

## IP enforcement and litigation

Having effective litigation and enforcement procedures is crucial. If IP litigation and enforcement is expensive and uncertain it will discourage potential users of the IP system, as this undermines the value of IP titles they own. Enforcement costs can be forbiddingly high, particularly for small firms, universities and PRIs, and individual inventors. Policy measures aimed at promoting the use of alternative dispute resolution mechanisms, and other approaches to reduce litigation and enforcement costs, are therefore particularly attractive.

### What is meant by IP litigation and enforcement?

Intellectual property (IP) concedes owners the right to exclude others from using their protected assets for certain activities without their consent. When IP rights are infringed, rights holders have the ability to take action against infringing conducts and enforce their rights, for example, by stopping unauthorised use, impeding further infringements, and obtaining recovery and compensation for damages resulting from the infringing act.

Firms competing in research and production may infringe others' IP rights, so IP litigation can be indicative of the fact that firms are developing or commercializing similar products. It may also reflect strategic and opportunistic behavior aimed at obtaining undue rents from other firms.

### What are the characteristics of IP litigation and enforcement?

#### International provisions on IP enforcement

On the international level, the most comprehensive set of rules concerning the enforcement of IP rights is contained in Part III of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). This part of the TRIPS Agreement sets minimum standards for effective IP enforcement procedures. It requires governments to establish procedures for the enforcement of IP rights, including civil and administrative remedies, and criminal procedures and penalties in cases of willful trademark counterfeiting and copyright piracy on a commercial scale. The TRIPS Agreement specifies that these procedures should be fair and equitable, avoid the creation of barriers to legitimate trade, and provide for safeguards against their abuse. They also state that they should neither be unnecessarily complicated or costly, nor entail unreasonable time limits or unwarranted delays.

Part III of the TRIPS Agreement also requires governments to guarantee that IP rights' owners can receive the assistance of customs authorities to prevent the import and release into free circulation of counterfeit trademark and pirated copyright goods.

Other relevant international provisions regarding enforcement are:

- Articles 9, 10 and 10 ter(1) of the Paris Convention for the Protection of Industrial Property, which require the adoption of measures to prevent the importation of counterfeit and pirated goods and legal remedies to punish such acts.
- Articles 13, 15 and 16 of the Berne Convention for the Protection of Literary and Artistic Works, which entitle the person whose name appears on a work to start infringement proceedings and provide that infringing copies of a work are subject to seizure.
- Articles 11 and 12 of the WIPO Copyright Treaty and Articles 18 and 19 of the WIPO Performances and Phonograms Treaty, which require Contracting States to provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures, and with respect to certain obligations relating to the protection of

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rights management information.

### **Available proceedings and remedies**

Effective IP enforcement depends on many different factors and entities: civil and criminal procedures, available remedies, determination and characteristics of courts and appellate bodies, litigation costs, and entities including attorneys, judges and administrative authorities, and customs police.

The civil procedure is the most common mechanism for IP enforcement. The most important remedies for rights holders in IP civil proceedings are provisional measures, injunctions and damages. In some cases, additional measures like destruction of goods or the recovery of legal costs are also available. The damages available to IP owners are similar for all IP types. For patent holders, the two primary remedies arise from lost profits (profits that would have accrued to the patent holder but for the alleged infringement) and reasonable royalties (royalties that would have been paid by the patentee to the patent holder, if the two parties had engaged in a hypothetical negotiation between a willing buyer and a willing seller) (Hoti et al., 2006). Attorney's fees can also be recovered in some cases. In trademark cases, owners are usually entitled to recover the defendant's profits, damages demanded by the plaintiff and costs of the action (Hoti et al., 2006). Similarly, copyright owners are generally entitled to recover profits attributable to the infringement, as well as actual damages to the plaintiff (Hoti et al., 2006; DeBriyn, 2012).

In most countries, criminal sanctions are also possible for major IP infringements that are undertaken intentionally and for commercial purposes, such as counterfeiting and piracy. Over the last decade, the counterfeiting and piracy phenomenon has gone from affecting only luxury goods, fashion, music and film to affecting foodstuffs, cosmetics, hygiene products and medicines (EC, 2013).

Since IP rights are national rights, for disputes arising within the boundaries of a country, the national law determines which court is competent to deal with the IP dispute (Dinwoodie, 2002), which is usually a specialized tribunal for IP issues. In cases of cross-border litigation, national rules of private international law are applied to determine the competent court, applicable law, and recognition and enforcement of foreign decisions (Dinwoodie, 2002). With the advent of growing international transactions and the Internet, it is increasingly difficult to apply principles and rules of private international law in cases of IP infringement (Dinwoodie, 2001). Nonetheless, contracting parties frequently use clauses concerning the choice of court for possible IP disputes.

The types of evidence that can be presented to a court in order to prove factual issues can be real evidence, documentary evidence and witness evidence. In IP litigation, two particular forms of evidence have been shown to be most useful: expert evidence (especially in patent disputes that have to be resolved on the basis of expert opinion) and consumer surveys (which are especially useful in trademark cases) (WIPO, 2004).

Finally, litigation in court is usually expensive and complex. There are two main types of enforcement costs: administrative (or process) cost and error cost (triggered by erroneous outcomes in IP suits due to mistakes during the decision process or from deficiencies in the applicable legal rule) (Bone, 2004). Thus, alternatives to court procedures, such as arbitration, mediation, assistance for rights holders in enforcing their rights and technological measures that rights holders may take to prevent others from illegal uses of their IP rights, are increasingly relevant (WIPO, 2004; OECD, 2013).

### **How is IP litigation and enforcement related to innovation?**

IP enforcement and litigation is of primary importance for those engaged in innovation activities (Lanjouw and Lerner, 1997). The reward in the form of exclusion rights that IP protection gives to innovators and creators is a very important tool for promoting continuous research and development (R&D) and innovation (Bessen and Meurer, 2005). Thus, without a proper system to litigate and enforce owners' exclusive rights, the IP system will hardly carry out its function of promoting innovation. Questions of litigation and enforcement are critical dimensions of the legal quality of IP systems (see [Legal quality of IP systems](#) [1]).

High IP enforcement costs can have mixed effects: they may encourage investment in research by big companies, but can deter innovative efforts by small companies due to fears of being engaged in complex and expensive litigation procedures (Lanjouw and Lerner, 1997). IP litigation, especially

patent litigation, is complex, uncertain and expensive (Bessen and Meurer, 2005). High costs of litigation over IP assets generally diminish the value of IP as an incentive to promote research (Lanjouw and Schankerman, 2001). If litigating IP at reasonable cost is perceived to be impossible, firms may decide to avoid patents and may be less likely to invest in innovation (at least in the type that depends on a patent right to recoup the costs of investment) (Weatherall and Webster, 2013). Because litigation cases can be very costly and take considerable time, alternative procedures, such as arbitration or mediation, can help reach agreements over IP conflicts without incurring as much cost.

Opportunistic and strategic IP litigation can also impede IP systems from meeting their objective of promoting innovation. This type of litigation includes cases where IP owners build defensive IP portfolios to avoid litigation by competitors, cases where dominant firms threaten or file suits against smaller or potential competitors (Bessen and Meurer, 2005), and cases where investors or entities acquire IP rights only to obtain revenues from competitors in an opportunistic manner (Meurer, 2003; DeBriyn, 2012; Galasso et al., 2011).

Opportunistic litigation reduces cash flow because of the high cost of IP litigation and other indirect costs. For example, a predatory plaintiff can divert customers from a defendant by threatening the defendant's customers with a lawsuit (Meurer, 2003). Moreover, IP transactions by opportunistic entities can deter innovation if they take place in order to extract rents through patent litigation, rather than to facilitate welfare enhancing technology transfers (Galasso et al., 2011). Furthermore, when firms face such an opportunistic entity, which focuses solely on asserting its patents without providing any products and services, companies cannot use their patents as bargaining chips and continue their normal innovative activities (Yanagisawa and Guellec, 2009).

### **What are the policy implications?**

Several policy measures can be adopted so that IP enforcement and litigation do not create bottlenecks, including:

Adopting measures for avoiding unnecessary IP litigation and their negative effects on innovation. Unnecessary IP litigation (especially with patents) could be avoided by: refining claims and carrying out better prior art searches, refining the language of claims (better drafted claims have greater scope and anticipate technological development), and tightening examination procedures by IP offices.

Promoting the utilization of alternative dispute resolution (ADR) mechanisms can help avoid costly litigation:

- In arbitration procedures, the parties agree to have their dispute referred to an arbitrator, usually through a contract clause, and give him specific powers to establish the applicable procedures (WIPO, 2004). The WIPO Arbitration and Mediation Center provides ADR services for the resolution of commercial disputes involving intellectual property.
- In mediation or conciliation proceedings, the parties agree to submit their dispute to a mediator who assists the parties in resolving their dispute. If the mediation is successful, the settlement has the effect of a contract between the parties (WIPO, 2004). The United Kingdom Intellectual Property Office offers mediation services, as does the World Intellectual Property Organisation in Geneva. In many countries, courts can impose adverse cost orders on parties who fail to seriously participate in settlement negotiations, mediation or other alternative dispute resolution processes (Weatherall and Webster, 2013).

Measures for providing legal aid, or provision of litigation on a pro-bono basis could also help reduce costs. Another cost-effective dispute resolution option is to use escalation clauses that provide for a first phase of mediation, followed by arbitration or expedited arbitration, or to use mediation at different stages of arbitration in order to maximize the chance of settlement (WIPO, 2010).

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Measures to avoid opportunistic litigation should be adopted, such as provisions that authorize fee shifting, which allows judges to punish plaintiffs for conducting opportunistic or anti-competitive litigation (Meurer, 2003).

Measures to assist smaller IP players in litigation could also be useful, e.g. by providing information regarding their options, potential costs, ADR mechanisms, etc.

Cooperation against piracy and counterfeiting (at the international and national levels) is also needed. In addition, it would be useful to establish mechanisms, such as national organizations or rights holder associations, to inform copyright owners before they decide on an appropriate course of action.

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