Patent P(r)i(v)ateering?

by

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Managing Intellectual Property FIRM OF THE YEAR 2014

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Definition and manifestations

Privateering:

(Sir) Francis Drake: privately commissioned /licensed (Letter of Marque) by QE I to plunder Spanish vessels ("Privateer") => no risk of being counter-attacked

NPEs: now employed by high-tech companies to do "the same"?

Definition and manifestations

Patent Privateering:

"The assertion of intellectual property rights by an entity (the privateer), typically in the form of a non-practicing entity, against a target company for the direct benefit of the privateer and the consequential benefit of a sponsor company (where the consequential benefits are significantly greater than the direct benefits)." (*Thomas L. Ewing*, 2011)

⇨

- IP is transferred to privateer
- but: patent privateers share their revenues with others – the company whose patents they purchased
- Typical privateer: NPE/PAE
- Patents usually read on competitor (e.g. SEPs)

Definition and manifestations

(Possible) further characteristics:

- The transferring party usually maintains a perpetual royalty free license (also to business partners)
- In some cases, a sponsor may also split its portfolio across multiple PAEs (which may have the effect of increasing licensing fees and further litigation risk/burdenings for competitors).
- Sponsor usually maintains the ability (in contract) to influence the PAE's choice of targets => competitors
- Often certain litigation milestones and other incentives to leverage the patents against the sponsor's competitors are put in place

Delimitation to NPEs/PAEs and Patent Pools

- **„ordinary“ NPE:**
  - multiplication of patent holders: „one more player in the game“ (however: „ordinary“ NPE usually does not purchase entire portfolio of the previous owner either)
  - (direct or indirect) benefits of sponsor
  - Some extent of control of the sponsor: NPE/PAE is not acting fully independent in privateering cases

- **Patent pools:**
  - Pool: „one-stop shop“: pool intends to offer a portfolio of different patentees of patents relating to a particular technology (often for establishment of a technical standard)
  - Privateering: Splitting up a former single portfolio (does not help to establish a technical standard, thus usually with already established technologiy)

Arguments in favour of Privateering

- Transfer of patents and indirect exploitation is not per se prohibited
- Minimizing costs and risk of litigation while increasing royalty income. Efficient way to realize a return on investments in intellectual property.
- Outsourcing of specific corporate services is commonplace. So why not outsourcing patent litigation to those who know how to handle it? (SME ⇔ large cooperations)
- Generated royalties/damages can be used to develop innovations
- Enforcing patents can be indirect contribution to innovation
- Target companies may have indeed violated others patents and are rightfully held to account. Lawsuits are simply means how intellectual property is defended
- „Breaking open „cross-license clubs“ (WRA and ERA: Railroad Patent Policy: hindering competition)

Arguments against Privateering

- No risk symmetry, no system of „mutually assured destruction“
- No incentives to cross-license anymore => enlargement of licensing costs
- Raises litigation costs of rivals and therefore increase prices for consumers
- Possible evading of FRAND commitments (if any additional value over antitrust constraints is attributed to them)
- Disaggregation of portfolio can enable Sponsor and NPE together to realise total royalty above what Sponsor has promised (see LTE caps of several companies re portfolio)
- SEPs: atomising a previously unified SEP portfolio splits complementary patents, so that same technology is paid for twice
- Contrary to process of competition which aims at reducing costs and prices and stimulates innovation (debatable, cf. study by *Lemus/Temnyalov*)
- Can be used by investors as means to influence the value of an undertaking

Legal Assessment of Privateering

- Privateering as such is not prohibited. Intellectual property and access to the courts are fundamental rights
- However, especially in cases where SEPs are concerned several provisions of antitrust law have to be considered
- Not putting patent system and its acceptance into danger
- FTC Chairwoman Edith Ramirez (policy speech, Feb.2014):

"privateering is about more than monetizing patents." The strategy "allows operating companies to exploit (...) patent ownership to win a tactical advantage in the market place that could not be gained with a direct attack.“

- FTC study on impact of privateering on competition and in particular on consumer prices expected at the end of 2015 (fact finding: scope of privateering, costs such arrangements may impose; specifically gathering data regarding the corporate structure and legal organization)

Privateering and European Antitrust Law

- **Cartel Law, Art. 101 TFEU**
  - may be violated if FRAND obligations are being evaded by not transferring them to the privateer and it is thus avoided to license the sponsor`s entire portfolio on FRAND terms
  - has also to be considered if a new and additional unavoidable trading partner is artificially created in order to increase royalties and to extract non-FRAND license terms from implementers
- **Merger control:**

  In very few cases where sponsor and privateer exceed the high turnover thresholds pursuant to Art. 1 of EC Merger Regulation (EC No. 139/2004)
- **Misuse of a market dominant position, Art. 102 TFEU:**

  if the sponsor has a dominant position and abuses this dominant position by splitting up his portfolio, raising the competitor`s costs and evading FRAND commitments
- **Possible legal consequences**:

  voidance of patent transfer, no standing to sue in favour of the privateer

Thank you very much!

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