



# IP Literature Watch

**CRA** Charles River  
Associates  
CELEBRATING 50 YEARS

May 2015

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

### **Should reverse payment patent settlements be prohibited per se?**

Jorge Padilla (Compass Lexecon)

Valerie Meunier (Compass Lexecon)

*Working Paper*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2604071](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2604071)

Using the same competition test and counterfactual that has been used in the economic literature that is often cited to justify intervention against virtually all reverse payment patent settlements (RPPSs), we conclude that (1) RPPSs can benefit consumers and, therefore, it is wrong to presume that RPPSs are necessarily anticompetitive; (2) it is also incorrect to presume that RPPSs are by their very nature injurious to competition; (3) such a presumption is unjustified even for those involving reverse payments in excess of the originator's expected litigation costs; (4) there is therefore no justification for treating RPPSs as per se illegal; (5) a case-by-case assessment of the effects on competition and consumer welfare of an RPPS that uses the expected date of entry as the standard of comparison in the counterfactual world, would necessarily require informed judgments as to (at a minimum) the strength of the patent at issue and the likelihood of patent infringement; (6) as a result, assessing RPPSs on a case by case basis using the expected date of entry standard for comparison is bound to lead to errors and reduce consumer welfare and, hence, cannot constitute an appropriate legal standard; and (7) RPPSs, even those involving reverse payments greater than the originator's litigation costs, should be assessed under a rebuttable presumption of legality rule — i.e. they should be presumed legal unless there is direct evidence of a conspiracy to delay entry.

### **Patent licensing and secondary markets in the nineteenth century**

Adam Mossoff (George Mason University School of Law)

*George Mason Law Review*, Vol. 22, No. 4, Forthcoming Summer 2015

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2602902](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2602902)

The selling, buying and licensing of patents is controversial today. Inventors, companies, and universities who license their patents are labeled with the “patent troll” epithet, and academics, judges, lobbyists and others have decried this commercial activity as a new, harmful phenomenon. This historical claim,

though, is profoundly mistaken. This essay contributes to the ongoing academic and policy debates by presenting new historical data and summarizing preexisting historical scholarship on the hoary practice in America's innovation economy of both patent licensing and the buying and selling of patents in what economists call a "secondary market." Famous inventors, such as Thomas Edison and Charles Goodyear, used this business model, as did many other inventors and companies. In sum, patent licensing and secondary markets have long been a key part of America's innovation economy since the early nineteenth century.

## IP & Innovation

### Freedom to tinker

Pamela Samuelson (University of California, Berkeley – School of Law)

*Theoretical Inquiries in Law, Forthcoming*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2605195](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2605195)

People tinker with technologies and other human-made artifacts for a variety of reasons: to have fun, to be playful, to learn how things work, to discern their flaws or vulnerabilities, to build their skills, to become more actualized, to tailor the artifacts to serve one's specific needs or functions, to repair or make improvements to the artifacts, to adapt them to new purposes, and occasionally, to be destructive. This article aims to explain why the law should protect a zone of freedom to tinker because of the many benefits that tend to arise from tinkering.

I conceptualize freedom to tinker as having several dimensions: it entails, first, an intellectual freedom to imagine what one might do with existing artifacts to learn more about them; second, an intellectual privacy and autonomy interest in investigating and exploring those artifacts in which one has a property or other legitimate interest, especially when the investigation is done in one's own premises; third, a right to build one's skills by testing, analyzing, and interacting with existing artifacts; fourth, a liberty interest to become more actualized as a person through tinkering; fifth, a right to distill what one has learned from tinkering and disseminate the results of one's research to others; sixth, a right to repair that which is broken and make other uses of artifacts as long as one is not harming the interests of others; seventh, a right to innovate based on what one has learned through tinkering; and eighth, a right to share innovations that result from tinkering with others if one chooses to do so and build a community around the innovation.

Freedom to tinker has existed for millennia. Yet it has existed largely without a formally recognized legal identity. It has simply been an unregulated zone within which people were at liberty to act unobstructed by others (so long as they did not harm others). The main reason why it now seems necessary to articulate what freedom to tinker is and why it needs to be preserved and legally protected is because freedom to tinker is being challenged by several recent legal developments.

Part I observes that users have considerable freedom to tinker with artifacts that are not encumbered by IP rights and are thus in the public domain. Trade secrecy, patent, and trademark laws have doctrines that generally provide user-innovators with considerable freedom to tinker. Although copyright law permits a modest degree of tinkering with existing products, it restricts freedom to tinker more than other IP laws. Part II explains the substantial limits that copyright law and sometimes contract law place on user rights to tinker with and modify computer programs. These constraints are of particular concern to tinkerers because computer programs are embedded in such a wide range of technologies these days. Part II also discusses the constraints that anti-circumvention rules place on freedom to tinker. These rules outlaw most reverse engineering ("circumvention") of technically protected copyrighted works and the making or offering of tools to enable such reverse engineering. Part III concludes that because tinkering with existing artifacts generally "promote[s] the progress of science and useful arts," as well as other fundamental values, IP rules should be interpreted, or if necessary, adapted, to permit user tinkering that achieves this constitutional goal.

## The role of enforcement in delineating the scope of IP rights

Reto Hilty (Max Planck Institute for Innovation and Competition; University of Zurich; Ludwig-Maximilians-Universität München)

*Max Planck Institute for Innovation & Competition Research Paper No. 15-03*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2602221](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2602221)

According to an unbroken paradigm innovation and creation accrue from strong IP protection – the more the better. Increasing doubts from academic research are continuously ignored. Under-protection is the great concern. Over-exclusivity, however, is not a minor relevance. Lacking competitive pressure due to legally over-protected market positions eliminate incentives to invest as well. Hence, not a maximum, but the right degree of IP protection is required.

The current IP system tends to over-exclusivity; never in history was the level of protection reduced with a view to legitimate interests of third parties. As long as enforcement measures were of limited vigour, such overshooting tendencies of IP protection had little impact. With increased attention on enforcement measures, however, the over-protective legal design becomes visible. Such concerns, however, did not yet reach the policy makers, notably not on the EU level.

The lack of a balance IP policy in the EU is mirrored by the Directive 48/2004. By limiting the focus on the right, it mistakes that enforcement without limits risks not fostering, but impairing innovation and creation. The current evaluation of the Directive 48/2004 does not give cause for hope that such imbalances would be eliminated. Improvement opportunities, however, exist. Member States first of all should be obliged to establish remedies against dysfunctional enforcement; notably the denial of injunctive relief must become a common procedural instrument. Beyond that, over-exclusivity should be eliminated by dismantling certain property mechanism and replacing them through liability tools (such as extended grounds to claim for compulsory licensing).

## Patents as data aggregators in personalized medicine

Dan L. Burk (University of California, Irvine School of Law)

*Boston University Journal of Science and Technology Law, Forthcoming*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2597525](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2597525)

The role of patents in personalized medicine is problematic, as the potential market for tailored treatments may be too small for the patent incentive to be effective. However, in certain instances patent exclusivity may serve less as an incentive to invest in new inventions than it might to serve as an aggregator for certain types of ancillary information that will be critical to personalized diagnosis and treatments. In this essay I look at the effect of patents on the collection and application of such non-patentable data related to genetic variation. My vehicle for examining such effects is the testing service for genetic predisposition to cancer which was the subject of the recent Supreme Court decision in *Association for Molecular Pathology v. Myriad*. The Myriad patents appear to have given rise to detailed databases of genetic variations that are now held as trade secrets. The welfare effects from such data aggregation, both positive and negative, have gone largely unexplored and undiscussed in the arguments over DNA patenting, and suggest a previously unappreciated justification for patenting in some instances.

## Stem cell patents after the America Invents Act

Jacob S. Sherkow (New York Law School)

Christopher Thomas Scott (Stanford University)

*Cell Stem Cell*, Vol. 16. 2015

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2606231](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2606231)

Under the newly passed Leahy-Smith America Invents Act (AIA), the U.S. Patent and Trademark Office may hear new challenges to stem cell patents. Here, we explore how the new law affects challenges to stem cell patents, focusing on two recent cases, and discuss the future of stem cell patent disputes.

## IP & Litigation

### Living with Monsanto

Daryl Lim (John Marshall Law School)

*Michigan State Law Review*, Forthcoming

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2599563](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2599563)

*Bowman v. Monsanto Co.* signaled the end of an era of seed saving. Farmers must buy new seed for replanting or risk patent infringement. The familiar rhetoric of oppressed farmers belies the fact that Monsanto's success rests in part on farmers prizing its innovations. Current trends indicate that this reliance on Monsanto will continue. The Supreme Court correctly found for Monsanto. However, future cases must iron out the kinks in the *Bowman* decision. Despite the Court's best intentions, inadvertence cannot shield farmers from patent infringement. The Court must also make it clear that patentees cannot use licensing restrictions to claw back rights that patent exhaustion has extinguished.

Beyond patent exhaustion, the Supreme Court in *Federal Trade Commission v. Actavis* recently held that the exercise patent rights, even if validly obtained and infringed, are subject to scrutiny under the rule of reason. The "scope of the patent" approach that shielded Monsanto from scrutiny under antitrust law and patent misuse in the past should be reexamined. The effects-focused approach under *Actavis* will help yield outcomes that better track policy goals. That approach should contain three features. First, it should be based on a coherent theory of harm. Second, that theory should be supported by evidence that the harm can be effected. Third, the approach should contain heuristics to make it administrable, such as harm to competition and innovation and a shifting of the burden of production in appropriate cases, informed by judicial experience and economic learning.

## IP Law & Policy

### Statutory domain and the commercial law of intellectual property

John F. Duffy (University of Virginia School of Law)

Richard M. Hynes (University of Virginia School of Law)

*102 Virginia Law Review*, Forthcoming

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2599074](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2599074)

For more than a century, the commercial law of intellectual property has generated intense controversy with ever-growing stakes. The central fulcrum in the area - the "first-sale" or "exhaustion" doctrine - has produced four recent Supreme Court cases, a host of lower court decisions, and a mountain of scholarly criticism. Scholars who otherwise agree on little unite in excoriating the doctrine as a "per se," "ham-handed," "sterile" rule that is "frustratingly under-theorized" and grounded in "a set of arid technicalities of no particular value." Champions of intellectual property dislike the doctrine because they want infringement suits to enforce contractual restrictions on goods embodying intellectual property. Skeptics

of intellectual property want a stronger doctrine that would sweep away all contractual restrictions and encumbrances on such goods. We argue that both camps wrongly assume that the doctrine was created through common-law reasoning in pursuit of substantive policies such as fostering an unencumbered flow of goods in commerce. This Article demonstrates that, in both its historical origins and its current application, the law in this area is based on statutory interpretation and is directed toward the more nuanced goal of limiting the domain of intellectual property statutes to avoid displacing other areas of law. This thesis explains why the foundational cases reject intellectual property infringement claims but are agnostic as to whether the unsuccessful plaintiffs could achieve their goals under contract or property law theories. The century-long development of law in this area also provides useful insights for statutory interpretation theory by illustrating precisely how courts limit a statute's domain so that one area of law appropriately yields to another.

### **What does state law say about drug patent settlements? The California Supreme Court's Cipro case**

Michael A. Carrier (Rutgers University School of Law – Camden)

*Antitrust Health Care Chronicle* (April 2015)

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2597048](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2597048)

In *Federal Trade Commission v. Actavis*, the U.S. Supreme Court held that a brand-name drug company's payment to a generic firm to settle patent litigation and delay entering the market could violate the antitrust laws. After the decision, the federal courts and litigants have wrestled with numerous issues. But one issue that has not received sufficient attention is the role that Actavis will play in state courts' consideration of the issue.

The California Supreme Court is poised to issue a ruling in *In re Cipro Cases I & II* (Cipro). In a decision that preceded Actavis, the California Court of Appeal had applied a deferential analysis that relied on the "scope of the patent" in upholding a settlement by which the brand paid the generic \$398 million to delay its entry until six months before the end of the patent term. The California Supreme Court is considering how such "reverse-payment" settlements should be analyzed.

The California Supreme Court's decision in Cipro will be critical. The decision, obviously, will provide a historic ruling on state law. The Court's application of a level of scrutiny (either *per se* illegality or (more likely) a structured Rule of Reason) above Actavis would offer a strong foundation on which future courts could build in developing a justifiable framework for these agreements.

But even beyond the effect on state law, the Cipro decision promises to have spillover effects on federal law. District courts confronted with Actavis's instruction to flesh out the framework have not been clear as to how precisely they should decide questions such as the role of the patent merits, what constitutes payment, how to structure their analysis, and whether there are thresholds plaintiffs must clear even before reaching the Rule of Reason. The Cipro decision can shed light on these determinations.

On behalf of 49 professors, I submitted a brief in the case supporting the plaintiff petitioners. This article summarizes the arguments in the brief. It first shows how six pillars of support underlying the California Court of Appeal's decision were undercut by Actavis. Second, it shows how, after Actavis, California antitrust law must apply a more robust analysis than that articulated in the pre-Actavis California Court of Appeal decision. Third, it shows how federal law does not preempt a state cause of action challenging reverse-payment settlements.

## IP & Asia

### **International trends in technological progress: evidence from patent citations, 1980-2011**

Soonwoo Kwon (Yale University, Department of Economics, Students)

Jihong Lee (Seoul National University)

Sokbae Lee (Seoul National University)

*Working Paper*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2597694](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2597694)

We analyze cross-country trends in several aspects of technological progress over the period of 1980-2011 by examining citations data from almost 4 million utility patents granted by the US Patent and Trademark Office (USPTO). Our estimation results on patent quality and citation lags relative to the US reveal the following observations. The emerging Asian economies of Korea, Taiwan and China have achieved substantial catch-up. In the case of Korea and Taiwan, progress has been made in terms of patent quality as well as citation lags. Chinese patents are of higher quality now than before but Chinese inventors have yet to reduce the citation lag relative to the frontier. In contrast, advanced economies of Europe and Japan have displayed steady decline in their patent quality. Finally, the US has strengthened its position in the international patent quality ladder.

### **How China's enforcement of its Anti-Monopoly Law poses risks to multinational companies**

Daniel C. K. Chow (Ohio State University College of Law)

*Santa Clara Journal of International Law*, 2015 Forthcoming

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2599518](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2599518)

China's recent enforcement of its Anti-Monopoly Law (AML) has caused alarm and concern among Multinational Companies (MNCs). Many MNCs believe that the primary purpose of China's AML is not to create open, fair, and market-based competition but is to serve the Industrial Policy goals of China's ruling Communist Party. These goals result in the enforcement of the AML in favor of Chinese companies, especially China's massive State-owned Enterprises, at the expense of MNCs doing business in China. In addition, China's AML enforcement authorities seem to be using the AML to force MNCs to transfer their valuable technologies (intellectual property rights) at below market rates to Chinese firms and to force price reductions of their products sold in China. AML enforcement authorities also appear to be using the AML to protect famous Chinese brands from being acquired by foreign firms. China's use of the AML appears to be consistent with China's overall goal of strengthening its position as a global economic power.

## Other IP Topics

### **Relationship-specific investments and intellectual property rights enforcement with heterogeneous suppliers**

Alireza Naghavi (University of Bologna – Department of Economics)

Shin Kun Peng (Academia Sinica – Institute of Economics)

Yingyi Tsai (National University of Kaohsiung)

*Centro Studi Luca d'Agliano Development Studies Working Paper No. 382*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2607982](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2607982)

This paper examines the impact of intellectual property rights (IPR) enforcement on multinationals' choice of input suppliers and industry profits in a host economy. The framework consists of suppliers with heterogeneous capabilities who must engage in a relation-specific investment to customize intermediate inputs upon a transfer payment by final producers. An outsourcing contract with better technologically-



endowed suppliers requires a lower transfer and generates a higher surplus. Stronger IPR enforcement leads firms to self-select into better quality suppliers on average by reducing their outside option. Weak legal institutions instead make it possible for a larger range of suppliers, including the less capable ones, to form partnerships by granting them a larger outside option. A better IPR environment is more likely to harm lagging countries where the technology distribution is characterized by less capable suppliers.

### **Pricing the transfer of intellectual property as a problem of second-best tax policy**

Wolfram F. Richter (University of Dortmund – Department of Economics; CESifo (Center for Economic Studies and Ifo Institute); Institute for the Study of Labor (IZA)

Markus Brueur (SRH Hochschule Heidelberg – Department of Business Administration and Economics)  
*CESifo Working Paper Series No. 5340*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2607929](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2607929)

The adequate pricing of intellectual property ("IP") for tax reporting is a largely unsettled issue. Transactional profit-based methods are on the rise although only rated as "methods of last resort" by the OECD. This paper focuses on regulated profit splitting and compares this transfer pricing rule with one allowing multinationals to price IP freely subject to the constraint that the price used for tax reporting is also used internally. The standard of comparison is global efficiency in R&D. The model is one of second best. It allows for internationally differentiated tax rates and non-deductible effort costs in the production of know-how.

### **Law and technology in a neo-liberal age**

Ruth Okediji (University of Minnesota Law School)

*13 International Encyclopedia of the Social & Behavioral Sciences 520-527 (James D. Wright ed., Elsevier, 2d ed., 2015)*

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2597786](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2597786)

The conclusion of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) in 1994 established a minimum baseline for regulating access to technology and knowledge goods. This global regime of intellectual property rights has since been a contentious aspect of modern economic relations. It has been viewed by consumers around the world as a significant barrier to access to technology and associated knowledge goods, including stymieing opportunities for social and political engagement by citizens. Public disenchantment with intellectual property as a primary regulator of access to technology could be addressed by the explicit linkage of proprietary rights to a new welfare axis comprised of development aspirations, human rights norms, and liberty considerations. To the extent social norms that develop around new technologies facilitate positive returns recognized by these complementary legal regimes, intellectual property rights that are in tension with these regimes will likely continue to lose moral sway, making the future of the TRIPS Agreement far less stable and its minimum obligations more costly to enforce. Moreover, gaps in how formal law and social norms regulate technology are not easily captured by the rigid prescriptions of treaty provisions, and thus the TRIPS Agreement is far less capable of serving the important role of shaping contemporary approaches to access to technology. As technology continues to reach deep into the private lives of citizens, and to affect the capacity and trajectory of national development in less-advanced economies, the design and construction of formal laws around which technology is produced, disseminated, and used will have greater import if they purposefully accommodate other legal orders whose norms resonate powerfully in advancing stylized visions of societal progress and human well-being.

## 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.

## Contact

For more information about this issue of *IP Literature Watch*, please contact the editor:

Anne Layne-Farrar  
Vice President  
Chicago  
+1-312-377-9238  
[alayne-farrar@crai.com](mailto:alayne-farrar@crai.com)

[www.crai.com/antitrust](http://www.crai.com/antitrust)

[www.crai.com/ip](http://www.crai.com/ip)

CRA's Competition and Intellectual Property Practices provide clients with a unique combination of antitrust economics expertise and IP valuation, damages, transactions, and strategy experience.



The publications included herein were identified based upon a search of publicly available material related to intellectual property. Inclusion or exclusion of any publication should not be viewed as an endorsement or rejection of its content, authors, or affiliated institutions. The views expressed herein are the views and opinions of the authors and do not reflect or represent the views of Charles River Associates or any of the organizations with which the authors are affiliated. Any opinion expressed herein shall not amount to any form of guarantee that the authors or Charles River Associates has determined or predicted future events or circumstances, and no such reliance may be inferred or implied. The authors and Charles River Associates accept no duty of care or liability of any kind whatsoever to any party, and no responsibility for damages, if any, suffered by any party as a result of decisions made, or not made, or actions taken, or not taken, based on this paper. If you have questions or require further information regarding this issue of *IP Literature Watch*, please contact the contributor or editor at Charles River Associates. This material may be considered advertising. Detailed information about Charles River Associates, a registered trade name of CRA International, Inc., is available at [www.crai.com](http://www.crai.com).

Copyright 2015 Charles River Associates



