



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

Portfolio licensing at the end-user device level: analyzing refusals to license FRAND-assured standard-essential patents at the component level

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Jorge Padilla (Compass Lexecon)

Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2806688

Competition agencies around the globe have recently initiated investigations involving a standard-essential patent (SEP) holder's refusal to license patents at the component level, such as the chipset, that it has committed to license on fair, reasonable, and nondiscriminatory (FRAND) terms. While much has been written about FRAND-assured SEPs, the literature to date focuses largely on the appropriateness of seeking and obtaining injunctive relief on such patents or on the appropriate royalty rate and the meaning of "fair and reasonable" (FR), and has largely ignored the "nondiscriminatory" (ND) prong of FRAND. This paper analyzes the common-industry practice of licensing on a portfolio basis at the end-user device level and whether a refusal to license at all levels of the production chain may constitute an antitrust violation, concluding that: (1) whether the "ND" prong of FRAND requires licensing at the component level is a fact-specific inquiry that depends upon the specific standard-development organization's (SDO's) Intellectual Property Rights (IPR) Policy at issue; and (2) regardless, evasion of a FRAND assurance alone does not constitute an antitrust violation. In addition, while U.S. antitrust agency practice and law highly disfavor imposing antitrust liability for refusals to license, such liability (including in Europe and elsewhere) would at the very least require a showing of anticompetitive harm such as foreclosure.

Through a simple model, we show that due to the FRAND commitment and because most FRAND-assured SEP holders do not assert their patents at the component level, there is likely no foreclosure or exclusionary conduct or otherwise harm to competition. Our model features two SEP holders, one of which is vertically integrated with a component manufacturer, and a competing non-integrated component manufacturer. By refusing to license at the component level, the vertically integrated SEP holder de facto bundles its component (the bundled product) with its SEP portfolio (the bundling product).

We show that this bundling strategy will not lead to the foreclosure of the component market if (i) the vertically integrated SEP holder does not assert its patents at the component level, and (ii) it licenses its SEP portfolio to end-device manufacturers on FRAND terms irrespective of whether they source components from its own subsidiary or from the non-integrated rival. Intuitively, when (i) and (ii) hold, the bundle offered by the vertically integrated SEP holder can be replicated competitively by end-device manufacturers by mixing and matching the component sold by the non-integrated component supplier and the patent portfolio of the integrated SEP holder. Finally, we note that there are a number of legitimate business reasons for the common industry practice of licensing at the end-user device level, including avoiding patent exhaustion, reducing administrative costs, and ease of monitoring or verifying the number of units sold. These efficiency reasons motivate the decision of both vertically integrated and, tellingly, non-integrated SEP holders to license at the end-user device level only.

Standard essential patents and antitrust: a comparative analysis of the approaches to injunctions and FRAND-encumbered patents in the United States and the European Union

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TTLF Working Papers, No. 23, Stanford-Vienna Transatlantic Technology Law Forum (2016)

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2807193

This paper looks at the holdup problem stemming from the apparent incompatibility between Standard Essential Patents — those subject to fair, reasonable and nondiscriminatory (FRAND) licensing — and the use of injunctions, and analyzes the potential complementary use of antitrust rules to strike the right balance to optimize competition and innovation.

I conclude that in the U.S., patent law and the ruling in *eBay* provide courts with sufficient tools to avoid the holdup problem, though the FTC could still have a policing role under Section 5 of the FTC Act. In the E.U., the fragmentation of remedies in patent law calls for antitrust enforcement by the European Commission, in line with the safe harbor approach adopted in the *Samsung* case.

Prior to *eBay*, antitrust enforcement in the United States was limited to the scope of Section 5 of the FTC Act and its associated remedies, i.e. cease and desist orders. However, current patent law counts on judicial tools to identify and prevent holdups created through the threat of injunctions. In particular, the *eBay* test has enabled courts to limit the potential anticompetitive effects of an injunction sought against a willing licensee. Once courts have signaled the unlikelihood or practical impossibility of obtaining an injunction against such a licensee, holdup issues disappear and any threat to seek injunctions loses all credibility. Courts can then establish damages for past infringement and to set ongoing royalties.

In Europe, remedies for patent law breaches diverge across jurisdictions and while some seem more in line with the *eBay* balancing test (the Netherlands), others still use injunctions as the default remedy (Germany). The potential benefits of an *eBay*-style balancing test are thus not available across the E.U. Meanwhile, patentees can continue to leverage the threat of injunctions to obtain unfair licensing terms. The European Commission has stepped up to take a decisive stance against injunctive relief in the presence of Standard Essential Patents as stated in its decisions in the *Motorola Mobility* and *Samsung* cases. The European Commission has the authority to establish an adequate framework for negotiation under FRAND under the *Samsung* decision. It should exercise this power to set an *ex ante* expectation

that no injunctive relief will be granted and that parties will have to reach to an agreement sooner or later or leave it for the courts to decide the FRAND terms.

IP & Innovation

Of disclosure ‘straws’ and IP systems ‘camels’: patents, innovation, and the disclosure of origin requirement

Margo A. Bagley (University of Virginia School of Law; Emory University School of Law)

Virginia Public Law and Legal Theory Research Paper No. 2016-40

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2802186

This Chapter explores the validity of the assertion, by many developed country representatives, that the adoption of a patent applicant genetic resource disclosure of origin (DOO) requirement, such as is being considered in the World Intellectual Property Organization (WIPO) Intergovernmental Committee (IGC) negotiations, will impose untenable, innovation-detering burdens and legal uncertainty on the global patent system. It also considers such a disclosure requirement in comparison to other burdens/uncertainties in the global patent system, and concludes that, far from being the straw that may break the camel’s back, a properly constructed DOO requirement need not harm, and may even enhance, innovative activity in Europe, the U.S., and beyond.

‘Loser pays’ in patent examination

Neel U. Sukhatme (Georgetown University Law Center)

Houston Law Review, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2806414

Many scholars and practitioners believe there are too many “weak” patents — those that should not have issued but somehow get approved by the U.S. Patent and Trademark Office (PTO). To the extent they exist, such patents unnecessarily tax real innovation and generate welfare losses for society.

Some commentators have focused on the PTO’s failure to exclude weak patents, or the damage caused by these patents in litigation, often by patent trolls. But this scholarly discussion misses the point. The present Article argues that weak patents largely stem from a pricing problem: namely, a patent applicant pays higher patent fees when she succeeds (i.e., receives PTO approval) than when she fails (i.e., is rejected by the PTO).

The Article explains why such pricing is precisely backwards, penalizing good patent applications instead of bad ones. It then proposes a novel remedy: import “loser pays” concepts from litigation into patent examination. By forcing unsuccessful patent applicants to pay more, a loser pays system disincentivizes weak applications and improves application quality.

The Article also describes how a loser pays system could lower patent examiners’ burden and discourage continuation applications, both of which slow down patent examination. In doing so, the Article sketches out a new patent system that is at once more efficient and more effective in weeding out weak patents.

Patent invalidation and legal certainty – what can patent holders expect?

Christoph Ann (Technische Universität München (TUM) – TUM School of Management)

Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2804992

Germany is one of Europe's most important patent centres: as regards patent grants and also as regards patent infringements. This may be why the German patent scene in the last two years has been looking at the success rates of nullity suits filed with the German Federal Patent Court (BPatG) – under two different aspects: In 2014, a first legal article concentrated on the problem of a lack of legal certainty for patent holders and on investment risks posed by the virtually boundless possibilities for challenging patents in nullity suits. The article called for these risks to be addressed more carefully, not to the least in view of Art 14 German Grundgesetz (GG). Another article from the same year, motivated more along the lines of innovation theory, took said success rates as a reason to fundamentally criticise patents under the provocative title of “Why most patents are invalid”. This article scrutinises both: individual points within the criticism, as well as the far-reaching conclusions with regard to patents, which, according to industry reports, is affecting patent value and threatening the system as such – unjustly so!

IP & Litigation

Did eBay irreparably injure trademark law?

Mark A. Lemley (Stanford Law School)

Stanford Public Law Working Paper No. 2808677

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2808677

The Supreme Court's decision in *eBay v. MercExchange*, which revolutionized the granting of injunctions in patent cases, has increasingly been applied to trademark cases as well. But courts applying *eBay* to trademark cases have ignored some fundamental differences between patent and trademark law, including the difficulty of quantifying injury to brand reputation, the rarity of damage awards in trademark cases, and the presence of a third party -- consumers -- with a strong interest in avoiding confusion. Some courts, particularly in the Ninth Circuit, have also turned *eBay* from a set of guidelines for case-by-case analysis of the equities of an injunction into a hard-and-fast set of requirements for injunctive relief.

eBay should apply to trademark cases. But it must be applied with sensitivity to the very different contexts of patent and trademark. Doing so will make it more likely that trademark owners will obtain injunctions in “core” trademark infringement cases. Nonetheless, courts may still properly use *eBay* to deny injunctive relief in dilution and association cases where the evidence of harm to the mark owner or consumers is weak or nonexistent.

Patents protecting biologics or small molecule drugs are litigated, not others awarded to drug discovery companies

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http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2807250

Assuming that litigated patents are valuable, the incidence of litigation for patents protecting biologics (146 patents), small molecules (1822) or issued to drug-discovery companies per se (1929) was

examined. This was done by accessing the litigation database of the company MaxVal. 20% of those protecting biologics, 40% protecting small molecules and 1% of those issued to the companies were litigated (although only 0.3% of those issued to companies that do not protect biologics or small molecules). The average time between the grant of a patent and its first litigation was 15.7, 7.8 and 2.7 (2.0) years respectively. Thus, the relevant patents of this study were litigated much later than the average litigated patent. Each litigated patent was litigated 1.7, 5.6 and 2.4 (1.0) times respectively. In each category, most litigants were companies, with very few litigations involving academic institutions or the USPTO, and no non-profit organizations. These results should be of interest to drug-discovery companies, to those who fund or acquire such companies and to non-profit drug-discovery centres.

Patent damages heuristics

Thomas F. Cotter (University of Minnesota Law School)

Texas Intellectual Property Law Journal, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2809917

In many domains, including law, decisionmakers often resort to heuristics, which others have aptly described as “shortcuts that simplify and speed up decision making” by, for example, “ignor[ing] some of the available information” to arrive at “adequate, though often imperfect, answers to difficult questions.” In this paper, I argue that a patent system that more readily accepts the use of damages heuristics may better serve public policy than one that requires patent owners to substantiate every aspect of their claimed damages with rigorous proof. More specifically, policymakers confronted with the choice between a proposed heuristic and an open-ended, nonheuristic standard (or an alternative heuristic) ideally should choose the proposed heuristic when the sum of the administrative and error costs associated with its use is lower than the sum of the administrative and error costs resulting from the use of the nonheuristic (or alternative heuristic). To be sure, there often may be no easy way to evaluate whether this condition is satisfied — due both to the paucity of the evidence and to the fact that the cost one attributes to error depends in part on the value one places on the importance of accurate damages calculations to patent policy. Nevertheless, I will argue that, at least in some recurring situations, policymakers can reach a reasoned conclusion whether or not use of a particular heuristic is likely to improve social welfare; and that, more generally, the patent system would benefit if courts were more mindful of both the necessary tradeoffs to be made in calculating damages and where the gaps in our knowledge lie.

IP Law & Policy

Pierson, peer review, and patent law

Lisa Larrimore Ouellette (Stanford University – Stanford Law School)

Vanderbilt Law Review, Vol. 69, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2803479

When has a researcher done enough to merit a patent? Should the patent belong to the researcher who first suggests an invention, or the one who brings it to fruition? The canonical dispute over a fox in *Pierson v. Post* is used to illustrate the competing policy considerations in deciding when to award a new property right, including providing efficient incentives, setting forth clear rules to guide future behavior, and respecting natural rights. In patent law, all of these considerations suggest that in practice, many patents are awarded too early, before an applicant has demonstrated that the invention is likely to work.

The main problem seems to be not with the substantive standards, but with the Patent Office's institutional competence to enforce these standards. A patent is supposed to teach a researcher of "ordinary skill" in the field how to make the invention without "undue experimentation." Yet it often takes extraordinary skill to recognize when this standard is not met based merely on reading a patent application — expertise that the typical patent examiner lacks. To address this information asymmetry, it is worth experimenting with bringing those of extraordinary skill into the patent examination process through a robust peer review system. So far, opportunities for outside input such as the Peer To Patent pilot project have focused on providing examiners with additional prior art, but peer review would be far more valuable for evaluating patent disclosures to assess whether applicants have in fact done enough work to merit a patent, or whether it remains too early in the chase.

The Luxembourg effect: patent boxes and the limits of international cooperation

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Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2802281

This article uses patent boxes, which reduce taxes on income from patents and other IP assets, to illustrate the fact that the jurisprudence of the European Court of Justice has a longer reach than has previously been recognized. This article argues that, along with having effects within the European Union, the ECJ's decisions can also have effects on countries outside of the EU. In the direct tax context, the ECJ's jurisprudence has hampered the ability of both EU and non-EU countries to police international tax avoidance.

In 2015, the Organisation for Economic Co-operation and Development (OECD) proposed restrictions on patent boxes that were designed to limit income-shifting opportunities. As this article points out, these restrictions are weaker than they could have been due to EU legal constraints. Although the majority of countries involved in the OECD's work on patent boxes were not EU Member States, they were all constrained by the ECJ's permissive definition of tax avoidance. This article argues that the tax jurisprudence of the ECJ placed downward pressure on international tax avoidance standards and that this in turn shows that countries both within and without the European Union are losing the ability to prevent international tax avoidance to the degree that would have been possible in the absence of the ECJ's tax jurisprudence. This article refers to this downward pressure as the Luxembourg effect. This effect is even more important in the context of the United Kingdom's "Brexit" vote to leave the European Union since it highlights that a vote to be free of EU law may not have the desired effect if even non-EU countries are subject to the consequences of the ECJ's jurisprudence.

#Wow: reforming intellectual property taxation (or maybe IP law)

Linda M. Beale (Wayne State University Law School)

Tax Notes, Vol. 151, No. 9, p. 1249, May 30, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2802303

Intellectual property (IP) is often used narrowly to refer to areas of the law that provide generally settled legal protections for expressive works and inventions. However, the classic concepts of IP law – e.g., patent, design, copyright, trademark and trade secret — no longer afford easy categorization for taxation purposes. As the "knowledge economy" has expanded, so too have the types of value-producing intangible assets that are often technological and critical to describing business values. Of perhaps the

greatest consequence is the shrinking ability of sovereign governments to capture a fair share of tax from quasi-sovereign multinationals that set their own tax liabilities, in part because of the difficulty of determining which country should tax the income attributable to the IP assets. The purview of IP — or at least the scope of what we need to consider in a digitalized, globalized, and deeply commercialized world to establish appropriate IP tax provisions — has become much broader, and characterization has become more difficult.

This article explores underlying themes in ten recent articles on IP taxation. Particular attention is given to the ease with which intangible IP assets can be transferred among affiliates and the resulting tax avoidance and base erosion possible for IP-intensive industries when old rules are applied. On the supportive side of the flexibility that movement of intangible assets provides are supportive arguments for IP-intensive profit shifting and development of patent or even broader “innovation” boxes providing extremely low corporate tax rates for IP-intensive industries, but on the other side are innovative approaches to transfer pricing and profit splitting that see base erosion and profit shifting as a global problem. One author suggests that tried and true IP litigation strategies may be effective in preventing the worst of the IP-intensive multinationals’ tax avoidance, using their own claims of artificially low IP valuations against them. Also examined is the treatment of the creative arts, both domestically and internationally. One author methodically considers domestic IP protection for creative artists to conclude that the special breaks for songwriters, and the various bills for Artist-Museum Partnerships make no sense. Others look at the problems with international (and domestic) film production credits or in distinguishing royalty from service income for athletes travelling to different jurisdictions and facing different tax rules. Finally, an assessment of the ways states address the taxation of cloud computing demonstrates the need to develop tax policy that moves beyond the traditional tax category cubbyholes.

Copyright Law

Overview of copyright law

Jane C. Ginsburg (Columbia Law School)

*Forthcoming, Oxford Handbook of Intellectual Property, Rochelle Dreyfuss & Justine Pila, Eds.
Columbia Public Law Research Paper No. 14-518*

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2811179

This article offers an overview of copyright in general in common law and civil law countries, with an emphasis on the U.S. and the European Union. It addresses the history and philosophies of copyright (authors’ right), subject matter of copyright (including the requirement of fixation and the exclusion of “ideas”), formalities, initial ownership and transfers of title, duration, exclusive moral and economic rights (including reproduction, adaptation, public performance and communication and making available to the public, distribution and exhaustion of the distribution right), exceptions and limitations (including fair use), and remedies. The article also covers the liability of intermediaries, and new copyright obligations concerning technological protections and copyright management information. It concludes with some observations concerning the role of copyright in promoting creativity and free expression.

Brands as copyright

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Villanova Law Review, Vol. 61, No. 1, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2808030

Trademark law's foundational purpose is to protect consumers from being misled about the source of a good or service. While trademarks are typically included within the larger concept of a company's brand identity, brands are used for purposes other than assuring a consistent source for products. This article argues that brands should be reconceptualized under copyright law instead of their traditional treatment as an extension of trademarks. Numerous scholars have argued against the rapid expansion of trademark law that has created new grounds for liability for claims like dilution and post-sale confusion. This expansion of trademark law can be viewed as the result of trademark law's attempt to protect the interests of brand owners. While intended to benefit brands, these changes to trademark law have had unintended consequences, many of which actually harm brand owners.

Marketers envision a brand as a story that unfolds over many marketing efforts, and this brand narrative offers consumers creative content with which to engage and adopt as part of their own self-identity. Brands invite consumer involvement in the brand development process in a way that is not contemplated, and is often prohibited, under trademark law. As such, a better approach to brands views them in a similar fashion to copyrighted works and fanfiction under copyright law. By recognizing the proper place for brands under copyright law, trademark law can reclaim its focus on protecting consumers, and brand owners will be better supported in their efforts to build strong, creative and engaging brands.

IP & Asia

Technology protectionism and the patent system: strategic technologies in China

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Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2803379

The national treatment principle, a centerpiece of many trade-related international treaties, mandates nondiscriminatory application of treaty provisions to nationals and foreigners. In international patent law treaties, the principle prevents countries from free-riding on foreign technologies, thereby preserving incentives for global innovations. Concerns about violation of the principle at the Chinese patent office have been voiced in business and policy circles, but there is little empirical evidence backing this claim. Using data on about half a million patent applications filed in China we find no, or only weak, evidence of anti-foreign bias in the issuance of patents overall. However, foreign applications in technology fields that are of strategic importance to China are four to seven percentage points less likely to be approved than local applications, all else equal. Given the importance of industrial policy in China and the country's strong focus on indigenous innovation and intellectual property, the empirical results provide a case of technology protectionism by means of the patent system.

Other IP Topics

Patent silences

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Vanderbilt Law Review, Vol. 69, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2812280

A great deal has been said in recent years about patent disclosure. But to say that there is a disclosure function in the patent system implies that there is non-disclosure functioning in the patent system as well. For some information to be disclosed in a patent, other information must go undisclosed; for some things to be included, other things must be excluded. In this article I review the surprising number of doctrines that allow and encourage patent applicants to remain silent about aspects of their inventions. I find that some silences in patents are inadvertent, while some are deliberate; some are necessary, while some are strategic. I conclude that a combination of such explicit and tacit silences allows patents to function as boundary objects, that is, as artifacts that have sufficiently definite meaning to be useful in disparate social worlds, but which simultaneously are sufficiently ambiguous to become objects of collaboration between disparate social worlds. Because innovation is known to occur when localized knowledge is transferred across social boundaries, this function of the patent document is critical to its stated purpose, and occurs largely because of its open rhetorical spaces. Thus, rather than fixating on enhanced disclosure, I argue that much of the critical work of the patent system can and should occur in the open rhetorical spaces where patents are silent.

Patent citation indicators: one size fits all?

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Working paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2810962

The number of citations that a patent receives is considered an important indicator of the quality and impact of the patent. However, a variety of methods and data sources can be used to calculate this measure. This paper evaluates similarities between citation indicators that differ in terms of:

- (a) the patent office where the focal patent application is filed;
- (b) whether citations from offices other than that of the application office are considered; and
- (c) whether the presence of patent families is taken into account. We analyze the correlations between these different indicators and the overlap between patents identified as highly cited by the various measures.

Our findings reveal that the citation indicators obtained differ substantially. Favoring one way of calculating a citation indicator over another has non-trivial consequences and, hence, should be given explicit consideration. Correcting for patent families, especially when using a broader definition (INPADOC), provides the most uniform results.

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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