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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

Comment of the Global Antitrust Institute, George Mason University School of Law, on the National Development and Reform Commission's Anti-Monopoly Guide on Abuse of Intellectual Property Rights

Koren W. Wong-Ervin (George Mason University School of Law – Global Antitrust Institute)

Joshua D. Wright (George Mason University School of Law)

Douglas H. Ginsburg (US Court of Appeals for the District of Columbia Circuit; George Mason University School of Law)

Bruce H. Kobayashi (George Mason University – School of Law)

Working Paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2689870

This comment is submitted to China's National Development and Reform Commission (NDRC) by the Global Antitrust Institute (GAI) at George Mason University School of Law in response to the NDRC's Draft Abuse of Intellectual Property Rights Guideline. The GAI Competition Advocacy Program provides a wide-range of recommendations to facilitate adoption of economically sound competition policy, including how to analyze conduct involving standard-essential patents, as well as refusals to license, the essential facilities doctrine, discriminatory licensing, "unfairly high" pricing, bundling, cross-licensing, grantbacks, charging for expired patents, and the use of no-challenge clauses.

Patent exhaustion and federalism: a historical note

Herbert J. Hovenkamp (University of Iowa – College of Law)

Virginia Law Review Online 2015

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2684817

This essay, written as a response to John F. Duffy and Richard Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, ___ VA. L. REV. ___ (2015), argues that the patent exhaustion (first sale) doctrine developed as a creature of federalism, intended to divide the line between the law of patents, which by that time had become exclusively federal, and the law of patented things, which were governed by the states. Late nineteenth and early twentieth century courts were explicit on the point, in decisions stretching from the 1850s well into the twentieth century.

By the second half of the nineteenth century it was clear that federal supremacy controlled patent law, including patent infringement suits. The problem with the post-sale licensing restrictions that the patent exhaustion doctrine precluded is that enforcement of such restrictions via patent infringement suits would have applied federal supremacy so as to protect a set of practices (resale price maintenance, tying, and exclusive dealing) that state antitrust laws were just beginning to engage and often condemn. For example, if a tying or RPM restriction could be enforced via a patent infringement suit, the result would have been to preempt inconsistent state law declaring such practices anticompetitive. That was precisely the outcome that the Supreme Court reached in its *Henry v. A.B. Dick* decision in 1912, and that provoked Congress' almost immediate reaction in passage of the Clayton Act.

Tournaments and FRAND royalties

J. Gregory Sidak (Criterion Economics, LLC)

Forthcoming in 24 Texas Intellectual Property Law Journal

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2682610

Proponents of the patent-holdup conjecture implicitly model competition among different technologies for inclusion in a standard as a static Bertrand pricing game without (1) any capacity restraints, (2) any product differentiation, and (3) any outside option for the inventors. On the basis of those improbable assumptions, proponents of the patent-holdup conjecture suppose that the FRAND royalty for the technology chosen for inclusion in the standard will approach zero.

That conclusion is wrong. It violates the predictions and real-world observations of the economics of tournaments. I explain the similarities in the economics of tournaments and standard setting. I then examine the actual payouts that participants in real-world sports tournaments receive and find that the prize for winning the tournament does not approach zero. No firm would enter a tournament whose first-place prize is “effectively zero” if it cannot recoup its participation costs. Further, SSO members would not invest in developing a technology that might win the standard-setting tournament if the difference between the payoff from winning and the payoff from losing were negligible. Instead, modeling standard setting as a tournament whose winner receives a substantial first prize — that is, a significant FRAND royalty — is more likely to lead to legal rules for licensing disputes over standard-essential patents that encourage continued investment in innovation and continued participation in collective standard setting.

IP & Innovation

Patterns of innovative outputs across climate zones: the geography of innovation

Mario Coccia (National Research Council of Italy (CNR); Arizona State University; UNU-MERIT)

Mario Coccia (2015): Patterns of innovative outputs across climate zones: the geography of innovation, Prometheus, DOI: 10.1080/08109028.2015.1095979

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2686603

Technological innovation is a vital human activity that interacts with geographic factors and the natural environment. The purpose of the present study is to explain the relationship between climate zones and innovative outputs in order to detect factors that can spur technological change and, as a consequence, human development. The findings show that innovative outputs are high in geographical areas with temperate climate. In effect, warm temperate climates are an appropriate natural environment for humans that, by an evolutionary process of adaptation and learning, create complex societies, efficient institutions and communications systems. This socio-economic platform supports the efficient use of human capital and assets that induce inventions, innovations and their diffusion.

Assets with ‘warts’: how reliable is the market for technology?

Vincenzo Palermo (University of Toronto – Munk School of Global Affairs)

Matthew John Higgins (Georgia Institute of Technology – Scheller College of Business; National Bureau of Economic Research (NBER))

Marco Ceccagnoli (Georgia Institute of Technology – Scheller College of Business)

Georgia Tech Scheller College of Business Research Paper No. 2015–13

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2690291

Existing research has focused on why and when firms may choose to access the external technology market. Surprisingly, however, less is known about the reliability of the patents attached to these external technologies in the face of litigation. “Weak” external patents expose a firm to the potential loss of downstream revenues. To address this question we construct a novel dataset of patent litigation in the pharmaceutical industry. We exploit a legal action called a “Paragraph IV challenge” as a natural experiment to test whether external patents are more reliable than those developed internally. We find that acquired patents are more likely to fall during litigation; they are less reliable than internal technologies. Losses lead to an average reduction in market capitalization of \$450 million. Overall, our results demonstrate the critical importance of the underlying reliability of external patents and provides a cautionary note to the potential benefits of accessing external technology markets.

Regulating secrecy

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Washington Law Review, Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2674344

Regulation interacts with intellectual-property exclusivity in socially problematic ways by encouraging secrecy at the expense of innovation, efficiency, and competition. In the extensive scholarship on intellectual property and innovation, the role of regulation is underexplored. This Article theorizes how regulation empowers intellectual property generally, explains why this strengthening is problematic for trade secrecy but not for patents, and offers the solution of regulator-enforced disclosure.

When a regulator defines a product or a process, it becomes much harder to invent around that product or process. Any associated intellectual-property exclusivity thus gets much more powerful. When the FDA approves a new drug, patents covering that chemical become much costlier to invent around because similar but non-identical chemicals lack the tremendous benefit of FDA approval. This patent/regulation interaction, however, can be noted and explicitly addressed by policy, as in the case of the Hatch-Waxman Act, which facilitates generic drug entry once drug patents expire. Regulation strengthens trade secrecy too, but more problematically. Biologics, which comprise the most innovative and expensive drugs today, are the path-dependent result of complex, secret manufacturing processes. Meeting the FDA’s definition of a biologic requires reverse-engineering its complex, secret process, making trade secrecy much more valuable and stifling competition and innovation. In such situations, regulation can push firms to choose secrecy over patents in precisely those socially important industries, like drugs, medical devices, and pesticides, where disclosure is most important.

Where regulation creates problems, however, it also offers the hope of a solution. Regulators are in a strong position to require disclosure directly: regulated firms have strong incentives for candor, regulators have the necessary expertise, and regulatory incentives can offset the costs of disclosure. More effective regulator-mediated disclosure would increase oversight and enable cumulative innovation, while retaining incentives for invention in regulated industries.

IP & Litigation

Patent assertion entities in Europe

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Christian Helmers (Santa Clara University – Leavey School of Business; Universidad Carlos III de Madrid)

Fabian Gaessler (Max Planck Institute for Innovation and Competition)

Maximilian Ernicke (Heinrich Heine University Dusseldorf)

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

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2689350

This book chapter presents the findings of an empirical study of U.K. and German patent litigation involving patent assertion entities (PAEs). Overall, we find that PAEs account for roughly ten percent of patent suits filed in these countries during the time periods covered by our study: 2000-2013 for the UK and 2000-2008 for Germany. We also present a variety of additional data on the characteristics of European PAE suits and PAE-asserted patents and, finally, consider what our findings suggest are the most important reasons PAEs tend to avoid European courts. We conclude that, while many factors likely contribute to the relative scarcity of PAEs in Europe, the continent's fee-shifting regimes stand out as a key deterrent to patent monetization.

Pleading standards: the hidden threat to Actavis

Michael A. Carrier (Rutgers University School of Law – Camden)

91 N.Y.U. L. Rev. Online (2016, Forthcoming)

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2683704

In *FTC v. Actavis*, the Supreme Court held that a brand drug company's payment to a generic firm to settle patent litigation and delay entering the market could violate the antitrust laws.

Since the decision, the issue of the pleading requirements imposed on plaintiffs has slipped under the radar. Along those lines, it is concerning that courts recently have imposed unprecedented hurdles. For example, the court in *In re Effexor XR Antitrust Litigation* failed to credit allegations that a generic delayed entering the market because a brand promised not to introduce its own "authorized generic" that would have dramatically reduced the true generic's revenues. The same judge, in *In re Lipitor Antitrust Litigation*, dismissed a complaint despite allegations that the generic delayed entry in return for the brand's forgiveness of hundreds of millions of dollars in potential damages in separate litigation.

This Essay explains why the excessive pleading standards in *Effexor* and *Lipitor* are not consistent with *Actavis* or the leading caselaw on pleading. It discusses cases that apply a more justifiable analysis. And it concludes that the imposition of inappropriate pleading standards significantly weakens the antitrust analysis of potentially anticompetitive settlements.

A model of patent trolls

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CESifo Working Paper Series No. 5536

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2681051

This paper develops a model of patent trolls to understand various litigation strategies employed by nonpracticing entities (NPE). We show that when a NPE faces multiple potential infringers who use

related technologies, it can gain a credible threat to litigate even when it has no such credibility vis-à-vis any single potential infringer in isolation. This is due to an information externality generated by an early litigation outcome for subsequent litigation. Successful litigation creates an option value against future potential infringers through Bayesian updating. This renders a credible litigation threat against the initial defendant and allows the NPE to extract more rents. We discuss policy implications including the adoption of the British system of “loser-pays” fee shifting and the use of injunctive relief.

IP Law & Policy

Patent quantity

Jeremy W. Bock (University of Memphis – Cecil C. Humphreys School of Law)

University of Hawaii Law Review, 2016 Forthcoming

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2686255

Much of the academic commentary on the patent system’s dysfunctions has focused on patent quality. The considerable attention paid to quality issues, while necessary, overlooks a much larger problem — one of patent quantity. The generation, examination, management, and monetization of an ever-increasing number of patents and applications exert distortionary effects on the patent system, such as the U.S. Patent and Trademark Office’s prioritization of application processing over patent quality; the growth of patent thickets; the “anticommons” that impede innovation; and the rise of patent assertion entities.

In a departure from the literature, this Article argues that the patent quantity problem must be solved first in order to solve the quality problem. Solving the quantity problem may also mitigate the other distortions in the patent system. Based on a situational analysis of the behavior of the patentees’ agents — who have been largely overlooked in the patent reform literature — this Article proposes that a mechanism for mitigating the patent quantity problem (and its effects) may lie in a judicially-developed de facto working requirement for patent assertions.

Patentable subject matter as a policy driver

Amy L. Landers (Drexel University Thomas R. Kline School of Law)

Houston Law Review, Vol. 53, No. 2, 2015

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2679531

Patents are intended to be used as instruments to further policy. One potent policy driver to accomplish such goals is through the legal construction and application of the term “invention.” Internationally, various legal authorities have recognized that this definition can be crafted in ways that are targeted to have real-world consequences. In the U.S., the open-ended framework of the Patent Act’s section 101 invites judicial interpretation to effectuate the law’s purposes. Ideally, these determinations should rest on articulated, transparent reasoning so that, under a common law system, those policies can serve as touchstones to ensure that the relevant precedents are implementable. Despite this potential power, recent U.S. Supreme Court opinions have not used the doctrine to meaningfully guide the patent system. Rather, the Court’s recent cases place primary emphasis on a selection of precedents that were written in an era that does not account for our current understandings of scientific, economic, and sociologic progress. This Article argues that these are missed opportunities and proposes four policy guideposts for consideration in future cases: (1) fostering scientific creativity; (2) encouraging the creation of an infrastructure; (3) balancing the patent system with free competition concerns; and (4) considering current social needs.

Copyright Law

Anything but tired: the doctrine of exhaustion in Canada

Emir Crowne (University of Windsor – Faculty of Law)

Journal of Intellectual Property Law & Practice (2015) 10(11): 801–802

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2679540

With the recent US Supreme Court decisions in *Kirtsaeng v John Wiley & Sons*, 133 S. Ct. 1351 and *Bowman v Monsanto*, 569 U. S. ____ (2013) the doctrine of exhaustion has once again been revitalized. In its most basic formulation the doctrine stands for the proposition that the enforceability of the intellectual property rights embodied in a tangible object are extinguished, or ‘exhausted’, after its first sale. The rule, common law in origin, allows for the downstream re-sale of patented articles, trade mark adorned clothing, and textbooks without infringement. This brief editorial examines the common law and statutory footing of the doctrine in Canada, and encourages courts to ‘supplement’ their decisions and give the doctrine ‘wings’, as it were.

Evolution of the copyright exceptions and limitations provision in the Trans-Pacific Partnership Agreement

Jonathan Band (policybandwidth)

Working Paper

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2689251

The Trans-Pacific Partnership (TPP) Agreement contains an important provision concerning achieving balance in the copyright systems of the twelve countries party to that free trade agreement. This provision was not present in the early draft of the agreement. Then, in July 2012, the United States proposed language that formed the basis of the text of the provision. This language subsequently was strengthened over the next three years to its final form. This paper recounts the evolution of this provision. Because of the lack of transparency of the TPP negotiations, it is difficult to reconstruct a precise timeline of when specific language was proposed, who proposed it, and why. However, a combination of leaked drafts and public statements provides evidence of the provision’s trajectory.

IP & Asia

Technological based growth in developed countries – a quantitative assessment

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National Strategies Observer No.2/Vol.1, 2015

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2689644

Along the history, great economic powers have based their superiority not only on the size of their territory, population but also on education, innovation, knowledge, science and technology. From the Macedonian phalanx to the modern military drones, and from the invention of the wheel to space travels, the world economy has always been shaped by daring nations who had the technological superiority and the leaders to promote or impose their economic models to the world.

Presently, in the very competitive economic environment, technology and science have become more than ever fundamental drivers of the economic growth. The rate of technological change highlights more

the “human touch of these factors” namely: knowledge, skills, talents, abilities, courage, intelligence, experiences, wisdom and health, attributes that make the difference in the modern world, and create the framework for scientific and technological superiority of the developed countries.

In view of all this, our research aims to assess the role of technological advance as driver of economic growth in the main developed countries, insisting on four emblematic countries: the United States, Japan, South Korea and Germany.

Utilizing both national and international statistics (OECD, World Bank etc.), our methodological approach is based on some relevant indicators such as: GDP, high-tech sector contribution in the GDP, national expenditures on: education, RDI; quality of higher education, registered inventions and patents, Nobel prize winners, brains attraction and the world trade share in the field of high-tech products. Using the scoring method for ranking the place of analyzed countries in top ten developed economies within the OECD statistics, our paper aims at establishing the role of scientific and technological development in stimulating economic growth. We will also highlight the role of national strategies for increasing knowledge-based economic development in general and high-tech sector development, in particular, in the analyzed countries.

Other IP Topics

Between Scylla and Charybdis: patentability and morality related to Human Embryonic Stem Cells

Li Jiang (Soochow University – Kenneth Wang School of Law)

Li Jiang, 'Between Scylla and Charybdis: Patentability And Morality Related To Human Embryonic Stem Cells' (2015) 6 American University Intellectual Property Brief 53-97.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2626979

The patentability of inventions related to Human Embryonic Stem Cells (HESC) is challenged by the morality provision of various nations' regulations. This article discusses whether it is a matter of expediency to prohibit granting patents to HESC-related inventions based on morality-based provisions. It concludes that excluding HESC-related inventions from patentability based on moral provisions is not appropriate. To claim this, this article explores typical cases and regulations in the EU, the US and China. However, different areas adopt various approaches in dealing with this extremely complex issue. The comparison shed light on the inappropriate combination of morality and patentability in EU and China. The comparison of these areas also demonstrates infusing patent law with morality is both inefficient and ineffective as morality is not a criterion that should be determinable by patent authorities. And in terms of funds invested into research, the reward of a patent seems to have been overvalued. This article argues that it is better to establish the specific authority to monitor HESC research instead of infusing morality with patentability. A weak patent system without a moral clause would be benefit to move HESC research forward.

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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