



IP Literature Watch

CRA Charles River
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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 & Licensing

Essentiality Rate Inflation and Random Variability in SEP Counts with Sampling and Essentiality Checking for Top-Down FRAND Royalty Rate Setting

Keith Mallinson (WiseHarbor)

Working Paper

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3933944

Fair, reasonable and non-discriminatory (FRAND) royalty rates for licensing standard-essential patents (SEPs) are increasingly derived “top-down” by dividing a notional aggregate royalty percentage (e.g., 10% of a smartphone’s selling price for 4G LTE) among patent owners based on the proportions of patents they own that are deemed to be standard essential. Other rate-setting methods include use of comparable licenses and measuring value derived from SEPs. However, as stated by Justice Birss in *Unwired Planet*: “In assessing a FRAND rate counting patents is inevitable.” He used top-down methodology as a cross check. The FRAND rate Decision in *TCL v. Ericsson*, that was unanimously and entirely vacated on appeal, also relied on a top-down valuation.

Essentiality checking is also proposed by the European Commission and others to improve transparency for prospective licensees. But transparency is only legitimate if what is being revealed and counted is reasonably accurate and does not mislead. Otherwise, it will likely do more harm than good.

Figuring out which patents are true SEPs and then counting them is fundamental to top-down analysis. With hundreds of thousands of patents declared possibly standard essential and the insuperably huge task in checking them all for essentiality, the European Commission and others propose that assessing only samples of patents declared essential to a standard would suffice.

If patent counting with essentiality checking is going to be used in FRAND-rate determinations, then it is vital we understand its dynamics, failings, how to properly interpret its results, and how to design and size essentiality determination studies that are fit for purpose. This research paper contributes to that quest with detailed statistical analysis on essentiality determinations and patent counts.

Transplanting Anti-suit Injunctions

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Peter K. Yu (Texas A&M University School of Law)

Yang Yu (Shanghai University of International Business and Economics)

American University Law Review, Vol. 71, 2022, Forthcoming

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3937716

When adjudicating multi-billion-dollar cases involving the licensing of patents covering industry standards such as Wi-Fi and 5G (standards-essential patents or SEPs), courts around the world have increasingly issued injunctions preventing one party from pursuing parallel litigation in another jurisdiction (anti-suit injunctions or ASIs). In response, courts in other jurisdictions have begun to issue anti-anti-suit injunctions, or even anti-anti-anti suit injunctions, to prevent parties from hindering their own legal proceedings. Most of these activities have been limited to the United States and Europe, but in 2020 China emerged as a powerful new source of ASIs in global SEP litigation. The adoption by a jurisdiction of a foreign legal concept or procedure is referred to as “transplantation,” and the ASI mechanism in China represents a new form of legal transplant from Western legal systems.

Forthcoming from the Federal Circuit Symposium, this article, for the first time, analyzes the transplantation of the ASI to China—a development that can be viewed as both surprising, given China’s civil law tradition, and predictable, considering the country’s prominence in global technology markets. Equally predictable have been the strong reactions of foreign courts and policymakers to China’s recent use of this procedural mechanism at a pace that outstrips that of any other country.

This article traces the emergence of ASIs in China by examining how the Chinese legal system has adapted a procedural mechanism that has been widely used in the United States and other foreign jurisdictions. The article further elucidates the internal and external forces that led to the rapid adoption of this procedural mechanism in China. As such, it sheds new light on the process of legal transplantation in the twenty-first century as well as its global ramifications.

IP & Litigation

The Effect of Litigation Risk on Firm Investment: Evidence from a Natural Experiment

Jack Xiaoyong Fu (University of Pennsylvania, The Wharton School)

Working Paper

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3933358

This paper investigates the effects of litigation risk on firms’ investment decisions by comparing the investment activity of firms that win an Inter Partes Review (IPR) with firms that lose an IPR. Judges’ validation rates are used as instruments for IPR results. To further rule out alternative explanations, I use a law change in 2017 as a natural experiment. Using a novel database, I find increasing litigation risk leads to a 20% increase in investment. Empirical evidence supports the agency conflict hypothesis and the hypothesis that firms increase investment as a signal to gain bargaining power in the settlement phase.

Claim-Limitation Estoppel—A Framework to Narrowing Claims in Multi-Patent Litigation

Derek Gretkowski (Rutgers, The State University of New Jersey – Rutgers Law School)

Rutgers Law Review, Vol. 73, No. 3, 2021

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3931501

Patent litigation is complex, expensive, and difficult to manage. Optimistically, neither litigant wants the trouble or expense of a lengthy and complicated multi-patent trial, and neither does the court. In

a Sisyphean effort to tame an unmanageable caseload, the judge must decide how to narrow the issues to best serve the administrability interests of the parties, the court, and the jurors. But do these court mandated methods employed when narrowing claims in multi-patent litigation coincide with the constitutional safeguard against arbitrary denial of liberty and property guaranteed by procedural due process?

This note addresses the due process concerns with claim narrowing strategies employed in multi-patent and multi-claim infringement suits through the lens of the Federal Circuit's *In re Katz* decision. A number of district court's applications of the *In re Katz* decision are analyzed against potential procedural due process issues, including one extreme approach—the “Showdown Procedure”— from the Northern District of California. Ultimately, this note provides a clear enumeration of a burden-shifting framework that a patentee should take to preserve the right to reassert abandoned or winnowed claims in a future trial, which creates benefits such as uniformity in patent-narrowing procedures, decreasing forum-shopping, and lessening the burden of patent-saturated districts.

IP & Innovation

The Growing Importance of Universities for Patenting and Innovation

Todd Schoellman (Federal Reserve Banks – Federal Reserve Bank of Minneapolis)

Vladimir Smirnyagin (Yale University)

Working Paper

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3911375

We document a growing link between university research and development expenditures and patenting activity in the surrounding metropolitan statistical areas (MSAs) since 1980. The gap in patents per capita between MSAs with and without a research university has doubled, while the elasticity of patents per capita with respect to university R&D has tripled. We establish that this trend reflects growing knowledge spillovers from university R&D by showing that it survives controlling for MSA and university characteristics; that it holds by research/patent field; and that it is stronger in areas where universities do more basic R&D. We show that a portion of this change can be linked to the passage of the Bayh-Dole Act, which was designed in part to improve knowledge flows between universities and firms. The growing importance of teams for leading scientific research and reduction in corporate basic research likely also play a role.

Monitoring Secretive Startups

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Lubomir P. Litov (University of Oklahoma – Michael F. Price College of Business; University of Pennsylvania - Wharton Financial Institutions Center)

Hyeonjoon Park (University of Oklahoma – Michael F. Price College)

Working Paper

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3940610

This article examines the mechanisms used by venture capitalists (VCs) to monitor their investments in startups that use trade secrets to protect their intellectual property (IP). First, we confirm that, after startups are afforded stronger trade secrets protection by the adoption of the Uniform Trade Secrets Act (UTSA), they reduce their reliance on patents. Next, we investigate how VCs respond, finding that they decrease both the duration of financing rounds and the overall amount invested per round, especially for startups located the furthest distance away. Finally, we consider how these collective changes affect the exiting process, finding that the likelihood of a successful exit through either an initial public offering (IPO) or merger or acquisition (M&A) is unchanged, but that, within successful M&A exits, the likelihood

that the acquirer is private increases. Overall, our findings suggest that VCs work harder to monitor startups that use trade secrets and that this increased effort is necessary to maintain similar likelihoods of successful exiting.

Corporate Income Tax, IP Boxes and the Location of R&D

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Alfons J. Weichenrieder (Goethe University Frankfurt – Department of Applied Econometrics and International Economic Policy; Vienna University of Economics and Business; CESifo (Center for Economic Studies and Ifo Institute))

WU International Taxation Research Paper Series No. 2021-10

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3932968

The paper discusses the effects of the corporate tax on local R&D expenditures by multinational enterprises (MNEs) when income from intellectual property (IP) may or may not benefit from a special IP regime. Our model shows that an increase of the standard corporate tax may have positive effects on the R&D expenditures in the country that carries out the corporate tax increase. The possible positive R&D effect results from a tax asymmetry: not all R&D returns are subject to the higher tax. First, since R&D creates a public good within the MNE, some of the R&D benefit is taxed at other countries' tax rates that are not subject to the tax increase. Second, some of the R&D benefits are taxed at a lower IP regime tax rate. Therefore, a higher corporate tax, which increases value of the cost deductibility of R&D, may actually foster R&D. This expectation is empirically supported by country-by-country R&D data of U.S.-owned subsidiaries for countries that have an IP regime.

IP Law & Policy

Missing Decisions and the United States Court of Appeals for the Federal Circuit

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University of Pennsylvania Law Review, Forthcoming

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3927406

Merritt McAlister's *Missing Decisions* is an important contribution to our understanding of civil procedure, judicial decision-making, and the law itself. McAlister's study demonstrates that many merits terminations by federal appellate courts aren't readily accessible to the public, nor do they show up in major legal research databases like Westlaw, Lexis and Bloomberg.

Two of the limitations of *Missing Decisions* are that it relies on summary statistical tables to quantify the portion of merits terminations that are "missing," and it doesn't include the United States Court of Appeals for the Federal Circuit because its statistical tables are in a different format than other circuits. Yet, the Federal Circuit is a prime candidate for understanding the issue of "missing decisions." It is a court that has employed summary decision-making to great extent, even as it is perhaps the most scrutinized court outside of the Supreme Court.

This response draws on datasets of the Federal Circuit's dockets and decisions to examine the issue of "missing decisions" at the Federal Circuit. It finds that while the Federal Circuit makes virtually all of its decisions on the merits of an appeal available on its website, there are still many decisions that are only accessible via the appeal dockets themselves—McAlister's *Missing Decisions*. In particular, decisions on the appropriateness of an appeal, such as appellate jurisdiction or timelessness, are commonly not posted to the court's website.

From Adidas to Zenga: A Historical and Comparative Analysis of International Intellectual Property Law in Fashion

Loren Mulraine (Belmont University – College of Law)

American Intellectual Property Law Association Quarterly Journal, Vol. 48, pp. 281-324 (2020).
48 AIPLA Q. J. 281 (2020)

Belmont University College of Law Research Paper No. 2021-10

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3934525

What are the most effective intellectual property models to protect a fashion brand? There is tremendous economic clout attached to a well-established trademark. Who among us does not immediately recognize the golden arches of McDonalds, the clever smile design imbedded in the Amazon logo, or the unique designs, fonts and colors attached to FedEx, Facebook, Google, or Apple? Some trademarks achieve global status through the sheer power of the corporate brand. Likewise, copyright protection is an essential means of protecting the writings of an author. This is true, not only in music, film and book publishing, but also in the world of fashion where a great deal of status is often associated with names such as Michael Kors, Prada, Gucci, Louis Vuitton, and the like.

While most would agree with the stated purpose and need for intellectual property protection, these laws have jurisdictional borders that are often blurred for two significant reasons: first, trademarks and copyrights—at least those of successful works—are almost always international in their commercial use; and second, extraterritorial treatment of trademarks and copyrights often consists of legal nuances that are as diverse as the many nations in which the products are marketed. This Article will explore the history and differences between the way fashion is treated by trademark and copyright systems in the United States as compared with the treatment of fashion in various global territories. In conjunction with the exploration of the varied international laws and processes, the Article surveys the fashion industry and seeks to reveal the historical, business, cultural, and social reasons for their disparate treatment among the nations.

Edward S. Rogers, the Lanham Act, and the Common Law

Jessica Litman (University of Michigan Law School)

ROBERT G. BONE & LIONEL BENTLEY, *RESEARCH HANDBOOK ON THE HISTORY OF TRADEMARK LAW* (forthcoming 2023)

U of Michigan Public Law Research Paper No. 21-030

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3932701

This book chapter is a deep dive into the story of Edward Sidney Rogers's authorship of the legislation that became the Lanham Act. Because Rogers believed that Congress lacked the power to alter the substantive law of trademark and unfair competition, he crafted draft legislation that focused on registration and other procedural details rather than substantive rights and defenses. He sought to advance two incompatible goals: he hoped to preserve the robust common law of unfair competition while requiring, or at least encouraging, all trademark owners to register their marks. Both the supporters and the opponents of the bills that Rogers drafted expressed deep affection for the extant common law of trademarks and unfair competition. They appear to have assumed that the statute would supplement the common law rather than replacing it. Except to the extent that the statute expressly abrogated common law doctrine, most members of the trademark bar believed that even after the statute's effective date, common law rules would continue to control most determinations.

Along the way, the chapter recounts other interesting if not-very-consequential details. For example, Rogers's representation of drug companies at the turn of the century familiarized him with the 1906 Pure Food and Drug Act. When he wanted to include a provision in his legislation that enabled recovery for false representation, he turned to the Pure Food and Drug Act for a model. When Representative William Sirovich, then one of only ten Jews in Congress, assumed the chairmanship of the House Patent

Committee in 1931, he decided that instead of continuing to rely on Rogers and the ABA for trademark legislation, he would ask Frank Schechter to draft an alternative bill. Part of the reason may have been the ABA's efforts in the early 20th century to block Jews from practicing law. Finally, the notion that federal law controlled infringement of registered trademarks but state law controlled unfair competition arose in the 1940s in the wake of the Supreme Court's decision in *Erie Railroad v. Tompkins*. Before that, trademark lawyers agreed that the two sorts of actions arose from a single body of law.

Copyright Law

Food for Thought: Intellectual Property Protection for Recipes and Food Designs

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Valerie Flugge (California State University, Northridge)

Duke Law & Technology Review, Vol. 19, No. 1, 2021

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3930655

As any chef will tell you, cooking and food preparation is a creative, sometimes innovative, endeavor. Much thought and time is invested in selecting ingredients, developing the process for preparing the dish, and designing an interesting or appealing look and feel for a food item. If this is true, then it should come as no surprise that recipes, food designs, and other culinary creations can be protected by various forms of intellectual property, namely: trade secrets, design and utility patents, trade dress, but usually not copyright. This article considers how intellectual property law has been applied to protect recipes and food designs, along with broader issues relating to how these rights may overlap and their implications for competition.

Autonomy, Copyright, and Structures of Creative Production

Peter Lee (University of California, Davis – School of Law)

83 Ohio State Law Journal (2022 Forthcoming)

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3917202

Whether and how copyright promotes creative expression is the central question of copyright law. The standard rationale—that copyright provides economic incentives to create—has attracted sustained critique. Supplementing existing theories, this Article advances a novel organizational theory for how copyright contributes to creative expression. Drawing on the theory of the firm, it argues that copyright supports a transactional model in which creative individuals and small entities can work independently from large intermediaries that commercialize their works. Such independence, moreover, affords creators meaningful organizational autonomy, which is particularly conducive to creative expression. In elaborating this theory, this Article examines three principal creative industries: film production, music recording, and book publishing. It makes two related descriptive claims. First, it argues that these industries feature significant (though varying) degrees of vertical disintegration in upstream content production. Second, it argues that copyright, while not strictly necessary or sufficient to sustain vertical disintegration, plays an important role in lowering the cost of such industrial organization. By conferring upon creators a low-cost, easily obtainable exclusive right to expressive works, copyright enhances the viability of a transactional model in which creative individuals and small entities can maintain some separation from large intermediaries. Additional elements of copyright law, notably the works-made-for-hire doctrine, help creators establish modular, project-specific social structures to complete particular projects.

These descriptive claims reveal an underappreciated mechanism by which copyright promotes creative expression. This Article argues that copyright indirectly promotes creative expression by expanding the range of viable organizational forms and supporting structures conferring greater autonomy to creators. This Article presents psychological and sociological evidence indicating that creators greatly value

autonomy, which leads to more and better creative output. It cautions, however, that while copyright-mediated vertical disintegration may promote creativity, it leaves creators vulnerable to power imbalances vis a vis large intermediaries. Finally, this Article argues that copyright will continue to promote autonomy for creators within the current revolution in digital distribution. Ironically, it will do so not by facilitating more vertical disintegration, but by facilitating new forms of vertical integration in which creators bypass traditional intermediaries and distribute works directly to audiences.

IP & Trade

The Impact of Intellectual Property Protection through FTA on International Trade

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KIEP Research Paper, World Economy Brief 21-34

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3916553#

The importance of intellectual property rights (IPRs) for innovation has grown and the protection of intellectual property in international trade has also been strengthened. AI-related patent applications have been increasing rapidly and many AI patents are being filed in various industries. Intellectual property also represents one of the main controversies of U.S.-China trade relations in the past three decades and remains one of the core issues behind the two countries' recent trade conflicts. As a result, global protection for IPRs has been expanded in recent decades. This article investigates changes in the trend regarding the IP protection level in FTA and how the IP protection through FTAs has affected the composition of aggregate trade flows of member countries in order to provide basic findings necessary to formulate the FTA policies regarding the protection of IPRs in Korea.

Other Topics

Patenting Success and Capital Structure

Harshit Rajaiya (University of Ottawa – Telfer School of Management)

Working Paper

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3914198

I analyze the relationship between firms' patenting success and their capital structures. I show that firms with higher levels of patenting success have lower leverage ratios and a greater propensity to issue equity rather than debt. I hypothesize that firms' patenting success reduces the extent of information asymmetry facing them in the equity market, allowing them cheaper equity market access. My empirical evidence supports this hypothesis. I show causality using IV analyses, instrumenting for patent grants with patent examiner leniency. Further, the above results are stronger for higher economic values of patents, supporting the certification role of patenting success.

In Search of Patents: A tool for real-time search of the United States Patent and Trademark Office data at scale

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Working Paper

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3893242

Use of patent data by academics is widespread, especially in scholarship related to innovation and technology management. However, even with increased online access to patent databases, patent searches at scale are still challenging. We present Patentopia, a simple online tool extracting information from the PatentsView portal linked to the United States Patent and Trademark Office. In this note, we describe the tool's operation, use cases, and envisioned usage.

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