

STRONGER Patents Act of 2019

Hearings Before the Senate Judiciary Committee, Subcommittee on Intellectual Property

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In its 2006 decision in *eBay Inc. v. MercExchange, L.L.C.*,¹ the U.S. Supreme Court stated that “a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”² Section 106 of the STRONGER Patents Act of 2019, titled “Restoration of Patents as Property Rights,” would alter the *eBay* standard in patent infringement actions by adding the following subsection to § 283 of the Patent Act: “(b) INJUNCTION.—Upon a finding by a court of infringement of a patent not proven invalid or unenforceable, the court shall presume that—(1) further infringement of the patent would cause irreparable injury; and (2) remedies available at law are inadequate to compensate for that injury.” The rationale for the proposed amendment, as I understand it, is the perception on the part of some observers that *eBay* has so weakened U.S. patents rights that it poses a serious threat to future innovation. In my view, that perception is incorrect. Rather, it is the amendment itself, if enacted, that could pose a greater threat to innovation.

First off, it is important to note that, even after *eBay*, U.S. district courts have granted permanent injunctions in about three-quarters of the cases in which the prevailing patent owner sought injunctive relief.³ Assertions that one sometimes hears, to the effect that courts almost never grant injunctions to prevailing patent owners after *eBay*, are therefore incorrect. Moreover, in applying the four-factor test courts generally have granted injunctions to practicing entities, while often denying them to patent assertion entities (PAEs).⁴ Courts also are less likely to award

¹ 547 U.S. 388 (2006).

² *Id.* at 391.

³ See GENEVA CLARK, LEX MACHINA, PATENT LITIGATION REPORT 2019 24–25 (discussed in Thomas F. Cotter, *News on Injunctions*, COMPARATIVE PATENT REMEDIES BLOG (Mar. 11, 2019), <http://comparativepatentremedies.blogspot.com/2019/03/news-on-injunctions.html>); Christopher B. Seaman, *Permanent Injunctions in Patent Litigation After eBay: An Empirical Study*, 101 IOWA L. REV. 1949, 1983 (2016).

⁴ See Seaman, *supra* note 3, at 1987-92. PAEs, sometimes referred to pejoratively as “patent trolls,” are entities that “acquire patents from third parties and seek to generate revenue by asserting them against alleged infringers” which “already use . . . the patented technology.” FED. TRADE COMM’N, PATENT ASSERTION ENTITY ACTIVITY: AN FTC STUDY 1 (Oct. 2016) [hereinafter FTC STUDY].

injunctions in cases involving FRAND-committed standard-essential patents (SEPs),⁵ as long as the defendant is a willing prospective licensee.⁶ In this regard, the *eBay* standard helps to ensure that patent owners whose business models depend on exclusion generally succeed in obtaining injunctions—while those whose business models depend on licensing cannot use the threat of shutdown to extract “holdup”⁷ royalties based on an implementer’s alleged infringement of one single patent out of the hundreds or more, owned by multiple patentees, that may be incorporated into a complex device such as a smartphone.⁸

Second, the language of the proposed amendment is unclear, and would generate uncertainty in its application. In particular, the amendment does not clearly state (1) whether the presumption is rebuttable; (2) if so, by what standard (preponderance of the evidence, clear and convincing evidence, or something else); or (3) how the presumption would interact with the other two *eBay* factors (balance of hardships and public interest). In regard to this last issue in particular, would the presumption, if not adequately rebutted, outweigh the balance of hardships and public interest factors, if these latter factors weighed against granting an injunction? Would the plaintiff or the defendant bear the burden of coming forward with evidence relating to these two other factors? Would the amendment effectively return us to the Federal Circuit’s pre-*eBay* standard, under which courts were expected to grant the prevailing patent owner an injunction, absent exceptional circumstances? Though inserted into the body of the Patent Act, would the amendment nevertheless affect the courts’ interpretation of *eBay* in non-patent cases (and if not, why should patent cases alone be governed by a different standard than every other body of law)? Without further clarification, it might take years of litigation to resolve these sorts of issues in the courts.

⁵ “FRAND” stands for “fair, reasonable, and nondiscriminatory.” Standard setting organizations (SSOs) often require or encourage their members (1) to “declare” any patents that may be essential to the practice of a given technical standard, and (2) to commit to licensing those standard-essential patents on (undefined) FRAND terms. For discussion, see, for example, JUSTUS BARON ET AL., *MAKING THE RULES: THE GOVERNANCE OF STANDARD DEVELOPMENT ORGANIZATIONS AND THEIR POLICIES ON INTELLECTUAL PROPERTY RIGHTS* (Nikolaus Thumm ed. 2019), http://publications.jrc.ec.europa.eu/repository/bitstream/JRC115004/sdo_governance_final_electronic_version.pdf.

⁶ See Jorge L. Contreras et al., *The Effect of FRAND Commitments on Patent Remedies*, in *PATENT REMEDIES AND COMPLEX PRODUCTS: TOWARD A GLOBAL CONSENSUS* 160, 171-90 (Brad Biddle et al. eds., Cambridge Univ. Press 2019) [hereinafter *COMPLEX PRODUCTS*]. This book is available on an open-access basis at https://www.cambridge.org/core/books/patent-remedies-and-complex-products/9856A1DB614D1E4A155E0D7B1748384B?fbclid=IwAR3qAOVVcTTQwmVKq4x_U_vXQaMK2wX2VeIOZnVjpAUvIFUiG1RfL3Mi3ls.

⁷ Patent holdup occurs when a patent owner armed with a credible threat of obtaining an injunction can extract a royalty that exceeds the ex ante economic value of the patented invention in comparison with alternatives, up to the sum of (1) the implementer’s nonsalvageable sunk costs, if any, in adopting the infringing technology; (2) the cost of switching to a noninfringing alternative, to the extent this cost is higher ex post than ex ante; and (3) the forgone benefits, if any, of marketing a standard-compliant product. For discussion and citation to the vast economic literature on the subject, see Thomas F. Cotter, Erik Hovenkamp & Norman Siebrasse, *Demystifying Patent Holdup*, 76 WASH. & LEE L. REV. (forthcoming 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3338026.

⁸ By contrast, consider how in 2006 a PAE obtained an injunction and compelled BlackBerry maker Research In Motion to pay \$612.5 million to avoid being shut down. See THOMAS F. COTTER, *PATENT WARS: HOW PATENTS IMPACT OUR DAILY LIVES* 220 (Oxford Univ. Press 2018).

Third, and relatedly, I am concerned that the effect of the presumption might be to interfere with the ability of courts to reach a compromise solution (as they now sometimes do) of delaying entry of an injunction for a period of time (e.g., six months), to afford the defendant an opportunity to design around the infringing technology. This approach—also known as “staying” or “tailoring” the injunction—limits the potential negative effects of enabling the patent owner to use an injunction to extract an excessive royalty from an implementer that cannot immediately design around, while also minimizing the need for a court to determine a post-judgment royalty rate that would extend beyond the limited period of the stay.⁹

Fourth, and also related to the above points, from a policy perspective the principal arguments in favor of granting injunctions (as opposed to awards of ongoing royalties) are that, in some contexts, they may encourage private bargaining and thus reduce the cost of adjudication, and that they avoid the potential error and adjudication costs that may result from having courts or other third parties determine the value of an entitlement.¹⁰ A disadvantage of granting injunctive relief is that, under some circumstances, injunctions may enable the owner of an entitlement to exercise its rights in a manner that harms the public interest.¹¹ In the patent context in particular, the disadvantages of injunctions outweigh the advantages when the risk of holdup is substantial, unless court-ordered royalties systematically undercompensate patent owners and, as a result, systematically undermine overall investment in innovation. To my knowledge, however, there is no reason to believe that the royalties U.S. courts award when they deny injunctive relief are systematically undercompensatory. Concerns that awards of prospective damages alone will leave patent owners worse off, and thus harm U.S. innovation, are in my view unsubstantiated.

Fifth, and related to this last point, to my knowledge there is no empirical evidence to date that the *eBay* rule has been bad for innovation. Indeed, one peer reviewed empirical study, authored by Professors Mezzanotti and Simcoe, has found no evidence that *eBay* has had a negative effect on U.S. innovation, while another study (still in draft) by Professor Mezzanotti finds a positive effect on research and development spending by established firms.¹²

⁹ See Norman V. Siebrasse et al., *Injunctive Relief*, in COMPLEX PRODUCTS, *supra* note 6, at 115, 133, 155-56; see also Thomas F. Cotter, *On the Economics of Injunctions in Patent Cases*, ZEITSCHRIFT FÜR GEISTIGES EIGENTUM/INTELLECTUAL PROPERTY JOURNAL (forthcoming 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3413225 (manuscript at 14).

¹⁰ See Cotter, *supra* note 9 (manuscript at 2-3) (discussing, primarily, the pioneering work on the subject by Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972)).

¹¹ See *id.*

¹² See Filippo Mezzanotti & Timothy Simcoe, *Patent policy and American innovation after eBay: An empirical examination*, 48 RESEARCH POLICY 1271 (2019) (finding no evidence that *eBay* has negatively impacted U.S. innovation); Filippo Mezzanotti, *Roadblock to Innovation: The Role of Patent Litigation in Corporate R&D* (July 30, 2019), <https://www.kellogg.northwestern.edu/faculty/mezzanotti/documents/innovation.pdf> (concluding that *eBay* has had a positive impact on R&D spending by established firms).

To be sure, I would not characterize the *eBay* standard, or the courts' application of it, as perfect. Some of the lower court decisions seem to view the *eBay* factors as akin to elements of a cause of action,¹³ each of which must be proven to merit injunctive relief—rather than, properly, as equitable factors that require balancing. Moreover, from a policy standpoint I have long argued that in considering whether to grant or deny injunctions courts should focus on the relevant economic factors—in particular, whether the grant of injunctive relief would enable the patent owner to negotiate a post-judgment royalty that would include substantial holdup rents—than on a set of formalistic criteria. Nevertheless, courts have now had thirteen years to work with the *eBay* factors, and whatever flaws there may be in some of their applications, the general thrust of the decisions appears to be economically sound: courts are generally receptive to granting injunctions when the plaintiff and defendant compete, and the plaintiff has an interest in exclusivity; but they are less receptive when the plaintiff is a PAE or the owner of a FRAND-committed SEP. Further, as global markets transition to 5G and the Internet of Things (IoT), SEPs will come to be incorporated into many everyday products, not just devices such as smartphones. Altering the rules relating to injunctive relief in a manner that would enable PAEs and others to threaten the shutdown of vital industries would not serve the public interest.

¹³ See *Amgen, Inc. v. Sanofi*, 872 F.3d 1367, 1381 (Fed. Cir. 2017); *Nichia Corp. v. Everlight Ams. Inc.*, 855 F.3d 1328, 1344 (Fed. Cir. 2017).