



IP Literature Watch

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This newsletter contains an overview of recent publications concerning intellectual property issues. The abstracts included below are as written by the author(s) and are unedited.

IP & Antitrust

Property rules vs. liability rules for patent infringement

Carl Shapiro (University of California, Berkeley – Haas School of Business)

Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2775307

When a patent has been infringed, the court can impose a forward-looking remedy based on a property rule or based on a liability rule. Under the property rule, the court issues an injunction ordering the infringing party to stop infringing. Under the liability rule, the court allows the infringing party to continue to infringe the patent in question so long as it pays specified ongoing royalties to the patent holder. Since the Supreme Court's landmark 2006 decision in the eBay case, the United States has employed a hybrid system: the lower courts have discretion, on a case-by-case basis, to issue an injunction or to establish ongoing royalties. This article develops a simple model, including the possibility of patent holdup, in which the court has an imperfect ability to measure the harm to the patent holder caused by ongoing infringement. In the model, the patent holder and the infringing firm can negotiate efficiently over a patent license following the court's imposition of a remedy, subject to some antitrust limits. Remedy regimes are evaluated based on how close they come, in expected value, to compensating the patent holder for any ongoing infringement. The model identifies a fundamental tradeoff: ongoing royalties perform better, the greater are the switching costs the infringing firm would bear to redesign its product to avoid infringing, but an injunction performs better, the greater is the court's uncertainty about the harm that ongoing infringement will cause to the patent holder. Based on this analysis, recommendations regarding prospective patent remedies are offered to the courts.

Patent strategies and competition law in the pharmaceutical sector: implications for access to medicines

Duncan Matthews (Queen Mary University of London – School of Law)

Olga Gurgula (Queen Mary University of London – School of Law)

European Intellectual Property Review, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2779014

Competition policy is an under-utilised tool. Policy coherence between the IP system and competition must be strengthened in order to promote innovation and access to health technologies. Article 8(2) of the TRIPS Agreement provides flexibilities for governments to adopt competition law measures to prevent abuse of intellectual property rights, including IP rights related to the life sciences, namely the pharmaceutical industry and the biotechnology sector. Post-TRIPS, some countries have implemented competition laws but in practice are not using these effectively. This is particularly striking in the pharmaceutical sector, where abuses of intellectual property rights, such as reverse payment agreements and strategic patenting, risk allowing pharmaceutical companies to extend their market monopoly by blocking the entry of both generic and innovative medicines and, as a result, stifling competition and harming consumers. Nevertheless, these practices lack adequate attention by competition authorities. Such anti-competitive practices create particular challenges for the developing world as they can lead to significant barriers to innovation access. Used effectively, competition policy can be in the best interests of society. It is conducive to freedom of choice and lower prices while, potentially, also serving as an important driver for innovation and access.

IP & Innovation

Patents and the wealth of nations

Stephen Haber (Stanford University – Hoover Institution and Political Science)

George Mason Law Review, Vol. 23, No.4, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2776773

If both reason and evidence point to the crucial role played by property rights in the wealth of nations, then how can some scholars hold that strong rights to intellectual property (IP) are hindering innovation and holding back economic growth? Should not the same logic hold for IP as for any other kind of property? This paper therefore analyzes the evidence from broad literatures in economic history and empirical microeconomics. It finds that the weight of the evidence from two very different bodies of scholarship, employing very different approaches to evidence — one based on mastering the facts of history, the other based on statistical modeling — yield the same answer: there is a causal relationship between strong patents and innovation.

Evidence and reason therefore suggest that the burden of proof falls on those who claim that patents frustrate innovation. Convincing scholars who are not predisposed to accept that claim will require IP critics to: (1) develop a coherent theory based on first principles about why patent rights are fundamentally different from other property rights; (2) test that theory against carefully-retrieved historical facts and appropriately-specified statistical models; and (3) consider their theory and evidence in light of alternative theories and alternative evidence in a dispassionate manner.

Innovation sticks: the limited case for penalizing failures to innovate

Ian Ayres (Yale University – Yale Law School; Yale University – Yale School of Management)

Amy Kapczynski (Yale University – Yale Law School)

University of Chicago Law Review, Vol. 81, p. 1781, 2015

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2774492

When policymakers and academics think about designing optimal innovation incentives, they almost exclusively limit their considerations to various types of re-ward incentives — that is, innovation “carrots.” But in this Article, we show that, under specific circumstances, innovation “sticks” — potential penalties for failures to innovate — can play valuable roles in our innovation policy, either alone or in conjunction with innovation carrots. We also provide examples of several innovation sticks that have already been used with apparent success, including the federal Corporate Average Fuel Economy standards. Finally, we apply our approach to a new area — the problem of car fatalities — to illustrate the potential of innovation sticks to yield substantial social benefits. Our model suggests that a relatively simple system of yardstick penalties could help reduce national auto fatalities by as much as 20 percent simply by bringing laggard entities (such as companies and states) up to the median.

IP & Litigation

On the ‘smallest saleable patent practicing unit’ doctrine: an economic and public policy analysis

Edward F. Sherry (Independent)

David Teece (University of California, Berkeley – Business & Public Policy Group)

Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2764614

We discuss the recently developed court-originated legal doctrine that patent infringement damages should use as the damages base the selling price of the “smallest saleable patent practicing unit” (SSPPU). The doctrine appears to have been motivated by concerns that using a broader damages base risks overcompensating patent holders by basing damages on product features the patent holder did not invent. We note that very few real-world licenses use the SSPPU as the royalty base. We discuss a number of conceptual and pragmatic problems with the SSPPU doctrine, including concerns about the fact that the SSPPU may be a component that accounts for only a small fraction of the value of the overall infringing product. In a recent controversial change to its IP policy, the IEEE-SA recently endorsed basing royalties for standards-essential patents on the “smallest saleable compliant Implementation” of the relevant IEEE-SA standard. The most recent appellate court decision on the subject has rejected a categorical rule requiring the use of the SSPPU.

Recent developments in patent law (Spring 2016)

Mark A. Lemley (Stanford Law School)

Madeleine Laupheimer (Stanford Law School, Students)

Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2778163

This paper summarizes the most important patent cases in the past 12 months, from May 2015 through April 2016.

IP Law & Policy

Article 101 TFEU and market integration

Pablo Ibáñez Colomo (London School of Economics – Law Department)

Journal of Competition Law & Economics (2016) 12, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2747784

Market integration is an objective of Article 101 TFEU. As a result, agreements aimed at partitioning national markets are in principle restrictive of competition by object. The case law on this point has been consistent since Consten-Grundig. Making sense of it, however, remains a challenge. The purpose of this piece is to show, first, how the methodological approach followed by the Court of Justice changes when market integration considerations are at stake. Secondly, it explains why and when restrictions on cross-border trade have been found not to restrict competition by object within the meaning of Article 101(1) TFEU.

An agreement aimed at partitioning national markets is not as such contrary to Article 101(1) TFEU if the analysis of the counterfactual reveals that it does not restrict inter-brand and/or intra-brand competition that would have existed in its absence. It is possible to think of three scenarios in this regard: (i) an agreement may be objectively necessary to achieve the aims sought by the parties; (ii) a clause may be objectively necessary for an agreement and (iii) competition is precluded by the underlying regulatory context (as is the case, in particular, when the exercise of intellectual property rights is at stake).

Functionality in U.S. design patent & community design law

Jason J. Du Mont (Max Planck Institute for Intellectual Property & Competition Law)

Mark D. Janis (Indiana University Maurer School of Law)

Research Handbook on Design Law, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2773070

In this paper we present a comparative synthesis of recent developments in the jurisprudence of functionality, as it has arisen in U.S. design patent law and Community Design law. As we demonstrate, the law of functionality in both jurisdictions is marked by a number of serious internal tensions. In the U.S., recent Federal Circuit decisions in *Ethicon* and *Sport Dimension* offer some evidence of constructive progress towards resolving these tensions, although significant work remains to be done. In Europe, progress has been less discernible recently, despite the fact that Community Design rights are becoming increasingly important to its intellectual property enforcement landscape. We conclude that although the respective U.S. and European bodies of functionality doctrine share some common ground, we see little evidence of any emerging consensus about the role that functionality should play in calibrating design protection.

A [mostly] legislative history of the Defend Trade Secrets Act of 2016

John Cannan (Drexel University Thomas R. Kline School of Law)

Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2775390

This paper provides a narrative of the passage of the Defend Trade Secrets Act of 2016 — legislation, passed by Congress in April, 2016, that establishes a federal civil cause of action for the theft of trade

secrets. It analyzes the justifications for the bill, how it was drafted and passed and how Congress expressed its objectives in the law's legislative history source documents.

'Government patent use': a legal approach to reducing drug spending

Amy Kapczynski (Yale University – Law School)

Aaron S. Kesselheim (Brigham and Women's Hospital/Harvard Medical School, Harvard University – Edmond J. Safra Center for Ethics)

Health Affairs, Vol. 35, No.5, 2016.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2774514

The high cost of patent-protected brand-name drugs can strain budgets and curb the widespread use of new medicines. An example is the case of direct-acting antiviral drugs for the treatment of hepatitis C. While prices for these drugs have come down in recent months, they still create barriers to treatment. Additionally, prescribing restrictions imposed by insurers put patients at increased risk of medical complications and contribute to transmission of the hepatitis C virus. We propose that the federal government invoke its power under an existing "government patent use" law to reduce excessive prices for important patent-protected medicines. Using this law would permit the government to procure generic versions of patented drugs and in exchange pay the patent-holding companies reasonable royalties to compensate them for research and development. This would allow patients in federal programs, and perhaps beyond, to be treated with inexpensive generic medicines according to clinical need — meaning that many more patients could be reached for no more, and perhaps far less, money than is currently spent. Another benefit would be a reduction in the opportunity for companies to extract monopoly profits that far exceed their risk-adjusted costs of research and development.

Copyright Law

A copyright right of publicity

Reid K. Weisbord (Rutgers Law School – Newark)

Fordham Law Review, Vol. 84, No. 6, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2771362

This Article identifies a striking asymmetry in the law's disparate treatment of publicity-rights holders and copyright holders. State-law publicity rights generally protect individuals from unauthorized use of their name and likeness by others. Publicity-claim liability, however, is limited by the First Amendment's protection for expressive speech embodying a "transformative use" of the publicity-rights holder's identity. This Article examines for the first time a further limitation imposed by copyright law: when a publicity-rights holder's identity is transformatively depicted in a copyrighted work without consent, the author's copyright can produce the peculiar result of enjoining the publicity-rights holder from using or engaging in speech about her own depiction. This Article offers novel contributions to the literature on copyright overreach and: (1) identifies a legal asymmetry produced in the interplay of publicity rights, copyright law, and the First Amendment; (2) examines the burdens on constitutionally protected speech, autonomy, and liberty interests of publicity-rights holders when copyright law prevents or constrains use of their own depiction; and (3) outlines a framework for recognizing a "copyright right of publicity" to exempt the publicity-rights holder's use from copyright infringement liability.

Notably, this Article contributes uniquely to the literature by including an exclusive first-person narrative by an internationally recognized celebrity whose persona was prominently depicted without prior notice or consent in a wide-release feature film.

Facilitating competition by remedial regulation

Kristelia A. Garcia (University of Colorado Law School)

Berkeley Technology Law Journal, Vol. 30, No. 1, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2781189

In music licensing, powerful music publishers have begun — for the first time ever — to withdraw their digital copyrights from the collectives that license those rights, in order to negotiate considerably higher rates in private deals. At the beginning of the year, two of these publishers commanded a private royalty rate nearly twice that of the going collective rate. This result could be seen as a coup for the free market: Constrained by consent decrees and conflicting interests, collectives are simply not able to establish and enforce a true market rate in the new, digital age. This could also be seen as a pathological form of private ordering: Powerful licensors using their considerable market power to impose a supracompetitive rate on a hapless licensee. While there is no way to know what the market rate looks like in a highly regulated industry like music publishing, the anticompetitive effects of these withdrawals may have detrimental consequences for artists, licensees and consumers. In industries such as music licensing, network effects, parallel pricing and tacit collusion can work to eliminate meaningful competition from the marketplace. The resulting lack of competition threatens to stifle innovation in both the affected, and related, industries.

Normally, where a market operates in a workably competitive manner, the remedy for anticompetitive behavior can be found in antitrust law. In music licensing, however, some concerning behaviors, including both parallel pricing and tacit collusion, do not rise to the level of antitrust violations; as such, they cannot be addressed by antitrust law. This is no small irony. At one point, antitrust served as a check on the licensing collectives by establishing consent decrees to govern behavior. Due to a series of acquisitions that have reduced the music publishing industry to a mere three entities, the collectives that are being circumvented by these withdrawals (and whose conduct is governed by consent decrees) now pose less of a competitive concern than do individual publishing companies acting privately, or in concert through tacit collusion. The case of intellectual property rights, which defer competition for creators and inventors for a limited period of time, is particularly challenging for antitrust.

Running contrary to conventional wisdom, this Article posits that regulation — not antitrust — is the optimal means of enabling entry and innovation in the music licensing market. While regulation is conventionally understood to restrict new entry and to interfere with competition, this Article demonstrates that where a market becomes highly concentrated, regulation can actually encourage competition by ensuring access to key inputs at competitive rates. While not without its drawbacks, including an increase in the cost of private action, remedial regulation in music licensing corrects anticompetitive behavior and ensures ongoing access to content and fair payment to artists, while supporting continued innovation in content distribution.

Copyright as a platform for artistic and creative freedom

Matthew Barblan (George Mason University School of Law)

George Mason Law Review 23, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2776797

A growing conventional wisdom argues that copyright restricts artists' ability to fulfill their creative potential and to express themselves freely in their art. But this conventional wisdom misunderstands the role that copyright plays in fostering and enabling artistic freedom. To understand the relationship between copyright and artistic freedom, it helps to consider the broader context in which copyright enables artists and creators to thrive. While copyright restricts artistic freedom in the narrow sense that it places limitations on artists' ability to incorporate anything they want into their art without permission, this restriction is only one side of the equation; on the other side, copyright plays a critical role in fostering artistic and creative independence.

By securing to artists a property right in the fruits of their productive labors, copyright empowers artists to pursue success in whichever markets and through whichever business models work best for their creative visions. As a result, artists of all shapes and sizes — both mainstream and niche, and with a wide variety of social and cultural viewpoints — are free to develop and market their art in a rich, diverse, commercial marketplace. Copyright's economic freedom supports a professional class of creators. These creators don't just make art, they make a living making art, enjoying the freedom to dedicate their time to their craft in ways that are impossible for most hobbyists. Copyright's economic freedom also gives creators the artistic freedom to dream big — it helps them secure financing for their more ambitious projects, it empowers them to develop and sustain related projects over time, and it enables them to capture the efficiencies of the division of labor. By supporting artists and their work, copyright serves as a powerful platform for artistic and creative freedom.

Lenz v. Universal: a call to reform Section 512(f) of the DMCA and to strengthen fair use

Marc J. Randazza (Randazza Legal Group, World Intellectual Property Organization (WIPO), Università di Torino Faculty of Law)

Vanderbilt Journal of Entertainment & Technology Law, Vol. 18, No. 3, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2773137

Section 512(f) of the Digital Millennium Copyright Act is designed to discourage abuse of the DMCA takedown process. "Abuse" includes failing to simply consider the application of fair use. However, fair use is a right, not a privilege, and the current version of Section 512(f) is too weak to fully protect fair use, and fair use itself does not have adequate protections under the law.

The recent *Lenz v. Universal* case demonstrates that we need greater protection for fair use, and a DMCA abuse statute with real teeth.

This article discusses the issue of fair use and DMCA reform in the context of the *Lenz* case. It then provides a statutory proposal to resolve the problem - in large part making the remedies for violating fair use rights essentially equivalent to the remedies for violating copyrights in the first place.

IP & Asia

Intellectual property in Asia: ASEAN, East Asia and India

Christoph Antons (Deakin University, Geelong, Australia – Deakin Law School)

The Oxford Handbook of Intellectual Property Law, Rochelle Dreyfuss and Justine Pila (eds), Oxford University Press, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2782263

This paper covers parts of Asia with very significant recent developments in intellectual property (IP) law. IP reform in the region was initially driven by the concerns of industrialised countries about the lack of IP protection in Asian ‘miracle’ economies. More recently, it has become an important topic in free trade and economic partnership agreement negotiations. The developments in the individual countries are discussed in the context of an ‘Asian development model’, which has often combined short and generalised laws with numerous implementing decrees and administrative discretion. This has allowed for the selective adaptation of IP models from elsewhere, with some countries now strongly promoting higher IP standards to their regional neighbours. Different historical pathways to development and local circumstances suggest, however, that it is difficult to develop regional role models for others or to explain differences about IP exclusively with the divide between ‘developed’ and ‘developing’ countries.

FRAND (and industrial policy) in China

D. Daniel Sokol (University of Florida – Levin College of Law; George Washington Law School Competition Law Center)

Wentong Zheng (University of Florida – Levin College of Law)

Cambridge Handbook of Technical Standardization Law, Vol. 1: Antitrust and Patents, (Jorge L. Contreras, ed., 2017 (New York: Cambridge Univ. Press)) Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2776235

This Chapter discusses antitrust-related FRAND issues in China. In Part I, we provide an overview of China’s antitrust regime and its interaction with intellectual property rights. In doing so, we offer an explanation of the nature of the Chinese antitrust regime that builds upon both the industrial organization and the political economy literatures. We also discuss the NDRC investigation into Qualcomm. Part II of this Chapter discusses standard setting in China, and how FRAND-related issues are handled under Chinese standard-setting laws and regulations. In Part III, we explore recent developments in Chinese courts that impact FRAND. In particular, we discuss the Huawei v. InterDigital case and its implications for global FRAND licensing. In Part IV, we offer thoughts on the lack of transparency in China’s antitrust regime as well as the use of industry policy in the FRAND setting and how these issues may negatively impact consumer welfare.

Other IP Topics

Divided infringement and the doctor-patient relationship

Rachel Sachs (Harvard Law School)

IP Theory, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2777639

With its recent en banc decision in *Akamai v. Limelight*, the Federal Circuit has displayed its willingness to expand the scope of divided infringement liability for method claims under 35 U.S.C. § 271. Most of the

cases to have considered the question of divided infringement thus far, including Akamai, have involved method patents relating to business methods or software. As such, it is unclear whether the courts will apply an identical analysis in the life sciences context. Specifically, there are important differences between the corporation-consumer relationship implicated in cases like Akamai and the doctor-patient relationship implicated in cases involving diagnostic method claims or method-of-treatment claims. This Essay will consider the role of the doctor-patient relationship within the divided infringement paradigm, considering the ways in which the courts both are likely to handle it doctrinally and should handle it as a more theoretical matter.

Intellectual property in news? Why not?

Sam Ricketson (Melbourne Law School)

Jane C. Ginsburg (Columbia Law School)

Sam Ricketson and Megan Richardson, eds., Research Handbook on Intellectual Property in Media and Entertainment (Edward Elgar 2016, Forthcoming)

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2773797

This Chapter addresses arguments for and against property rights in news, from the outset of national law efforts to safeguard the efforts of newsgathers, through the various unsuccessful attempts during the early part of the last century to fashion some form of international protection within the Berne Convention on literary and artistic works and the Paris Convention on industrial property. The Chapter next turns to contemporary endeavors to protect newsgatherers against “news aggregation” by online platforms. It considers the extent to which the aggregated content might be copyrightable, and whether, even if the content is protected, various exceptions set out in the Berne Convention permit its unlicensed appropriation.

About the editor

Dr. Anne Layne-Farrar is a vice president in the Antitrust & Competition Economics Practice of CRA. She specializes in antitrust and intellectual property matters, especially where the two issues are combined. She advises clients on competition, intellectual property, regulation, and policy issues across a broad range of industries with a particular focus on high-tech and has worked with some of the largest information technology, communications, and pharmaceuticals companies in the world.

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