

Memorandum

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To: Stanford McCoy USTR
Rachel Bae USTR
Amanda Wilson, DOC

From: James Love and Manon Ress, KEI

ACTA provisions on Injunctions and Damages

Will the European EPAs or ACTA restrict or outlaw TRIPS Part III compulsory licenses?

One of the most important developments in patent law has been the growth of compulsory licenses in the United States, following the 2006 *eBay* Supreme Court Decision. Now nearly every proceeding to enforce a patent in the United States is a possible compulsory licensing case, under the four element test for injunctions set out by the U.S. Supreme Court. These compulsory licenses seem to be consistent with the TRIPS, but not under Part II of the TRIPS, which requires either that the exception satisfy the Article 30 three step test, or provisions of Article 31, including obligations for prior negotiation with the patent owners on reasonable commercial terms and conditions, and limits on the exports (Article 31), but under Part III of the TRIPS, the part that deals with enforcement.

In particular, the US is using the provisions in Part III of the TRIPS dealing with injunctions (Article 44) to issue compulsory licenses in ways that would not be possible under Part II of the TRIPS.

For example, the United States already used the injunction provision in the TRIPS to justify its 28 USC 1498 automatic compulsory licenses of copyright, patents and plant variety rights, for uses "by or for the government." These operate under a liability rule -- the U.S. government can give private firms the freedom to use patents, copyrights or plant variety rights, subject to an obligation that the U.S. government will pay for that use.¹

What was new with the *eBay* decision was the expanded use of the injunction provisions in the TRIPS, in cases where the courts grant compulsory licenses for any private sector uses. A lot of big name companies have received compulsory licenses on patents under the *eBay* decision, including Toyota, Abbott Laboratories and Johnson & Johnson, to mention a few. Microsoft has benefited from two compulsory licenses. These authorizations are done in cases where there is no assertion of market power by the patent owner, no evidence of prior negotiation on reasonable commercial terms, and no restrictions on exports. For example, in a recent case involving

¹ For discussion of Article 44 in the context of copyright, see "Compulsory licensing of copyright under Article 44.2 of the TRIPS, in light of *eBay*," *KEI Research Note* 2007:5.

Innogenetics and Abbott Laboratories, the royalties paid by Abbott were calculated in Euros, the export currency.

United States Court of Appeals for the Federal Circuit, 2007-1145, -1161.
Innogenetics, N.V., v. Abbott Laboratories. “While the market entry fee was based upon the projection that Abbott could sell its product through 2019, even Abbott acknowledges that such future sales would be subject to the running royalty, a compulsory license. We remand to the district court to delineate the terms of the compulsory license, such as conditioning the future sales of the infringing products on payment of the running royalty, the 5-10 Euros per genotyping assay kit.”

The evolving case law in the United States is consistent with a growing consensus that the reform of patent rights should include greater role for “soft” intellectual property protection, where the exclusive rights of patents are weakened, and patent owners are only entitled to reasonable royalty payments.

The economy and these issues are complex, and there certainly will be areas and circumstances where strong exclusive rights for patents or copyrights are the best policy. However, as we are learning, having the option to weaker rights for some situations is quite important. It is almost impossible to make some products and services today without the infringement of patents, and the use of liability rules offers a useful compromise that gives businesses greater freedom to innovate, while providing valuable rewards to inventors.

The European Union Economic Partnership Agreements include several articles that would restrict if not outlaw the practices that U.S. Courts are exploring under the *eBay* decision. These include the EC's proposals on Injunctions, Alternative Measures and Damages (See below). The EC has reportedly proposed these articles in negotiations for a new Anti-Counterfeiting Trade Agreement (ACTA). Taken together, these provisions would narrow the circumstances under which the Part III compulsory licenses are available, such as where a “person acted unintentionally.”

The TRIPS plus Damages section is also problematic, as it requires consideration of “lost profits, which the injured party has suffered, any unfair profits made by the infringer.” These provisions go further than the TRIPS, and further than many courts have in the current U.S. Legal environment. To appreciate the differences, you might want to review for example the remuneration ordered in the most recent Microsoft compulsory license. Moreover, by introducing these provisions into the EPAs and possibly the ACTA, the new tougher and more restrictive provisions would be subject to dispute resolution.

Countries asked to sign the EU EPAs should reject to revise these Articles, and the ACTA negotiators should reject them. It is better to more clearly understand and evaluate the evolving U.S. practice under the *eBay* decision, and to more fully appreciate the role that liability rules should play in an economy where dozens if not hundreds (or thousands) of patents may be relevant for high tech products and services.

The following provisions were proposed by the EC in both the CARIFORUM and the China EPA negotiations. We believe the EC has proposed this language also in the ACTA negotiation.

Article Injunctions

The EC Party and the Signatory CARIFORUM States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. The EC Party and the Signatory CARIFORUM States shall also ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right.

Article Alternative Measures

The EC Party and the Signatory CARIFORUM States may provide that, in appropriate cases and at the request of the person liable to be subject to the measures provided for in Part III of the TRIPS Agreement and in this Chapter, the competent judicial authorities may order pecuniary compensation to be paid to the injured party instead of applying the measures provided for in Part III of the TRIPS Agreement or in this Chapter if that person acted unintentionally and without negligence, if execution of the measures in question would cause him disproportionate harm and if pecuniary compensation to the injured party appears reasonably satisfactory.

Article Damages

1. The EC Party and the Signatory CARIFORUM States shall ensure that when the judicial authorities set the damages:

a) they shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors; or

b) as an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.

2. Where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, the EC Party and the Signatory CARIFORUM States may lay down that the judicial authorities may order the recovery of profits or the payment of damages which may be pre-established.