Legal Protection of Intellectual Property: The Changing Attitude of US and its Influence on Taiwan

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The legal protection of intellectual property has always played an important part in managing intellectual property which is crucial to the industry. The legal scrutiny to define the scope of intellectual property involves two aspects: firstly, infringement of intellectual property and the secondly, attribution of unfair competition to the intellectual property owner, especially in an infringing litigation. There are several important cases in the United States and heated debates on intellectual property legislation, pertaining to these two aspects of legal scrutiny, that are worth noticing. There is indication that the legal attitude in the United States is becoming increasingly more willing to respect the market function and lenient in protecting intellectual property based on the secondary liability of an Internet service provider or third party in certain situations. The changing legal attitude in protecting intellectual property in the United States definitely influences intellectual property management on the whole. The observations in this article highlight the fact that intellectual property management in future shall focus more on the self-governance mechanism rather than legal protection. In responding to the shifting legal attitude in the United States, Taiwan must pay more attention than ever before in developing an intellectual property management system since Taiwan’s economy, particularly in relation to the IP industry, is closely associated with the United States. The corresponding Taiwan Intellectual Property Management System has emphasized the importance of self-governance and is briefly discussed at the end of this article.

Keywords: Intellectual property, secondary liability, unfair competition, Taiwan Intellectual Property Management System

Intellectual property rights are assuredly the most crucial part of the manufacture and service industry. The legal attitude regarding the protection of intellectual property is vital in shaping the intellectual property management in the industry. Because the United States is one of the predominant countries devoted to the prosperity of intellectual property, a changing legal attitude putting more emphasis on the self-governance aspect of management toward protecting intellectual property definitely influences the intellectual property industry. Taiwan’s industry, specifically its relevant intellectual property, has been economically associated with the United States; hence, the shift in legal outlook that has occurred in the United States is surely going to change the manner in which intellectual property is managed in Taiwan. This article cites several recent, relevant cases and reports to indicate that the judicial and legislative branches of the United States are becoming increasingly more willing to respect the market function by refraining from asserting the affirmative defence of unfair competition in a infringement case, while avoiding the extra effort to protect intellectual property based on the secondary liability of the Internet service provider or third party in non-willfully-blind situations. The first part of this article introduces two recent secondary-liability cases pertaining to the self-restraint aspect of protecting intellectual property in the United States to support the assertion that the judiciary in the United States is scrupulous in extending liability to non-direct tortfeasors. By presenting a discussion on unfair competition in the patent pool (even patent troll) situation, the second part of this article reports that judicial decisions in the United States seem more lenient toward the business model operation of market self-determination. By describing two types of tendencies observed in recent years regarding the legal protection of intellectual property in the United States, this article makes two predictions related to intellectual property management in industry. The first is that the attempt to give the government the unilateral power, for instance, shutting down a website that allegedly committed copyright infringement eventually fails, even while considering the current heated debates between the website operator and the copyright owner.

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The second prediction involves the business model of managing intellectual property asserting credibility instead of filing a complaint or taking a defensive stance in an intellectual property infringement litigation. The indication that the US intellectual property industry will validate the importance of Taiwan’s Intellectual Property Management System (TIPS) is addressed briefly at the end of this article.

Legal Protection of Intellectual Property

This section explains two seemingly contradictory attitudes toward the legal protection of intellectual property: the first is restraint in judicial decisions in the case of non-direct infringement; the second empowering business operations while encountering a dispute of unfair competition. Considering the discrepancy in judicial treatment regarding the legal protection of intellectual property from the intellectual property owner’s perspective, these two types of judicial decisions lead to the inference of the future evolution of the notion of self-governance in intellectual property management.

Non-direct Infringement: Restrained Judicial Treatment

Two noteworthy cases in the US in recent years that have involved secondary liability for patent and trademark infringement, indicate the abstinence, or at least hesitation from the judiciary in imputing liability to the non-directly infringing third party.

The first case is related to secondary liability in patent infringement. The provision addressing such liability is codified in 35 USC § 271 (b)(c), which represents the liability for induced and contributory patent infringement. What is the real meaning of ‘actively induce’ or ‘must have known’ has been a bone of contention. The 2011 US Supreme Court ruling in the Global-Tech case seems to clarify the question. The facts of this Supreme Court case are as follows. SEB, a French maker of home appliances, acquired a design patent for deep fryers in the United States. A subsidiary (Pentalpha) of Global-Tech Appliance Inc received an order from Sunbeam Products Inc to produce deep fryers in Hong Kong and copied almost the entire fryer made by SEB. Pentalpha also acquired the opinion of an attorney regarding non-infringement of researched patents without revealing the SEB patent. After Sunbeam Products Inc was notified of the infringement in the United States, Pentalpha was still selling the fryer to other importers in the United States. SEB sued Pentalpha for violating 35 USC § 271 (b), i.e., actively inducing patent infringement. The issue in this case was to examine the substantive content of ‘actively inducing’ to determine whether the subsidiary in this case actually violated the regulation of 35 USC § 271 (b).

The Supreme Court explained the difficulty of deciding the meaning of ‘inducement’ because two interpretations could exist. The first explanation of inducement simply meant persuading someone to engage in a particular activity, which, in fact, has been proven to be infringement. The second explanation of induced infringement meant not only persuading someone to engage in a specific activity but also knowing that the activity corresponds to infringement. Furthermore, induced infringement and contributory infringement have the same origin under the concept of secondary liability. Therefore, the inducing infringer must know that the induced activity is an infringing activity in light of the interpretation of contributory infringement enacted in 35 USC § 271 (c).

The Supreme Court further explained the meaning of ‘knowledge’ requirement in the case: ‘deliberate indifference’ did not satisfy the meaning of knowledge because the doctrine of ‘willful blindness’ was the most appropriate definition of the ‘knowledge’ requirement incorporated in 35 USC § 271 (b). Two requirements for establishing ‘willful blindness’ were quoted in this case: (1) the defendant must subjectively believe that there is a high probability that a fact exists; and (2) the defendant must take deliberate action to avoid learning that fact. The Supreme Court ruled in this case that despite the lower court misinterpreting the law in applying the facts to the correct standard of law, the result of SEB winning the case still remained. The Supreme Court stipulated two reasons in supporting its conclusion. First, the president and CEO of Pentalpha knew of SEB’s patent in the United States and highly valued such a product. Second, the subsidiary intentionally avoided informing the attorney that the patent belonged to SEB. Therefore, the attorney’s opinion served as the anticipated excuse to cover up the patent infringement. To summarize, the Supreme Court stated the following:

‘Taken together, this evidence was more than sufficient for a jury to find that Pentalpha subjectively believed there was a high probability that SEB’s fryer was patented, that Pentalpha took deliberate steps to avoid
knowing that fact, and that it therefore willfully blinded itself to the infringing nature of Sunbeam’s sales.’

The Supreme Court affirmed the judicial decision from the Court of Appeals for the Federal Circuit through the different point of view. In view of the above, the Supreme Court of the United States substantially raised the threshold in establishing secondary liability in patent infringement. The judiciary’s unwillingness to extend the liability beyond the direct patent infringer explains the court attempt to limit the scope of the patent right.

The second case is related to secondary liability in trademark infringement. In *Tiffany v. Ebay*, Tiffany filed a suit for multiple causes of action against eBay. The primary discussion of this case was centered on the contributory infringement of trademarks. eBay offered a platform for online purchase. Tiffany, a jewellery producer, disapproved of the counterfeit Tiffany jewellery circulating on eBay’s online purchasing platform and filed secondary liability litigation for trademark infringement, despite eBay having taken anti-fraud measures to prevent counterfeit products. Based on the interpretation of the Supreme Court in the Inwood case, secondary liability existed when ‘a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.’ Nevertheless, eBay definitely did not induce the trademark infringement in this case, and the question of whether eBay was contributorily liable to the trademark infringement remained. The court in this case discarded the ‘reasonable anticipation standard’ as the meaning of ‘knows or has reason to know’; instead, the knowledge requirement was ‘a contextual and fact-specific test,’ judged according to all of the surrounding circumstances (e.g., the specific incident of trademark infringement, which is a higher standard than ‘reasonable anticipation standard’). In this case, the court concluded that Tiffany could not satisfy the criteria for the ‘knows or has reason to know’ requirement, especially because eBay had anti-fraud measures in force and was not liable for contributory trademark infringement. The Tiffany case demonstrates two aspects of the policy standpoint. The first observation is that the Supreme Court was reluctant to impute liability to Internet service providers, probably because of the concern with the free flow of information. The second observation is that the Supreme Court enhanced the mental requirement for the secondary liability infringer to a certain extent, at least closer to that of ‘willful blindness’ instead of reasonable anticipation.

This author argues that these two cases have their own independent process in deciding that secondary liability of the non-direct third party infringer be limited by raising the burden of proof in terms of the infringer’s mental status. In the SEB case, the Supreme Court was concerned with the complicated role of judging patent infringement in contemporary times. In the Tiffany case, the court was unwilling to impute the secondary liability to the Internet service provider because of the consideration of Internet development by alleviating the possible liability of the Internet service provider. These two cases indicate that the concept of secondary liability in intellectual property infringement could be viewed differently in the in the information age. In summary, judicial decisions for secondary liability regarding patent and trademark infringement in the United States are being subjected to interpretations that are more restrictive than ever before.

**More Freedom to the Business Operation in Disputes of Unfair Competition**

This part of the discussion entails the judicial tendency to empower business operations when encountering a dispute of unfair competition. The best example of such a judicial decision in recent years is the *Princo Corp v International Trade Com’n*. This case, which was an appeal from the Federal Trade Commission to the Federal Circuit, was based on the following facts: Philips and Sony were pooling their patents, named the Raaymakers patents (analog modulation) and the Lagadec patent (digital modulation), respectively; for producing CD-R/RW in licensing the Orange Book standard. The technical function for these two patents was to provide a guide for the recording laser to follow when writing data to an unrecorded CD-R/RW and ensure that the disk rotated at the correct velocity during recording. However, these two methods were incompatible with each other because of their characteristics aiming at correctly reading the information contained in a CD. Nevertheless, Philips and Sony agreed to use Philips’s technology (Raaymakers patents) as the Orange Book standard. Concurrently, they also reached an agreement that Sony’s technology (Lagadec patent) should be included whenever the Orange Book
standard would be licensed in the future, but it could not be allowed to produce CD-R/RW. Princo originally accepted the licensing agreement. However, it refused to pay the royalty thereafter. Princo asserted several causes of action in patent misuse after being denied by the Federal Trade Commission. In the second appeal to the Federal Circuit, Princo focused its argument on two issues of patent misuse. The first argument stated that the licence of the Orange Book standard including Sony’s technology, should be regarded as a type of patent misuse for including non-essential patents in patent pool licensing. The second argument stated that the patent pool licensing was executed in a manner that would necessarily prevent alternative technology from developing. In this case, the Federal Circuit clarified patent misuse by defining it as any execution of the patent that would unexpectedly expand the scope of the patent. The Federal Circuit recognized two types of patent misuse: patent misuse per se and patent misuse by rule of reason. The fundamental difference between patent misuse per se and patent misuse by rule of reason is the burden of proof (persuasion). Under patent misuse per se, it would be unnecessary to give evidence to sustain the case because the facts would be sufficient to satisfy the burden of proof. Conversely, under patent misuse by rule of reason, the plaintiff is requested to prove the case using evidence other than the naked facts.

Princo advanced its argument in this case according to the theory of tying because Philips’s licensing package included Sony’s technology for ensuring that the disk rotated at the correct velocity during recording. First, to assert tying as one type of patent misuse, the party asserting this patent misuse must identify that the other party (licensor) has such market power and the mere ownership of the patent cannot satisfy such a requirement. In this case, there was no dispute with the market power issue. According to the criterion recognized by the Federal Trade Commission, Philips controlled over 50 per cent of the CD-R/RW, and thus, had significant and durable market power. The central issues for the tying argument in the patent pool situation were analysed to determine whether it was attributed to patent misuse per se or patent misuse by rule of reason. Furthermore, how the proper rule worked in the patent pool licensing agreement was also studied. The Federal Circuit contemplated the distinction between patent tying and product-to-patent tying and decided that patent tying should be judged under the rule of reason in the case of anti-competition litigation. The notion of rule of reason was also embodied in the patent law through § 271(d)(5). This conclusion was based on the possible benefits (including the advantages flowing from integration of complementary technologies and the cost savings from avoiding litigation), which may not appear in the product-to-product tying licensing pool. In deciding that the tying within the patent pool situation should be judged under the rule of reason, the Federal Circuit was also required to determine whether the technology is essential or non-essential. In the case of an essential patent, the tying practice should be legitimate. However, if the disputed patent was attributed to the group of non-essential patents, the tying practice was likely to have conflicted with the notion of promoting competition in the industry. The question remaining in this case was whether Sony’s disputed technology (Lagadec patent) was essential or non-essential, which was similar to the tying between the patent and the unpatented product. This was a question of balancing interests between the pre-competitive and anti-competitive effects regarding the tied patent (Sony’s patent in this case). Consequently, the Federal Circuit rejected the argument that the anti-competitive effects of the tied patent existed, therefore, the tied patent was a commercially viable substitute technology at the time of licensing. In fact the court in this case believed that the tied patent (Sony’s patent in this case) was not viable at that time. However, there were pre-competitive effects of reducing conceivable possible future patent litigation. Thus, the licensor had reasonable concern in including the technology into the patent pool to avoid possible patent litigation. Because Philips’s scope of patents was adequately broad to overlap with Sony’s patent, there was reasonable concern with Philips being involved in possible future patent litigation. The specification of Philips’s patents mentioned digital measurement for achieving the goal. However, Philips did not indicate this in the scope of the patent, which was adequately broad to include the analog measurement with the goal as Sony’s patent did. Furthermore, the legal dispute regarding the law of claim construction was not decided when Princo’s complaint was filed. At the time of pooling patents with Sony, Philips reasonably believed that it was best to include Sony’s patent in the licensing pool to avoid any possible future patent litigation with Sony. Based on the principle of balancing interests between the pre-
competitive and anti-competitive effects, the Federal Circuit concluded that Sony’s patent tied in Philips’s patent pool had pre-competitive effects but no anti-competitive effects. Thus, the tied patent pertaining to Sony was essential to Philips’s Orange Book standard. In addition to the first argument related to the tying of the non-essential patent in the patent pool business strategy, Princo also advanced the second argument that both Philips and Sony conspired to prevent the development of substitute technology by establishing the patent pool licensing. The Federal Circuit ruled that the conspiracy of preventing the development of substitute technology was patent misuse per se because there were only anti-competitive effects and no possible pre-competitive effects in this type of a behaviour. To satisfy this type of patent misuse, the party, Princo in this case, asserted that the claim should prove that the future substitute technology based on the patent within the pool is certainly viable and that the patent licensor intended to prevent the development of such substitute technology. In this case, the Federal Circuit considered that there might be some evidence related to the intention of Sony and Philips to prevent the development of such substitute technology. For example, in licensing the patent pool, Sony’s patent was allowed to be used only to produce the Orange Book discs because Sony and Philips could have had an exclusive licensing agreement. Hence, the second argument was returned to the lower court for further proceeding.

After analysing the Princo case, it is evident that this case had some crucial legal interpretation relevant to the patent pool. First, the tying of patents in the patent pool business model was distinguished from other types of tying situations. It was observed that without the conspiracy to prevent new technology innovation, there was no possibility of patent misuse per se in patent pool tying. Conversely, without the conspiracy, the rule of reason is the criteria to decide the unfair competition in the patent pool business model. Second, the distinction between the essential and non-essential patents in deciding lawful tying in the patent pool under the rule of reason (where the first is lawful and the second is unlawful, respectively) mainly hinges on the balance of interests between pre-competitive and anti-competitive effects ensuing from the agreement of the patent pool. Third, the conspiracy to prevent new technology innovation by refusing to license through the patent pool agreement is considered patent misuse per se. Consequent to the judgment handed down by the Federal Circuit on 20 April 2009, both parties filed their own petitions for rehearing en banc. Furthermore, there was also intervention by the US Philips Corporation, which was granted by the Federal Circuit. On the basis of all these petitions, the Federal Circuit granted the petitions from US Philips and the International Trade Commission (ITC) but denied the petition from Princo in October 2009. The Federal Circuit also vacated the original judgment and prepared to retry the case. The amicus curiae document of the Federal Trade Commission (FTC) supported the assertion of the US Philips and ITC that Sony and Philips had no malicious intention to prevent the development of such substitute technology. Thus, the possible legal attitude of the Federal Circuit toward the issue of the conspiracy in preventing new technology innovation by refusing to license through the patent pool agreement could be predicted. In the previously mentioned document, the FTC, in line with its antitrust expertise, made two observations before the Federal Circuit. First, the result of suppressing competition might be negated. This indicated that the restriction of licensing Sony’s technology, except in licensing the Orange Book standard, could be reasonable because of the collaboration between Philips and Sony under the circumstances. Second, such actions to suppress the competition could be sustained, because no proof of market power or actual harm existed. Thus, it is concluded that the intention to suppress competition might not be the sole reason for patent misuse, which can be negated based on some justification (the collaboration needs in this case). This prediction was realized in a trial in 2010. The dispute ended here and the case was final in 2010. The outcome of this case is that the court in the United States gave the benefit of doubt to the owner of intellectual property using a legitimate business defence. In addition to the crucial case related to the patent pool business model (which shows that the Federal Circuit in the United States highly respects business defence), another type of patent business model, viz., patent troll (an entity owns the patent and solely profits from its licensing or litigation but not its production) also has significant potential to be the subject of unfair competition. However, no such case is pending that might also correspond with the thinking discussed in the Princo case in which the court in the United States was willing to pay considerable respect to business judgment in patent litigation.
The Taiwan Intellectual Property Management System (TIPS)

In the United States, self-governance and systematic approaches in management strategy is expected to receive more attention because the legal protection of intellectual property appears to be restrained more than ever. Taiwan, traditionally, has had close ties with the United States in protecting intellectual property. Two reasons can best support the statement: (i) the United States has long been the major exporting country to Taiwan, and (ii) judicial and legislative decisions in Taiwan to protect intellectual property are influenced by the United States’ decisions from time to time. This means that the intellectual property industry in Taiwan is influenced by such legal tendencies of the US courts. To respond to the trend emphasizing self-governance and systematic approaches in management strategy, the currently promoted TIPS seems to just answer the need to endorse this approach. This section briefly introduces TIPS and presents some personal observations of such a system. TIPS was derived from a special project issued by the Industrial Development Bureau, Ministry of Economic Affairs in Taiwan. According to the content of this report, the enterprises in Taiwan have had to face several global challenges since Taiwan entered the World Trade Organization (WTO) on 1 January 2002. The Taiwan government realized the importance of managing intellectual property to be competitive in the business world. Therefore, the initiation of TIPS is referred to as an ISO (International Organization for Standardization) infrastructure, which sets up standards for industry. TIPS is the system incorporated within the individual business strategy to merge the internal activities of business with the entire intellectual management system to avoid possible infringement of intellectual property, as well as to protect the intellectual property of business entities. The implementation of TIPS is summarized in Figure 1. The idea is to focus on proper intellectual property management than litigation or resorting to legal procedures. In addition, whether to recognize the indirect infringement in patent litigation has been controversial in Taiwan’s practice, and the refusal of the Intellectual Property Office to add indirect infringement liability into the recent modification of patent law seems to vindicate TIPS.

Intellectual property litigation is definitely one of the appropriate mechanisms to protect the owner’s rights. In Taiwan, the infringer who violates copyright or trademark law can potentially receive criminal sentence. Most of the cases are adjudicated at the Intellectual Property Court, established in 2008. Unlike the judiciary in the United States which can create law based upon the equity principle, a court judge in Taiwan cannot create the law; he/she can only abide by the statute. Given the limitations and restrictions of litigation, the other option to protect intellectual property is the systematic management of intellectual property through self-governance. Here, the course of judicial decisions will also impact the operation of systematic self-governing management strategy, which is the primary purpose of TIPS. By operating within the infrastructure of TIPS, a business can introduce the management system through counselling of an outside advisor. The business can apply for the process of official certification with the Science and Technology Law Center under the Institute for Information Industry. The Science and Technology Law Center selects experts (usually two) to confirm the degree of thoroughness in introducing the management system and issues a certificate if the business passes through such expert examination based on the certification manual compiled by the centre. The author has been involved in such review processes for several years, and it is the author’s opinion that customizing the standard according to the needs of several groups (e.g., the Internet purchasing business and exporting business) may promote the system to the next level. Furthermore, the changing legal attitude with respect to certain issues may occasionally require periodical review of the operation of the management system to make suitable adjustments.

Fig. 1 — The fundamental structure of TIPS
The Influence of the Changing Legal Attitude of US on Taiwan

A summary of the observations in this article pertaining to the changing legal attitude in the United States is shown in Fig. 2. Based on the recent shift in the stance of judicial decisions in the United States, the finding of this article is that the US courts are inclined to be more restrictive in attributing secondary liability to the infringement of patent and trademark cases and have also demonstrated more lenience toward the business operation model in the context of unfair competition. Even though these two kinds of disputes have their own legal explanations and requirements, the secondary liability in an infringing litigation of intellectual property and the unfair competition of the owner of intellectual property are widespread disputes that occur in protection of intellectual property. In fact, in most situations, these two kinds of dispute are two sides of a coin. The unfair competition assertion oftentimes serves as the affirmative defence in an infringing litigation of intellectual property. In a real industrial litigation for protecting intellectual property, based upon the above-mentioned tendency, the owner of intellectual property has more flexibility in business operation and, at the same time, less number of non-direct infringers to be blamed. In order to make the most of intellectual property, the owner of the intellectual property needs to abide by the concept of systematic approach to self-governance (like TIPS in Taiwan) to achieve the goal. Considering the rationale behind the ruling of these cases, it is proposed that legal protection for intellectual property should limit itself and retreat slightly in case of secondary liability, at least for patent and trademark infringement; and allow the intellectual property industry to contend with the management issue by using self-governance and systematic approaches. In addition, even in the current situation in the United States, the judicial opinion maintains that traditional secondary liability should be more applicable in copyright infringement cases than in trademark infringement cases, possibly because of the gravity of copyright infringement, especially in cyberspace. Nevertheless, based on the observations reported in this article, there is no reason to expect the government to have unilateral additional power, like in the case of shutting down a website alleged to have committed copyright infringement, which is outside the current legal infrastructure of copyright protection.

Conclusion

The protection of intangible intellectual property rights is drawing considerable attention in the contemporary world because, theoretically, intellectual property will not be depleted in the manner of natural resources. The intellectual property industry is developing rapidly, and managing these intangible rights is a tremendous challenge. The legal trends for the protection of intellectual property in the United States indicate that the court is more cautious with imposing the legal remedies, either because of deference to market power or with a view to facilitate the growth of Internet activities. The self-governance aspect of intellectual property management will definitely generate intense concern and discussion. Although the tentative management system has emerged for intellectual property rights (e.g., TIPS), the system is still in its primitive stage and must become more individualized and be reviewed periodically for its effective operation.

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