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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

Bundling of RAND-committed patents

Anne Layne-Farrar (Charles River Associates; Northwestern University)
Michael A. Salinger (Boston University – Questrom School of Business)
Working paper
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2698904

We extend a simplified version of the Gilbert-Katz [Richard Gilbert and Michael Katz (2006)] (GK) model of patent bundling to incorporate RAND commitments and then use the model to consider whether a patent holder violates a RAND commitment if it ties a license to its RAND-encumbered patents to licenses for patents on which it has not made a RAND commitment. In the GK model, the ability to engage in patent tying makes a patent-owner willing to engage in long term contracting that prevents it from charging "hold-up" royalties. But a RAND commitment accomplishes the same objective; and tying licenses to patents without RAND obligations to RAND-encumbered patents creates a risk of reneging on the RAND commitment. Mixed bundling, where the licensor offers licensees the option of taking a license to RAND-committed patents only or taking a license to the full portfolio honors the patent-holder's RAND commitment provided that the royalty for the RAND-encumbered patents is RAND (regardless of the royalty for the larger portfolio of patent rights). (Pure) patent bundling/tying is, however, a common practice that often has sound efficiency justifications. A patent-holder can engage in pure bundling/tying of licenses to RAND-encumbered and non-RAND encumbered patents and still honor its RAND commitments provided that it charges a royalty that would be RAND for the RAND-encumbered patents alone. The patent owner cannot deduct the value of non-RAND committed patents from the license fee for the bundle and argue that it has honored its RAND commitment as long as the difference is RAND for the RAND-committed patents.

Evading portfolio royalties for standard-essential patents through validity challenges

J. Gregory Sidak (Criterion Economics, LLC)

World Competition: Law and Economics Review, 39, 2016, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2700907

A no challenge clause prevents a patent licensee from challenging the validity of a licensed patent. In the 2014 Guidelines on Technology Transfer Block Exemption Regulation, the European Commission discouraged parties from including a no challenge clause in a settlement and license agreement concerning standard essential patents (SEPs). The Commission said that eliminating invalid patents serves the public interest because it promotes competition. For similar reasons, in 2014, the Advocate General of the Court of Justice of the European Union opined in *Huawei Technologies Co. v. ZTE Corp.* that EU competition law should allow a licensee to retain the right to challenge a licensed SEP's validity notwithstanding that the licensee has entered into a settlement and license agreement with the SEP holder. I analyze the Commission's and the Advocate General's assumption that a licensee's challenging the validity of SEPs unambiguously benefits consumers. I assess the merits of that legal proposition within the well established economic framework of cost benefit analysis. I particularly focus on the marginal benefits and the marginal costs that eliminating no challenge provisions would generate for consumers. I explain that the Commission and the Advocate General exaggerated the marginal benefits and understated the marginal costs of validity challenges to licensed SEPs, particularly when the typical SEP holder repeatedly licenses its SEPs in a large portfolio to a sophisticated licensee. The discovery that several SEPs in a licensed portfolio of hundreds are invalid would neither surprise the parties nor justify reducing the portfolio royalty. The Commission and the Advocate General ignored that encouraging a licensee to challenge the validity of individual licensed SEPs invites opportunistic litigation by the licensee so as to delay paying the SEP holder the agreed-upon royalty for the use of the many more valid patents in its licensed portfolio. Thwarting the SEP holder's ability to receive prompt compensation for its innovative contribution lessens the SEP holder's incentive to invest in innovation and thus decreases quality of collective standard setting. Those effects in turn impose significant marginal harm on consumers. Consequently, the Commission and Advocate General erred to assume that consumers derive a net marginal benefit from the announced policy encouraging a licensee to challenge to the validity of licensed SEPs.

Assertion of standards-essential patents by non-practicing entities

Jorge L. Contreras (University of Utah – S.J. Quinney College of Law)

Patent Assertion Entities and Competition, D. Daniel Sokol ed. (Cambridge University Press, 2016, Forthcoming)

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2700117

An extensive literature exists regarding the patent disclosure and licensing commitments made by participants in standard-setting organizations (SSOs), and how such commitments affect the assertion of standards-essential patents (SEPs) by these participants. But this literature largely ignores the assertion of SEPs by entities that do not participate in SSOs (Outsiders). This study is the first to collect and analyze data relating to SEP assertions by SSO Outsiders, a large number of which are so-called non-practicing entities (NPEs).

We present descriptive statistics regarding NPE and Producer assertions of SEPs pertaining to seven broadly-adopted standards in the telecommunications and networking sectors over a 16.5-year period.

Twenty-six NPEs were identified as asserting SEPs pertaining to the standards studied. NPEs initiated 64% of all SEP cases and 77% of all unique patent-defendant assertion events involving these SEPs. NPEs initiated 82% of all defendant-assertion events relating to the five standards subject to FRAND licensing commitments, but only 25% of such events relating to the two standards subject to royalty-free (RF) licensing commitments. When NPEs asserted SEPs from FRAND-based SSOs, the large majority of these assertions (73%) were of unencumbered SEPs. Producers, however, generally asserted FRAND-encumbered SEPs. In the case of SEPs from RF SSOs, NPEs asserted only unencumbered SEPs, while Producers asserted both encumbered and unencumbered SEPs. And while NPE SEP assertions were resolved by settlement at approximately the same rate as Producer SEP assertions, Producer plaintiffs were almost five times as likely to prevail on the merits as NPE plaintiffs.

We conclude with a discussion of the implications of these findings for current debates regarding FRAND licensing and SSO policy limitations, particularly proposals to impose SSO-based licensing encumbrances on SEPs held by Outsiders. We also observe that, while NPEs are responsible for a large number of assertions of unencumbered SEPs, the greater threat of hold-up and rent extraction, at least under U.S. law, appears to arise from assertions of unencumbered SEPs by SSO Outsiders that are themselves Producers.

IP & Innovation

Patent rights and innovation by small and large firms

Alberto Galasso (University of Toronto – Rotman School of Management; University of Toronto – Strategic Management)
Mark A. Schankerman (London School of Economics and Political Science; Centre for Economic Policy Research)
Working paper
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2694725

This paper studies the causal impact of patents on subsequent innovation by the patent holder. The analysis is based on court invalidation of patents by the U.S. Court of Appeals for the Federal Circuit, and exploits the random allocation of judges to control for the endogeneity of the judicial decision. Patent invalidation leads to a 50 percent decrease in patenting by the patent holder, on average, but the impact depends critically on characteristics of the patentee and the competitive environment. The effect is entirely driven by small innovative firms in technology fields where they face many large incumbents. Invalidation of patents held by large firms does not change the intensity of their innovation but shifts the technological direction of their subsequent patenting.

Does import competition spur innovations?

Xiaoyang Li (Cheung Kong Graduate School of Business)
Yue Maggie Zhou (University of Michigan, Ross School of Business)
Working paper
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2701645

We examine the impact of import competition on firms' innovation input and output. We conjecture that U.S. firms view import competition from high-wage countries (HWCs) as "neck-and-neck" competition and will respond by intensifying innovation. In contrast, U.S. firms will reduce innovation in response to

import competition from low-wage countries (LWCs), because such competition does not always increase the potential benefits from innovation. Our empirical results are supportive. We find that, when confronting HWC import competition, U.S. firms increase R&D expenditures, file more patents, receive more citations to their patents, and produce more breakthrough patents. Moreover, U.S. firms closest to the technological frontier — largest firms, firms with the largest stocks of knowledge, and most profitable firms — intensify innovation the most in response to HWC competition. These results shed light on the relationship between product market competition and innovation, and on the impact of trade on firm performance.

IP & Litigation

The first patent litigation explosion

Christopher Beauchamp (Brooklyn Law School)
Yale Law Journal, Forthcoming
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2699964

The twenty-first century “patent litigation explosion” is not unprecedented. In fact, the nineteenth century saw an even bigger surge of patent cases. During that era, the most prolific patent enforcers brought hundreds or even thousands of suits, dwarfing the efforts of today’s leading “trolls.” In 1850, New York City and Philadelphia alone had ten times more patent litigation, per U.S. patent in force, than the entire United States in 2013. Even the absolute quantity of late-nineteenth-century patent cases bears comparison to the numbers filed in recent years: the Southern District of New York in 1880 would have ranked third on the list of districts with the most patent infringement suits filed in 2014 and would have headed the list as recently as 2010.

This Article reveals the forgotten history of the first patent litigation explosion. It first describes the rise of large-scale patent enforcement in the middle of the nineteenth century. It then draws on new data from the archives of two leading federal courts to trace the development of patent litigation from 1840 to 1910 and to outline the scale, composition, and leading causes of the litigation boom. Finally, the Article explores the consequences of this phenomenon for the law and politics of the patent system. The effects of the litigation explosion were profound. The rise of large-scale patent assertion provides a new explanation for patent law’s crucial shift from common law to equity decision making in the middle of the nineteenth century. And at its height, the litigation explosion produced a political backlash that threatened to sweep away the patent system as we know it. Recovering the history of patent law during this formative and turbulent era offers fresh perspectives on the patent reform debates of today.

Litigation trolls

W. Bradley Wendel (Cornell University – School of Law)
NYU Law School Center on Civil Justice Symposium on "Litigation Funding: The Basics and Beyond" (Nov. 20, 2015)
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2702024

Third-party financing of litigation has been described with a variety of unflattering metaphors. Litigation financers have been likened to gamblers in the courtroom casino, loan sharks, vultures, Wild West outlaws, and busybodies mucking about in the private affairs of others. Now Judge Richard Posner has referred to third-party financers as litigation trolls, an undeniably unflattering comparison to patent trolls.

But what it is, if anything, that makes third-party financers "trolls"? Legal claims are, for the most part, freely assignable, the proceeds of claims are assignable, and various strangers to the underlying lawsuit, including liability insurers and plaintiffs' contingency-fee counsel, are permitted to have an economic interest in the outcome of the litigation. On one view, therefore, third-party litigation investment is just another innovative financial product that enables risk to be carved up and allocated more efficiently. Life insurance, attorney contingent fees, and derivative contracts on exchange-traded commodities were all formerly regarded with extreme suspicion, but are now widely accepted. But people still hate patent trolls. So whether litigation funding is some kind of conceptual anomaly is an important question because, as it happens, Posner's dictum coincides with a public-relations campaign by the U.S. Chamber of Commerce to stigmatize third-party litigation financing and saddle the industry with new and burdensome regulations. This short paper evaluates the conceptual critique of litigation financing by comparison with two other areas in which it is claimed that some form of financing "just doesn't sit right" in light of the nature and function of the legal system – patent trolling and contributions to judicial election campaigns.

Innovation, litigation, and new drugs

Ramsi Woodcock (Georgia State University – Risk Management & Insurance Department)
Working paper
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2702474

The study of patent settlements that specify the date at which a challenger may bring a competing product to market ("entry settlements") has not taken innovation into account. I adapt the standard optimal patent life model to account for innovation in considering the effect of entry settlements on consumer value. I determine the maximum strengthening of a patent through settlement that does not harm consumers, calibrate it with drug market data, and conclude that, for patents weaker than 80.3%, drug patent strengthening of more than 42.5 percentage points, or any agreement to enter at patent expiry, harms consumers.

IP Law & Policy

Ex parte seizures and the Defend Trade Secrets Act

Eric Goldman (Santa Clara University – School of Law)
Washington and Lee Law Review, Vol. 72, No. 284, 2015
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2697361

Congress is considering the Defend Trade Secrets Act, which would create a new federal trade secret civil cause of action. The Act includes a quirky and unprecedented ex parte procedure for trade secret owners to obtain a seizure order. The seizure provision applies in, at best, a narrow set of circumstances, and it oddly attempts to protect intangible trade secrets by seizing chattels. Despite procedural safeguards, the seizure provision also enables anti-competitive misuse.

More generally, the fact-based disputes that inevitably must be resolved in trade secret litigation make trade secrets an especially poor basis for ex parte actions. As a result, we should be nervous about the proposed seizure provision in the Defend Trade Secret Act — and all other ex parte seizure procedures in trade secret cases.

Should the law care why intellectual property rights have been asserted?

Jeanne C. Fromer (New York University School of Law)
Houston Law Review, Vol. 32, p. 549, 2015
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2702191

The American legal system has standard justification stories for our intellectual property systems. Copyright law exists to stimulate the creation and dissemination of creative and artistic works valued by society. Patent law does the same for scientific and technological inventions. These laws offer to creators time-limited exclusive rights to foster these valuable creations without imposing too much cost on society's use of these creations. The intellectual property laws do so by affording rightsholders an opportunity to vindicate certain interests in their covered works — that are directly related to these laws' purpose — vis-à-vis third parties. Yet a not insignificant number of assertions of copyright and patent rights against third parties seek not to protect these interests, but others, such as privacy, protection of ancillary markets, or mere extraction of rents without making a sufficient contribution to society. The question is whether patent and copyright laws concern themselves with and should concern themselves with why these rights have been asserted. I argue that assertions of rights with ill-fitting motivations are sufficiently worrisome that courts ought to strongly consider weighing these motivations before granting relief.

Copyright Law

When does copyright law require technology blindness? Aiken meets Aereo

Yvette Joy Liebesman (Saint Louis University – School of Law)
Berkeley Technology Law Journal, Vol. 30, No. 2, 2015
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2700648

Within the Copyright Act, innovation and technological advances are the bases for the enactment or amendment of many sections. Technology is often fundamental to the language of the section, and the underlying technology matters even when it is paired with a technology-neutral section. And because technology matters, how it functions could be essential in resolving a copyright infringement dispute.

One such provision, 17 U.S.C. § 110(5), allows small businesses to "publicly perform" copyrighted music via a radio, as long as certain conditions regarding the equipment used are met. Only small businesses are eligible, and the proprietors can only use systems that are commonly found in homes. In addition, the performance cannot be retransmitted to another location, and only a single receiving apparatus can be used. Known as the "Aiken" or "Homestyle" Exemption, when Congress codified the § 110(5) of the Copyright Act of 1976, these seemed like reasonable limitations. At the time, lawmakers did not contemplate or even envision the existence or commercialization of wireless speaker technology. Now, however, one can connect a cellphone, iPod, MP3 player, or other portable electronic device via Bluetooth, standard radio, or even the Internet, to a wireless speaker. When determining whether a system falls within the Homestyle Exemption, both Congress and the courts have stressed the importance of examining the underlying technology. Technology matters in the Copyright Act.

The Supreme Court's recent decision in American Broadcasting Cos. v. Aereo, Inc. has thrown the principle of "technology matters" into flux. The majority affirmatively construed the Transmit Clause as it

related to several technology-specific sections of the Act in a technology-blind manner; indeed, it held that the underlying technological architecture of an allegedly infringing system was irrelevant. This decision may have wide-reaching effects, and cannot be viewed in a vacuum. When examined in relation to other sections of the Copyright Act of 1976, it behooves us to question whether this is what Congress intended.

Will other circuits copy the 11th? The impact of Cambridge and the determination of fair use in educational settings

Timothy Shields (Nova Southeastern University)
Working paper
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2693648

The ability of a person to control their creative and inventive works was so important to the early leaders of the United States of America; the right was enshrined in Article I of the United States Constitution. United States Congress acted to codify the common-law doctrine of fair use through its insertion in the Copyright Act of 1976. However, the language of the statute does not indicate how those who wish to make use of the provision of fair use are to apply the factors, just that the listed factors "shall be considered" on for each "particular work". The statute gives no direction on how the four factors are to be weighted. Further, the list allows for the consideration of additional factors outside of the list. Even in cases where only the factors are applied, the language of the statute, as the common law doctrine before it, is so open to interpretation that it is "so flexible as virtually to defy definition." While the Supreme Court of the United States has ruled on three cases furthering and clarifying with each case the nuances of the application of fair use in the last thirty years, the various federal circuits have continued to show variations in the way the four factors, and the Supreme Court of the United States rulings, are applied and weighted in reviewing cases where fair use is used as an affirmative defense. This note reviews a sampling of cases from each of the Federal Circuits where cases involving fair use have been recently decided, the fair use factors discussed, and how the rationale and application of the factors may have varied.

IP & Developing World

Flexibilities under TRIPS: an analysis of the proposal for reforming Brazilian patent law

Roberto Romandini (Max Planck Institute for Innovation and Competition)
Forthcoming as a revised version in the John Marshall Review of Intellectual Property (RILP)
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2689610

This article analyses the proposal for reforming the Brazilian patent system pending before the Brazilian Parliament as Bill No. 5402/13. The proposed legislation addresses such issues as the assumed insufficiency of the inventive step requirement in preventing unjustified "monopolies", the proliferation of so-called secondary patents, and the extension of market exclusivity positions through strategic filings, which are being debated also in Europe and the US. In analyzing the reform attempt, this article pursues two purposes. First, starting from the provisions of the Bill, it explores the flexibilities that WTO members enjoy under the TRIPS Agreement in designing rules and procedures in their patent acts. Second, it examines whether the changes proposed by Bill No. 5402/13 are consistent with its proclaimed goals, such as the aim to reserve patent protection only to "genuine innovations", to hamper so-called "evergreening" practices by pharmaceutical applicants and to foster incremental innovations by domestic

actors. Specific attention is given in this regard to the proposals to introduce: (i) as separate criteria for patentability a “significant technical advance” in all technological fields and an “enhanced efficacy” in the chemical sector; (ii) a general prohibition of use patents; and (iii) a pre-grant and post-grant opposition system.

Expanding the reach of India's ‘Bolar’ exemption

Emmanuel Kolawole Oke (University College Cork)
Queen Mary Journal of Intellectual Property, (2015) Volume 5 Issue 4, pp. 509–515
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2695849

In November 2014, the scope of the regulatory review exemption contained in section 107A(a) of the Indian Patents Act was considered by the Delhi High Court in the case of *Bayer Corporation v Union of India*. In this case, which is a sequel to the compulsory license that was earlier granted to Natco in respect of Bayer's patented drug in 2012, Natco sought to export 1 kilogramme of the patented active pharmaceutical ingredient to a company in China. Bayer contended that this was in breach of the terms of the compulsory license and equally outside the scope of section 107A(a). Natco however argued for a broader interpretation of section 107A(a) in a manner that will permit the exportation of patented active pharmaceutical ingredients to producers of generic drugs solely for the purposes of generating information required for obtaining regulatory approval. In accepting Natco's broader interpretation of section 107A(a), the Delhi High Court incorporated a model of human rights into its decision by being mindful of the implications that a restrictive interpretation of section 107A(a) could have on the production of cheaper generic drugs and access to medicines. This decision reinforces India's crucial position as the ‘pharmacy of the developing world’.

Other IP Topics

Patent transactions in the marketplace: lessons from the USPTO Patent Assignment Dataset

Stuart J.H. Graham (Georgia Institute of Technology – Scheller College of Business; United States Patent and Trademark Office)
Alan C. Marco (United States Patent and Trademark Office)
Amanda F. Myers (United States Patent and Trademark Office – Office of Chief Economist)
Georgia Tech Scheller College of Business Research Paper No. 29
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2696147

While records of the assignments (transactions) affecting US patents and patent applications have been maintained by the US Patent & Trademark Office (USPTO) for over 40 years, few researchers have used them. To help remedy this deficiency, the USPTO Office of Chief Economist is releasing research-ready data files. This paper describes the contents of the USPTO Patent Assignment Dataset, a database covering roughly 6 million assignments and other transactions recorded during 1970-2014 and affecting about 10 million US patents or patent applications published 1930-2014. Records include information on transferred patent and application numbers, the dates a transaction was executed by the parties and subsequently recorded at the USPTO, the assignor(s) and assignee(s), and the “nature of conveyance” (for instance, whether the transaction was an assignment, merger, security agreement, or license). This paper provides a comprehensive description and presents stylized facts to facilitate better understanding and motivate future research. Although the paper describes limitations inherent in the

data, their release nevertheless offers researchers many novel avenues for conducting original research, particularly those related to the study of innovation, the markets for technology, and the financial collateralization of intellectual property and intangible assets.

Patentability of methods of human enhancement

Ana Nordberg (University of Copenhagen, Faculty of Law, Centre for Information and Innovation Law)
Journal of Intellectual Property Law & Practice (2015) 10 (1): 19–28.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2697132

This article explores how to apply patentability rules to human enhancement, particularly focusing on Article 53(c) of the European Patent Convention (EPC).

The global size and value of the cosmetic and wellness market and industry allow for the prediction of considerable market potential for human enhancement. Patents will be instrumental for companies to protect investment in innovation and tap into this potentially valuable market.

The European patent system contains, in Article 53(c) EPC, an exception from patentability for methods for treatment and diagnostic methods. Such rule was created, and subsequently developed through European Patent Office (EPO) case law, by reference to the dichotomy between therapeutic and cosmetic methods. Subsuming enhancement methods under this patentability rule may be challenging. Ultimately, patentability of human enhancement will depend on the concept of health, its future evolution and the corresponding public policy choices. This article seeks to provide prospective patentees with guidance and awareness concerning the patentability of methods for human enhancement.

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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