A Better Balance for All: Compulsory Licensing for Non-use Technology Patents

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A Better Balance for All:  
Compulsory Licensing for Non-use Technology Patents

Jason Comer

I. Introduction

The United States prides itself as being one of the most innovative and creative countries in the world. Whether we look to Benjamin Franklin’s bifocals and lightening rod, Alexander Graham Bell’s telephone, or Henry Ford’s moving assembly line, we celebrate the ingenuity and entrepreneurial spirit that seems to be instilled inside all Americans. The creativity that spawned these inventions has become as much a part of being an American as the Fourth of July.

Right from the birth of our country, the inventions that flowed from these characteristics were cherished and protected under our laws. The United States Constitution grants Congress the power, “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”\(^1\) These words were used to establish the foundation for patents and copyrights, which endorsed creation and fostered discoveries. Specifically, patent law used this clause to build exclusive rights for patentees that grant the holder, “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.”\(^2\) These protections have not only helped our country become the innovative powerhouse that we are today, but are necessary to continue our country’s inventiveness for the future. As our inventions change to reflect the world we live in, however, so must the law protecting them.

\(^1\) U.S. CONST. art. 1, § 8, cl. 8.  
Over the past several decades, individuals and companies have increasingly used the patent system to build-up patent portfolios that are not used to advance the progress of science for the public benefit, but to protect profit margins and hinder improvements. Patent holders file for multiple patents on similar technologies simply to let them lay dormant and prevent competitors from entering an industry. Other firms use their exclusive rights, not to produce or manufacture the invention for the advancement of society, but to threaten injunctions and demand exorbitant fees from those who do. The current patent law system is flawed and needs a transformation that will more accurately reflect the original intent, as set forth in the Constitution, and prevent the harms that have emerged.

This article argues for that change. This modification needs to be in the form of compulsory licensing. Specifically, our patent system needs to introduce compulsory licensing for non-use technology patents at a transparent and competitive rate. Limiting compulsory licenses to non-use patents will allow revitalization in both the production and use of valuable innovations. These previously un-used inventions will be brought to the marketplace and help advance our society as a whole.

Part II of this article will examine current problems in patent law that has lead to an imbalance in favor of patentees and a restriction on access to information. Part III will put forth the idea of mandatory licensing. This section begins with a discussion of mandatory licensing as mentioned in intellectual property rights treaties signed by the United States. This section continues with a discussion of compulsory licensing as used in foreign law and mandatory

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5 U.S. CONST. art. 1, § 8, cl. 8.
licensing permitted throughout different areas of the current US intellectual property system. Part IV will set forth the proposed solution of mandatory licensing of patents that are currently not being used at a transparent and competitive rate. This part will discuss which patents the proposal will apply to, how mandatory licensing should be decided, and how royalties should be calculated. Part V will conclude with a discussion on how the proposed changes will better satisfy the goals and theories of intellectual property law. This section will start with a discussion on the balancing theory as discerned from *INS v. AP*. Next, the article continues with a conversation on the net benefits approach. Finally, the proposed change will be discussed under the externalities approach.

II. **Problems as a Result of Current Patent Law**

Patent law, as it exists today, has lead to a system that encourages patent hoarding and a run-up of licensing fees that would amount to extortion in any other context. Many people do not see this as a problem because it is primarily companies that are being charged these exorbitant licensing fees and not individuals. When you look at these costs, however, it is the consuming public that ultimately foots the bill in the form of higher prices. On the other hand, if the companies, and the public, decide not to pay the extortion rates they are threatened with litigation and injunctions that could halt production of useful items and in extreme cases, shut down entire industries.

The current system is set around the proposition that, “[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief

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or deemed guilty of misuse or illegal extension of the patent right by reason of his having…
refused to license or use any rights to the patent.” In other words, under current law, a court
may not hold the fact that the patent is not being used or licensed against the patent holder when
deciding an infringement case. Further, a court may not find a patent holder guilty of
misappropriation or abuse of his patent rights by not using it. This statute has long been
supported by case law that permits patentees to reserve the right to use or not use the underlying
technology. What may have started off as a legitimate protection of an inventor’s rights has
lead to the creation of individuals and companies called “patent trolls” and system of patent
holdup.

Patent trolls operate by acquiring patents on emerging technology and waiting until
companies develop a product that potentially infringes on the patents. The patent troll then
waits until an industry develops around the potential patent infringing products. Once the

8 See, e.g., Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (U.S. 1908), and
9 Thomas F. Cotter, Invention, Creation, & Public Policy Symposium: Innovation & Competition
Policy: Patent Holdup, Patent Remedies, and Antitrust Responses, 34 Iowa J. Corp. L. 1151,
1153-54 (2009) (stating, “a proposed definition of patent holdup as occurring when a component
patent owner is able to exploit its bargaining power vis-a-vis downstream users due to the
possibility that the patent owner will be able to enjoin the manufacture, use, or sale of an end
product that incorporates the patented invention, in such a way as to threaten either static
deadweight losses far out of proportion to any likely increases in dynamic efficiency, or dynamic
efficiency losses due to downstream users' reduced incentives to invest in standard-specific
technology or to engage in follow-up innovation.”).
Prop. L. 333, 335 (2007); see also, David G. Barker, Troll or no Troll? Policing Patent Usage
with an Open Post-Grant Review, Duke L. & Tech. Rev. (Apr. 15, 2005), see also, Patent Trolls:
Fact or Fiction?: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual
Kamen, President, DEKA Research & Dev. Corp.).
11 Myers, supra note 10, at 335.
industry is established, the patent troll will start to demand exorbitant licensing fees or threaten litigation that will shut down the industry.\textsuperscript{12}

One recent example in patent trolling is NTP, Inc.’s claims against Research in Motion (RIM).\textsuperscript{13} In November of 2001, NTP filed suit against RIM alleging that RIM, the manufacturer of BlackBerry cell phones, was infringing on several patents.\textsuperscript{14} The case resulted in an award of $54 million in damages and a permanent injunction that prohibited RIM from using the patented technology, which was of questionable validity.\textsuperscript{15} Facing shutdown, RIM, the maker of the most popular phone for businesses, was forced to settle for $612.5 million.\textsuperscript{16} NTP also settled for large fees from phone maker Nokia and wireless e-mail creator Good Technology.\textsuperscript{17} More recently, in 2010, NTP filed a slew of lawsuits against Apple, Google, HTC, LG, Microsoft, and Motorola.\textsuperscript{18}

The current patent system has lead to a hoarding of patents that are used by some simply for profit and not for “the progress of science and useful arts.”\textsuperscript{19} This system is flawed in that it

\textsuperscript{12} Id. (arguing that the patents that the trolls are relying on are usually on trivial, but necessary, aspects of the overall product and of questionable validity).

\textsuperscript{13} NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1289 (Fed. Cir. 2005); Myers, supra note 10, at 334.

\textsuperscript{14} NTP, 418 F.3d at 1289.

\textsuperscript{15} Id. at 1282, 1292.


\textsuperscript{17} Myers, supra note 10, at 334.


\textsuperscript{19} U.S. CONST. art. 1, \S 8, cl. 8.
supports the hindrance of both useful technology and public access to goods. As Justice Douglas stated in a powerful dissent in *Special Equipment Co. v. Coe*,\(^{20}\)

The result is that suppression of patents has become commonplace. Patents are multiplied to protect an economic barony or empire, not to put new discoveries to use for the common good. “It is common practice to make an invention and to secure a patent to block off a competitor's progress. By studying his ware and developing an improvement upon it, a concern may ‘fence in’ its rival; by a series of such moves, it may pin the trade enemy within a technology which rapidly becomes obsolete. As often as not such maneuvers retard, rather than promote, the progress of the useful arts. Invariably their effect is to enlarge and to prolong personal privilege within the public domain.” One patent is used merely to protect another. The use of a new patent is suppressed so as to preclude experimentation which might result in further invention by competitors. A whole technology is blocked off. The result is a clog to our economic machine and a barrier to an economy of abundance.\(^{21}\)

Even back in 1945, Justice Douglas saw the harms that exclusive patent rights were causing for the advancement of technology in our society. He knew that the ability to exclude, while it can be beneficial to those who are working their patents, could be easily utilized to hinder both competitors and the public. By allowing non-use patent holders to maintain their exclusive rights, companies can receive a slew of patents and simply hold them so as to cordon off competition in an entire sector. This only grants a monopoly and hinders competition that would result in lower prices and hence greater access by the public to these goods. Further, Justice Douglas points out that non-use patents were, and continue to be, used to prevent competitors from developing advancements on existing technologies. This can lead to a smothering of entire technologies and a repression of science and useful arts. The current system requires a change that no longer protects patent trolls and the abuses that come with them. This change needs to include compulsory licensing.

\(^{20}\) 324 U.S. 370 (U.S. 1945).
\(^{21}\) *Id.* at 382-83 (Douglas, J., dissenting) (internal citation omitted).
III. Compulsory Licensing in an International Context

Compulsory licensing is not a new idea to the area of intellectual property. The Paris Convention of 1883, one of the first intellectual property treaties, authorized its signatories to use compulsory licenses in several scenarios. The purpose of this treaty was to provide an international system for the protection of inventions abroad. The treaty is intended to promote uniformity in international intellectual property law and, through its administrator, the World Intellectual Property Organization (WIPO), attempt to harmonize national intellectual property legislation. The provisions set forth by the Paris Convention are incorporated in many countries’ intellectual property systems throughout the world.

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23 Id. Specifically the treaty provisions state:
   2) Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work;
   3) Forfeiture of the patent will not be provided for except where the grant of compulsory licenses is not sufficient to prevent abuses. Forfeiture or revocation of a patent will not be instituted before the expiration of two years from the grant of the first compulsory license;
   4) A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of three years from the date of application for the patent, or four years from the date of the grant of the patent whichever period expires last. It shall be refused if the patentee justifies his inaction by legitimate reasons. Such compulsory license shall be non-exclusive and shall not be transferable even in the form of the grant of a sub-license except with that part of the enterprise or goodwill which exploits such license.

Id. at art. 5(A).
24 Yosick, supra note 3, at 1284.
26 See infra pp. 8-9.
The Agreement on Trade Related Aspects of Intellectual Property Rights\textsuperscript{27} is another international treaty that attempts to set standards for harmonizing international intellectual property law. Some aspects of the TRIPS agreement have been adopted into current US patent law, including the extension of a patent term to twenty years.\textsuperscript{28} However, there are some aspects of TRIPS that the US has refused to adopt.\textsuperscript{29} Included in the TRIPS agreement is a system by which governments may grant compulsory licenses to potential licensees.\textsuperscript{30} Mandatory licensing is set up under Article 31, which has the following elements in order to acquire the license:

1) authorization must be considered on the individual merits;
2) the applicant has attempted to obtain a license from the patent holder;
3) the use is nonexclusive and nonassignable;
4) the use is primarily for the domestic market; and
5) the patent holder receives adequate remuneration.\textsuperscript{31}

Many developed countries use the Paris Convention and TRIPS as a basis to permit compulsory licensing of patents in non-use situations in their domestic law.\textsuperscript{32} These nations treat the issuance of a patent similar to a contract between the government and the patentee, “where the patentee is given the right to prevent others from using the invention under the implied condition that the patent holder will exploit the invention in the State, thereby benefiting the

\textsuperscript{27} Agreement on Trade-Related Aspects of Intellectual Property Rights, Dec. 15, 1993, 33 I.L.M. 81 [hereinafter TRIPS].
\textsuperscript{28} 35 U.S.C. 154(a)(2) (2006); TRIPS, supra note 27, at art. 33; Yosick, supra note 20, at 1285.
\textsuperscript{29} Yosick, supra note 3, at 1285, (pointing out that “the United States is the only major country using a first-to-invent rather than a first-to-file system, which has presented a major obstacle in the road to patent harmonization.”).
\textsuperscript{30} TRIPS, supra note 27, at art. 31. (setting out that the government may grant licenses for patents against the will of the patentee. The agreement sets out clear rules that governments should follow in granting compulsory licenses against the will of the patentee). See generally Sara M. Ford, Compulsory Licensing Provisions Under the TRIPs Agreement: Balancing Pills and Patents, 15 Am. U. Int'l L. Rev. 941 (2000).
\textsuperscript{31} Yosick, supra note 3, at 1286; TRIPS, supra note 27, at art. 31
community”. If the patent holder does not use the invention underlying the patent, he is treated as having breached his contract and the state has the right to reduce the rights granted, such as relieving the holder of exclusive rights. Countries use different meanings of the term “use” and “worked” when judging whether a patent is non-use. In most countries, the term simply means that the underlying invention must be available in the country without regard to whether it is produced domestically or imported.

In the United Kingdom, mandatory licensing is available in situations where, three years after the issuance of the patent, demand in the U.K. “is not being met on reasonable terms,” or if the refusal to grant licenses by the patentee hinders “the establishment or development of commercial or industrial activities.” In Japan, mandatory licensing is available where the patented technology is not used in the country for three years or in situations “where working is in the public interest.” Furthermore, in Canada, a mandatory license is available if the demand for the technology is not being adequately met three years after the grant. Finally, Germany permits compulsory licensing is not used within three years of the issuance or if the patent holder refuses to license the technology and that license would be “indispensable in the public

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33 Id. at 351.
34 Id. at 351-352 (citing A. Mian, Compulsory Licensing--Copyright and Patents, as presented at the Regional Forum on the Judiciary and the Intellectual Property System, Islamabad, Pakistan (1986).)
36 Yosick, supra note 3, at 1289 (citing Patents Act of 1977, 48, 48A(1)(b), (c) (2001) (Eng.).
Compulsory Licensing in the United States

There are also several areas of United States law that alter the exclusive rights of the patent holder. The U.S. Government or its contractors may use any patent; the only remedy for the patent holder is monetary compensation, not injunction. Any party that is required to comply with regulations under the Clean Air Act may apply for a mandatory patent license. The United States Atomic Energy Commission also has the power to grant compulsory licenses to applicants under defined circumstances. When the Commission grants these licenses, the terms will be equitable and based off “similar licensees for comparable use.”

United States’ case law has also developed compulsory licenses for remedies to anti-trust cases. In United States v. Hartford-Empire Co., a group of glass companies were attempting to monopolize the glassware and glass container industry by collecting patents on machines that manufactured glassware and instituting litigation against competitors. The Court noted that this course of action by the defendants constituted “conspiracies against the public interests, and abuses of patent privileges.” The Court then ordered, “all the defendants shall be required to license anyone, royalty free, in the manufacture of machines embodying these patent rights.”

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43 Id.
46 Id.
47 Id. at 619 (citing National Harrow Co. v. Hench, 83 F. 36, 38 (3d Cir. 1897)).
48 Hartford-Empire, 46 F. Supp. at 621.
Even though anti-trust case law, along with certain statutory exemptions, provides mandatory licensing, it is only in narrowly defined areas that do not adequately address a growing problem.\(^49\)

**IV. Proposed Change Allowing For Compulsory Licensing**

Current patent law needs to be revised to include a process for mandatory licensing for non-use technology patent holders. The proposed solution will allow a potential licensee of a technology patent to petition the Federal District Court for a mandatory license at a transparent and reasonable rate. Importantly, this proposal applies to all technology patents. Instead of choosing specific industries that would be eligible for compulsory licensing, this proposal treats all technology patents the same. Non-discrimination between industries and technology patents is the correct path to take because it reflects the current policy of patent law.\(^50\)

In order to receive the mandatory license, the potential licensee must first prove that the patent is a non-use technology patent. In order to prove non-use of a patent, the licensee must begin by showing that the requisite time frame has passed since the issuance of the patent. This time frame, set in accordance with International intellectual property treaties, will be four years.

\[^{49}\textit{See supra Part II.}\]

\[^{50}\textbf{John W. Schlicher, Biotechnology and the Patent System; Patent Law and Procedures for Biotechnology, Health Care and Other Industries, 4 U. BALI. INTELL. PROP. L.J. 121 (1996).}\] When the USPTO asked for written testimony about whether patents across different industries should be treated the same, Schlicher responded, United States consumers benefit from advances in biotechnology and all other technologies. For that reason, patents apply to all areas of technology where there are opportunities for profit-motivated people to conduct research and produce technical information. Because the policy of patent law applies to all technologies, patent law doctrines must apply across the board to all technologies. \textit{Id.} at 126.
from the date of application for the patent or three years from the date of grant, whichever is later.\(^{51}\) The licensee must then show that the patent is not being “worked”. For the purposes of the proposal, “worked” will simply mean “used”. The law will not allow a patent holder to hide the underlying technology from the world, “but must exploit it and share its benefits even while maintaining exclusive rights to the profits.”\(^{52}\) When looking at the “use” of a patented technology, importation would make the item available to the public and therefore qualify as “use” of the patent.\(^{53}\)

The next step is determining guidelines on which to grant compulsory licenses. At first it may seem impossible to formulate a system of rules to grant such licenses, but existing case law can provide a starting point. *eBay Inc. v. MercExchange*\(^{54}\) provides the fundamental underpinnings of the proposed change. While many scholars have argued both the merits and effect of the *eBay* decision\(^{55}\), our examination of the case is simply to retrieve what will become the backbone of our proposal.

In *eBay Inc. v. MercExchange, L.L.C.*\(^{56}\), the Supreme Court decided that a permanent injunction should not automatically stem from a violation of the Patent Act.\(^{57}\) As one commentator explains, “the U.S. Supreme Court effectively abrogated the ‘general

\(^{51}\) Paris Convention, *supra* note 95, at art. 5.


\(^{53}\) See Yosick, *supra* note 3, at 1302 (“[I]f the item was available through importation, no license would be available.”).


\(^{56}\) 547 U.S. 388.

\(^{57}\) *Id.* at 393-94.
The Federal Circuit had adopted in its approach to issuing permanent injunctions in patent infringement cases, holding that the traditional four-factor test for issuing permanent injunctive relief according to well-established principles of equity applied equally to disputes arising under the Patent Act.”

The four-factor test says,

[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.

These four factors are what the plaintiff in a patent infringement case needs to prove in order to get an injunction on the infringer. While it is not a necessary conclusion, another way to state this is if the plaintiff fails this test, an injunction is not granted. For purposes of our discussion today, the courts can use a slightly modified version of these four factors to create a viable and working framework to shape a decision on mandatory licensing in individual cases.

The first factor is important in that the potential licensor will have the opportunity to show that a compulsory license will not result in irreparable injury to the patent holder. One of the main facets of a patent is the ability to exclude others from using your patented information

59 eBay, at 393-394 (referring to the Court of Appeals’ decision granting eBay a permanent injunction from using the patent, the court stated, “[t]he [Court of Appeals] articulated a ‘general rule,’ unique to patent disputes, "that a permanent injunction will issue once infringement and validity have been adjudged.’... The [Court of Appeals] further indicated that injunctions should be denied only in the ‘unusual’ case, under ‘exceptional circumstances’ and ‘in rare instances . . . to protect the public interest.’” ... Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief.").
60 ebay, at 391 (stating that “a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief” (emphasis added)).
and under some circumstances, no monetary award could replace that right.\textsuperscript{61} For example, there may be circumstances that prevent a patent holder from immediately producing or licensing his patent. In such a case, a compulsory license would cause irreparable harm by granting a license to a competitor that could eat away at the holder’s potential market share. A monetary sum, in such a case, would not be able to make up for that loss.\textsuperscript{62}

Even though irreparable harm and the second prong are separate, they do overlap to some extent.\textsuperscript{63} The second prong of the test will enable the potential licensor to demonstrate that a licensing fee will be adequate to compensate for the use of the patent. Under this prong, the licensor will have to show that monetary compensation will be adequate to cover the loss of the right of exclusivity.\textsuperscript{64} The court and potential licensee do not have to rely on the patentee’s alleged monetary loss by the grant of the compulsory license, but it should be judged in a fair and equitable way.

The third element will focus on the balance of hardships between the patentee and the licensee. Here, several factors can be examined; the relative size of the parties, any efforts of the

\textsuperscript{61} Black & Decker v. Robert Bosch Tool Corp., 2006 U.S. Dist. LEXIS 86990 (N.D. Ill. Nov. 29, 2006) (The Court stated, “[b]ecause the principal value of a patent is its statutory right to exclude, the nature of the patent grant weighs against holding that monetary damages will always suffice to make the patentee whole.” (quoting Reebok Intern. Ltd. v. J. Baker, Inc., 32 F.3d 1552, 1557 (Fed. Cir. 1994))).

\textsuperscript{62} Wald et al. v. Mudhopper Oilfield Svcs., Inc. et al., 2006 U.S. Dist. LEXIS 51669, at 16 (W.D. Okla. July 27, 2006) (Irreparable harm is “often suffered when the injury can[not] be adequately atoned for in money . . . or when the district court cannot remedy [the injury] following a final determination on the merits,” as when the plaintiff loses market share or its reputation for innovation. (citing Prairie Band of Potawatomi Indians v. Pierce, 253 F.3d 1234, 1250 (10th Cir. 2001))).

\textsuperscript{63} Smith & Nephew, Inc. v. Synthes (U.S.A.), 466 F. Supp. 2d 978, 982-983 (W.D. Tenn. 2006). (“Although stated as two separate factors under eBay, the irreparable harm requirement contemplates the inadequacy of alternate remedies available to the plaintiff.”).

\textsuperscript{64} Smith & Nephew, Inc. v. Synthes (U.S.A.), 466 F. Supp. 2d 978, 984 (W.D. Tenn. 2006) (“It is not enough that there is a remedy at law; it must be plain and adequate, or, in other words, as practical and efficient to the ends of justice and its prompt administration as the remedy in equity.” (quoting Boyce’s Ex’rs v. Grundy, 28 U.S. (3 Pet.) 210, 214, 7 L. Ed. 655 (1830))).
patent holder to manufacture or license his patent, the bargaining history between the parties, any previous dealing between the parties, and the availability of any alternatives to compulsory licensing. Here, the court can look, and the licensee may provide, any inference of a blocking patent.\textsuperscript{65}

Finally, the public interest will be looked at. Public interest can come in many forms. One example of a public interest that would trump a patent holder’s right is the case of \textit{Milwaukee v. Activated Sludge}.\textsuperscript{66} There, the Court reversed an injunction that would have prevented the infringer-city from using a patented sewage purification process to treat its sewage.\textsuperscript{67} If the city was prevented from using the patented process, the sewage would be dumped into the lake that also provided the city’s drinking water.\textsuperscript{68} In supporting its decision, the Court followed a line of cases that stated, “injunctive relief was denied on the ground that it was not absolutely essential to preserve the rights of the patentee, and would cause the infringer irreparable damage.”\textsuperscript{69} Other cases have held public interest will trump a patentee’s right to an injunction.\textsuperscript{70}

\textsuperscript{65} See Robert P. Merges & Richard R. Nelson, \textit{On The Complex Economics of Patent Scope}, 90 Colum. L. Rev. 839, 860 (1990). (“Two patents are said to block each other when one patentee has a broad patent on an invention and another has a narrower patent on some improved feature of that invention. The broad patent is said to "dominate" the narrower one. In such a situation, the holder of the narrower ("subservient") patent cannot practice he invention without a license from the holder of the dominant patent.”).
\textsuperscript{66} 69 F. 2d. 577 (7th Cir 1934).
\textsuperscript{67} Milwaukee, at 593.
\textsuperscript{68} Id, at 593.
\textsuperscript{69} Id, at 593.
\textsuperscript{70} Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1547-48 (Fed. Cir. 1995); See, e.g., Hybritech, Inc. v. Abbott Lab., 4 U.S.P.Q.2D (BNA) 1001 (C.D. Cal. 1987) (public interest required that injunction not stop supply of medical test kits that the patentee itself was not marketing), aff’d, 849 F.2d 1446, 7 U.S.P.Q.2D (BNA) 1191 (Fed. Cir. 1988); Vitamin Technologists, Inc. v.
The licensee will receive a non-exclusive compulsory license and the patentee will be prohibited from commencing a forfeiture proceeding within two years after the grant of the license. The two-year waiting period is established for several reasons. First, this is the required waiting period set up under the Paris Convention and used by many countries. Second, it allows the licensee time to work the licensed patent. This benefits both the licensee and the public because the previously non-used technology is now available in the marketplace. The licensee should also be allowed a minimum amount of surety after taking the time and expense to receive the compulsory license. Finally, the two-year period is short enough that it permits the patent holder, now the forced licensor, to take concrete steps towards manufacturing or licensing the technology. The proposal will permit the patent holder to seek an adjustment to the compulsory license terms or revocation if the patentee begins manufacturing the technology. Now that the license has been granted, it is important to determine the appropriate license fee.

Licensing Fees

The idea of establishing an appropriate licensing fee may at first seem like a daunting, if not impossible task. First, it is important to recognize that if a court issued a mandatory license, the parties would be given the opportunity to decide on a reasonable fee themselves. When parties are in a position where the court may impose a rate on them if they do not reach a decision, it provides a strong incentive to come together on reasonable terms. If the parties cannot agree on terms, the task is easy by turning to both the existing patent framework and

Wisconsin Alumni Research Found., 64 U.S.P.Q. (BNA) 285 (9th Cir. 1945) (public interest warranted refusal of injunction on irradiation of oleomargarine).
71 Paris Convention, supra note 95, at art. 5(A)(3); Julian-Arnold, supra note 32, at 372-395.
72 Yosick, supra note 3, at 1303.
judicial decisions. Current patent law lays out that when a patent has been infringed, the court shall award monetary damages that are adequate to cover the infringement, “but in no event less than a reasonable royalty for the use made of the invention by the infringer…” 74 Under these rules, courts have determined what a reasonable licensing fee would be. 75 In determining what a reasonable rate should be, it is easy to turn to existing licensing agreements. 76 Often courts turn to the established royalty rate on other contracts for the invention, but in the case of the proposed regulation there will be no established rate on a non-use patent. Instead, when no rate is presently established, courts often turn to the royalty comparison approach. 77 This method looks at what a “willing buyer and willing seller” would have negotiated and establishes this as the reasonable royalty rate. 78 Simply stated, the court should look at as many different facts as they view helpful in determining the reasonable rate. 79 These various methods have been applied in many cases and are not an issue of first impression for the courts. 80 This methodology can be used to establish a reasonable and transparent fee that is appropriate for the use of the compulsory license.

V. Examination Under Principles of Intellectual Property

74 35 USCS § 284 (2006).
78 ITT, at 227; Studiengesellschaft Kohle, m.b. H. v. Dart Industries, 862 F.2d 1564, 1573 (Fed. Cir. 1988).
80 ITT, 17 Cl. Ct. 199; Leesona Corp., 220 Ct. Cl. 234.
Now that the proposal has been laid out, it is important to decide whether this is a path worth taking. In order to do that, we will examine the proposed change against the current patent law under various analytical methods used by commentators to judge the merits of an intellectual property law.

**International News Service Approach**

*International News Service v. The Associated Press*\(^{81}\) is one of the first places to start when examining property rights. While the law applied in *INS* is neither patent, copyright, or trademark, but the doctrine of misappropriation, it is still considered of fundamental importance for the understanding and application of intellectual property.\(^{82}\) The case provides a guideline for the balancing of rights to public access and exclusive rights to use information. *INS* dealt with two competitors that gather and disseminate the news for profit, INS and AP.\(^{83}\) AP spent over $3.5 million per year in gathering the news and disseminating it to its member agencies.\(^{84}\) INS spent money gathering the news as well, but did pirate some news stories from AP by bribing AP members or simply taking AP’s news stories off bulletin boards.\(^{85}\) Here, the Court held that this amounted to misappropriation and ordered an injunction.\(^{86}\) In coming to this decision, the Court stated that INS’s “process amounts to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit is to

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\(^{81}\) 248 U.S. 215, 240 (U.S. 1918).
\(^{83}\) *INS*, 248 U.S. at 216.
\(^{84}\) *Id.* at 217.
\(^{85}\) *Id.*
\(^{86}\) *Id.* at 223.
be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news.”87 In explaining one of the limitations they were placing on the injunction, the Court stated it is “only to the extent necessary to prevent that competitor from reaping the fruits of [AP]’s efforts and expenditure.”88

The Court in Int’l News found that the major problem was International News Service’s interference occurred exactly when AP was about to make a profit from their hard-earned collection of information. Instead of having to pay the costs of collecting this information itself, Int’l could instead simply take the news from AP and sell it themselves. At first glance, it seems as though the proposed compulsory licensing would complete the same task. On the contrary, the proposed compulsory licensing would only be permitted if the potential licensor could satisfy the four factors set forth above. By taking into account the irreparable harm to the patent holder and the balance of hardships, the District Court will be able to avoid the situation in Int’l News. For starters, these factors will take into consideration any efforts taken by the patent holder to manufacture or license the invention. This would prevent a party such as Int’l News from receiving a compulsory license while the patent holder was using the patent himself.

Furthermore, the situation in INS would be avoided because a reasonable fee will be established in any case where a compulsory license is granted on a non-use patent. This means that instead of outlaying just a couple dollars like Int’l News did in order to “steal” the news from AP, the licensor would be required to shell out a reasonable fee that would presumably more than cover the costs associated with gathering the news.

The proposed rule change would also fall better in line with the INS Court’s explanation

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87 Id. at 221.
88 Id.
of the proper limitation on the injunction. Current law goes beyond the extent necessary to protect the profits of the intellectual property right holder. The law instead should retract in accordance with the proposal so that it permits the right holder to reap benefits through either the use or licensing of his patent. This will protect the right holder to the extent necessary to allow him to reap the benefits of his patent.

**The Net Benefits Approach**

The “net benefit” approach is a theory of intellectual property law that attempts to find the exact balance between the amount of incentives and the amount of public access. This approach allows us to label both incentives and access as costs and weigh them against each other. By providing more incentives to intellectual property rights holders, the government is fostering innovation, leading to the creation of more information. The cost of these increased incentives, however, is the restriction of public access to the information. Conversely, increasing access to the protected materials allows more of the public to benefit from the information. The cost to increased access, on the other hand, is that it reduces the amount of information produced. The net benefits approach as leads us to the conclusion that, “[a]n increase in access to intellectual property is justified only when the value of the benefits resulting from increased access is greater than the value of decreased creative activity resulting from decreased incentives.”

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90 *Id.*
91 *Id.*
Current law creates too many incentives for patentees by granting exclusive rights that apply irrespective of whether the patent is used or not. Consequently, the cost to the public of accessing that information is too high, resulting in less people benefitting from the information. The patent holder is granted the extremely high incentive of having exclusive rights to his patent without the requirement to use it. This high incentive results in the production of more beneficial information. On the other hand, when the holder does not use a patent, the public simply does not benefit from the exclusive license at all. While the basis for the patent is available at the USPTO, the actual device or item is not available to anyone. This creates the highest cost to access possible, complete exclusion.

The proposed change to the current patent law regime would result in a better balance under the net benefits approach. The change would accurately reflect the conclusion reached under the net benefits approach. By establishing a process for compulsory licensing, we would increase the access to intellectual property. This is justified because the value of the benefits as a result of the increased access is greater than the value of the creative activity that would result from decreased incentives. The increased access to the un-used patents would enable the public to enjoy the fruits of that information that is currently not being shared. The negative effect on creation of new material will be minimal because patent holders will be able to keep their exclusive rights as long as they use the patent. Furthermore, even if they do not use the patent, the patent holder will only be stripped of that exclusive right if the potential licensor can satisfy the four prongs. In sum, the change is justified because the increased access to this previously untapped information outweighs the small decrease in creation from stripping away the exclusive right in certain non-use situations.

92 Id.
The externalities approach is another way to weigh the costs and benefits associated with a law. In order to fully comprehend this approach we first need to split externalities into both positives and negatives. A negative externality occurs when an action that an individual engages in creates a cost or harm to another, or society in general.\footnote{Jeffery L. Harrison, \textit{A Positive Externalities Approach to Copyright Law: Theory and Application}, 13 J. Intell. Prop. L. 1 (2005).} On the other hand, a positive externality transpires when an activity by an individual creates a benefit to another.\footnote{Id.} There is often a gap, however, between the economic consequences of an action and a legal reality.\footnote{Id.} With a negative externality, the cost to society may be felt economically, but the law may not require the individual who caused the harm to internalize it.\footnote{Id.} With a positive externality, society may benefit from an individual’s actions, but the law may not allow the individual to internalize that gain.

Creating rules that we can apply in the case of intellectual property is another important step in examining a law under the externalities approach. The first step to creating rules is understanding the underlying clarifications that lead us to these rules.\footnote{Id. at 4.} First, we need to realize that the principle goal of intellectual property “is not to maximize total gains resulting from creativity,”\footnote{Id.} but instead to maximize net social gains.\footnote{Id.} Second, it is important to notice that protecting these gain results in costs: the cost of administrating an intellectual property system; private transactional costs of parties in the IP arena; and the cost of granting exclusive rights
which results in less access by the public.\textsuperscript{100} The final clarification is that we need to compare the total benefits and the total costs of producing the creative work.\textsuperscript{101} Together, this leads us to two economic rules in order to approach positive externalities:

1. Internalization of positive externalities will be facilitated as long as the cost of the facilitation does not exceed the social benefits of the work.
2. No costs beyond the minimum necessary to bring [intellectual property]-worthy works into existence should be incurred.\textsuperscript{102}

When applying these rules, we also need to scrutinize the law and its process to decide "whether a more expensive process of separating works that result in a net gain from those resulting in a net loss is worth the costs."\textsuperscript{103}

Now that we have laid out the externalities approach and understand the underlying principles, we can examine both the current law and the proposed change of allowing mandatory licensing of non-use technology patents. Currently, the patent system grants patent holders exclusive rights whether or not they use or license their patent,\textsuperscript{104} meaning that this permits the patent holder to internalize positive externalities. The problem with this system, however, is that it does not maximize social benefits because a non-use patent is not providing any social benefits because no one has the ability to use or purchase the underlying technology of the patent. The current system, therefore, clearly violates the first rule because the cost of internalizing the positive externality far exceeds the social benefits of the work. Current patent law also violates the second rule because the costs are beyond what is necessary to bring about the creation of these works. Administrative costs associated with the current system are quite low because there

\textsuperscript{100} \textit{Id.}
\textsuperscript{101} \textit{Id.}
\textsuperscript{102} \textit{Id.}
\textsuperscript{103} \textit{Id.} at 5.
are only minimal exceptions to the current right of exclusivity.\textsuperscript{105} Transactional costs for non-use patents in the current system are also low because the fact that the patents are non-use means that there no licenses which would have required negotiations. However, the cost of exclusivity itself is extremely high in the case of non-use patents because besides from minor exceptions\textsuperscript{106}, the public is completely excluded from access to the underlying technology. Altogether, the low administrative costs are overwhelmed by the high transactional and exclusivity costs. The failure of the two rules by current patent law means that it needs to be adjusted in some way.

The proposed adjustment to patent law will provide a system that better satisfies the externalities approach. When looking at these rules, we must keep in mind that the change will only apply to non-use technology patents and not patents in general. The proposed system provides a better path for the first rule because it will allow for the internalization of benefits, by permitting patent holders to have exclusivity rights if they use their patents. The internalization of these benefits, unlike the current law, will not outweigh the social benefits achieved by allowing access to these previously inaccessible patented technologies. The second rule is where there is area for debate on the merits of the proposed rule. The administrative costs of implementing the new system will be higher than the current system. The additional time and effort it will take the District Court to decide on the merits of the mandatory license applications will be, admittedly, higher. The transactional costs will be much lower though due to the fact that the patent holder cannot drive license fees up to astronomical levels simply by sitting on the patent for years. The fact that the potential licensees can obtain fair pricing if they prove the patent holder is not using the patent in any way will result in both more equal bargaining power and reasonable pricing. Moreover, exclusivity costs will be much lower because the public can

\textsuperscript{105} See \textit{supra} pp. 10-11.

\textsuperscript{106} See \textit{supra} pp. 10-11.
gain access to the technology that was previously not available to them. Netting all costs, it seems as though the increased administrative costs are balanced out by the decreased transactional and exclusivity costs. This would suggest that the proposed change falls directly in line with the second rule because we are exactly at the minimum amount of costs. Any more protection to patented work is unnecessary and any less protection could start to hinder the amount of creativity produced. Putting the two rules together, it is easy to see that allowing for compulsory licensing for non-use patents is a better solution than the current law according to the externalities approach.

VI. Conclusion

Under the new rule, there will be a better balance between incentives for patent holders and the public. The proposition does not detract from the patent holder’s right to make a profit, but instead places the patent holder and public on a more level playing field. The proposal will admittedly result in a small decrease in creation, but this will be eclipsed by the increased availability of previously unused technologies in the marketplace. Further, the positive internalization costs have been too high for too long and it is the public who has been suffering through lower social benefits. Lowering these internalization costs is necessary so as to increase the social benefits flowing from these untapped patents.

Compulsory licensing of non-use patents will, moreover, bring the United States in alignment with international standards. International treaties and foreign law have developed a useful system that is reflected throughout this plan. The plan, furthermore, brings patent law, as a whole, in line with the limited, yet imperative, areas of compulsory licensing currently included in US law.
The proposal laid out above is not only the right move, but it is a necessary move for our patent system. The current system has been exploited at the expense of technological and societal advancement. This has lead to a patent environment that is contrary to both the underpinnings of American innovation and the Constitution. This proposal will not only reverse the current trend, but better reflect these foundations.