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## 20 Compulsory licensing under TRIPS and the Supreme Court of the United States’ Decision in *eBay v. MercExchange*

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### 1 Introduction

The compulsory licensing of patents is a contentious issue in international patent law. Various countries support the practice as necessary to ensure access to socially beneficial technologies. Other countries disfavor compulsory licensing because of the harm it inflicts on the incentive to invent and creation of the very technology at issue. The dispute over whether and when a government may issue a compulsory license has focused, in part, on the Agreement on Trade-Related Aspects of Intellectual Property Rights (‘TRIPS’).<sup>1</sup> Questions have arisen since TRIPS’ adoption as to the circumstances under which TRIPS makes compulsory licensing available to Member States.

Recently, the dispute as to when unauthorized use of a patented invention should be allowed has also arisen under United States patent law in a unique context. Traditionally in the United States a patentee was awarded a permanent injunction preventing unauthorized use by an adjudged infringer as a matter of course. In 2006, the issuance of permanent injunctions in essentially all patent cases was revisited by the Supreme Court of the United States in *eBay Inc. v. MercExchange L.L.C.*<sup>2</sup> The Supreme Court decided the statute that gave courts the power to issue an injunctions, 35 U.S.C. § 283, required the usage of a four-factor equitable test to decide whether an injunction should be awarded. As a result of this opinion, injunctions have been denied by United States district courts in at least seven cases, allowing the infringer to continue practicing the patented technology without the patentee’s consent.

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<sup>1</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments – Results of the Uruguay Round, 33 I.L.M. 81 (1994) [hereinafter TRIPS].

<sup>2</sup> 126 S. Ct. 1837 (2006).

While injunctions have issued in at least triple the number since *eBay*, the *eBay* decision and the multiple denials of injunctions represent a significant change in United States patent law.

The reason the *eBay* decision and its application are mentioned in the same context as TRIPS and compulsory licensing is that one of the arguments before the Supreme Court, advanced by the United States and others, is that a move away from automatic permanent injunctions potentially puts the United States in noncompliance with TRIPS. The Supreme Court did not address this question; however, with the denial of injunctions and resulting unauthorized use due to *eBay*, the question is ripe for answering.

This chapter does just that, first placing the *eBay* decision in the context of compulsory licensing and next, evaluating the decision under TRIPS. In particular, the chapter evaluates the effect of an injunction denial pursuant to *eBay* both under the exceptions in TRIPS Articles 30 and 31 and the remedial provision – Article 44. While this discussion is important on a micro-level, the discussion also has macro ramifications, potentially prompting a shift in the overall discourse concerning compulsory licensing and TRIPS. Furthermore, *eBay* may identify an optimal method for Member States to address social objectives by giving their judiciaries the flexibility to allow unauthorized uses on a case-by-case basis. This approach may protect the public interest while doing minimal violence to the patentee's rights and ability to recoup research and development costs.

## **2 Compulsory licensing of patents under TRIPS**

While the phrase 'compulsory license' never appears in the patent part of the TRIPS agreement,<sup>3</sup> TRIPS does address the concept. TRIPS handles compulsory licenses as an exception to the agreement's minimum requirement that all Member States afford a patentee a right of exclusivity during the complete patent term. TRIPS describes a set of circumstances that establish a floor at which any Member State is allowed to issue compulsory license. The compulsory licenses that are allowed fall into two categories – where there is an overriding public interest or where the patent rights are being used in an anticompetitive manner. This framework regarding compulsory licensing under TRIPS is described in more detail below. However, before the specifics of TRIPS are explored, a brief primer on compulsory licenses is given for background.

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<sup>3</sup> TRIPS does, however, mention compulsory licensing by name when discussing trademarks. *See* TRIPS, art. 21 ('Members may determine conditions on the licensing and assignment of trademarks, it being understood that the compulsory licensing of trademarks shall not be permitted and that the owner of a registered trademark shall have the right to assign the trademark with or without the transfer of the business to which the trademark belongs.').

## 2.1 Primer on compulsory licensing

The grant of a patent traditionally gives its owner a limited period of exclusivity where the patentee can prevent others from practicing the patented invention. This limited period of exclusivity affords the patentee control over the invention's price and, in turn, gives the patentee a mechanism by which she can recoup her research and development costs.<sup>4</sup> Exclusivity maintains the incentive to invent because would-be inventors know there is a vehicle – the patent – by which invention costs can be regained. This right to exclusivity is enforced in most countries by the judicial system, with the unauthorized manufacture, use, sale, offer to sale, or import of a patented technology deemed to be infringement.<sup>5</sup> The usual remedy for patent infringement is monetary damages to compensate for past harm and the issuance of an injunction to prevent any future harm.<sup>6</sup>

Compulsory licenses take away the patentee's exclusive control over the patented technology. The patentee can, and quite often does, authorize others to practice the patented technology, which is usually done for a negotiated fee. Compulsory licenses, in contrast, are basically 'involuntary contracts between a willing buyer and an unwilling seller imposed or enforced by the state'.<sup>7</sup> Compulsory licenses are an abrogation of a patentee's right, where the government allows itself or a third party to practice the patented invention without the patentee's consent. The method of implementation and the scope of compulsory licenses vary, but most focus on the patent right to exclusivity and vitiate it under specific circumstances. Such compulsory license laws can be targeted. For example, the Thailand government announced in 2006 that it intended to issue a compulsory license for a patent covering an AIDS treatment drug.<sup>8</sup> In contrast, compulsory licenses laws can be more general. Brazil's local working requirement law is an example of this broader approach. Article 69 of Brazil's 1996 Industrial Property Law allows the

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<sup>4</sup> See Christopher A. Cotropia, 'After-Arising' Technologies and Tailoring Patent Scope, 61 N.Y.U. ANN. SURV. AM. L. 151, 168–71 (2005); Mark A. Lemley, *Ex Ante versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 129–30 (2004).

<sup>5</sup> See, e.g., 35 U.S.C. § 271.

<sup>6</sup> See, e.g., 35 U.S.C. §§ 283, 284.

<sup>7</sup> Gianna Julian-Arnold, *International Compulsory Licensing: The Rationales and the Reality*, 33 IDEA 349, 349 (1993) (quoting Paul K. Gorecki, *Regulating the Price of Prescription Drugs in Canada: Compulsory Licensing, Product Selection, and Government Reimbursement Programmes* (Economic Council of Canada 1981)).

<sup>8</sup> Announcement of the Department of Disease Control, Ministry of Public Health, Thailand on the Public Use of Patent for Pharmaceutical Products (Nov. 29, 2006) available at [www.wcl.american.edu/pijip/documents/ThailandCLAnnouncement.doc](http://www.wcl.american.edu/pijip/documents/ThailandCLAnnouncement.doc).

government to issue a compulsory license if the patentee does not manufacture the patented technology locally within three years of the patent's issuance.<sup>9</sup>

The concept of compulsory licensing runs counter to basic patent theory.<sup>10</sup> The possibility of compulsory licensing and the involuntary breaking of exclusivity can erode the incentive to invent. A would-be inventor can no longer depend on patent exclusivity as a means of recouping costs because of the uncertainty of such exclusivity. As the likelihood that the patent system will bust patents via compulsory licenses increases, the incentive to create patentable inventions decreases. Compulsory licensing also harms a patentee's ability to recover invention costs by controlling distribution and pricing of the patented technology across different markets. Given that compulsory licensing may deter the creation of the very technology the patent system intends to foster, there must be a significant countervailing interest to justify such licensing. There needs to be some overriding 'political or social objective' that requires a compulsory license for the objective to be met.<sup>11</sup>

## 2.2 *Compulsory licensing allowed under TRIPS*

Pursuant to Article 28, TRIPS requires that a Member State provide a patentee with the right to exclude the practice of the patented invention.<sup>12</sup> Article 27 provides that this right to exclude shall be 'enjoy[ed] without discrimination'.<sup>13</sup> Patent rights must also stay in force for the full term of exclusivity.<sup>14</sup> TRIPS, through these requirements, establishes patent exclusivity as a minimum level of protection that all Member States must observe. Compulsory licenses abrogate this exclusivity by forcing the patentee to allow the government or a third party to practice the patented invention.

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<sup>9</sup> See Paul Champ & Amir Attaran, *Patent Rights and Local Working Under the WTO TRIPS Agreement: An Analysis of the U.S.-Brazil Patent Dispute*, 27 *YALE J. INT'L L.* 365, 380–83 (2002).

<sup>10</sup> See Colleen Chien, *Cheap Drugs at What Price to Innovation: Does Compulsory Licensing of Pharmaceuticals Hurt Innovation?*, 18 *BERKELEY TECH. L.J.* 853, 872–3 (2003).

<sup>11</sup> Laurinda L. Hicks & James R. Holbein, *Convergence of National Intellectual Property Norms in International Trading Agreements*, 12 *AM. U. J. INT'L L. & POL'Y* 769, 812 (1997).

<sup>12</sup> TRIPS, *supra* note 1, art. 28.1 (noting that a 'patent shall confer on its owner . . . exclusive rights').

<sup>13</sup> TRIPS, *supra* note 1, art. 27.1 ('[P]atents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.').

<sup>14</sup> TRIPS, *supra* note 1, art. 33 ('The term of protection available shall not end before the expiration of a period of twenty years counted from the filing date.').

TRIPS provides limited exceptions to this right of exclusivity under which compulsory licenses are allowed.<sup>15</sup> Article 8 of TRIPS sets forth principles that define the situations under which exceptions are acceptable. First, a Member State may protect ‘public health and nutrition’ and other ‘public interests in sectors of vital importance to [a state’s] socio-economic and technological development’.<sup>16</sup> A Member State may also minimize ‘abuse[s] of intellectual property rights’ that ‘unreasonably restrain trade or adversely affect the international transfer of technology’.<sup>17</sup> These are, however, only general principles. Article 8 does not explicitly identify a mechanism by which Member States can allow unauthorized use of the patented technology.

Articles 30 and 31 do provide such a mechanism. Article 30 is a substantive exception, detailing three criteria for any exception to exclusivity. Article 31, in contrast, is primarily procedural in nature, detailing a list of requirements for a limitation to exclusivity. Taken together, the Articles appear to define the universe of allowed unauthorized use under TRIPS.<sup>18</sup> Both Articles are introduced below.

*2.2.1 Article 30 – a substantive-based exception* Article 30 allows Member States to ‘provide limited exceptions to the exclusive rights conferred’ under TRIPS. There are three substantive requirements in Article 30 that must be met for there to be an allowed exception to patent exclusivity. An exception (1) must be a limited one; (2) cannot ‘unreasonably conflict with a normal exploitation of the patent’; and (3) cannot ‘unreasonably prejudice the legitimate interests of the patent owner, taking into account of the legitimate interests of third parties’.<sup>19</sup> The plain language of Article 30 would allow a

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<sup>15</sup> See J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection under the TRIPS Component of the WTO Agreement*, 29 INT’L L. 345, 351–8 (1995) (identifying arts 30 and 31 as limitations to a patentee’s exclusive rights).

<sup>16</sup> TRIPS, *supra* note 1, art. 8.1 (‘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.’); see also Reichman, *supra* note 15, at 355–6.

<sup>17</sup> TRIPS, *supra* note 1, art. 8.2 (‘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.’); see also Reichman, *supra* note 15, at 355–6.

<sup>18</sup> As will be discussed *infra*, Article 44.2, allowing Member States to deny injunctions in certain circumstances, may create another, *de facto*, exception.

<sup>19</sup> Graeme B. Dinwoodie & Rochelle Cooper Dreyfuss, *International Intellectual Property Law and the Public Domain of Science*, 7 J. OF INT’L ECON. L. 431, 437 (2004).

Member State to issue a compulsory license – which limits a patent’s exclusivity – if these substantive requirements are met. However, many have argued that Article 30 is intended to allow only very specific exceptions to exclusivity such as private noncommercial use, prior user rights, and experimental use.<sup>20</sup> Regardless of one’s view on Article 30, it clearly allows unauthorized use and the accompanying circumvention of patent rights when the three criteria are met.

The first substantive requirement under Article 30 is that any exception must be a ‘limited exception’. This requirement ‘connotes a narrow exception – one which makes only a small diminution of the rights in question’.<sup>21</sup> For the second requirement, ‘exploitation’ ‘refers to the commercial activity by which patent owners employ their exclusive patent rights to extract economic value from their patent’.<sup>22</sup> The modifying term ‘normal’ means that the exploitation that cannot be unreasonably conflicted includes both ‘what is common within a relevant community’ and those activities that would fall under ‘a normative standard of entitlement’.<sup>23</sup> ‘[N]ormal practice of exploitation by patent owners, as with owners of any other intellectual property right, is to exclude all forms of competition that could detract significantly from the economic returns anticipated from a patent’s grant of market exclusivity.’<sup>24</sup> The third, and final substantive requirement under Article 30, compares the legitimate interests of the patent owner and third parties. The ‘legitimate interest[s]’ that can be considered include those that reflect ‘widely recognized policy norm[s]’.<sup>25</sup>

Notably, these three requirements speak to when, substantively, a break in exclusivity is allowed under TRIPS. Article 30 does not articulate any procedural requirements that must be met when determining whether Article 30’s requirements are fulfilled. Article 31, in contrast, is much longer on procedure and includes very few substantive requirements.

*2.2.2 Article 31 – a procedural-based exception* Article 31 provides another ground for a Member State to disturb a patentee’s exclusivity and

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<sup>20</sup> See Carlos Correa, PATENT RIGHTS, IN INTELLECTUAL PROPERTY AND INTERNATIONAL TRADE, THE TRIPS AGREEMENT, 207–08 (Carlos Correa & A. Yusef eds., 1998).

<sup>21</sup> See Canada – Patent Protection of Pharmaceutical Products, WT/DS114/R (Report of WTO Dispute Settlement Panel, 2000) (*‘Canada – Pharmaceutical Products’*) at ¶ 7.30; see also Dinmwoodie & Dreyfuss, *supra* note 19, at 438.

<sup>22</sup> *Canada – Pharmaceutical Products*, *supra* note 18, at ¶ 7.54.

<sup>23</sup> *Id.* at ¶ 7.54.

<sup>24</sup> *Id.* at ¶ 7.55.

<sup>25</sup> *Id.* at ¶ 7.77.

issue a compulsory license. The exception provided for under Article 31 is in addition to, and is not supposed to overlap with, the exceptions provided for by Article 30.<sup>26</sup>

Article 31, like Article 30, speaks to when others can use a patented technology without the authorization of the patentee. If the list of procedural requirements is met, then the government is allowed to issue a compulsory license that allows a government or third party to engage in unauthorized use of a patented technology.<sup>27</sup> The procedural requirements run the gamut. For example, unauthorized use must be considered on a case-by-case basis.<sup>28</sup> The unauthorized use must also be limited in ‘scope and duration’, non-exclusive, and subject to review.<sup>29</sup> In addition, the unauthorized user must have made prior efforts to license the patented technology before unauthorized use is allowed under TRIPS.<sup>30</sup> And the use must be limited to the domestic practice of the patented technology.<sup>31</sup>

Article 31 relaxes the procedural requirements when there are certain substantive reasons for allowing the unauthorized use. For example, if the unauthorized use is meant to remedy a public interest that rises to the level of a ‘a national emergency or other circumstance of extreme urgency’, prior efforts to license are not required.<sup>32</sup> If the unauthorized use is being used to remedy anticompetitive use of the patent, neither prior efforts to license or limiting the compulsory license to domestic use is required.<sup>33</sup>

Article 31’s lack of substantive criteria was addressed in 2001 in a Declaration on TRIPS and Public Health issued by World Trade Organization (‘WTO’) Members at the Doha Ministerial Conference (the ‘Doha Declaration’).<sup>34</sup> The Declaration was spurred by Member States’ efforts to use

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<sup>26</sup> TRIPS, *supra* note 1, art. 31 n.7 (‘“Other use” refers to use other than that allowed under Article 30.’).

<sup>27</sup> TRIPS, *supra* note 1, 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, including use by the government or third parties authorized by the government, the following provisions . . . .’).

<sup>28</sup> TRIPS, *supra* note 1, art. 31(a).

<sup>29</sup> TRIPS, *supra* note 1, art. 31(c), (d), and (i). These provisions are further qualified when particular circumstances are present. *See, e.g.*, art. 31(c) (noting that the limit scope and duration requirement is further limited ‘in the case of semi-conductor technology’ to either ‘public non-commercial use or to remedy a practice determined after judicial or administrative process to be anticompetitive’).

<sup>30</sup> TRIPS, *supra* note 1, art. 31(b). This provision also has various exceptions.

<sup>31</sup> TRIPS, *supra* note 1, art. 31(f).

<sup>32</sup> TRIPS, *supra* note 1, art. 31(b).

<sup>33</sup> TRIPS, *supra* note 1, art. 31(k).

<sup>34</sup> *See* Divya Murthy, *The Future of Compulsory Licensing: Deciphering the Doha Declaration on the TRIPs Agreement and Public Health*, 17 AM. U. INT’L REV.

compulsory licensing for certain pharmaceuticals patents to remedy the AIDS epidemic.<sup>35</sup> For example, South Africa passed the Medicines and Related Substances Control Act of 1997, which allowed the South African health minister to either ignore patent rights and import generic drugs or grant compulsory license patents in light of a national health emergency.<sup>36</sup> Some Member States, such as the United States, argued that such compulsory licensing is not allowed under TRIPS. The Doha Declaration attempts to resolve this disagreement by further clarifying Article 31. The Declaration indicates that TRIPS allows a Member State to take steps to combat urgent health crises by ‘promot[ing] access to medicines for all’.<sup>37</sup> The Doha Declaration continues, stating that ‘[e]ach Member has the right to grant compulsory licenses and the freedom to determine the grounds upon which such licenses are granted’ and that ‘[e]ach Member has the right to determine what constitutes a national emergency or other circumstances of extreme urgency, it being understood that public health crises, including those relating to HIV/AIDS, tuberculosis, malaria and other epidemics, can represent a national emergency or other circumstances of extreme emergency . . .’.<sup>38</sup> Since the Declaration’s drafting, Member States adopted a proposal to amend Article 31 to include parts of the Doha Declaration.<sup>39</sup>

### 3 United States Supreme Court’s Decision in *eBay*

The United States Supreme Court issued its decision in *eBay Inc. v. MercExchange, L.L.C.* in 2006. The decision addressed the circumstances

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1299, 1339 (2002) (‘The WTO met in Doha to provide guidance to Members because TRIPs failed to clearly define the circumstances that would justify a Member’s authorization of an exception, such as a compulsory license.’). Such an action was needed, particularly with respect to Article 31. *See, e.g.*, Thomas F. Cotter, *Market Fundamentalism and the TRIPs Agreement*, 22 *CARDOZO ARTS & ENT. L.J.* 307, 316 (2004) (‘TRIPs does not, in so many words, address what might appear to be the most obvious question surrounding the issue of compulsory licensing, namely the grounds which nations may invoke as reasons for requiring owners to license their patents.’).

<sup>35</sup> *See* Cotter, *supra* note 34, at 317–18.

<sup>36</sup> World Trade Organization, Ministerial Declaration of 14 November 2001, WT/MIN(01)/DEC/2, 41 *I.L.M.* 755 [hereinafter Doha Declaration], available at <http://docsonline.wto.org/imrd/directdoc.asp?DDFDocuments/t/WT/Min01/DEC2.doc>.

<sup>37</sup> Doha Declaration ¶ 4.

<sup>38</sup> Doha Declaration ¶ 5(b), (c).

<sup>39</sup> *See* Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 11 of the General Council Decision of 30 August 2003 on the Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health: Proposal for a Decision on an Amendment to the TRIPS Agreement*, IP/C/41 (Dec. 6, 2005), available at [http://www.wto.org/english/news\\_e/news05\\_e/trips\\_decision\\_e.doc](http://www.wto.org/english/news_e/news05_e/trips_decision_e.doc).

under which a permanent injunction can issue to remedy the infringement of a valid patent. The decision itself, and its recent application by district courts in the United States, are explored below. Of particular interest is under what set of facts injunctions will not issue pursuant to *eBay* and what remedy courts will award in the injunction's place.

### 3.1 Remedies in United States patent law

In the United States, as in most countries, the judicial remedy for the infringement of a valid patent is comprised of two components. First, the patentee is awarded monetary damages for past harms – the infringement prior to judgment.<sup>40</sup> This past damages award can take the form of lost profits – the profits the patentee would have enjoyed but for the infringement<sup>41</sup> – or, at the very least, a reasonable royalty – the royalty rate a willing patentee and infringer would have negotiated just before the beginning of infringement.<sup>42</sup> Second, the patentee enjoys a permanent injunction starting at the time of judgment that prohibits the infringer from continuing to engage in the infringing activity.<sup>43</sup> This second remedial component goes to the heart of the grant of exclusivity that accompanies a valid patent in the United States.<sup>44</sup>

The United States Patent Act gives courts the authority to grant injunctions in patent cases. Specifically, 35 U.S.C. § 283 provides that:

The several courts having jurisdiction of cases under [the Patent Act] 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.

Prior to the Supreme Court's decision in *eBay*, the United States Court of Appeals for the Federal Circuit, the appellate court with exclusive jurisdiction over patent appeals in the United States,<sup>45</sup> consistently held that a permanent injunction should issue pursuant to § 283 as a matter of course if a valid patent is found infringed.<sup>46</sup> The Federal Circuit noted that '[b]ecause the "right to

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<sup>40</sup> See 35 U.S.C. § 284 ('Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer . . .').

<sup>41</sup> See *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978) (reciting the factors for determining entitlement to lost profit damages).

<sup>42</sup> See *Georgia-Pacific Corp. v. U.S. Plywood Co.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (listing the factors for determining the reasonable royalty).

<sup>43</sup> See 35 U.S.C. § 283.

<sup>44</sup> See Christopher A. Cotropia, Note, *Post-Expiration Patent Injunctions*, 7 TEX. INTEL. PROP. L.J. 105, 106 (1998) ('The injunction and its ability to exclude is the most important remedy from the patentee's point of view.').

<sup>45</sup> See 28 U.S.C. § 1295(a).

<sup>46</sup> See, e.g., *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246–7 (Fed. Cir. 1989).

exclude recognized in a patent is but the essence of the concept of property,” the general rule is that a permanent injunction will issue once infringement and validity have been adjudged’.<sup>47</sup> The court recognized only ‘rare instances’ in which an injunction should not issue, such as when the patentee’s failure to practice frustrates an important public health need for the invention.<sup>48</sup>

### 3.2 *The eBay Inc. v. MercExchange, L.L.C. Decision*

The *eBay* case involved eBay, Inc., which owns and operates an Internet website that allows buyers and sellers to search for goods and to purchase them by participating in live auctions or by buying them at a fixed price. The technology at issue in the case was the fixed-price purchasing feature of eBay’s website.<sup>49</sup> MercExchange, L.L.C. alleged that eBay infringed three of MercExchange’s patents. After a jury trial, eBay was found liable for willfully and directly infringing one of MercExchange’s patents and MercExchange was awarded \$ 10.5 million.<sup>50</sup>

The district court did not grant MercExchange a permanent injunction.<sup>51</sup> The court found the MercExchange would not suffer the required irreparable harm to justify an injunction because of MercExchange’s ‘willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights’.<sup>52</sup> The Federal Circuit, on appeal, reversed the district court’s denial and instituted a permanent injunction. The court specifically noted that:

The fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled. Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to

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<sup>47</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338–9 (Fed. Cir. 2005).

<sup>48</sup> *Id.* at 1338; *see also Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547–8 (Fed. Cir. 1995) (en banc); *Vitamin Technologists, Inc. v. Wisconsin Alumni Research Found.*, 146 F.2d 941, 944–5 (9th Cir. 1945) (finding that public interest warranted refusal of injunction on irradiation of oleomargarine); *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934) (denying a permanent injunction against city operation of sewage disposal plant because of public health danger).

<sup>49</sup> There were two other defendants whose technology was at issue in the case. Half.com, a wholly owned subsidiary of eBay, owns and operates an Internet website that allows users to search for goods posted on other Internet websites and to purchase those goods. And ReturnBuy, which owned and operated an Internet website that was hosted by the eBay website.

<sup>50</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 710 (E.D. Va. 2003).

<sup>51</sup> *Id.* at 711–15.

<sup>52</sup> *Id.* at 712.

exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well.<sup>53</sup>

The permanent injunction issue was then appealed to the Supreme Court. The Supreme Court took the appeal to determine ‘the appropriateness of [the] general rule’ that permanent injunctions should issue when patent infringement is found.<sup>54</sup>

In a unanimous opinion, the Supreme Court rejected the Federal Circuit’s general rule and held that courts must apply the well-established, general four-factor test for determining whether a permanent injunction should issue.<sup>55</sup> ‘We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.’<sup>56</sup>

For an injunction to issue, ‘[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>57</sup> The Court concluded that ‘[n]othing in the Patent Act indicates that Congress intended such a departure. To the contrary, the Patent Act expressly provides that injunctions “may” issue “in accordance with the principles of equity” ’.<sup>58</sup> Section 283 mandates the use of this equitable, four-part test.

The Court also explicitly rejected categorical rules that went against injunctions. The Court dismissed the district court’s analysis because, while it ‘recited the traditional four-factor test’, the district court ‘appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases’.<sup>59</sup> The Court rejected the conclusion that all patentees who are both willing to license and are not commercially practicing their patents should not be awarded injunctions. The Court identified ‘university researchers’ and ‘self-made inventors’ as those who, while falling into the district court’s categories, ‘may be able to satisfy the traditional four-factor test’.<sup>60</sup>

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<sup>53</sup> *eBay*, 401 F.3d at 1339.

<sup>54</sup> *eBay Inc. v. MercExchange*, L.L.C., 126 S. Ct. 1837, 1839 (2006).

<sup>55</sup> *Id.*

<sup>56</sup> *Id.* at 1841.

<sup>57</sup> *Id.* at 1839.

<sup>58</sup> *Id.* (quoting 35 U.S.C. § 283).

<sup>59</sup> *Id.* at 1840.

<sup>60</sup> *Id.*

There were two concurrences. The first concurrence was authored by Chief Justice Roberts and joined by Justice Scalia and Justice Ginsburg. In the concurrence, the Chief Justice noted that ‘[f]rom at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases’.<sup>61</sup> While the Chief Justice acknowledged that this historical practice does not create a general rule, he also explained that the discretion to issue injunctions is not unbounded.<sup>62</sup> The brief concurrence concluded by noting that ‘[w]hen it comes to discerning and applying those standards, in this area as others, “a page of history is worth a volume of logic”’.<sup>63</sup>

The second concurrence was authored by Justice Kennedy and joined by Justices Stevens, Souter, and Breyer.<sup>64</sup> Justice Kennedy indicated that district courts should take note of ‘the nature of the patent being enforced and the economic function of the patent holder’, which in present cases is ‘quite unlike earlier cases’.<sup>65</sup> He identified the existence of industries where firms use patents to mainly obtain licensing fees and injunctions in these instances ‘can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent’.<sup>66</sup> In addition, ‘[w]hen 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>67</sup> Finally, with respect to business method patents, their ‘potential vagueness and suspect validity . . . may affect the calculus under the four-factor test’.<sup>68</sup>

### 3.3 *Doctrinal implications of eBay on United States patent law*

The Supreme Court’s decision in *eBay* is short and to the point. The Court holds simply that ‘the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards’.<sup>69</sup> Section 283 does not mandate a permanent injunction in all patent cases – injunctions need to be determined on a case-by-case basis.

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<sup>61</sup> *eBay*, 126 S. Ct. at 1841 (Roberts, C.J., concurring).

<sup>62</sup> *Id.* at 1841–2.

<sup>63</sup> *Id.* at 1842 (quoting *New York Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921) (opinion for the Court by Holmes, J.)).

<sup>64</sup> *Id.* (Kennedy, J., concurring).

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> *Id.*

<sup>68</sup> *Id.*

<sup>69</sup> *eBay*, 126 S. Ct. at 1841.

*3.3.1 Failure to commercialize as the basis for the denial of an injunction under eBay* However, the doctrinal implications of the opinion's holding are still unclear. Specifically, the opinion leaves open how, exactly, particular facts should influence the four-factor analysis. The Court's opinion lists three facts that should not, by themselves, control the injunction question. A patentee's willingness to license the patent does not automatically result in a denial of an injunction.<sup>70</sup> In addition, a patentee's lack of commercial practice of the patented technology does not automatically deny an injunction.<sup>71</sup> On the other side, a finding of patent infringement does not automatically result in a grant of an injunction.<sup>72</sup>

The concurrences try to provide more guidance as to how certain facts should affect the discretionary analysis. The concurrence authored by Chief Justice Roberts suggests that the existence of patent infringement 'often implicates the first two factors of the traditional four-factor test' – irreparable injury and inadequate remedy at law.<sup>73</sup> And the implication is that these two factors should favor an injunction in most cases. As a result, Chief Justice Roberts's concurrence suggests that, while the four-factor test should be used in all cases, injunctions will still usually issue.

The concurrence by Justice Kennedy focuses on those facts that support a denial of a permanent injunction. The use of the patent to 'primarily . . . obtain licensing fees' supports the denial of an injunction.<sup>74</sup> If the patent is to a small component in a multi-component device and the threat of an injunction is 'employed simply for undue leverage in negotiations', two of the equitable factors should indicate no injunction – that there is an adequate remedy at law and concerns for the public interest.<sup>75</sup> Finally, if the patent is a business method patent, the patent's 'vagueness and suspect validity' can effect the discretionary decision and result in a denial of an injunction.<sup>76</sup> Justice Kennedy's concurrence has a very different take on the Court's holding than Chief Justice Roberts. Justice Kennedy sees the *eBay* decision significantly changing the landscape of the patent system and resulting in more denials of permanent injunctions.

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<sup>70</sup> *Id.* at 1840.

<sup>71</sup> *Id.* See also *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422–30 (1908) (rejecting that a court of equity has no jurisdiction to issue an injunction when the patentee has unreasonably declined to use the patent).

<sup>72</sup> *Id.*

<sup>73</sup> *eBay*, 126 S. Ct. at 1841 (Roberts, C.J., concurring).

<sup>74</sup> *Id.* at 1842 (Kennedy, C.J., concurring).

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

Thus, the main opinion does not give that much direction on how certain facts should influence the equitable, four-factor test. The concurrences, in contrast, provide a little more direction. The problem is that they are concurrences and are not supposed to control future decisions. In addition, they push in opposite directions – Chief Justice Roberts supporting the same level of permanent injunctions and Justice Kennedy supporting less. The concurrences also expose a potential problem with the *eBay* decision. The Court is specific – there cannot be any categorical rules. It must be a true, case-by-case equitable analysis. But the concurrences show the temptation to create rules – identify specific factual circumstances where injunctions should or should not be granted. The concurrence also demonstrates the likelihood that courts, like the Supreme Court Justices did, will disagree on these rules.

Lower court cases applying the *eBay* decision shed some light on the actual impact of the Supreme Court's decision. Most courts after *eBay* are still issuing permanent injunctions, with a permanent injunction currently being issued at the rate of three cases for every case that denies an injunction. And for these few denials, the single factor that courts look to most often to support a denial of a permanent injunction under *eBay* is the patentee's failure to commercially practice the patented invention.<sup>77</sup>

The district court's decision in *Paice LLC v. Toyota Motor Corp.* provides a good example of how the patentee's failure to commercialize the invention results in a denial of a permanent injunction under *eBay*.<sup>78</sup> The patented technology at issue covered a component of a hybrid automobile's transmission. The patent was found valid and Toyota's hybrid transmission was found to infringe. The district court, however, denied the patentee a permanent injunction against Toyota. The court applied the four-factor equitable test identified in *eBay*. The court concluded, under the first factor, that the patentee would not suffer any irreparable harm if Toyota was allowed to continue to use the infringing component. The court also concluded, under the second factor, that monetary damages were enough to compensate the patentee for Toyota's continued patent infringement. The main fact relied upon to reach these conclusions was the patentee's failure to practice the invention.

For the first factor under *eBay*, the patentee's failure to produce and sell the patented component or compete with Toyota meant that any future harm from Toyota's infringement was easily remedied by a damage award.<sup>79</sup> The paten-

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<sup>77</sup> See, e.g., *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW, 2006 WL 3741891, at \*4 (E.D. Tex. Dec. 19, 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*5 (E.D. Tex. Aug. 16, 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440–41 (E.D. Tex. 2006).

<sup>78</sup> See *Paice*, 2006 WL 2385139 at \*5.

<sup>79</sup> *Id.*

tee would not lose any market share or brand name recognition. Instead, the patentee would simply lose licensing revenue that 'can be remedied via monetary damages in accordance with the reasonable royalty set by the jury'.<sup>80</sup> This analysis also supported the court's next conclusion that, under the second factor under *eBay*, there was an adequate remedy at law.<sup>81</sup>

Other district courts have followed a similar analysis after *eBay*, focusing on the patentee's failure to practice the patented invention to justify a denial of a permanent injunction.<sup>82</sup> The courts all go through the four-factor analysis in an attempt to stay true to the holding in *eBay*. But the practical effect is that this single fact – lack of commercialization – dictates the result in most cases. This demonstrates a heavy reliance on Justice Kennedy's concurrence and potentially ignores the specific instruction in the majority opinion that such facts should not, by themselves, control the discretionary inquiry.

There have been, however, cases in which a non-producing patentee has been granted a permanent injunction under *eBay*. In *Commonwealth Scientific & Industrial Research Organisation v. Buffalo Technology Inc.*, the district court granted a permanent injunction to the non-producing research institution and technological licensing arm of the Australian Government.<sup>83</sup> The patentee did not commercialize its patent on wireless local-area networks, but did assert that Buffalo Technology, and others, infringed the patent.

The district court found, under the first factor under *eBay*, that the patentee would suffer irreparable harm because if no injunction issue, the 'brand recognition or good will' of the patentee could be damaged.<sup>84</sup> In addition, there was not an adequate remedy at law because any royalty rate for continuing infringement would 'not necessarily include other non-monetary license terms that are as important as monetary terms'.<sup>85</sup> 'Monetary damages are not adequate to compensate [the patentee] for its damages, which are not merely financial.'<sup>86</sup>

The decision in *Buffalo Technology* rebuts the notion that all non-producing patentees will be denied injunctions after *eBay*. But it also highlights that courts are still unclear how certain facts play out under the *eBay* factors. The

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<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> *See, e.g., z4 Techs.*, 434 F. Supp. 2d at 440–41.

<sup>83</sup> No. 6:06-CV-324, slip op. at 1 (E.D. Tex. June 15, 2007).

<sup>84</sup> *Id.* at 6–9 (noting that the patentee competes for research dollars and licensing fees and allowing another company to use their technology without a license would hurt the patentee's ability to obtain these).

<sup>85</sup> *Id.* at 9–10.

<sup>86</sup> *Id.* at 10 (using this fact as the basis to conclude there is no adequate remedy at law).

uncertainty, and potentially contradictory decision-making after *eBay*, should settle down, particularly after the Federal Circuit weighs in on how certain facts should influence the *eBay* factors. However, until the Federal Circuit speaks to this issue, it is still an open question as to how factors such as the patentee's failure to commercialize will affect the grant or denial of a permanent injunction. The one thing that does appear certain is that injunctions will continue to be awarded in most patent cases.

*3.3.2 Remedy granted when an injunction is denied pursuant to eBay*  
Another open question after *eBay* is what remedy should substitute for a denied permanent injunction. The district court in *Paice*, as well as other district courts, have continued to apply the reasonable royalty awarded for past infringement to the unauthorized use going forward.<sup>87</sup> That is, the infringer must pay only a reasonable royalty for each future use of the patented invention. District courts could, however, increase the payment rate going forward in an attempt to deter future infringement. Such an upward adjustment of the royalty rate for future infringement could be justified because any future activity is arguably a willful violation of the patent right. Under United States patent law willful infringement justifies up to trebling the damages amount.<sup>88</sup>

Therefore, there are two open doctrinal questions regarding the *eBay*'s application in patent cases – whether injunctions will always be denied for non-producing patentees and whether patentees will just be awarded reasonable royalties for future unauthorized use. How each of these questions is answered will affect how the *eBay* decision and its usage by United States courts are treated under TRIPS.

#### **4 Analyzing *eBay* and its application under TRIPS**

TRIPS requires exclusivity during the lifetime of the patent. Exceptions to this exclusivity must fall within one of two exceptions – set forth in Articles 30 and 31. The result of the *eBay* decision is that district courts, in some cases, will deny a permanent injunction. In turn, the courts erode the grant of exclusivity, allowing unauthorized use of the patented technology by a third party – the adjudged infringer. This prompts the question – does the denial of a permanent injunction pursuant to the *eBay* decision violate the TRIPS agreement?<sup>89</sup>

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<sup>87</sup> See *Paice*, 2006 WL 2385139, at \*5; *z4 Techs*, 434 F. Supp. 2d at 441.

<sup>88</sup> 35 U.S.C. § 284 ('[T]he court may increase the damages up to three times the amount found or assessed.');

*Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmBH v. Dana Corp.*, 383 F.3d 1337, 1342 (Fed. Cir. 2004) (en banc).

<sup>89</sup> The question should, perhaps, be broadened to include the inquiry as to whether 35 U.S.C. § 283 is in compliance with TRIPS, given that the Supreme Court in *eBay* based its decision in part on the language of § 283. See *eBay*, 126 S. Ct. at 1839.

This question has been asked before. The denial of permanent injunctions and its impact on the United States' obligation under TRIPS was an issue briefed before the Supreme Court in *eBay*. Some argued, including the United States government, that making a denial of a permanent injunction more likely could put the United States in noncompliance. The Court, however, did not expressly answer the question. And situations have arisen where *eBay* has led to the denial of a permanent injunction. The *eBay* holding has resulted in the denial of an injunction in at least seven patent cases.<sup>90</sup> Under these circumstances, the question as to *eBay*'s compliance with TRIPS needs to be answered.

This chapter attempts to answer the question in the following manner. First, the result of a denial of an injunction pursuant to *eBay* is further described by comparing such denials to the concept of a compulsory license. This further description of *eBay* is critical, given that compulsory licensing usually focuses on curtailing patent rights, while the *eBay* decision focuses on patent remedies. The *eBay* decision's application is then analyzed under the various TRIPS' articles governing exceptions to patent exclusivity.

#### 4.1 *An injunction denial pursuant to eBay creates a de facto compulsory license*

A compulsory license is the involuntary licensing of the patented technology to either the government or third party to accomplish a socially beneficial goal. Article 8 of TRIPS articulates two common objectives for compulsory licenses – protecting a public interest or stopping anticompetitive behavior. Compulsory licensing can protect a public interest by either increasing production or access to the patented technology.<sup>91</sup> Or a compulsory license can cure abusive use of the patent right by allowing the legitimate use of the patented technology by another and, in turn, punishing the patentee. Compulsory licenses traditionally reach these goals by creating an exception to patentee's right to exclusivity. The government takes away the patentee's right of exclusivity for a particular period of time or for a particular use to achieve these social goals.

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<sup>90</sup> See *Sundance, Inc. v. DeMonte Fabricating Ltd.*, 2007 WL 37742, at \*2 (E.D. Mich. Jan. 4, 2007); *IMX, Inc. v. Lendingtree, LLC*, No. 03-1067-SLR, 2007 WL 62697, at \*17 (D. Del. Jan. 10, 2007); *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW, 2006 WL 3741891, at \*4 (E.D. Tex. Dec. 19, 2006); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at \*5 (W.D. Ok. Sept. 5, 2006); *Paice*, 2006 WL 2385139, at \*5 (E.D. Tex. Aug. 16, 2006); *z4 Techs*, 434 F. Supp. 2d at 440-41 (E.D. Tex. 2006). On remand, the district court in *eBay* denied MercExchange a permanent injunction. See *MercExchange, L.L.C. v. eBay, Inc.*, No. 2:01-CV-736 (E.D. Va. July 27, 2007).

<sup>91</sup> See Gianna Julian-Arnold, *supra* note 7, at 349–55.

In contrast, the *eBay* decision focuses on patent remedies, not patent rights. The Supreme Court case simply interprets 35 U.S.C. § 283 and instructs courts on how to determine whether to issue a permanent injunction as part of the remedy for patent infringement. The phrase ‘compulsory license’ does not appear in the opinion. Nor have the district court opinions after *eBay* really focused on the issue of compulsory licensing.<sup>92</sup>

Additionally, the four-factor test under *eBay* is not necessarily trying to accomplish one of the common goals of compulsory licenses. Keeping with its remedy focused nature, the factors look more toward properly compensating, but not overcompensating, the patentee for the found infringement. The third and fourth factors under *eBay* do focus on the impact of exclusivity on third parties – the infringer and the public. But these later factors are considered in conjunction with the first two, which both look exclusively at whether an injunction is truly needed to make the patentee whole. Again, the main question in an *eBay* inquiry setting is remedying patent infringement, not whether to limit the patentee’s rights.

A denial of a permanent injunction pursuant to *eBay*, however, forces the patentee to allow a third party to continue practicing the invention, regardless of the patentee’s consent. This unauthorized use can be viewed as government sanctioned given that it is a statute, 35 U.S.C. § 283, that gives courts the discretion to deny an injunction. The Supreme Court recognized, and relied upon, this government-mandated discretion in coming to its decision.<sup>93</sup> Therefore, while *eBay* speaks to patent remedies, the *de facto* effect of an injunction denial is, by definition, a government-allowed compulsory license. Unauthorized use by a third party – the infringer – is mandated by the government in certain cases because of the discretionary language in 35 U.S.C. § 283.

But still, the traditional policy objectives of compulsory licenses may not be met under *eBay*. Courts may require a high royalty rate in lieu of an injunction in those cases where an injunction is denied pursuant to *eBay*. Courts may consider the infringer’s continued use of the patented invention as an intentional disregard for the patentee’s rights. Under U.S. patent law, willful infringement is the proper remedy in these circumstances, resulting in up to treble damages.<sup>94</sup>

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<sup>92</sup> District courts have used the phrase, equating the denial of a permanent injunction to a compulsory license. *See, e.g., Commonwealth Sci. & Indus. Research Organisation v. Buffalo Technology Inc.* No. 6:06-CV-324, 2007 U.S. Dist. LEXIS 43832 (E.D. Tex. June 15, 2007). But none of the cases has engaged in a thorough analysis as to whether such denials truly fall within the traditional understanding of a compulsory license.

<sup>93</sup> *See eBay*, 126 S. Ct. at 1839.

<sup>94</sup> *See supra* note 88.

A court may also award a higher rate to deter future, unauthorized use of the patented technology by the infringer. Courts, such as the one in *Paice*, determined under the first two equitable factors set forth in *eBay* that a permanent injunction overcompensated the patentee and was not needed to make the patentee whole. A court may still believe, however, that any future, unauthorized infringement should be stopped. A high royalty rate for future unauthorized use would fulfill these goals – not overcompensating the patentee like an injunction would, but compensating the patentee enough to deter future infringement. Such an application of *eBay* would run antithetical to the traditional concept of a compulsory license, where the royalty rate is set at a level to encourage, not deter, use of the patented technology by a third party. And such a result would not be surprising given that the first two equitable factors set forth in *eBay* – whether there is irreparable harm and an inadequate remedy at law – focus on proper compensation for the patentee, not on the public's interests or deterring a patentee's abusive behavior.

However, United States courts are just as likely to award only reasonable royalties going forward as a substitute for a permanent injunction. This has been the result in multiple district court cases applying *eBay*. In addition to the decision in *Paice*, the district court in the *Finisar Corp. v. DirecTV Group, Inc.* applied the reasonable royalty rate awarded by the jury for past damages to future uses of the patented technology by the infringer.<sup>95</sup> This type of judgment falls more in line with a traditional compulsory license because such a rate is more likely to allow the infringer to economically practice the patented invention without the patentee's authorization. A reasonable royalty for the future practice of the invention combined with the view that the discretion afforded under 35 U.S.C. § 283 is government approval of the unauthorized use brings *eBay* in line with the definition of a compulsory license.

Therefore, while the *eBay* decision is remedy oriented, its *de facto* effect is to limit a patentee's rights. The infringers in cases such as *Paice* and *Finisar* are allowed by the courts, via the discretion afforded by the government under 35 U.S.C. § 283, to continue to practice the patented invention against the patentee's wishes. If courts set the rates going forward at a high level to deter future infringement, the patentee's rights may be protected for all practical purposes. The judicial result is still, however, the allowance of unauthorized use, regardless of whether the infringer is able to take advantage of this use. All of this makes the effect of the *eBay* decision, in those cases where injunctions are denied, to be very compulsory license-like.

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<sup>95</sup> No. 1:05-CV-00264 (E.D. Tex. July 6, 2006).

#### 4.2 *eBay is compliant with TRIPS*

The *eBay* decision creates the real possibility that permanent injunctions may not issue against adjudged infringers. Such a result has already occurred in United States district court cases. And it runs counter to the situation before *eBay*, where injunction denials were essentially non-existent. While *eBay* is focused on patent remedies, its practical effect, as discussed above, is to permit unauthorized use by a third party at a defined royalty rate. As the United States government argued before the Supreme Court in *eBay*, a change in permanent injunction law could leave the United States noncompliant with TRIPS.

The question then becomes whether the *eBay* approach to denying exclusivity falls within any of the exceptions set forth in TRIPS. The following looks at the relevant TRIPS articles and concludes that *eBay*, while not meeting the criteria in Article 31, meets the substantive requirements articulated in Article 30 and falls in line with the principles set forth in Article 8. Furthermore, the *eBay* decision, since it is remedy focused, may also be allowed pursuant to Article 44, which deals directly with the injunction remedy.

**4.2.1 Article 31** The four-factor equitable test described in *eBay* does not fall into the limited exception to exclusivity set forth in Article 31. This is the case because the test in *eBay* is focused on the substantive circumstances when an injunction should or should not issue and does not address procedure. As a result, the test in *eBay* does not include all of the necessary procedural requirements in Article 31. For example, Article 31(b) is not met because none of the equitable factors in *eBay* requires the infringer to have ‘made efforts to obtain authorization from the’ patentee before a permanent injunction can be denied.<sup>96</sup> In addition, nothing in the *eBay* decision requires a court to limit the unauthorized use to supplying the United States market, as required by Article 31(f). The equitable factors in *eBay* also fail to ensure that many of the other provisions of Article 31 are met. Put simply, an application of the *eBay* decision that results in a denial of a permanent injunction and unauthorized use does not necessarily meet the Article 31 requirements.

**4.2.2 Article 30** There is, however, the general, more substantive-based exception to patent exclusivity set forth in Article 30. For *eBay* to meet the requirements of Article 30, the denial of injunctions pursuant to *eBay* must

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<sup>96</sup> TRIPS, *supra* note 1, art. 31(b). Prior licensing offers have been considered under the first two *eBay* factors. *See, e.g., IMX*, 2007 WL 62697 at \*17. But such prior offers are not required by the four factors nor are they considered in every case.

occur in cases where the allowed unauthorized use (1) is a limited exception; (2) does not ‘unreasonably conflict with a normal exploitation of the patent’ and (3) does not ‘unreasonably prejudice the legitimate interests of the patent owner, taking into account the legitimate interests of third parties’.<sup>97</sup> The four-factor equitable test set forth in *eBay* falls in line with these requirements. All four factors work together to make sure that the three requirements of Article 30 are taken into account when determining whether an injunction should issue.

The first requirement under Article 30 is that any exception must be a ‘limited exception’. For *eBay* to make only a limited exception, the denial of an injunction pursuant to the decision must result in ‘only a small diminution of the rights in question’.<sup>98</sup> Here, the four-factor equitable inquiry creates such a limited exception. The *eBay* decision can result in unauthorized use. But, at most, this unauthorized use is with regards to a specific infringer, for a specific patent claim or claims, and for a particular infringing product or process. The case-by-case nature of the equitable inquiry under *eBay* prevents a blanket reduction in a patentee’s rights. The *eBay* decision’s limited nature even holds true when considering general categories of patentees. For example, comparing the decisions in *Paice* and *Commonwealth Sci. & Indus. Research Organisation* demonstrate that the *eBay* decision will not result in all non-producing patentees being denied a permanent injunction. Moreover, the exception created by *eBay* can potentially be even more limited if a court awards a high royalty rate in lieu of an injunction. This further minimizes the impact of an injunction denial on the patentee’s rights because the high royalty rate going forward can have the same protective effect as an injunction.

The second requirement under Article 30 is that the limited exception cannot ‘unreasonably conflict with a normal exploitation of the patent’.<sup>99</sup> Here, a denial of a permanent injunction under *eBay* has the potential to disturb the ‘normal exploitation of the patent’ as the concept has broadly been defined by the WTO.<sup>100</sup> A denial of an injunction allows an unauthorized use, one that a patentee could have licensed. Such licensing is an activity that qualifies as normal exploitation of the patent.<sup>101</sup>

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<sup>97</sup> See *supra* note 18.

<sup>98</sup> See *id.*

<sup>99</sup> See *supra* note 19.

<sup>100</sup> *Id.*

<sup>101</sup> Patentees that purchase and assert patents to only extract licensing fees – so-called ‘patent trolls’ – may not be engaged in ‘normal exploitation’. See Brenda Sandburg, *Trolling for Dollars*, Recorder (S.F. Cal.), July 30, 2001, at 1 (defining a patent troll as ‘somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced’).

However, because of the first and second factor in *eBay*, there will be no ‘unreasonabl[e] conflict’ with such commercial exploitation. These two factors consider whether a monetary remedy will not irreparably harm the patentee and, in turn, properly compensate her for any continued infringement of her patent rights. For example, the district court in *Paice*, when looking at these two factors, considered whether an injunction was needed to aid in the patentee’s licensing efforts or protect the patentee’s market share in the patented technology. The court in *Commonwealth Sci. & Indus. Research Organisation* considered similar facts and also looked at potential harm to the patentee’s goodwill and brand. These are all related to the impact of a denial on a patentee’s ability to commercially exploit the patent. If the denial of an injunction will not commercially harm the patentee – mainly because monetary damages will serve as a true substitute – then the first two factors in *eBay* support a denial of an injunction. This is the very instance in which an injunction denial will not unreasonably conflict with the patentee’s exploitation of the patented technology. The first two *eBay* factors have the same focus as Article 30’s second requirement.

The third requirement under Article 30 compares the legitimate interests of the patent owner with that of third parties. The ‘legitimate interest[s]’ that can be considered include those that reflect ‘widely recognized policy norm[s]’.<sup>102</sup> All of the four factors in *eBay* take policy norms into account and balance those of the patentee with those of the infringer and public at large. The first and second factors under *eBay* consider the legitimate interests of the patentee under patent policy. By showing concern for adequately compensating and preventing irreparable injury to the patentee, the first two *eBay* factors are concerned with protecting the patentee’s rights and maintaining the incentive to invent. If the patentee cannot get an adequate remedy, then the trust in patent law’s ability to assist an inventor in recouping her research and development costs is eroded. So, under the first two factors, courts make sure the patentee is properly compensated for any patent rights violations. In *Paice* and in *Commonwealth Sci. & Indus. Research Organisation*, the courts expressed concern for the patentee’s research and development and licensing programs. While the cases came to different conclusions, the goal in each case was to ensure the patentee’s rights were adequately protected to allow her to pursue

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But, the WTO’s current definition of ‘normal exploitation’ observes that ‘[t]he specific forms of patent exploitation are not static, of course, for to be effective exploitation must adapt to changing forms of competition due to technological development and the evolution of marketing practices’. *Canada – Pharmaceutical Products*, *supra* note 18, ¶ 7.55. Patent trolls may be part of the ‘evolution’ of patent exploitation and thus considered the new ‘normal’ under TRIPS.

<sup>102</sup> See *supra* note 23.

relevant commercial interests. Keeping in line with patent policy, the first two factors in *eBay* also make sure the opposite does not occur – that the patentee is not overcompensated and, in turn, over-incentivized. For example, if the patent covers a small part of a larger technological product, such as in *Paice*, an injunction can be used to hold up the whole product and, in turn, give the patentee leverage to extract value from other parts of the infringing product not covered by her patent. Put another way, the first two factors weed out those illegitimate interests of the patentee – interests to compensation beyond the value of the patented technology.

The third factor under *eBay* balances the impact of an injunction on both the patentee and the infringer – further ensuring that the third requirement of Article 30 is met. And the fourth factor under *eBay* looks at the public interest in the grant or denial of an injunction. For example, the impact on public health is considered under the fourth factor and qualifies as a policy norm to be considered in an Article 30 analysis. Through the fourth factor, *eBay* considers another third party interest – those of the public at large.

If one views *eBay* as solely focused on patent remedies and Article 30 solely focused on patent rights, the above analysis does not hold true. Article 30 creates narrow exceptions for such limited abrogation of patent rights such as *de minimis* use or an experimental use exception.<sup>103</sup> The denial of an injunction in a specific case is not an exception to a right, *per se*, but rather an acknowledgement that an existing right has been violated and a determination of an appropriate remedy for that violation. Issues regarding injunctions are not meant to be evaluated under Article 30 of TRIPS. But, as has already been discussed, an *eBay*-based denial of an injunction creates a *de facto* exception to the patent rights at issue. Furthermore, the plain language of Article 30 is focused on government action, and *eBay* is based on a statute – 35 U.S.C. § 283.

**4.2.3 Article 44** Article 44 of the TRIPS agreement is different than Articles 30 and 31 in that it focuses on remedies, as opposed to rights. Specifically, Article 44 speaks to injunctions in intellectual property cases. Article 44.1 requires all Member States to give their judiciaries the ‘authority to order a party to desist from an infringement’. Article 44.2 provides for alternatives to injunctions, allowing Member States to award declaratory judgments or ‘adequate compensation’ pursuant to the ‘Member’s law’.

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<sup>103</sup> ‘Article 30 is commonly viewed as permitting exceptions for such things as private noncommercial uses (which many countries, though not our own, exempt from the scope of patent liability); prior user rights (which are more important in a first-to-file system than in our rather peculiar first-to-invent system); and some experimental uses.’ See Cotter, *supra* note 34, at 314–15.

The discretionary approach in *eBay* may be more properly sanctioned under Article 44.2 of TRIPS. The Supreme Court in *eBay* applies the standard, equitable test for the remedy of an injunction under United States law. And in lieu of an injunction, a patentee receives monetary compensation. The *eBay* decision also does not take away a court's ability to grant a permanent injunction. In fact, after *eBay*, permanent injunctions are still being granted in most cases where infringement is found. All of this makes the *eBay* decision appear to fall in line with the Article 44. Furthermore, the *eBay* decision may better fall under Article 44 given that both *eBay* and Article 44 are remedy-oriented, as opposed to the right-oriented nature of Articles 30 and 31.<sup>104</sup>

Article 44.2, however, qualifies the allowance for Member States to award alternatives to injunctions in patent cases. Article 44.2 begins by requiring that the 'provisions of Part II addressing use by governments, or by third parties authorized by a government, without the authorization of the right holder are complied with' before limiting remedies to the 'payment of remuneration'.<sup>105</sup> Part II of the TRIPS agreement includes the provisions governing such government allowance of unauthorized use – Articles 30 and 31. Article 44.2 thus requires that in patent cases either the substantive requirements of Article 30 or the procedural requirement of Article 31 be met first before a government action can substitute damages for an injunction.<sup>106</sup> This reads directly on the *eBay* situation, where the four-factor test born from a government statute – 35 U.S.C. § 283 – may dictate such a substitution. Article 44, as it is currently worded, may therefore add little to the discussion of the *eBay* and the United States' compliance with TRIPS.

But this interpretation potentially renders the second sentence of Article 44.2 meaningless. The second sentence of Article 44.2 defines a universe of 'other cases' where, if an injunction is 'inconsistent with a Member's laws, declaratory judgments and adequate compensation shall be available'. The requirements of Article 30 and 31 are irrelevant. *eBay* is one of these 'other cases', where the United States' remedies laws preclude an injunction under certain circumstances and compensation is awarded instead. While technically a government-born action, a denial of a permanent injunction is not the typical government-allowed use. One usually thinks of an adjudged infringer acting on behalf of a government agency or contractor. The *eBay* decision, in

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<sup>104</sup> See Dinwoodie & Dreyfuss, *supra* note 19, at 444–5 (discussing the remedial flexibility that Article 44 provides).

<sup>105</sup> *Id.*

<sup>106</sup> See Mitchell N. Berman, R. Anthony Reese, & Ernest A. Young, *State Accountability for Violations of Intellectual Property Rights: How To 'Fix' Florida Prepaid (And How Not To)*, 79 TEX. L. REV. 1037, 1182–3 (2001) (noting the special obligations under Article 44.2 for governments with regards to patents).

contrast, can be considered a remedies decision only tangentially linked to government action. By falling into the second sentence, the requirements of Article 30 or 31 need not be met for an injunction to be denied pursuant to *eBay*. To place the *eBay* decision in the first sentence expands what is considered government authorization under the Article so much as to leave no ‘other cases’ to fall within the second sentence. Every non-enforcement of exclusivity would have some basis in government authority. Put simply, the second sentence in Article 44.2 appears to exactly contemplate an *eBay*-like situation.

**4.2.4 Article 8** To complete the analysis, it is helpful to see if the *eBay* test falls within the general TRIPS’ principles articulated in Article 8. Through the fourth factor in *eBay*, the equitable analysis directly considers the public interest identified in Article 8.1. Issues of public health that would fall under the principles in Article 8.1 are the very same concerns that would push against an injunction under the fourth factor of the *eBay* analysis. The first two factors under *eBay*, which aim at providing adequate, but not over, compensation for patent rights, fall in line with the directive against abuse of patent rights in Article 8.2. Use of the threat of an injunction to hold up and obtain more than the patent is worth is the very circumstances district courts are using *eBay* to avoid. The first two *eBay* factors give courts the tools to target such abuses. The third factor under *eBay* also effectuates Article 8.2’s goal of stopping ‘practices which unreasonably restrain trade or adversely affect the international transfer of technology’. If such a circumstance is present, it would be considered a hardship on the infringer that weighs against the grant of an injunction under *eBay*.

For these reasons, the application of the *eBay* decision most likely does not violate TRIPS. While not meeting the requirements of Article 31, the four factors considered under *eBay* map directly onto the three factors for limiting exclusivity under Article 30. In addition, by focusing on the remedial nature of *eBay*, Article 44 provides another avenue under which *eBay* is in compliance with TRIPS. Finally, the four *eBay* factors are based on principles similar to those in Article 8 of TRIPS that support limiting intellectual property exclusivity.

## **5 Conclusion**

In the end, it is not so much *whether* the application of *eBay* to deny an injunction complies with TRIPS, as *how* exactly the decision complies with TRIPS.

If *eBay* is seen as complying because it falls within the Article 30 exception, the *eBay* discussion shifts the compulsory license compliance debate back to Article 30 and potentially expands the Article’s scope. Not that Article 30 has ever been considered when evaluating compulsory licenses, but the Doha Declaration and related talks pushed the focus on Article 31. The

response so far to the Doha Declaration has looked at further interpreting Article 31 to allow certain compulsory licensing. *eBay* could open this discussion back up to include Article 30. This is an occurrence that would be welcomed by many commentators who believe the issues discussed in the Doha Declaration are better handled by Article 30.<sup>107</sup> Furthermore, if *eBay* were seen as complying with TRIPS because of Article 30, the breadth of Article 30 would be greatly increased. No longer would Article 30 be seen as simply allowing a predefined group of exceptions to patent rights. Instead, Article 30 would be viewed as a completely robust exception under which any Member State action that limits patent rights could be justified if the three-part substantive criteria are met.

In contrast, if *eBay* is seen as being allowed by Article 44, the decision may shift Member States' focus from limiting patent rights to limiting patent remedies when they want to meet certain social goals. The *eBay* decision demonstrates how tweaking remedies, as opposed to patent rights, may have the same net effect when trying to create an exception to patent exclusivity in order to reach a particular social goal. There may also be less friction under TRIPS with this approach because the Member State's law controls the parameters for an injunction denial under Article 44.2. The fear is that this approach swallows up the patentee's exclusive rights. And a broadened view of Article 44 makes the safeguards against unauthorized use set forth in Articles 30 and 31 worthless with regards to patent remedies. This fear is most likely overblown, especially since Article 44 requires adequate compensation in the injunction's place. The patentee is made whole, her rights being observed. And any unauthorized use is limited to a specific infringer willing to expend the resources to engage in litigations and risk that, in the end, they may be enjoined. An *eBay* approach allowed under Article 44 may be the best of both worlds – allowing a case-by-case determination on unauthorized use under an equitable test that protects the patentee by ensuring adequate compensation for her rights.

A final concluding thought. The *eBay* decision may impact the credibility of the United States' strong stance against compulsory licensing by other Member States. The *eBay* decision, regardless of how it is described and applied, weakens the patentee's right to exclusivity in the United States. In order to stay in compliance itself, the United States will have to, at the very least, allow others to adopt similar equitable inquiries into the issuance of patent injunctions. The United States' objections to other government

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<sup>107</sup> See generally Haochen Sun, *A Wider Access to Patented Drugs Under the TRIPS Agreement*, 21 B.U. INT'L L.J. 101 (2003) (setting forth an Article 30 solution to the problem set forth in paragraph 6 of the Doha Declaration).

allowances of unauthorized use are more likely to look hypocritical and hold less force before the WTO after *eBay*.<sup>108</sup> At the very least, the *eBay* decision forces the United States back into the discussion surrounding the allowance of some unauthorized use of patent technology.

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<sup>108</sup> See, e.g., Harold C. Wegner, *Injunctive Relief: A Charming Betsy Boomerang*, 4 NW. J. TECH. & INTELL. PROP. 156 (2006) (arguing that the decision in *EBay* will make it difficult for the United States pharmaceutical industry to oppose local-working requirements laws that provide for compulsory licensing, like those in Brazil).