IP value extraction and commercialisation
Licensing II and enforcement

in cooperation with I3PM

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Vice-President of I3PM
Your speaker – Vincent Couteau

• Background :
  • Master in Law, LLM ICT Law & Management
  • QLTT (solicitor England & Wales)
  • Weiss & Porat, Taylor Wessing, K.U. Leuven R&D, Siemens, Atos
  • Currently managing IP strategy and asset portfolios in 74 countries, including litigation
  • all rights contained in the IP bundle
  • > 15 years of experience in licensing
  • Lawyer by training, now in-house strongly involved with global legal operations, based in Belgium

• Memberships : I3PM¹, Atos scientific community², IQPC³, LES Benelux⁴

Disclaimer
Opinions expressed in this presentation are those of the speaker and not necessarily those of the European Patent Office nor of the speaker’s employer.
Overview of webinars on offer

1. **IP strategy**  
   Five virtual classroom sessions

2. **IP evaluation and protection**  
   Five virtual classroom sessions in June 2018

3. **IP value extraction and commercialisation**  
   Four VC sessions in October 2018:
   - IP value extraction (4 October 2018)
   - Licensing I (11 October 2018)
   - **Licensing II and enforcement (18 October 2018)**
   - Determining the value of IP (25 October 2018)
Agenda

• Anti-competitive constraints for license agreements
• Covenant not to sue agreements
• Statistics, civil vs criminal, border seizure
• Infringement proceedings
• Proving infringement
• Defense mechanisms
• Efficient strategies
• How patent cases are resolved
Anti-competitive constraints for license agreements

- IP vs. antitrust

- Any wording that can affect trade between member states is (potentially) prohibited (negative effects on competition)

- Standard Essential Patents (SPEs) - Fair, Reasonable and Non-Discriminatory (FRAND) terms

- Adverse market mechanisms: reverse payments in pharma


EC, Memo “Antitrust: Commission adopts revised competition regime for technology transfer agreements”, 21 March 2014

Stibbe, Pitfalls of licensing agreements from a competition law perspective, Agoria, 2013

BAHR, Technology Licensing – Competition Law Aspects, LES Mini-Seminar, Oslo, 14 January 2016

Slaughter and May, The EU competition rules on intellectual property licensing, 2016
Anti-competitive constraints for license agreements

• **Art. 101 TFEU**: General prohibition against anti-competitive agreements

• General Block Exemption Regulation or ‘**GBER**’), state aid for RDI (licensing with academia !)

• Technology transfer agreements :
  1) **TTBER**: Technology transfer block exemption regulation
  2) **TT guidelines**: Technology transfer guidelines

• Risks of non-compliance
Anti-competitive constraints for license agreements

• **TTBER**:  
  - license for production of goods and services  
    (distribution : other legal framework/VBER)  
  - between non-competitors or competitors (~ actual and potential competition)  
  - reciprocal or non-reciprocal license  
  - block exemption (= safe harbour)

• **Hardcore** restrictions (~ prohibited as such) vs. **Softer** restrictions (~ individual assessment)

• **Equal treatment** of licensees = wording (!)
Anti-competitive constraints for license agreements

• What’s an SEP? SEP declaration (Y/N?)

• FRAND:
  • Is FRAND commitment an agreement (Y/N?)
  • Good faith vs. bad faith (patentee and implementer’s side) (“willingness to negotiate”)
  • Royalty rate calculation

• FRAND case law (all over the world):
  • Huawei/ZTE
  • Samsung/Apple; Apple/Samsung
  • Unwired Planet/ZTE
  • Ericsson/Motorola; Motorola/Ericsson
Anti-competitive constraints for license agreements

• In a nutshell:
  • A majority of license agreements are pro-competitive i.e. they increase competition
  • TTBER applicable since May, 1st 2004
  • Some agreements are exempt “en bloc” as set out in the TTBER i.e. considered unproblematic
  • Exempt are agreements between companies with limited market power (~ thresholds) and that meet certain conditions
  • If not exempt under TTBER, ad hoc anti-trust review is needed
  • Most jurisdictions around the world have similar legislation
Covenant not to sue agreements

• Promise not to sue = contract!
• A license can include a pledge by licensor not to sue licensee
• This is often linked to a reciprocal pledge by licensee not to seek invalidation of the licensed IP
• Controversy before some courts
• Anti-competitive effect possible
• Difference with “release”
Statistics, civil vs. criminal, border seizure

**Figure A8**

PCT applications for the top 20 origins by income group, 2016

China recorded extraordinary growth in PCT filings.
Statistics, civil vs. criminal, border seizure

- USPTO.GOV
- PWC.COM (patent litigation study)
Statistics, civil vs. criminal, border seizure

Most Recent IPR Statistics – How bad is it?

As of July 31, 2016

3410 IPR Petitions Filed

1738 Trials Initiated

1086 out of 1738 Trials Reached a Final Decision

158 out of 1086 Trials, All claims found invalid

164 out of 1086 Trials, Some claims found invalid

February 2017 IPR and CBM Combined Results by Claim

Instituted Claims Cancelled by PTAB

364 74.56%

Instituted Claims Survived

131 25.44%
Statistics, civil vs. criminal, border seizure

China Becoming More Attractive For Foreign Patent Owners

China Gets Copyright Religion
China has seen an uptick in copyright cases in recent years, as Chinese firms defend the content and intellectual property they buy from others or create on their own.

Intellectual property cases received by Chinese courts
- Copyright
- Other

Spending in content, in billions of yuan
- Tencent
- Baidu

Number of lawsuits by Baidu's streaming service IQiyi
- As plaintiff
- As defendant

Patent litigation at a glance - China ("CH") - after 2014.11.12
- Higher People's Court
- No jury
- 2nd instance
- Very limited discovery
- IP Court (3 courts) / Intermediate People's Court
- 1st instance
- Patent Infringement Lawsuit
- Invalidation Trial

Defendant cannot raise an invalidity defense.
IP Courts were established in Beijing, Shanghai and Guangzhou in 2014.
Statistics, civil vs. criminal, border seizure

China:

US: 4,057 patent court cases (FY'17)
EU: 17,984 patent court cases (FY'17) excl. EPO
Industry practice to avoid litigation

• Product launch vs. identified prior art

• Options at hand:
  • design around
  • not offering claimed features
  • more comprehensive prior art search to find material to attack validity of patents
  • seek legal opinion from patent attorney (non-validity and/or non-infringement)
Infringement proceedings

• Various court systems: EU (mostly DE), US, China (CN), Japan (JP)

• Who?: patent owner, exclusive licensee, sometimes non-exclusive licensee with specific authorization of patentee to sue

• Burden of proof lies with plaintiff

• Direct vs. indirect infringement
Infringement proceedings

• Civil vs. criminal?

  • **DE**: intentional patent infringement qualifies as criminal conduct, but very few criminal proceedings in practice
  • **US**: patent laws do not provide for criminal liability
  • **CN**: patent passing off can be a crime under the PRC criminal code
  • **JP**: criminal penalties available, including fines and imprisonment
Infringement proceedings

• Court Structures:
  • EU (DE):
    • infringement: District Court, Regional Court, Supreme Court
    • validity at EU-level: EPO, Opp. Div., BoA, Enl. BoA
  • US:
    • 94 District Courts (min. 1 in each state), Federal Circuit, SCOTUS
    • extra-judicial bodies: ITC, USPTO PTAB
  • CN:
    • Specialized IP Courts: Beijing, Shanghai, Guangzhou, Shenzhen…
    • Intermediate People’s Courts, Higher People’s Courts, Supreme People’s Court
  • JP: Tokyo & Osaka District Courts, IP High Court
Infringement proceedings

Proceedings available to Patentee

Interim Proceedings
Regional Court (Landgericht)
(e.g. prelim. injunction; search & seizure of evidence)

1st Instance Infringement
Regional Court (Landgericht)
No jurisdiction for Invalidity!
Stay if invalidity "very likely";
No disclosure, normally no experts

1st Appeal Infringement
Court of Appeal (Oberlandesgericht)
Stay if invalidity "likely"

Proceedings available to Alleged Infringer

Opposition
EPO / DPMA

Appeal
EPO / BPatG

Revocation
Federal Patent Court
(Bundespatentgericht)
Only after opposition

2nd Appeal Infringement & 1st Appeal Validity
Federal Supreme Court (Bundesgerichtshof)
Infringement & validity proceedings usually joined and heard together

Enforcement Proceedings
Judgments provisionally enforceable
against security

1st Instance re Amount of Damages
Regional Court (Landgericht)

Cost Proceedings
Costs shifted on basis of calculation
depending on "value in dispute"
Infringement proceedings

Proceedings

Initiating a lawsuit proceeding against an infringer

stay?

Trial in court

Judgment of the first instance

Not satisfied? Appeal to a higher court

Judgment of the second instance

Invalidation Proceedings

Request for Invalidation

Request for stay

Restore

Decision of PRB

Not satisfied? Appeal to Beijing First Intermediate Court

Not satisfied? Appeal to Beijing High Court
Infringement proceedings

- Patent invalidation, generally:
  - court: higher burden of proof ("clear and convincing evidence") or
  - patent office: cheaper, faster, less burdensome

- Patent invalidation, concretely:
  - EU (DE): EPO or court (after EPO opposition period)
  - US: USPTO PTAB or District Court
  - CN: only SIPO PRB (Patent Re-Examination Board)
  - JP: only JPO

- Appeal available with high/supreme court
Infringement proceedings

- Commonly invoked grounds in patent invalidation actions include:
  - lack of novelty or inventiveness (obviousness)
  - lack of practical applicability
  - new matters in amendments
  - insufficient disclosure by the specification
  - lack of clarity of claims
  - ineligibility of subject matter
Infringement proceedings

- Jurisdiction/Forum shopping: each territory has some form of forum shopping

  - **DE**: Mannheim (7-9 m), Düsseldorf (12-18 m), Munich (1 chamber: 9-12 m, other slower)

  - **US**: 94 DC’s, Situation prior to TC Heartland (23 May 2017) vs. after Heartland, DC E.D.Texas ≠ DC D. Delaware

  - **CN**: specialized IP courts or other people’s courts

  - **JP**: less obvious as Tokyo and Osaka District Courts are sole courts at 1st instance + IP High Court (appeals of DC court decisions or invalidation actions with the JPO)
Infringement proceedings

- Claim construction/interpretation:
  - **DE**: usually very broad, focused on the function of the technical term, broader than dictionary meaning.
  - **US**: pre-trial, Markman hearings (address only claim construction) handled by professional judges vs. factual issues submitted to a jury
  - **CN**: semantic and broad
  - **JP**: rather formal and strict
Infringement proceedings

- **US**: Doctrine of equivalents (DoE)
  - suit for infringement even when the allegedly counterfeiting product is not identical
  - This is to avoid infringers making minor changes and getting away with infringement
  - Triple identity test
  - Extensive case law: simple concept, complex to apply

- Common defense against DoE: vitiation
Infringement proceedings

- **US**: rocket docket (FDC Eastern District of Virginia)

- **EU**: torpedo

  Infringer alerted (e.g. notice letter)

  Infringer files declaratory judgment action for non-infringement with court with turnaround time significantly higher than average

  Patentee „blocked“ until 1st court finally decides

  (Art. 27 EC 44/2001)
Infringement proceedings

• **US**: Willful infringement/treble damages
  
  • *Halo Electronics vs. Pulse Electronics*, SCOTUS, 2016
  
  • Federal Circuit’s *Seagate* two-prong test was abandoned
  
  • Treble: up to 3 times the amount found or assessed, generally still not that easy to obtain
Infringement proceedings

• Preliminary injunction, provisional measures and other interim relief:

• **DE**: bifurcated system, time gap (up to 16 months) between decision on validity & decision on infringement; injunction automatic, no equity, no balancing of interests, easy to obtain, enforceable even when appeal or bond placed, very effective tool to exert pressure for settlement

• **US**: injunction NOT automatic, courts balance interests and look at 4 factors: irreparable harm, adequate remedy at law, balance of hardships, public interest; difficult to obtain for NPEs and patents subject to FRAND
Infringement proceedings

• Preliminary injunctions, provisional measures and other interim relief:
  • CN: In practice, difficult to obtain. Chances of securing relief are higher if 1/ determination of infringement is rather straightforward, 2/ patent in dispute is solid (e.g. previously litigated and survived validity challenge). Other measures: evidence preservation order, asset preservation order (~border seizure). Generally subject to payment of bonds.
  • JP: Pre-trial remedies can be obtained in preliminary proceedings, but courts shall use much caution. Always inter partes i.e. defendant has the right to argue.
Infringement proceedings

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td>9 (DCs of Mannheim and Munich) to 15 months (DC of Düsseldorf). Courts of Appeal: appr. 1 year. Fixed timelines.</td>
</tr>
<tr>
<td>US</td>
<td>Avg. of 12 to 44 months from time of filing until trial in the district court. IPR much faster.</td>
</tr>
<tr>
<td>CN</td>
<td>Usually &gt; 12 months, if not suspended due to parallel invalidation proceedings before the Patent Re-Examination Board. No timetables, flexible conduct of trials depending on workload.</td>
</tr>
<tr>
<td>JP</td>
<td>Appr. 11 months from filing to resolution at first instance.</td>
</tr>
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## Infringement proceedings

<table>
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<tr>
<th>Jurisdiction</th>
<th>Damages</th>
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<tbody>
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<td>DE</td>
<td>No public database of damage awards. Damages awarded on basis of 1/ profits of infringer or 2/ reasonable royalties. Amount of damages not decided during main infringement proceeding but determined in separate subsequent proceedings if parties cannot agree. In practice, often settlement. No punitive damages.</td>
</tr>
<tr>
<td>US</td>
<td>Patentee may obtain reasonable royalty damages or its lost profits if it can show that it would have made the relevant sales “but for” the infringement. Court may award up to treble (triple) damages for willful infringement. Amount of damages typically established through expert testimony. Punitive damages!</td>
</tr>
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Infringement proceedings

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<td>CN</td>
<td>Damages range from equivalent of a few k’s to ~ M EUR. Traditionally, courts are conservative in damage awards. 2007 <em>Chint vs. Schneider.</em> Calculation: 1/ based on actual loss suffered by patentee or 2/ where loss is difficult to assess, illegal profit obtained by infringer, 3/ if both loss and profit are difficult to assess, a multiple of reasonable royalty. Last resort, due to lack of formal discovery in civil proceedings: statutory damages up to RMB 1,000,000 (+-150k EUR). Plaintiff has burden of proof. No punitive damages.</td>
</tr>
<tr>
<td>JP</td>
<td>Lost earnings, research costs to analyze infringing products, attorney fees and damage to credit. Plaintiff must prove causal link between infringing acts and damages. No punitive damages.</td>
</tr>
</tbody>
</table>
Infringement proceedings

2015 Median Patent Litigation Costs

- Costs Through End of Discovery
- Remaining Costs
- Through Hearing
- Appeal

* PTAB Blog, American IP Association, 2015 Report
## Infringement proceedings

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<td><strong>DE</strong></td>
<td>Losing party must pay courts costs and reimburse winning party’s attorney’s and patent attorney’s fees based on and limited to statutory fees. Fees calculated to litigation value intended to reflect commercial value of the case (= estimated damage). Travel costs, translation costs, ... Excess costs beyond statutory thresholds are to be borne irrespective of outcome. Avg. cost through trial 250k-750k EUR. Cost of opposition much lower.</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td>Statistics AIPLA : avg. cost through discovery 745k USD-3M USD and 1.215M-4.730M through trial. Losing party pays winning party’s costs and attorney fees only in rare/exceptional cases : misconduct or bad faith. ~ Cost for IPR much lower.</td>
</tr>
<tr>
<td><strong>CN</strong></td>
<td>The court may order reimbursement of reasonable costs incurred to stop infringement incl. legal fees and disbursements. In practice, amounts are rather modest despite CN now being a popular venue.</td>
</tr>
<tr>
<td><strong>JP</strong></td>
<td>Court fees determined by reference to the amount of compensation claimed and a prescribed calculation method. At court’s discretion, court fees and reasonable attorney fees to be reimbursed : actual amount determined on a case-by-case basis by the judge.</td>
</tr>
</tbody>
</table>
Proving infringement

• Discovery:

  • **UK**: Anton Piller Order  
  • **EU/FR+BE**: “saisie-description”  
  • “Mareva” injunction  
  • **Rest of EU**: Article 7 Directive for the Enforcement of Intellectual Property Rights  
  • **US**: broader and more expensive than in other jurisdictions (document requests, depositions, interrogatories, requests for admission), expensive and time-consuming  
  • **CN**: no real discovery in civil proceedings (problematic) but works well in criminal cases  
  • **JP**: No intensive discovery system, but document submission orders may be decided by the courts in certain circumstances.
Defense mechanisms

• Non-infringement (US : Declaratory Judgment Action)
• Invalidity (in practice, very common !) / Re-examination
• Prior use
• Independent invention defense
• Business method defense under US patent reform (AIA)
• Inequitable conduct (counter with supplemental examination)
• Nullity of suit (Statute of Limitation)
• EU : Exhaustion of patent rights (first sale doctrine)
• EU : Deliberate slow court actions (torpedoes)
Efficient strategies

- **US**: use discovery and jury trial to your advantage
- **DE**: branching off utility patent
  - available if PCT, EP or DE parent patent application is pending
  - cheap and fast registration (2 months)
  - Directly enforceable
  - only product claims, no process claims
- **Anywhere**:
  - Leverage injunctions – if possible, especially when avg. success rates are high, use revocation/invalidation with the patent office
  - Use elements from procedures before patent office (invalidation) in parallel court proceedings (infringement)
  - ~Turnaround time: choose your venue
How patent cases are resolved

• ADR:
  • arbitration: binding decision, subject to appeal but only limited grounds
  • mediation: non-binding
  • both confidential, various levels of binding character

• Adjudication: “ scorched earth” approach, other “softer” approaches

• Settlement: most cases are settled (before or after first adjudication), low appeal numbers in general

THANK YOU FOR YOUR ATTENTION!