IP Literature Watch

Charles River Associates

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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 & Litigation

Motion for leave to file brief and brief Amicus Curiae in support of defendant's opposition to plaintiff's motion for preliminary injunction

Michael A. Carrier (Rutgers Law School)
US District Court for the Eastern District of California, 2019
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3501111

Association for Accessible Medicines (AAM) warns that if this Court does not enjoin California's drug-patent settlement legislation, AB 824, there will be no more settlements, drug prices will rise, and patent law will be decimated. These claims offer no shortage of drama. But for at least three reasons, they are not justified.

First, AAM ignores payment. The key issue in the antitrust analysis of settlements is whether a brand-name drug company pays a generic firm to delay entering the market. Precedent of the U.S. Supreme Court, California Supreme Court, and other courts draws an unmistakable distinction based on payment. Settlements without payment, such as those in which the parties settle based on the strength of the patent, do not threaten antitrust concern. But if the brand pays the generic to delay entry, that is a different story. For then, the generic is excluded from the market based not on the patent but on the payment. That is an antitrust violation. Despite this consensus view in the courts, the distinction between settlements with and without payment is missing from AAM’s motion.

Second, AAM mischaracterizes AB 824. This legislation primarily codifies U.S. and California Supreme Court law, while modestly extending it in ways consistent with the case law. In particular, its approach of presumptive illegality for settlements involving payment and delayed entry is consistent with the streamlined Rule of Reason the Supreme Court adopted in FTC v. Actavis, which assumed anticompetitive effects and market power from a large and unjustified payment and which limited the defendant’s justifications to two: payments no higher than litigation costs and for generic services. It also is consistent with the structured Rule of Reason the California Supreme Court adopted in In re Cipro Cases I & II. In fact, AB 824 is even more protective of the settling parties than these two decisions in specifying six types of arrangements that do not provide “anything of value,” in other words, payment.

Third, AB 824 is not preempted by the Hatch Waxman Act or patent law. The legislation promotes the Act’s purposes of expedited generic competition by reducing the number of settlements in which brands pay generics to delay entry, in the process inducing generics to abandon the patent challenges that Congress intended. Nor is patent law directly relevant to the antitrust analysis of settlements. As the U.S. Supreme Court made clear in Actavis, “it is normally not necessary to litigate patent validity” to assess the antitrust merits of settlements because the brand firm offers a “workable surrogate” on a silver platter: a large payment that cannot be justified as anything other than buying delay.

Probabilistic patents, alternative damage rules and optimal tariffs

Apurva Dey (Indira Gandhi Institute of Development Research (IGIDR))
Arun Kumar Kaushik (OP Jindal Global University)
Rupayan Pal (Indira Gandhi Institute of Development Research)
Working Paper
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3488984

This paper analyzes interdependencies between optimal trade policy and ‘preferred’ liability doctrine to assess infringement damages, when intellectual property rights are probabilistic, in a model of import competition between a foreign patentee and a domestic infringer. It shows two reversal results. First, a regime switch from protectionism to free trade reverses stakeholders’ preferences over liability doctrines. Second, the optimal trade policy changes from an import tariff under the ‘lost profit’ rule to import subsidization under the ‘unjust enrichment’ rule, unless the patent is weak. It is found that free trade is not optimal, except for a few knife-edge cases.

Spillover effects of patent litigation initiated by non-practicing entities: Evidence from the capital market

Feng Chen (University of Toronto – Rotman School of Management)
Yu Hou (Queen's University - Smith School of Business)
Gordon Richardson (N/A)
Working Paper
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3492471

We analyze the potential spillover effects from patent-infringement litigation initiated by non-practicing entities (NPEs). When a firm is sued by NPEs, its at-risk technology peers also experience significant market value losses around the litigation filing date, losses that are much greater than those around patent litigations initiated by practicing entities. We also show that state anti-troll laws mitigate the spillover effects. Technology peers that are not subsequently sued by NPEs experience negative operational impacts, including a decline in R&D innovation efficiency following NPE litigations. Overall, our evidence suggests that there are more big losers from NPE litigation than what has been identified in the existing NPE litigation literature.

IP & Licensing

Exit, voice and loyalty: Strategic behavior in standards development organizations

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TILEC Discussion Paper No. DP 2019-022
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3487466

The protection of intellectual property rights and its limits has spurred controversy in the standardization ecosystem in recent times. While conflicting interests in standard-setting abound over a wide range of pertinent aspects, considerations regarding the inclusion and subsequent treatment of proprietary elements in a technical standard hold the lion's share of concerns that Standards Development Organizations (SDOs) have to deal with. These concerns revolve around the balance between the interests of innovators and implementers of new technologies. In this respect, SDOs adopt patent policies, which members have to observe in order to participate in SDOs' activities. Similarly to other rules governing the work of SDOs, patent policies may be modified following the prescribed procedures. However, any subsequent changes to an organization's operational framework, including its intellectual property rules, may distort prior expectations and lock in members to rules that they never intended to abide by. Against this backdrop, this Article seeks to explore how SDOs' members respond to the amendments of intellectual property rules by offering a taxonomy of strategies that may be adopted by members opposing modifications based on the exit and voice theory by Hirschman (1970). Drawing upon the example of the Institute of Electrical and Electronics Engineers (IEEE) revised Patent Policy, which took effect in 2015, the Article explores how SDO members respond to instances of organizational distress such as an update of intellectual property policies within an SDO, using as proxies stakeholders' willingness to commit to the new licensing rules and previous examples of strategies when misunderstandings around intellectual property arose. At a normative level, this Article further studies the effect that such changes may have on the nature and structure of a given industry and offers a novel classification of reactions to turning points in the standards development realm, thereby contributing to the currently underdeveloped body of literature on strategic behavior in technological standardization.

An economic model of patent exhaustion

Olena Ivus (Smith School of Business)
Edwin L.-C. Lai (Hong Kong University of Science & Technology (HKUST) - Department of Economics)
Ted M. Sichelman (University of San Diego School of Law)
San Diego Legal Studies Paper No. 17-265
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2921443

The doctrine of patent exhaustion implies that the authorized sale of patented goods "exhausts" the patent rights in the goods sold and precludes additional license fees from downstream buyers. Courts have considered two variants of the doctrine: absolute exhaustion, in which the patent owner forfeits all rights upon an authorized sale, and presumptive exhaustion, in which the patent owner may opt-out of exhaustion via contract. We model how the shift from absolute to presumptive exhaustion affects social welfare. The paper offers the first economic model of domestic patent exhaustion that incorporates transaction costs in the process of licensing downstream manufacturers and consumers. The results show that when the transaction costs of contracting are high, so that the patent owner has no incentive to contract with downstream users, then absolute and presumptive exhaustion are equivalent. When transaction costs are low, presumptive exhaustion is socially optimal, because it allows for perfect price discrimination via consumer-specific licensing. But when transaction costs are at the intermediate level, presumptive exhaustion is relatively inefficient, because the patent owner's private licensing incentives lead to transaction cost frictions that outweigh any social benefits from price discrimination.

IP Law & Policy

The obscure consumer in the Chinese intellectual property law

Jyh-An Lee (The Chinese University of Hong Kong (CUHK) – Faculty of Law)
Yangzi Li (Faculty of Law, The Chinese University of Hong Kong)
European Intellectual Property Review, Volume 42, Issue 1, 2020
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3498255

Conventional wisdom suggests that an ideal intellectual property (IP) regime should consider various interests, such as incentives for creators and inventors, social access to creative works, market competition, and economic development. Nevertheless, the interest of consumers has long been neglected in IP policy-making. This article systematically reviews recent Chinese court decisions on IP and explores their implicit consumer policy implications. The article reveals that the Chinese courts have occasionally embedded consumer policy considerations when applying the Copyright Law, Patent Law, Trademark Law, and the Anti-Unfair Competition Law. Moreover, this article illustrates how policy goals underlying the IP regime and consumer protection law are consistent or supplementary with each other in the implementation of different categories of IP laws.

Biased regulators: Evidence from patent examiners

Pranav Desai (Tilburg University; Tilburg University – Center for Economic Research
Working Paper
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3485965

Are regulators biased? I show that in-group biases affect patent grant decisions, using a novel hand-collected biographical dataset on examiners at the United States Patent and Trademark Office. I find that examiners are more likely to grant patents to inventors from their own racial group or gender than to other applicants. I exploit the random assignment of examiners to applicants ensuring that differences in quality of applications cannot explain the results. The effects are more pronounced when group membership is salient such as in periods of high racial conflict and for examiners from Jim Crow Law states. Biased examiner decisions lower the quality of patents, startup formation, as well as firms' likelihood of raising venture capital and going public. In sum, these findings suggest that biases of individual regulators might distort the allocation of economically important property rights such as patents.

Negotiating FRAND licenses in good faith

J. Gregory Sidak (Criterion Economics, L.L.C.)
Forthcoming, 5 Criterion Journal on Innovation 1 (2020)
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3492156

This article has two messages. First, any set of principles for defining whether a fair, reasonable, and nondiscriminatory (FRAND) negotiation has transpired in good faith must identify what economists who work on questions of market design call activity rules and closing rules. Judges, practicing lawyers, legal scholars, and government officials working on the defining of principles for good-faith negotiation of FRAND licenses for standard-essential patents (SEPs) have not recognized that need. Nor, to my knowledge, has any academic economist or expert economic witness commented on this lacuna.

Second, the American jurisprudence on offer, acceptance, and contract formation fortuitously has the clarity of an unambiguous closing rule, but the contract jurisprudence of other nations appears, at least to my American eyes, to be less clear. In my experience, the potential for there to be material variation across jurisdictions in the level of ambiguity of the legal principles for determining whether an SEP holder and an implementer have conducted their FRAND negotiation in good faith has received virtually no attention from judges, practicing lawyers, legal scholars, and government officials. And, to my knowledge, this issue has received absolutely no consideration from academic economists or expert economic witnesses testifying in FRAND disputes.

This phenomenon of differential ambiguity in matters of contract formation and good-faith negotiation has important practical implications because French law, which appears to be less emphatic than American law on such questions, often is the controlling law for interpreting the duties imposed by a

FRAND contract because the European Telecommunications Standards Institute (ETSI) is so prominent in the setting of voluntary standards for wireless communication, and ETSI's FRAND contract prescribes that French law controls. In contrast, New York law controls the Institute of Electrical and Electronics Engineers' (IEEE's) reasonable and nondiscriminatory (RAND) contract. Those legal differences in turn could influence the content and evidentiary relevance of expert testimony on questions of economic fact, such as the quantification of a FRAND or RAND royalty.

To begin the task of reducing legal and economic ambiguity concerning the determination of whether an SEP holder and an implementer have conducted a FRAND licensing negotiation in good faith, I have proposed here the formulation of a specific activity rule and a specific closing rule when American contract jurisprudence does not control interpretation of the FRAND contract in question. My proposed activity rule is that, in each round of offer and counteroffer—and to the extent that the SEP holder has not already discharged its contractual obligation to ETSI (such as by already having made a legitimately FRAND offer at the very outset of the negotiation)—a party must revise its bid or ask price by the minimum agreed-upon increment for that party to be deemed still to be negotiating in good faith. My proposed closing rule is that a party will be deemed to have made its final offer or counteroffer if it does not, within a commercially reasonable amount of time after receiving an offer or counteroffer, sweeten its price relative to its price in the previous round of offer and counteroffer. These rules of market design are proposals, which will surely benefit from scrutiny and refinement by others, but these proposals should suffice to invite a needed discussion.

Finally, because ETSI's FRAND contract contains the distinctive (but evidently ambiguous) requirement that an SEP holder be "prepared to grant" licenses to its SEPs, I offer here one particular interpretation of that phrase that is explicitly informed by the economic analysis of law. Whether a court would find my suggested interpretation compatible with the principles of interpretation used in French contract law is a question I must leave to others better suited to the task.

IP & Innovation

Attacking innovation

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Jeffrey A. Maine (University of Maine School of Law)
Boston University Law Review, Vol. 99, 2019
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3490027

Economists generally agree that innovation is important to economic growth and that government support for innovation is necessary. Historically, the U.S. government has supported innovation in a variety of ways: (1) a strong legal system for patents; (2) direct support through research performed by government agencies, grants, loans, and loan guarantees; and (3) indirect support through various tax incentives for private firms. In recent years, however, we have seen a weakening of the U.S. patent system, a decline in direct funding of research, and a weakening of tax policy tools used to encourage new innovation. These disruptive changes threaten the future of innovation in the United States, potentially driving innovation activities offshore to Europe and China. This Article concludes that the current innovation crisis demands changes to both the patent and tax systems in order to instill confidence in the innovation landscape.

Going private and innovation

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Ali Mohammadi (Copenhagen Business School – Department of Strategy and Innovation; Danish Finance Institute; Royal Institute of Technology (KTH) – Center of Excellence for Science and Innovation Studies)
Swedish House of Finance Research Paper No. 19-13
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3479980

In this paper, we investigate how going private affects corporate innovation activities. We compare the innovation activities of firms that went private to the innovation activities of firms that received a going-private offer but stayed as public for reasons unrelated to innovation. Using patent-based metrics, we find that the scale of innovation grows after going private. The most important innovations after going private have higher quality relative to the most important innovations before going private. Firms that go private also produce more influential patents in the following years after going private. In line with the predictions of agency theories, our results suggest that going private has a significant positive impact on the innovation performance of listed firms. We also find that, in public-to-private transactions, being acquired by a private equity (PE) firm does not bring an additional performance boost in terms of innovation in comparison to being acquired by a non-PE firm.

Copyright Law

Copyright in published editions: A history of a declining right

Rita Matulionyte (Macquarie Law School)
Monash University Law Review, Vol 45, No 1, Forthcoming
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3490994

The right to published editions was introduced in the Copyright Act 1968 (Cth) in order to prevent the unfair copying of typographical layouts of published editions of books in the public domain. The initial rationale, its actual effectiveness, and its relevance today has attracted very little attention among commentators. Historical analysis shows that the right was introduced into Australian copyright law without much discussion or engagement. Even today it is difficult to find evidence that there was ever an actual need for a right of this nature in Australia, or that it has had any positive effects on the local publishing industry since. This article demonstrates that despite its original intention, some industries today have moved to exploit the right by reinterpreting it to protect their own financial interests. This article concludes with some lessons that could be learned from the history of published edition copyright in the context of current copyright policy discussions — particularly in relation to the newly proposed rights for news publishers.

Artificial intelligence painting the bigger picture for copyright ownership

Courtney White (N/A)
Rita Matulionyte (Macquarie Law School)
Working Paper
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3498673

To receive copyright protection in Australia works must be original, amongst other requirements. The originality standard involves ‘independent intellectual effort’ that originates from an actual person. The reality of today’s creativity domain is that works are not always originating from actual persons. Due to impressive advancements in technology, some works are being created by artificial intelligence and without the involvement of an actual person. These works cannot meet copyright requirements under current law and subsequently do not receive copyright protection. This paper endeavors to answer a

two-tiered question posed by the challenges artificial intelligence works have on traditional concepts of copyright. Firstly, should copyright subsist in works created by AI? Secondly, who would possibly be the copyright owner for such works? Answering these questions involves a discussion of utilitarian and natural rights theories and references to US and UK discussions on the conversation around copyright and artificial intelligence.

The copyright term for corporate-authored works: Averting the menace of the dog in the manger

Brandon Omondi Ouma (Independent)
Working Paper
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3493821

The Copyright Act, 2001 adopts, on one hand, a utilitarian approach and stipulates definite copyright terms for copyrightable works. On the other hand, the Act enshrines the concept of corporate authorship which confers authorship upon corporations possessed of perpetual existence. These two parallels pose a legal conundrum in which corporations, as authors, may claim perpetual copyright thus defeating the copyright term contemplated under the Copyright Act. This paper therefore contends that when copyrights are conferred upon corporate authors possessed of perpetual existence, there is an imminent risk of such corporations turning into the proverbial 'dogs in the manger' who may endeavor to perversely interfere with the affordable use and dissemination of previously published works.

Other IP Topics

Examining pharmaceutical exceptionalism: Intellectual property, practical expediency, and global health

Govind Persad (University of Denver Sturm College of Law)
Yale Journal of Health Policy, Law, and Ethics, Vol. 18:2, No. 157, 2019
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3490253

Advocates, activists, and academics have criticized pharmaceutical intellectual property ("pharma IP") rights as obstacles to access to medicines for the global poor. These criticisms of pharma IP holders are frequently exceptionalist: they focus on pharma IP holders while ignoring whether others also bear obligations to assist patients in need. These others include holders of other lucrative IP rights, such as music copyrights or technology patents; firms, such as energy companies and banks, which do not rely on IP; and wealthy private individuals. Their resources could be used to aid patients by providing direct medical assistance, funding prizes or biomedical research, or purchasing pharmaceutical patents and granting rights to the disadvantaged.

After identifying this exceptionalism, this Article evaluates several arguments in its defense. These are that pharma IP holders are unique in (1) owning what poor patients need, (2) being in special proximity to these patients, (3) being able to assist at low cost to themselves, (4) having a professional duty to help these patients, or (5) being implicated by their past conduct in these patients' plight. It concludes that none of these arguments are compelling: while IP holders have a duty to help, this duty is not fundamentally different from the duties others owe.

Even though this project criticizes exceptionalism, it does not absolve pharma IP holders of duties to help the sick. Rather, it argues that spreading the costs of aiding patients in need across a greater number of market actors, via publicly funded "pull" programs like prizes and patent buyouts or "push" programs like grants, would be preferable. So would allowing pharmaceutical firms to seek contribution from others who are able to help. However, if others cannot be held to account, imposing burdens on pharma IP holders can be justified in order to promote global health: treating wealthy firms arbitrarily is preferable to ignoring the urgent needs of the global poor.

The visible hand?

Brian L. Frye (University of Kentucky – College of Law)
36 Yale J. on Reg.: Notice & Comment, 2019
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3490899

This essay is part of a symposium reviewing JoAnne Yates and Craig N. Murphy's "Engineering Rules: Global Standard Setting Since 1880" (John Hopkins University Press).

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