

The Menace of Patent Trolls: What the World Can Learn from India

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Received: 11 December 2018; accepted: 12 June 2019

First coined in the 1990s, the term ‘patent troll’ has no legal definition and is commonly used in the business world to describe a non-performing entity that obtains the rights to a patent purely to profit from litigation without seeking to produce or further develop the said invention or method. This paper aims to discuss the techniques and modus operandi of such businesses to extract profit out of legitimate creators of products and services using cutting-edge science and technology. Patent trolls have attracted the attention of law enforcement agencies worldwide. As compared to India, they have been more successful in sustaining their business models in the west where the existing legal framework is still conducive to their sustenance. The policing of patent trolls is remarkably tricky as they gain power from the strength of the very patent protection regimes they reside in. The objective of this paper is to conduct a comparative analysis of the patent systems and legal frameworks in the United States, European Union and India, and to illustrate and discuss how non-Indian jurisdictions can take a leaf out of India’s safeguard mechanisms to prevent the sprouting menace of such businesses and protect the interests of both large companies and emerging start-ups. The methodology of comparison revolves around analysing the basic tenets of the existing patent systems, as well as the key historical cases of precedence in various jurisdictions. The study and analysis also take into consideration the interests of the various stakeholders such as individual inventors, start-ups, corporate businesses, governments, and the citizens involved. This paper is especially of relevance today because this continuing practice discourages innovators from investing time, effort and capital into the research and development of new technologies, without which the progress of society is hindered.

Keywords: Munich Convention, European Patent Convention, Indian legislation, non-practicing entities, patents, patent trolls, patent assertion entities, post-grant review

It has become increasingly important for every economy to have an efficient patent system. The emergence of new patent intermediaries which operate and thrive in the intermediary market between buyers and sellers of intellectual property as well as auxiliary markets related to the protection of intellectual property in recent years, raise questions concerning their role for the efficiency of the patent system.¹

Non-practicing entities (NPEs) are a special type of intermediaries which are often called “patent trolls.” Peter Detkin, former Assistant General Counsel of Intel, claims to have coined this term while describing companies that buy, rather than create, patents and then extract disproportionately high license fees by threatening expensive litigation in the alternative.² Patent trolls acquire patents mainly for licensing purposes. They neither use the patent for their own production nor for follow-up innovations.³ Their modus operandi is to acquire patents and then sue production companies for infringement in view of the

purchased patent or enforcing patents without exploiting the patented subject-matter through manufacture or research. They seldom offer any particular product or service in relation to the patents that they hold and sue for. These can be seen as firms consisting of patent professionals and lawyers with pooled expertise in patent law and litigation.³ Patent trolls usually focus on large companies with high revenue but also target companies of various types, including manufacturers, distributors or retailers in certain industries. Under some circumstances, patent trolls remain completely stagnant and wait for some other company to develop the same technology before proceeding to sue them for patent infringement.⁴ Through such abusive practices they cause great uncertainty for businesses, suppress innovation, add redundant costs, scare investors and even force businesses to shut down.

Patent trolls have frequently been accused of imposing restrictions on innovators and undermining or impairing the incentives that patent law aims to create. Yet on the other hand they have also been defended on the grounds that they actually promote

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invention by adding liquidity, absorbing some of the risk otherwise borne by investors, and getting more royalties for small inventors.⁵ Surely, patent trolls both add to and subtract from the incentives of patent law, but the FTC and many experts in the field indicate that they currently do more harm than good to innovation and the patent system.⁶ The result of patent trolls is that investors are more reluctant to invest money in start ups due to the threat of future demands of patent trolls.

For small and medium companies, it is almost always clear that they are going to have to settle since they may not be able to afford the expenses that would be incurred if they defended the suit. Studies have shown that 55% of the company's patent trolls, also called patent assertion entities (PAEs) target have \$10 million or less in revenue⁷ and 82% have revenues of less than \$100 million.⁸ These companies can be easy targets because they almost always have to settle. However, it isn't only small companies and start ups that usually face threats from patent trolls, even large innovator companies have to deal with the consequences of patent troll activities. Microsoft stated that it typically faces about 60 pending PAE infringement claims, costing it tens of millions of dollars every year to defend.⁹ Google, Blackberry, Earthlink and Red Hat submitted joint remarks detailing that their litigation defence costs have gone up by 400% owing to the fact that patent trolls are filing four times as many lawsuits today as compared to in 2005.¹⁰

Patent Trolls in the United States

Thomas Edison (1898) stated "*The operations of patent sharks sometimes compel an inventor to obtain patents for articles which are never meant to be placed on the market. A fellow often gets up a machine, and somebody else comes along, and by getting patents through for certain parts, can give the inventor a great deal of bother and make him pay well, even if the inventor gets control of it*".¹¹

In the United States, about 80% of defendants in patent infringement cases are small and medium sized businesses, many of whom are terrorised by patent trolls.¹² These companies are being bullied into out of court settlements merely due to their size of operations. The patent abuse menace costs United States Businesses more than \$ 80 billion a year.¹³ The United States Patent Office grants numerous patents to large corporations,¹⁴ small business, academic

institutions and individuals,¹⁵ in their efforts to promote innovation. All the above significantly help improve the economy of a nation. Patents are granted to protect the technology and knowledge in spite of there being no plans to use the said technology in an invention.¹⁵ Patent trolling is a growing problem in the United States mainly because of the judicial system and laws. This section of the research paper goes on to enumerate the reasons for rise in patent trolling.

Firstly, United States is the hub for technological innovation which has led the Patent office to be flooded with patent applications. Due to the volume and time constraint, patent examiners grant a patent when there is a doubt regarding its patentability status, allowing courts to deal with law suits that may arise.¹² This gave room for patent trolls to file broad and vague patents, which could guarantee infringement,¹⁶ intimidating companies with legal repercussions without having rightfully earned the claim to do so.

The obviousness test is used to decide patentability, there should be some "suggestion, teaching, or motivation" in the prior art that would lead a person of ordinary skill in the art to the claimed invention.⁴ This test is being debated by the US Supreme Court in *KSR v Teleflex*,¹⁷ mainly on the contention that "suggestion, teaching, or motivation" in the prior art that would lead a person of ordinary skill in the art to the claimed invention." Another argument for this method is the ability to increase patent trolls. Legal debates and uncertainty increase possibility for patent trolls as the accurate prediction of the legal merit of the case is not possible.

Secondly, The United States Legal System states that the respective parties must bear their own cost unlike other jurisdictions where the losing party partly or wholly covers the cost of litigation of the winning party.¹⁷ This is less of a deterrent for patent trolls to take part in extensive litigation, because loss due to a dubious claim does not have a higher legal cost than that of a winning case. Thirdly, it is debated as to whether states can take cognizance of patent law is within the scope of the Federal Jurisdiction. Since societal demands have altered, states have evolved to incorporate numerous patent related laws within the ambit of state law, mainly dealing with bad faith patent claims.¹⁷

The main issue began with state laws taking cognizance of patent law and incorporating them into state statutes.¹⁸ When a question of bad faith patents

arise, state courts adjudicate¹⁹ the same, but the issue arises since patents come under federal jurisdiction and governed by the same.²⁰ By this, the Leahy-Smith America Invents Act, 2011 specifically states that any party can remove a patent case to federal law.²¹ Therefore, the case can be moved from the state court to the Federal Court.

Before judge can adjudicate a patent law case, they must understand the very complicated technology that exists in the questioned patent.¹⁶ In order to understand this, there could be a potential patent infringement. All the information released during a trial, will become publish in the court's journals, including the technology in question. The next flaw arises as the judicial system empowers the judge, under Federal Rule of Civil Procedure 26, to determine what evidence is permitted by of discovery.²² Rule 26(c)(1)(G) forbids trade secrets from being released through discovery, but there is no *proviso* to state what constitutes a trade secret.²³ If a secret is revealed, the burden falls on the disclosing party to remind the court not to publish the same.²⁴

Fourthly, the vulnerability of patent trolls to start ups arise from discovery related issues.²⁵ The below two-fold argument will help understand why start-ups in the US are in a vulnerable position. Start ups mainly work on cutting-edge technology which most individuals in the said field will struggle to understand,²⁶ to provide understanding and prove non-infringement, sensitive information needs to be disclosed²⁶ and trolls generate profits from sending demand letters rather than through actual the use of their patents, becoming privy to the mechanics and science behind a start-up's technology allows the troll to send demand letters to other companies in the same industry.¹⁶

Fifthly, The Supreme Court of the United States has taken bad policy decisions regarding patent trolling, in the rare instances when faced with a patent trolling case.²⁶ In this matter alone, the Supreme court has violated the rule of American appellate jurisprudence to decide a case in front of the bench. Roberts Courts, United Kingdom Parliament Member states that appeal courts should defer to district courts that are more able and capable to administer justice.²⁷ The District Court judges are in the front row and their opinions should be taken into consideration when formulating policy.

Finally, the landmark ruling, *eBay v MercExchange*²⁸ emphasizes the discretion the judges

have in determining infringement cases and all the evidence that will be looked at. It is an agreed fact that patent trolling needs to stop but patent trolling activity is difficult to define. U.S. House of Representatives Subcommittee (2006) met under Chairman Lamar Smith to define patent trolling but unfortunately were unable to define it. Chuck Fish, Time Warner's vice president and chief patent counsel praised the committee and stated "There is a harmful trend that exists toward speculation and litigation based on patents, and away from product innovation that is supported by strong intellectual property rights".

The United States has always prided itself on innovation and inventions. The government constantly encourages the same however, the federal laws fail to effectively protect inventors against patent trolls. States have taken it upon themselves not to rely on federal law and legislate their own law. But despite the states' efforts, patent law falls within the jurisdiction of Federal Courts.

In 2017, the United States Supreme Court gave a ruling that shook businesses worldwide. Tech companies and app developers saw a ray of sunshine in the decision given in *TC Heartland LLC v Kraft Foods Group Brands LLC*.²⁹ The Court held that lawsuits unlike before, they could only be heard where the defendant resides and not at the court the plaintiff chooses. This case specifically referred to patent trolling cases however, the above ratio has been expanded to include all Intellectual Property cases and more. This is seen as a shift from plaintiff friendly to neutral stances. Tech companies benefit by spending less time and money on frivolous lawsuits and can invest the resources to develop new technologies.

Patent Trolls in the European Union

In recent years, numerous companies in the European Union (EU) have been attacked by patent trolls. 80% of lawsuits filed outside the United States by patent assertion entities happen in Europe.³⁰ Majority of the lawsuits have been filed in Germany in the past two years.³⁰ A British company BTG has filed suits against Amazon, Barnesandnoble.com, Netflix and Overstock.com for infringing US patents acquired from Infonautics.³¹ A similar dispute took place between Infineon, a German chip manufacturer and Rambus, a US memory manufacturer. The dispute resulted from Rambus claiming royalty payments

from Infineon. The companies reached a settlement for \$23.5 million to be paid by Infineon to Rambus for two years.³²

However, a surge in patent infringement law suits was seen much later in the European Union than in the United States.³³ The following reasons explain why the patent troll problem was more prominent in the United States than the European Union. Firstly, the stringent laws in the EU made it almost impossible for patent trolls to function there. The European Patent Convention (EPC) also called Munich Convention, provides in its articles:

Article 93: The European Patent Office shall publish the European patent application as soon as possible: (a) after the expiry of a period of eighteen months from the date of filing or, if priority has been claimed, from the date of priority, or (b) at the request of the applicant, before the expiry of that period³⁴

Article 123: The European patent application or European patent may not be amended in such a way that it contains subject-matter which extends beyond the content of the application as filed. The European patent may not be amended in such a way as to extend the protection it confers.³⁵

The severity of laws related to the patent application process served as major roadblock to patent trolls. The laws made it impossible to file infringement suits if the subject matter of that patent differed slightly from the patent held by the patent holder company.

Secondly, the European Patent System has a centralized office for granting patents that are valid across all European Patent Convention (EPC) member states. However, patent law is territorial in nature, even though the system of granting patents is centralized but the adjudication of the matter is nationalized.³⁶ For example, if an European patent is infringed anywhere in Germany and the German Courts uphold the infringement, it does not imply that the same patent will be deemed infringed automatically in other member nations too. This is a big disincentive for a troll looking to target infringement of a European Patent that is being worked community wide.

Thirdly, the cost of litigation in Europe is a lot cheaper,³⁷ this affects patent suits to a very large extent. Although cheaper litigation costs may seem

like an incentive for patent trolls, however on the other hand it also encourages the companies being sued to fight it out in court instead of entering into out of court settlements and paying large amounts of money to such trolls. Moreover, even the damages that are awarded in Europe are a lot lower as compared to the United States. Thus, a patent owner is less likely to initiate litigation against an assumed infringer in Europe since he won't get significant damages out of the proceedings even if he won.

Lastly, contingency fee is not allowed in the European system.³⁴ Contingency fee is the fee payable to an attorney only if he wins the case, if he ends up losing the case he doesn't receive any attorney fees. In the United States, this system induces patent trolls to file suits however in Europe it works the other way around. Such fees are prohibited with the intention of preventing excessive litigation and conflict between client and attorney.

When compared with the United States, the European system is not favourable for patent trolls to function and thrive. However, the European Union is not free from patent trolls; in fact the number of infringement law suits has recently increased.³⁴ This is a result of the imbalances in the European patent legal system which these PAEs are looking to exploit. The imbalances include injunctions automatically awarded upon a finding of infringement, low quality patents, ineffective fee shifting provisions and lack of transparency in court proceedings.³⁸ Majority of the patent infringement cases are filed in Germany and France. In Germany, 20% of all lawsuits are patent infringement lawsuits.³⁶

Patent trolls cause uncertainty in business by affecting innovation and scaring investors. With the recent increase of patent trolls in the European Union, it has become necessary for policy makers to examine and reframe laws. Steps need to be taken in to improve transparency of litigation related data to help monitor patent troll activity, ensure that patent granting procedures are of the highest quality and minimizing legal uncertainty. In order for the European Union to keep pace with the digital innovation taking place, the patent system needs to be more flexible and robust. The first step to tackle this issue could be recognizing the patent trolls' abuses taking place in the EU and equip themselves to respond effectively to this problem. There will need to be some reformation and strengthening in both legislative and judicial branches.

India's Safeguards against Patent Trolls

The menace of patent trolls is largely curbed, if not entirely eliminated due to the framework of India's legislation with regard to patents. For example, the implementation of the Patent (Amendment) Act, 2005 excludes a huge area for trolling by not providing patent protection to software, which is a common subject-matter prone to trolling activity in the technological sector.³⁷

One way in which India has kept patent trolling at bay is by providing a provision for post-grant opposition³⁸ which discourages patent trolling activities. This ensures that after a patent is granted, and possible sale of such patent to a patent troll, the patent can be challenged on various grounds. In other words, just because a patent has already been granted, does not mean that no objections to its non-working or validity can be raised subsequently.

The availability of a specialised Intellectual Property Appellate Board is advantageous as it fosters speedy disposal of disputes and reduction of litigation costs. This enables smaller companies targeted by patent trolls to defend their patents without having to worry about high costs of litigation.³⁹

Compulsory Licensing is a method by which patent trolling can be curbed. The essence of this provision is that in case of non-working of a patent, the public is deprived of its use and benefits. In India, a period of 3 years from granting of patent is given, beyond which a person can apply for grant of compulsory license.⁴⁰ This mechanism reprimands trolls that fail to exploit their patents or put them to work.

Further, India's requirements for domestic working of a patent are highlighted in Section 83⁴¹ which upholds that Indian patents are not granted merely to enable patentees to enjoy a monopoly for the importation of the patented article. This means that Indian patent laws are not tolerant of the basic objective of patent trolls to merely acquire patents without working them in the territory of India. To elaborate further, India is of the view that the reasonable requirements of the public are to be taken into consideration and is deemed unsatisfied⁴² if the patented invention is not being worked in the territory of India or is not being worked to the fullest extent that is reasonably practicable.⁴³

Hence, post-grant opposition provisions, functioning of the Intellectual Property Appellate Board, laws regarding compulsory licensing, along with domestic working and reasonable period

requirements, have efficaciously made India less susceptible to the menace of patent trolls as in other countries.⁴⁴

Analysis and Suggestions

The legislative measures implemented by India as compared to those seen in the United States and the European Union do indeed serve as unfavourable for the growth and sustenance of patent trolls in India. However, they do not completely eradicate such a menace. This is because of various reasons including but limited to the fact that while technological patents may be one of the key areas of target for patent troll, they are not the only affected sector. Additionally, an application for compulsory licensing in India can only be made after a period of three years from the date of grant of a patent. This in turn gives patent trolls three years' time to purchase a patent and harass other targeted companies with lawsuits. While acknowledging India's safeguards, it is also important to simultaneously consider other possible mechanisms, such as post-grant review which can further help protect the interests of companies that use and develop patented inventions for the advancement of society.

Open Post-Grant Review

This can be implemented either at the time of renewal of a patent or any time that a patent is sold. The patentee has to demonstrate the working of the patent to the Patent Office at both of these times to ensure that his non-working of the patent does not prevent the society from benefitting from it. At the time of sale, such a provision would ensure that patents are not acquired merely for the purpose of enforcing them and that there also exists an intention to actually work them.

Open post-grant review would discourage patent trolls as their basic modus operandi would be affected. At the same time, the value of valid patents would increase for both the patentee and the purchaser. This in turn would boost innovation and technology which should be available to the public cannot be hoarded for exploitation by patent trolls.⁴⁵

Conclusion

It is important to note that no jurisdiction is perfect in terms of protecting itself against patent trolls. However, India has successfully limited the nuisance of such trolls and their growth in the country. While the authors feel that jurisdictions, such as, the United

States and European Union could learn from India and adopt some of the safeguards, they also feel that India itself could do with some improvements itself. Efforts with regard to patents should be maximised towards the protection of the interests and rights of the creators of the inventions and those who actually develop these creations further and introduce products in the market which benefit the public at large. Incentivisation for creation of such products must be focussed on in order to ensure that trolling activities do not discourage innovators from investing time, effort and capital into the research and development of new technologies, without which the progress of society is hindered.

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