

## When Patents Are Sovereigns: The Competitive Harms of Leasing Tribal Immunity

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**ABSTRACT.** Under the Hatch-Waxman and America Invents Acts, Congress has established a system for judicial and administrative review of prescription-drug patents that balances exclusive rights for patent holders and the entry of generic competitors. Threatening this balance, the pharmaceutical company Allergan recently transferred prescription drug patents to the Saint Regis Mohawk Tribe, a federally recognized Indian tribe. Because tribal sovereign immunity limits the jurisdiction of courts and other adjudicatory bodies to hear cases involving tribal interests, such actions by brand-name pharmaceutical companies may prevent generic companies and other parties from invalidating patents, likely leading to higher drug prices.

This Essay proposes an option to discourage such transactions: an antitrust suit, which would not require the joinder of all co-conspirators and could thereby sidestep sovereign immunity. The Allergan-Tribe transaction improperly increases the probability that Allergan's patent is upheld beyond what was envisioned by Congress's original grant of market power. To evaluate such transactions, this Essay argues that courts should adopt the permissive "no economic sense" test: when an agreement makes no economic sense *but for* its anticompetitive purpose, patent assignments to a sovereign actor are anticompetitive. This test would prevent the naked lease of sovereign immunity such as the present Allergan-Tribe transaction, while still allowing for productive collaborations between private parties, and sovereign states or tribes. The Essay concludes, however, that antitrust law alone cannot address all misuses of sovereign immunity for private gain; Congress must also take a broader approach to address the lack of tribal economic opportunities.

On September 8, 2017, the global pharmaceutical company Allergan announced that it had transferred its patents for its top-selling drug Restasis, a prescription drug for chronic dry eye, to the Saint Regis Mohawk Tribe, a federally recognized Indian tribe.<sup>1</sup> In its press release, Allergan referenced both

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1. Joint Press Release, Allergan and the Saint Regis Mohawk Tribe, *The Tribe Is Filing Motion to Dismiss Inter Partes Review of RESTASIS Patents Based on its Sovereign Immunity*

pending patent litigation in the federal courts and ongoing inter partes review (IPR) proceedings<sup>2</sup> at the Patent Trial and Appeal Board (PTAB), claiming that the Tribe would not invoke its sovereign immunity in the former, but would file a motion to dismiss in the latter.<sup>3</sup> Under the terms of the agreement, the Tribe received \$13.75 million upon execution and \$15 million in annual royalties in exchange for holding the patents and granting an exclusive license to Allergan.<sup>4</sup>

This announcement led to immediate outcry<sup>5</sup> and drew the ire of members of Congress.<sup>6</sup> Missouri Senator Claire McCaskill has drafted a bill to limit tribal sovereign immunity before the PTAB.<sup>7</sup> The district court judge in the ongoing patent litigation asked if the transaction was a “sham,”<sup>8</sup> and at least one scholar of patent law has argued that – since Allergan retains de facto control of the pa-

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(Sept. 8, 2017), <http://www.allergan.com/news/news/thomson-reuters/allergan-and-saint-regis-mohawk-tribe-announce-agr> [<http://perma.cc/C7KP-EWES>]; see also Allergan, PLC, Annual Report (Form 10-K) (Dec. 31, 2016), <http://allergan-web-cdn-prod.azureedge.net/actavis/actavis/media/allerganinvestors/financial-information/proxy-materials/10-k.pdf> [<http://perma.cc/ZG5P-R5Y4>] (referring to Restasis as one of the “key products” throughout).

2. As described further *infra* Section I.A, under the IPR process, any third party can petition the PTAB for review of a patent on the grounds that it does not meet the requirements for patentability.
3. Joint Press Release, *supra* note 1.
4. *Id.*
5. See, e.g., Josh Landau, *Why Pay for Delay When You Can Pay for Immunity*, PAT. PROGRESS (Sept. 12, 2017), <http://www.patentprogress.org/2017/09/12/pay-delay-can-pay-immunity> [<http://perma.cc/J2YK-8G9M>]; Joe Nocera, *Allergan Patent Deal Isn't Just Unusual. It's Ugly*, BLOOMBERG VIEW (Sept. 11, 2017, 7:25 AM), <http://www.bloomberg.com/view/articles/2017-09-11/allergan-patent-deal-isn-t-just-unusual-it-s-ugly> [<http://perma.cc/2JKB-B95U>]; Rachel Sachs, *Be Very, Very Concerned About What Allergan Just Did*, BILL HEALTH (Sept. 9, 2017), <http://blogs.harvard.edu/billofhealth/2017/09/09/be-very-very-concerned-about-what-allergan-just-did> [<http://perma.cc/ST86-87AJ>].
6. Aaron Mak, *Members of Congress Side-Eye Pharma Company for Patent Shenanigans*, SLATE (Oct. 5, 2017, 5:56 PM), [http://www.slate.com/blogs/future\\_tense/2017/10/05/members\\_of\\_congress\\_question\\_a\\_drug\\_company\\_s\\_deal\\_with\\_a\\_native\\_american.html](http://www.slate.com/blogs/future_tense/2017/10/05/members_of_congress_question_a_drug_company_s_deal_with_a_native_american.html) [<http://perma.cc/F8KR-NRA8>].
7. A Bill To Abrogate the Sovereign Immunity of Indian Tribes as a Defense in Inter Partes Review of Patents, S.1948, 115th Cong. (2017); Michael Erman, *Senator McCaskill Drafts Bill in Response to Allergan Patent Maneuver*, REUTERS (Oct. 5, 2017, 2:16 PM), <http://www.reuters.com/article/us-allergan-patents-congress/senator-mccaskill-drafts-bill-in-response-to-allergan-patent-maneuver-idUSKBN1CA2Do> [<http://perma.cc/LN57-DUY6>].
8. After the patents were transferred to the Tribe, Judge Bryson ordered Allergan to address “whether the Tribe should be added as a co-plaintiff in this action, or whether the assignment transaction should be disregarded as a sham.” *Allergan, Inc. v. Teva Pharm. USA, Inc.*, No. 2:15-cv-1455-WCB, 2017 WL 4619790, at \*1 (E.D. Tex. Oct. 16, 2017).

tents – Allergan should be regarded as the legal owner.<sup>9</sup> Underpinning these critiques is the worry that Allergan’s “sale-leaseback” will allow the company to maintain a dominant market position to the detriment of competitors and consumers.

These concerns are well-founded. In the short term, such a transfer could allow Allergan to avoid invalidation of its patents through the PTAB’s IPR process, thereby increasing the probabilistic value of its patents beyond what was envisioned by the initial grant of exclusivity. In the long term, this transaction undermines the viability of the IPR system itself, blunting a congressionally created tool to invalidate weak patents. Furthermore, even though the Tribe did not invoke sovereign immunity in litigation at the trial court level, others following Allergan’s lead might choose to do so, potentially insulating patents from review even in the judicial system. Ultimately, if upheld, these kinds of transactions make it more likely that brand-name firms maintain their market exclusivity, leading to higher drug prices and harming consumers.

In Allergan’s case, the district court ruled that the Restasis patents were invalid,<sup>10</sup> and, on February 23, 2018, the PTAB denied the Tribe’s motion to dismiss IPR proceedings on grounds of sovereign immunity.<sup>11</sup> However, this debate is far from over. The district court decision on the patents’ validity is on appeal to the Federal Circuit,<sup>12</sup> and Allergan and the Tribe are likely to pursue an appeal of the PTAB’s decision, which has already been criticized as potentially outside of the PTAB’s statutory authority.<sup>13</sup>

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9. Joff Wild, *The Biggest Problem with Allergan’s St Regis Mohawk Deal Is that the Tribe May Not Own the Patents*, IAM (Sept. 18, 2017), <http://www.iam-media.com/blog/detail.aspx?g=f777fa11-32ea-4539-9a8e-791c12425b17> [<http://perma.cc/X4FT-4EKY>]; see also Alfred E. Mann Found. for Sci. Research v. Cochlear Corp., 604 F.3d 1354, 1358 (Fed. Cir. 2010) (“A patent owner may transfer all substantial rights in the patents-in-suit, in which case the transfer is tantamount to an assignment of those patents to the exclusive licensee . . .”); Speedplay, Inc. v. Bebop, Inc., 211 F.3d 1245, 1250 (Fed. Cir. 2000) (“A party that has been granted all substantial rights under the patent is considered the owner regardless of how the parties characterize the transaction that conveyed those rights.”).
  10. Allergan, Inc. v. Teva Pharm. USA, Inc., No. 2:15-CV-1455, 2017 WL 4803941 (E.D. Tex. Oct. 16, 2017).
  11. Decision Denying the Tribe’s Motion to Terminate, Mylan Pharm., Inc. v. Saint Regis Mohawk Tribe, Nos. IPR2016-01127, -01128, -01129, -01130, -01131, and -01132 (P.T.A.B. Feb. 23, 2018) (per curiam).
  12. See Appellants’ Opening Brief, Allergan, Inc. v. Teva Pharm. USA, Inc., No. 18-01130 (Fed. Cir. Jan. 9, 2018).
  13. For example, Jacob Sherkow has expressed concern that the PTAB may have overstepped its statutory authority to interpret law about the applicability of tribal sovereign immunity. Ed Silverman, *Allergan Is Dealt Another Setback as Patent Board Shoots Down Mohawk Patent Deal*, STAT (Feb. 23, 2018), <http://www.statnews.com/pharmalot/2018/02/23/allergan-patents-restasis-mohawks> [<http://perma.cc/H7QV-73ZE>] (quoting Sherkow’s statement that “To

Fortunately, while the novelty and complexity of this case have created much uncertainty, there is another means for redress – one that does not require us to enter the quagmire of sovereign immunity: a cause of action for anticompetitive conduct. This Essay argues that Allergan’s actions should be subject to antitrust scrutiny, and that Allergan may be vulnerable to a suit for treble damages because of its conduct. This approach may be preferable to addressing the agreement on other grounds, as it deters the relevant conduct without having to confront thorny questions about the applicability of tribal sovereign immunity in the IPR context. More importantly, it directly disciplines the conduct that is most objectionable to commentators: unduly increasing the probabilistic value of patents.

In Part I, we show how the specter of tribal sovereign immunity raises potential procedural issues with anticompetitive implications and discuss what is at stake for consumers when Allergan licenses its patents to a tribe. In Part II, we argue that plaintiffs may be able to bypass these procedural concerns by bringing an antitrust suit to challenge the sale agreement. Such a suit would not require the plaintiffs to join all co-conspirators, thereby sidestepping sovereign immunity. In Part III, using the Supreme Court’s decision in *FTC v. Actavis, Inc.*,<sup>14</sup> we argue that antitrust laws apply when companies deliberately avoid a statutory framework that regulates competition. We then demonstrate that, when an agreement makes no economic sense *but for* its anticompetitive purpose, patent assignments to a sovereign actor are anticompetitive. We argue that this “no economic sense” test is an appropriate tool for evaluating such patent assignments since it does not unduly burden procompetitive patent transfers. Finally, in Part IV, we situate this issue in the context of broader pressures that animate the “leasing” of tribal sovereign immunity and highlight the limits of antitrust law to fully address scenarios in which unscrupulous businesses wield tribal sovereign immunity as a weapon.

## I. ANTICOMPETITIVE HARMS

In this Part, we use the Allergan transaction to outline anticompetitive harms that arise when pharmaceutical companies use tribal sovereignty to avoid patent challenges. In this case, Allergan has made clear that it aims to restrict patent challenges through the Tribe’s sovereign immunity.<sup>15</sup> In the phar-

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the extent the board is attempting to interpret the law of tribal sovereign immunity, this is inordinately problematic from a legal and a policy perspective.”).

14. 133 S. Ct. 2223 (2013).

15. See *supra* note 3 and accompanying text.

maceutical patent context, this implicates two patent review processes: Hatch-Waxman challenges and IPR. These two patent review processes promote competition by facilitating the introduction of generic competitors, leading to lower prices for consumers. However, Allergan's use of tribal sovereign immunity to subvert these processes artificially inflates the probabilistic value of their patents, leading to anticompetitive harms.

*A. The Importance of Patent Challenge Processes*

This Section provides background on the statutory framework for patent challenges in the pharmaceutical industry. It focuses on two review processes: the Hatch-Waxman patent invalidation process, a pharmaceutical-industry-specific process at the federal court level; and IPR at the PTAB, which applies to patents in general. Because these processes provide avenues for generic drug companies to contest the patents held by other pharmaceutical companies, they help promote competition and lower pharmaceutical prices.

Under the Hatch-Waxman Act,<sup>16</sup> generic companies seeking to compete against patented pharmaceutical drugs can file an Abbreviated New Drug Application (ANDA) that shows therapeutic equivalence to the branded drug. This process allows the generic company to avoid duplicative and costly clinical trials. When submitting its application, a generic company can also file a Paragraph IV certification with the U.S. Food and Drug Administration (FDA). This certification states that, to the best of the company's knowledge, its generic product does not infringe upon any valid patents.<sup>17</sup> The branded pharmaceutical company may then choose to sue for patent infringement, creating an opportunity for the generic company to challenge the patents' validity during the litigation. If the brand-name manufacturer files suit, the FDA cannot approve the generic drug for thirty months unless the court determines the patent is invalid or not infringed before that time elapses.<sup>18</sup>

Under the IPR process, as formulated in the 2011 Leahy-Smith America Invents Act (AIA),<sup>19</sup> any third party can petition for review of a patent on the grounds that it does not meet the requirements for patentability under 35

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16. The Hatch-Waxman Act is more formally known as the Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified as amended at 2 U.S.C. §§ 301, 355, 360 (2012)).

17. See 21 U.S.C. § 355(j)(2)(A)(vii)(I)-(IV); *Patent Certifications and Suitability Petitions*, U.S. FOOD & DRUG ADMIN., <http://www.fda.gov/Drugs/DevelopmentApprovalProcess/HowDrugsareDevelopedandApproved/ApprovalApplications/AbbreviatedNewDrugApplicationANDAGenerics/ucmo47676.htm> [<http://perma.cc/6FEZ-PR6L>].

18. 21 U.S.C. § 355(j)(5)(B)(iii).

19. Pub. L. 112-29, 125 Stat. 284 (codified as amended in scattered sections of 35 U.S.C.).

U.S.C. § 102 (requiring novelty) and § 103 (requiring non-obviousness).<sup>20</sup> Only petitions with a “reasonable likelihood” of success are permitted to proceed.<sup>21</sup> Once a party petitions the U.S. Patent and Trademark Office (PTO) for IPR, the PTAB determines the validity of the patent after adjudicatory proceedings and hearings.

The IPR process benefits competition by voiding the market power created by invalid patents, and has several advantages over the Hatch-Waxman patent invalidation process. First, IPR provides a cheaper alternative to the typical patent invalidation process through Hatch-Waxman, which leads to costly litigation. One estimate suggests that IPR costs are one-tenth the costs of patent litigation.<sup>22</sup> Second, IPR resolves patent validity more quickly, providing disposition of the claim before possible appeals to the Federal Circuit. The AIA sets specific timelines for response by the parties that lead to final decisions in less than two years.<sup>23</sup> According to the PTO’s annual performance report, the office has succeeded in meeting these statutory deadlines.<sup>24</sup> Third, IPR is more likely to be aligned with the public interest than Hatch-Waxman litigation. While any third party can challenge a patent under the IPR process, Hatch-Waxman lawsuits are brought by drug companies competing in the same market, which opens the possibility of collusion.<sup>25</sup>

In the pharmaceutical context, the benefits of adjudicating patents do not just accrue to competitors, but can also directly affect prices for consumers. If patents are invalidated before the end of their statutory term, generic drugs

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20. 35 U.S.C. § 311.

21. *Id.* § 314(a).

22. Andrew J. Lagatta & George C. Lewis, *How Inter Partes Review Became a Valuable Tool So Quickly*, LAW360 (Aug. 16, 2013, 12:01 PM), <http://www.law360.com/articles/463372/how-inter-partes-review-became-a-valuable-tool-so-quickly> [<http://perma.cc/43RP-R7ST>]. Another estimate suggests that IPR has avoided over \$2.3 billion in deadweight losses since its implementation in September 2012. Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, PAT. PROGRESS (Sept. 14, 2017), <http://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion> [<http://perma.cc/FGG4-RLRW>].

23. 35 U.S.C. §§ 314(b), 316(a)(11). Allergan also acknowledges that the IPR process is much faster than traditional litigation. Allergan, PLC, Annual Report, *supra* note 1, at 26-27 (“Although IPR proceedings are limited to certain types of invalidity challenges, the Patent Office applies different standards that make it easier for challengers to invalidate patents. Moreover, IPR proceedings generally take no more than 18 months, which means it is much faster than challenging a patent’s validity in a district court proceeding. In addition, an IPR challenge can be mounted even after a patent has been upheld in court.”).

24. U.S. PATENT & TRADEMARK OFF., PERFORMANCE AND ACCOUNTABILITY REPORT 18 (2017).

25. For an example, see the description of reverse payment settlements in our discussion of *FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013) accompanying *infra* Section III.A.

may enter the market.<sup>26</sup> Prices then drop dramatically, as average pharmaceutical treatment costs can decline by up to 84% after generic entry.<sup>27</sup> Spurred by competition, prices for branded drugs can also decrease. For example, the price for a month's supply of a branded cholesterol drug decreased from more than \$150 to \$7 in less than a year after generic entry.<sup>28</sup> Over the last decade, generic competition has generated nearly \$1 trillion in savings for consumers.<sup>29</sup> Accordingly, even a short delay in generic entry can be costly for consumers. One study estimated that delays ranging from twenty-one to thirty-three months in the introduction of generics for three drugs cost Medicaid more than \$1.5 billion over five years.<sup>30</sup>

In sum, Hatch-Waxman and IPR have facilitated the introduction of pharmaceutical competition by encouraging patent challenges. Hatch-Waxman provides a streamlined process for patent notifications and challenges, allowing generic drug competitors to enter the market by filing ANDAs and to invalidate weak patents in federal court. IPR further encourages generic competition because it provides another avenue of patent invalidation with lower costs and shorter timelines. IPR is also more likely to be aligned with the public interest.

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26. Patents are not a well-defined property right, but are in fact highly uncertain because so few patents are litigated to trial. When courts do reach the question of a patent's validity, they frequently declare it invalid. Because patents are probabilistic property rights, it is not obvious that a patented invention will ultimately receive protection. See Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. ECON. PERSP. 75, 76 (2005). Commentators generally agree that many of the patents the PTO issues are invalid. See, e.g., Roger Allan Ford, *Patent Invalidity Versus Noninfringement*, 99 CORNELL L. REV. 71, 87-88 (2013) ("Among patent scholars, there is almost unanimous agreement that patent examiners do not do their job particularly well, with the PTO issuing many invalid patents.").
  27. Ernst R. Berndt & Murray Aitken, *Brand Loyalty, Generic Entry and Price Competition in Pharmaceuticals in the Quarter Century After the 1984 Waxman-Hatch Legislation* 19 (Nat'l Bureau of Econ. Research, Working Paper No. 16431, 2010), <http://www.nber.org/papers/w16431> [<http://perma.cc/JFP8-D5FU>].
  28. C. Scott Hemphill & Mark A. Lemley, *Earning Exclusivity: Generic Drug Incentives and the Hatch-Waxman Act*, 77 ANTITRUST L.J. 947, 952 (2011).
  29. Aaron Edlin et al., *Activating Actavis*, 28 ANTITRUST 16, 17 (2013). These savings are a product of both the decrease in price and the generic penetration rate (or substitution rate) between the generic drug and the branded product. Companies with branded drug products make nearly all their profits before the launch of the first generic drug, and the duration of profits derived from exclusive rights varies based on the strengths of the patents. After generic entry, incumbent market share falls quickly. Recent estimates suggest that the branded firm's unit market share reduces to an average of only 16% after one year of generic entry. Henry Grabowski et al., *Recent Trends in Brand-Name and Generic Drug Competition*, 17 J. MED. ECON. 207, 213 (2014).
  30. Aaron S. Kesselheim et al., *Extensions of Intellectual Property Rights and Delayed Adoption of Generic Drugs: Effects on Medicaid Spending*, 25 HEALTH AFF. 1637, 1643 (2006).

Both these processes have accordingly increased the competitiveness of the pharmaceutical market, benefiting consumers.

*B. The Threat of Leasing Tribal Sovereign Immunity*

The interaction between tribal sovereign immunity and patent law can lead to anticompetitive harms. In this Section, we start by canvassing the implications of sovereign immunity and the problems potential plaintiffs face when attempting to join a sovereign tribe in the patent context. The Section concludes by discussing the implications of pharmaceutical companies using tribal sovereign immunity to avoid the Hatch-Waxman and IPR processes.

Through the agreement with the Saint Regis Mohawk Tribe, Allergan seeks to take advantage of tribal sovereign immunity. This immunity protects federally recognized tribes from being sued in state and federal courts, and applies to all activity conducted by a tribe, including off-reservation commercial activity.<sup>31</sup> The immunity can be waived only in two narrow circumstances: (1) “where Congress has authorized the suit” or (2) where “the tribe has waived its immunity.”<sup>32</sup> By invoking tribal sovereign immunity, a pharmaceutical company like Allergan could dismiss a lawsuit in federal court and may remain immune even against counterclaims that the patents are invalid.<sup>33</sup> Moreover, Al-

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31. See *Kiowa Tribe of Okla. v. Mfg. Techs.*, 523 U.S. 751, 760 (1998).

32. *Id.* at 754. Although tribal sovereign immunity has its limits, however, these outer bounds are reached only by a clear statement of abrogation or waiver. Abrogation of tribal immunity by Congress “must be unequivocally expressed in explicit legislation. Abrogation of tribal sovereign immunity may not be implied.” *Krystal Energy Co. v. Navajo Nation*, 357 F.3d 1055, 1056 (9th Cir. 2004), *as amended on denial of reh’g en banc* (citations and internal quotation marks omitted).

33. Defendants in infringement suits can raise patent invalidity as an affirmative defense, a counterclaim, or both. Even if an affirmative defense is available in an infringement suit brought by a tribe, courts may apply sovereign immunity to bar counterclaims that a tribe’s patent is invalid, since such a declaratory judgment would adjudicate the legal rights of a sovereign entity. See *Okla. Tax Comm’n v. Citizen Band Potawatomi Indian Tribe*, 498 U.S. 505, 509 (1991) (“[A] tribe does not waive its sovereign immunity from actions that could not otherwise be brought against it merely because those actions were pleaded in a counterclaim to an action filed by the tribe.” (citing *United States v. U.S. Fid. & Guar. Co.*, 309 U.S. 506, 513 (1940))); *Quinault Indian Nation v. Pearson*, 868 F.3d 1093, 1097–98 (9th Cir. 2017). *But see Berrey v. Asarco Inc.*, 439 F.3d 636, 643 (10th Cir. 2006) (holding that “when a tribe files suit it waives its immunity as to counterclaims of the defendant that sound in recoupment”). The Supreme Court has recognized some limits on *state* immunity for counterclaims, finding that allowing states to simultaneously invoke federal jurisdiction and claim sovereign immunity can lead to “seriously unfair results.” *Lapides v. Bd. of Regents of the Univ. Sys. of Ga.*, 535 U.S. 613, 619 (2002). The Federal Circuit has since relied on *Lapides* to hold that a state waives sovereign immunity with respect to compulsory counterclaims when



lergan sought to avoid the IPR process entirely by transferring ownership of the patents to the Tribe, which has since moved to dismiss IPR proceedings on sovereign immunity grounds. The Tribe moved to dismiss IPR proceedings on this basis.<sup>34</sup> Though the PTAB has denied this motion, this decision is likely to be appealed.<sup>35</sup>

In federal courts, potential plaintiffs often face problems joining tribes. Although the district court recently found Allergan's Restasis patents invalid for non-obviousness in *Allergan v. Teva*,<sup>36</sup> a Hatch-Waxman lawsuit initiated by generic companies, key questions still remain about whether it would be feasible for generic challengers to bring a federal lawsuit in other contexts. In *Aller-*

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it brings suit to enforce a patent claim. *Regents of Univ. of N.M. v. Knight*, 321 F.3d 1111, 1126-27 (Fed. Cir. 2003); *see also* FED. R. CIV. P. 13(a)(1)(A) (defining a compulsory counterclaim as a claim that "arises out of the transaction or occurrence that is the subject matter of the opposing party's claim"). However, such waiver is limited to the specific action brought by the state and does not extend to later suits. *See* *Biomedical Patent Mgmt. Corp. v. Cal. Dep't of Health Servs.*, 505 F.3d 1328 (Fed. Cir. 2007) (holding that state waiver in an earlier lawsuit involving the same parties does not extend to a later suit in which the state is sued); *Tegic Commc'ns Corp. v. Bd. of Regents of Univ. of Tex. Sys.*, 458 F.3d 1335, 1342-43 (Fed. Cir. 2006) (holding that waiver by a state in one suit does not extend to suits brought by different parties in different actions in different fora). The Federal Circuit's reasoning in the state immunity context may therefore suggest that tribes may also waive their immunity to an invalidity counterclaim in an infringement suit. However, courts often distinguish state and tribal immunity, and the PTAB's decision denying the Tribe's motion to invoke sovereign immunity in IPR proceedings relied heavily on distinguishing between state and tribal sovereign immunity. *Decision Denying the Tribe's Motion to Terminate, Mylan Pharm., Inc. v. Saint Regis Mohawk Tribe*, Nos. IPR2016-01127, -01128, -01129, -01130, -01131, and -01132 (P.T.A.B. Feb. 23, 2018) (per curiam); *see also* *Kiowa*, 523 U.S. at 756 ("[T]he immunity possessed by Indian tribes is not coextensive with that of the States."); *Bodi v. Shingle Springs Band of Miwok Indians*, 832 F.3d 1011, 1020 (9th Cir. 2016) ("Tribal immunity is not synonymous with a State's Eleventh Amendment immunity, and parallels between the two are of limited utility" (citing *Three Affiliated Tribes of Fort Berthold Reservation v. Wold Eng'g*, 476 U.S. 877, 890 (1986))). Indeed, *Lapides* itself distinguishes between Eleventh Amendment immunity granted to states and tribal sovereign immunity. 535 U.S. at 623; *see also* *Contour Spa at the Hard Rock, Inc. v. Seminole Tribe of Fla.*, 692 F.3d 1200, 1206 (11th Cir. 2012) ("*Lapides* in no way addressed tribal sovereign immunity."). It therefore remains unclear when tribes waive their immunity for the purpose of patent counterclaims.

34. Corrected Patent Owner's Motion to Dismiss for Lack of Jurisdiction Based on Tribal Sovereign Immunity, *Mylan Pharm. Inc. v. Allergan, Inc.*, Nos. IPR2016-01127, -01128, -01129, -01130, -01131, and -01132 (P.T.A.B. Nov. 9, 2017).
35. *Decision Denying the Tribe's Motion to Terminate, Mylan*, Nos. IPR2016-01127, -01128, -01129, -01130, -01131, and -01132. The Tribe's general counsel has mentioned that the Tribe may be considering an appeal to the PTAB's decision. Silverman, *supra* note 13 (noting that the general counsel for the St. Regis tribe was reviewing the decision and "will huddle up next week to strategize: talk about an appeal and a stay, pending appeal").
36. *Allergan, Inc. v. Teva Pharm. USA, Inc.*, No. 2:15-CV-1455, 2017 WL 4803941, at \*18 (E.D. Tex. Oct. 16, 2017).

*gan v. Teva*, the patent challenge was initiated *prior* to Allergan’s ownership transfer for the Restasis patents, and the Tribe chose not to invoke its sovereign immunity during the suit. The court therefore simply joined the Tribe as co-plaintiffs under Federal Rule of Civil Procedure (FRCP) 25(c) – but in doing so, the district court questioned whether the original patent transfer was valid at all, noting that the court joined the Tribe as a co-plaintiff only to ensure that the court’s judgment remains valid if the patent assignment to the Tribe is later upheld.<sup>37</sup> Allergan and the Tribe have recently jointly appealed the patent invalidity judgment to the Federal Circuit, although they have yet to invoke sovereign immunity.<sup>38</sup>

While this most recent iteration of the battle has offered consumers and generic companies a respite, a key question remains unresolved: what would have happened if the tribe *had* invoked its tribal sovereign immunity in federal court? Although Judge Bryson’s district court opinion noted that tribal immunity “should not be treated as a monetizable commodity that can be purchased by private entities as part of a scheme to evade their legal responsibility,”<sup>39</sup> future parties in suits against tribes will still have to face this challenge. Tribal sovereign immunity has been used in other contexts, such as payday lending, to shield companies from liability.<sup>40</sup> Moreover, a number of patent-holding entities (known colloquially as “patent trolls” for their practice of extracting rents by accumulating patents and claiming infringement) have partnered with tribes to sue major tech companies such as Amazon, Apple, and Microsoft for patent infringement.<sup>41</sup> In the words of one industry insider, “[t]here are dozens and dozens of tribes talking to law firms about this structure.”<sup>42</sup>

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37. After the patents were transferred to the Tribe, Judge Bryson ordered Allergan to address “whether the Tribe should be joined as a co-plaintiff in this action, or whether the assignment of the patents to the Tribe should be disregarded as a sham.” *Allergan, Inc. v. Teva Pharm. USA, Inc.*, No. 2:15-CV-1455, 2017 WL 4619790, at \*1 (E.D. Tex. Oct. 16, 2017).
38. Brief for Appellants, *Allergan, Inc. v. Teva Pharm. USA, Inc.*, No. 18-01130 (Fed. Cir. Jan. 9, 2018). The parties’ jointly filed brief from January 9, 2018 makes no mention of sovereign immunity, focusing instead on the issue of non-obviousness. *Id.*
39. *Allergan*, 2017 WL 4619790, at \*3.
40. See Nathalie Martin & Joshua Schwartz, *The Alliance Between Payday Lenders and Tribes: Are Both Tribal Sovereignty and Consumer Protection at Risk?*, 69 WASH. & LEE L. REV. 751, 753 (2012). This strategy has not always been successful. See, e.g., *People ex rel. Owen v. Miami Nation Enters.*, 386 P.3d 357 (2016) (declining to extend tribal sovereign immunity to two payday lending businesses).
41. E.g., Complaint, *SRC Labs, LLC v. Amazon Web Services, Inc.*, No. 2:17-cv-00547 (E.D. Va. Oct. 18, 2017); Complaint, *SRC Labs, LLC v. Microsoft Corporation*, No. 1:17-cv-01172 (E.D. Va. Oct. 18, 2017); Joe Mullin, *Apple Is Being Sued for Patent Infringement by a Native American Tribe*, ARS TECHNICA (Sept. 27, 2017), <http://arstechnica.com/tech-policy/2017/09/apple-is-being-sued-for-patent-infringement-by-a-native-american-tribe> [http://perma.cc

Accordingly, it is important to understand the procedural limitations plaintiffs face when attempting to join sovereign tribes in federal court. Generally, FRCP 19 requires plaintiffs to join all relevant parties who have an important stake in the lawsuit.<sup>43</sup> If patent assignments such as Allergan's are valid, and a tribe's interests are implicated, a lawsuit seeking declaratory judgment on patent invalidity would likely be dismissed entirely, given the weight courts grant to tribal sovereign immunity. As noted by the D.C. Circuit, when dismissal of a suit is required by tribal immunity, the court is not simply confronted with "some procedural defect . . . . Rather, the dismissal turns on the fact that society has consciously opted to shield Indian tribes from suit without congressional or tribal consent."<sup>44</sup>

In light of several recent cases that have acknowledged IPR immunity for the states, the Saint Regis Mohawk Tribe's sovereign immunity theoretically could have also extended to IPR proceedings.<sup>45</sup> In September 2017, the Tribe

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[L7HG-MBVH] (describing a lawsuit between Apple and MEC Resources LLC, a company owned by the Mandan, Hidatsa, and Arikara Nation). In the context of infringement suits brought by tribes, limitations on the availability of IPR may induce defendants to settle in order to avoid lengthy, expensive, and uncertain patent litigation. Tribes partnering with patent trolls may therefore be able to use weak or invalid patents to extract payments from alleged infringers.

42. Jan Wolfe, *Tech Entity Has Tribal Patent Deal Similar to Allergan's*, REUTERS (Sept. 12, 2017 7:35 PM), <http://www.reuters.com/article/us-allergan-patents/tech-entity-has-tribal-patent-deal-similar-to-allergans-idUSKCN1BN35X> [<http://perma.cc/A6Q4-H5BC>].

43. FED. R. CIV. P. 19.

44. *Wichita & Affiliated Tribes of Okla. v. Hodel*, 788 F.2d 765, 777 (D.C. Cir. 1986).

45. See *infra* Section III.B. In several IPR cases, the PTAB established that state universities can claim sovereign immunity as "arm[s] of the state." *E.g.*, *Covidien LP v. Univ. of Fla. Research Found., Inc.*, Nos. IPR2016-01274, -01275, and -01276, at 3 (P.T.A.B. Jan. 25, 2017). In those cases, the PTAB terminated or dismissed IPR processes after finding that the universities do not have to submit to the PTAB's authority. These PTAB decisions build off Supreme Court and Federal Circuit precedents permitting states to raise Eleventh Amendment sovereign immunity as a defense in certain litigation-like administrative proceedings. See *Fed. Mar. Comm'n v. S.C. State Ports Auth.*, 535 U.S. 743 (2002); *Vas-Cath, Inc. v. Curators of Univ. of Mo.*, 473 F.3d 1376 (Fed. Cir. 2007). Congress has already tried (and failed) to abrogate state sovereign immunity in the Patent Act context. See, *e.g.*, *Fla. Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*, 527 U.S. 627, 635-36 (1999). However, the PTAB has also signaled in the past that states may waive their immunity before the PTAB by bringing infringement suits in federal district court. In two opinions issued in late December 2017, the PTAB rejected the University of Minnesota's attempt to use sovereign immunity to dismiss IPR proceedings, explaining that the University had waived its immunity after it filed patent infringement suits in federal district court. *Ericsson, Inc. v. Regents of the Univ. of Minn.*, Nos. IPR2017-01186, -01197, -01200, -01213, -01214, and -01219 (P.T.A.B. Dec. 19, 2017) (expanded panel); *LSI Corp. v. Regents of the Univ. of Minn.*, No. IPR2017-01068 (P.T.A.B. Dec. 19, 2017) (expanded panel). The PTAB could similarly construe the Tribe's participation in federal court proceedings as a waiver of its immunity in the future.

moved to use sovereign immunity as a shield during the IPR review process and dismiss IPR proceedings.<sup>46</sup> If this strategy had succeeded, it would have funneled all patent challenges to Restasis towards the federal court system. As Judge Bryson stated in Allergan's district court litigation in *Allergan v. Teva*, "Allergan's tactic, if successful, could spell the end of the PTO's IPR program."<sup>47</sup>

However, in the most recent development of this case, a three-member PTAB panel denied the Tribe's ability to invoke sovereign immunity in IPR proceedings.<sup>48</sup> In so holding, the panel recognized that whether and in what circumstances tribal sovereign immunity applies in IPR proceedings remains unclear, because there is no controlling precedent or statute that addresses the question.<sup>49</sup> The panel further recognized that tribal sovereign immunity is not necessarily analogous to state immunity,<sup>50</sup> and that patent laws, including those involving IPR proceedings, are generally applicable laws that apply to tribes.<sup>51</sup> The PTAB further suggested that, because the PTAB adjudicates the validity of patents and does not require the participation of patent owners, it does not exercise personal jurisdiction over the tribe.<sup>52</sup>

Further, the panel concluded in the alternative that the proceedings could continue without the Tribe's participation. In making this pronouncement, it

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However, these decisions, which relied on *Lapides v. Board of Regents of the University System of Georgia*, 535 U.S. 613 (2002), and Federal Circuit precedents, may not be applicable to tribes. See sources cited *supra* note 33.

46. In an unprecedented move, the PTAB even requested briefing from amici on the question of whether tribal ownership allows the patent to be insulated from IPR challenge. Order Granting Amicus Briefs, *Mylan Pharm. Inc. v. Saint Regis Mohawk Tribe*, Nos. IPR2016-01127, -01128, -01129, -01130, -01131, and -01132 (P.T.A.B. Nov. 3, 2017).
47. *Allergan*, 2017 WL 4619790, at \*2.
48. Decision Denying the Tribe's Motion to Terminate, *Mylan Pharm., Inc. v. Saint Regis Mohawk Tribe*, Nos. IPR2016-01127, -01128, -01129, -01130, -01131, and -01132 (P.T.A.B. Feb. 23, 2018) (per curiam).
49. *Id.* at \*7-10.
50. *Id.* at \*9-10.
51. *Id.* at \*11-12; see *Fed. Power Comm'n v. Tuscarora Indian Nation*, 362 U.S. 99, 116 (1960) ("[I]t is now well settled . . . that a general statute in terms applying to all persons includes Indians and their property interests"). *But see* *Minnesota v. Mille Lacs Band of Chippewa Indians*, 526 U.S. 172, 202 (1999) ("Congress may abrogate Indian treaty rights, but it must clearly express its intent to do so."); *San Manuel Indian Bingo & Casino v. NLRB*, 475 F.3d 1306, 1311 (D.C. Cir. 2007) ("*Tuscarora's* statement is of uncertain significance, and possibly dictum, given the particulars of that case."); *Reich v. Mashantucket Sand & Gravel*, 95 F.3d 174, 177 (2d Cir. 1996) (recognizing that the *Tuscarora* presumption of statutes of general applicability applying to Indians was dictum).
52. Decision Denying the Tribe's Motion to Terminate, *Mylan*, Nos. IPR 2016-01127, -01128, -01129, -01130, -01131, and -01132, at \*16-18.

first held that Allergan was the “true owner of the challenged patents” because the license between Allergan and the Tribe transferred “all substantial rights” back to Allergan.<sup>53</sup> The panel then decided that the Tribe was not an indispensable party because Allergan and the Tribe had the same interest in defending the patent.<sup>54</sup>

Despite this recent decision, however, the applicability of tribal sovereign immunity to IPR proceedings remains an open legal question. As the PTAB admits, there is no controlling legal authority on point. Moreover, the general counsel for the Tribe has already mentioned that the Tribe is considering an appeal. Thus, even though the PTAB has rejected the Tribe’s motion to dismiss IPR proceedings, it may not be the end of the story. The Federal Circuit and eventually the Supreme Court may review the question of when states and tribes have sovereign immunity before the PTAB.

Despite these uncertainties, it is clear that by prolonging and perhaps avoiding the Hatch-Waxman and IPR processes, companies with branded drug products have the potential to delay the entry of generics and reduce the number of generic competitors.<sup>55</sup> By wielding sovereign immunity to dismiss patent challenges by generic competitors, Allergan may eliminate the possibility of patent invalidation through IPR and therefore increase the probability of maintaining its exclusive rights.<sup>56</sup> If these IPR challenges would have otherwise led the PTAB to invalidate the patents, Allergan’s tactics may lead to a delay in the release of generic drugs, reducing competition and inflating consumer prices for longer periods of time.

Moreover, if this practice becomes commonplace, generic companies may be less likely to compete *ex ante*, because the litigation costs for challenging

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53. *Id.* at \*18-20.

54. *Id.* at \*35-39.

55. In this case, Allergan’s drug, Restasis, faced IPR challenges from at least one generic pharmaceutical company. Allergan, PLC, Annual Report, *supra* note 1, at 26-27 (“IPR challenges have recently been brought by Mylan against some or all of our patents covering our Restasis® and Delzicol® products. For example, following Mylan’s IPR challenge, the US Patent and Trial Appeal Board, in December 2016, instituted inter partes review for all of our Orange Book-listed patents covering Restasis®”); *see also* Order Granting Amicus Briefs, Mylan Pharm. Inc. v. Saint Regis Mohawk Tribe, No. IPR2016-01127, -01128, -01129, -01130, -01131, and -01132 (P.T.A.B. Nov. 3, 2017) (indicating that there are at least three generic challengers in the IPR process: Mylan, Teva, and Akorn).

56. Although there is some debate as to how to measure invalidation rates, one estimate suggests that as many as sixty-five percent of claims challenged through IPR are held invalid or disclaimed. Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U. CHI. L. REV. DIALOGUE 93, 101 (2014); *see also* Samson Vermont, *IPR Statistics Revisited: Yep, It’s A Patent Killing Field*, PAT. ATT’Y (Feb. 8, 2017), <http://www.patentattorney.com/ipr-statistics-revisited-yep-its-a-patent-killing-field> [http://perma.cc/WB7C-B2CG] (citing a 65.3% invalidation rate for fiscal year 2015).

even weak patents would significantly increase. Even if tribal immunity is only successfully exercised in PTAB proceedings, generic companies whose expected benefit of challenging the IP falls between the costs of PTAB proceedings and full litigation would no longer have an incentive to dispute the patents. This outcome would undermine the specific incentives that the AIA IPR process is meant to create: a more streamlined, easier way of challenging patents without going through full litigation.

Allergan's actions – and others that may follow – therefore have the potential to harm competition and consumers by significantly reducing the number of patent adjudications.

## II. PROCEDURAL OPTIONS: SIDESTEPPING TRIBAL IMMUNITY IN AN ANTITRUST SUIT

As explained in Section I.B, FRCP 19 may be an impediment to more conventional patent invalidation measures, since plaintiffs must join the Tribe in order to proceed in federal court.<sup>57</sup> While potential future plaintiffs may face significant trouble in the general patent litigation context, however, they may not have to join the Tribe in an *antitrust* suit in order to proceed.

Antitrust suits may avoid this procedural hurdle because the Sherman Act allows consumers to recoup treble damages without implicating the interests of the Tribe.<sup>58</sup> As explained below, by pursuing a Sherman Act suit, plaintiffs can proceed without joining the Tribe as long as they seek *damages* from Allergan, rather than an injunction against the enforcement of the agreement. A suit for

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57. In its decision denying the Tribe sovereign immunity in IPR proceedings, the PTAB rejected the Tribe's argument that it was an indispensable party and that the action must be dismissed. *See* source cited note 54 and accompanying text. *But see* Republic of the Philippines v. Pimentel, 553 U.S. 851, 867 (2008) (“A case may not proceed when a required-entity sovereign is not amenable to suit . . . [W]here sovereign immunity is asserted, and the claims of the sovereign are not frivolous, dismissal of the action must be ordered where there is a potential for injury to the interests of the absent sovereign.”). However, the Federal Rules of Civil Procedure do not apply to IPR proceedings, so it is unclear how courts will decide the issue.

58. Courts have held that antitrust statutes of general applicability do not authorize lawsuits against tribes because they generally do not “unequivocally express[] in explicit legislation” that they abrogate tribal sovereign immunity. *Miller v. Wright*, 705 F.3d 919, 926 (9th Cir. 2013) (citing *Krystal Energy Co. v. Navajo Nation*, 357 F.3d 1055, 1060 (9th Cir. 2004), *as amended on denial of reh'g en banc* (Apr. 6, 2004)). Nevertheless, as explained in this Part, plaintiffs may be able to pursue causes of action for damages without directly implicating tribal interests.

damages under Section 2 of the Sherman Act<sup>59</sup> would not injure the financial interests of the Tribe, as the suit would not invalidate the contract itself but rather would claim consumer damages payable by the drug company.<sup>60</sup>

Whether a co-conspirator is a required party would be judged under the dual factors of FRCP 19(a)(1), which require courts to assess relief from the points of view of both (1) the plaintiff and (2) the absent party.<sup>61</sup> From the plaintiffs' point of view, courts have generally held that absent co-conspirators are not required parties under FRCP 19(a)(1)(A) because "[a]ntitrust conspirators are liable for the acts of their co[-]conspirators"<sup>62</sup> and plaintiffs can recover full damages from a single conspirator.

The analysis from the point of view of the *absent* party under FRCP 19(a)(1)(B) similarly favors plaintiffs. Under FRCP 19(a)(1)(B), the court must address how the interests of the absent party "might be impaired if an action were resolved in its absence."<sup>63</sup> Only "legally protected" interests qualify for protection, although what interests are sufficient can vary by jurisdiction.<sup>64</sup>

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59. Sherman Act Section 2 forbids monopolization and "attempt[s] to monopolize." 15 U.S.C. § 2. The test for monopolization is comprised of two elements: "(1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966).

60. The most intuitive way for plaintiffs to pursue the case may be to argue that the transaction is void *ab initio* and never had any legal effect. However, to the extent that this would involve the Saint Regis Mohawk Tribe's interests, plaintiffs may still have to join the Tribe. Similarly, it may be more difficult for plaintiffs to pursue a Section 1 Sherman Act claim than a Section 2 claim, since Section 1 claims are more likely to require joinder; because a Section 1 claim effectively argues that the contract itself is unlawful, it is more likely to implicate the Tribe's interests.

61. *See Ward v. Apple Inc.*, 791 F.3d 1041 (9th Cir. 2015).

62. *Tex. Indus. v. Radcliff Materials, Inc.*, 451 U.S. 630, 645-46 (1981); *see Ward*, 791 F.3d at 1049 ("For this reason, an absent antitrust co-conspirator generally will not be a required party under Rule 19(a)(1) . . . . If the Plaintiffs prevail, they will be able to recover all of their damages from Apple alone without naming ATTM as a party." (citing *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 253-54 (1940))); *William Inglis & Sons Baking Co. v. ITT Cont'l Baking Co., Inc.*, 668 F.2d 1014, 1053 (9th Cir. 1981) (opining that a plaintiff is "not required to sue all of the alleged conspirators inasmuch as antitrust coconspirators are jointly and severally liable for all damages caused by the conspiracy"); *Solomon v. Houston Corrugated Box Co.*, 526 F.2d 389, 392 n.4 (5th Cir. 1976) ("An antitrust action is in the nature of a tort action and defendants are jointly and severally liable.").

63. *Ward*, 791 F.3d at 1049.

64. *Iron Workers Local Union No. 17 Ins. Fund v. Phillip Morris Inc.*, 182 F.R.D. 512, 517-18 (N.D. Ohio 1998) (stating that the interest "need not be a 'legal interest,' but rather need only be a 'claim to an interest' that is 'sufficiently 'related to' the subject of the action'" (quoting *Local 670 v. Int'l Union, United Rubber, Cork, Linoleum & Plastic Workers of Am.*, 822 F.2d 613, 620 (6th Cir. 1987))). For example, the Ninth Circuit does not consider

Key to the present situation, however, is that when courts deal with contractual interests, they pay particular attention to whether the *current* party can adequately protect the Tribe's interests in the litigation.<sup>65</sup> Unlike in instances where the parties' interests are in tension, Allergan's goal is to uphold the contract as a valid transfer of IP rights. These interests align directly with the Tribe's contractual and financial interests. Plaintiffs can therefore make a colorable showing that the Tribe's interests are adequately protected by Allergan, and proceed with an antitrust suit as described below.

### III. DETERMINING ANTITRUST LIABILITY

Without setting out the specifics of an antitrust case against Allergan,<sup>66</sup> this Part argues that antitrust law plays an especially important role when Congress has provided a statutory framework articulating a vision for appropriate competition. We then set out a framework for evaluating Allergan's conduct, and argue that courts should ask whether the agreement makes any economic sense *but for* its anticompetitive purpose (i.e., the "no economic sense" test) as a way to distinguish between legitimate and anticompetitive uses of sovereign immunity.

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the risk of regulatory scrutiny to be a valid legally protected interest, although the court will weigh reputational interests and contract interests. *Ward*, 791 F.3d at 1051-54 ("We have clarified that the interest at stake need not be property in the sense of the due process clause . . . [a]nd we have required that the interest be more than a financial stake, and more than speculation about a future event." (citations and internal quotation marks omitted)).

65. *Ward*, 791 F.3d at 1049-50. Compare *Wilbur v. Locke*, 423 F.3d 1101, 1111-14 (9th Cir. 2005), *abrogated by* *Levin v. Commerce Energy, Inc.*, 560 U.S. 413 (2010) (holding that an absent Indian tribe was a required party in an action to invalidate a contract between the state and the tribe, and finding that the state could not adequately protect the tribe's interests in the litigation), with *Cachil Dehe Band of Wintun Indians of the Colusa Indian Cmty. v. California*, 547 F.3d 962, 970-72 (9th Cir. 2008) (holding that absent Indian tribes were not required parties in an action asserting that the state breached a tribal-gaming compact, in part because the absent tribes' interest did not "arise[ ] from terms in bargained contracts" (internal quotation marks omitted)).
66. Allergan's contract with the St. Regis may violate Section 1 of the Sherman Act as a "contract . . . in restraint of trade," and its conduct may further qualify for Section 2 liability as monopolization or an attempt to monopolize. Sherman Act, 15 U.S.C. §§ 1-2. Depending on the industry background and market power Restasis has in the relevant market, plaintiffs may be able to challenge such a "lease" of sovereign tribal immunity as anticompetitive. Note, however, that a Section 1 claim might be more difficult due to procedural reasons. See *supra* note 60.



A. Statutes with a “Procompetitive Thrust”

Although the Sherman Act imposes liability for anticompetitive conduct, general antitrust laws do not operate in isolation. Congress also creates competitive frameworks through more specific pieces of legislation. While the Supreme Court has in certain circumstances recognized that avoiding these Congressional frameworks can have anticompetitive effects that violate the Sherman Act,<sup>67</sup> it has not spoken directly to this question.

Based on the Court’s recent decisions, we propose that when Congress creates a competitive framework through legislation defining the terms of competition, actions that nullify that framework can violate the antitrust laws. Courts have long recognized the role antitrust law plays in ensuring the proper functioning of the patent system. Certain exercises of patent rights can rise to the level of abuse and violate antitrust law. For example, attempting to enforce a patent that has been procured by knowing and willful fraud can subject the patent holder to antitrust liability.<sup>68</sup> In the present case, Congress has spoken to the issue of how generic drugs should reach the market through the Hatch-Waxman Act and has regulated challenges to the validity of patents through the AIA. Allergan, however, is using tribal sovereign immunity to avoid IPR, and similar contractual arrangements might also be used to avoid the process for suits laid out in Hatch-Waxman. Using tribal sovereign immunity to avoid these statutory frameworks may qualify as an attempt to monopolize under Section 2 of the Sherman Act.<sup>69</sup>

This argument is a natural extension of the Court’s *FTC v. Actavis, Inc.* decision confronting the interaction of antitrust law and intellectual property law in a different pharmaceutical context: reverse payment settlements.<sup>70</sup> Reverse payment settlements result when firms with patented drugs conspire with generic rivals to forestall generic competition. In these cases, brand firms often provide the generic firm some payment to stay out of the market for a period of time. In *Actavis*, the Supreme Court resolved the longstanding confusion about whether antitrust law can apply to these types of settlement agreements, which

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67. See *FTC v. Actavis, Inc.*, 133 S. Ct. 2223 (2013).

68. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

69. Section 2 of the Sherman Act proscribes “attempt[s] to monopolize.” 15 U.S.C. § 2. Traditionally, to succeed on an attempted monopolization claim, plaintiffs must show “(1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize and (3) a dangerous probability of achieving monopoly power.” *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 456 (1993).

70. 133 S. Ct. 2223.

some had argued were insulated from antitrust scrutiny.<sup>71</sup> Justice Breyer, writing on behalf of five members of the Court, held that antitrust scrutiny applied to reverse payments.<sup>72</sup>

In determining antitrust liability for reverse payments, courts are not required to adjudicate patent validity, but can use the agreement itself as a proxy for patent strength. In analyzing the settlement in *Actavis*, the Court noted that “an unexplained large reverse payment itself” indicated that “the patentee had serious doubts about the patent’s survival.”<sup>73</sup> This doubt suggests that the reverse payment is intended to protect weak IP and “maintain supracompetitive prices to be shared among the patentee and the challenger.”<sup>74</sup> The Court’s language suggests that arrangements to protect weak or invalid IP are suspect because they create and maintain market power that would not otherwise exist.

This broad principle can be applied to tribal immunity protections for patents. In the *Actavis* scenario, the patent holder could at least claim that part of the payment was to compensate for the benefit of settling the lawsuit. However, in this context, Allergan receives no economic benefit beyond tribal immunity from selling the patents, suggesting that the arrangement was purely anticompetitive. Because this arrangement has no other plausible explanation beyond the benefits accrued through tribal immunity, any payment by Allergan should trigger the presumption that the transaction is intended to protect weak IP and maintain market power.<sup>75</sup>

The Court’s decision in *Actavis* also implicitly recognized that Congress often creates frameworks for competitive conduct that balance different policy goals, such as innovation and antitrust liability. In *Actavis*, the Court recognized that, although intellectual property law fosters innovation by rewarding creators with exclusive rights in their products, Congress can limit this frame-

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71. These agreements were sometimes viewed as insulated from antitrust scrutiny both because they were conducted within the realm of settlement agreements, and because the “patent carves out an exception to the applicability of antitrust laws.” *Actavis*, 133 S. Ct. at 2238 (Roberts, C.J., dissenting).

72. *Id.* at 2230-31 (majority opinion). In determining reverse settlement payments did not receive antitrust immunity, the Court noted “it would be incongruous to determine antitrust legality by measuring the settlement’s anticompetitive effects solely against patent law policy, rather than by measuring them against procompetitive antitrust policies as well.” *Id.* at 2231.

73. *Id.* at 2236.

74. *Id.*

75. *Id.* Further, the larger the payment, the more likely it is that the patent is invalid. *Id.* at 2236-37 (“[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.” (citation omitted)).

work. Accordingly, patents cannot provide a safe harbor from antitrust law.<sup>76</sup> This lesson is particularly important when patent law creates a clear framework for competition. The *Actavis* Court noted that Hatch-Waxman’s “general pro-competitive thrust” could not support a statutory policy that exempted reverse settlement payments from antitrust scrutiny.<sup>77</sup> This analysis suggests that Hatch-Waxman and other statutes are the mechanisms by which Congress may actualize the particular competition policy implicit in patent law. Avoiding these mechanisms can therefore have anticompetitive implications, and courts have recognized that misuse of the patent system can give rise to antitrust liability.<sup>78</sup>

The AIA is one such statute that implicates a vision of competition, because it creates a specific form of patent challenge that Allergan’s contract seeks to evade. The AIA allows third parties to challenge patents through the IPR system, and it limits the number and scope of statutory exclusive rights by making it easier and cheaper for generic companies to invalidate patents. Because Allergan avoids this process, its conduct has the “potential for genuine adverse effects on competition.”<sup>79</sup>

Though the AIA, Hatch-Waxman, and other patent laws provide a backdrop for competition and may appear similar to laws that put agencies in the role of policing competition dynamics, the patent context is ultimately distinct from other regulatory realms. In non-patent regulatory contexts, courts have been skeptical of antitrust claims. For example, in *Verizon Communications v. Law Offices of Curtis V. Trinko*,<sup>80</sup> the plaintiffs argued that the Telecommunica-

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76. See, e.g., *id.* at 2231 (“[P]atent and antitrust policies are both relevant in determining the ‘scope of the patent monopoly’—and consequently antitrust law immunity—that is conferred by a patent.”); *United States v. Microsoft Corp.*, 253 F.3d 34, 63 (D.C. Cir. 2001) (rejecting the argument that the exercise of lawful intellectual property rights cannot give rise to antitrust liability and noting that the argument “borders upon the frivolous”); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000) (“Intellectual property rights do not confer a privilege to violate the antitrust laws.”).

77. *Actavis*, 133 S. Ct. at 2234.

78. See *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965) (holding that the enforcement of a patent procured by fraud can violate the Sherman Act); see also *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (holding that patents cannot be used to extend monopoly power beyond the rights conferred by the patent statute). In some cases (though for the purpose of patent law rather than antitrust), patent misuse has been defined as impermissibly broadening the “physical or temporal scope” of the patent. *Windsurfing Int’l Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986) (citing *Blonder-Tongue Laboratories, Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971)).

79. *FTC v. Ind. Fed’n of Dentists*, 476 U.S. 447, 460-61.

80. 540 U.S. 398 (2004).

tions Act of 1996,<sup>81</sup> which required Verizon and other local exchange carriers to share their networks with competitors,<sup>82</sup> created a new duty for incumbents that could be enforced through antitrust law. Justice Scalia, writing for a divided Court, concluded that antitrust law did not provide a remedy, even though the company violated a statutory scheme intended to create competition.<sup>83</sup> The Court noted that the statutory scheme included a savings clause, which did not create new liabilities.<sup>84</sup> Moreover, the Telecommunications Act was enforced by the Federal Communications Commission, which provided a remedy to Verizon's conduct. Similarly, in *NYNEX v. Discon*, the Supreme Court refused to apply a rule of per se illegality to cases of "regulatory fraud" in which companies colluded to deceive a regulator and raise consumer prices.<sup>85</sup> In that case, even though the behavior may have been improper, the Court viewed the behavior as the exercise of market power by a lawful monopolist, rather than as an action that harmed the competitive process.<sup>86</sup> A defender of the Allergan transaction might argue that bypassing IPR is analogous to these regulatory cases.

The present situation, however, is distinct from the regulatory context presented in cases such as *Trinko* and *Discon*. First, the AIA does not include a savings clause and does not provide any agency remedies for Allergan's conduct beyond the IPR process itself. These differences are significant. Without a savings clause, *Trinko*'s limitations on the creation of new antitrust liability would not apply.<sup>87</sup> In addition, the private right to challenge patents through IPR indicates that the AIA is a broader law regulating patent rights, rather than a delegation of power to an agency to regulate an industry. In such a situation, antitrust remedies can play an important role in addressing anticompetitive

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81. Pub. L. 104-104, 110 Stat. 56.

82. 47 U.S.C. § 251(c).

83. 540 U.S. at 406 ("That Congress created these duties, however, does not automatically lead to the conclusion that they can be enforced by means of an antitrust claim.").

84. *Id.* at 406-07.

85. *NYNEX Corp. v. Discon, Inc.*, 525 U.S. 128, 136-37 (1998).

86. *Id.*

87. Some commentators argue that the Court's interpretation gives too much weight to the presence or absence of antitrust savings clauses in determining whether Congress delegated the relevant competitive issues to regulatory action and did not intend to create new antitrust liability. See, e.g., Howard A. Shelanski, *The Case for Rebalancing Antitrust and Regulation*, 109 MICH. L. REV. 683, 728 (2011) ("Especially where Congress has not granted immunity from antitrust law or, as in the Telecommunications Act of 1996, has expressly preserved it, there is no reason to think that Congress intends regulation alone to address the novel competitive circumstances that evolving regulated markets may present.").

behavior.<sup>88</sup> Second, Allergan's conduct is distinguishable from the defendants' in these two cases. In *Trinko*, Verizon simply refused to comply with the statute and thus incurred penalties. However, both in this case and in *Actavis*, pharmaceutical companies used the market power they gained through patents to subvert the statutory scheme regulating competition. Further, this is not a case of agency deception or fraud that allowed a lawful monopolist to exercise its market power, as in *Discon*; here, Allergan is expanding the probabilistic value of its patent beyond what Congress had initially envisioned.

By avoiding patent challenges, Allergan increases the probability its patents are not held invalid. When the patent system is subverted, antitrust laws are a necessary backstop to protect competition.<sup>89</sup>

*B. The "No Economic Sense" Test: Distinguishing Between Legitimate and Anticompetitive Uses of Immunity*

In this Section, we argue that Allergan's conduct has no procompetitive justifications because it fails even the permissive "no economic sense" test, which provides a suitable basis to distinguish between procompetitive and anticompetitive uses of sovereign immunity.

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88. *Id.* at 727 ("Some regulatory statutes may give agencies the authority to intervene in a more targeted way to punish or enjoin anticompetitive behavior ex post . . . [b]ut often such authority will not exist or, in the case of the Communications Act, be ambiguous at best. The natural backstop at such a point is antitrust enforcement." (footnote omitted)).

89. *See Carbice Corp. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 34 n.4 (1931) (noting that attempting to use a patent to unreasonably restrain commerce is "not only beyond the scope of the grant, but also a direct violation of the Anti-Trust Acts"). Courts often try to harmonize the two disciplines — antitrust and IP law — which may sometimes be in tension. *Cf. Image Tech. Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1217 (9th Cir.1997) ("At the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court."); *Schor v. Abbott Labs.*, 378 F. Supp. 2d 850, 855-56 (N.D. Ill. 2005), *aff'd*, 457 F.3d 608 (7th Cir. 2006) ("The instant case reveals the tension between antitrust laws, which discourage monopolies, and patent laws, which protect monopolies . . . . One consequence of the overlap between the patent and antitrust statutes and case law is that there is no easy delineation between a patent holder's permissible exercise of its rights under patent law, which grants a government-sanctioned monopoly and expressly allows the patentee to engage in exclusionary conduct, and anticompetitive behavior that violates antitrust law, which proscribes exclusionary conduct when coupled with monopoly power."). *But see Interview with Makan Delrahim, Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice, ANTITRUST SOURCE* 5 (Nov. 2003), [http://www.americanbar.org/content/dam/aba/publishing/antitrust\\_source/delrahim.authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/delrahim.authcheckdam.pdf) [<http://perma.cc/KZH2-EFJ9>] (noting that the interviewee does not see any tension between the fields, since both are "intended to promote a competitive marketplace for new ideas and incentives for research, and both have as their ultimate goal benefits to consumers").

Our IP system recognizes that innovation is a collaborative process.<sup>90</sup> Many transactions that incidentally invoke sovereign immunity do not raise antitrust concerns because they create new expertise or solve otherwise intractable problems. These legitimate patent assignments may lead to public benefits. However, exclusionary conduct that is *disguised* as a procompetitive patent assignment can be extremely harmful. In the present context, Allergan’s patent assignment entrenches its dominant position in two ways: (1) it distorts the probabilistic value of its patents by making them harder to challenge through IPR and court processes; and (2) it may further raise rivals’ costs by preventing a determination of invalidity.

The “no economic sense” test, sometimes known as the “economic sham” test, asks whether the conduct as a whole, over time, makes economic sense *but for* its tendency to eliminate or lessen competition.<sup>91</sup> Such a test imposes a theoretical limiting principle on how far antitrust condemnation should apply.<sup>92</sup> The test is one of many other general standards that have been proposed for assessing whether conduct is anticompetitive under Section 2.<sup>93</sup> As shown below, since Allergan’s behavior makes no economic sense but for its anticompeti-

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90. Our IP system allows joint filings of patents and accepts that patent assignments may often be required in order to realize the full innovative capacity of an inventor. See 35 U.S.C. § 261, para. 4; *General Information Concerning Patents*, U.S. PAT. & TRADEMARK OFF. (Oct. 2015), <http://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-27> [<http://perma.cc/HZ9J-FL3M>]; see also Antitrust Guidelines for the Licensing of Intellectual Property, U.S. DEP’T OF JUST. & FED. TRADE COMMISSION (Jan. 12, 2017) (“Licensing, cross-licensing, or otherwise transferring intellectual property . . . can facilitate integration of the licensed property with complementary factors of production. This integration can lead to more efficient exploitation of the intellectual property, benefiting consumers through the reduction of costs and the introduction of new products. Such arrangements increase the value of intellectual property to consumers and owners.”).
91. See Herbert J. Hovenkamp, *The Antitrust Standard for Unlawful Exclusionary Conduct* (2008), 11, [http://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=2779&context=faculty\\_scholarship](http://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=2779&context=faculty_scholarship) [<http://perma.cc/6B3G-23FK>]
92. Judge Bryson has already alluded to this suggestion in the *Allergan* case. See *Allergan, Inc. v. Teva Pharm. USA, Inc.*, No. 2:15-cv-1455-WCB, 2017 WL 4619790, at \*1 (E.D. Tex. Oct. 16, 2017); see also *supra* notes 8 & 37.
93. For a description of the main tests that have been proposed to evaluate Section 2 conduct, including a description of the “no economic sense” test, see Hovenkamp, *supra* note 91, at 3-16; and *Competition and Monopoly: Single-Firm Conduct under Section 2 of the Sherman Act*, U.S. DEP’T JUST. 33-47 (2008), [http://www.justice.gov/sites/default/files/atr/legacy/2008/09/12/236681\\_chapter3.pdf](http://www.justice.gov/sites/default/files/atr/legacy/2008/09/12/236681_chapter3.pdf) [<http://perma.cc/58T3-QWJ4>]. So far, the Court has not adopted a single test to assess what is considered exclusionary under Section 2, but the “no economic sense” test has been argued by the DOJ in *Trinko*, 540 U.S. 398 (2004). Gregory J. Werden, *The “No Economic Sense” Test for Exclusionary Conduct*, 31 J. CORP. L. 293, 293-94 (2006). The DOJ has consistently advocated using the “no economic sense” test in many of its Section 2 cases. *Id.* at 293 n.4.

tive purpose, its conduct carries no procompetitive benefit that can allow it to survive any other economic tests used in antitrust, such as the proportionality test proposed by Areeda and Hovenkamp<sup>94</sup> or the consumer welfare test developed by Salop.<sup>95</sup>

Allergan's conduct fails under even the most permissive standard of the "no economic sense" test, because the company would not have assigned its patents to the Tribe if doing so did not insulate the Restasis patents from PTAB challenges. Allergan's CEO, Brent Saunders, openly stated that Allergan transferred its patents to the Tribe to protect itself from the "parallel and often inconsistently adjudicated challenges before both federal courts and the [PTAB]."<sup>96</sup> Such statements of intent are relevant "to the extent they help us understand the likely effect of the monopolist's conduct."<sup>97</sup> Moreover, Allergan's patent as-

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94. THORSTEN KÄSEBERG, *INTELLECTUAL PROPERTY, ANTITRUST AND CUMULATIVE INNOVATION IN THE EU AND THE US* 91 (2012). According to Areeda and Hovenkamp, an act is exclusionary under § 2 if (1) it is "[r]easonably capable of creating, enlarging, or prolonging monopoly power by impairing the opportunities of rivals," and (2) it "either does not benefit consumers at all, or is unnecessary for the particular consumer benefits that the act produces, or produces harms disproportionate to the resulting benefits." PHILLIP E. AREEDA & HERBERT HOVENKAMP, *FUNDAMENTALS OF ANTITRUST LAW* § 6.04a (2004).
95. The "consumer welfare test focuses on consumer harm as the unifying principle." Barry E. Hawk, *The Current Debate About Section 2 of the Sherman Act: Judicial Certainty Versus Rule of Reason*, in *COMPETITION LAW AND ECONOMICS: ADVANCES IN COMPETITION POLICY ENFORCEMENT IN THE EU AND NORTH AMERICA* 221 (Abel M. Mateus & Teresa Moreira eds., 2010). According to Salop, conduct is unlawful if it "reduces competition without creating a sufficient improvement in performance to fully offset the potential adverse effects on prices and prevent consumer harm." Salop advocates for a "sliding scale standard, under which greater procompetitive benefits must be shown where harms from market power are greater." *Id.*
96. Meg Tirrell, *Allergan Responds to Mounting Criticism of Mohawk Patent Deal*, CNBC (Oct. 3, 2017), <http://www.cnbc.com/2017/10/03/allergan-responds-to-mounting-criticism-of-mohawk-patent-deal.html> [<http://perma.cc/52NX-AK7X>]. Saunders also argued the IPR system "creates an unnecessary and unfair burden on innovators of branded medicines by opening up patents to parallel and often inconsistently adjudicated challenges before both federal courts and the Patent Trial and Appeal Board"—a "double jeopardy" that Allergan sought to avoid. *Id.* Yet this system, where a patent is reviewable through both the IPR and federal court system, is precisely what existing law requires. The Supreme Court recently granted certiorari on whether the IPR system is constitutional, and a decision is expected during the October 2017 term. *Oil States Energy Servs. LLC v. Greene's Energy Group, LLC*, 639 Fed. App'x 639 (Fed. Cir. 2016) (*per curiam*), *cert. granted*, 137 S. Ct. 2239 (June 12, 2017) (No. 16-712).
97. *United States v. Microsoft Corp.*, 253 F.3d 34, 59 (D.C. Cir. 2001). Although the intent requirement for section 2 is controversial and not clearly delineated, intent can still help inform whether exclusionary conduct violates section 2. See Steven R. Beck, Note, *Intent as an Element of Predatory Pricing Under Section 2 of the Sherman Act*, 76 CORNELL L. REV. 1242 (1991). But see Hovenkamp, *supra* note 91, at 17-23 (canvassing the antitrust cases that have required "intent," but ultimately concluding that while "in some cases the defendant's 'pur-

signment cannot be justified by any procompetitive benefits, such as settling lawsuits (as in the reverse-payment case) or solving a free rider or externality problem (as in the case where inventors assign patents to their employers as a condition of employment). Rather, the arrangement was devised solely to address what Allergan perceived to be a problem with congressionally-created IPR proceedings. In fact, a Texas law firm approached the Saint Regis Mohawk Tribe independently about the possibility of expanding the tribe's revenue stream, and the law firm only *then* proposed the arrangement to Allergan.<sup>98</sup> Based on these facts, the accompanying exclusionary harms from assigning the patent are not justifiable.

The “no economic sense” test framework is particularly appropriate in the sovereign immunity context, because it provides a sensible limiting principle on how far antitrust condemnation may reach. While other economic tests are available, when important interests like tribal sovereign immunity are also at stake, the “no economic sense” test captures the most egregious behaviors without unduly burdening the sovereign interests of states and tribes. The test allows recent IPR cases recognizing state sovereign immunity to remain intact,<sup>99</sup> illustrating how the test captures anticompetitive uses of sovereign immunity without over-inclusively condemning procompetitive behavior.

For example, in *NeoChord Inc. v. University of Maryland*, the PTAB attempted to bring IPR proceedings against heart valve-related patents owned by the University of Maryland, Baltimore (UMB), which were exclusively licensed to a private entity, Harpoon Medical.<sup>100</sup> The PTAB granted UMB's motion to dismiss, agreeing that the University was immune from suit under the Eleventh Amendment.<sup>101</sup> The PTAB further noted that the University was an indis-

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pose or intent' may be enlightening,” courts “have focused on conduct while talking about intent”).

98. Sy Mukherjee, *Botox Maker Allergan's CEO Defends Selling Drug Patents to Native American Tribe to Thwart Rivals*, *FORTUNE* (Sept. 9, 2017), <http://fortune.com/2017/09/09/allergan-drug-patents-native-american> [<http://perma.cc/JRY2-3GXB>].

99. Allergan cites these cases as the inspiration for its arrangement. Letter from Brent Saunders, CEO, to Chairman Charles E. Grassley and Ranking Member Dianne Feinstein of the Senate Judiciary Comm. (Oct. 3, 2017), <http://www.scribd.com/document/360580879/BLS-Letter-to-Grassley-Feinstein-10-3-17-FINAL> [<http://perma.cc/U6F5-XKG7>] (“[I]t has also become clear that a certain class of patents were exempt from the flawed and broken IPR process, solely because they were owned by a sovereign entity that claimed sovereign immunity—a state university. It is against this background that the SRMT and its counsel approached Allergan in August with an opportunity to strengthen the defense of the RES-TASIS® intellectual property in the upcoming IPR proceedings before PTAB.”).

100. See *Neochord, Inc. v. Univ. of Maryland*, No. IPR2016-00208 (P.T.A.B. May 23, 2017).

101. *Id.*



pensable party because, although UMB had licensed the patents to a third party, UMB retained substantial rights in the patents themselves. However, the circumstances in *Neochord* differ greatly from Allergan's assignment. First, at the time the parties entered into the agreement, it was unclear whether sovereign immunity could be raised in IPR proceedings at all.<sup>102</sup> Second, as a company that makes heart valve repair devices, Harpoon was a natural partner for the heart valve patents at issue.<sup>103</sup> Instead of simply holding onto the patents as the Saint Regis Mohawk Tribe was asked to do, Harpoon bargained for the exclusive license in order to use it. Therefore, even without potential insulation from an IPR challenge, UMB and Harpoon Medical likely had economic incentives to enter into the transaction—and, unlike Allergan, would pass the “no economic sense” test.

Allergan was therefore incorrect to rely on cases such as *Neochord* as a way to recuse itself from the IPR process,<sup>104</sup> since the parties in *Neochord* did not sign the relevant agreement *solely* to escape IPR review. To the contrary, the present arrangement between Allergan and the St. Regis Mohawk would not have occurred absent the intended effect on IPR proceedings. Courts adopting the “no economic sense” test can thus condemn harmful assignments like Allergan's without condemning procompetitive ownership transfers.

Further, the “no economic sense” test would not be so overly broad as to condemn procompetitive joint ownership agreements. For example, the PTAB dealt with sovereign immunity in the context of a jointly owned patent in July 2017, in *Reactive Surfaces Ltd. v. Toyota Motor Corporation*.<sup>105</sup> In that case, Toyota

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102. The first time the PTAB ruled on an Eleventh Amendment immunity claim was in January 2017, in *Covidien LP v. University of Florida Research Foundation, Inc.*, Nos. IPR 2016-01274, -01275, and -01276 (P.T.A.B. Jan. 25, 2017). Although it is a seminal case, *Covidien* is not relevant to our analysis because it did not involve any patent assignments; rather, the University of Florida, which owned the patent, was asserting its own immunity. The PTAB ultimately granted the University of Florida's foundation to dismiss IPR proceedings, finding that, because of the “considerable resemblance” between IPR proceeding and federal court proceedings, the University was entitled to invoke its Eleventh Amendment immunity.

103. Edwards Lifesciences Corp., *Edwards Acquires Harpoon Medical*, PRNEWswire (Dec. 6, 2017), <http://www.prnewswire.com/news-releases/edwards-acquires-harpoon-medical-300567472.html> [<http://perma.cc/QQ4E-45QT>] (stating that Harpoon is a company “pioneering beating-heart repair for degenerative mitral regurgitation” and noting that the “chairman of [Harpoon's] scientific advisory board” is also the “professor and chief of cardiac surgery at the University of Maryland School of Medicine”).

104. Letter from Brent Saunders, CEO, *supra* note 99 (citing *Neochord* as part of the basis for why Allergan's legal counsel allowed the deal to proceed). As mentioned *supra* note 102, *Covidien*—another case mentioned in Saunders's letter—is also inapposite because the University of Florida owned the patents at issue, and did not assign them to a different entity in order to invoke sovereign immunity.

105. *Reactive Surfaces Ltd. v. Toyota Motor Corp.*, No. IPR2016-01914 (P.T.A.B. July 13, 2017).

and the Regents of the University of Minnesota (UM) jointly owned the patent at issue.<sup>106</sup> The PTAB ultimately found that the IPR proceeding could continue without participation from UM even if UM had invoked its Eleventh Amendment sovereign immunity, because Toyota could adequately represent UM's interests.<sup>107</sup> Even if Toyota's and UM's interests were at odds, however, the "no economic sense" test proposed here would not condemn the joint ownership. Although the PTAB's reasoning did not rely on the "no economic sense" test, the PTAB's decision is consistent with our proposed framework. Specifically, the inventors assigned interests to UM and to Toyota independently.<sup>108</sup> Half of the six inventors were research associates or professors at UM; the remaining inventors were research scientists at Toyota.<sup>109</sup> Toyota did not seek out UM for use of its sovereign immunity, but gained co-ownership because its assignors collaborated with UM researchers to develop the patent. Thus, there were economic reasons beyond sovereign immunity for the collaboration.

Ultimately, antitrust law is especially important when firms attempt to blunt a tool for generic competition. Since competitors and third parties are legally entitled to invalidate patents through the IPR process, Allergan's conduct is particularly egregious. Our proposed "no economic sense" framework provides a way to evaluate Allergan's conduct without being so overbroad as to chill legitimate, procompetitive patent transfers or joint ownership agreements with sovereign entities. Nevertheless, as explained in Part IV, antitrust laws are insufficient on their own to provide a solution to "leases" of tribal sovereign immunity.

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<sup>106.</sup> *Id.*

<sup>107.</sup> The PTAB looked to the FRCP 19(b) standard for guidance on whether the suit could continue, finding that "Toyota would adequately represent the interests of [UM] in the challenged patent" since it co-owned the patent at issue. *Id.* at \*6. Further, the parties were represented by the same counsel, and the parties held "identical interests" in the patent. *Id.*

<sup>108.</sup> *Reactive Surfaces Ltd.*, IPR2016-01914, at \*2-3 ("The patent lists six inventors. During the prosecution of the '618 patent, three of those inventors assigned their interest to the Regents. Also during prosecution, two of the remaining inventors assigned their interest to Toyota Motor Engineering & Manufacturing North America, Inc., and the remaining inventor assigned his interest to Toyota.").

<sup>109.</sup> U.S. Patent No. 8,394,618 (filed Mar. 12, 2013) (listing six inventors); *Enzyme-Enabled Responsive Surfaces for Anti-Contamination Materials*, 110 BIOTECHNOLOGY & BIOENGINEERING 1805, 1805 (listing affiliations for each of the six inventors).

#### IV. ADDRESSING LEASES OF TRIBAL IMMUNITY IN THEIR BROADER CONTEXT

This Part places the Allergan deal in broader context, considering both how our proposed antitrust framework might apply to areas of law and how the persistent underdevelopment of Native American communities gives rise to this phenomenon.

Although we are optimistic that antitrust law affords an opening to address Allergan's conduct, we recognize that antitrust liability will not be able to bypass all company "leases" of tribal sovereign immunity. Although potential litigants may be able to hold Allergan accountable under the IP-antitrust intersection recognized in *Actavis*, this intervention is context-dependent and may not be available where Congress has not articulated a statutory theory of competition. Therefore, while our proposed theory of antitrust liability provides a shield for competition in areas with IP or quasi-IP protection like the pharmaceutical industry, competition in other industries is more vulnerable. For example, many payday lenders have used tribal sovereign immunity to avoid liability under state laws and regulations.<sup>110</sup> Although there is some regulation of payday lending, Congress has not heavily regulated competition in this industry, and there is no obvious statutory scheme to support an antitrust claim.

Thinking about tribal sovereign immunity in isolation invites a game of whack-a-mole, in which law only addresses the symptoms of the systemic problems facing Indian tribes, rather than the actual causes. Though far from monolithic, Native Americans as a whole face among the highest poverty, unemployment, and incarceration rates of any group in the country.<sup>111</sup> Moreover, given the difficulties tribes face in raising revenue to provide social services for their members, it is perhaps inevitable that many have resorted to leasing their sovereign immunity.<sup>112</sup> Though the question of how to provide adequate eco-

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110. See Martin & Schwartz, *supra* note 40.

111. *Poverty Rates for Selected Detailed Race and Hispanic Groups by State and Place: 2007-2011*, U.S. CENSUS BUREAU (2013), <http://www.census.gov/library/publications/2013/acs/acsbr11-17.html> [<http://perma.cc/73B2-QPCB>] (showing that American Indians and Alaska Natives have the highest national poverty rates by race); Lawrence A. Greenfeld & Steven K. Smith, *American Indians and Justice*, U.S. DEP'T JUST. (Feb. 1999), <http://www.bjs.gov/content/pub/pdf/aic.pdf> [<http://perma.cc/6QEV-3U96>] (showing that American Indians face the highest per capita rates of violence among any race and have a rate of incarceration thirty-eight percent higher than the national rate); see also Martin & Schwartz, *supra* note 40, at 754-58 (summarizing concerns).

112. Under the Supreme Court's decision in *Cotton Petroleum Corp. v. New Mexico*, states may impose taxes on businesses within tribal territory if the state provides *de minimis* services. 490 U.S. 163 (1989). Tribes accordingly face a prisoner's dilemma (assuming that businesses would prefer to stay within tribal jurisdiction). In essence, although tribes may be better off

conomic security for tribes is beyond the scope of this particular Essay, any solutions to this problem should not unduly punish the tribes for seeking to raise revenue for their members. The political complexities involved in abrogating tribal sovereign immunity thus caution against extreme solutions by courts and administrative bodies, such as the PTAB's absolute rejection of tribal sovereign immunity in IPR proceedings, and towards adopting an antitrust solution instead.

Indeed, these leases for sovereign immunity already carry risks for tribes, as Congress may strip Indian tribes of their immunity in response, thereby depriving them of both a source of revenue and legal protections.<sup>113</sup> Moreover, commentators have recognized that “improvident use of tribal sovereign immunity” may invite backlash, leading to diminished decisional independence and legal rights.<sup>114</sup> Corporate leases of tribal sovereign immunity have their roots not in a legal puzzle, but in the economic needs of many Indian tribes. Until Congress provides tribes the economic opportunities required to sustain themselves and serve their constituents, any solution to this problem is only half-best.<sup>115</sup>

## CONCLUSION

The law has so far failed to conclusively address the misappropriation of tribal sovereign immunity to serve private interests. As we have argued, Allergan's most recent arrangement is likely vulnerable to an antitrust suit because it

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if they all imposed additional taxes, each individual tribe has an incentive not to do so because reducing taxes may attract business away from other tribes. Therefore, each tribe is unlikely to impose taxes. See Greg Ablavsky, *Tribal Sovereign Immunity and Patent Law*, WRITTEN DESCRIPTION (Sept. 13, 2017 12:42 AM), <http://writtendescription.blogspot.com/2017/09/tribal-sovereign-immunity-and-patent-law.html> [<http://perma.cc/9BP4-RNVZ>].

113. See *supra* note 7 and accompanying text.

114. Patrice H. Kunesch, *Tribal Self-Determination in the Age of Scarcity*, 54 S.D. L. REV. 398, 416 (2009); see also Charles Trimble, *Sovereignty for Rent with Payday Loan Businesses*, INDIANZ.COM (Mar. 14, 2011), <http://www.indianz.com/News/2011/03/14/charles-trimble-sovereignty-fo.asp> [<http://perma.cc/T5GA-SQL2>] (“[Payday lending] is fodder for those forces that still argue that tribes are not up to the standards of discipline and law for sovereignty and self-governance. Instead they are seen by many as havens of corruption and lawlessness, and fronts for sleazy businesses. These are the things that could feed a backlash.”).

115. In the joint press release, the St. Regis Mohawk Tribal Council stated, “[The contract] is a viable and sound opportunity . . . as part of our overall economic diversification strategy . . . . We realize that we cannot depend solely on casino revenues and, in order for us to be self-reliant, we must enter into diverse business sectors to address the chronically unmet needs of the Akwesasne community; such as housing, employment, education, healthcare, cultural, and language preservation.” Joint Press Release, *supra* note 1.

evades two statutory frameworks for competition: the Hatch-Waxman Act and the Leahy-Smith America Invents Act. To deter future contracts that hurt consumer welfare, we recommend that courts apply the “no economic sense” test, which has been proposed in other antitrust contexts. This test is likely to capture instances where companies contract purely to garner the benefits of sovereign immunity, but avoids condemning “false positives” or legitimate economic arrangements that have procompetitive benefits.

Given the balance between tribal sovereignty and accessibility to generic pharmaceutical products, antitrust law has a particularly important role to play when other regulatory instruments fail. We must continue to search for flexibility in our available toolkit when firms seek to opt out of competition. Otherwise, in arrangements like Allergan’s, only the monopolist wins – tribes are only given a temporary fix that does not address their underlying interests in self-governance, and consumers are left out of the equation entirely.

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