

## Vexatious Litigation in Intellectual Property

Denis Borges Barbosa, July, 2013.

### *The basics: Vexing through IP*

Our subject is the phenomenon of sham, or vexatious litigation, the definition of which could be the following:

the "use [of] the governmental process - as opposed to the outcome of that process - as an anticompetitive weapon".<sup>1</sup>

For instance: the use of the judicial system for anticompetitive purposes, or to obtain IPR (therefore, a Governmental, but administrative process), under false pretenses.

The issue is particularly difficult, as it joins three complex and sometimes conflicting concerns: the Constitutional right of petition<sup>2</sup>, or whatever name may have the basic power a citizen has to bring its interests to the consideration of the Government; the scope of Intellectual Property rights, as necessary to advance the interests covered by this particular legal institution; and the competition considerations.

In some legal systems, all three of such concerns have Constitutional status, and if so, the balancing act to make them together may be gruesome and acrobatic.

#### Right of petition not to be curbed

The right of petition is particularly important in a democratic environment and the prestige of such Constitutional enablement tends to overweight most vexatious patterns. Thus the General Court noted in the IIT Promedia case that finding the exercise of IP rights objectionable under competition laws should be reserved to "wholly exceptional circumstances"<sup>3</sup>.

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1 City of Columbia v. Omni Outdoor Advertising - 499 U.S. 365 (1991).

2 In the American Constitution, located at First Amendment, which prevents the Congress from abridging "the right of the people...to petition the Government for a redress of grievances". The protection of the same interest may be found, for instance, at the Article 227 of the Treaty on the Functioning of the European Union, or at the Brazilian Constitution, Art. 5, XXXIV – "everyone is entitled, regardless of payment of fees: a) the right to petition the Government in defense of its rights or against illegality or abuse of power; b) obtaining certificates from government departments, for the in defense of its rights, or to clarify situations of personal interest; XXXV - the law shall not exclude any injury to a right or threat thereto from review by the Judiciary".

3 Case T-111/96 IIT Promedia NV v Commission of the European Communities [1998], ECR II-2937.

The same tone was found in the official United States response to the 2012 WIPO inquiry on sham litigation<sup>4</sup>, referring to the current case law test for finding a sham litigation objection:

“This standard is difficult to meet, and very few cases have met the stringent test for this exception.”

#### Intellectual property rights fulfills a relevant role in society

On the other hand, Intellectual Property laws operate basically by restraining certain competition. An exclusive right as the one protecting a new plant variety or a computer program creates a specific place in the competitive environment where the use of such variety or program is private to its titleholder, refusing such use to any other competitor - during its term and considering the pertinent territory, as well as its exceptions and limitations.

Therefore, as IP enforces interests through exclusive rights in competitive environments, there must be a proper extension where the use of such exclusive rights is protected against antitrust concerns.

The intersection between competition law and IP occurs in two ways:

- either the exclusive rights upon creations are the effective cause of the damage to competition,
- or are mere accessories, even though relevant, of one effective or potentially damageable practice. (...) <sup>5</sup>.

Regarding cases in which the IP law is the cause of a tort or potential tort to competition, some authors indicate that the *regular* use of an exclusive right *does not* presume an illegal restriction to competition, but also does exclude possibility of anti-competition effects.

Why so? The Intellectual Property laws and practice are supposed to ingrain some defenses against misuse and distorted enforcement of such rights. The need for external constraints, like those offered by antitrust or civil procedure rules would therefore be a “second tier” remedy in face of the inherent IP filters.

Obviously such inherent restraints are not sufficient, as states a recent US Supreme Court case:

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4 U.S. Response To The IPEA/WIPO "Sham Litigation" Questionnaire, as reported in the Doc. WIPO, CDIP/9/INF/6, February 22, 2012, Committee on Development and Intellectual Property (CDIP), Ninth Session, Geneva, May 7 to 11, 2012, Study On The Anti-Competitive Enforcement Of Intellectual Property (Ip) Rights: Sham Litigation, prepared by the Institute for Applied Economic Research (IPEA), Brasilia.

5 For instance, BARBOSA, Denis Borges, A criação de um ambiente competitivo no campo da propriedade intelectual o caso sul americano, UNCTAD, 2005, found at <http://www.iprsonline.org/unctadictsd/docs/Barbosa%20FINAL%20formatado.pdf>

Although the anticompetitive effects of the reverse settlement agreement might fall within the scope of the exclusionary potential of Solvay's patent, this does not immunize the agreement from antitrust attack<sup>6</sup>.

### Is the issue yet relevant?

Although the legal doctrine of vexatious litigation seems far from desuetude, reverse payment cases (as the last cited) and a steady flow of litigation related to the activities of the Patent Assertion Entities (“PAEs”) issue and the FRAND/RAND situations in patent pooling practice have deflected some of the focus in the theme.

Fact is, the troll epidemics<sup>7</sup>, the reverse payment syndrome<sup>8</sup> and the patent pooling problems<sup>9</sup> are alternate symptoms for one and same malaise, which could perhaps be described as a necrotic disease of the Intellectual Property system. The recent number of cases dealing with these matters far surpasses the sham litigation issues.

However, in a 2012 case, the ITT Promedia reasoning was used and rekindled, as a relevant mechanism in making good the promises of the Intellectual Property system<sup>10</sup>. The recent European case of Google/Motorola Mobility<sup>11</sup> also refers

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6 FTC v. Actavis, Inc., 570 U.S. \_\_\_\_ (2013). The court felt that the amounts paid to a competitor to defer entry into market after the indicated a flawed patent: “[T]he size of the unexplained reverse payment can provide a workable surrogate for a patent’s weakness, all without forcing a court to conduct a detailed exploration of the validity of the patent itself” [p. 19-20]. However, the Court emphasized that a rule of reason standard should be applicable in each specific case to assess whether the practice is objectionable. In other case related to reverse payments, Case COMP/ AT. 39226 – Lundbeck, the European Commission Decided on 19 June 2013 on homologous fashion, but apparently choosing a more objective standard. On September 2013, Lundbeck noted its intent to bring the case to a court review.

7 Cotropia, Christopher Anthony and Kesan, Jay P. and Schwartz, David L., Patent Assertion Entities (PAEs) Under the Microscope: An Empirical Investigation of Patent Holders as Litigants (November 10, 2013). Illinois Program in Law, Behavior and Social Science Paper No. LBSS 14-20; Illinois Public Law Research Paper No. 14-17; Chicago-Kent College of Law Research Paper No. 2013-49. Available at SSRN: <http://ssrn.com/abstract=2346381> or <http://dx.doi.org/10.2139/ssrn.234638>.

8 Although the trend of reverse payments is certainly outside the purview of this study, see CARLIN, Fiona, Turducken on the Menu: Initial Reflections on the Implications of the European Commission's Lundbeck Decision, at [http://www.bakermckenzie.com/files/Publication/c3cdd58f-41b5-47c4-b1da-04a34ac8a327/Presentation/PublicationAttachment/7442ae01-97b8-4688-ab03-05930cb1bd39/AR\\_Europe\\_EuropeanCommissionsLundbec\\_Jun13.pdf](http://www.bakermckenzie.com/files/Publication/c3cdd58f-41b5-47c4-b1da-04a34ac8a327/Presentation/PublicationAttachment/7442ae01-97b8-4688-ab03-05930cb1bd39/AR_Europe_EuropeanCommissionsLundbec_Jun13.pdf). See also HOVENKAMP, Herbert. JANIS, Mark; e LEMLEY, Mark. Anticompetitive Settlement of Intellectual Property Disputes. California: Boalt Working Papers in Public Law, Boalt Hall, UC Berkeley, 2003. found at: <<http://escholarship.org/uc/item/6v9359nt>>. Access on 4 mar. 2012

9 See AOKI, Reiko e NAGAOKI, Sadao. Coalition formation for a consortium standard through standard body and a patent pool: Theory and evidence from MPEG2, DVD e 3G. IIR Working Paper, WP#05-01, 2004. found at: <<http://www.ir.hit-u.ac.jp/ir-w3/file/WP05-01aoki,%20nagaoka.pdf>>. Access on 4 mar. 2012. BARPUJARI, I.. Patent Pools at the Interface of Patent and Competition Regimes. Journal of Intellectual Property Rights, v. 15, p. 345-356, 2010. CONTRERAS, Jorge L.. An Empirical Study of the Effects of Ex Ante Licensing Disclosure Policies on the Development of Voluntary Technical Standards. National Institute of Standards and Technology, n. GCR 11-934, jun. 2011. Found at: <<http://ssrn.com/abstract=1916743>>. Access on 4 mar. 2012. LIM, Daryl. Misconduct in Standard Setting: The Case for Patent Misuse. IDEA: The Journal of Law and Technology, v. 51, n. 4, p. 557, jun. 2011. Found at: <<http://ssrn.com/abstract=1871449>>. Visited: 4 mar. 2012.

10 Case T-119/09, Protégé International Ltd, v. Commission européenne, 13 September 2012.

the ITT Promedia standards; and the case Scarlet<sup>12</sup>, even not mentioning directly the case, makes use of a balancing mechanism of Constitutional interests quite similar to the one used in Promedia.

### ***The WIPO Study***

WIPO has commissioned on 2011 four studies on the relation of antitrust law and practice and IP matters, as a part of the implementation of its Development Agenda<sup>13</sup>.

The specific research on vexatious litigation<sup>14</sup> revealed the truly global nature of the issue. Taking only from the official answers to the WIPO inquiry and some limited research on a limited number of national environments, sham or vexatious litigation has been appearing in the dockets of judicial and administrative authorities of twelve countries, in addition to the US and EU<sup>15</sup>.

The scope of the study was thus defined:

"The administrative or judicial procedures concerning any of the rights covered by Article 1.1 of TRIPs, brought to the attention of Intellectual Property authorities or antitrust agencies, where at least one of the following aspects is conspicuously present:

(a) procedures where the final favorable prospects for plaintiff (or requiring party) is evidently improbable, but the initiation or continuation of the procedure by itself is liable to have anticompetitive effects OR

(b) procedures multiplied on the same or closely related causes of action where such reiteration of actions or requests (even though each one action or request by itself would be procedurally reasonable) also is liable to have anticompetitive effects OR

(c) other actions, initiatives or requests where the benefit to plaintiff or requesting party could result from the initiation or continuation of the

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11 COMP/M.6381 – Google/Motorola Mobility (2012),

12 C-70/10 Scarlet Extended SA v Société belge des auteurs, compositeurs et éditeurs SCRL (SABAM) [2011].

13 "The project yielded four studies which are under discussion in the Committee, i.e. "Interaction of Agencies Dealing with Intellectual Property and Competition Law"; "Interface Between Exhaustion of Intellectual Rights and Competition Law"; "Analysis of the Economic/Legal Literature on the Effects of IP Rights as a Barrier to Entry"; and "Study on the Anti-Competitive Enforcement of Intellectual Property Rights: Sham Litigation". WIPO doc. CDIP/9/2, March 19, 2012.

14 SALGADO, L. H., BARBOSA, D. B., ZUCOLOTO G. Study on The Anticompetitive Enforcement of Intellectual Property Rights: Sham Litigation. Geneva, 2011. (available at [http://www.wipo.int/meetings/en/2011/wipo\\_ip\\_ge\\_11/docs/study.pdf](http://www.wipo.int/meetings/en/2011/wipo_ip_ge_11/docs/study.pdf))

15 Mexico, Spain, South Korea, Argentina, Australia, New Zealand, France, South Africa, Canada, Chile, Peru and Brazil

procedure itself rather than the final result of the exercise, and such initiation or continuance by itself is liable to have anticompetitive effects; OR

(d) any actions, initiatives of requests, which under domestic law is classifiable as abuse of right or abuse of process, and such abuse is liable to have anticompetitive effects "

## ***A European Perspective***

The use of the governmental process as an anticompetitive weapon was the theme of a crucial precedent of the European General Court: the ITT Promedia case, which subsists as the relevant legal treatment of the issue<sup>16</sup>.

Reviewing the administrative decision, the court stated:

55 The Commission states that, in order to be able to determine the cases in which such legal proceedings are an abuse, it laid down two cumulative criteria in the contested decision: it is necessary that the action

- cannot reasonably be considered as an attempt to establish the rights of the undertaking concerned and can therefore only serve to harass the opposite party and
- it is conceived in the framework of a plan whose goal is to eliminate competition (hereinafter 'the two cumulative criteria').

56 According to the Commission, under the first of the two criteria the action must, on an objective view, be manifestly unfounded. The second criterion requires that the aim of the action must be to eliminate competition. Both criteria must be fulfilled in order to establish an abuse. The fact that unmeritorious litigation is instituted does not in itself constitute an infringement of Article 86 of the Treaty unless it has an anti-competitive object. Equally, litigation which may reasonably be regarded as an attempt to assert rights vis-à-vis competitors is not abusive, irrespective of the fact that it may be part of a plan to eliminate competition.

Adding its own reasoning, the Court continued:

72 (...) legal proceedings can be characterised as an abuse, within the meaning of Article 86 of the Treaty, only if they cannot reasonably be considered to be an attempt to assert the rights of the undertaking concerned and can therefore only serve to harass the opposing party. (...)

In its most recent case, the Court further noted:

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16 Case T-111/96, ITT Promedia NV v Commission of the European Communities. Judgment of the Court of First Instance (Fourth Chamber, extended composition) of 17 July 1998. European Court reports 1998, Page II-02937, visited 12/12/2010, found at [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=en&numdoc=61996A0111](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=en&numdoc=61996A0111)

“the action must be objectively unreasonable or manifestly unfounded”<sup>17</sup>

Again in the ITT Promedia case:

73 Furthermore, when applying that criterion, it is not a question of determining whether the rights which the undertaking concerned was asserting when it brought its action actually existed or whether that action was well founded, but rather of determining whether such an action was intended to assert what that undertaking could, at that moment, reasonably consider to be its rights. According to the second part of that criterion, as worded, it is satisfied solely when the action did not have that aim, that being the sole case in which it may be assumed that such action could only serve to harass the opposing party.

As noted Vesterdorf<sup>18</sup>, the General Court in *ITT Promedia* and *Protégé International* found that the access to courts is a very essential right and only in the “wholly exceptional circumstances” the filing of a legal action may be objectionable. The two criteria mentioned should be observed, and in addition to that

The Court then explicitly stated that those two criteria must be interpreted and applied restrictively since they are an exception to the general and fundamental rule of right of access to courts.

Therefore, the first prong of the test displays an *objective* standard: plaintiff’s legal position at the inception of the action should be evaluated as whether it *reasonably* could consider claim in action as to be its rights.

There should be no inquiry as to the *subjective* conditions of the plaintiff, as is just necessary to determine whether *a* person at that moment, canvassing the corresponding factual and legal material, would *reasonably* conclude that the rights claimed were actually his.

The second prong, however, by requiring the demonstration of “a framework of a plan”, that is to say, a deliberate and purposeful set of actions, the goal of which is eliminate competition, enters necessarily in a subjective level<sup>19</sup>..

Within the Union, but at national level, the 2012 Pfizer case<sup>20</sup> raised once more the “stringent test” required to surpass the right to petition entitlement. The

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17 Case T 119/09, *Protégé International Ltd, v. Commission européenne*, 13 September 2012.

18 VESTERDORF, Bo, IP Rights and Competition Law Enforcement Questions, *Journal of European Competition Law & Practice* first published online February 7, 2013doi:10.1093/jeclap/lpt005

19 SALGADO, L. H., BARBOSA, D. B., ZUCOLOTO, cit.

20 According to VEZZOSO, Simonetta, Towards an EU Doctrine of Anticompetitive IP-Related Litigation *Journal of European Competition Law & Practice* (2012) 3 (6): 521-535 first published online October 25, 2012 doi:10.1093/jeclap/lps058: "After completion of the Sector Inquiry, national competition authorities within the EU have been increasingly monitoring the pharmaceutical sector. On 11 January 2012, the Italian Competition Authority (ICA) fined Pfizer more than €10m for an alleged infringement of Article 102 TFEU. (...) The ICA argued that the plan was essentially based on artificially extending the duration of Pfizer's patent protection beyond the expiring date of the basic patent due in 2009

judicial decision faulted the administrative ruling on account of the lack of subjective intent to harass.

### ***The US Perspective***

From the other side of the pool, persists the Noerr-Pennington rule: the object of the right of petition is exempted from antitrust concerns, *unless* utilized in a sham manner.

As examples of such misuse of a Governmental process, the U.S. case law offers:

a frivolous objections to the license application of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972).

A "sham" situation involves a defendant whose activities are "not genuinely aimed at procuring favorable government action" at all, *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500, n. 4 (1988),

But there would be no sham in a case where the petitioner "genuinely seeks to achieve his governmental result, but does so through improper means". *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500, n. 4 (1988), at 508, n. 10 (quoting *Sessions Tank Liners, Inc. v. Joor Mfg., Inc.*, 827 F.2d 458, 465, n. 5 (CA9 1987)). [499 U.S. 365, 381]

Current legal analysis discerns three conflicting interests whenever the right to petition is deemed to carry an anticompetitive burden:

These tenets are:

- (1) The right of citizens to petition the government for redress of grievances,
- (2) The ability of the government to protect the integrity of its processes which provide the structural framework permitting a democratic form of governance, and
- (3) The need for competition in the marketplace in order to drive a capitalistic economy<sup>21</sup>

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through the filing of an application for a divisional patent and requesting an SPC in Italy. This created a state of legal uncertainty as to the possibility of legally marketing new generic products that delayed market entry by generics companies in the glaucoma eye treatment market. Pfizer's actions led to uncertainty as to whether the generics companies could legally market their own versions of the drug, as well as rendering commercialisation of the generic versions more expensive. On 3 September 2012, however, the Lazio administrative court reversed the decision by the ICA. According to the Italian court, the ICA failed to prove "a clear exclusionary intent in light of a quid plus further to the mere summation of behaviors regarded as legitimate by the administrative and judicial system"

21 J.B. Perrine, Defining the "Sham Litigation" Exception to the Noerr-Pennington Antitrust Immunity Doctrine: An Analysis of the Professional Real Estate Investors v. Columbia Pictures Industries Decision, 46 ALA. L. REV. 815 (1995).

Eventually the case law elaborated a set of tests for determining which were those unfounded and meritless petitions. Following such tests, the Noerr exemption from antitrust screening would be denied wherever a petition was held to lack two cumulative requirements:

- in those cases where no reasonable litigant could realistically expect success on the merits; and
- Whether the baseless suit conceals "an attempt to interfere directly" with a competitor's business relationships<sup>22</sup>.

The first requirement (as shown in the European case) is to be employed as an *objective* standard. There would not be any insight into the subjective motives of the petitioner, but an application of the centuries-old standard of the *bonus paterfamilias*: Here, the version of such abstract standard would be "the reasonable litigant". Would a reasonable litigant initiate and pursue such action in court to seek redress for its own grievances?

Again, the second test presupposes an inquiry on the intent of the petitioner by filing and pursuing the legally baseless suit<sup>23</sup>.

#### Very similar tests

Rickardsson notes that the Noerr-Pennington and ITT Promedia tests are very similar:

Under Noerr-Pennington the first question to be answered is whether, objectively speaking, the firm initiating the legal action reasonably could believe it had rights to protect, which is more or less the same as the test proposed by the Commission in ITT Promedia.

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22 - An important case was *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). "California Motor played a significant role in the development of both the Noerr doctrine and the sham exception. It more firmly established the constitutional basis for the doctrine, extended the doctrine to the judicial context, and actually applied the sham litigation exception for the first time". 46 Ala. L. Rev. 815, 824 - "Litigation cannot be deprived of immunity as a sham unless it is objectively baseless. This Court's decisions establish that the legality of objectively reasonable petitioning "directed toward obtaining governmental [508 U.S. 49, 50] action" is "not at all affected by any anticompetitive purpose [the actor] may have had." *Id.*, at 140. Thus, neither Noerr immunity nor its sham exception turns on subjective intent alone. See, e.g., *Allied Tube Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 503 . Rather, to be a "sham," litigation must meet a two-part definition. First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of the definition, a court should focus on whether the baseless suit conceals "an attempt to interfere directly" with a competitor's business relationships, Noerr, *supra*, at 144, through the "use [of] the governmental process - as opposed to the outcome of that process - as an anticompetitive weapon," *Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365, 380. This two-tiered process requires a plaintiff to disprove the challenged lawsuit's legal viability before the court will entertain evidence of the suit's economic viability. Pp. 55-61." *PREI, INC. v. COLUMBIA PICTURES*, 508 U.S. 49 (1993) 508 U.S. 49, visited 2/8/2010, found at <http://caselaw.lp.findlaw.com/scripts/getcase.pl?navby=search&court=US&case=/us/508/49.html>.

Here, only objective factors are taken into consideration, and it is what the firm initiating the proceeding reasonably could believe at the time the lawsuit was initiated that is relevant, later events having no bearing on that finding.

Second, both tests propose that if one can find that there was no merit to the case the court will have to decide whether the lawsuit was conceived in a plan whose goal was to eliminate competition, the last inquiry being an inquiry into the subjective intent of the dominant undertaking.<sup>24</sup>

### *A Brazilian Example*

In Brazil, the first conviction in a purely anticompetitive litigation (or sham litigation) case in intellectual property arena dealt with the anticompetitive abuse of copyrights in sales TV channels, the 2010 Shop Tour case<sup>25</sup>.

As a Brazilian study put it<sup>26</sup>:

“The Brazilian decision on the Shop Tour case (PA 08012.004283/2000-40) taken on 15/12/2010 is the first conviction in Brazil for sham litigation and seems to be the only recent conviction worldwide. It sheds some light on the topic.

The case dealt with sham litigation concerning bringing lawsuits against competitors in the sales TV channels segment for alleged violations of copyrights on the scripts of those sales opportunity shows.

The decision reviewed the history of all lawsuits involved – as the respondent claimed it had won several of them. The decision pointed out that all those victories in first instance were reversed at upper courts when appealed.

This was enough to dismiss the defense argument and characterize that the respondent could not reasonably expect to win those suits and therefore they were a sham aimed at excluding competitors by claiming false abuses of IP”.

Once such blood was tasted, Brazilian plaintiffs filed a number of comparable claims before the antitrust authorities. On December 5, 2011, three out of the five similar Pharmaceutical industry cases concluded instruction and were sent to the authority’s judging panel, condemnation recommended<sup>27</sup>.

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24 RICKARDSSON, Ola. Patent misuse and ‘sham’ – Development of new principles under EU competition law, Master thesis presented to the Faculty Of Law, Lund University, 2010. Found at <http://lup.lub.lu.se/luur/download?func=downloadFile&recordOID=1678737&fileOID=1728683>, visited 12/12/2010

25 CADE PA 08012.004283/2000-40)(December, 2010)

26 SALGADO, L. H. and MORAIS, Rafael Pinho de, A New Test for Anticompetitive Litigation, Available at: [http://works.bepress.com/lucia\\_salgado/22](http://works.bepress.com/lucia_salgado/22), visited Dec. 26, 2013.

27 SALGADO, Lucia Helena and MORAIS, Rafael Pinho de, The new Brazilian Antitrust Law: beyond the basics, found at [http://works.bepress.com/lucia\\_salgado/19/](http://works.bepress.com/lucia_salgado/19/), visited Dec. 26, 2013.

## ***The problem of false negatives and a proposal to prevent it***

The juggling of tests required to assert the proper balance among the right of petition/Intellectual Property Rights/ Competition laws interests probably raises unwarranted uncertainties to the market players and to the Government.

Ianos and Dreyfuss has raised recently an interesting question regarding the notion of “baselessness” whenever analyzing an allegation of sham/vexatious behavior:

“However, in this some courts may consider baseless an action that other courts will consider meritorious. This risk is particularly present in situations in which the concept of what constitutes a baseless claim may be influenced by the court's conception of the adequate balance to achieve between allocative and dynamic efficiency.

The establishment of a bright-line rule may lead to an important risk of false negatives”<sup>28</sup>.

Salgado and Pinho<sup>29</sup>, from a rather distinct standpoint, also raise such issue. For such authors, the specific problem that should be focused is what they suggest it should be called a “Predatory litigation”. Here, an objective scenario would preclude the unpredictiveness of the Promedia/PREI filters.

A situation of this kind would most probably occur when the litigator is a dominant firm or a collusion of firms and the other part is a recent competitor that has just entered the market – or is a potential competitor. The litigation then would be filed in order to prevent or delay the entry or expansion or the plaintiff, or force its exit.

Considering this specific context, the authors suggest a test, necessarily distinct from the Promedia/PREI battery:

- If the incumbent firm has decided to incur in litigation costs;
- If the level of market price remained pretty constant for a fair period of time;
- If there are economies of scale or equivalent cost advantages (such as learning by doing) present in the case;

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<sup>28</sup> LIANOS, Ioannis & DREYFUSS, Rochelle C., New Challenges in the Intersection of Intellectual Property Rights with Competition Law - A View from Europe and the United States, April 2013, found at <http://www.ucl.ac.uk/cles/research-paper-series/research-papers/cles-4-2013>, visted June 12, 2013

<sup>29</sup> SALGADO, L. H. and MORAIS, Rafael Pinho de, A New Test for Anticompetitive Litigation, Available at: [http://works.bepress.com/lucia\\_salgado/22](http://works.bepress.com/lucia_salgado/22).

- If the investigation can verify “raising rival cost” pieces of evidences in testimonies.

**All these conditions should be present** in order for a case to be accepted as a sham litigation case”.

The problem to be solved with such an approach is certainly more constrained than the object we have been examining here. A Cartesian strategy as suggested may be useful, but some of the reported cases (the Brazilian Shop Tour would seem to be an example) would probably fail the test.

### ***The second stream of cases: anticompetitive exercise of IP rights illicitly acquired***

In the Astra-Zeneca Case<sup>30</sup>, the General Court noted that “the submission to the public authorities of misleading information liable to lead them into error and therefore to make possible the grant of an exclusive right to which the undertaking is not entitled...” was an objectionable behavior.

This reflects a different breed of legal reasoning occurred initially in the US legal system in connection with a series of cases where an IP Right, obtained by fraud or otherwise by illegal means, was *exercised* on a competitive environment (the “Walker Process” doctrine)<sup>31</sup>.

This rationale identifies an anticompetitive behavior not in the use of *procedure* to attain the plaintiff’s results, but in the enforcement of a *tainted* substantive right, including through a right of petition.

Here, the constraints of a Constitutional right of petition is not so apparent, but even so, to defeat the presumption of validity of the IP Right, a steep set of requirements is imposed on the party alleging such misconduct<sup>32</sup>.

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30 General Court of the European Union in Case T-321/05 AstraZeneca v Commission [2010] ECR II-2805]. The complete citation is: "In the present case, the Court observes that the submission to the public authorities of misleading information liable to lead them into error and therefore to make possible the grant of an exclusive right to which the undertaking is not entitled... constitutes a practice falling outside the scope of competition on the merits which may be particularly restrictive of competition. Such conduct is not in keeping with the special responsibility of an undertaking in a dominant position not to impair, by conduct falling outside the scope of competition on the merits, genuine undistorted competition in the common market..." [Par. 355] This decision was upheld by the CJEU in the Judgment of the Court (First Chamber) of 6 December 2012, In Case C-457/10 P.

31 Walker Process Equipment, Inc. v. Food Machinery and Chem.Corp, 382 U.S. 172 (1965).

32 SALGADO, L. H., BARBOSA, D. B., ZUCOLOTO, cit.

### The “second tier” analysis

The US doctrine treats this approach as a clear “second tier” resource of dealing with illicitly acquired IP Rights, as the internal measures of the IP system are the primary responsible for quashing this illegal behavior

This problem was also felt on a different perspective within the EU system, as indicated the AstraZeneca 2011 case. It could be argued that this standpoint derives from the peculiar construction of abuse of rights in the EU Competition system. There is a very outstanding split of approach in the treatment of anticompetitive acts between the US and EU<sup>33</sup>.

Essentially, the distinct approach derives from the EU Judicial case law according to which a dominant player is prevented to act in a manner that would be irrelevant from non-dominant player; therefore, no subjective intent would be requisite, as there is no need to demonstrate an effective exercise of the illicitly acquired IP Right on an actual anticompetitive context.

See a comparable approach in the Brazilian Tacographs case:

“once a firm has attained dominance in the relevant market, his *elephantine* behavior would render its exercise of the right to redress in face of competitors particularly sensible”..<sup>34</sup>

### ***Conclusion***

The abuse of the Constitutional Right to petition to affirm Intellectual Property rights on an anticompetitive manner is a very sensitive issue.

In a number of jurisdictions, some significant body of law is developed to regulate such dysfunctional use of legal means, essentially through judicial elaboration.

The PREI/POSCO/ITT Promedia set of tests seems to be the most common standard to which the evaluation of such cases is subjected.

Even in jurisdictions where no specific mention of such precedents are frequent, some complex filtering is carried out, considering both the dysfunctional use of the right of petition summed to a evident harm to the competition environment.

Thus, the two-pronged approach seems to be prevalent.

In most jurisdictions, the application of a sham/vexatious litigation argument is contingent to a series of *especially damaging* levels of behavior.

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33 SALGADO, L. H., BARBOSA, D. B., ZUCOLOTO, cit

34 CADE Process 08012.004484/2005-51, decided 18/8/2011.

Demonstration of *intent*, and in many cases a malicious or reckless intent, is very much frequent, even in those systems where a purely objective standard is prevalent.

It could be argued that the double vectors of Constitutional empowerment *and* the peculiar status of IP rights as an exclusive power (thus legally accepted “monopolies”) to enhance dynamic competition, forces out such much steeper criterion on the courts and regulators.

On the other hand, the need to deny the use of IP rights for anticompetitive purposes, especially through the *abusive* employment of the much cherished right to petition, seems to be so spread in the present International environment that the issue is, beyond any doubt, an essential factor in Intellectual Property theory and practice.

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