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Discussion following the Remarks of A. Kelly Gill and Michael C. Elmer

Discussion

the judges hate patent cases and hope the parties will settle, you know, one of those 96 percent of the cases where they don't have to write an opinion, listen to patent lawyers like me. But basically, the cost, at least Gary O'Neill in our hypothetical estimated the average cost in U.S. dollars to be about it a million and-a-half.[75] Here is the decision tree you use the same analysis. You use the three tools in each of the three countries.

Here is the tree in China, and I am not going to go through that, but in China, if any of you are interested, it is a bifurcated country. The issue of validity is tried in a district court.[76] The issue of validity has to go back to the Chinese Patent Office.[77]

So you have two different forums. There it is going to cost about a half million dollars, and it is going to take about two years. Here is the decision tree, and on this chart, I showed the comparative results. Whatever your fact situation is, you are going to look at those different countries and the win rates and your best guesstimate to sales. And here you see that your chances for success in these countries are as we have talked about, your most likely trial outcome looks like the United States in this case, and Beijing is a good place to drop, so what's your strategy? Bottom line is your strategy is going to be you are going to file companion cases in both the IT and the district court to apply maximum pressure. Conversely, if you are the defendant – and I have got a mistake up here on the slide – and post RIM, everybody knows about the RIM Blackberry case, it has changed the strategies in the United States in my view, or will change the strategies with respect to a process called reexamination. So if I were an access to Canada in this case, what I would do is file a reexamination in the U.S. Patent Office. I would file a DJ action in both the United States and UK and try and put maximum pressure on the defendant and attempt to negotiate a global settlement. Thank you.

DISCUSSION FOLLOWING THE REMARKS OF A. KELLY GILL AND MICHAEL C. ELMER

MR. TAYLOR: So do we have –

DR. KING: I can go ahead. I was reviewing what you had come up with, Mr. Elmer. I wonder if arbitration has any role to play in this whole operation, are there any advantages to arbitrating these disputes. My second question to both of you is: Is there any advantage to amalgamating the two sys-

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[75] *See Contra* Kevin C. Hunsaker, *Patent reform should promote innovation, not imitation*, S.F. CHRON., Aug. 30, 2005, at B7 (stating that average patent litigation costs are around four million dollars.)

[76] *See Generally* Hon. Jiang Zhipei, *Patent Litigation in China* (Sept. 1999), http://www.chinaiprlaw.com/english/forum/forum4.htm (last visited October 10, 2006).

[77] *Id.*

tems from Canada and the United States? I am not recommending it, but I would like to get your comments on it, so I have a twofold question.

MR. ELMER: I think I can answer the first one. In my lifetime and Kelly's lifetime, there is not going to be any amalgamation because the laws are territorial.

DR. KING: I am not recommending it, but I just wanted to know.

MR. ELMER: Right. The world is becoming more global, and as the laws become more harmonized, I think it is more realistic to think that a decision in Canada, if it is rendered before a comparable decision in the United States, will have an impact with respect to your first question about arbitration. I am a big believer in arbitration, but to arbitrate, you have got to get the two parties to agree as to what the procedure is going to be. And if you have a big company, they know that the threat of litigation is a huge benefit to them. If you have a small company, what you want is you want a single arbiter.

You want a limited focus in discovery. You want the decision to be made, frankly, not by a jury but by someone in whom you have a great deal of confidence, and, yes, I think there is a great place for arbitration. I am a big believer, and I have arbitration clauses that I personally advocate and am in favor of.

MR. GILL: Well, in terms of arbitration and the mediation, mediation in particular in Canada is mandatory in our federal court. Before anything goes to trial, it is mediated by a federal court judge, obviously not binding, and it is that nonbinding nature of it that, in essence, makes it a cost factor without much of a success to it. The parties have to participate, but they've already gone through all the expense of discovery and prepping for trial, and it occurs just before trial, so it doesn't happen very often. Outside of that context in Canada, arbitration doesn't often happen unless it has already been predetermined through a license agreement, and it is a licensing issue where arbitration has been mandated by the license. Other than that, it rarely happens.

MR. PATIL: Apart from WIPO and TRIPS, with respect to WIPO and TRIPS, are patent rights territorial?

MR. GILL: Yes.

MR. PATIL: On the basis of things like the patent rights, do they stand no chance? Does this have no chance?

MR. ELMER: Well, how do I answer that question? Patent rights are territorial in nature as Kelly was showing with his example. So you can say are patent rights not territorial, as I was trying to show with my hypothetical. But in my view, because so many of the cases get resolved short of a contested trial on the merits – remember in Canada it is ten percent and probably decreasing. In the United States, it is four percent and most assuredly decreasing.

If you obtain leverage by developing a strong position in one country, what's happening, 96 percent of the cases are getting settled so litigation in

one country definitely has an impact on the outcome in another country. I mean, quite apart from WIPO and TRIPS, with respect to WIPO and TRIPS are patent rights territorial? You know, that gets into a whole bunch of technical questions, and I am not sure I am answering your question.

MR. GILL: And one thing I experienced in Canada in terms of when there is multi-jurisdictional litigation going on in the patent area is that the judges in Canada, when we do get the trial, often take different viewpoints about how much they want to know about the foreign litigation. If it has already been decided, for example, does the court actually want to read the result and a decision and judgment? And we have had cases where judges have said no, I don't want to know anything that happened in, for example, the United States. I don't want to read the decision. I don't want to know what the result was. I don't want to know who the witnesses were. In the opposite end, the Bayer case that we popped up, the judge did want to know the case, but primarily because it was a point of law that was being argued as between whether the UK law was right or the Canadian law was correct. And so being the leading case on the point, he had to read it, but often Canadian judges won't even look at or want to know because they don't want to prejudge, in any way, the litigation.

And Canadian judges, when they do get a case for trial, are going in there without any pre-knowledge of the case. The only information they generally have are the pleadings. They will have not participated in any pretrial motions, discovery, or settlement discussions, nothing. They go in with a blank slate other than the pleadings, and they like to keep it that way for the most part in terms of what happened. But from a business standpoint, when a company has lost in another jurisdiction, that's where the pressure has come in my experience to settle the Canadian action or actions anywhere else in the world.

MR. CROW: This is kind of a two part: First, what are you seeing in China in terms of success rates, Michael, and, secondly, to you both, all of the strategic behavior, is it helping or hurting the broader cause of innovation?

MR. ELMER: I am going to let Kelly answer the second question because I honestly was trying to find the data on the screen here, but I can answer the first question.

With respect to what are we seeing in China, the success rate, as I think I had on the screen, is about 44 percent, but more importantly than that, I have had a lot of people say to me – and as I was mentioning – the question is: Can you enforce?

To my way of thinking and not to my way of thinking, it is a matter of fact, that if you have a large multinational corporation where their accounting records are exposed and subject to regulations like Sarbanes-Oxley in the United States and you get a judgment against them, there is a procedure in

China where you can sequester or request that those records be produced. You don't get them right away, and you don't get a chance to see them until you win the case, but if you win the case, those records are available. And so, if you have a multinational company, a decision is enforceable in China. If you have a small local company who doesn't have any real readily available corporate records or who can run and hide after a judgment, you have major problems.

And that's where the piracy comes in more in the copyright area, more in the trademark area and, indeed, in the patent area for smaller companies. But where you have multinational companies, China is becoming a more and more viable forum. That's why the number of litigations is going up.

MR. GILL: Who knows? I think all of this actually is in a sense helping innovation, though, because it is creating a greater awareness for companies, particularly smaller companies. I have certainly seen it among mid-size companies in Canada who have gained a greater awareness of global patent strategies and are thinking outside of their own territory, not only in terms of protecting but commercializing, protecting, licensing their product to other companies in other countries but, likewise, mining for technology from other countries to use themselves that they weren't doing before to any great degree and certainly not from the level that I have seen on a broader base. So I think it has, in fact, helped innovation in that respect.

MR. ELMER: Just to add to what Kelly is saying, I think there are some instances where it has hurt innovation, and you see it in – I don't know if you all are familiar with patent trolls where people actually go out and buy patents and then sue a third-party, in that area, I think there has been a lot of abuse. I think that has frustrated technology.

I don't even like the term troll because it is an editorial comment in and of itself. All people who have been denominated trolls are not negatively impacting innovation. Many are. I think you will see a change in legislation because of that. I was not trying to dodge your question.

MR. HERMAN: I wanted to ask Mr. Elmer, just to make sure I understand the strategic approach: In the case where there is a low patentee win rate in a given jurisdiction, do I understand you to say you would advise the client that wanted to enforce his patent or her patent to file in that jurisdiction, hoping to get the patentee to bring an infringement action there? And then if the patentee loses the action, to negotiate a settlement with the patentee in the jurisdiction like the United States that you wanted to have the product entered into the market? Is that – do I understand that's the strategy?

MR. ELMER: Well, the strategy is, number one, if you are the patentee, all other things being equal, you want to go where you have the highest win rate, highest chances of success. On the other hand –

MR. HERMAN: I was thinking of the obverse.

MR. ELMER: I will give you a specific example, right, and the opposite – and I hate to say this – we represent a lot of big Pharma. We represent a lot of major pharmaceutical companies, but if I was representing a generic, I think I would be beating a heavy trip to the courthouse in London if I wanted to initiate litigation because there you have a 75 percent chance of invalidating the patent.

MR. HERMAN: The question I had was: How do you start the process? Do you file in that jurisdiction, or do you bring it –

MR. ELMER: Yes, by striking first, and maybe I didn't make that clear, I was trying to get through the slide, but basically, in the top ten countries, each of the jurisdictions in the top ten have what's called DJ capability where the alleged infringer can strike first and "draw in", as you say, the other party.

MR. HERMAN: And then is the next strategy to try to negotiate a settlement in the target jurisdiction, the jurisdiction you want to get the product into or to enforce the judgment in that target jurisdiction?

MR. ELMER: Well, it depends, you know, on the particular facts. Basically, the premise of first strike is if most cases are not going to go to trial, which they are not, you want to be winning when you settle. Or if the case does go to final judgment, you want to have a win that you can take some place as a goal. But the goal is to try to get the best settlement as early as you can.

MR. BARBER: There have been quite a few cases in situations where there is prior art, in some cases well practiced prior art, but no patents, and somebody has patented it and then started to take everybody that is practicing it to court. Yet, they don't get to court; they get settled outside, but very often the patentees are not in business at all, and there is the assumption that even if you have been using it for a long time, that the prior art will not stick as an argument. Do you know anything about that?

MR. ELMER: You mean where someone is sued and they have been practicing the invention, what's – when you go into court, you have to prove that it is prior art? And to be prior art, it has to be publicly used. It has to be publicly disclosed in the United States within the confines of a printed publication, and that's the trial lawyer's job to prove that prior art.

I don't know of anybody who has been sued for infringement who hasn't said it was done before, and we were doing it before. And I don't mean to be cavalier with that comment, but it is a question of what you can prove in court. That's our job as either the defense lawyer or the trial lawyer to prove that that prior art was practiced before the effective date of the patent, and I know that's not a very good answer. I am not sure I am addressing what you are really looking for.

MR. BARBER: I think bar coding was a big example, been around for tens of years.

MR. ELMER: You are talking about Lemmelson, and Lemmelson was the originator of the term submarine patent and probably the original troll, and ultimately, those patents haven't done very well, but in the meantime, a lot of people settled. You are absolutely right. But it was a question of proof.

MR. CUNNINGHAM: Dick Cunningham. I must say I had an opposing counsel as a troll just the other day, but I think he was really something else.

MR. CUNNINGHAM: We have talked a lot about litigation to protect your patents and a lot of about who gets patents and that sort of thing. The unfortunate thing is, there are a lot of countries around the world that are promising markets but don't have effective patent protection there. What strategies do you folks recommend to clients about how to address commercially those markets where the thrust of your business that you will be doing they are patent dependent?

MR. ELMER: Not a hell of a lot. Frankly, if there is no patent protection and if your claim is based on a patent, frankly, that's part of your defense strategy. In fact, in the case I mentioned in the beginning where this German client came to me, I thought if we lost our exit strategy – we were going to take our manufacturing to Lichtenstein where there was no patent protection. We had no guarantee that we were going to win in that litigation in Dusseldorf, and that's part of your defensive strategy, to sort of go where the patentee doesn't have protection. You may have some trade secret protection, but typically, those two things are mutually exclusive. You may have some other claim other than a patent, but not usually; there is not much you can do.

MR. GILL: There really isn't. I mean, from a patent perspective, there is no patent protection. You are generally out of luck. But, of course, as Mike was saying, that all plays into the strategy, particularly what you do in terms of bringing the action for a specific infringer, a potential defendant. In other words, where do you bring it, in which market? Potentially, in Europe, you know, there are very specific manufacturing spots, for example in different industries. You are going to be much more effective going in and shutting down a company in one area than if you went and brought it in Spain. If you bring it up in the UK for a particular area, you are going to be in a better chance of pressuring the company the whole way.

MR. TSAI: My question deals with the Patent Cooperation Treaty. Earlier today we were talking about patents being issued to governments, owning the patents so to speak. Do you know of any cases having been brought before the ICJ, or in the process of going before the ICJ, on patent issues at all?

MR. ELMER: You mean where the Government owns the patent?

MR. TSAI: Right. State versus state; I think you have to be a state to sue in the ICJ.

MR. ELMER: Well, the short answer is no. But if the states can own intellectual property rights, typically, they don't for a lot of the reasons that have been discussed at the conference here. I used to be in the Army and the

Army held patents. I never knew why because they never asserted them against third parties. And each Government agency usually has its own policy. But if the Dutch Government, for example, owned a patent on a bar code and they were suing someone else, absent some international treaty or Governmental rights in there somewhere, where there are some eminent domain issues, basically, they are entitled to their day in court just like anybody else. But in direct answer to your question, I am not aware of any court before the international court of justice where two countries are suing each other.

MR. DELAY: My name is Brennan Delay. I was looking at your chart of comparative results and costs, and I was seeing that for China the legal costs are so much lower, $450,000 compared to $3 and-a-half million for the U.S. courts and a million and-a-half for the Canadian courts. I was wondering what accounts for that difference? Maybe the Chinese lawyers haven't discovered the billing rights of the American patent lawyers, but is the discovery less onerous? Is this a good field for young American lawyers who are interested in patents to actually go and move to China or take on Chinese cases? Should we export graduates from Case to China?

MR. ELMER: All of the above. There are probably several reasons. First of all, if you remember, in the United States and in Canada, where the rates are a million and-a-half and three and-a-half – and I am sure many people would say your numbers are low, and they could be low, and there are many things that will drive those numbers up – but the reason the numbers are low in China, they have a bifurcated system. You only try the issue of infringement in the court, number one. Number two, you don't have discovery like you have in the United States where it is Katie bar the door, and you have depositions, and that's where lawyers' time and the expenditure of resources is incurred.

Thirdly, their infrastructure is not that built out yet, and a lot of people still don't think that the Chinese courts are effective or will be effective enforcement. So I maintain in the next five years you are going to see those numbers double. I have no basis for that.

That's just sort of an intuitive reaction, but as people move there, the costs will go up, and as the enforcement value is there because the market is so large, you know, it is going to cost more. I think it is just a matter of time.

MR. GILL: The other thing is that the time line for litigation in China is very short. So once you sue, you have a very limited amount of time to put your proofs into the court. So that tends to move everything along a lot faster.

MR. DELAY: Would that be good for a litigant who wants to adopt the first strike policy perhaps? You get a quick decision if you think you have a good case, good chance.

MR. ELMER: The shorter the time period always inures to the benefit of the patentee because the more time the defendant has, the more defenses he

can come up with and the more time he has to find that prior art, just like in the RIM case. They found prior art. They found it too late, went into reexamination and dot six billion dollars later those patents are going to be invalidated. Time is on the side of the defense, so one of your strategies as a plaintiff's lawyer is to go to the rocket docket and to get to trial as fast you can. It is the best way for a patentee to do it. It is the worst forum for a lawyer's quality of life because it moves very quickly, and that also is an advantage. I didn't have the data, but incidentally, the win rate in the ITC is about 50 percent.

MR. DELAY: Great. You are all so professional.

MR. TAYLOR: Okay. Thank you very, very much.

DR. KING: We will reconvene for dinner. We have Governor Blanchard as our speaker, and hopefully, we will start around 7:00 or thereabouts. I think everybody will be very interested in what he has to say.

(Session concluded.)