

# Global Overview

Stuart J Sinder

Kenyon & Kenyon LLP

The global business and financial communities have increasingly begun to recognise the inherent independent value of intellectual property assets and especially patent rights. The focus in some fields is shifting from using patent rights to exclude competitors from copying a company's patented products to finding ways to more directly 'monetise' these rights. The primary value of a patent was traditionally viewed in terms of its ability to prevent competitors from copying the patented product. Most patent systems were designed with the aim of providing the inventor with the exclusive right to manufacture and market the invention. In recent years, companies have increasingly focused on the use of patents as a profit centre, independent of the patent owner's business and the patent's applicability to the patentee's own products. Historically, individual inventors, small businesses and patent holding companies were the first to use this practice of obtaining or acquiring patents for the purpose of generating income from licensees. These patent owners had no fear of reprisal from exposure to the prospective licensees' patents. More recently, larger companies have begun to view their patent portfolios as sources of income, and as a way of paying for the cost of obtaining and maintaining patent rights on a global basis. Some companies have been able to achieve huge licensing income streams, measured in hundreds of millions of dollars, despite their own potential exposure to the patent rights of their licensing targets.

The financial community has developed various mechanisms for patent owners to extract monetary value from their patents more quickly than waiting to collect royalties from licensees over time. These mechanisms include securitisation based on anticipated royalty income streams, and within the past year, auctions of patents to, in effect, create an available market for the purchase and sale of these assets. An exchange traded fund (ETF) has even been established on the American Stock Exchange, which lists companies chosen based solely on the value of their patent rights. Although patents are sometimes purchased from others so they can be used for defensive purposes, most are likely to be purchased as potential sources of revenue from licensing and, if necessary, legal enforcement.

This phenomenon squarely brings into close scrutiny, on the one hand, the proper balance between the protection of intellectual property rights and on the other hand, the adverse economic impact such rights are sometimes perceived to have upon competition. The granting of intellectual property rights is supposed to stimulate innovation by assuring that invention and research are financially rewarded, and by providing an incentive for inventors to disclose their inventions to the public in exchange for the limited monopoly of a patent. However, if patent rights are too liberally conferred or inappropriately asserted, they can make it too costly for companies to successfully navigate their way through

the minefield of patent rights in order to market new products.

The United States Congress has been considering major changes to the US patent laws to address these concerns. These issues include the granting of patents on inventions that are not deserving, the great cost of defending against a claim of patent infringement, and the need to obtain patents for defensive reasons.

Although the particular issues differ from country to country, and many countries have not yet begun to re-examine the proper balance between patent protection and free competition, it seems likely that the global business and legal communities will increasingly be addressing the inherent tension between these fundamentally contrary policies.

When the assertion of a patent against a competing product or against a company that refuses to pay fair value for the use of patent rights cannot be resolved through negotiation, the various national patent enforcement systems come into play. They differ widely in many respects, from the specialisation or non-specialisation of patent courts, to the ability to obtain information from an adversary, to the cost and time required to judicially enforce a patent, to the scope given to patents, to the types of inventions which are patentable. These differences may well dictate where companies decide to spend their often limited funds in obtaining patents and where they decide to bring enforcement proceedings against infringing activities which cross national borders. The passage of time and the increasing globalisation of companies and markets does not seem to be diminishing these fundamental differences.

In some countries, patent disputes are heard only in specialised courts, where the judges have extensive experience in patent matters, and may even have technical backgrounds. In other countries, patent disputes are determined in the same courts that determine other civil disputes, by judges who have no particular expertise in patent matters. The United States stands virtually alone in permitting most patent lawsuits to be decided by lay juries who not only lack patent expertise, but often also have limited amounts of formal education. The argument for specialised courts is based on their expertise and on the wisdom gained from a better understanding of the technical subject matter and of the applicable laws. The argument for non-specialists deciding patent cases focuses on their ability to decide disputes in the context of the overall national jurisprudence and to apply the sorts of equitable considerations to the evaluation of evidence and witnesses which they learn from hearing myriad types of disputes.

The ability of a patent litigant to obtain evidence from adversaries or third parties differs widely among jurisdictions, ranging from complete discovery from all available sources, such as in the United States, to countries in which there is essentially no discovery available. In the early Twentieth Century, when

most patents covered products and devices whose mode of operation could be understood by observing the product in the marketplace, obtaining evidence of infringement by means other than direct observation and analysis was much less important. With the advent of product functions increasingly being carried out in software, and complex biotechnology inventions, there is an increasing impetus to provide some way to enable a patent owner to find out how a potentially infringing product or process actually works. Although some countries have adopted laws permitting at least some forms of discovery, there still remain many countries which provide no such mechanism. In such countries, it is very difficult for a plaintiff to obtain the evidence necessary to prove infringement, or damages, and correspondingly, for a defendant to prove invalidity.

The amount of permitted discovery often translates directly into both the length of time and the cost required for infringement proceedings to reach a final decision. In some countries, the entire process can be completed in a matter of months, whereas in others several years are the norm. The mode in which evidence is submitted also greatly affects the cost of lawsuits. Where evidence is presented largely through the testimony of live witnesses, trial procedures can last weeks, whereas in countries in which evidence is presented entirely through the submission of documentary proofs and affidavits, the trial itself may last less than one day and often only a matter of hours, and consists largely of attorney arguments about the previously submitted documentation. The use of technical experts also varies widely. In some jurisdictions, the only technical expert utilised is court-appointed, whereas in other jurisdictions, the parties can retain their own technical experts to present evidence and opinions supporting their respective positions.

Although court procedures for resolving patent disputes differ dramatically, the quantum of proof necessary to establish infringement does not appear to vary greatly between jurisdictions. In most instances, the party alleging infringement must in effect establish a balance of probabilities in its favour. Procedural differences exist as to which party has the burden of proof with respect to certain defences, but the underlying legal tests for infringement and validity are substantially similar. In some countries, validity is determined in a separate proceeding from infringement, but in other countries the two issues are combined in the same proceeding. The tests for infringement by equivalents, though articulated differently in different countries, also appear to be substantially similar. Some countries apply a stricter interpretation to the precise wording of the patent claims when determining literal infringement, but provide more flexibility in finding infringement by products and processes which achieve substantially the same objective as the patent in substantially the same manner. In other countries, this flexibility is inherent in a more liberal interpretation of claim wording, which functions more as a guideline to determine the proper scope of the invention. Liability for contributing to or inducing infringement by someone else also appears to be fairly universal.

Although the statutory remedies provided for patent infringement are relatively consistent across jurisdictions, and generally include a final injunction and damages (measured either by the infringer's profits or by a reasonable royalty), the size of monetary damages awards tends to be much higher in the United States than elsewhere. Some countries provide no mechanism for compulsory licensing, whereas others can impose a compulsory licence when the patent owner is not exploiting the invention itself. There is a basic dichotomy in how countries deal with attorneys' fees.

In some, each party ordinarily bears its own legal costs, in the absence of some type of exceptional circumstance, such as wilful infringement or grossly improper conduct. In other countries, the prevailing litigant is normally reimbursed for its legal fees as a matter of course. Social scientists can no doubt dispute which of these systems is more conducive to settlement or litigation.

Most countries apply an absolute novelty requirement for patentability, ie, the patent application must be filed before any oral or written public disclosure is made of the invention. Some countries have limited exceptions, such as a limited grace period for the display of the invention at a recognised international exhibition, or for the patent owner's own exploitation. In contrast, the United States provides a full one-year grace period before filing a patent application for virtually any type of public disclosure or exploitation of the invention, but it is coupled with the requirement for all applications to contain a very complete teaching of the invention and disclosure of the best way the inventor knows to carry it out. Proposed legislation in the United States Congress could eliminate this grace period for everything except the inventor's own public disclosures.

In most countries, an applicant for a patent is not required to disclose known prior art to the patent examining agency. A few countries technically impose such a requirement, but it is rarely, if ever, enforced. In the United States, however, an applicant has an enforceable duty of complete candour and good faith that can be satisfied only by supplying the Patent Office with all known material prior art. Though this requirement may result in better examination of patent applications, disputes regarding compliance or non-compliance with the duty of full disclosure are injected into many patent litigations.

As for priority of the right to a patent, most of the world follows a first-to-file approach, regardless of which of the competing inventions was actually made first. Once again, the United States stands virtually alone in maintaining a first-to-invent system. The first-to-file system provides much greater certainty; but not requiring an inventor to rush to file in the Patent Office, like the one-year grace period, may encourage the preparation of more complete patent applications, which in turn supports the public disclosure rationale for a patent system by providing better information about the technological innovation covered by the patent. Proposed US legislation, if enacted, would change the United States to a first-to-file system to conform with the rest of the world.

There remain some national differences as to the types of inventions that can be protected. These differences tend to revolve around three primary areas, namely computer software-related inventions, business method inventions, and methods of medical treatment.

Viewed at a conceptual level, there are more similarities among jurisdictions as to the nature and scope of patent rights, how patents are obtained, and how patents are enforced, than there are differences. Although the ability to obtain evidence and the procedures for submitting such evidence vary considerably, the basic requirements for patent validity are all essentially the same, as are the basic defences to patent infringement.

Much has been written about the desirability of a globally harmonised patent system with consistent requirements for obtaining a patent and common procedures for patent enforcement. In view of the differences in the underlying national court systems, and other long-established procedures, it is unlikely that many of the major differences pointed out in this overview will disappear in the near future.