

HARMONIZING EBAY

ARTICLE

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INTRODUCTION

AFTER THE 2006 SUPREME COURT'S DECISION OF *EBAY V. MERCExchange*,¹ some commentators have expressed their concerns and argue that said decision: a) weakens the patentee's fundamental right to exclude; b) threatens the status of patents as property rights; and c) puts the United States in noncompliance with the Agreement on Trade Related Aspects of Intellectual Property (TRIPS).² They have brought up these concerns because

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¹ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

² See, e.g., Christopher A. Cotropia, *Compulsory Licensing Under TRIPS and the Supreme Court of the United States' Decision in eBay v. MercExchange* (available at www.cotropia.com/bio/Chapter26--Cotropia--PatentLawHandbook.pdf, last visited on Mar. 18, 2009) (arguing that the decision in *eBay*, regardless of how it is described and applied, weakens the patentee's right to exclusivity); Yixin H. Tang, Note, *Recent Development: The Future of Patent Enforcement After eBay v. MercExchange*, 20 HARV. J. L. & TECH. 235 (2006) (interpreting *eBay* as stating that patents bestow no property-like

in *eBay*, the Supreme Court abolished the Federal Circuit's general rule that obliged courts to issue permanent injunctions against defendants-infringers once a patent was found valid and infringed. Rather, the Supreme Court held that the decision to grant or deny injunctive relief rests within the equitable discretion of the district courts. Thus, after *eBay*, permanent injunctions should not be granted automatically by the courts. Instead, courts will apply their equitable discretion to determine if the specific circumstances of the case before them merit issuing an injunction to stop further infringement by the defendant-infringer.

If the court denies the issue of an injunction, the patentee will be forced to grant the defendant-infringer a license to practice his invention. This can be done in two ways: a) the patentee could negotiate the terms of the license with the defendant-infringer; or b) the court sua sponte could issue as damages an *ongoing royalty*, setting the terms of said license. In either case, the court will force the patentee to grant a license to the defendant-infringer without the patentee's consent; this practice is internationally known as a compulsory license.³

Although the United States has traditionally expressed disregard for compulsory licensing systems,⁴ *eBay's* decision, if interpreted broadly, could change said practice. However, this has not been the case.

To date, there have been fifty-eight district court decisions interpreting *eBay* when determining whether to grant injunctive relief to a patent holder.⁵ Of these decisions, forty-four have granted permanent injunctions,⁶ while fourteen have denied it.⁷

rights beyond the provisions of the federal patent statutes); Harold C. Wegner, Post-*eBay* Compulsory Licenses: TRIPS Standards, Paper Presented at the 41st World Congress of the Association Internationale pour la Protection de la Propriété Intellectuelle (Sept. 6-11, 2008) (arguing that violations of the United States of the TRIPS may in theory be basis to trigger a dispute settlement resolution in Geneva under the auspices of the World Trade Organization).

³ See *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007) (Rader, concurring) (stating that "calling a compulsory license an *ongoing royalty* does not make it any less a compulsory license").

⁴ See Harold C. Wegner, *Injunctive Relief: A Charming Betsy Boomerang*, 4 NW. J. TECH. & INTELL. PROP. 156 (stating that "[t]he United States, led by the pharmaceutical industry, created a treaty framework to restrict a foreign government's grant of a compulsory licenses as part of an increased emphasis on global patent protection.").

⁵ As of February 2009.

⁶ *Joyal Prods. v. Johnson Elec. North Am., Inc.*, 2009 U.S. Dist. LEXIS 15531 (D.N.J. 2009); *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683 (Fed. Cir. 2008); *United States Philips Corp. v. Iwasaki Elec. Co.*, 2009 U.S. Dist. LEXIS 6869 (S.D.N.Y. 2009); *Funai Elec. Co., LTD. v. Daewoo Elecs. Corp.*, 2009 U.S. Dist. LEXIS 1618 (N.D. Cal. 2009); *Sensormatic Elecs. Corp. v. Tag Co. US, LLC*, 2008 U.S. Dist. LEXIS 102690 (2009); *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 2008 U.S. Dist. LEXIS 100539 (D. Del. 2008); *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, 2008 U.S. Dist. LEXIS 79689 (N.D. Cal. 2008); *Amgen, Inc. v. F. Hoffmann La Roche Ltd.*, 2008 U.S. Dist. LEXIS 77343 (D. Mass. 2008); *Extreme Networks, Inc. v. Enterasys Networks, Inc.*, 2008 U.S. Dist. LEXIS 88540 (W.D. Wis. 2008); *Power-One, Inc. v. Artesyn Techs., Inc.*, 2008 U.S. Dist. LEXIS 30338 (E.D. Tex. 2008); *TruePosition Inc. v. Andrew Corp.*, 568 F. Supp. 2d 500, 2008 U.S. Dist. LEXIS 58351

Therefore, courts have been interpreting *eBay* narrowly, granting permanent injunctions in the vast majority of cases (seventy-six percent), and denying injunctions solely in particular circumstances. For that reason, the American

(D. Del. 2008); Emory Univ. v. Nova BioGenetics, Inc., 2008 U.S. Dist. LEXIS 57642 (N.D. Ga. 2008); Mannatech, Inc. v. Glycoproducts Int'l, Inc., 2008 U.S. Dist. LEXIS 52537 (N.D. Tex. 2008); Trading Techs. Int'l, Inc. v. eSpeed, Inc., 2008 U.S. Dist. LEXIS 86953 (N.D. Ill. 2008); Becton Dickinson & Co. v. Tyco Healthcare Group Lp, 2008 U.S. Dist. LEXIS 87623 (D. Del. 2008); Callaway Golf Co. v. Acushnet Co., 585 F. Supp. 2d 600 (2008); Verizon Servs. Corp. v. Vonage Holdings Corp., 503 F.3d 1295, 1298 (Fed. Cir. 2007); Acumed LLC v. Stryker Corp., No. 04-CV-513-BR, 2007 U.S. Dist. LEXIS 86866, at (Nov. 20, 2007); Martek Biosciences Corp. v. Nutrinova Inc., 520 F. Supp. 2d 537, 560 (D. Del. 2007); Sundance, Inc. v. DeMonte Fabricating Ltd., No. 02-73543, 2007 U.S. Dist. LEXIS 77728, at (E.D. Mich. 2007); Allan Block Corp. v. E. Dillon & Co., 509 F. Supp. 2d 795, 811 (D. Minn. 2007); Johns Hopkins Univ. v. Datascope Corp., 513 F. Supp. 2d 578, 586 (D. Md. 2007); Muniauction, Inc. v. Thomson Corp., 502 F. Supp. 2d 477, 493 (W.D. Pa. 2007); Sanofi-Synthelabo v. Apotex Inc., 492 F. Supp. 2d 353, 356 (S.D.N.Y. 2007); Commw. Scientific and Indus. Research Org. v. Buffalo Tech. Inc., 492 F. Supp. 2d 600, 601 (E.D. Tex. 2007); Brooktrout, Inc. v. Eicon Networks Corp., No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107 (E.D. Tex. 2007); MGM Well Servs., Inc. v. Mega Lift Sys., LLC, 505 F. Supp. 2d 359, 365 (S.D. Tex. 2007); 800 Adept, Inc. v. Murex Secs., Ltd., 505 F. Supp. 2d 1327, 1340 (M.D. Fla. 2007); O2 Micro Int'l, Ltd. v. Beyond Innovation Tech. Co., No. 2-04-CV-32 (TJW), 2007 U.S. Dist. LEXIS 25948 (E.D. Tex. 2007); Ortho-McNeil Pharm., Inc. v. Mylan Labs. Inc., Nos. 04-1689, 06-757 and 06-5166, 2007 U.S. Dist. LEXIS 19494 (D.N.J. 2007); Novozymes A/S v. Genencor Int'l Inc., 474 F. Supp. 2d 592, 613 (D. Del. 2007); MPT, Inc. v. Marathon Labels, Inc., 505 F. Supp. 2d 401, 423 (N.D. Ohio 2007), *aff'd in part, rev'd in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. 2007); Transocean Offshore Deepwater Drilling, Inc. v. Global SantaFe Corp., No. H-03-2910, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. 2006); Visto Corp. v. Seven Networks, Inc., No. 2:03-CV-333-TJW, 2006 U.S. Dist. LEXIS 91453 (E.D. Tex. 2006); Black & Decker Inc. v. Robert Bosch Tool Corp., No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990, at (N.D. Ill. 2006), *aff'd in part, vacated in part*, Nos. 2007-1243, -1244, 2008 U.S. App. LEXIS 207 (Fed. Cir. 2008); Rosco, Inc. v. Mirror Lite Co., No. CV-96-5658 (CPS), 2006 U.S. Dist. LEXIS 73366 (E.D.N.Y. 2006); Smith & Nephew, Inc. v. Synthes (U.S.A.), 466 F. Supp. 2d 978, 990 (W.D. Tenn. 2006), *appeal dismissed*, No. 2007-1048, U.S. App. LEXIS 4889 (Fed. Cir. 2008); 3M Innovative Props. Co. v. Avery Dennison Corp., No. 01-1781 (JRT/FLN), 2006 U.S. Dist. LEXIS 70263 (D. Minn. 2006); Litecubes, L.L.C. v. N. Light Prods., No. 4:04CV00485 ERW, 2006 U.S. Dist. LEXIS 60575 (E.D. Mo. 2006); Floe Int'l, Inc. v. Newmans' Mfg. Inc., No. 04-5120 (DWF/RLE), 2006 U.S. Dist. LEXIS 59872 (D. Minn. 2006); Am. Seating Co. v. USSC Group, Inc., No. 01-00578, 2006 U.S. Dist. LEXIS 59212 (W.D. Mich. 2006); TiVo Inc. v. EchoStar Commc'ns. Corp., 446 F. Supp. 2d 664, 671 (E.D. Tex. 2006), *aff'd in part, rev'd in part*, 516 F.3d 1290 (Fed. Cir. 2008); Telequip Corp. v. Change Exch., No. 5:01-CV-1748 (FJS/GJD), 2006 U.S. Dist. LEXIS 61469 (N.D.N.Y. 2006); Wald v. Mudhopper Oilfield Servs., No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669 (W.D. Okla. 2006).

7 Hynix Semiconductor, Inc. v. Rambus Inc., 2009 U.S. Dist. LEXIS 13530 (N.D. Cal. 2009); Telcordia Techs., Inc. v. Cisco Systems, Inc., 592 F. Supp. 2d 727 (D. Del. 2009); Nichia Corp. v. Seoul Semiconductor, Ltd., 2008 U.S. Dist. LEXIS 12183 (N.D. Cal. 2008); Advanced Cardiovascular Sys. v. Medtronic Vascular, Inc., 2008 U.S. Dist. LEXIS 75097 (D. Del. 2008); Amado v. Microsoft Corp., No. 8:03-CV-242, 2007 U.S. Dist. LEXIS 96487 (C.D. Cal. 2007); Am. Calcar, Inc. v. Am. Honda Motor Co., 2008 U.S. Dist. LEXIS 106476 (2008); Innogenetics, N.V. v. Abbott Labs., 512 F.3d 1363, 1380 (Fed. Cir. 2008); Respironics, Inc. v. Invacare Corp., No. 04-0336, 2008 U.S. Dist. LEXIS 1174 (W.D. Pa. 2008); MercExchange, L.L.C. v. eBay, Inc., 500 F. Supp. 2d 556, 591 (E.D. Va. 2007); Praxair, Inc. v. ATMI, Inc., 479 F. Supp. 2d 440, 444 (D. Del. 2007); Voda v. Cordis Corp., No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. 2006); Paice LLC v. Toyota Motor Corp., No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007); Finisar Corp. v. DirecTV Group, Inc., No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380 (E.D. Tex. 2006); 24 Techs., Inc. v. Microsoft Corp., 434 F. Supp. 2d 437, 438 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

traditional law standpoint of strong proscription against compulsory licensing has been maintained after eBay.

PART I. PATENT RIGHTS

A. Overview

A patent gives its owner the right to exclude others from making, using, selling, and offering for sale the patented invention within the United States for a period of 20 years.⁸ This monopoly, granted by the State to the patentee, endows him with a method by which he can recoup all the time, effort, and research costs attributed to the development of his invention as an incentive for further innovation.⁹ In exchange of the right to exclude, the inventor is required to teach others how to practice his invention in his patent application.¹⁰

Anyone who practices the patented invention without the patentee's authorization is infringing the patentee's patent and therefore, is subject to liability.¹¹ The usual remedies for patent infringement are both, monetary damages to compensate for past harm to the patentee, and the issuance of an injunction to stop further use of the invention by the infringer.¹²

B. Pre eBay

Up until *eBay*, granting automatic injunctive relief was the general course of action after a patent was found valid and infringed. The rationale for this general rule was that "the right to exclude recognized in a patent is but the essence of the concept of property."¹³ Furthermore, in *Panduit Corp. v. Stahlin Bros. Fiber Works, Inc.*,¹⁴ the Sixth Circuit described the patentee's right to enjoin the defendant-infringer from continuing infringement activities as follows:

Patents must by law be given "the attributes of personal property." The right to exclude others is the essence of the human right called "property." The right to exclude others from free use of an invention protected by a valid patent does not differ from the right to exclude others from free use of one's automobile, crops,

⁸ 35 U.S.C. § 154(a).

⁹ See *Diamond v. Chakrabarty*, 447 U.S. 303 (where the Supreme Court stated that "[t]he authority of Congress is exercised in the hope that the productive effort thereby fostered will have a positive effect on society through the introduction of new products and process of manufacture into the economy, and the emanations by way of increased employment and better lives to our citizens").

¹⁰ See *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Breed Int'l, Inc.*, 534 U.S. 124, 142 (2001) ("[t]he disclosure required by the Patent Act is the *quid pro quo* of the right to exclude").

¹¹ 35 U.S.C. § 271.

¹² 35 U.S.C. §§ 283, 284.

¹³ *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989).

¹⁴ 575 F.2d 1152 (6th Cir. 1978).

or other items of personal property. Every human right, including that in an invention, is subject to challenge under appropriate circumstances. That one human property right may be challenged by trespass, another by theft, and another by infringement, does not affect the fundamental indicium of all “property,” i.e., the right to exclude others.¹⁵

In light of this background, the Federal Circuit developed a general rule which states that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.¹⁶ Some examples of these exceptional circumstances include cases like *Vitamin Technologists, Inc. v. Wis Alumni Research Fund*,¹⁷ and *City of Milwaukee v. Activated Sludge, Inc.*,¹⁸ where courts denied permanent injunctions based on a threat to public health or safety (public interest).¹⁹

C. eBay

In *eBay* the Supreme Court overruled the above-mentioned practice. The Supreme Court held that “the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”²⁰ In concluding so, the Supreme Court relied in part on the Patent Act, which expressly provides that injunctions *may* be issued “in accordance with the principles of equity.”²¹ Thus, the Patent Act does not oblige a court to grant such remedy in all cases. On the contrary, the Patent Act allows the court to exercise its discretion according to the well-established principles of equity.

In accordance with such principles, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant an injunctive

¹⁵ *Id.* at 1158 n.5 (citation omitted).

¹⁶ *Mercexchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (2005).

¹⁷ 146 F.2d 941, 946 (9th Cir. 1945) (public interest warranted refusal of injunction on irradiation of oleomargarine).

¹⁸ 69 F.2d 577, 593 (7th Cir. 1934) (the court vacated an injunction against the use of an infringing system of sewerage disposal where its grant would have caused harm by relegating the city to dumping its sewerage in Lake Michigan).

¹⁹ See Wegner, *supra* note 4 at 162 n.41, citing Rebecca S. Eisenberg, *Exclusive Rights And Experimental Use*, 56 U. CHI. L. REV. 1017, 1077 n.230 (1989); Maureen A. O'Rourke, *Toward A Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177, 1209 n. 130 (2000); Janice M. Mueller, *Patent Misuse through the Capture of Industry Standards*, 17 BERKELEY TECH. L.J. 623, 661 (2002) (citing *Vitamin Technologists, Inc.*, 146 F.2d at 954-56); Mark A. Lemley & Ragesh K. Tangri, *Ending Patent Law's Willfulness Game*, 18 BERKELEY TECH. L.J. 1085, 1123 n.114 (2003) (citing *Vitamin Technologists*, 146 F.2d at 944-47).

²⁰ *eBay*, 547 U.S. at 393.

²¹ 35 U.S.C. § 283 provides that “[t]he several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”

relief. To comply with said test, a plaintiff must establish: (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 the defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.²²

There were two concurring opinions in *eBay*. The first one, written by Chief Justice Roberts, with whom Justice Scalia and Justice Ginsburg joined, acknowledged that “from at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases.”²³ Although such traditional practices do not entitle a patentee to a permanent injunction in all cases, or justify a general rule that such injunctions should be issued, the opinion suggested that this long tradition of equity practice should not be completely disregarded. Thus, Chief Justice Roberts’ concurring opinion reaffirms past practices favoring the issuance of an injunction in the majority of cases.

The second concurring opinion, written by Justice Kennedy, with whom Justices Stevens, Souter, and Breyer joined, explained that “[t]o the extent earlier cases established a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent.”²⁴ It is quite clear that Kennedy’s concurring opinion tries to differentiate past litigation practices from current litigation practices. The concurrence acknowledged that an industry now exists in which firms use patents primarily for licensing fees instead of producing products, and these firms could use the issuance of an injunction as leverage to negotiate excessive license fees.²⁵ These firms are referred to as non-practicing entities or *patent trolls*. Fearing that such patents may be abused as a bargaining tool to charge exorbitant fees, the opinion suggests that in cases where the patent holder does not practice the invention, and where the patented component is but a small component of the infringing product, an injunction is unnecessary because monetary damages provide sufficient compensation.²⁶

²² *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-13 (1982).

²³ *eBay*, 547 U.S. at 395.

²⁴ *Id.* at 396.

²⁵ *Id.*

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.

Id.

²⁶ *Id.*

D. Post eBay

In the years following *eBay*, courts have relied heavily on Kennedy's concurrence when analyzing whether or not to grant a permanent injunction to a patent holder.²⁷ *eBay's* rationales for denying an injunction can be divided in two: First, when the patent holder does not practice his invention and is using the threat of an injunction solely as leverage to negotiate excessive license fees (known as a *patent troll*); second, when the patent holder's invention is but a small component of the defendant-infringer's product. Each one has its particular analysis, which will be explained below.

II. REASONS FOR GRANTING A COMPULSORY LICENSE IN THE UNITED STATES

A. Patent Trolls

1. Generally

Peter Detkin, a former assistant general counsel for Intel, first coined the term *patent troll* in 1991.²⁸ According to his experiences in dealing with this new breed of entrepreneurs, he defined *patent troll* as "somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases they never practiced at all."²⁹ Similarly, courts have described patent trolls as "non-practicing entities" who "do not manufacture products, but instead hold . . . patents, which they license and enforce against alleged infringers."³⁰

In essence, these *trolls* bring infringement suits based on a patent that was not practiced before. The ensuing litigation comes as a surprise to a defendant-

When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employ simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may serve the public interest.

Id.

²⁷ See, e.g., *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008); *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex., 2006); *Paice LLC v. Toyota Motor Corp.*, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007).

²⁸ See Joe Brennan et al., *Patent Trolls in the U.S., Japan, Taiwan, and Europe*, Summer 2009 (Center for Advanced Study & Research on Intellectual Property), available at <http://www.law.washington.edu/Casrip/Newsletter/default.aspx?year=2006&article=newsv13i2BrennanEtAl>.

²⁹ *Id.*

³⁰ See *Amgen, Inc. v. F. Hoffmann La Roche Ltd.*, 2008 U.S. Dist. LEXIS 77343 (D. Mass., Oct. 2, 2008).

infringer, for which these suits are analogized to mythical trolls that hid under bridges and leapt out to demand a ransom from travelers.³¹

Defendants facing this kind of lawsuit are placed in a tough position because the product in question is already being made and usually cannot be redesigned to avoid infringement without incurring in substantial costs. In addition, *patent trolls* are entitled to seek injunctive relief that could shut down the production of the product, which gives them powerful leverage in settlement negotiations.

Furthermore, as of 2004, the cost of defending against a patent infringement suit typically exceeds \$1 million before trial, and \$2.5 million for a complete defense.³² Due to the high costs and risks of an injunction, defendants may settle even non-meritorious suits they consider frivolous. The uncertainty and unpredictability of the outcome of jury trials also encourages settlement.³³

It is important to point out that patent trolls do not invest in research and development (R&D) to create their inventions. Instead, they buy patents cheaply from entities not actively seeking to enforce them. For instance, a patent troll may purchase hundreds of patents from a technology company, who is forced by bankruptcy to auction its patents.³⁴ Also these patents often make only small contributions to a successful product that is being manufactured by the defendant-infringer. Obviously, the patent troll will be monitoring the technology field of his acquired patents, and at the first instance where he suspects that a product may be infringing his patent, the troll will sue the defendant-infringer, threaten him with an injunction that could shut down the business, while demanding a licensing fee disproportionate with the patent's contribution to the defendant-infringer's product. This is the *modus operandis* of a patent troll.

Now, the objective of the Constitution in granting Congress the power to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts'.³⁵ The patent system promotes progress by guaranteeing inventors exclusive rights over their works as an 'incentive for further innovation.' It is quite clear then that the right to exclude is not granted for

³¹ See Donald J. Chisum, *Reforming Patent Law Reform*, 4 J. MARSHALL REV. INTELL. PROP. L. 336, 340 (2005) explaining that:

[T]roll[s] hide under bridges, metaphorically speaking, waiting for companies to produce, that is, to approach and cross the bridge. The ugly, evil troll then leaps up and demands a huge toll, that is, a licensing fee settling actual or threatened patent litigation, litigation that could result in an injunction halting the product line

Id.

³² See Craig Tyler, *Patent Pirates Search For Texas Treasure*, Texas Lawyer, Sep. 20, 2004, available at www.wsgr.com/PDFSearch/09202004_patentpirates.pdf.

³³ See Brennan, *supra* note 28 (explaining that Research in Motion Company (RIM), the producers of BlackBerrys, agreed to pay NTP, Inc., a non-practicing entity, \$612.5 million for a perpetual license that will allow RIM to continue its wireless-related business).

³⁴ Michael Kanellos, *Patent auctions: Lawyer's dream or way of the future?*, ZDNet, http://news.zdnet.com/2100-9595_22-6045371.html, (last visited on April 15, 2009).

³⁵ U.S. CONST. art. I, § 8, cl. 8.

blackmailing purposes or as a threatening tool in licensing negotiations. Such actions do not promote innovation in any way. Under those circumstances, *eBay* allows courts to deny injunctive relief.³⁶

It is true that if the court denies the issue of an injunction said court is limiting the patent holder's property rights (the right to exclude). But that is not different from any other property right since property rights are not absolutes. For instance, in nuisance cases, if a landowner uses his property in an unreasonable manner which interferes with another landowner's property courts have the authority to stop said unreasonable use. The law of nuisance stems from the general principle that "[i]t is the duty of every person to make a reasonable use of his own property so as to occasion no unnecessary damage or annoyance to his neighbor."³⁷

For that reason, the argument that *eBay* threatens the status of patents as property rights is misplaced. Patents, as any other property right, could be limited if its owner uses it in an unreasonable way, as patent trolls do.

2. Identifying a Patent Troll

On *eBay*'s remand, the lower court determined that plaintiff-patent holder does not manufacture a product encompassing the patented invention, and has showed a willingness to license its patents to others.³⁸ Nonetheless, the court was aware that such behavior was not sufficient to deny an injunctive relief. The court recognized that self-made inventors or university researchers opting to enter into licensing agreements in lieu of practicing their patents consist as a reasonable use of patent rights that will not preclude the issuance of an injunction.³⁹

Consequently, the court relied on the business model of the plaintiff-patent holder to deny the injunction. For instance, the court noted that the patent holder's *modus operandi* was to seek out companies that were already manufacturing a product that was infringing—or potentially infringing—his

³⁶ See *Nerney v. New York, N.H. & H.R. Co.*, 83 F.2d 409, 411 (2d Cir. 1936) (where the court denied a permanent injunction to a railroad company where it was "recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement").

³⁷ *Pestsey v. Cushman*, 259 Conn. 345 (2002).

³⁸ *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556 (E.D. Va. 2007).

³⁹ *eBay*, 547 U.S. at 393:

[S]ome patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so.

Id.

patents and negotiate to maximize the value of a license agreement or a settlement to avoid litigation. The court concluded that:

[s]uch consistent course of litigating or threatening litigation to obtain money damages...indicates that MercExchange [patent holder] has utilized its patents as a sword to extract money rather than as a shield to protect its right to exclude or its market-share, reputation, goodwill, or name recognition, as MercExchange [patent holder] appears to possess none of these.⁴⁰

As this case shows, when a patent holder uses his patent rights in a reasonable way, which means to protect his business, goodwill, reputation or market share, courts would favor the issue of an injunction. On the other hand, when the patent holder uses his patent in an unreasonable way, which means as a blackmailing tool to obtain excessive royalty fees, courts should not favor the issue of an injunction.

Another factor that courts consider when determining whether a patent holder is a patent troll, is whether said patent holder is engaged in research and development activities. For example, in *Commonwealth Scientific and Industrial Research Organization (CSIRO) v. Buffalo Technology Inc.*,⁴¹ the principal scientific research organization of the Australian Federal Government (CSIRO) was awarded an injunction even though it did not practice its patents and had showed willingness in license its patents to others. In its decision, the court gave great value to the fact that CSIRO—the patent holder—was a research institution which relied heavily on licensing its intellectual property to finance its research and development program.

As this case shows, a patent holder who invests in research and development would satisfy *eBay's* four-factor test. This because the patent holder promotes the progress of science by investing in research and development, in contrast with patent trolls who invest solely in litigation.

Patent trolls have also been found among industry-standard technologies. A standard is a set of technical specifications intended to provide a common design for a product or process.⁴² They are adopted by a standard-setting organization in which companies participate to develop and adopt an acceptable paradigm.

Anyone who wishes to use this standard has to obtain rights under such patent. For that reason, standard-setting organizations require that every participant disclose any patent or patent application necessary to practice said norm. Furthermore, each participant commits to license for free anyone who decides to implement this benchmark under any patent owned by the participant. A participant is considered a patent troll when it fails to disclose

⁴⁰ MercExchange, L.L.C., 500 F. Supp. 2d 556, 572.

⁴¹ Commonwealth Sci. & Indus. Research Organization v. Buffalo Tech. Inc., 492 F. Supp. 2d 600 (E.D. Tex. 2007).

⁴² Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 CAL. L. REV. 1889, 1896 (2002).

any pertinent patents and then seeks to enforce its patents against others who implement the newly minted standard.

For example, in *Hynix Semiconductor Inc. v. Rambus Inc.*,⁴³ Rambus (patent holder) patented a technology known as dynamic random access memory (“DRAMs”). This technology is used to store of information and allow an electronic device to quickly access that information. Hynix, a competitor of Rambus, manufactured a product, which infringed Rambus’ patent. Hynix incorporated Rambus’ technology to its own product in order to comply with industry standards promulgated by the Joint Electron Devices Engineering Council (JEDEC), an organization that develops standards for semiconductor devices. JEDEC adopted the standard without knowing that Rambus had the DRAMs patent, since Rambus did not disclose said patents to JEDEC. By the time Hynix became aware of Rambus’s asserted patents, Rambus’s technologies were commonly used in the industry standard DRAM interface.

In an infringement suit, Rambus asked the court for an injunction against Hynix. The court denied said injunction. The court noted that changing to a non-infringing technology would have cost the electronics industry hundreds of millions of dollars. Applying *eBay*’s four-factor test, the court ruled that in this circumstance monetary damages were adequately to compensate for that injury and, therefore, the injunction should be denied.

It is important to highlight that Rambus, as a participant of the standard, had an obligation to disclose any patent or patent application necessary to practice the standard to JEDEC, which it did not do. It would be very unfair to penalize Hynix or the whole electronic industry for Rambus’ own actions. In this circumstance, *eBay*’s decision gives flexibility to the courts to determine whether the patent holder is using his patent rights in a *reasonable* manner and thus, merits the issue of an injunction.

B. The patented invention is but a small component of the infringer’s product

This problem is most likely to occur with very complex technologies involving numerous components, such as semiconductor chips and large software programs. A single patent on a component that cannot be easily replaced, for reasons such as interconnections with other components, can give the patentee enormous leverage, even though the intrinsic value of the patented technology is not very high.⁴⁴

Moreover, in some industries such as computer hardware and software development, firms can require access to dozens or thousands of patents to produce just one commercial product. Many of these patents overlap, with each

⁴³ *Hynix Semiconductor Inc. v. Rambus Inc.*, 609 F. Supp. 2d 951, 2009 U.S. Dist. LEXIS 13530 (N.D. Cal. 2009).

⁴⁴ See, e.g., Joseph K. Siino, Lisa G. McFall, Robert P. Merges, Christopher J. Wright, Timothy J. Simeone, and Bruce L. Gottlieb, *Brief of Amicus Curiae Yahoo!, Inc.*, 21 BERKELEY TECH. L.J. 999 (2006) (describing potential for such a scenario in the internet services industry).

patent blocking several others.⁴⁵ This is known as a *patent thicket*, defined as a “dense web of overlapping intellectual property rights that a company must hack its way through in order to actually commercialize new technology.”⁴⁶

The rationale to deny an injunction when the patented invention is but a small component of the defendant-infringer product is based on public interest rather than an unreasonable use by the patent holder. As explained above, a patent holder unreasonably exploits his patent rights by using the right to exclude solely to enhance his position in a licensing or settlement negotiation. In contrast, when the patented technology is but a small component of the defendant-infringer’s product, the analysis of the patent holder (whether or not he is a *patent troll*) is kept to a minimum. Obviously, if he is considered a *patent troll*, the court should deny the injunction. However, even in cases where the patentee of the small component is not a *patent troll*, public interest reasons such as trade, economy and competition will weigh in favor of also denying the injunction.

For example, in *z4 Technologies, Inc. v. Microsoft Corp.*,⁴⁷ the court refused to grant a permanent injunction where the invention, a software activation technology, read on only a small part of Microsoft’s Office and Windows infringing systems. The court found that the infringing component of the software “was in no way related to the core functionality for which the software is purchased by consumers.”⁴⁸ Accordingly, the court concluded that monetary damages would be sufficient to compensate z4 for any future infringement by Microsoft.

Similarly, in *Paice LLC v. Toyota Motor Corp.*,⁴⁹ the court denied the injunction based on the fact that the invention, drivetrains for hybrid vehicles, comprised only a small part of the infringing product, the hybrid vehicle itself, noting that “the jury’s damages award also indicates that the infringing claims constitute a very small part of the value of the overall vehicles.”⁵⁰

Both cases highlight the courts’ reluctance to issue an injunction that would stop or disrupt an industry, or result in job losses just because a small component of a product infringes on others’ patents. These lines of cases reflect that economic and public interest policies can outweigh the patentee’s individual right to exclude.

⁴⁵ See FEDERAL TRADE COMMISSION, PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, PAPER PREPARED BY THE FEDERAL TRADE COMMISSION (2003) available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

⁴⁶ Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting*, in 1 INNOVATION POL’Y & ECON. 119, 120 (2001).

⁴⁷ *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

⁴⁸ *Id.* at 441.

⁴⁹ *Paice LLC v. Toyota Motor Corp.*, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. 2006), *aff’d in part*, vacated in part, 504 F.3d 1293 (Fed. Cir. 2007).

⁵⁰ *Id.*

But again, that is not different from any other property right.⁵¹ For example, it is well-settled law that States have the power to limit the uses of certain properties in an area or community by implementing zoning ordinances provided however that such zoning limitations are reasonable and are implemented for a legitimate public purpose substantially related to the public health, safety, morals or general welfare of the community.⁵² Therefore, patents—just as tangible property—could be limited if said limitation would result in benefits to the public interest and welfare.

III. COMPULSORY LICENSING UNDER THE AGREEMENT ON TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS)⁵³

The TRIPS Agreement was negotiated at the World Trade Organization (WTO) by the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994. This international agreement establishes minimum levels of protection that each State has to provide to the intellectual property of fellow WTO Members.

The objective of the TRIPS centers on the belief that,

the protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.⁵⁴

With respect to patents, TRIPS requires that WTO Members provide exclusive rights to a patent holder over his invention.⁵⁵ Also, it requires that the judicial authority of each WTO Member has the authority to grant injunctions to stop infringement.⁵⁶

Although TRIPS promotes the protection of intellectual property rights, it also recognizes that too much protection could lead to barriers that impede trade in each State Member.⁵⁷ To strike a balance between patent protection and social welfare, TRIPS allows WTO Members to grant compulsory licenses instead

⁵¹ See, e.g., *International News Service v. Associated Press*, 248 U.S. 215 (1918) (Brandeis, dissenting) (“[a]n essential element of individual property is the legal right to exclude. If the property is private, the right of exclusion may be absolute; if the property is affected with a public interest, the right of exclusion is qualified.”).

⁵² *Best v. Zoning Bd. Of Adjustment*, 393 Pa. 106, 111-112 (Pa. 1958); See also *Nectow v. Cambridge*, 277 U.S. 183, 188 (1928).

⁵³ Agreement on Trade-Related Aspects of Intellectual Property Rights 33 I.L.M. 81 (1994) [hereinafter TRIPS].

⁵⁴ TRIPS, *supra* note 53 art. 7.

⁵⁵ TRIPS, *supra* note 53 art. 27.

⁵⁶ TRIPS, *supra* note 53 art. 44.

⁵⁷ See the preamble of TRIPS, *supra* note 53.

of an injunction, in some cases. For example, according to TRIPS Article 8, WTO Members may grant compulsory licenses: a) to protect public health and nutrition; b) to promote the public interest in socio-economic and technological development; and c) to prevent the abuse of intellectual property rights by patent holders which unreasonably restrain trade.⁵⁸

Also, WTO Members are allowed to grant compulsory licenses to impede anti-competitive practices in contractual licenses. According to Article 40(2) WTO Members may specify “licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market” and to adopt “appropriate measures to prevent or control such practices.”⁵⁹ Although Articles 8 and 40(2) of the TRIPS Agreement indicate reasons for granting compulsory licenses, these reasons are not exclusive.⁶⁰

Now, once a WTO Member has determined that there is a valid reason to grant a compulsory license, said WTO Member must comply with the procedural and substantive terms of TRIPS Article 31.⁶¹ First, the WTO Member must consider the petition to grant a compulsory license on its individual merits. Second, the person who wants to use the patented technology must try to obtain a license from the patent holder on reasonable terms before seeking a compulsory license. Third, the compulsory license must set the scope and duration of the use of the patented technology. Fourth, the use of the patented technology would be non-exclusive and non-assignable. Fifth, the use of the patented technology should be predominantly to satisfy the domestic market of the WTO Member which granted the compulsory license. Sixth, a WTO Member may terminate the compulsory license at any time, if its reason for granting the license ceases to exist or is unlikely to recur. Seventh, the patent holder must be paid an adequate remuneration for the use of his patented technology. Finally, both the decision for granting the compulsory license and the established remuneration to be paid to the patent holder must be subject to judicial review by a distinct higher court.

⁵⁸ TRIPS, *supra* note 53 art. 8.

⁵⁹ TRIPS, *supra* note 53 art. 40(2).

⁶⁰ See, e.g. Jayashree Watal, *The TRIPS Agreement and Developing Countries Strong, Weak or Balanced Protection*, 1 J. WORLD INTELL. PROP. 281, 297 (1998) (“Others have rightly pointed out that there are no restrictions whatsoever on the purposes for the grant of compulsory licenses, although there is some reference to some grounds in Articles 7, 8 and 31 of the TRIPS.”).

⁶¹ Both, Article 8 and Article 40 expressly require that such a *measure* (compulsory licensing) be consistent with other TRIPS provisions.

IV. UNITED STATES' COMPLIANCE WITH TRIPS

A. *Reasons for Granting a Compulsory License*

Under TRIPS Article 8 WTO Members are allowed to grant compulsory licenses to prevent the abuse of intellectual property rights. The *abuse of rights* doctrine is akin to America's *good faith* principle of law.⁶² Under said doctrine actions constitute an abuse if: (1) the predominant motive for the action is to cause harm; or (2) the exercise of a right is totally unreasonable given the lack of any legitimate interest in the exercise of the right and its exercise harms another; or (3) the right is exercised for a purpose other than that for which it exists.⁶³

Definitively, patent trolls meet at least one of these criteria when they use their right to exclude solely as a threatening tool to charge exorbitant royalty fees against a defendant-infringer. First, to threaten a defendant-infringer with shutting down of its business is—per se—an action predominant to cause harm. Second, as explained in part II, the exercise of said right is *unreasonable*. Finally, the exercise of the right to exclude is being used for a purpose other than that for which it exists. As explained earlier, the right to exclude is created to protect the patent holders' market share, reputation, or goodwill as an incentive for further innovation; it is not created to strengthen the position of a patent holder in licensing negotiations so that said patent holder could obtain exorbitant royalty fees.

In light of the foregoing, patent trolls abuse their intellectual property rights when they threaten a defendant-infringer with an injunction solely to gain undue leverage during licensing negotiations. Due to that fact, the United States is in compliance with TRIPS when it grants compulsory licenses in patent troll cases to avoid the abuse of patent rights.

Similarly, TRIPS Article 8 authorizes WTO Members to grant compulsory licenses to promote the public interest in socio-economic and technological development. As explained earlier, this is the reason why federal courts have been denying injunctive relief in cases where the patented invention is but a small component of the defendant-infringer's product. In said circumstances, the patentee's right to exclude cedes to social welfare regarding jobs and trade. Thus, such compulsory licenses granted in the United States are also permitted under TRIPS.

B. *Substantive and Procedural Terms under TRIPS Article 31.*

The United States has completely ignored TRIPS Article 31 when granting a compulsory license. The federal courts have relied exclusively on section 283 of

62 See Joseph M. Perillo, *Abuse of Rights: A Pervasive Legal Concept*, 27 PAC. L.J. 37 (1995).

63 See JOHN D. CALAMARI & JOSEPH M. PERILLO, *THE LAW OF CONTRACTS*, § 11.39 (4th ed. 1998).

the Patent Act⁶⁴ to award an *ongoing royalty* (compulsory license) on such terms that the courts deem *reasonable*.⁶⁵ Thus, federal courts could—in theory—issue a compulsory license in a manner contradictory to the terms set in TRIPS Article 31 if said courts determine that the terms they are establishing are *reasonable*.

However, domestic law should, to the extent possible, be construed consistent with treaties.⁶⁶ Therefore, courts should construe the language of Section 283 of the Patent Act “on such terms that the court deems reasonable” as to include all the procedures and steps in TRIPS Article 31.

Nonetheless, and despite its lack of recognition of TRIPS Article 31, federal courts have been complying with the above-mentioned article to a considerable extent. For example, in the United States the grant of a compulsory license is based on a *case by case* analysis. Thus, the first requirement of TRIPS Article 31 has been met.

Also, federal courts have been ordering the parties to negotiate the terms of a compulsory license—*reasonably*—after said court denies a request for injunctive relief.⁶⁷ Therefore, the United States is complying with TRIPS Article 31(b), which requires that prior granting a compulsory license, the proposed user has tried and failed to obtain a license on *reasonable* terms. In addition, the compulsory license granted by the federal courts is non-exclusive, and requires that the proposed user pay a reasonable royalty fee to the patent holder for such use. On the other hand, federal courts are overlooking the fact that said compulsory licenses have to be of limited scope and duration, and predominantly used to supply the domestic market only. Because of this, the United States is not fully complying with TRIPS Article 31.

⁶⁴ 35 U.S.C. § 283: “The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” *Id.*

⁶⁵ See *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007) (stating that “[u]nder some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate”).

⁶⁶ See *Murray v. The Schooner Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1804) stating that:

[A]n act of Congress ought never to be construed to violate the law of nations if any other possible construction remains, and, consequently can never be construed to violate neutral rights, or to affect neutral commerce, further than is warranted by the law of nations as understood in this country.

Id.

⁶⁷ See, e.g., *Telcordia Techs., Inc. v. Cisco Sys.*, 592 F.Supp. 2d 727 (D.Del. 2009). In this case the court declined to adopt patent holder’s request for a compulsory license, and ordered the parties to negotiate the terms of a reasonable royalty rate going forward. The court stated that “[s]hould the parties fail to reach an agreement, the court will permit the filing of competing proposals. The court not only orders the parties to meet and confer but, given its limited time and resources, strongly encourages the parties to be reasonable in their negotiations.” *Id.* at 748.

CONCLUSION

Patent rights have the attributes of property rights. Therefore, the patent holder has the authority to exclude others from practicing his invention without his consent. However, said right, just as any other property right, is not absolute. That means that the right to exclude given by a patent could be curtailed by the courts if : a) its owner uses it in an unreasonable manner, as the patent trolls do; or b) it conflicts with the public welfare, economic-development or public interest, as it does when the patented invention is but a small component of the infringer's product. Under these limited circumstances, *eBay*'s decision allows courts to limit the right to exclude of a patent holder by denying an injunctive relief and, consequently, granting the defendant-infringer a compulsory license.

The above-mentioned practice complies with the TRIPS agreement, whose goal is to promote the protection of intellectual property while maintaining a balance between the patent holders' rights, his obligations, and the public welfare. Using the four-factor test discussed in *eBay*, courts can properly make such balance.

Despite the fact that compulsory licenses are available, it does not mean that every situation merits granting one. In fact, Chief Justice Roberts' concurring opinion in *eBay* suggested that injunctions should be issued on the vast majority of cases. Indeed, that has been the case.

As explained earlier, out of fifty-eight decisions interpreting *eBay*, forty-four have granted permanent injunctions while only fourteen have denied it. Thus, federal courts have been interpreting *eBay* narrowly. As one district court pointed out: "[w]hile *eBay* has allowed courts to decline requests for injunctive relief where the plaintiff is a *patent troll*, *eBay* has changed little where a prevailing plaintiff seeks an injunction to keep an infringing competitor out of the market."⁶⁸

In light of the foregoing, *bona fide* inventors and scientists who use the patent system and their right to exclude to protect their reputation, goodwill and market-share can feel secure that their inventions and patents are very well protected and that the injunctive relief is still available.

68 *Amgen, Inc. v. F. Hoffmann La Roche Ltd.*, 2008 U.S. Dist. LEXIS 77343 (D. Mass. 2008).