

Patent Trolls in Europe – Does Patent Law Require New Barriers?

For the May 2008 GRUR Meeting, Stuttgart

By the Rt. Hon Sir Robin Jacob¹

1. Definition and language. What is a “patent troll?”

The phrase “patent troll” is quite new. It is not quite clear who first used it. According to that fount of all knowledge, Wikipedia, it was popularized in about 2000 by an American called Peter Detkin, assistant general counsel of the chip-maker Intel. According to Wikipedia there are earlier uses, the earliest being in 1993.

There is some dispute as to what the phrase means. Here is what Wikipedia says:

“Patent troll” is a controversial neologism susceptible to multiple definitions. Among them is a party that:

- "Purchases a patent, often from a bankrupt firm, and then sues another company by claiming that one of its products infringes on the purchased patent;"
- Enforces patents against purported infringers without itself intending to manufacture the patented product or supply the patented service;
- Enforces patents but has no manufacturing or research base; or
- Focuses its efforts solely on enforcing patent rights.”

If you go to an English dictionary there are a whole variety of meanings, most of which I had never heard of. But two of the best known are these. First from Scandinavian mythology: “one of a race of supernatural beings formerly conceived as giants, now, in Denmark and Sweden, as dwarfs or imps, supposed to inhabit caves or subterranean dwellings” Many will know the nursery story from Norway about the three Billy-Goats gruff and the troll under the bridge who threatens to eat them up. He is finally kicked into the river and away by the third and largest Billy Goat Gruff. The other well-known meaning is for a method of fishing in which a hooked line is dragged from behind a boat.

¹ A judge of the Court of Appeal of England and Wales; in charge of the Intellectual Property List of that Court.

Word-Spy says this:

So a "patent troll" is, officially, someone who fishes around for unused patents, but is also, unofficially, a low, inhuman creature that only uses those patents for litigious purposes.

All this is emotive stuff. It suggests the troll – a non-self-exploiting patentee is a bad thing and should be treated as the Third Billy Goat Gruff treated the troll under the bridge.

You can see how emotive it all is, by asking whether a university which has patents which it seeks to exploit by licensing is troll. Or a lone inventor who tries to make money by licensing his invention. The perspective changes depending on the commercial nature of the patentee.

2. Why has discussion about trolls become so topical?

The reason is clear. It comes from the US. And is a direct result of a combination of factors:

- (a) The pro-patentee attitude of US juries²;
- (b) The preposterous awards of damages which are often made, quite apart from triple damages for wilful infringement.
- (c) The possibility of lawyer driven litigation by virtue of the contingency fee system of the US – lawyers can take up to 50% of the damages for taking a case as a speculation. It is an advantage to lawyers who or on contingency fees to have a system where even if the action fails, the defendants' legal costs will not normally be paid. Quite apart from its inherent injustices, that fact is, at the very least, a weapon in negotiation: "It will cost you \$5m and a lot of grief and trouble to win, I will settle for \$3m."
- (d) The widening scope of patentability – particularly patents for software and business methods. These are often of uncertain scope – and it has been

² Currently about 1/5th of US patent infringement suits are started in the small town of Marshall, Texas, where the perception, at least, is that the jury will find for the plaintiff.

possible to get bad patents which are nonetheless powerful weapons because of the risk factor.

Trolls have been less prominent in Europe – because it does not have these factors at all or to then extent it does, nowhere to the same degree.

3. What, if anything, should the law do about trolls?

First is not to get too excited about them. For legal purposes any a patent holder who himself does not manufacture or use the patented invention should be treated the same. There is nothing new about such patentees – the problem of the non-exploiting patentee has always been with us.

Second is to be firm that the basic issues of infringement and validity have nothing to do with whether the patentee is a troll or not.

Third is to appreciate that a non-exploiting patentee is inherently much less likely to be awarded any provisional measure, especially one by way of an injunction. Why? Because such a party only holds the patent so as to extract money from others – money is his only desired remedy. He has no business to be protected by his patent. So he can wait for his money until his rights have been finally determined. In an appropriate case³ the court may say, by way of an interim order, that an alleged infringer must make safeguarded “royalty” payments (e.g. into a joint bank account) pending the ultimate decision as to whether the patent is valid and infringed⁴, but it would require very unusual circumstances for a court to grant a troll a full interim injunction restraining infringement.

Fourth is to appreciate that although the “troll problem” - to the extent there is one – may be exacerbated by the inability of patent offices to turn down many bad patents, the problem is fundamentally not about bad patents. A troll may hold a patent which is both valid and infringed. “Raising the bar” of the standard of patentability by patent offices will stop both trolls and “ordinary” patentees from

³ E.g. where the alleged infringer may not be good for a later financial award.

⁴ Such was done in *Brupat v Sandford* [1983] RPC 61.

waiving bad patents at others. That will be a good thing (if it can be done, as to which I am not sure) but cannot provide an answer to the fundamental “troll problem.”

I now come to that - the hard bit - the case where a patent has been held valid and infringed and there is no escape via a finding of non-infringement or invalidity. I start with a story about George Bernard Shaw, the Irish playwright. He sat next to a lady at dinner. He asked if she should would sleep with him for a hundred thousand pounds. She said yes. He then asked if she would, for a shilling. She said "Of course not, what do you take me for!" Said GBS: "We've already established that. Now we're just haggling over the price."

What has that got to do with trolls you ask? Well it comes out of a little discussion I had with a prominent German lawyer. He said to me: “for us, there is no problem.” “Why?” I said. “Because if a valid patent is infringed, there will be an injunction.” “Suppose”, I asked, “the patent was for a life saving drug and the patentee had not enough product to supply the market. Would a German court really stop the supply of an infringer’s product?” “Well”, he said, conceding the point: “Maybe not. But it would have to be a very extreme case.” The same with George Bernard Shaw’s lady.

Take another example. As many of you will know there is litigation about the anti-photocopy security system built into the Euro banknotes. An American non-manufacturing company is claiming, in about nine different European countries, that the Euro notes infringe its patent for such a system. Thus far, in France and the UK, the patent has been held invalid. In German and Holland there are first instance findings of validity which are under appeal. Infringement is in any event contested. But, suppose, in the end that in one country the patent is held valid and infringed. Can the patentee not only demand but insist in that country upon an injunction to restrain infringement. Must the court of that country grant an injunction, despite the enormous consequences? Will the citizens of that country have to deliver up the contents of their wallets?

Now some have the view that “Property is property is property”. I call them absolutists. My German friend was an absolutist until challenged with the extreme

consequences. But there are absolutists who say a patent right is much like that of the owner of a ransom strip of land: such an owner simply says: “buy me off or you can’t build”. Absolutists say that to withhold the injunction and award only a financial remedy amounts to compulsory purchase or licence.

And so it does. But saying so, or abstract appeals to the word “property,” do not provide an answer based on rationalism. To decide what to do about the non-exploiting patentee you really need to know the unknowable – what *economic* difference does it make to grant, or withhold an injunction in such cases? Does it encourage or discourage innovation? Is the damage to competition worth it? What is the effect on the public interest?

Now we have not really had to face up to the problem in Europe yet. The Americans have. At one point the absolutist view had a real prospect of prevailing. In *NTP v RIM* in 2005 following a decision by the CAFC upholding a jury finding of infringement, the US Government itself was asking that the possible injunction against Research in Motion, which would have stopped Blackberrys working all over the US, should have an exception in favour of Government Blackberries. *NTP* was a non-working patentee – a troll. In the end the case settled for a vast payment by RIM, US\$612 million. RIM could not afford the risk, even though by then the USPTO had made a first instance ruling in re-examination that all three of the patents sued upon were invalid.

Shortly thereafter, in *eBay v. MercExchange*,⁵ the Supreme Court rejected the absolutist approach. But it did not provide much by way of a clear rule as to when an injunction will be granted and when refused. It said:

A plaintiff must demonstrate: (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 defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

⁵ U.S. No. 05–131 (2006)

This is a pretty vague test. Maybe a clearer one cannot be devised. The Supreme Court remitted consideration of what to do to the District Court. That court refused a permanent injunction. The case then settled.

Of course saying “award damages instead of an injunction” itself may provide problems. How much would be a major question. And how should they be paid? After all a defendant who is allowed to infringe for a number of years may have no idea of the scale of his future activity – or may not have the money for an up-front payment. So the court may find itself drawn into some quasi-compulsory licence proceedings. It could say, for instance, that an injunction will be granted unless the defendant abides by certain terms, e.g. accounting, up-front payments and so on. Much remains to be worked out here, and may have to be if parties do not settle.

I turn to what Europe should do. Well at present it will be down to various national courts to decide whether an injunction can be refused and if so on what terms. Obviously the sooner we have a common approach through a common court the better. What should such an approach be?

A good starting position is the Enforcement Directive.⁶ Art 3 says that enforcement measures shall be “effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.” That is not an absolutist approach to remedies – far from it. A court is not compelled to grant an injunction however disproportionate a measure it may be or how abusively the patent owner has behaved.

So I think the answer is reasonably clear. We must leave it to the Judges. Any attempt to lay down detailed rules would be a mistake. Why? Because you cannot cater in advance for all types of case. A non-exploiting patentee may have a good reason for not exploiting – e.g. he has another patented product which does the job. Or he may have a perfectly fair licensing programme in operation. Or the defendant may have deliberately flouted the patent without any reasonable excuse.

⁶ 2004/48/EC

The common law countries would no real difficulty with the remedy being left to the Judges. For due to our legal history, we have traditionally held the remedy of an injunction to be what we call “discretionary.” We have never been absolutists about injunctions.⁷ Of course where there a threatened infringement of a right an injunction will be granted. But the court has always had the right to say no – damages will be an adequate remedy. In the field of intellectual property we have applied that in the case of a breach of confidence – where an inventor wanted to sell his idea for money, money is what he got.⁸ Similarly in 1995 I refused an injunction and awarded damages in a case where a record had been on the market for 11 years before the writer of the lyrics complained of copyright infringement. The writer wanted money – that is what he got.⁹

Now I know that the notion of “judicial discretion” is an anathema to some continental jurists. But unless you take the absolutist position – which I believe I have shown is absurd – there is no alternative. The experience of the common law countries shows that a judicial discretion is workable. It will have to be adopted. It may mean in some cases the court having to decide what a reasonable royalty is, and what the terms of a licence are, but that would not be the end of the World.

Before concluding I should mention one other possible answer to the “troll problem.” It could be argued that a troll which asked “too much” as the price of buying off an injunction is abusing its monopoly contrary to Art. 82 of the EU Treaty. So instead of using a judicial discretion to withhold an injunction on terms, one asks whether there is an abuse of monopoly instead, and only if there is does one refuse an injunction. I think this would be a bad solution to the problem. It is likely to be complicated, roundabout and involve the impossible question of whether the patentee is asking “too much”. Competition law is not the answer or at least not the only answer.

So in the end my answers to the question posed by the title of this talk are (1) No patentee has an absolute right to an injunction (2) normally he will get one, (3) the

⁷ Save perhaps in the case of an injunction to restrain a defendant from doing that which by contract he has agreed not to do.

⁸ *Seager v Copydex* [1967] 1 WLR 923

⁹ *Banks v EMI Songs* [1996] E.M.L.R. 452

court should always have a reserve power to refuse an injunction and to fashion a financial and/or other remedy appropriate to the circumstances of the case and the public interest, and (4) the matter should be left to the courts – attempts to legislate for the problem are almost certain to lead to trouble.