process patent is not infringed when, without the patentee's authorization, the patent is practiced outside this country and the products made by the process are imported for sale or use into this country. Present trade law remedies do not provide adequate protection. Under Title V, the use or sale in the United States of products made by an infringing process would constitute an infringement of a process patent. Title V thus enables U.S. process patentees to obtain their rightful return on investment in R&D.

Taken together, these reforms complement the NPIA's elimination of the perceived antitrust deterrent to joint R&D, and will provide an important addition to this nation's effort to improve its productivity in an increasingly competitive world environment.

The NPIA approach to the application of the antitrust laws to joint R&D does not replace sound antitrust principles with new standards that may discourage R&D and in some circumstances be anticompetitive. Existing antitrust standards do not actually condemn procompetitive joint R&D; the "antitrust deterrent" to joint R&D is a matter of perception, or rather misperception, largely based on old cases that did not involve R&D. In fact, under existing antitrust standards, joint R&D generally presents no antitrust problem at all. The NPIA preserves these liberal standards, as well as a necessary safeguarding of competitive incentives to innovate.

Other bills propose a wide variety of new federal standards and strictures that would govern joint R&D ventures. These standards cover such detail as the eligibility of firms to participate, admission and withdrawal rules, basic organization, management, the scope of permissible activities, duration, various and varying financial obligations of participants, use of any information that is developed by the venture, and a wide variety of other particulars. Taken as a whole, these proposed standards would constitute significant new federal regulation of key innovative efforts. Moreover, many of these standards are irrelevant to any attempt to

distinguish procompetitive joint R&D ventures from anticompetitive ones. While a very few joint research ventures might find such conditions acceptable, the new standards clearly have the potential for discouraging an unknown and unknowable number of others. All joint R&D ventures need not fit the same mold to be in the public interest.

Many of the proposed new standards apparently were designed with competitive goals in mind. None, however, possesses the flexibility and accuracy of existing antitrust standards in distinguishing between procompetitive and anticompetitive ventures. Some are inherently anticompetitive, and directly at odds with the patent and other intellectual property laws that we rely on to encourage innovation in the first place. For example:

- Many of the bills attempt to provide a safe-harbor for joint R&D ventures, in part, on the basis of the market share represented by the particular venture. The percentage of the market that the venture represents is certainly relevant to a determination of the competitive merits of a joint venture; however, it is very difficult to translate the concern about market-share into workable statutory criteria. Regardless of the specificity of the statutory language used to define what is meant by "market" and "market share," the outcome of any market share test will largely depend on who is performing the test. Consequently, it is difficult to conceive of an effective statutory market-share test that can provide any more certainty than the current antitrust standard.

  The solution, however, is not to develop a statutory safe-harbor that ignores market share. Because market share is the single most important factor affecting whether a joint R&D venture is in the public interest, it must be considered. The problems with a market share test simply serve to point out the inherent difficulty in trying to draft a statutory safe-harbor.

- Several of the bills contain proposals that would require a joint R&D venture to provide all firms (or all American firms) with access to the venture. The effect of such a standard would be to force a joint venture to include a greater percentage of the market than otherwise would be the case. First, forcing a joint R&D venture to accept all interested firms into the venture may make the collaborative endeavor so unattractive that the venture is never formed. Second, mandatory access can be anticompetitive. Rivalry or competition spurs most R&D; guaranteeing that all of a firm's competitors will be able to share in its discoveries effectively destroys this competitive incentive.

- Similarly, many of the bills require joint R&D ventures to license the technology they develop to all applicants at reasonable royalties. Generally, the bills would require joint R&D ventures compulsorily to license their technology three years after the technology is first commercially exploited. Such compulsory licensing standards effectively repeal the 17-year period of exclusivity normally provided to patents. Because the rewards of exclusive intellectual property rights provide much of the incentive for investment in R&D, cutting back the duration of those rights is likely to result in far less R&D.

  Moreover, the three-year compulsory licensing provision will reduce the attractiveness of joint R&D to all industries except those in which technology generally becomes obsolete within three years. Consequently, protection will be denied to a large number of industries. Moreover, the precedent of statutorily mandated licensing will severely undercut the stand against compulsory licensing that the United States has consistently taken in international fora. For example, the President has indicated that one reason the United States refused to sign the Law of the Sea Treaty was the Treaty's compulsory licensing provisions. Our condemnation of such licensing would ring hollow if compulsory licensing appeared in our own statutes.

  Titles III and IV of the NPIA provide a means which is far superior to compulsory licensing, of assuring rapid, economy-wide dissemination of new technologies. Those titles greatly increases the willingness and ability of intellectual property owners to license their technology voluntarily. Moreover, unlike compulsory licensing, those titles <u>increase</u> rather than erode the incentives to invest in R&D in the first place.

<u>The NPIA involves no new pervasive intervention in the R&D activities of industry through an initial certification or continuing regulatory scheme</u>. Some of the other bills essentially require would-be participants in procompetitive joint R&D to obtain the blessing of the Attorney General in order to obtain the benefits of the legislation. The initial certification, reporting, and continuing review requirements of such proposals would in a very real sense inject the Department of Justice into the planning, implementation, and operation of joint R&D to an unprecedented and wholly unnecessary extent. Because joint R&D is procompetitive, and existing antitrust standards are appropriate, there is no need for a potentially expensive and delay-engendering new regulatory scheme. The Justice Department is best suited to enforce the law; it is not a suitable partner in the planning and carrying out of joint R&D across the full spectrum of American industry.