

The Transfer of Intellectual Property Rights: Can There Be Too Much Freedom in the Marketplace for Ideas?

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We Americans take for granted the fact that intellectual property rights can be transferred from one person to another. A small “garage” inventor can sell patent rights to a manufacturing company. Two sparring competitors can settle their disputes by a cross-license of rights. Franchises can be built by licensing out trade secrets to local operators. All of this is part of our daily life, and it seems both natural and good. But like anything else, taking the concept of transferability too far has the potential to cause problems.

Traditionally, the sale and licensing of copyrights, trade secrets, patents and trademarks was ancillary to other commercial activity. For example, authors rarely owned printing presses, delivery networks or bookstores, so to distribute their works they needed to be able to give publishers the appropriate legal rights to print, distribute and sell their books. Likewise, singer/songwriters could not, as individuals, perform their works in front of millions of people even in a lifetime of touring, so it made great sense to allow others to perform their compositions and, when the technology became available, to allow their performances to be recorded, duplicated and distributed to the public.

Entire industries have grown up based on the notion that intellectual property rights can be transferred. Aside from the print and music publishing industries, much commercial activity from the industrial revolution to the Internet age has relied on the ability of inventors to transfer to others the rights to their ideas. Consider our modern airlines. Many of the larger carriers contract with smaller regional airlines to handle flights from smaller markets to the hub cities. Such arrangements rely on trademark licenses for branding and access to technology for implementation details such as coordinated ticketing and scheduling.

In the past decade or so, however, a new business model has arisen. The new model moves the transfer of intellectual property rights from a supporting role to the sole basis of the company’s existence. Patent “aggregator” companies have arisen that obtain large numbers of patents, whether via internal labs or by purchasing patent rights from other companies and individual inventors. These include companies traditionally labeled as patent trolls as well as companies that insist they are in business to thwart the growth of the patent troll industry. It is widely believed that the strategy underlying all of these companies is to get a large enough portfolio of patent rights to make it impossible

for anyone in the industry to operate without taking a license. In another approach, some companies have started creating their own independently traded markets for patent license rights. Ocean Tomo, a company best known for organizing public patent auctions, has proposed a trading market for “unit license rights.” Under this scheme, there is a public market, much like the stock market, in which companies can buy and sell individual rights to create one unit of an invention covered by a particular patent. Like shares of stock, unit rights to a patent will vary in value based on supply and demand, and in theory the marketplace will determine the true value of a patented invention.

The common thread of these models is that they all have as their core business the exchange of intellectual property *per se*, rather than the development and marketing of innovative products and services that embody intellectual property. IBM, Sony, Disney and other companies known for their innovations generate and trade in massive amounts of intellectual property, but do so in connection with real world products and services.

It is that connection on which our intellectual property system was based, and without it the balance between creators and society may be dramatically different. While patents, copyrights, trade secrets and trademarks do not share a common heritage, there is a thread that runs through all of them. Society is advanced by giving those who innovate certain incentives. If innovators are not given enough incentive, the theory goes, they will not bother to undertake the effort and make the sacrifices that are required to generate their works. On the other hand, if too much incentive is provided to innovators, the benefits of their efforts may never spread to the public at large.

The details of this balance are complex and history has shown the relevant factors to change significantly over time. For instance, consider the emergence of open source software. Contrary to the notion that legal protection is needed as an incentive to innovate, thousands upon thousands of programmers around the world have now contributed to open source projects that are available to the public without charge. As the Federal Circuit recently observed in the *Jacobsen v. Katzer* case enforcing an open source license, direct payment for a license is only one of a number of economic and non-economic incentives driving licensors. As another example of how the balance can change over time, not long ago the U.S. changed its patent

system from one that provided a term of 17 years from the date of issue to 20 years from the date of filing. This was done because some inventors were obtaining “submarine” patents by intentionally slowing down the process of obtaining a patent so that the patent would only come to light once an entire industry had developed around the technology. With companies committed to the technology, they would have few options but to take a license, and this was thought to be unfair.

Companies that have as their primary mission aggregating patent rights in order to require other companies to take licenses in the future are engaging in activity that may be legal under current intellectual property law, but is a far cry from what was considered generations ago when striking the balances that form the foundation of our intellectual property law. Some have described this business model as akin to a “private tax” on industry. Many have suggested that such a model skews rights too far in favor of the aggregators and would ultimately hinder rather than advance innovation.

If this is indeed the case, intellectual property legislation can be used to set the balance anew. There is no constitutional prohibition against limits on transferring intellectual property. In copyright law, for example, historically the U.S. permitted authors a “second bite at the apple” by limiting copyright transfers to an initial term, after which the authors were able to re-negotiate their rights with publishers. Copyright law in the U.S. includes compulsory licensing provisions in certain situations, with royalty rates set by an independent board, and extension of such a concept to patent law is a possibility. Jurisdictions outside the U.S. have come up with various other schemes to ensure the maintenance of an appropriate balance. In Europe, for instance, the “moral rights” of an author — to be identified as the creator of a work and to object to mutilation of the work — are not transferable. In some countries, a patent owner that does not bring its invention to the benefit of society by “working” it must allow others to do so.

There is precedent, both at home and abroad, for modifying intellectual property protection in order to maintain an appropriate balance of private and public benefit. Many countries limit subject matter for patents to exclude medical processes. Recent U.S. efforts at patent reform have included provisions excluding tax-related processes from protection. During this country’s anthrax scare in 2001, Congress proposed disregarding Bayer’s patent on the anti-anthrax drug Cipro, prompting Bayer to sign an agreement with the federal government slashing the price of that composition.

The constitutional language itself makes no reference to some unalienable right to transfer intellectual property.

Instead, the promise is to secure “for limited times to Authors and inventors the exclusive right to their respective writings and discoveries.” There is no reference to whether those rights are transferable or, if so, whether there can be limitations imposed on that transferability.

There is no better time than the present to be thinking about the intellectual property balance. A cornerstone of the recovery package enacted in February is innovation. For example, the U.S. Department of Energy’s ARPA-E Funding Opportunity Announcement, dated April 27, 2009, calls for companies to propose innovations that are not just incremental, but “disruptive to the status quo.” The stated goal is to enable immature next-generation technologies to get “beyond the ‘valley of death’ that prevents many transformational new technologies from becoming a market reality.” Even new technologies, though, typically use existing components — power supplies, gearing systems, chemical processes and the like. Does it further our public policy goals to allow companies to aggregate various inventions from a potpourri of sources and then assert the assembled portfolios against an innovator’s technology infrastructure? It may make sense to do so, but these developments remind us to keep our eyes on the appropriate *quid pro quo*.

No one should be blamed for setting up a business model that is within the bounds of current law. But we all need to be vigilant for trends suggesting that the current law no longer serves our purposes as well as it might have in the past. Often, it is the rise of new technologies that suggests our law needs revision. From time to time, however, new business practices arise that may also suggest that a clarification or modification of the law is in order. Given the huge amount of public money to be devoted to innovation in the coming months, it seems that now is a particularly appropriate time to give thought to some of these issues.

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