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## TRIPS, eBAY, AND DENIALS OF INJUNCTIVE RELIEF: IS ARTICLE 31 COMPLIANCE EVERYTHING?

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In *eBay, Inc. v. MercExchange, L.L.C.*, the Supreme Court held that decisions to grant injunctive relief must accord with the traditional principles of equity, thereby invalidating the practice of generally granting permanent injunctions to patentees upon finding infringement. Under *eBay*, denials of permanent injunctive relief might become more common, as courts instead opt to award an ongoing royalty. Because TRIPS contains provisions—primarily Article 31—that specify the conditions under which compulsory licenses for patents may be granted, an increase in denials of injunctive relief in favor of an ongoing royalty (creating, in essence, a compulsory license) in the U.S. requires review as to whether the U.S. is out of compliance with these provisions. This Note 1) examines the primary provisions relating to compulsory licensing in TRIPS; 2) studies differences of opinion regarding the nature of compulsory licenses and which understanding is appropriate for TRIPS based on a review of the Agreement's text and drafting history, historical practices, and policy; 3) examines *eBay* and subsequent cases denying permanent injunctive relief; 4) analyzes where *eBay* and TRIPS may conflict and attempts to resolve the differences; and 5) suggests strategies that U.S. courts might adopt to be TRIPS compliant with respect to compulsory licensing. This Note concludes that the U.S. faces a dilemma irrespective of Article 31's ultimate interpretation: if *eBay* is TRIPS compliant, developing countries can cite the case as precedent for implementing their own compulsory licensing systems with their own notions of equity and the public interest; if *eBay* is not TRIPS compliant, the U.S. may be brought before the TRIPS Dispute Settlement Body, the result of which would be a loosening

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of TRIPS compulsory licensing requirements or a re-tightening of the U.S. patent law injunctive relief. Absent a Dispute Settlement Body panel report interpreting Article 31, the WTO should issue a ministerial declaration to clarify the meaning and scope of Article 31 as it did for public health in the Doha Declaration.

## I. INTRODUCTION

Prior to the Supreme Court's 2006 ruling in *eBay, Inc. v. MercExchange, L.L.C.*,<sup>2</sup> courts generally granted permanent injunctions to patentees upon finding infringement absent exceptional circumstances.<sup>3</sup> In *eBay*, the Supreme Court stated that such categorical grants of injunctive relief lacked statutory support and held that decisions to grant such relief must accord with the traditional principles of equity.<sup>4</sup> One conclusion to draw from *eBay* is that denials of requests for permanent injunctive relief will become more common, and courts instead will opt to award an ongoing royalty. Cases such as *eBay* on remand<sup>5</sup> and *Amado v. Microsoft Corporation*<sup>6</sup> illustrate that the conclusion is not speculative.

In 1994, the U.S. joined the World Trade Organization ("WTO").<sup>7</sup> Article II section 2 of the Marrakesh Agreement Establishing the World Trade Organization binds all WTO members to the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>8</sup> ("TRIPS" or "Agreement"). Because TRIPS contains provisions specifying the conditions under which compulsory licenses for patents may be granted, an increase in denials of injunctive relief in favor of an ongoing royalty (creating, in essence, a compulsory license) in the U.S. requires review as to whether the U.S. is out of compliance with these provisions.

Some may argue that noncompliance is nothing to worry about. TRIPS is not self-executing<sup>9</sup> and is instead merely a covenant among participating members to bring their

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<sup>2</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>3</sup> Andrei Iancu & W. Joss Nichols, *Balancing the Four Factors in Permanent Injunction Decisions: A Review of post-eBay Case Law*, 89 J. Pat. & Trademark Off. Soc'y 395, 395 (May 2007).

<sup>4</sup> *eBay*, 547 U.S. at 394.

<sup>5</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556 (E.D. Va. 2007) (dissolving permanent injunction order in favor of an ongoing royalty).

<sup>6</sup> *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1361 (Fed. Cir. Feb. 26, 2008) (concluding that the district court's dissolution of its pre-*eBay* permanent injunction order in light of *eBay* was within its discretion).

<sup>7</sup> Marrakesh Agreement Establishing the World Trade Organization, Annex 1, Legal Instruments – Results of the Uruguay Round, Apr. 15, 1994, 33 I.L.M. 1144 (1994).

<sup>8</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, 33 I.L.M. 81 (1994) [hereinafter TRIPS or Agreement].

<sup>9</sup> See, e.g., Jay Dratler & Stephen M. McJohn, *Intellectual Property Law: Commercial, Creative, and Industrial Property* § 1A.01, at 1A-6 (2007) (stating that TRIPS is not self-executing); Harold C. Wegner, *Injunctive Relief: A Charming Betsy Boomerang*, 4 Nw. J. Tech. & Intell. Prop. 156, 166 (Spring 2006) (stating that TRIPS is not self-executing).

laws into compliance with its terms.<sup>10</sup> Moreover, in the U.S., the legislation implementing TRIPS is structured to disclaim any direct effect of the Agreement.<sup>11</sup>

However, there are two reasons why the U.S. is not free to pursue patent law policies unfettered by its obligations in TRIPS. First, TRIPS, unlike previous intellectual property agreements which were “toothless and largely ignored by the patent community,”<sup>12</sup> contains a mandatory dispute resolution provision.<sup>13</sup> As a result, “[a]ny contracting state that fails fully to comply, as determined by a dispute-resolution panel, may find itself the object of calibrated and judicially sanctioned trade retaliation on the part of its trading partners.”<sup>14</sup> Second, and more important, U.S. noncompliance may encourage other nations to follow suit.<sup>15</sup> Noncompliance risks undermining the very policy of strong international intellectual property rights and enforcement the U.S. sought during TRIPS negotiations.<sup>16</sup> Thus, it is important that U.S. law comply with TRIPS, resolving any tension that may exist. Accordingly, this Note will examine whether *eBay* and subsequent cases denying permanent injunctive relief violate TRIPS and, if so, what steps might be taken to bring the U.S. into compliance.

Part II of this Note examines the primary provisions relating to compulsory licensing in TRIPS. Part III studies differences of opinion regarding the nature of compulsory licenses and which understanding is appropriate for TRIPS. Part IV examines *eBay* and subsequent cases denying permanent injunctive relief. Part V analyzes where *eBay* and TRIPS may conflict and attempts to resolve the differences. Part VI suggests strategies that U.S. courts might adopt to be TRIPS compliant with respect to compulsory licensing.

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<sup>10</sup> Dratler & McJohn, *supra* note 9, § 1A.01, at 1A-6.

<sup>11</sup> *See id.* § 1A.04, at 1A-25 (noting that the implementing legislation, the Uruguay Round Agreements Act, makes three points: 1) It decrees that the “law of the United States” prevails over anything in the Uruguay Round Agreements (“URA”) in the event of any inconsistencies; 2) It disclaims any intent to modify any other law of the US; and 3) It explicitly precludes any private or state cause of action or defense being based upon the URA.). *See generally* Uruguay Round Agreements Act, Pub. L. No. 103-465, § 102, 108 Stat. 4809 (1994).

<sup>12</sup> Wegner, *supra* note 9, at 170.

<sup>13</sup> TRIPS, *supra* note 8, art. 64.

<sup>14</sup> Dratler & McJohn, *supra* note 9, § 1A.01, at 1A-7.

<sup>15</sup> *See* Wegner, *supra* note 9, at 170; Charlene A. Stern-Dombal, Note, *Tripping Over TRIPS: Is Compulsory Licensing Under eBay at Odds with U.S. Statutory Requirements and TRIPS?* 41 Suffolk U. L. Rev. 249, 275 (2007).

<sup>16</sup> *See, e.g.,* Wegner, *supra* note 9, at 163 (stating that the United States drew up the “tightest possible rules *against* compulsory licensing that could be imagined at the time”).

## II. COMPULSORY LICENSING PROVISIONS IN TRIPS

To examine how current U.S. law post-*eBay* might conflict with TRIPS, it is first necessary to identify and understand the relevant TRIPS provisions. This is not easy because the language of the Agreement is often broad and vague, and the few official interpretations rendered by the TRIPS Dispute Settlement Body do not address compulsory licensing.<sup>17</sup>

### A. The Guiding Principles

Under TRIPS, a patent confers the exclusive rights to make, use, offer for sale, sell, and import an invention.<sup>18</sup> Any limitation on these exclusive rights operates against the backdrop of the entire Agreement, meaning that the objectives<sup>19</sup> and principles<sup>20</sup> of

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<sup>17</sup> See U.N. Conference on Trade & Dev. & the Int'l Ctr. for Trade & Sustainable Dev. (UNCTAD-ICTSD), Resource Book on TRIPS and Development 480 (2005) [hereinafter Resource Book] (“As of [2005], there are no decisions of a WTO dispute settlement panel or the Appellate Body that directly interpret Article 31.”); see also World Trade Organization, Dispute Settlement – Chronological List of Disputes Cases, [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_status\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm) (last visited Dec. 1, 2008); World Trade Organization, Dispute Settlement – Appellate Body Reports, [http://www.wto.org/english/tratop\\_e/dispu\\_e/ab\\_reports\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/ab_reports_e.htm) (last visited Dec. 1, 2008).

<sup>18</sup> TRIPS, *supra* note 8, art. 28.

<sup>19</sup> *Id.* art. 7. TRIPS article 7 (“Objectives”) reads:

The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

<sup>20</sup> *Id.* art. 8. TRIPS article 8 (“Principles”) reads:

1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.

2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

the Agreement must not be disserved and the limitation must be non-discriminatory.<sup>21</sup> Accordingly, rights may be limited where the goal is to promote the public interest and protect public health and nutrition,<sup>22</sup> but a limitation that discriminates as to “the place of invention, the field of technology [or] whether products are imported or locally produced”<sup>23</sup> is impermissible. Additionally, the *enforcement* of patent rights should be done only in a manner “conducive to social and economic welfare” and should balance a patent holder’s “rights and obligations.”<sup>24</sup> Thus, the public interest and notions of fairness should be guiding factors in deciding whether enforcement of rights or any limitation thereof is ultimately appropriate.

### *B. The Primary Compulsory Licensing Provisions*

Articles 30 and 31 of TRIPS and Article 5A of the Paris Convention for the Protection of Industrial Property (“Paris Convention”), which is incorporated by reference into the Agreement,<sup>25</sup> outline limitations on the exclusive rights a patent confers. Article 30, entitled “Exceptions to Rights Conferred,” states:

Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.<sup>26</sup>

Article 30 is generally considered to include activities such as acts done privately and for non-commercial purposes and acts done for experimental purposes;<sup>27</sup> the W/76 draft of Article 30 in the TRIPS Agreement explicitly states as much:

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<sup>21</sup> *Id.* art. 27.1 (“[P]atent rights [shall be] enjoyable without discrimination as to the place of invention, the field of technology and whether the products are imported or locally produced.”).

<sup>22</sup> *Id.* art. 8.

<sup>23</sup> *Id.* art. 27.1.

<sup>24</sup> *Id.* art. 7.

<sup>25</sup> *Id.* art. 2.1 (“In respect of Parts II, III, and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).”).

<sup>26</sup> *Id.* art. 30.

<sup>27</sup> See Intellectual Property and International Trade: The TRIPS Agreement 208-10 (Carlos M. Correa & Abdulqawi A. Yusuf eds., 1st ed. 1998) [hereinafter Correa & Yusuf]. *But see* Michael Halewood, *Regulating Patent Holders: Local Working Requirements and Compulsory Licences at International Law*, 35 Osgoode Hall L.J. 243, 269 (Summer 1997) (concluding that TRIPS Article 30 extends to compulsory licensing for non-working and other patentee abuses).

2.2 [Provided that legitimate interests of the proprietor of the patent and of third parties are taken into account,] limited exceptions to the exclusive rights conferred by a patent may be made for certain acts, such as:

2.2.1 Rights based on prior use.

2.2.2 Acts done privately and for non-commercial purposes.

2.2.3 Acts done for experimental purposes.

2.2.4 Preparation in a pharmacy in individual cases of a medicine in accordance with a prescription, or acts carried out with a medicine so prepared.

2.2.5A Acts done in reliance upon them not being prohibited by a valid claim present in a patent as initially granted, but subsequently becoming prohibited by a valid claim of that patent changed in accordance with procedures for effecting changes to patents after grant.

2.2.6B Acts done by government for purposes merely of its own use.<sup>28</sup>

Because no record was made of the informal sessions during which the Chairman's text was revised,<sup>29</sup> it is unclear why the more succinct version was ultimately chosen. Since the scope of use contemplated in this Note exceeds the exceptions available in Article 30, the present analysis does not consider Article 30.<sup>30</sup>

Article 31, entitled "Other Use Without Authorization of the Right Holder," addresses unauthorized use other than that allowed under Article 30, and speaks to the heart of the compulsory license issue.<sup>31</sup> Article 31 states:

Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

(a) authorization of such use shall be considered on its individual merits;

(b) such use may only be permitted if, prior to such use, the proposed user

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<sup>28</sup> GATT Chairman, *Status of Work in the Negotiating Group – Chairman's Report to the GNG*, MTN.GNG/NG11/W/76, §5 ¶2.2 (Jul. 23, 1990).

<sup>29</sup> Daniel Gervais, *The TRIPS Agreement: Drafting History and Analysis* ix (1st ed. 1998).

<sup>30</sup> See Panel Report, *Canada-Patent Protection of Pharmaceutical Products*, WT/DS114/R (Mar. 17, 2000) (In a complaint before the TRIPS Dispute Settlement Body ("DSB"), providing an interpretation of article 30, the European Communities claimed that Canada's domestic pharmaceutical stockpiling and regulatory review exceptions to exclusive patent rights exceeded Article 30's scope. The DSB construed at length the language of Article 30).

<sup>31</sup> TRIPS, *supra* note 8, art. 30, n.7 ("Other use" refers to use other than that allowed under Article 30.').

has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;

(c) the scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive;

(d) such use shall be non-exclusive;

(e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;

(f) any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;

(g) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;

(h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;

(i) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

(j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

(k) Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice



determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;

(1) where such use is authorized to permit the exploitation of a patent (“the second patent”) which cannot be exploited without infringing another patent (“the first patent”), the following additional conditions shall apply:

(i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;

(ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and

(iii) the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent.<sup>32</sup>

Article 31 is commonly referred to as a compulsory licensing provision<sup>33</sup> and together with Article 5A of the Paris Convention<sup>34</sup> (“Article 5A”) prescribes grounds and

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<sup>32</sup> TRIPS, *supra* note 8, art. 31.

<sup>33</sup> See, e.g., Correa & Yusuf, *supra* note 27, at 208; Gervais, *supra* note 29, at 165; World Trade Organization, Intellectual property (TRIPS) – Frequently Asked Questions, [http://www.wto.org/english/tratop\\_e/trips\\_e/tripfq\\_e.htm#CompulsoryLicensing](http://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm#CompulsoryLicensing) (last visited Dec. 1, 2008) (“Article 31 allows compulsory licensing and government use of a patent without the authorization of its owner.”).

<sup>34</sup> Paris Convention for the Protection of Industrial Property art. 5A, 828 U.N.T.S. 305 (1883) [hereinafter Paris Convention]. Article 5A reads:

(1) Importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail forfeiture of the patent.

(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 shall not be provided for except in cases where the grant of compulsory licenses would not have been sufficient to prevent the said abuses. No proceedings

for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license.

minimum conditions on which use without the authorization of the right holder may be permitted. While Article 31 states grounds on which a compulsory license is permissible, the list is not exhaustive; a government may authorize compulsory licenses on other grounds, provided the conditions set forth in Article 31 are observed and the Agreement's overarching principles are satisfied.<sup>35</sup> This is affirmed<sup>36</sup> in the 2001 Doha Declaration on the TRIPS Agreement and Public Health ("Doha Declaration") which states that "[e]ach member has the right to grant compulsory licences and the freedom to determine the grounds upon which such licences are granted."<sup>37</sup>

Thus, in short, to comply with Article 31, a law permitting unauthorized use of a patent requires 1) consideration on the individual merits of the use,<sup>38</sup> 2) prior negotiation between the parties,<sup>39</sup> 3) use limited in scope and duration,<sup>40</sup> 4) use non-exclusive<sup>41</sup> and

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(4) A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three 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 a

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.

(5) The foregoing provisions shall be applicable, *mutatis mutandis*, to utility models.

Paris Convention for the Protection of Industrial Property art. 5A, Mar. 20, 1883, 828 U.N.T.S. 305 [hereinafter Paris Convention].

<sup>35</sup> See, e.g., Stern-Dombal, *supra* note 15, at 273 (stating that WTO members are free to determine grounds on which to grant compulsory licenses).

<sup>36</sup> See World Trade Organization, Intellectual Property (TRIPS) – TRIPS and Public Health: Compulsory Licensing of Pharmaceuticals and TRIPS, [http://www.wto.org/english/tratop\\_e/trips\\_e/public\\_health\\_faq\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/public_health_faq_e.htm) (last visited Dec. 1, 2008) ("The TRIPS Agreement does not specifically list the reasons that might be used to justify compulsory licensing. However, the Doha Declaration on TRIPS and Public Health confirms that countries are free to determine the grounds for granting compulsory licences.").

<sup>37</sup> World Trade Organization, Ministerial Declaration on the TRIPS Agreement and Public Health, WT/MIN(01)/DEC/2, 41 I.L.M. 755, ¶5(b) (2002) [hereinafter Doha Declaration].

<sup>38</sup> TRIPS, *supra* note 8, art. 31(a). Note that this formulation is different than case-by-case review. See also Stern-Dombal, *supra* note 15, at 274 n.211 (citing Jayashree Watal, Intellectual Property Rights in the WTO and Developing Countries 2-3 (2001)).

<sup>39</sup> TRIPS, *supra* note 8, art. 31(b).

<sup>40</sup> *Id.* art. 31(c).

non-assignable,<sup>42</sup> 5) use primarily limited to supplying the domestic market,<sup>43</sup> 6) adequate remuneration for the right holder,<sup>44</sup> and 7) judicial review of decisions.<sup>45</sup> If the use is authorized on grounds of national emergency, other extreme urgency, or public non-commercial (i.e., government) use, the prior negotiation requirement is waived. Similarly, if the use is granted to remedy anti-competitive practices, the prior negotiation and domestic market requirements are waived.<sup>46</sup> However, if the use is granted because the patent holder failed to use his invention, Article 5A(4) provides an additional requirement: a license to use the invention cannot be applied for before the expiration of four years from patent application filing or three years from issue, whichever is later.<sup>47</sup> Moreover, if the patent holder can “justif[y] his inaction by legitimate reasons,” the license must be refused.<sup>48</sup> A diagram for determining Article-31-compliant authorization is provided in Appendix I.<sup>49</sup>

The language of Article 31 itself and Article 31’s place with respect to the entire Agreement are subject to various interpretations. First, Article 31 may be the ultimate arbiter of all unauthorized use beyond Article 30. That is, Article 31 categorically controls all unauthorized use other than that allowed under Article 30, and any outcome determined by Article 31 is *per se* compliant with TRIPS. The European Communities suggested a similar interpretation of Article 30 in Canada-Patent Protection of Pharmaceutical Products.<sup>50</sup> Under a second interpretation, Article 31 may control

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<sup>41</sup> *Id.* art. 31(d).

<sup>42</sup> *Id.* art. 31(e).

<sup>43</sup> *Id.* art. 31(f).

<sup>44</sup> *Id.* art. 31(h).

<sup>45</sup> *Id.* art. 31(i).

<sup>46</sup> *Id.* art. 31(k).

<sup>47</sup> Paris Convention, *supra* note 34, art. 5A(4); *see also* Georg H.C. Bodenhausen, Guide to the Application of the Paris Convention for the Protection of Industrial Property as Revised at Stockholm in 1967 at 71 (BIRPI 1968) (stating that paragraph (4) of Article 5A applies only to compulsory licenses on the ground of failure to work or insufficient working).

<sup>48</sup> Paris Convention, *supra* note 34, art. 5A(4).

<sup>49</sup> Appendix I, *infra* p. 38.

<sup>50</sup> The Dispute Settlement Body noted:

[I]n the view of the [European Communities (“EC”)], Articles 7 and 8 are statements that describe the balancing of goals that had already taken place in negotiating the final texts of the TRIPS Agreement. According to the EC, to view Article 30 as an authorization for governments to “renegotiate” the overall

unauthorized use subject to consistency with other TRIPS provisions. Finally, Article 31—irrespective of any constraints other provisions impose—may simply not cover all unauthorized use, including judicial denials of permanent injunctive relief. Under this third interpretation, courts would have far more discretion in crafting an equitable remedy for infringement. In evaluating these options, drafting history, intratextual analysis, and history provide some cues. Because the Paris Convention<sup>51</sup> and the drafting history of Article 31<sup>52</sup> use the term “compulsory license,” it may be helpful to start the analysis by considering what a compulsory license is.

### III. WHAT IS A COMPULSORY LICENSE?

By way of background, a compulsory license is also known as a non-voluntary license.<sup>53</sup> *Black's Law Dictionary* defines a “compulsory license” as it pertains to patents as “[a] statutorily created license that allows certain people to pay a royalty and use an invention without the patentee’s permission.”<sup>54</sup> Under *Black's* definition, the operative word is “statutorily.” *Black's* notes that the U.S. does not have a compulsory licensing system for patents,<sup>55</sup> but § 115 of the Copyright Act<sup>56</sup> is a perfect example that meets the

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balance of the Agreement would involve a double counting of such socio-economic policies.

Panel Report, *Canada-Patent Protection of Pharmaceutical Products*, WT/DS114/R at 154 (Mar. 17, 2000), available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/7428d.pdf](http://www.wto.org/english/tratop_e/dispu_e/7428d.pdf).

<sup>51</sup> Paris Convention, *supra* note 4, art. 5A (Article 5A of the Paris Convention is incorporated by reference into TRIPS. TRIPS, *supra* note 8, art. 2. Paris Article 5A(2) states “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.”).

<sup>52</sup> See, e.g., GATT Secretariat, *Status of Work in the Negotiating Group – Chairman's Report to the GNG*, MTN.GNG/NG11/W/76, Part III §5 (Jul. 23, 1990), available at [http://www.wto.org/gatt\\_docs/English/SULPDF/92110034.pdf](http://www.wto.org/gatt_docs/English/SULPDF/92110034.pdf) (Paragraph 5A.1 reads, “The term ‘compulsory license’ shall be understood to cover licenses of right [and government use without the authorization of the patent owner]. PARTIES shall minimize the grant of compulsory licences in order not to impede adequate protection of patent rights.”).

<sup>53</sup> Gervais, *supra* note 29, at 164.

<sup>54</sup> *Black's Law Dictionary* (8th ed. 2004). This definition of “compulsory license” includes “licenses of right,” where *anyone* may use an invention in return for a license fee. See also Org. Econ. Co-operation & Dev., Econ. Analysis & Statistics Div., Directorate for Sci., Tech. & Indus., *Glossary of Patent Terminology* (2006), <http://www.oecd.org/dataoecd/5/39/37569498.pdf>.

<sup>55</sup> *Black's Law Dictionary* (8th ed. 2004) (“While some nations currently recognize compulsory licenses, the United States never has.”).

requirements set forth in *Black's* to be a compulsory licensing provision: statutory creation and use without authorization from the right holder.<sup>57</sup> The “certain people” language in the definition also suggests that a license is not limited to a single individual or party (as would typically be the case when a court imposes an ongoing royalty in lieu of a permanent injunction), but rather, available to anyone who meets the criteria set forth in the licensing statute.

A recent U.S. Federal Circuit decision supports this view. In *Paice, L.L.C. v. Toyota Motor Corporation*,<sup>58</sup> Judge Prost noted:

We use the term ongoing royalty to distinguish this equitable remedy from a compulsory license. The term “compulsory license” implies that *anyone* who meets certain criteria has congressional authority to use that which is licensed. . . . By contrast, the ongoing-royalty order at issue here is limited to one particular set of defendants; there is no implied authority in the court’s order for any other auto manufacturer to follow in Toyota’s footsteps and use the patented invention with the court’s imprimatur.<sup>59</sup>

Thus, a judicial denial of permanent injunctive relief would not constitute a compulsory license under this definition. The fifty-two intellectual property professors who filed amici curiae briefs<sup>60</sup> in support of *eBay* agreed with this distinction:

[A] judicial refusal to grant injunctive relief when equity does not support it is not the same as a compulsory license imposed by a legislature. A compulsory license is a blanket rule that permits all others to use a patent upon payment of a specified royalty, giving certainty to those who would infringe the patent that they can do so upon payment of a royalty. Equity, by contrast, considers the harms and benefits of an injunction to the parties and to the public in the context of a particular case with a particular evidentiary record.<sup>61</sup>

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<sup>56</sup> 17 U.S.C. § 115 (2007).

<sup>57</sup> The definition of compulsory license as it pertains to copyright is similar to the definition for patents, except that it refers to use of copyrighted material instead of use of an invention.

<sup>58</sup> *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293 (2007).

<sup>59</sup> *Id.* at 1313 n.13 (citation omitted).

<sup>60</sup> Brief Amici Curiae of 52 Intellectual Property Professors in Support of Petitioners, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2005 U.S. Briefs 130 (among the professors on the brief were Rochelle C. Dreyfuss of N.Y.U., Peter W. Martin of Cornell, and Robert P. Merges of U.C. Berkeley. *Id.* at appendix).

<sup>61</sup> *Id.* at 9.

However, the WTO website defines a compulsory license as “authorization, given by a government, to use a patented invention without the consent of the patent-holder.”<sup>62</sup> This definition is broader because it lacks the statutory creation and criteria elements.<sup>63</sup> Though not an official definition, other commentators define the term similarly, suggesting that this broader definition is the more commonly understood one.<sup>64</sup> Under this definition, a judicial denial of injunctive relief would be a compulsory license. In *Paice*, Judge Rader adopted this definition, disagreeing with Judge Prost’s interpretation and writing, “calling a compulsory license an ‘ongoing royalty’ does not make it any less a compulsory license.”<sup>65</sup>

#### A. Which Definition is Intended in TRIPS?

One could attempt to circumvent this question by asserting that judicial compulsory licenses are statutorily based because §283 of the Patent Act grants equitable discretion to courts when fashioning a remedy.<sup>66</sup> There are three reasons this fails. The first two relate to the idea that a compulsory licensing system is as much about its provisions as its statutory basis. First, § 283 relief applies only to the parties in a particular infringement proceeding; it does not provide a remedy generally available to any party. Second, arguably, a statutory licensing scheme envisions more than the mere

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<sup>62</sup> World Trade Organization, Intellectual property (TRIPS) – Frequently Asked Questions, [http://www.wto.org/english/tratop\\_e/trips\\_e/tripfq\\_e.htm#CompulsoryLicensing](http://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm#CompulsoryLicensing) (last visited Mar. 18, 2008).

<sup>63</sup> It is also narrower in a sense because it does not require a royalty payment. However, the two definitions offered will be hereinafter referred to as “narrow” and “broad.”

<sup>64</sup> See Jerome H. Reichman & Catherine Hasenzahl, Comment, *Non-voluntary Licensing of Patented Inventions: History, TRIPs, and Canadian and United States Practice*, 6 Bridges Between Trade and Sustainable Dev. 7, Oct. 2002, at 3, 3, available at <http://www.iprsonline.org/ictsd/docs/ReichmanBridgesYear6N7Oct2002.pdf> (defining compulsory license as “the practice by a government to authorize itself or third parties to use the subject matter of a patent without the authorization of the right holder for reasons of public policy.”); Carlos M. Correa, *Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries* 3 (South Ctr., Trade-Related Agenda, Dev. & Equity (T.R.A.D.E.) Working Papers No. 5, 1999), available at <http://www.southcentre.org/publications/workingpapers/wp05.pdf> (defining compulsory license as “authorization given by a national authority to a person, without or against the consent of the title-holder, for the exploitation of a subject matter protected by a patent or other intellectual property rights.” (footnote omitted)).

<sup>65</sup> *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1136 (2007) (Rader, J., concurring).

<sup>66</sup> See 35 U.S.C. §283 (2006).

grant of discretion—something along the lines of 17 U.S.C. § 115,<sup>67</sup> which sets out criteria and conditions for the grant of compulsory licenses. Finally, commentators agree that the Patent Act does not contain a statutory compulsory licensing provision, which forecloses the possibility that § 283 is such a provision.<sup>68</sup> Thus, it is necessary to determine what interpretation of ‘compulsory license’ TRIPS adopts by considering historical practices, legislative intent, and policy. Part III.A.3 separately considers intratextual observations.

At one point during Agreement negotiations, Article 31 was entitled “Compulsory Licenses/Licences of Right/Use for Government Purposes.”<sup>69</sup> There is no record detailing why the title of Article 31 was ultimately changed to “Other Use Without Authorization of the Right Holder.” Perhaps it was to distinguish between unauthorized use permitted under Article 30 and unauthorized use permitted under Article 31.<sup>70</sup> Perhaps the group felt that the language ultimately used was less disposed to national idiosyncrasies of interpretation and understanding.<sup>71</sup> Knowing the answer might help determine whether Article 31 contemplates more than the narrower definition of compulsory license *Black’s Law Dictionary* and Judge Prost put forward.

One hint that “Compulsory Licenses/Licences of Right/Use for Government Purposes” and “Other Use Without Authorization of the Right Holder” may be synonymous can be found in the Doha Declaration, which clarified and interpreted the Agreement. Unlike TRIPS itself, the Doha Declaration explicitly uses the term “compulsory licence” in the context of discussing Article-31-related matters.<sup>72</sup> If “other use without authorization of the right holder” is synonymous with the term “compulsory license,” determining the breadth of compulsory licensing is appropriate to determine the breadth of Article 31.

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<sup>67</sup> 17 U.S.C. § 115 (2006) (“Scope of exclusive rights in nondramatic musical works: Compulsory license for making and distributing phonorecords”).

<sup>68</sup> See Reichman & Hasenzahl, *supra* note 64, at 3.

<sup>69</sup> GATT Secretariat, *Status of Work in the Negotiating Group – Chairman’s Report to the GNG*, MTN.GNG/NG11/W/76, Part III § 5 ¶5 (Jul. 23, 1990), available at [http://www.wto.org/gatt\\_docs/English/SULPDF/92110034.pdf](http://www.wto.org/gatt_docs/English/SULPDF/92110034.pdf); see also Correa, *supra* note 64, at 20 (footnote omitted) (noting that a license of right is a particular type of compulsory license “provided in the UK and other countries.”); Correa, *supra* note 64, 20 n.35 (citation omitted) (“‘Licenses of rights’ are also available under UK and other national laws when a patentee voluntarily throws his/her invention open to anyone who asks for a license on terms to be agreed upon with him/her or, in the absence of agreement, on terms to be settled by the Patent Office.”).

<sup>70</sup> Resource Book, *supra* note 17, at 461.

<sup>71</sup> See GATT Secretariat, *Synoptic Tables Setting Out Existing International Standards and Proposed Standards and Principles*, MTN.GNG/NG11/W/32/Rev.2, 99-103 (Feb. 1990), available at [http://www.wto.org/gatt\\_docs/English/SULPDF/92090140.pdf](http://www.wto.org/gatt_docs/English/SULPDF/92090140.pdf) [hereinafter *Synoptic Tables*] (listing existing proposed standards for compulsory licenses by several countries and unions).

<sup>72</sup> Doha Declaration, *supra* note 37, ¶5(b).

### 1. In Support of the Narrow Definition

Assuming the terms are coextensive, there are reasons to conclude that the narrower definition of compulsory license applies to Article 31. By the early 1990s about one hundred countries permitted varying degrees of compulsory licensing of patents, but the U.S. was not among them.<sup>73</sup> For example, in Europe “it is generally the case that, where compulsory licence provisions are in place, any third party may apply to the national patent authority for the grant of a licence” provided timing, negotiation, and grounds requirements are met.<sup>74</sup> Because the U.S. was interested in the strongest possible intellectual property rights, it wanted to limit the compulsory licensing provisions of other nations.<sup>75</sup> However, “[c]ontroversy over the appropriate scope of compulsory licensing is cited as one of the reasons TRIPS negotiations were initiated.”<sup>76</sup> Not surprisingly, a compromise resulted.<sup>77</sup> If viewed as a concession by the U.S., Article 31 represents a settlement as to the permissible scope of statutory compulsory licensing schemes.

Moreover, the prior negotiation condition set forth in paragraph (b) of Article 31 presupposes that an infringer has prior knowledge of a patent because the infringer would

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<sup>73</sup> Reichman & Hasenzahl, *supra* note 64, at 3, 4 (“Historically . . . the US never adopted a general statute to regulate non-voluntary licensing of patented inventions either on grounds of misuse or on public interest grounds.”). *See generally* Resource Book, *supra* note 17, at 462 (describing compulsory licensing provisions and policies).

<sup>74</sup> Association of Patent Law Firms, Compulsory License Provisions Across Europe, <http://www.aplf.org/compulsory-licence-provisions-across-europe/> (last visited Dec. 1, 2008); *see also* HLBBshaw, Compulsory Licenses Under the UK Patents Act, [http://www.hlbbslaw.com/docs/pageview/pageview\\_20070104153803.pdf](http://www.hlbbslaw.com/docs/pageview/pageview_20070104153803.pdf) (last visited Dec. 1, 2008) (stating that “any person may apply to the UK Patent Office for a compulsory license under the patent”).

<sup>75</sup> *See* Wegner, *supra* note 9, at 163 (stating that the U.S. pharmaceutical industry “drew up the tightest possible rules *against* compulsory licensing that could be imagined at the time.”); Stern-Dombal, *supra* note 15, at 273 (“The United States strongly opposes compulsory licensing provisions in international treaties.”).

<sup>76</sup> Resource Book, *supra* note 17, at 463.

<sup>77</sup> Jerome H. Reichman & Catherine Hasenzahl, *Non-voluntary Licensing of Patented Inventions: Historical Perspective, Legal Framework Under TRIPS, and an Overview of the Practice in Canada and the U.S.A* 14 (UNCTAD-ICTSD Project on IPRs & Sustainable Dev. Series, Issue Paper No. 5, 2003), *available at* [http://www.ictsd.org/pubs/ictsd\\_series/iprs/CS\\_reichman\\_hasenzahl.pdf](http://www.ictsd.org/pubs/ictsd_series/iprs/CS_reichman_hasenzahl.pdf) (an Indian proposal was ultimately accepted “without any restrictions having been placed on the grounds for which states could grant licenses.”).



not even know to negotiate if the infringer was unaware of the existence of the patent.<sup>78</sup> A diligent patent search cannot possibly uncover all of the potential infringements and would leave the searcher hopelessly paralyzed as it sought a legal opinion or attempted to negotiate for each and every patent that potentially could be infringed. The infringer could be heavily invested before either party, in good faith, came to realize the infringement. If the parties could not settle the issue on their own, a court would not have the option to deny injunctive relief because Article 31's prior negotiation condition was not met—the parties had not negotiated prior to the unauthorized use. The result would be that the infringer would be either forced to pay a higher licensing fee<sup>79</sup> or desist completely. Thus interpreted, this requirement heavily favors non-practicing entities whose *modus operandi* is to charge arguably exorbitant licensing fees<sup>80</sup>—an undesirable outcome.

Because American pharmaceutical manufacturers largely drafted Article 31,<sup>81</sup> a more tenable interpretation of Article 31 is that it was motivated by an interest in preventing willful infringement of protected pharmaceuticals and curtailing compulsory

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<sup>78</sup> This presupposition is based on the definition of the phrase “such use” in Article 31. There are two possible definitions. First, “such use” could mean “use without authorization of the right holder.” Under this definition, “such use” would occur the moment an infringer first used the subject matter of the patent. Second, “such use” could mean “use authorized by government but unauthorized by the right holder.” Under this latter definition, “such use” would refer to use starting from when a government allowed an infringer to use the subject matter. While the second definition provides a window of time in which an infringer could become informed of his infringement, this definition causes grammatical redundancies when substituted into the language of Article 31. For example, Article 31(a) would read: “authorization of use authorized by government but unauthorized by the right holder shall be considered on its individual merits.” That is, the phrase “authorized by government” contributes no additional meaning to the sentence. For this reason, the definition of “such use” is likely “use without authorization of the right holder,” giving rise to the presupposition implication of Article 31(b).

<sup>79</sup> One could argue that a significantly higher licensing fee would trigger the anti-competition provision of Article 31, section (k), and the prior negotiation requirement would be waived. However, it is not clear at what point higher licensing fees become anti-competitive. In addition, even a reasonable licensing fee might be an additional cost that the innocent infringer cannot bear.

<sup>80</sup> Wegner notes that when TRIPS was signed in 1994, the issue of non-practicing entities (a species of which is known as “patent troll”) was not fully appreciated. Wegner, *supra* note 9, at 163. Patent trolls are “non-practicing entities seeking exorbitant licensing fees by threat of injunction.” Stern-Dombal, *supra* note 15, at 250 n.12 (citing Ryan Eddings, Note, *Trolls and Titans Take Fight to Top Court*, 18 Loy. Consumer L. Rev. 503, 503-04 (2006)). The term is conclusory and biased, and courts have resisted using the term. See Posting of Dennis Crouch to Patent Law Blog (Patently-O), Courts Resist Using the Term Patent Troll, <http://www.patentlyo.com/patent/2008/03/courts-resist-u.html> (Mar. 24, 2008, 3:35 EST).

<sup>81</sup> Wegner, *supra* note 9, at 163.

licensing statutes unreasonably favorable to domestic interests.<sup>82</sup> For example, a developing nation such as India, unable to pay the monopoly rents of a protected pharmaceutical produced by a developed country, would seek to manufacture the compound domestically at a great savings. Indeed, during the TRIPS negotiations, India asserted that “each country must be free to specify the grounds on which compulsory licences can be granted under its law and the conditions for such grant,”<sup>83</sup> and “developing countries should be free to provide for the automatic grant of non-voluntary licenses in sectors of critical importance to them[.]”<sup>84</sup> In order to stem this practice, the pharmaceutical industry—the primary drafters of Article 31<sup>85</sup>—included the prior negotiation requirement. Because the prior negotiation requirement under the broad construction of compulsory license would plausibly lead to unfair outcomes, the narrower interpretation is favored—meaning that there is room for equitable relief.

Regarding Article 5A, the intended definition of compulsory license is likewise open to interpretation. Paragraph (2) refers to “legislative measures providing for the grant of compulsory licenses.”<sup>86</sup> The term “legislative measures” arguably envisions a statutorily created licensing authority. Paragraph (4) provides additional support for this proposition by referring to compulsory licenses as being “applied for.”<sup>87</sup> While instituting a lawsuit or asserting a compulsory license counterclaim can be interpreted as applying for a compulsory license, it is on the outer limits of what one might consider the definition of “apply” to cover.

However, commentators note that the U.S. has a long history of granting compulsory licenses to remedy anti-competitive practices,<sup>88</sup> often in the form of consent decrees.<sup>89</sup> Since paragraph (k) of Article 31 addresses anti-competitive behavior,<sup>90</sup> one might argue that Article 31 covers judicially-imposed compulsory licenses. There are three responses to this assertion. First, arguing that a provision is involuntary in a consent

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<sup>82</sup> See Stern-Dombal, *supra* note 15, at 265 (“The thrust of the compulsory licensing debate centered on the licensing of pharmaceutical products to treat public health epidemics in developing nations.”).

<sup>83</sup> Synoptic Tables, *supra* note 71, at 97. Similarly, Peru proposed, “Any person may apply for the grant of a compulsory license” provided certain conditions had occurred. *Id.* at 101. Japan’s proposal also used “application” language. *Id.* at 97.

<sup>84</sup> Synoptic Tables, *supra* note 71, at 99.

<sup>85</sup> Wegner, *supra* note 9, at 163.

<sup>86</sup> Paris Convention, *supra* note 34, art. 5A(2).

<sup>87</sup> *Id.* art. 5A(4).

<sup>88</sup> Correa, *supra* note 64, at 14.

<sup>89</sup> Reichmann & Hasenzahl, *supra* note 77, at 19.

<sup>90</sup> TRIPS, *supra* note 8, art. 31(k).

decree, which expresses *voluntary* agreement between parties,<sup>91</sup> strains logic. That is, a consent decree that includes use of patent rights should not be categorized as a compulsory license because the patent holder has agreed to the decree's terms. Second, during Agreement negotiations, the U.S. initially advocated that compulsory licenses be given "solely to address, only during its existence, a declared national emergency[,] to remedy an adjudicated violation of antitrust laws," or for government use.<sup>92</sup> These limited grounds were more restrictive than the controlling American law at the time, *Continental Paper Bag*.<sup>93</sup> Yet, it was also understood that TRIPS was an international codification of the American law of injunctive relief.<sup>94</sup> The incongruity between the U.S. standard and the U.S. proposal suggests that compulsory licenses and denials of injunctive relief were considered separate issues.<sup>95</sup> Third, the Patent Misuse Reform Act of 1988, codified as § 271(d) of the Patent Act,<sup>96</sup> arguably provides a statutory basis for compulsory licensing to remedy anti-competitive practices.<sup>97</sup> Though, to be sure, commentators note that the law surrounding patent misuse and antitrust is complex and at times inconsistent.<sup>98</sup> Moreover, 28 U.S.C. § 1498<sup>99</sup> also provides a statutory basis for government use and, logically, use

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<sup>91</sup> Black's Law Dictionary (8th ed. 2004) ("A court decree that all parties agree to.").

<sup>92</sup> Synoptic Tables, *supra* note 711, at 96 (emphasis added).

<sup>93</sup> *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). *Continental Paper Bag* established the principle that a patent holder is not obligated to use his patent. Admittedly, the *Continental Paper Bag* line of cases established a restrictive standard, but exceptions were still available in areas outside national emergencies, antitrust violations, and government use. See Wegner, *supra* note 9, at 162; see also Brief of Amicus Curiae Yahoo! Inc. in Support of Petitioner, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), 2005 U.S. Briefs 130, 14.

<sup>94</sup> Wegner, *supra* note 9, at 163.

<sup>95</sup> This interpretation is supported by the fact that the U.S. was not the only country that advocated compulsory licenses to thwart anti-competitive practices. For example, Australia, Hong Kong, and New Zealand explicitly advocated for inclusion of an anti-competition provision. Synoptic Tables, *supra* note 71, at 96-100.

<sup>96</sup> Patent Misuse Reform Act of 1988, 35 U.S.C. § 271(d) (2006).

<sup>97</sup> Section 271(d) lists specific acts that are not to be deemed misuse of patent rights. 35 U.S.C. § 271(d) (2006).

<sup>98</sup> See generally 6 Donald S. Chisum, Chisum on Patents § 19.04 (2008).

<sup>99</sup> 28 U.S.C. § 1498 (2006). The section begins:

Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of

to address a national emergency. Thus, all three grounds enumerated by the U.S. had a statutory basis.

If one accepts that the narrower understanding of a compulsory license applies to Article 31 and Article 5A, then judicial denials of injunctive relief in favor of an ongoing royalty fall outside the area circumscribed by the articles. Thus, the remaining hurdles to compliance would be ensuring that a denial of injunctive relief is non-discriminatory and that the principles and objectives of the Agreement are satisfied.<sup>100</sup> This would mean that a pattern of favoring a place of invention, field of technology, or location of production would not be permissible absent perhaps a compelling justification.<sup>101</sup> In addition, a denial of injunctive relief could not disserve the public interest or be unfair to the right holder.<sup>102</sup> If these conditions are met, a court may deny injunctive relief because TRIPS Article 44 merely requires that “judicial authorities shall have the authority” to grant injunctions.<sup>103</sup> Article 44 does not require that every infringement entail an injunction because to so conclude would read “have the authority to” out of the text.

One may argue that a lax judiciary would result if it served the member’s interests. However, if a court did apply a less stringent standard of review to patents, the court would be undercutting its country’s own incentives for domestic innovation. Moreover, other member nations could argue before the Dispute Settlement Body that the country was failing to honor the exclusive rights conferred in Article 28.

## 2. In Support of the Broad Definition

However, there are reasons to conclude that the broader definition of compulsory license—which would include judicial orders—is intended. First, the term “law” in Article 31 is unqualified.<sup>104</sup> As such, the plain meaning of the term covers both common and statutory law. To conclude that the term only applies to statutory law would impermissibly read a limitation into the text. Simply, there is no explicit statement that such a limitation was intended, and, moreover, the broader definition of compulsory

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Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

<sup>100</sup> See Part II.A *supra*.

<sup>101</sup> TRIPS, *supra* note 8, art. 27.1; see also Reichman & Hasenzahl, *supra* note 64, at 2.

<sup>102</sup> TRIPS, *supra* note 8, art. 7.

<sup>103</sup> *Id.* art. 44 (stating in part, “[t]he judicial authorities shall have the authority to order a party to desist from an infringement, inter alia to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs clearance of such goods”).

<sup>104</sup> *Id.* art. 31 (“Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder . . .”) (footnote omitted).

license is not unreasonable, as evinced by the many commentators and judges who employ it.<sup>105</sup>

Second, conditions set forth in Article 31 arguably conflict with the narrower definition. For instance, the requirement that consideration be on individual merits<sup>106</sup> is arguably far different from Judge Prost's contention that anyone who meets the statutory criteria is granted a license.<sup>107</sup> The prior negotiation condition emphasizes this same distinction. On the other hand, these conditions reflect the policy judgment that abridgment of a patentee's exclusive rights is not to be taken lightly. The prior negotiation condition, for example, demonstrates that the preferred policy is for the interested parties to resolve the situation among themselves.

Third, the history of the Agreement negotiations supports the notion that the strongest possible protection of exclusive rights was desired.<sup>108</sup> Moreover, the conclusion in Part 3.A.1 *supra* that Article 31 was a concession by U.S. negotiators (whereby the largely foreign practice of compulsory licensing was limited but permitted to continue) was purely speculative, and the plain language of the provision does not reveal any basis for that assertion. Thus, in keeping with the goal of strong patent rights enforcement, Article 31 should be the arbiter of all limitations on exclusive rights where Article 30 does not control, thereby constraining judicial discretion.

Fourth, not including judicial orders under Article 31 would essentially end-run the goals of TRIPS. That is, arguing semantics does not alter the conclusion that a denial of injunctive relief has, in practice, the same effect for the parties involved as a compulsory license. Indeed, commentators have suggested that denying injunctive relief is a *de facto* compulsory license.<sup>109</sup>

Yet, one may question whether a denial of injunctive relief in favor of an ongoing royalty is actually the same in practice as a compulsory license. If one concludes that they are the same—and, thus, the costs associated with each are equal—then a denial of injunctive relief is an effective end run around a compulsory licensing system. However, the two are not the same—at least not in the U.S. First, when a court denies injunctive relief, it has already concluded that the patent is valid and infringed. Contrariwise, in a compulsory licensing system, a patent's validity may be uncertain unless it has been the subject of a prior adjudication. All else being equal, a patent that has been upheld judicially is more valuable and commands more bargaining power than one whose

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<sup>105</sup> See generally *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1136 (2007) (Rader, J., concurring); Reichman & Hasenzahl, *supra* note 64; Correa, *supra* note 64.

<sup>106</sup> TRIPS, *supra* note 8, art. 31(a).

<sup>107</sup> See *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1313 n.13 (2007).

<sup>108</sup> Wegner, *supra* note 9, at 163.

<sup>109</sup> Correa & Yusuf, *supra* note 27, at 424; 2-8 Roger M. Milgrim, *Milgrim on Licensing* §8.55 (2007).

validity is less certain.<sup>110</sup> The damages or remuneration awarded will consequently be greater in an infringement proceeding than under a compulsory licensing regime. Moreover, the process of obtaining a compulsory license generally entails less risk than an infringement proceeding. In an infringement proceeding, treble damages for willfulness are possible.<sup>111</sup> Also, in addition to the substantial legal fees involved, an infringer may have invested in the infrastructure to produce the patented invention.

### 3. Intratextual Observations

The preceding analysis addressed historical practices, legislative intent, and policy concerns. An intratextual analysis—primarily focusing on Article 44—also provides cues as to the nature and reach of Article 31.

Article 44, entitled “Injunctions,” addresses the availability of injunctive relief:

1. The judicial authorities shall have the authority to order a party to desist from an infringement, *inter alia* to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs clearance of such goods. Members are not obliged to accord such authority in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right.

2. Notwithstanding the other provisions of this Part and provided that the provisions of Part II specifically addressing use by governments, or by third parties authorized by a government, without the authorization of the right holder are complied with, Members may limit the remedies available against such use to payment of remuneration in accordance with subparagraph (h) of Article 31. In other cases, the remedies under this Part shall apply or, where these remedies are inconsistent with a Member’s law, declaratory judgments and adequate compensation shall be available.<sup>112</sup>

Unlike Article 31, Article 44 is located in Part III, “Enforcement of Intellectual Property Rights.” Based on this structure and recognizing that “the creation of a right is distinct

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<sup>110</sup> Cf. *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1317 (2007) (Rader, J., concurring) (“[P]re-suit and post-judgment acts of infringement are distinct, and may warrant different royalty rates given the change in the parties’ legal relationship and other factors.”).

<sup>111</sup> 35 U.S.C. § 284 (2006).

<sup>112</sup> TRIPS, *supra* note 8, art. 44.

from the provision of remedies for violations of that right,”<sup>113</sup> one could argue that Article 31 (like Article 30) merely sets out limitations on exclusive rights, and it is Article 44 that controls whether an injunction should be granted (and Part III in general that controls which remedies are available).

Including a sentence in Article 44 that injunctive relief for patent infringement must follow when the terms of Articles 30 and 31 are *not* met would have removed all doubt. Instead, the drafters took the opposite approach. Paragraph 2 of Article 44 states that if the provisions of Article 31 *are* met, remedies available may be limited to payment of remuneration in accordance with Article 31(h),<sup>114</sup> and if Article 31 is *not* met all remedies “apply,”<sup>115</sup> including damages,<sup>116</sup> injunctions,<sup>117</sup> and “other remedies,”<sup>118</sup> such as destruction of infringing products. This formulation is interesting because Article 44.1 merely requires that “the judicial authorities . . . have the authority to order” an injunction.<sup>119</sup> Thus, this second sentence requires only that injunctions be *available*. Yet, read strictly, Article 31 would seem to permit compulsory licenses only where its terms are precisely met.

This tension does not help determine whether the broad definition or narrow definition of compulsory license was intended for Article 31. That is, there are two ways to resolve this incongruity. The first is to conclude that Article 31 applies only to statutory compulsory licensing schemes. The second is to conclude that Article 31 applies to all compulsory licenses, but that Article 31 is not to be read strictly. If the second interpretation is adopted, Article 44 suggests that it is the spirit more than the letter that is to be followed when applying the provisions of Article 31. Thus, under the second interpretation, a reading that would categorically require an injunction to issue if Article 31’s terms were not met is likely untenable.

#### 4. Which Definition?

Ultimately, both the broad and narrow interpretations of compulsory license as applied to Article 31 are reasonable and supported by a multiplicity of sources. One

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<sup>113</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006). Justice Kennedy agreed, stating, “[b]oth the terms of the Patent Act and the traditional view of injunctive relief accept that the existence of a right to exclude does not dictate the remedy for a violation of the right.” *Id.* at 396 (Kennedy, J., concurring).

<sup>114</sup> TRIPS, *supra* note 8, art. 44.2.

<sup>115</sup> *Id.* art. 44.2.

<sup>116</sup> *Id.* art. 45.

<sup>117</sup> *Id.* art. 44.

<sup>118</sup> *Id.* art. 46.

<sup>119</sup> *Id.* art. 44.1.

definitive conclusion to draw is that there is little justification to assert that all outcomes dictated by Article 31 are *per se* TRIPS compliant. The potential unjust and socially undesirable outcome that can occur when an innocent infringer fails to have negotiated, combined with intratextual observations, supports finding that in some circumstances Article 31 should not control—at least not *in toto*. Whether this means conditions of Article 31 can be waived when necessary or that Article 31 does not apply at all in certain circumstances is not clear. However, because it is reasonable to conclude that the provisions of Article 31 generally apply, it is hard to argue that a further narrowed interpretation should be preferred. In both cases, there is room for equitable discretion. Yet, if Article 31 does not at all cover judicial denials of injunctive relief, then courts should be free to determine an equitable outcome in accordance with the principles and objectives of TRIPS. So concluding, this Note will now turn to current U.S. patent law jurisprudence and its compliance with the observations noted thus far.

#### IV. *EBAY* AND SUBSEQUENT DENIALS OF INJUNCTIVE RELIEF

##### A. *eBay*

Section 283 of the U.S. Patent Act states that “[t]he several courts having jurisdiction of cases under this title *may* grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”<sup>120</sup> Accordingly, *eBay* held that

[a] plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. 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.<sup>121</sup>

The concurrences of Justices Roberts<sup>122</sup> and Kennedy<sup>123</sup> both emphasized that a departure from the historical practice was not to be taken lightly, hinting that injunctive relief should remain the usual remedy. Justice Kennedy’s opinion in particular highlights that *eBay* and the reaffirmation of the four-factor test change very little:

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<sup>120</sup> 35 U.S.C. § 283 (2006) (emphasis added).

<sup>121</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

<sup>122</sup> *Id.* at 394 (Roberts, C.J., concurring).

<sup>123</sup> *Id.* at 395 (Kennedy, J., concurring).



To the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in contexts then prevalent. The lesson of historical practice, therefore, is most helpful and instructive when the circumstances of a case bear substantial parallels to litigation the courts have confronted before.<sup>124</sup>

In Justice Kennedy's opinion, therefore, the status quo should generally be maintained and only in cases that lack historical guidance should the four-factor test really serve as a hurdle to injunctive relief. Justice Kennedy then asserts that those cases lacking historical guidance predominately concern the non-practicing entity.<sup>125</sup> The question after *eBay* was to what extent trial courts would depart from historical practices. Would district courts engage in the four-factor analysis as a perfunctory gesture to satisfy *eBay* or would courts upend the status quo in place since *Continental Paper Bag*?<sup>126</sup>

### B. Post-*eBay* Denials of Injunctive Relief

As of early 2008, permanent injunctive relief has been denied in at least twelve cases since *eBay*.<sup>127</sup> For the most part, it appears that district courts are following Justice

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<sup>124</sup> *Id.* at 396 (Kennedy, J., concurring).

<sup>125</sup> *Id.* at 396 (Kennedy, J., concurring) ("In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present consideration quite unlike earlier cases."); see also Wegner, *supra* note 9, at 164 ("It was only when the Foundation of the late Jerome Lemelson sought high royalty payments without working their patents that the modus operandi of the current non-working patentee-plaintiff developed.").

<sup>126</sup> *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908).

<sup>127</sup> See *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1356 (Fed. Cir. 2008) (upholding denial of injunctive relief); *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314 (Fed. Cir. 2007) (same); *Respironics, Inc. v. Invacare Corp.*, No. 04-0336, 2008 U.S. Dist. LEXIS 1174, at \*13 (W.D. Pa. Jan 7, 2008) (denying injunction); *Baden Sports, Inc. v. Molten*, No. C06-210MJP, 2007 WL 2056402, at \*10-11 (W.D. Wash. July 16, 2007) (denying injunction); *IMX, Inc. v. Lendingtree, LLC*, 469 F. Supp. 2d 203, 226 (D. Del. 2007) (denying injunction); *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 444 (D. Del. 2007) (denying injunction), *aff'd in part and rev'd in part*, No. 2007-1483, 2008 U.S. App. LEXIS 20437 (Fed. Cir. Sept. 29, 2008); *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 568 (E.D. Va. 2007) (denying injunction); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742, \*2 (E.D. Mich. Jan. 4, 2007) (denying injunction), *injunction granted*, 2007 WL 3053662 (E.D. Mich. Oct. 19, 2007); *Finisar Corp. v. DirecTV Group, Inc.*, No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380, at \*4 (E.D. Tex. July 7, 2006) (denying injunction), *aff'd in part and rev'd in part*, 523 F.3d 1323 (Fed. Cir. 2008); *KEG Techs., Inc. v. Laimer*, 436 F. Supp. 2d 1364, 1371 (N.D. Ga. 2006) (refusing to reach decision on injunction until parties confer); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at \*5 (W.D. Okla. Sep. 5, 2006) (denying injunction); *z4 Techs., Inc. v. Microsoft*

Kennedy's opinion, preserving the status quo except in circumstances "quite unlike earlier cases,"<sup>128</sup> namely, non-practicing entities. In seven of the cases where permanent injunctive relief was denied, plaintiffs were non-practicing entities.<sup>129</sup> In three other cases, permanent injunctions were denied for providing insufficient specific evidence to apply in the four-factor test.<sup>130</sup> In *Baden Sports v. Molten*,<sup>131</sup> a genuine issue of obviousness prevented a permanent injunction. Finally, in *Respironics v. Invacare*,<sup>132</sup> the court denied a permanent injunction because the jury found only that Invacare's trade show device infringed Respironics's patent; Respironics sought a permanent injunction regarding other Invacare devices, but the jury had not found that these devices infringed.<sup>133</sup> One commentator noted in mid 2007 that of twenty-two cases granting a permanent injunction, only one involved a non-practicing entity.<sup>134</sup>

However, because *eBay* is a relatively recent decision, the first wave of cases applying the four-factor test remains somewhat in a state of flux. For example, in fall of 2007 commentators counted *Innogenetics v. Abbott Labs*<sup>135</sup> as a case granting injunctive

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*Corp.*, 434 F. Supp. 2d 437, 444 (E.D. Tex. 2006) (denying injunction), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007). See generally Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): *A Review of Subsequent Judicial Decisions*, 89 J. Pat. & Trademark Off. Soc'y 631 (Aug. 2007) (reviewing grants and denials of injunctive relief in patent cases post-*eBay*); Iancu & Nichols, *supra* note 3 (same); Edward D. Manzo, *Injunctions in Patent Cases After eBay*, 7 J. Marshall Rev. Intell. Prop. L. 44 (Fall 2007) (same).

<sup>128</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

<sup>129</sup> See *Amado*, 517 F.2d at 1361; *Paice*, 504 F.3d at 1303; *MercExchange*, 500 F. Supp. 2d at 560-561;; *Sundance*, 2007 WL 37742, at \*1, *injunction granted*, 2007 WL 3053662 (E.D. Mich. 2007); *Finisar*, 2006 U.S. Dist. LEXIS 76380; *Voda*, 2006 WL 2570614, at \*4; *z4 Techs.*, 434 F. Supp. 2d at \*7, *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007). See generally Beckerman-Rodau, *supra*

note 127; Iancu & Nichols, *supra* note 3; Manzo, *supra* note 127. Commentators differ as to whether z4 Technologies was a non-practicing entity. Compare Beckerman-Rodau, *supra* note 127, at 569 with Iancu & Nichols, *supra* note 3, at 397.

<sup>130</sup> See *Praxair*, 479 F.Supp.2d 440; *IMX*, 469 F. Supp. 2d 203; *KEG Techs*, 436 F. Supp. 2d 1364.

<sup>131</sup> *Baden Sports*, 2007 WL 2056402 (W.D. Wash. July 16, 2007)(order denying permanent injunction).

<sup>132</sup> *Respironics, Inc. v. Invacare Corp.*, No. 04-0336, 2008 U.S. Dist. LEXIS 1174 (W.D. Pa. Jan. 8, 2008)(order denying permanent injunction).

<sup>133</sup> *Id.* at \*5.

<sup>134</sup> See Beckerman-Rodau, *supra* note 127, at 658 (citing *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007)).

<sup>135</sup> *Innogenetics, N.V. v. Abbott Labs*, No. 05-C-0575-C, 2007 U.S. Dist. LEXIS 3148 (W.D. Wis. Jan. 12, 2007).

relief.<sup>136</sup> On appeal in 2008, however, the Federal Circuit vacated the order.<sup>137</sup> Conversely, the district court in *Sundance v. DeMonte* initially denied injunctive relief, but in 2008 issued an injunction because of changed circumstances.<sup>138</sup> Despite the unsettled case law and while interpretation of these recent cases lacks the benefit of substantial hindsight, a clear trend has emerged where non-practicing entities are generally failing to satisfy the four-factor test. Commentators have tied this to a larger “market competition” requirement.<sup>139</sup>

The subsequent cases also illustrate that the courts are giving careful consideration to social and economic welfare and balancing the rights and obligations of the patent holder. Courts are tending to look behind the claims to divine a plaintiff’s true motive, which, as Justice Kennedy suggested, is usually money.<sup>140</sup> For example, on remand, the district court in *eBay* noted: “Utilization of a ruling in equity as a bargaining chip suggests both that such party never deserved a ruling in equity and that money is all that such party truly seeks, rendering monetary damages an adequate remedy in the first instance.”<sup>141</sup> The “bargaining chip” practice alone does not warrant a denial of injunctive relief, but helps tip the four-factor analysis in favor of the infringer. The court continued: “Although monetary relief will be obtained through the court rather than through a negotiated license agreement, in the end, MercExchange receives what it has consistently

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<sup>136</sup> See Beckerman-Rodau, *supra* note 127, at 658 (citing *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007)).

<sup>137</sup> *Innogenetics, N.V. v. Abbott Labs*, 512 F.3d 1363, 1380 (Fed. Cir. Jan. 17, 2008) (vacating district court’s grant of injunctive relief on abuse of discretion standard because reasonable royalty award for past infringement included “upfront entry fee that contemplate[d] or [wa]s based upon future sales by Abbott in a long term market”).

<sup>138</sup> *Sundance, Inc. v. DeMonte*, No. 02-73543, 2007 WL 37742 (E.D. Mich. Jan. 4, 2007), *injunction granted*, 2007 WL 3053662 (E.D. Mich. Oct. 19, 2007).

<sup>139</sup> See Manzo, *supra* note 127, at 68 (“The usual reason for denying the injunction is an absence of competition between the parties and no harm to goodwill, market share, or the like.”). See generally Benjamin H. Diessel, *Trolling for Trolls: The Pitfalls of the Emerging Market Competition Requirement for Permanent Injunctions in Patent Cases Post-eBay*, 106 Mich. L. Rev. 305 (Nov. 2007).

<sup>140</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (“For [non-practicing entities], an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”).

<sup>141</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 582 (E.D. Va. 2007).

sought: money.”<sup>142</sup> Consistent with these observations, MercExchange and eBay settled in February of 2008.<sup>143</sup>

## V. EBAY AND COMPLIANCE WITH TRIPS

Despite this Note’s conclusion that Article 31 does not control in all circumstances of denials of injunctive relief (and may not control in any), it is not unreasonable to think that the TRIPS Dispute Settlement Body may hold a different opinion. Even under such an interpretation, cases denying injunctive relief generally comply with Article 31. However, additional interpretation of the Agreement is necessary to determine how current U.S. law might be TRIPS compliant without changing the law itself. Paragraph (k) of Article 31, which addresses anti-competitive practices, and Article 44, which addresses injunctive relief, are two key provisions to consider.

Paragraph (k) of Article 31 provides additional discretion when granting compulsory licenses to remedy “anti-competitive” practices.<sup>144</sup> Article 40 appears to define anti-competitive practices as behavior “having an adverse impact on competition in the relevant market.”<sup>145</sup> It also suggests that “anti-competitive” practices and abuse of intellectual property rights are not coextensive; that abuse of rights does not necessarily entail an anti-competitive practice.<sup>146</sup> The Agreement lists grantbacks and tying as examples of anti-competitive practices;<sup>147</sup> another example is refusal to deal.<sup>148</sup> It is unclear how difficult it would be to establish an abuse of rights as anti-competitive in the U.S. in light of the Patent Misuse Reform Act of 1988, which states that refusal to license and tying are not patent misuse.<sup>149</sup> However, in the event that an abuse of patent rights is anti-competitive, the prior negotiation<sup>150</sup> and domestic supply<sup>151</sup> conditions of Article 31

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<sup>142</sup> *Id.* at 587.

<sup>143</sup> Press Release, eBay Inc., eBay Inc. and MercExchange, L.L.C. Reach Settlement Agreement (Feb. 28, 2008), *available at* <http://files.shareholder.com/downloads/eBay/268909602x0x175182/da64aef4-b963-4487-b109e88316119b59/296670.pdf>.

<sup>144</sup> TRIPS, *supra* note 8, art. 31(k).

<sup>145</sup> *Id.* art. 40.2.

<sup>146</sup> *Id.* (recognizing that particular cases of licensing practices may “constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market”)

<sup>147</sup> *Id.*

<sup>148</sup> *See generally* Chisum, *supra* note 98.

<sup>149</sup> Patent Misuse Reform Act of 1988 § 201, 35 U.S.C. § 271(d) (2006).

<sup>150</sup> TRIPS, *supra* note 8, art. 31(b)

are waived. In addition, the court may take the behavior of the right holder into account when determining the amount of remuneration.<sup>152</sup> Without these conditions, the court would have considerable discretion to fashion an ongoing royalty remedy.

Article 44 sets forth what Dratler & McJohn refer to as the “escape clause.”<sup>153</sup> It is buried in paragraph 2 of Article 44 and states that where injunctions “are inconsistent with a Member’s law, declaratory judgments and adequate compensation shall be available.”<sup>154</sup> If one concludes that injunctions must issue if the conditions of Article 31 are not met, then one can naturally also conclude that such categorical grants of injunctive relief are inconsistent with U.S. law, which under *eBay* requires satisfying the four-factor test. The final step in this train of logic is to conclude that the U.S. essentially can do whatever it wants. The 52 intellectual property professors made a similar argument in their *eBay* brief.<sup>155</sup> Dratler & McJohn argue that this logic is wrong, however, because it adopts an incorrect definition of “inconsistent.” The authors outline three possible interpretations of the word:

First, a remedy might be ‘inconsistent’ with a Member’s law if that Member’s law provides no such remedy on the date of application of the TRIPS Agreement for that Member. Second, a remedy might be ‘inconsistent’ with a Member’s law if that remedy is totally lacking in that Member, whether as a means of enforcing intellectual property rights or any other rights. Finally, a remedy might be ‘inconsistent’ with a Member’s law if it contravenes constitutional or other fundamental systemic requirements that cannot be modified by legislation.<sup>156</sup>

Applying principles of contract interpretation, Dratler & McJohn conclude that the second interpretation is the most attractive and reasonable.<sup>157</sup> Under this interpretation,

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<sup>151</sup> *Id.* art. 31(f)

<sup>152</sup> *Id.* art. 31(k).

<sup>153</sup> Dratler & McJohn, *supra* note 9, § 1A.07[3], at 1A-112.

<sup>154</sup> TRIPS, *supra* note 8, art. 44.2 (stating that “[i]n other cases, the remedies under [Part III, Enforcement of Intellectual Property Rights] shall apply or, where these remedies are inconsistent with a Member’s law, declaratory judgments and adequate compensation shall be available”).

<sup>155</sup> Brief Amici Curiae of 52 Intellectual Property Professors in Support of Petitioners, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05-130), 2005 U.S. Briefs 130, 10 (“Article 44 itself permits nations to avoid granting courts even the authority to order injunctive relief in cases of innocent infringement and where injunctive relief is ‘inconsistent with a Member’s law.’” (citations omitted)).

<sup>156</sup> Dratler & McJohn, *supra* note 9, § 1A.07[3][b], at 1A-112.

<sup>157</sup> *Id.*

the “escape clause” does not bring the U.S. into TRIPS compliance. However, a measure as drastic as the “escape clause” is not necessary anyway.

Echoing the concerns of Articles 8, 31(k), and 40, Justice Kennedy’s *eBay* concurrence highlighted the issue of non-practicing entities, noting that “[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.”<sup>158</sup> In light of these developments, Justice Kennedy recognized that

[f]or [non-practicing entities], an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for *undue leverage* in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the *public interest*.<sup>159</sup>

If courts give weight to Justice Kennedy’s concerns in their four-factor analysis, then *eBay* is probably consistent with TRIPS even in the event that Article 31 is given a broad interpretation.<sup>160</sup> Indeed, as discussed in Part III.B *supra*, whether an entity practices its patent has weighed heavily determining whether a district court denies injunctive relief.<sup>161</sup> Yet, despite non-practicing status being a reliable predictor, it has not proven dispositive. How courts have carefully weighed the interests involved should satisfy Article 7 of TRIPS, which states that the “protection and enforcement of intellectual property rights” should be “in a manner conducive to social and economic welfare, and [contribute] to a balance of rights and obligations.”<sup>162</sup>

Post-*eBay* decisions also generally comply with Article 31. Because Article 31, as reiterated by the Doha Declaration, provides that compulsory licenses may be granted on any grounds a country deems appropriate, the requirements of Article 5A(4) for non-working can be avoided. Thus, courts can grant compulsory licenses for patents of any

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<sup>158</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (citation omitted).

<sup>159</sup> *Id.* (citation omitted) (emphasis added).

<sup>160</sup> See Stern-Dombal, *supra* note 15, at 9 (“The emerging scenario is that most court-ordered compulsory licenses will comply with Article 31.”).

<sup>161</sup> See Iancu & Nichols, *supra* note 3, at 397 (reporting that as of mid 2007, the five reported decisions denying injunctive relief all involved a non-practicing entity); see also Beckerman-Rodau, *supra* note 127, at 659 (reporting that as of late 2007, five of six reported decisions denying injunctive relief involved a non-practicing entity).

<sup>162</sup> TRIPS, *supra* note 8, art. 7.

age, provided another ground can be identified. This could be as simple as invoking the public interest.<sup>163</sup>

The two primary issues remaining are the license termination<sup>164</sup> and prior negotiation<sup>165</sup> requirements. The termination condition is likely of little moment because termination is “subject to adequate protection of the legitimate interests of the [license holder.]”<sup>166</sup> Thus, in practice, this standard is probably largely toothless and will result in licenses being for the life of the patent. The negotiation condition requires that prior to the unauthorized use, the infringer negotiated for authorization on reasonable commercial terms and conditions and for a reasonable period of time. If this condition is strictly enforced, denials of injunctive relief will be available in cases only where the proposed user is aware of the patent it wishes to exploit. For example, Microsoft would not have been able to receive a compulsory license from z4 Technologies because Microsoft used the subject matter of z4’s patents before it had notice that such subject matter was patented<sup>167</sup>—thus, a negotiation prior to use was impossible. However, if the spirit rather than the letter of the negotiation requirement is applied, courts will likely find pretrial negotiations as sufficient.

## VI. STRATEGIES TO BRING THE U.S. INTO COMPLIANCE

If one concludes that the U.S. is in non-compliance with TRIPS, it may be possible to temper or ameliorate the situation before, as some commentators suggest, the TRIPS Dispute Settlement Body essentially sanctions a trade war.<sup>168</sup>

One solution to non-compliance was suggested in *Paice*: a mandatory post-trial negotiation.

In most cases, where the district court determines that a permanent injunction is not warranted, the district court may wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty. Should the parties

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<sup>163</sup> Reichmann & Hasenzahl, *supra* note 77, at 14 (stating that the public interest is a ground separate from the category of abuse).

<sup>164</sup> TRIPS, *supra* note 8, art. 31(g).

<sup>165</sup> *Id.* art. 31(b).

<sup>166</sup> *Id.* art. 31(g).

<sup>167</sup> Z4 claimed Microsoft’s Windows 2000 and Office 2001 products infringed their patents. *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006). However, Microsoft only became aware of z4’s patents in April 2003. Defendant Microsoft Corporation’s First Amended Answer and Counterclaims, *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006), 2006 U.S. Dist. Ct. Pleadings 335, 2.

<sup>168</sup> Dratler & McJohn, *supra* note 9, § 1A.01, at 1A-7.

fail to come to an agreement, the district court could step in to assess a reasonable royalty in light of the ongoing infringement.<sup>169</sup>

Judge Rader agreed with the *Paice* majority, but took a stronger position: “this court should *require* the district court to remand this issue to the parties, or to obtain the permission of both parties before setting the ongoing royalty rate itself.”<sup>170</sup> Judge Rader continued:

To avoid many of the disruptive implications of a royalty imposed as an alternative to the preferred remedy of exclusion, the trial court’s discretion should not reach so far as to deny the parties a formal opportunity to set the terms of a royalty on their own. *With such an opportunity in place, an ongoing royalty would be an ongoing royalty, not a compulsory license.*<sup>171</sup>

A mandatory post-trial royalty negotiation would help mitigate TRIPS noncompliance because, if the parties reached a licensing arrangement on their own, Article 31 would not be implicated—the right holder would be authorizing the use. Moreover, a post-trial negotiation may more often result in an agreement than one before trial because one variable in the licensing calculus—patent validity—has been settled.

A second mitigating strategy would be to end the practice of submarine patents and more assiduously police prosecution laches. A submarine patent is the “use of continuation applications to claim previously disclosed but unclaimed features of an invention many years after the filing of the original patent application.”<sup>172</sup> Limiting the number of continuations a patent applicant may file would provide better notice to the public in the course of a patent search. However, the U.S. District Court for the Eastern District of Virginia recently held in *Tafas v. Dudas*<sup>173</sup> that such limits constituted substantive rulemaking and were consequently beyond the power of the U.S. Patent and Trademark Office.<sup>174</sup>

## VII. CONCLUSION

Because TRIPS incorporates by reference the Paris Convention’s compulsory licensing provisions, one may ask why international compliance is just now an issue.

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<sup>169</sup> *Paice, L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (2007).

<sup>170</sup> *Id.* at 1316 (Rader, J., concurring)

<sup>171</sup> *Id.* (emphasis added).

<sup>172</sup> *Ricoh Co. v. Nashua Corp.*, No. 97-1344, 1999 U.S. App. LEXIS 2672, at \*8 n.3 (Fed. Cir. Feb. 18, 1999).

<sup>173</sup> *Tafas v. Dudas*, 541 F. Supp. 2d 805 (E.D. Va. Apr. 1, 2008).

<sup>174</sup> *Id.* at \*34.



There are two reasons. First, under *Continental Paper Bag*,<sup>175</sup> a non-working patentee who successfully pursued a patent infringement suit was normally awarded injunctive relief.<sup>176</sup> Second, before the mandatory dispute settlement provision in TRIPS, the Paris Convention was largely unenforceable.<sup>177</sup>

There are at least three ways to interpret compulsory licensing in TRIPS. First, the narrow view holds that Article 31 applies only to statutory schemes of compulsory licensing, as are common in Europe. Under this interpretation, judicial denials of injunctive relief stand outside Article 31's reach. In this case, only broad principles and objectives remain in assessing compliance. Second, an intermediate view holds that Article 31 controls except when its application leads to a result incongruous with the general principles and objectives of the Agreement—social and economic welfare, and a balance of rights and obligations, among others.<sup>178</sup> When such a result might occur, courts likely have discretion to waive portions of the provision that cause the conflict. A third interpretation holds that Article 31 controls utterly with very little room for judicial discretion. This final interpretation is the least tenable.

While cases post-*eBay* indicate that non-practicing entities and market competition weigh heavily in the analysis, these trends are arguably more artifacts of careful analysis than determinative. Post-*eBay* cases are careful to balance social and economic welfare and the rights and obligations of the patent holder. Such analysis is congruent with the objectives of TRIPS stated in Article 7.

Thus, Article 31 is the primary provision on which compliance depends. Taking the narrow view on compulsory licensing—where Article 31 is inapplicable—courts applying *eBay*'s four-factor test will arrive at a result that almost certainly complies with TRIPS. Under the intermediate approach, some denials of injunctive relief under *eBay* may violate TRIPS, but in cases post-*eBay* this has not been the broad trend. Under the broadest approach, any denial of injunctive relief that permits ongoing infringement violates TRIPS unless the letter of Article 31 is met. Under this final approach, many denials of injunctive relief violate TRIPS because the infringers did not first negotiate with the right holder before exploiting the protected subject matter.

However, these conclusions miss the practical point that the U.S. finds itself in a dilemma. If *eBay* is TRIPS compliant, developing countries can now cite the case as precedent for implementing their own compulsory licensing systems with their own notions of equity and the public interest.<sup>179</sup> If *eBay* is not TRIPS compliant, commentators predict that the U.S. will be brought before the TRIPS Dispute Settlement Body, the result of which would be a loosening of TRIPS compulsory licensing

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<sup>175</sup> *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908).

<sup>176</sup> Wegner, *supra* note 9, at 156.

<sup>177</sup> *Id.* at 170.

<sup>178</sup> TRIPS, *supra* note 8, art. 7.

<sup>179</sup> Wegner, *supra* note 9, at 168.

requirements or a re-tightening of the U.S. patent law injunctive relief.<sup>180</sup> In the first scenario, one can imagine developing countries and the software and electronics industries being the beneficiaries, in the latter, developed countries and the pharmaceutical companies.<sup>181</sup> Absent a Dispute Settlement Body panel report interpreting Article 31, the WTO should issue a ministerial declaration to clarify the meaning and scope of Article 31 as it did for public health in the Doha Declaration.

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<sup>180</sup> *Id.* at 169.

<sup>181</sup> *Id.*

APPENDIX I

Determining TRIPS-Compliant Compulsory Licenses Under the Broadest Reading of Article 31

