

# Different Rules for Different Owners: Does a Non-Competing Patentee have a Right to Exclude? A Study of Post-eBay Cases

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 Does a Non-  
 Competition  
 Patentee have  
 a Right to  
 Exclude?

## BACKGROUND

- If a patent is found to be infringed, the courts have traditionally granted an injunction on the grounds that it is the essence of the patent right to exclude others.
- In 2006, the US Supreme Court signalled that it was prepared to moderate the traditional approach to patent infringement by *not* granting an injunction to MercExchange despite the fact that eBay was found to be wilfully infringing patents held by MercExchange. While the Supreme Court disagreed with the Appeal Court's view that injunctions are generally granted when patents are found to be infringed, it also took exception to the blanket approach taken by the District Court when granting the injunction.
- The judgement comes at a time when there is a rising debate on the issue of patent 'trolls'
- 'Patent trolls' is a derogatory term referring to patent holders who do not manufacture products or supply services (non-competing patentees) but who allegedly earn a living from patent disputes: It is feared that large royalty fees are 'exhorted' from infringing firms who have sunk costs into commercialisation of part, or all, of the patent and who cannot easily substitute away from the disputed technology. The fees extracted may be disproportionate to the value of the patent thereby imposing significant social costs on production.
- This paper examines the issues connected to patent 'trolls'; it asks if the patent 'troll' is myth or reality. It also analyses the trend in the post-eBay cases and suggests that the impact on the incentive to innovation and investment when a non-competing patentee is wrongly deemed to be a patent 'troll' is severe.

## METHODOLOGY

- In the first part, the paper analyses the issue of patent 'troll', the techniques used by these 'trolls' and the counterarguments in relation to the issue.
- Secondly, it analyses the watershed case of eBay vs. MercExchange and the manner in which it has affected post-eBay patent infringement cases for the period May 2006 to May 2007.
- In particular the analysis focuses on the judgements in patent infringement cases where the patentee is a non-competitor in the market and compares the same with the cases where the patentee has market presence.

## KEY FINDINGS

- The Courts are clearly signalling their desire to see patents put to work. They are less likely to grant injunctive relief when the patentee is a non-competing entity and/or when the patented technology is a small component of the commercialised product. Permanent injunction has almost always been granted when the patentee is also a competitor in the market.
- It difficult to distinguish between 'genuine' patent litigators and the so-called 'troll'. The wilful infringer can exploit this situation to their benefit to depict the litigator as a

‘troll’ in order to mitigate any damages that may be imposed. The effect is to damage the cause of genuine small inventors whose patents are being used without license by large corporations. In fact the ‘troll’ has *no* incentive to hold up production since the extraction of royalties relies on the invention being used.

- The problem facing the Courts is exacerbated by the large number of poorly defined patents being issued every year.
- Any law which makes it difficult for patent holders to fight against infringers will induce large corporations to wilfully infringe patents, especially of those holders who do not have the ability to effectively engage in litigation.
- The best alternative for non-competing patent holders who lack the resources necessary for development is to turn to licensing in return for a ‘reasonable’ royalty. Large corporations may be able to make large profits from deploying the patented technology in the market. But royalties may possibly not be as high as the patentee desires given that the threat of injunction has been dissolved.
- With the increase in the number of patents combining to make one final product, there has been a sharp rise in the strategic acquisition of patents with a view to gaining an advantage either in production or in the courtroom. The potential effects are threefold: technological hold-up, the diversion of resources away from productive activity, and unintentional infringement.

## POLICY ISSUES

- Patent owners who go to court over infringement of their patents seem to be poorer than the accused infringers, and those who win infringement suits tend to be wealthy corporations. This suggests that patentees who do not have the ability to commercialise need to be protected from the actions of large corporations.
- Being wrongly adjudged a ‘troll’ can adversely affect the incentives to innovate. Denial of injunctive relief results in judicially-instituted compulsory licensing of patents which dramatically reduces the bargaining power of the patentee during license fee negotiations. The incentive to innovation and investment is diminished as a result. On these grounds we would recommend that participants in the market, and their business strategies, are fully analysed and dealt with accordingly.

## THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

## FOR MORE INFORMATION

The full working paper (CCP Working Paper 07-18) and more information about CCP and its research is available from our website: [www.ccp.uea.ac.uk](http://www.ccp.uea.ac.uk)

## ABOUT THE AUTHORS

- **Sujitha Subramanian** is currently completing her PhD on ‘Promoting Innovation through Competition Policy’. An area of core interest is the interface between intellectual property law and competition policy. In particular her research focuses on compulsory licensing, standardisation, patent pooling and cross-licensing in the US and EU.

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