



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 Law & Policy

What can the FTC's §6(B) PAE study teach us? A practical review of the study's methodology

Anne Layne-Farrar (Charles River Associates; Northwestern University)

Working Paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2722057

The Federal Trade Commission (FTC) is currently conducting a survey of patent assertion entities (PAEs), under authority of section 6(b) of the FTC Act. The study is meant to move past the limited information that can be gleaned from litigation records – given that around 90% of patent enforcement activity occurs outside the courtroom – by compiling and publishing nonpublic data on licensing agreements, patent acquisition practices, and related costs and revenues. As such, the study should provide a better understanding of how PAEs operate. The empirical approach the FTC is taking and the constraints that the chosen approach entails, however, will, as the FTC acknowledges, constrain the study's utility. This article discusses these constraints. In particular, the small sample size used for the study means that it will provide a “case study” (in the FTC's words), rather than robust statistical data that can be extrapolated to a broader population. Moreover, the survey covers licensor activities only, with no questions for licensees, and the licensing questions are asked of PAE respondents only, not of the comparison group. Because of these and other limitations discussed herein, the FTC's 6(b) PAE study should be informative, but will not be generalizable and hence it should not form the basis for any policy changes.

NSFW: an empirical study of scandalous trademarks

Megan M. Carpenter (Texas A&M University – School of Law)

Mary Garner (Texas A&M University – School of Law)

Cardozo Arts & Entertainment Law Journal, Vol. 33, pp. 321–365, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2715104

This project is an empirical analysis of trademarks that have received rejections based on their “scandalous” nature. It is the first of its kind.

The Lanham Act bars registration for trademarks that are “scandalous” and “immoral.” While much has been written on the morality provisions in the Lanham Act, this piece is the first scholarly project that engages an empirical analysis of the Section 2(a) rejections based on scandalousness; it contains a look behind the scenes at how the morality provisions are applied throughout the trademark registration process. This study analyzes which marks are being rejected, what evidence is being used to reject them, and who the applicants are. Our data pays particularly close attention to the evidence used to determine whether a mark is scandalous. We also consider whether this bar is effective at removing these marks from the consumer marketplace.

Enforcement of intellectual property rights and the right to a fair trial

Jonathan Griffiths (Queen Mary University of London, School of Law)

Research Handbook on Human Rights & Intellectual Property, ed. C Geiger (Edward Elgar, 2015) 438–54

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2717636

On the face of it, there would appear to be little inherent relationship between due process rights and intellectual property law and no particular reason why intellectual property proceedings should be any more likely to result in a violation of the right to a fair trial than other forms of legal proceedings. Indeed, at first sight, such conflicts seem less likely in this context than in others in which personal liberty and reputation are more obviously at stake. Recently, however, the attention of lobbyists, policy-makers, legislators and courts has turned increasingly to the enforcement of intellectual property claims. In such circumstances, the fair trial rights of defendants may assume greater significance. This chapter considers the potential application of such rights, as they are established in the European Convention on Human Rights and the EU’s Charter of Fundamental Freedoms, in the sphere of intellectual property. It focuses on the rights which are explicitly directed at the trial process; beginning with a discussion of the right to a fair trial, protected under Art 6, ECHR and Art 47 of the EU Charter and moving on to consider the application of the prohibitions on retrospective criminalisation and on disproportionate sanctions within the European legal order (Art 49(1) & (3)).

The patented design

Sarah Burstein (University of Oklahoma College of Law)

Tennessee Law Review, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2714081

The design patent system is over 170 years old; however, the law of design patents is woefully underdeveloped and undertheorized. One particularly important open question has to do with the very nature of the protected subject matter — what, exactly, is “the patented design”? Accordingly, it is not

clear whether the use of a claimed shape on a different type of product or a visual representation of a patentee's commercial embodiment constitutes infringement. This Article argues that neither use should be deemed to be infringing because the patented design should be conceptualized as the design as applied to a specific type of product — not as something akin to a copyrighted “work” (a concept this Article will refer to as a “design per se”). Accordingly, particular shapes and configurations — even those that are patented — would remain free to be adapted to different types of products. This conclusion is supported by the nature of product design and policy goals including the promotion of the decorative arts and protection of free expression. This analysis also has implications for the larger policy debate over how designs should be protected as intellectual property.

Economic espionage as reality or rhetoric: equating trade secrecy with national security

Rochelle Cooper Dreyfuss (New York University – School of Law)

Orly Lobel (University of San Diego School of Law; Harvard Law School)

Lewis & Clark Law Review, 2016

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2718557

In the last few years, the Economic Espionage Act (EEA), a 1996 statute that criminalizes trade secrecy misappropriation, was amended twice, once to increase the penalties and once to expand the definition of trade secrets and the types of behaviors that are illegal. Recent developments also reveal a pattern of expansion in investigation, indictments, and convictions under the EEA as well as the devotion of large resources by the FBI and other agencies to warn private industry against the global threats of trade secret theft. At the international level, the United States government has been advocating enhanced levels of trade secrecy protection in new regional trade agreements. This article asks about the effects these developments on innovation. The article examines the rhetoric the government is using to promote its trade secrecy agenda, uncovering that the argument for greater protection appears to derive at least some of its power from xenophobia, and most importantly, from a conflation of private economic interests with national security concerns, interjecting a new dimension to the moral component of innovation policy debates. Analyzing recent empirical research about innovation policy, we ask about the effects of these recent trends on university research and on private market innovation, including entrepreneurship, information flows and job mobility. We argue that, paradoxically, the effort to protect valuable information and retain the United States' leadership position could disrupt information flows, interfere with collaborative efforts, and ultimately undermine the inventive capacity of American innovators. The article offers suggestions for reconciling legitimate concerns about national security with the balance intellectual property law traditionally seeks to strike between incentivizing innovation and ensuring the vibrancy of the creative environment. We conclude that a legal regime aimed at protecting incumbency is not one that can also optimally foster innovation.

IP & Antitrust

Competition law for a post-scarcity world

Salil K. Mehra (Temple University – James E. Beasley School of Law)

Working Paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2717137

Writers, economists and IP scholars have hailed signs of an incipient shift to a post-scarcity world. According to these accounts, this change is driven by rapid decreases not only in marginal cost, but also

in the fixed or first unit costs of production. Whether these changes become economy-wide, or remain confined to a subset of industries, they have dramatic implications for competition law and policy. This Article is the first to address these implications. In particular, because of the incentive for incumbent firms to engage in “anti-disruption” – as examples such as the Apple/e-books antitrust case and the regulatory responses to Uber show – competition law must play an active role in assisting the transition to a post-scarcity world. How to play this role will not be simple, but the potential social welfare gains of this possible societal shift make it impossible to ignore.

Double patenting: follow-on pharmaceutical patents that suppress competition

Douglas L. Rogers (Ohio State University – Michael E. Moritz College of Law)

Ohio State Public Law Working Paper No. 324

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2709067

Prices for pharmaceutical products over the last 10 years have skyrocketed, increasing far more rapidly than the general cost of living. This article argues there should be greater competition for the production of follow-on drugs through the strengthening of the double patenting prohibition: preventing extending exclusive rights beyond the original patent term by dressing up part of that invention as a new one. This prohibition against the same party holding two patents covering the same composition announced by the Supreme Court in the 1800's has been weakened by lower federal courts to (1) only considering the claims and not the rest of the specification in determining if the same invention is being claimed by the inventor in two patents and (2) only applying the prohibition when the earlier patent did not satisfy the technical meaning of “prior art” within §102 of the Patent Act. The rulings weakening the double patenting doctrine have disregarded that the “invention” of a genus patent is not determined only by the claims, but also by the embodiments disclosed in the specification, and under Supreme Court and Federal Circuit precedent it must be presumed that the party with a genus patent has invented the full scope of the genus. These weakening rulings have also disregarded that the double patenting doctrine arises from §101 of the patent statutes, rather than §§102 and 103, which the Federal Circuit models its double patenting test on, often incorrectly concluding there is no double patenting. §§102 and 103 serve different purposes than §101. This article argues that when the same inventor holds a genus patent for a pharmaceutical product, it should be estopped from obtaining a patent on a species within the scope of the genus, whether or not the genus patent constitutes prior art. Applying this strengthened double patenting doctrine would increase competition for the development of follow-on pharmaceutical products.

IP & Innovation

Does innovation mean patent licensing demands?

Clark D. Asay (Brigham Young University – J. Reuben Clark Law School)

Iowa Law Review Online, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2719118

In response to Robin Feldman & Mark A. Lemley, Do Patent Licensing Demands Mean Innovation?, 101 Iowa Law Review 137 (2015).

In their recent article, Do Patent Licensing Demands Mean Innovation?, Professors Robin Feldman and Mark Lemley take on an important empirical question: do patent holders function as effective middlemen in facilitating innovation (i.e., the so-called “middleman” hypothesis)? Or in other words, when patent

holders initiate patent licensing discussions with others, do the resulting patent licenses ultimately translate into new innovation? As Feldman and Lemley point out, defenders of certain patent licensing business models often cite this function of patents as a justification for those business models. So-called “patent trolls,” for instance, though much maligned, may actually benefit society if they facilitate technology transfer through their patent licensing activities. More generally, a growing body of scholars argues that patent rights increase the commercialization of inventions by facilitating beneficial technology transfers between inventors and those in a better position to put the inventions into commercial use. Hence, as Feldman and Lemley put it, both patent law theory and the healthy functioning of the patent system depend in part on figuring out whether patents actually serve this “intermediation” purpose.

In order to answer this question, Feldman and Lemley survey those in the patent licensing trenches, asking in-house lawyers a number of questions meant to find out whether patent license requests from third parties actually result in new innovation at their companies. The study’s results, if representative, overwhelmingly cut against those who argue that patent license requests facilitate technology transfer and innovation more generally. Indeed, the results of their study suggest that patent licensing requests fail to promote innovation across the board, regardless of whether a patent troll, competitor, non-competitor, university, or some other entity initiates the licensing request. Instead, such patent licenses ultimately function as a “tax” on innovation that is already occurring.

This brief response to the Feldman/Lemley study comes in two parts. Part I assesses the Feldman/Lemley project’s focus on patentee-initiated license requests. It concludes that, while reasonable given the project’s objectives, this focus may tend to mask the importance of licensee-initiated licensing activities in some industries. The focus may also fail to adequately capture patentee-initiated discussions that survey respondents do not characterize as a license request. Part II then articulates some concerns with only surveying lawyers, as well as the nature of some of the questions presented to those lawyers. It then provides some possibilities for addressing those concerns.

The irrelevance of nanotechnology patents

Emily Michiko Morris (Shanghai University of Political Science and Law)

Working Paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2708833

Once the stuff of science fiction, nanotechnology is now expected to be the next technological revolution, but despite millions of dollars of investment, we still have yet to see the brave new world of cheap energy, cell-specific drug delivery systems, and self-replicating nanobots that nanotechnology promises. Instead, nanotechnology seems to be in a holding pattern, perpetually stuck in the status of “emerging science,” “immature field,” and “new technology” for over three decades now. Why? Professor Mark Lemley and a number of others have suggested that the answer to this puzzling question is simple: nanotechnology differs from all of the technologies that came before it. As the first major new technological field after the Bayh-Dole Act and other related changes, nanotechnology has experienced an unprecedented level of patenting on basic research by universities. Lemley and others argue that these “upstream” patents have created an anticommons that is stunting nanotechnology development. This Article challenges Lemley’s anticommons story as far too simple, however. Instead, in nascent but complex fields like nanotechnology, technological and economic uncertainty, long development cycles, tacit knowledge, lack of funding, and even regulatory and safety issues are much more significant and

rate limiting than patents are. In this way nanotechnology is not nearly as unique as Lemley suggests – nanotechnology’s developmental difficulties are the same, well-known difficulties that all science-based technologies face. For many if not most aspects of nanotechnology development at this point in time, patenting on university-based research is simply irrelevant.

IP & Litigation

Empirical evidence on the behavior and impact of patent trolls: a survey

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Umit G. Gurun (University of Texas at Dallas – Naveen Jindal School of Management)

Scott D. Kominers (Harvard University)

Working Paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2708224

We survey the empirical literature on non-practicing entity (NPE) litigation behavior and its consequences. We document both aggregate trends and cross-sectional differences amongst various types of NPEs. Survey evidence illustrates a number of ways in which NPEs can potentially act opportunistically, and indicates at least some instances and consequences of observed NPE opportunism. Large-sample empirical work has recently begun corroborating and amplifying the findings from survey evidence. NPEs on average behave as "patent trolls." Indeed, NPEs hold and frequently litigate patents that are likely to be at least partially invalidated; moreover, NPEs, target cash irrespective of its relation to alleged infringement. Cash-targeting is neither the main driver of practicing entity (PE) intellectual property (IP) litigation, nor of non-IP litigation against publicly traded firms. The empirical evidence suggests, however, that not all NPEs exhibit trolling behavior -- the cash-targeting observed in the data is primarily the behavior of large patent aggregators, rather than small inventors. NPE patent trolling has a real negative impact on targeted firms, without any increase in innovation, technology transfer, or other counterbalancing benefits measured thus far.

Judicially determined FRAND royalties

Norman Siebrasse (University of New Brunswick – Fredericton – Faculty of Law)

Thomas F. Cotter (University of Minnesota Law School)

The Cambridge Handbook of Technical Standardization Law, Jorge L. Contreras, ed., Cambridge University Press, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2712837

This chapter from the forthcoming Cambridge Handbook of Technical Standardization Law reviews the principles and methodologies courts have used for calculating royalties for the infringement of standard-essential patents (SEPs) that the owner is obligated to license on fair, reasonable and non-discriminatory (FRAND) terms. As we show, the decisions thus far -- including the U.S. decisions in Microsoft, Innovatio, Ericsson, and CSIRO, the Japanese Apple v. Samsung judgment, and Chinese Huawei v. InterDigital matter -- have tended to focus on a relatively small number of additional considerations beyond the generally applicable principles used for calculating reasonable royalties. Although reasonable minds may disagree with specific features of the relevant decisions, overall the courts (correctly, in our view) have emphasized that the owner of an SEP should receive a royalty that is proportionate to the technology’s contribution to the value of standard -- a principle which, when properly applied, reduces concerns over the potential for SEPs to induce holdup and royalty stacking.

Brief amici curiae of 48 law, economics, and business professors and the American Antitrust Institute in support of appellants

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Steve Shadowen (Hilliard & Shadowen LLP)

Third Circuit Brief In re: Lipitor XR Antitrust Litigation, 2015

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2708946

In *FTC v. Actavis*, the Supreme Court held that a brand payment to a generic to delay entering the market could have "significant anticompetitive effects" and violate the antitrust laws. In *In re Lipitor*, the District of New Jersey court erred in requiring plaintiffs to produce, at the motion-to-dismiss stage, evidence typically considered at summary judgment or trial. The court's opinion is inconsistent with *Actavis*, the Third Circuit's *Lamictal* decision, and pleading standards articulated in the Supreme Court's *Twombly* and *Iqbal* rulings. On behalf of 48 professors and the American Antitrust Institute, this Third Circuit amicus brief urges reversal.

The brief first argues that *Actavis* would be significantly undermined if courts could impose excessive standards at the pleadings stage that effectively make it impossible for plaintiffs to succeed on a claim despite allegations of conduct that violates the antitrust laws and costs consumers hundreds of millions of dollars.

The brief next contends that the excessive pleading requirements imposed are not consistent with *Lamictal*, as the Third Circuit made clear that *Actavis* applies to non-cash payments, which could "induce the generic challenger to abandon its claim."

Finally, in manufacturing heightened pleading thresholds, the *Lipitor* court misread *Twombly*, *Iqbal*, and Third Circuit opinions. And it ignored the well-pleaded components of a complaint that alleged: (1) a 20-month delay in generic entry beyond the expiration of the relevant patent; (2) Pfizer's forgiveness of hundreds of millions of dollars in damages in separate litigation for Ranbaxy's token \$1 million payment; (3) detailed allegations of the high value of Pfizer's claim for patent damages against Ranbaxy, including allegations of (a) the patent's validity, enforceability, and infringement, (b) Pfizer's preliminary injunction, (c) Pfizer's request for lost profits and enhanced damages, (d) Ranbaxy's entry into the market "at risk," and (e) a "decimated" market that fell from \$525 million before Ranbaxy's entry to \$71 million after entry; (4) Pfizer's former Chairman and CEO's concession on expected generic entry; and (5) allegations of the right to market generic *Lipitor* in 11 foreign markets.

IP & Asia

FRAND in India

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Working Paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2718256

This paper examines FRAND issues in India. From an institutional perspective, India's FRAND cases do not effectively establish the appropriate role for antitrust in FRAND. On the one hand, there is the

potential for hold-up and anti-competitive conduct in the FRAND setting. Such situations would be very fact specific but the CCI orders to date use sweeping language and analysis based on per se like rules of illegality. On the other hand, the creation of per se like rules of illegality create the possibility that CCI will act as a price regulator rather than antitrust enforcer. Over time and with greater use of economic analysis (and greater reliance on the economic staff at CCI), CCI may improve its institutional capabilities. However, the role of jurisdiction as between CCI and the judiciary remains unclear. How best to treat FRAND disputes will take time but the hope is that through greater experience and learning by doing, the Indian competition system will set out a set of economically informed principles for sound FRAND enforcement.

On the issue of institutional design and deference, one question that has not yet been reached (and may not for some time) is how the courts should handle deference when CCI has developed the necessary economic skills to undertake complex cases of antitrust and technology. Should the judiciary defer to agency as expert once expertise developed? This is potentially a chicken and egg problem on developing expertise and rules of deference in need of further study. Complicating matters further is that the economics on competition and patents is complex. Creating an administrable economic model that is coherent remains a work in progress.

Overall the Indian FRAND cases suggest that the current mix of Indian institutions may not yet be well suited to address complex issues of antitrust enforcement. Consequently, such cases should be approached cautiously with a mind on how to think through the economics of innovation, and the implications of enforcement on technology, IP and competition to yield optimal results and the right institutional structure for improved enforcement.

About the editor

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