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# NYU JOURNAL OF LAW & LIBERTY

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## INTELLECTUAL PROPERTY: AMERICAN EXCEPTIONALISM OR INTERNATIONAL HARMONIZATION?

*MINUTES FROM A CONVENTION OF THE FEDERALIST  
SOCIETY*

**Prof. Shubha Ghosh**, University of Wisconsin School of Law

**Prof. F. Scott Kieff**, Washington University in St. Louis

**Prof. Adam Mossoff**, Michigan State University College of Law

**Prof. Steven M. Tepp**, Assistant General Counsel, U.S.  
Copyright Office

**Moderator: Hon. Brett Kavanaugh**, U. S. Court of Appeals,  
District of Columbia Circuit

11-17-07

10:45 a.m. - 12:15 p.m.

*Chinese Room*

JUDGE KAVANAUGH: Good morning. I'm Brett Kavanaugh of the U.S. Court of Appeals for the DC Circuit, proud, as always, to be here at the Federalist Society. I'm a long-time member and supporter of this Society. I've been coming to or participating in these conferences for much of the last two decades. And every year I marvel at the quality of the panels and the speakers at the Federalist Society conferences, and this year, of course, has been no exception. This conference has been truly extraordinary, and I think it's really been the best one yet, which is saying something, and it's a tribute the Federalist Society leadership and to the membership of the Federalist Society as well.

This morning I have the honor of moderating this panel on "Intellectual Property: American Exceptionalism or International Harmonization?" We have four excellent speakers. What we'll do is hear from each of the speakers and then take questions from all of you. First, let me introduce all four members of the panel. Our first speaker will be Professor Adam Mossoff from Michigan State University College of Law. Professor Mossoff's work focuses on the theoretical and doctrinal intersections between property and intellectual property, with a special focus on the intellectual history of patents. He is a graduate of the University of Chicago Law School and was a clerk on the Fifth Circuit.<sup>1</sup> Professor Mossoff will speak about the history of the U.S. approach to intellectual property, with an explanation of the patent system and property rights perspectives.

The second speaker will be Professor Shubha Ghosh from Southern Methodist University Dedman School of Law in Dallas. He has extensive academic and practical experience; he has taught and published widely in the intellectual property fields.<sup>2</sup> He is a graduate of the University of Michigan Law School, and he will discuss how U.S. intellectual property laws are a branch of trade regulation and competition laws and will compare the American approach to the European Union's approach.

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<sup>1</sup> Adam Mossoff Faculty Profile, [http://www.law.msu.edu/faculty\\_staff/profile.php?prof=324](http://www.law.msu.edu/faculty_staff/profile.php?prof=324) (last visited Mar. 28, 2008).

<sup>2</sup> Shubha Ghosh Faculty Profile, <http://www.law.smu.edu/faculty/Ghosh.aspx> (last visited Mar. 28, 2008).

Our third speaker will be Professor Scott Kieff from Washington University School of Law in St. Louis.<sup>3</sup> Professor Kieff has delivered numerous articles and speeches about obtaining and enforcing intellectual property rights. He received his J.D. from the University of Pennsylvania School of Law, clerked for Judge Rich on the Federal Circuit, and practiced in the intellectual property field at firms in New York and Chicago before becoming a professor. Professor Kieff will discuss why property rights matter in this field and will discuss and explore the various approaches to critical intellectual property issues.

Our last speaker will be Steven Tepp. Mr. Tepp is a principal legal adviser in the Office of General Counsel at the U.S. Copyright Office.<sup>4</sup> He has served in the Copyright Office for seven years as key adviser to the Register of Copyrights on both domestic and international copyright matters.<sup>5</sup> He was a central negotiator of the intellectual property chapters of two U.S. free trade agreements, and prior to joining the Copyright Office Mr. Tepp was an attorney for the Senate Judiciary Committee on the staff of Chairman Orrin Hatch, where he specialized intellectual property.<sup>6</sup> He'll give us an overview of U.S. copyright law and a comparative approach with Asia and Europe. He'll discuss who the real winners and losers are of property laws.

We're fortunate, as always, to have four such extraordinary speakers today. Professor Mossoff, the floor is yours.

PROFESSOR MOSSOFF: Well, it is an honor to be leading a panel of such distinguished colleagues, both in practice and in academia. *Intellectual Property: American Exceptionalism or Harmonization?* – I'm sure that when many of you saw the title, the first thing that probably leapt to your mind was that of the current push over the last several decades of harmonization between the various intellectual property laws of all the countries throughout the world. This makes sense in an intellectual property context: I.P. assets, in particular, seem to be global assets. Whether talking about a trademark

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<sup>3</sup> F. Scott Kieff Biography, <http://www.innovation.hoover.org/bio.aspx?name=Kieff> (last visited June 18, 2008).

<sup>4</sup> Steven Tepp Biography, <http://www.codata.org/codata02/bios/bio-tepp.htm> (last visited Mar. 28, 2008).

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

in Coke, the latest Harry Potter book or movie, or the latest pharmaceutical treatment for AIDS, these are products used throughout the world, and so we'd wish for them to be deployed most efficiently and easily in the marketplace, and therefore provide uniform protection throughout all the countries in the world.

But there's another way to think about harmonization, and that is to approach the matter from a historical perspective, and to ask whether, as a historical matter, the U.S. approach to the definition and legal protection of intellectual property has been consistent with the approaches adopted in other countries, such as France, Germany or England. My contention is that it has not been, that the U.S. approach has been unique. Now, I'll be speaking principally about patent law, although there is much to be said, obviously, about other intellectual property rights such as trade secrets or trademarks.

Now, living in the 21st century, enjoying all the benefits of a high-tech innovation – computers, the internet, the latest innovations in the biotech and pharmaceutical industries – we often forget that the American patent system and its central doctrines were first developed in the 18th and 19th centuries.<sup>7</sup> In fact, from the very first Patent Act of 1790,<sup>8</sup> Congress and courts defined patents as property rights, and at that time the dominant property theory is one that we would now call the Lockean conception of property; it defined property as the exclusive rights of acquisition, use and disposal of one's possessions.<sup>9</sup> Thus, American legislators and courts adopted and relied upon this theory of property in developing the American patent system, securing to inventors property rights in their inventions, what the patent statutes and court opinions repeatedly referred to as the exclusive rights to manufacture, use and sell an invention.<sup>10</sup>

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<sup>7</sup> Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent "Privilege" in Historical Context*, 92 CORNELL L. REV. 953 (2007).

<sup>8</sup> See Edward Walterscheid, *Charting a Novel Course: The Creation of the Patent Act of 1790*, 25 AIPLA Q.J. 445 (1997).

<sup>9</sup> See, e.g., *Vanhorne's Lessee v. Dorrance*, 2 U.S. (2 Dall.) 304, 310 (1795) (Patterson, J.) ("[T]he right of acquiring and possessing property, and having it protected, is one of the natural, inherent, and unalienable rights of man.").

<sup>10</sup> See Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. REV. 689 (2007) (discussing nineteenth-

Now, this was significant. The newly independent, upstart, brash young Americans were taking a different approach from England in how they defined patent rights. England, up until that point and continuing up through the 19th century at least, defined patents as essentially personal privileges granted by the Crown.<sup>11</sup> The Americans, instead, defined patents as property rights.<sup>12</sup> Now, the impact of the American approach was dramatic and immediate. At a general level, it led to the institutionalization of the patent system under the rule of law. In the Antebellum era, patents were issued first under the Secretary of State and then under a patent commissioner, and ultimately in 1836, through an office, the patent office, which was created specifically to review and issue patents under pre-existing legal rules set forth in federal statutes and case law.<sup>13</sup> This was very different from the approach taken in France and England, where the issuance of patents remained rife with discretionary authority because they were grants from the sovereign.

In the U.S., the federal government essentially replicated the type of title recordation and publication requirements already deployed in the real property system. And, at a broader level, U.S. patent rights were actually conceptualized in terms of common-law property rights. Patents were identified as title deeds, and courts applied other real property concepts to patent law.<sup>14</sup> Multiple owners, for instance, of a patent were identified as tenants in common, and infringement was recognized as a trespass of the inventor's property.<sup>15</sup>

In fact, courts adopted and applied normatively laden property rhetoric in patent cases. Supreme Court justices were identifying and referring to patent infringers as "pirates" as early as the

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century case law and congressional sources in which patents are defined as property rights).

<sup>11</sup> B. ZORINA KHAN, *THE DEMOCRATIZATION OF INVENTION* 30-31 (2005).

<sup>12</sup> *See, e.g.,* *Hayden v. Suffolk Mfg. Co.*, 11 F. Cas. 900, 901 (C.C.D. Mass. 1862) (No. 6,261) (instructing jury that a "patent right, gentlemen, is a right given to a man by law where he has a valid patent, and, as a legal right, is just as sacred as any right of property").

<sup>13</sup> *See* KHAN, *supra* note 11, at 51-53.

<sup>14</sup> *See* Mossoff, *supra* note 7, at 992-98.

<sup>15</sup> *See id.* at 993-94 n.193-94 (identifying substantial nineteenth-century patent case law in which courts use these real property concepts and rhetoric).

eighteen-teens,<sup>16</sup> and other federal courts repeatedly applied the Lockean policy in property law that the patent laws should secure to inventors the fruits of their inventive labors.<sup>17</sup> Thus, in legal disputes it's unsurprising that one finds the federal courts repeatedly citing to and relying on real property cases at common law involving conveyances, restrictive covenants and easements as precedent for deciding the patent cases before them at that time. As one federal judge instructed a jury in an 1846 patent infringement trial, "[a]n inventor holds a property in his invention by as good a title as the farmer holds his farm and flock."<sup>18</sup>

As a result of this conceptual and rhetorical framing of patent rights as property rights, American legislators and courts thus created patent doctrines that specifically secured to patentees their property rights. Most importantly, they protected patentees in the rights of use and sale of their patented inventions. Patents could be sold or transferred in the United States, and patentees could adopt various restrictive conditions, similar to restrictive covenants, on what licensees could do with their patented inventions, in terms of the territory in which their patented inventions could be sold or used or how many they could manufacture or how many they can sell. In other words, patentees were permitted to control the downstream commercial exploitation of their inventions for the purpose of securing to them their maximum profit that they could achieve during their patent term -- what the courts, as I said, repeatedly identified not as profits but in their Lockean terminology as the fruits of their inventive labors.

Even beyond the patent system, at the constitutional level, courts recognized in the 19th century that patentees should be protected and are protected against unauthorized uses by the government under the Takings Clause.<sup>19</sup> In *Cammeyer v. Newton* in 1876<sup>20</sup>

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<sup>16</sup> *Id.*

<sup>17</sup> *See, e.g.,* *Hawes v. Gage*, 11 F. Cas. 867, 867 (C.C.S.D.N.Y. 1871) (No. 6,237) (noting that a patent is "property" because it secures for an inventor the right to "enjoy the fruits of his invention"); *Clark Patent Steam & Fire Regulator Co. v. Copeland*, 5 F. Cas. 987, 988 (C.C.S.D.N.Y. 1862) (No. 2,866) (recognizing that patents secure to inventors the "fruits of their inventions").

<sup>18</sup> *Hovey v. Henry*, 12 F.Cas. 603, 603 (C.C.Mass. 1846).

<sup>19</sup> Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. Rev. 689 (2007).

and *McKeever v. United States* in 1878,<sup>21</sup> among many other cases, federal courts, including the Supreme Court, repeatedly held that patentees can sue federal officials for unauthorized uses of their patented inventions.<sup>22</sup> And in these cases they recognized repeatedly that the government's taking of an inventor's profit in such unauthorized uses was analogous to the expropriation of land.<sup>23</sup>

Now, it bears emphasizing that these institutional, doctrinal and constitutional developments were unique to the American patent system. In England, for example, as I just noted, patents were protected not as property, but as personal privileges granted by the Crown. Thus, for instance, as a doctrinal matter, English patents were not transferable. They could not be sold, they could not be devised by will, unless the Crown granted an exception and permitted them to do so.<sup>24</sup> Even more importantly, the English Government retained in every patent an implied right to use that patented invention without authorization from the patentee.<sup>25</sup>

Now, in the 19th century U.S. courts were very much aware of these developments in England. They often cited to the English cases that repeatedly held to the English patents used to these various doctrinal requirements as examples of the practical, real-world doctrinal differences that flow from what might seem to be an innocuous conceptual distinction between calling something property versus calling it a personal privilege. Summing up the American approach to patents, Representative Daniel Webster declared on the floor of the House in 1824 that, "The right of the inventor is a high property. It is the fruit of his mind. It belongs to him more than any other property, and he ought to be protected in the enjoyment of it."<sup>26</sup>

Thus, in the 19th century, American inventors, such as Charles Goodyear, who invented vulcanized rubber,<sup>27</sup> Samuel Morse, who invented the telegraph,<sup>28</sup> Thomas Edison, the inventor

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<sup>20</sup> *Cammeyer v. Newton*, 94 U.S. 225 (1876).

<sup>21</sup> *McKeever v. United States*, 14 Ct.Cl. 396 (Ct. Cl. 1878).

<sup>22</sup> *See, e.g. Cammeyer*, 94 U.S. at 234-35.

<sup>23</sup> *See, e.g. id.* at 226.

<sup>24</sup> *See Mossoff, supra* note 7, at 992.

<sup>25</sup> *See Feathers v. The Queen*, 12 Law T., N.S. 114 (1865).

<sup>26</sup> 18 ANNALS OF CONG. 934 (1824).

<sup>27</sup> U.S. Patent No. 240 (filed June 17, 1837).

<sup>28</sup> U.S. Patent No. 6,420 (filed May 1, 1849).

of the first practical incandescent light bulb,<sup>29</sup> knew with certainty that if they came up with a new invention, the patent system would provide them with the definitive legal security they sought in their property. The patent system would secure to them their rights of use and alienation, that they would be able to commercialize their inventions for their profit, and even more importantly, that they would be protected against piracy, either by other citizens or by the government. And just as important, they knew that the patent system was institutionalized, and it was defined by the rule of law. It was not rife with discretionary authority under the sovereign.

Now, it's interesting to note that all of these features have become hallmarks of modern patent systems throughout the world today. Thus, these historical observations lead to an interesting modern observation, and that is, it is in fact 19th-century American exceptionalism which has become 21st-century norm. This is perhaps something for us to remember in the continuing discussions about harmonization as we work out some of the more refined differences in the details in some of the patent systems between the United States and other countries in the world.

Thank you.

(Applause.)

PROFESSOR GHOSH: Well, it's quite an honor to be here, and I want to thank the organizers for the invitation to participate with these distinguished colleagues. I've known Scott for a while, and I've talked with Steve many times, and it's an honor to be here with Judge Kavanaugh. I've interacted with Adam on these issues before, and I was joking before that whenever I think about Adam I can't help but think about Winston Churchill, and the reason I think about Winston Churchill is the famous quote that the U.S. and England are two countries separated by a common language.<sup>30</sup> And Adam and I do share a common language. We do talk about property, we talk about property rights and so forth, and we use them in many different ways. And I think probably the same is true about

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<sup>29</sup> U.S. Patent No. 223,898 (filed Jan. 27, 1880).

<sup>30</sup> Nigel Rees, "Quote, Unquote," available at <http://www1c.btwebworld.com/quote-unquote/p0000149.htm> (explaining the confusion surrounding the quote, and its attributions to Winston Churchill, George Bernard Shaw, Oscar Wilde, and Bertrand Russell).

the U.S. use of property rights language and rights language in intellectual property, in comparison to how it's used in European countries and how it's beginning to be used in a lot of developing countries, both in South Asia and East Asia, that some of the other panelists may talk about.

I do think U.S. intellectual property law is exceptional, but I think the exceptionalism has to do with the emphasis within U.S. intellectual property law on competition. And, when we had our phone conversation about the panel, I mentioned that my take would be to view intellectual property as trade regulation. There was sort of a hushed silence at the other end; I guess mentioning regulation to this crowd is like talking about garlic at a vampire convention. But nonetheless, I do take a view of it as trade regulation, in the sense that I view that the rights that are created through intellectual property law, not simply as a basis now but as you go back to the 19th century, really are largely about promoting competitive values. It's the same way that in environmental law we think about creating rights in the context of markets for tradable pollution rights and things like that, creating a market for pollution control.

I see the intellectual property law using intellectual property rights to create markets for innovations. And certainly we see that in the modern version of the regulatory state, and also, I guess for lack of a better term, post-modern versions of the regulatory state. But even if you go back to 19th century, a lot of intellectual property rhetoric about rights really, I think, should be seen in the context of common law rules against restraints on trade, for example. So there's always been a very important parallel between intellectual property law, as we call it now, and antitrust law and competition law.

So if you take intellectual property law from a comparative standpoint, the U.S. approach, I believe, is largely about competition. That's the underlying norm. And the European approach, for lack of a better adjective, has largely been about individual rights, whether it's in the moral rights tradition, for example, that you see a copyright or even some notions of inventor's rights that you see in some nation forum in some European countries. Just to give you two implications of that contrast, one is the way in which we think antitrust and competition policy law works in the U.S. and the European Union.

The European Union, as we've seen, has tended to be very aggressive on what we would call competition policy issues; i.e., take the Microsoft case as one example, and there are lots of other examples which follow in that line.<sup>31</sup> And the reason why we see that in Europe and not so much in the U.S. -- that case pretty much petered out -- is that U.S. intellectual property laws incorporate a lot of pro-competition values. For example, the idea expression distinction, the way we think about fair use, the way we think about experimental use. For example, in patent law, the way we think about fair use in trademark law recognizes competition within the structure of intellectual property, while the European approach has been more of an individual rights perspective, and therefore it's left open the possibility of antitrust-like approaches.<sup>32</sup>

Another implication of this exceptionalism is that the spate of Supreme Court cases that deal with patent law specifically in the last couple of years.<sup>33</sup> I think a lot of those cases actually show a real inclination to [talk] about intellectual property law in terms of competition or competitive values rather than just simply pure property rights that are meant for exclusionary purposes. That right to exclude is important, but it's there in order to create markets and create competition.

So, I want to spend the rest of my time, then, talking about two aspects of this, both the idea of intellectual property as about competition or about competitive regulation, both as a descriptive claim and then as a normative claim. As a descriptive claim, intellectual property as competition, to me, makes sense. I mean, when I think back about teaching intellectual property, the first time I taught it I used a book called *Legal Regulation of the Competitive Process*.<sup>34</sup> Kitch and Perlman's famous casebook that originally came

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<sup>31</sup> Case C-3/37.792, Microsoft, Commission Decision of 24 Mar 2004, available at <http://www.europa.eu.int/comm/competition/antitrust/cases/decisions/37792/en.pdf> (last visited Mar 28, 2008).

<sup>32</sup> See, e.g., Edward Lee, *The New Canon: Using or Misusing Foreign Law to Decide Domestic Intellectual Property Claims*, 46 HARV. INT'L L.J. 1, 20 (2005).

<sup>33</sup> See, e.g., KSR Int'l Co. v. Teleflex, Inc., 127 S.Ct. 1727 (2007); MedImmune, Inc. v. Genentech, Inc., 127 S.Ct. 764 (2007); eBay, Inc. v. MercExchange, 547 U.S. 388 (2006).

<sup>34</sup> EDMUND W. KITCH & HARVEY S. PEARLMAN, *LEGAL REGULATION OF THE COMPETITIVE PROCESS* (1st ed. 1972) (currently published as EDMUND W. KITCH & HARVEY S. PEARLMAN, *INTELLECTUAL PROPERTY AND UNFAIR COMPETITION* (5th ed. 1998)).

out in 1972 under that title, I think came out in its fifth edition in 1999 under the rubric of intellectual property; an interesting title change which I'm sure the marketing folks at Foundation had a lot to do with, but it also had something to do with the change in weather and how we talked about these issues in the 1990s. But legal regulation of the competitive process seems very compelling as an overarching theme for what unites patents, copyrights, trademarks, trade secrets and all these other doctrines that we talk about as intellectual property.

As you look at some of the developments within U.S. intellectual property law, a lot of it has occurred in the context of trade. There's a lot that's been written, [including] a very important and very interesting and excellent article by Adam about Jefferson's view on patent law.<sup>35</sup> But there's also Hamilton's view on patent law, and Hamilton's view on patent law was to recognize something called the patent of importation that would allow somebody, a U.S. citizen, to go overseas, see how things work in English or other industries, and bring back that knowledge to the U.S. and patent it without having any problems with infringement of the foreign knowledge.<sup>36</sup> The idea was the patent systems promoted trade, promoted competition, promoted innovation, promoted a form of competition, in Hamilton's view.

And when you think about the I.P. Clause itself in the Constitution, and there's a lot of very interesting and very important discussion among academics and practitioners about the relationship between the I.P. Clause and the Commerce Clause, one thing they do have in common was to create a unified national market. That was the underlying conception behind both of those clauses, the Commerce Clause certainly, and the Intellectual Property Clause often arising in situations involving preemption against balkanization by state I.P. law. So as a descriptive claim, I think there's

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<sup>35</sup> See Adam Mosoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent "Privilege" Historical Context*, 92 CORNELL L. REV. 953 (2007).

<sup>36</sup> Edward C. Walterscheid, *Conforming the General Welfare Clause and the Intellectual Property Clause*, 13 HARV. J.L. & TECH. 88, 108 (discussing *Report on the Subject of Manufacturers*, 2d Cong. (1791) (statement of Alexander Hamilton, Secretary of Treasury)).

a lot of ground to think about intellectual property as a form of competitive regulation.<sup>37</sup>

How about as a normative claim? I think as a normative claim, it's very compelling. I think as a normative claim, we are saying that intellectual property law is about competitive values, and the question is what types of competition do we want? The claim that intellectual property is not a monopoly privilege in some ways is a ho-hum claim, a very important one, but it's a ho-hum claim from the perspective of antitrust law. Antitrust law has, especially in very recent years, made, very saliently, the point that intellectual property is not a monopoly. It is a set of rights, but it's not necessarily a monopoly in the antitrust case. See, for example, the recent *Independent Ink* decision by the Supreme Court in 2006.<sup>38</sup>

Okay, so as a normative claim, we're talking about competition, and then the question is what are the values of competition? I'll be very quick and wrap this up now. The first value that I want to talk about is one of openness and transparency. This is where you think a lot about debates in copyright, for example, especially the relationships between copyright and free speech, and copyrights and legislative politics become very important. But what connects the two is the notion of copyright as about markets, much as the First Amendment is about the marketplace of ideas. And they both should be thought of in tandem, in trying to promote values of competition, which have obligations for how we think about things like the idea expression distinction, fair use and also how we think about copyright term extension, where we think about the legislative politics intervening in some ways in the operation of competitive markets.

And my last point about this is some recent patent cases. This is sort of emphasizing why the Supreme Court has taken some very interesting cases in the last couple of terms on patent law. There's a very interesting one this term as well that I'll talk about. But the three big cases: eBay, having to do with injunctive relief even though it's often viewed as a sideswipe to property rights, the

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<sup>37</sup> See Federal Trade Commission, *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy*, <http://www.ftc.gov/opp/intellect>.

<sup>38</sup> *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006).

underlying the normative claim that eBay is one about competition.<sup>39</sup> We don't want the equivalent of somebody who has a patent on an item to disrupt the competitive marketplace in certain ways, and it's recognizing, at least to the remedies aspect of patent law, some limits on that ability.

The same thing in the *MedImmune* case, recognizing some Article 3 standing issues raised by a patent licensee bringing a declaratory judgment to challenge the validity of a patent.<sup>40</sup> The Court very accurately and very correctly recognized that a patent licensee can challenge the validity of a patent even if there is no *bona fide* dispute regarding the contract.<sup>41</sup> I think they did articulate some very important competitive values in that case.

And finally, the real shocker case, I guess, for most people, a controversial case, *KSR v. Teleflex*.<sup>42</sup> That was decided last term, with the decision just coming down in April 2007. A lot of questions about the substantive value of the opinion, whether the Court really changed anything or upset the apple cart even more. But certainly throughout that opinion there is some notion, especially in the non-obviousness doctrine, about competition.

And then the last case I want to talk about -- and here, just a disclosure; I did write an *amicus* brief for the American Antitrust Institute in this case<sup>43</sup> -- the *Quanta v. LG Electronics* case,<sup>44</sup> which the Court will hear oral arguments on in January. That has to do with the first sale doctrine and the ability of a patent owner to impose conditions in a patent license that can be enforced against subsequent licensees or purchasers of a patented item. And the whole

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<sup>39</sup> See Gregory A. Castanias et al., *A Review of Recent Decisions of the United States Court of Appeals for the Federal Circuit: Area Summary: Survey of the Federal Circuit's Patent Law Decisions in 2006: A New Chapter in the Ongoing Dialogue with the Supreme Court*, 56 AM. U.L. REV. 793, 812 (2007).

<sup>40</sup> *MedImmune, Inc. v. Genentech, Inc.*, 127 S.Ct. 764 (2007).

<sup>41</sup> *Id.* at 777 (holding that *MedImmune* was not required to terminate its license agreement before seeking a declaratory judgment that the underlying patent is invalid.)

<sup>42</sup> *KSR Int'l Co. v. Teleflex, Inc.*, 127 S.Ct. 1727 (2007).

<sup>43</sup> Brief for American Antitrust Institute as Amicus Curiae Supporting Petitioners, *Quanta Computer, Inc. v. LG Elecs., Inc.* (U.S. Nov. 13, 2007) (No. 06-937), 2007 WL 3407023.

<sup>44</sup> *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), cert. granted *sub nom.* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 731 (U.S. Sept. 25, 2007) (No. 06-937).

notion of the first sale doctrine as it's raised in the particular case, again, has very substantively to do with competition values.

So, very briefly to conclude, I started with a quote from Churchill. Let me end with a bad quote, maybe, from the playwright Molière. In one of his plays, one of his characters contemplates how he suddenly realizes one day that all his life he has been speaking prose.<sup>45</sup> In a similar way the courts have been talking about rights and property, but really what they've been speaking about is competition.

Thank you.

(Applause.)

PROFESSOR KIEFF: Thanks. It's always great to be back with the gang here, the Federalist Society and, of course, each of these guys on the panel have really been fun working with, Shubha and Adam and Steve and Judge Kavanaugh. Hopefully, we'll try to keep this fast-paced and maybe a little controversial. What I want to try to do is highlight basically three topics. One is, what difference does all of this make to talk about property or regulation, property or so-called liability rule treatment? What's the difference? What does it really mean to markets? What does it really mean to us? Number two, let's take a slightly different take on why we want to have I.P. And number three, let's highlight some differences between different types of the I.P., like patent and copyright.

So let's begin at the beginning. Let's just notice a few things. We used to have no meaningful patent protection in the basic biotechnology sector before 1980. Instead, some judge made rules that said if your invention kind of "had to do with" life, then that invention was not patentable. The rest of the world, same thing. After 1980, we changed the law. The Supreme Court granted *cert.* in the *Chakrabarty* case.<sup>46</sup> No special exemption in basic biotechnology. Basic biotechnology is open for patents like any other industry. Basic biotechnology patents are now available in the U.S. after 1980. The rest of the world: No change, no basic biotechnology patents. Before and after 1980, U.S., Europe and Japan all had

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<sup>45</sup> MOLIERE, *THE WOULD-BE GENTLEMAN*, act 2 (Morris Bishop, trans., The Modern Library 1957) ("For more than forty years I've been talking prose without any idea of it . . .").

<sup>46</sup> *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).

big pharma, all still have big pharma -- Merck, Pfizer, Roche, T-nabe. But only in the United States, and only after 1980, do you see a massive pool of around 1,500 small- and medium-sized biotech companies. So, adding patents has been correlated in that industry with a drastic increase in competition. That's a difference. That's a difference you can feel. That's a difference for healthcare, and that's a difference for startup companies. That's a difference for competition. New drugs, new devices being brought to market much faster, and a drastic increase in the number of firms and the variance in firm size.

Let's look at another industry. No meaningful patent protection in the United States in the software industry, beginning with the *Benson* decision in the early '70s,<sup>47</sup> and that persists in the United States in the software industry through the '80s, really for the early '90s, finally with the *Alappat* decision in the Federal Circuit in 1996.<sup>48</sup> Now what happened in the United States software industry during that time? Everybody remembers that. We got Microsoft. The absence of patents in software was closely correlated with a single large player, and the presence of patents and biotech was closely correlated with a drastic increase in the number of players, a drastic increase in the amount of competition.

Now, in fact, just the last couple of days I've been in Chicago at a conference at Northwestern looking at the *Microsoft* anti-trust case.<sup>49</sup> People on both sides of the case seem to agree, actually in the U.S. and in Europe, the remedies seem to have not made much of a difference to the market, although Microsoft does now seem to be getting a lot of competition, a lot more credible threats.<sup>50</sup> Who is the number one threat for Microsoft today? That's Google, and Google is a company built around search technology, technology that was patented and is patented. Google has a very serious patent portfolio that it takes very seriously.<sup>51</sup> And so, the threat to Microsoft

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<sup>47</sup> *Gottschalk v. Benson*, 409 U.S. 63 (1972).

<sup>48</sup> *In re Alappat*, 33 F.3d 1526 (1994).

<sup>49</sup> *United States v. Microsoft*, 253 F.3d 34 (D.C. Cir. 2001).

<sup>50</sup> See, e.g., Randall Stross, *Maybe Microsoft Should Stalk Different Prey*, N.Y. TIMES, Feb. 24, 2008, § BU at 4.

<sup>51</sup> See, e.g., W.B. Gardner, *Author: Google's Patents Reveal Strategy to Beat Microsoft*, TECHWEB, Sept. 30, 2005, available at <http://www.informationweek.com/story/showArticle.jhtml?articleID=171202284>.

is not coming from regulation. That's not making any difference at all. It's costing lot of money, but it's not doing a lot of benefit.

The threat is coming from Google, with patented technologies, and the patents on that technology allowed Google to raise venture capital to form itself into a firm and to take the firm public, a firm that now has a market cap, one of the largest firms in the world.<sup>52</sup> Now, that window of time in which one could get real patents on software, which opened in '96, is actually just closed this year because of Federal Circuit cases<sup>53</sup> on Section 101 of the Patent Act,<sup>54</sup> and so it'll be interesting to do some studies over time whether, in fact, now that we close out patents and software, do we actually now get less competition?

Let's also then talk about a different take. So, if patents increase competition and patents increase commercialization, how do they do it? A lot of folks talk about I.P. rights as tools for getting inventions made, but what I want to think about is getting inventions put to use. And think about the mechanism here. If we turn off all the lights in this room, and you give me a flashlight, everybody in this room knows exactly where I am, and everybody in this room knows exactly where everybody else in this room is going to be if they're interested in that flashlight. They're going to show up and talk to me because I'm holding the flashlight. Patents are like that. They're a beacon in a dark room. That right to exclude forces all the complementary users of the technology to come talk to the patentee, and thereby talk to each other.

This is not a theory of control and power. It's not like the patentee is going to control that conversation. The person who's going to control the conversation is the person with the best bargaining power. Maybe that's the venture capitalist. Maybe that's the patentee. Maybe that's a source of labor. Maybe that's somebody else. But that patent right gets that conversation started precisely because that patent right is a right to exclude. And it gets a conversation

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<sup>52</sup> See, e.g., Andrew Clark, *Google Hits \$219bn in Success Search: Internet Firm's Market Value Puts it Among America's Top Five Companies and it Plans to Get Bigger Still*, THE GUARDIAN (London), Nov. 1, 2007, at 3, available at <http://www.guardian.co.uk/technology/2007/nov/01/news.google>.

<sup>53</sup> See, e.g., *In Re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007); *In Re Nuijten*, 500 F.3d 1346 (Fed. Cir. 2007).

<sup>54</sup> 35 U.S.C. § 101 (2005).

consummated successfully in a deal because, if we have so-called liability rule treatment, a rule that says hey, look, hey, Judge Kavanaugh, look, Adam and I've been negotiating for years. He's irrational, you've got to step in and set the right price. That's liability rule treatment. But if we have a right to exclude, the judge is going to say look, guys, one of you has a property right; keep talking to each other.

Liability rule treatment means that a court sets the price. Property rule treatment means we set the price. Well, if I know that the judge is going to intervene when Adam and I don't agree, I'm going to make sure Adam and I don't agree. It's going to be like the Three Stooges. I'm going to go poke him in the eyes and step on his toes and call him names. I'm going to totally annoy him so that I can stand up in front of the judge and say, look how annoyed he is; he's acting irrationally. But if we have property rule treatment, then we're going to get a deal done because it's going to be in our best interest to get the deal done.

Now, let's look at how some of this plays out in different I.P. regimes today. There is basically no fair use exemption, basically no experimental use exemption in the patent regime.<sup>55</sup> Basically, any use is infringing. And yet, you can go to the biology department at GW University, and what do you find? Basic biologists engaging in rampant infringement. All sorts of infringement is going on in the academic sector in basic biotechnology, and it's okay. And why is it okay? Because the cost of enforcing patents is very high – around \$5 million – and the benefit of suing a basic scientist for infringement is very low. It's like, I don't know, a \$1.95? So, who's going to spend \$5 million to get \$1.95 back? That's like just opening up all of your veins and watching the blood flow out.

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<sup>55</sup> "Tests, demonstrations, and experiments . . . [which] are in keeping with the legitimate business of the . . . [alleged infringer]" are infringements for which "[e]xperimental use is not a defense." *Roche Prod., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed Cir. 1984) (holding that courts should not "construe the experimental use rule so broadly as to allow a violation of the patent laws in the guise of 'scientific inquiry,' when that inquiry has definite, cognizable, and not insubstantial commercial purposes") (superseded on other grounds by 35 U.S.C. § 271(e) (1994)) (citing *Pitcairn v. United States*, 547 F.2d 1106, 1125-26 (Fed Cir. 1976)); *Embrex, Inc. v. Service Eng'g Corp.*, 216 F.3d 1343, 1349 (Fed Cir. 2000) (noting that the court has construed the experimental use exception very narrowly).

(Laughter.)

PROFESSOR KIEFF: People in business don't do that. They don't spend that kind of money to get that kind of reward. So, there is radical under-enforcement in the patent sector because - and it's exciting -

(Laughter.)

PROFESSOR KIEFF: -- because the patentees bear the cost of enforcement.

But look at copyright. Copyright is a very different industry. In copyright, you have a so-called fair use exemption that's designed to get that fair use done, and yet you've got criminal liability and statutory damages. So, every one of us -- think about the social cost of this. Every time we rent a DVD and we want to fast-forward through that FBI warning, but instead we have to watch that FBI warning. There's criminal liability -- and by the way, these days also an Interpol warning. Just add up all those minutes of time that get wasted because of criminal liability and copyright.

What happens is, it's got over-enforcement in copyright, so you've got that poor lady up in Minnesota, and she's paying hundreds of thousands -- or she's been ordered to pay -- several hundred thousand dollars in statutory damages for copyright infringement.<sup>56</sup>

This is a difference in approach. Patent system is a more property rights approach. It's an approach that says absolute right to exclude, but the owner bears the cost of enforcement. The copyright system is one of these so-called fair and balanced approaches. It's designed to be balanced. It's designed to be a compromise. And by the way, who wants to sound like we don't want to compromise, but the problem with compromise is it leads to incoherence. It leads to a system that's really hard for the people in the marketplace to deal with.

It's hard for people to know what use is going to be fair, and it's hard for people to know what use is going to be criminal, and the consequences are extreme. It's either free or several hundred thousand dollars and jail time. That kind of decision making process is very, very hard for market actors to use and very, very hard for customers to use. But by the way, it's pretty easy for interest groups to

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<sup>56</sup> *Virgin Records Am. Inc. v. Thomas*, No. 06-cv-1497, 2007 WL 2826645 (D. Minn., Oct. 5, 2007)

use, and I think that's why interest groups strike those compromises in Congress. Now, there are rational reasons to do that, and I don't want to beat up on the copyright system, but I do want to point out that there are different approaches we can take, and those different approaches will have a different impact on the ability for market actors to compete with each other and to get new ideas actually put to use in the market.

Thanks a lot.

(Applause.)

PROFESSOR TEPP: Thank you very much, Judge Kavanaugh, for your kind introduction. And thank you to the Federalist Society for inviting me to present at this tremendous panel discussion and anniversary convention. It is a true honor for me to be on this panel and in the larger company of all the speakers here this year.

Let me begin by disclaiming my remarks from being the views of the Copyright Office or any branch or entity of the federal government.

I wasn't planning to quote Winston Churchill, but Shubha inspired me to. As one who has reviewed the history of U.S. copyright law, it occurred to me that Winston Churchill might well have been talking about U.S. copyright law when he said that America always does the right thing, but only after trying every other option first.<sup>57</sup>

(Laughter.)

PROFESSOR TEPP: And indeed, in the history of U.S. copyright law, particularly in its first century -- American exceptionalism meant isolationism. The Federal Copyright Act of 1790 is marked by formalities, mandatory notice of copyright,<sup>58</sup> registration which included deposit requirements,<sup>59</sup> and renewal.<sup>60</sup> Failure to do any of these things could cost you the entirety of your rights.<sup>61</sup> Similarly, for the first 101 years of the federal copyright statute, the

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<sup>57</sup> A LEXICON OF 4000 CHURCHILL QUOTATIONS (Richard Langworth ed., forthcoming 2008) (Noting that quotation is included tentatively because Churchill never so stated publicly, but may have made such a statement privately).

<sup>58</sup> 1 Stat. 124 (1790).

<sup>59</sup> 1 Stat. 124.

<sup>60</sup> 1 Stat. 124.

<sup>61</sup> 1 Stat. 124.

United States provided absolutely no protection to authors outside the United States.<sup>62</sup>

The Berne Convention, the leading international convention setting the normative standards for basic copyright protection was created in 1886.<sup>63</sup> With the Berne Convention, international norms were being set, eschewing formalities and offering national treatment to the authors of foreign countries. During the time that the Berne Convention was agreed to and implemented by various countries, the United States was busy centralizing its registration system in the federal Copyright Office. In 1891 the United States finally offered copyright protection to foreign works<sup>64</sup> and provided national protection, to foreign authors.<sup>65</sup> However, the United States did so with an unapologetically protectionist provision known as the Manufacturing Clause which conditioned the protection of works by foreign authors on the domestic manufacture of these works – i.e., any books, photographs, lithographs, etc., had to be manufactured in the U.S to receive protection.<sup>66</sup>

The Manufacturing Clause, you may or may not be shocked to learn, remained in full force until 1955, at which time the United States joined its first global copyright convention, the Universal Copyright Convention;<sup>67</sup> that, by the way, is the real UCC. Ironically, thereafter the Manufacturing Clause remained in U.S. law, but it was applicable only to U.S. authors, and it remained so until the Reagan administration at the end of 1986, when it finally expired.<sup>68</sup> Finally, the U.S. did join the Berne Convention, but not until 1988,<sup>69</sup> sixty-seven years after the founding of the Federalist Society.

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<sup>62</sup> 26 Stat. 1106 (1891).

<sup>63</sup> Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 25 U.S.T.1341, 828 U.N.T.S. 221 (as last revisited July 24, 1971); *see also* Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988).

<sup>64</sup> 26 Stat. 1109 (1891).

<sup>65</sup> 26 Stat. 1107 (1891).

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

<sup>67</sup> Universal Copyright Convention, Sept. 6, 1952, 25 U.S.T. 1341, T.I.A.S. 7868, 1 B.D.I.E.L. 813 (as last revisited July 24, 1971).

<sup>68</sup> 26 Stat. 1106, 1107-08 (1891) (expired 1986).

<sup>69</sup> Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (codified as amended in scattered sections of 17 U.S.C.).

But in the short time since 1988, the United States has gone through a remarkable transformation in its copyright law, particularly vis-à-vis the international community. The United States has joined not only the Berne Convention, but in doing so it has abolished, by and large, mandatory copyright notice as well as registration. Renewal requirements are no longer applicable to works created after, or that entered federal copyright protection after January 1, 1978.<sup>70</sup> For pre-1978 works, renewal became automatic in 1992.<sup>71</sup> By the end of the 20th century, the U.S. had completed its transformation from copyright pariah into a, if not the, global leader in copyright protection, as evidenced by the United States' leadership in negotiating and implementing the TRIPS agreement that was part of the Uruguay Round of the WTO,<sup>72</sup> the WIPO Internet Treaties in 1996,<sup>73</sup> and free trade agreements that the United States has been very busy negotiating up until recently with numerous partners in every region of the world.<sup>74</sup>

There has, however, been one consistency throughout the entire history of U.S. copyright law: the United States' property-rights, market-based approach. As you're all probably familiar, Article 1, Section 8, Clause 8, properly known as the Copyright and Patent Clause, evidences this approach in its very words: "Congress is authorized to promote the progress of science and useful arts by securing, for a limited time, to authors and inventors the exclusive right to their respective writings and discoveries."<sup>75</sup> And so, in comparing modern U.S. copyright law to the different types of theories which undergird copyright laws around the world, I think we see some interesting approaches.

The continental approach, most commonly attributed to France, is characterized usually as a moral rights regime rather than

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<sup>70</sup> Copyright Amendments Act of 1992, 102 Pub. L. No. 307, 106 Stat. 264 (codified as amended in scattered sections of 17 U.S.C.).

<sup>71</sup> 102 Pub. L. No. 307.

<sup>72</sup> Agreement on Trade Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 108 Stat. 4814, 33 I.L.M. 1125, 1197.

<sup>73</sup> World Intellectual Property Organization Copyright Treaty, Dec. 20, 1996, S. TREATY DOC. NO. 105-17, 36 I.L.M. 65, 36 I.L.M. 76.

<sup>74</sup> See Press Release, The White House, Fact Sheet: Free Trade Agreements Vital to U.S. Econ. Growth and Nat'l Security (Feb. 26, 2008), (available at <http://www.whitehouse.gov/news/releases/2008/02/print/20080226-4.html>).

<sup>75</sup> U.S. CONST. art. I, §8, cl.8.

an economic rights regime, which you see in the U.S. That is somewhat counter-intuitively not necessarily indicative that the U.S. approach gives more protection. In fact, in some regards I think you could argue that the French approach gives more protection. Moral rights are not economic rights, and, therefore, are neither alienable, nor subject to the sort of exceptions we see in the U.S. and other countries' laws, such as the First Sale Doctrine or similar exemptions that have already been alluded to. The moral right approach, of course, results in a preference for the author over the publisher and focuses more on the individual creator, rather than the right holder as distributor, and the general public.

Copyright in the United States is perceived as something of a trade-off. The author receives their exclusive rights from which they can derive economic benefit as both a reward for their creation and an incentive for further creation. The publishers receive similar rewards for distributing works and making them available to the public at large. The public, of course, benefits from the creation and distribution of works, but also after a period of time, those works enter the public domain and are no longer protected by copyright.

In many countries around the world, particularly in East Asia, copyright is not seen as a public good. It's seen as largely a private good, and the consequences of that tend to be little or no criminal provisions for enforcement of copyright. Even where there are criminal provisions, they are often subject to a requirement that the aggrieved right holder file a formal complaint with the prosecutor before the prosecutor is authorized to actually indict the defendant. There is no *ex officio* authority of the prosecutors in those countries, but the U.S. is trying its best to change that, of course.

Finally, I think this goes somewhat to Shubha's point, there are certainly countries in the world that view copyright not as an engine of creativity but perhaps, more cynically, as simply a wealth transfer system of trade regulation. When one removes from the analysis of the theoretical basis of copyright the incentive to create and the benefit the public receives from the creation of new works, then it makes perfect sense to suggest new forms of quasi-intellectual property. For example, some countries want to see protection for traditional knowledge and folklore, which are not the results of new authorship, but rather are the creation of authors whose names are lost in antiquity. Proposals for protection of these

types of works are being brought to the world stage. They tend to be couched in intellectual property terms, and yet the theoretical basis for them is wholly inconsistent with any certainly American notion of copyright that is based on the idea of promoting the public good through economic incentives for the creation and distribution of new works.

Thank you.

(Applause.)

JUDGE KAVANAUGH: People can start lining up for questions, and I'm seeing several. I guess we'll start there. I might take a couple questions and let the panelists kind of field them together rather than just one, so why don't we take a couple here to start.

AUDIENCE PARTICIPANT: Recently, there have been some concerns raised, and some would argue, attacks, on the strengths of patent rights. One sees some negative comments, for example, by Justice Breyer about bad patents and weak patents.<sup>76</sup> You see articles by Professor Carl Shapiro about patent rights being probabilistic,<sup>77</sup> and even some public choice authors who say that, well, given the rent-seeking activity involved in establishing a patent law, and given the exigencies and weaknesses of the Patent Office, you get many bad patents out there.<sup>78</sup> So maybe, in some sense, we should be somewhat skeptical about these rights. There are some other people who would disagree with this trend, and I wonder, generally, what Professor Kieff and perhaps what Professor Ghosh might have to say about these recent developments, and whether they portend any potential future appellate court, even the Supreme Court, weakening of the fabric of patent law.

JUDGE KAVANAUGH: Okay. Let's take another two, and we'll [give] it to the panel.

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<sup>76</sup> Patrick A. Doody, *What Is a Bad Patent?*, 73 PATENT, TRADEMARK & COPYRIGHT J. 525, n.35 (2007).

<sup>77</sup> See, e.g., Carl Shapiro, *Antitrust Limits to Patent Settlements*, 34 RAND J. ECON. 391, 395 (2003).

<sup>78</sup> See, e.g., Maureen A. O'Rourke, *Toward a Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177, 1177-78 (2000) (arguing that old intellectual property doctrines are "ill-equipped" to deal with modern technology); see also David B. Conrad, *Mining the Patent Thicket: The Supreme Court's Rejection of the Automatic Injunction Rule in eBay v. MercExchange*, 26 REV. LITIG. 119, 141-43 (2007).

AUDIENCE PARTICIPANT: My question may actually be (inaudible) a little bit, particularly with Professor Kieff's notions, that I like and I think that are good in a perfect world as far as patents as a market. You seem to end up now with a significant free rider issue with patent controls where somebody, for example, that has a large, fairly incomprehensible family of patents directed to a phone lottery system, systemically enforces them against pretty much anybody who has a phone system that says press one for this, press two for something else.

Is there a good constitutional way, without over-regulating -- and obviously patent controls is a big enough issue, and I don't expect a coherent answer here necessarily -- how can a dynamic market that promotes the kind of competition we want and the kind of innovation we want deal with and get rid of this free rider?

JUDGE KAVANAUGH: Okay, let's take one more before we have a panelist's response.

AUDIENCE PARTICIPANT: Okay. My question responds to -- well, actually, it's a question for Professor Kieff primarily about the research exemption or lack of research exemption under patent law. Of course, under Section 271(e)(1), there is an exemption for the development of information to be submitted under drug regulatory laws,<sup>79</sup> and the Supreme Court in the *Merck* case rather than quite broadly.<sup>80</sup> It appeared to me that because so much of our, so much of drugs developed are subject to regulation, that that almost comprises a research exemption, at least for drugs. And so I wanted to ask the professor and the whole panel whether you agree and whether you think that there should be such a research exemption.

JUDGE KAVANAUGH: Okay, why don't we start with the first question.

SPEAKER: Will there be more questions?

JUDGE KAVANAUGH: Yes. Yes, we just wanted to get a couple in the mix so they could handle them together. But the first question, I think, was about some of the negative comments on patent rights, the second one about the free rider problem, and the third one about the lack of research exemptions. So, why don't I throw it to you all to handle this.

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<sup>79</sup> 35 U.S.C. § 271(e)(1) (2008).

<sup>80</sup> *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005).

PROFESSOR MOSSOFF: Well, I'll take the first stab at it even though it wasn't directed at me. So, I'll free ride off your questions posed to Professors Kieff and Ghosh.

I just want to note with respect to some of the problems highlighted in the first question that there's a tendency to think that these are uniquely modern problems, patent controls and things of that sort, although I'm sure Professor Kieff and Professor Ghosh will talk effectively about that. And actually, what one finds, when one looks at the historical record is that these problems have always existed. I have found in legislative records and in court opinions from the 19th century people complaining about the exact type of behavior that we now talk about, such as trolls.

There were people who are holding up the deployment of barbed wire because some people patented barbed wire, and they're having problems, these farmers out in the west, because there are these people who don't make barbed wire, but are, nonetheless, forcing them to pay all these licensing fees, and this is a problem. This was preventing the effective creation of the ranches and stuff in the west. And yet the patent system has survived for 200 years, and you've done an amazing job, I think, in promoting innovation and new commercial products, despite these problems.

So, my only suggestion from an historical perspective is to always recognize that all things old are new again and that a lot of these problems we're talking about today have always existed, and in fact we should probably look back a little bit more and realize that these problems were dealt with before and perhaps we should deal with them in the same ways, if not new and better ways, that we can think of now.

PROFESSOR GHOSH: I'll take them in reverse order. [First] [a]bout the *Merck* case, and that it was a pretty broad exception.<sup>81</sup> I think Justice Scalia and the Court in that particular decision were looking at the competitive structure of that particular market and thought that there was a need for that broad exception. I'll be glad to debate that if somebody has any further questions, but I think the simple answer to that question is I think it was pretty broad, and I also would tend to think it was fairly appropriate even though it does create some questions about how far it reaches.

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<sup>81</sup> 545 U.S. at 193.

The criticisms of bad patents -- well, we don't want the patent system to be a registration system. I think that's sort of what's at the back of all of this. So that means we have to have some sort of filter that says this deserves a patent or that doesn't deserve a patent, and I don't know the kinds of probabilistic patents is more of a conceptual problem, a conceptual sort of notion of patent law. But I think there is there is sort of a fundamental question of how you're determining what a good patent or a bad patent is.

And this gets me to the question of patent trolling and constitutional ways to deal with them. I don't know if there is a constitutional way to deal with them. I do view it as largely a legislative approach, which raises the question that I think has come up a number of discussions. It came up in Steve's comments about rent seeking, right? The problem with rent seeking -- here, I'll put on a little bit of my kind of economist hat -- is competitive markets also are about rent seeking. I mean, the real question is what we consider the appropriate way to appropriate these types of rents. I think that's sort of -- we need to kind of rethink the way in which the current patent system, and maybe the I.P. system, creates incentives for sort of bad or inappropriate types of rent seeking.

PROFESSOR KIEFF: So, I'll try to go fast and leave more time because we've got a great line of questioners, and I don't want to cut them off. A couple of ways to think about these issues. You know, it would be great if we had a registration system for patents. I think that would be wonderful. When you think about what you want property rights to do, you want them to do a couple of things. Number one, you want property rights to not issue on stuff folks otherwise are doing. That's so that you can avoid the so-called hold up effect, right? You don't want to let somebody invest in an area and then give a patent on it because then, their investment gets held up. All right, that's fine. That's what well functioning, novelty, non-obviousness, prior art rules do. They say, look, if folks are out there doing this, no patent.

Those are not rules designed to reward inventors and doing new things. They're not designed to protect inventors, they're designed to protect the rest of us from the patent. If we have verifiable investments on the facts, [and] we can prove it, [there should be] no

patent. I've got no problem with that. I think that's great. Then you want disclosure rules, the 112 rules in patent law,<sup>82</sup> to say, "Hey, look, and here's the forbidden turf on a going-forward basis, so don't tread on this turf without recognizing your stepping on somebody's property right." And I think that registering and publishing patents would put the world on notice.

Now, the argument is that I take it that a so-called mere registration system is going to lead to kind of paper patents, patents not worth the paper they're printed on, and we're not going to know unless the Patent Office tells us up front whether this paper is really worth something. I think that's just balderdash. The largest capital market in the history of the world exists around a mere registration system. The SEC could register securities filings and tell us whether they're good or bad to invest in, and yet we do perfectly well figuring that out for ourselves.

(Applause.)

PROFESSOR KIEFF: The SEC does not do so-called substance review. It does form review only, and I think that's really all the Patent Office is designed to do. The people who have the best information needed to adjudicate the questions about the prior art are the people out there in the market, and those people can bring that information to bear in a litigation proceeding.

Now, what do you want to do? You want to provide them with an incentive to bring it to bear, and that maybe means we should have symmetry of fee shifting in patents, but that's a much easier way to deal with the problem and a much more direct way to deal with the problem of so-called trolls and at the same time deal with the problem of so-called bad patents and at the same time deal with the so-called problem of uncertainty.

Now, you know, probabilistic is really just a conclusion, and I think what's really going on -- as is troll, by the way; "troll" is like a synonym for the guy suing me, right? I'm always good and the guy who is suing me is always a troll or vice versa -- but it seems to me that if you really want to take seriously these issues, you should notice that the trend in Congress with the House bill, in the Supreme Court, and at the Patent Office with the new rules against patents in a variety of areas is a trend towards flexibility

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<sup>82</sup> 35 U.S.C. § 112 (2008).

and discretion.<sup>83</sup> Flexibility sounds comfortable and it sounds good - who wants to be rigid, after all? It sounds sexy. It sounds cool. But the problem with flexibility is that it has a giant Achilles' heel. Flexibility means that the people with the best litigation and lobbying budgets win, and the little guys lose, and that is a public choice nightmare.

AUDIENCE PARTICIPANT: (off mic.) -- orthopedic surgeon. Recently the government in Connecticut took private property for private use,<sup>84</sup> and in my curmudgeonly paranoid attitude towards things the government might do to me and my family, I imagine a scenario where a court could allow taking of intellectual property for public or private use and set the price that the owner of that intellectual property would get. Is there much legal thinking in America today that would support such a taking?

JUDGE KAVANAUGH: We'll take that question. Let's take one more (off mic.)

AUDIENCE PARTICIPANT: Good morning. I'd like to note we're in the Chinese Room talking about intellectual property.

(Laughter.)

AUDIENCE PARTICIPANT: Going back to when the colonies united to leave the Crown, I just want to know what the word exceptionalism means to this panel. I think I'm missing out on something, and my limited knowledge of intellectual property law - I've lobbied on internet domain (inaudible) trademarks, typical copyright issues, and now patent law both here and overseas, and I'm just wondering, if we go back to the British system of privilege, which we thought was bunk in this country. Washington had to give Jefferson the patent rights, the patent function in the State Department because if he gave it to Hamilton and Treasury, Jefferson would have run off and not been a part of the first government.<sup>85</sup> That's (inaudible) spoke about Hamilton from that point of view.

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<sup>83</sup> See Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007); Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications, 72 Fed. Reg. 47,716 (Aug. 21, 2007) (to be codified at 37 C.F.R. pt. 1).

<sup>84</sup> *Kelo v. City of New London*, 545 U.S. 469 (2005).

<sup>85</sup> See generally Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patent Rights? Reevaluating the Patent "Privilege" in Historical Context*, 92 CORNELL L. REV. 953 (2007).

You could go back to the Venetians a few centuries ago. You could go back to the Chinese or that part of the world a thousand years ago. They were inventing all kinds of things, usually for war or farming. It sounds like the same kind of stuff is being invented today; seed patents, technology to fight terrorism, and so on.

So go back a thousand years ago and look forward to Mongolia, a current country in that part of the world. We talk about privilege in the UK. We talk about individuals and property rights and commerce here in this country. The Mongolians, with their relatively new constitution, guess where they put copyright and patents? Does anyone know? I think it might be the most evolved view. It's a human right. It's in the Human Right Clause of the Mongolian Constitution.<sup>86</sup>

Now, obviously the market in Mongolia is not great for intellectual property, at least not yet; maybe mining rights or the expiration of raw materials. I'd like to know from the panel what you mean by exceptionalism. Is that a pejorative term criticizing America? Are we the loser or our own? Is it exceptional but is it a really refined, strong system, a strong pole the world should harmonize up to? And I ask this in the context of patent reform, legislation before the Congress and rules that come out of the Patent Office, and to some extent the court decisions, that, do we harmonize the U.S. system down to the lower standard of the rest of the world, or do we continue to encourage them through bilateral multilevel treaties and harmonize up?

Thank you.

JUDGE KAVANAUGH: Let's start with the exceptionalism question. Maybe, Steve, you could address that question first from your perspective and what you've seen both on the Senate Judiciary Committee and in your current role in the Copyright Office.

PROFESSOR TEPP: Sure. Well, when you go back to compare early colonial law to the law of the UK, I think U.S. copyright law, like most fields of law, emulated the law of the UK very closely. Great Britain had what is generally recognized as the first copyright statute anywhere in the world in the Statute of Anne in

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<sup>86</sup> CONSTITUTION OF MONGOLIA, art. XVI, §8.

1710.<sup>87</sup> Even prior to the ratification of the Constitution, several of the states had their own copyright statutes which were not far off from what we saw in the Statute of Anne,<sup>88</sup> or the first federal Copyright Act in 1790.<sup>89</sup>

However, I think when one compares the U.S. approach to a number of other approaches that exist in the world that I tried to outline in my opening remarks, I think one can see a distinction in the American approach. The American approach was to remain, as I said, largely isolationist through the 19th century, and based on formalities well into the 20th century, and then changing dramatically in the late 20th century. Now, one could, within the context of the history of U.S. copyright law, cynically say that exceptionalism simply means America was different among the other leading countries. I won't say necessarily better or worse. I didn't mean to suggest, and I hope I didn't suggest, that the American copyright law wasn't sufficiently protective because I think it was a strong copyright law, at least for domestic authors. And surely, the growth of the motion picture industry, the recording industry and, more recently, software industry in the United States to where we have the world's leading industry in all the sectors bespeaks, at least in part, to a strong set of intellectual property protection and copyright protection.

JUDGE KAVANAUGH: Let me throw it to each of the three professors. The question was about exceptionalism or harmonization down. I guess what is up or down depends on your perspective, but each of the three of you comment on that.

PROFESSOR KIEFF: You know, Steve made a point earlier that I just don't want us to gloss over because it's really important. He noted that the so-called French moral rights approach<sup>90</sup> could be seen by some as actually giving more protection than we give in

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<sup>87</sup> British Copyright Act, 1710, 8 Ann. c. 19, §§1-2, available at <http://www.copyrighthistory.com/anne.html>.

<sup>88</sup> RICHARD ROGERS BOWKER, *COPYRIGHT, ITS HISTORY AND ITS LAW: BEING A SUMMARY OF THE PRINCIPLE AND PRACTICE OF COPYRIGHT WITH SPECIAL REFERENCE TO THE AMERICAN CODE OF 1909 AND THE BRITISH ACT OF 1911* 35-36 (1912).

<sup>89</sup> Patent Act of 1790, 1 Stat. 109-112 (1790).

<sup>90</sup> See Jisuk Woo, *Genius with Minimal Originality?: The Continuity and Transformation of the "Authorship" Construct in Copyright Case Law Regarding Computer Software*, 15 ALB. L.J. SCI. & TECH. 109, 110 (2004).

America, and he hinted at why that makes sense. But I just want us to notice and really focus on why it makes sense for us to choose, even though we're "pro-property" in the U.S., to give less.

We get more by giving less. The neat thing about the rights that we do give in the U.S. is that they're transferable, and the horrible or clumsy, terribly clumsy thing about so-called moral rights is you cannot transfer them away.<sup>91</sup> And so, Peter, in answer to your question, harmonizing-up or harmonizing-down exceptionalism, I think the exceptionalism is that we take them seriously, but we don't take them so seriously that people cannot part with them. And what's dangerous with phrases like "human rights" or phrases like "moral rights" is that they're the kinds of things that we usually think folks shouldn't part with, and therefore we don't let them part with, and that makes it really hard for the market to deal with.

PROFESSOR GHOSH: Are we not doing the takings question? Okay. I view the exceptionalism as a positive and what makes the United States approach to I.P. law unique. And also to the extent that it becomes a model that other countries follow, what are the highlights? And I do think that it is the competitive aspects. Just go back to a number of points, I think we have this word "protection", and I just want to put on the table, that we need to think about protective of what? I will just forward that it's not necessarily protective of the individual inventor or the individual creator because often these rights might end up in hands that are outside the individual inventor or individual creator, for good or for bad. I view it as protective of the marketplace.

I know that seems contradictory in some ways because that's not how intellectual property has traditionally been portrayed, but that's what we need to focus on. How it protects and promotes a marketplace for ideas, a marketplace for technology, a marketplace for innovation, and that might involve in some ways offering less protection for inventors and authors in some situations.<sup>92</sup>

PROFESSOR MOSSOFF: Just to bat cleanup, I view exceptionalism largely as a descriptive term. It means "different," and then whether that is good or bad is based upon the types of identification

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<sup>91</sup> See Cyrill P. Rigamonti, *The Conceptual Transformation of Moral Rights*, 55 AM. J. COMP. L. 67, 71-2 (2007).

<sup>92</sup> See generally SUZANNE SCOTCHMER, *INNOVATION AND INCENTIVES* (2006).

of what types of rights, value judgments and, particularly, where are you putting your normative valuations – the market, moral rights and things of that sort. Then you can make the evaluation of whether the exceptionalism is good or bad, but the term “exceptionalism” as such simply identifies the fact that the United States has taken different approaches in a lot of the I.P. regimes – copy-right, patent and trademark – just as a general matter.

And harmonization doesn't necessarily mean increasing or decreasing protection; it just means harmonization and, again, it just depends upon what your focus ultimately should be, whether it's going to be all about the market or whether it's going to be on moral rights. If you're a big advocate for more rights than the recent harmonization in copyright, for example, seems to be a good thing because there seems to be an importation of moral rights conceptions into U.S. copyright law now based upon the Berne Convention.<sup>93</sup>

AUDIENCE PARTICIPANT: I also had a question about takings and appropriate compensation (off mic.)

PROFESSOR GHOSH: Sure. I guess I'll incorporate by reference a debate that Adam and I had at the Federalist Society luncheon a couple of months ago, which I think is online, which resolved all those questions.<sup>94</sup>

(Laughter.)

PROFESSOR GHOSH: It was a tie. Certainly, I am concerned about the *Kelo* case.<sup>95</sup> One of the things I want to emphasize about the *Kelo* case is, one of the things it did do is promote a discussion at the state level about how to restructure eminent domain and the legislative and administrative protections,<sup>96</sup> which I think was a very productive outcome of that particular case and I don't think would've happened if the case had come out the way people

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<sup>93</sup> See generally Graeme W. Austin, *The Berne Convention as a Canon of Construction: Moral Rights After Dastar*, 61 N.Y.U. ANN. SURV. AM. L. 111 (2005).

<sup>94</sup> Audio File: Are Patents “Private Property” Under the Fifth Amendment? (Mar. 6, 2007) available at [http://www.fed-soc.org/publications/pubID.161/pub\\_detail.asp](http://www.fed-soc.org/publications/pubID.161/pub_detail.asp).

<sup>95</sup> *Kelo v. City of New London*, 545 U.S. 469 (2005).

<sup>96</sup> See, e.g., *Norwood v. Horney*, 853 N.E. 1115, 1122-23 (Ohio 2006). See also David Schultz, *Economic Development and Eminent Domain After Kelo: Property Rights and “Public Use” Under State Constitutions*, 11 ALB. L. ENVTL. OUTLOOK J. 41 (2006) (examining how states have adjusted their eminent domain practices in light of *Kelo*).

probably, in this room, would have wanted it to come out, and with the parallel then in patent law, and I'm going to tie it into Scott's point about patent reform, I'm not sure we've had that same sort of administrative debate in patent law, and we're not really having it now either.

I think I would agree with Scott in the sense that a lot of these patent reform efforts -- as I tell my students, if you want to get a headache, read the recent patent reform bill because it will give you a headache.<sup>97</sup> And I think part of the problem now is we've had too many institutional actors pounce on patent reform at once<sup>98</sup> -- the courts, the legislature, and the Patent Office for that matter -- and frankly I thought the courts were probably doing a good, gradualist enough job as is to see and wait what happens, especially with cases like *eBay*,<sup>99</sup> and -- *KSR*<sup>100</sup> is another matter -- but certainly with *eBay* and *MedImmune*<sup>101</sup> so forth.

PROFESSOR MOSSOFF: Just as a general introductory remark, federal law in Section 1498 already requires that if the government uses a patent without authorization, it has to pay.<sup>102</sup> Section 1498 has long been recognized as an implementation of the eminent domain power of the state and a requirement of payment of some sort of compensation.<sup>103</sup> But I believe that the conceptual classification of something as either a "privilege" or simply as a "regulatory entitlement" is important here because it does have implications for whether it's covered by the Takings Clause.<sup>104</sup> The federal circuit, just a couple of years ago, announced that patents

<sup>97</sup> Patent Reform Act of 2007, S. 1145, 110<sup>th</sup> Cong. (2007).

<sup>98</sup> See, e.g., *Senate Approves Sen. Hatch Amendment to Protect U.S. Patent, Trademark Office*, U.S. FED. NEWS, Mar. 14, 2008, available at 2008 WLNR 5115868; Press Release, U.S. Patent and Trademark Office, USPTO Proposes Measures to Improve Patent Examination (Jan. 3, 2006), available at <http://www.uspto.gov/web/offices/com/speeches/06-01.htm>.

<sup>99</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>100</sup> *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007).

<sup>101</sup> *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

<sup>102</sup> 28 U.S.C. § 1498 (1998).

<sup>103</sup> See *Zoltek Corp. v. United States*, 464 F.3d 1335, 1336 (Fed. Cir. 2006) (Newman, J., dissenting) ("[T]he [Supreme Court] establish[ed] that the government's right to use patent property was based on eminent domain . . . ." (citing *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U.S. 290, 307 (1912)).

<sup>104</sup> U.S. CONST. amend. V.

are not covered by the Takings Clause.<sup>105</sup> In my historical research I found substantial case law in both the U.S. Supreme Court and lower federal courts, as I indicated in my talk, where they did hold that patents were covered by the Takings Clause on the grounds that they were private property rights.<sup>106</sup>

This is one of the implications that flows from what might seem to be an unimportant conceptual distinction. Well, isn't this really about getting inventions to the market, so isn't this really about market regulation? Well, if you classify it as a market regulation, it has tremendous implications for Takings Clause jurisprudence, for example, among other things like due process protections as well.

So, does the *Kelo* decision perhaps portend some dangerous things that might happen in I.P.? Yes, but in a certain sense *Kelo* didn't change anything. *Kelo* is just a ratification of what the federal government and state government has been doing for decades already, and there is a lot of talk, even pre-*Kelo*, about taking patents and taking other types of I.P. entitlements for public uses.<sup>107</sup>

PROFESSOR KIEFF: I'll just go really fast and say the question about takings, the question about research use, I think the reality is property rights in patents today are gone. Okay? They're just gone. So, I think we can talk more about this if you want, but the reality is you do not meaningfully have a right to exclude today in the patent system. Damages, enhanced damages, injunctions, even the ability to get them and the ability to enforce them, I think, in almost every respect has been very, very seriously eroded, and this has all happened in the last 18 months.<sup>108</sup>

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<sup>105</sup> See, e.g., *Zoltek Corp. v. United States*, 442 F.3d 1345, 1350-51 (Fed. Cir. 2006).

<sup>106</sup> See Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. REV. 689 (2007).

<sup>107</sup> See, e.g., Shankar Vedantam, *Cipro Is Not the Only Pill That Fights Anthrax*, WASH. POST, Oct. 17, 2001, at A20 (reporting that Senator Charles E. Schumer "issued a public appeal that the government suspend Bayer's patents and allow generic companies to add to the supply").

<sup>108</sup> See, e.g., *eBay Inc. v. MercExchange*, 126 S.Ct. 1837 (2006) (holding that the traditional four factor test for an injunction must be applied to patents rather than granting injunctions whenever infringement is found, as was generally the practice in patent cases); *In re Seagate Tech.*, 497 F.3d 1360 (2007) (overruling negligence as the standard for willful infringement, and thus treble damages, instead finding, "that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.").

SPEAKER: (inaudible) verklempt. Discuss amongst yourselves.

(Laughter.)

PROFESSOR TEPP: However, due to a trio of decisions issued on the same day in 1999 by the Supreme Court, *Alden v. Maine*,<sup>109</sup> the *College Savings Board v. Florida Prepaid*,<sup>110</sup> and *Florida Prepaid v. College Savings Board*,<sup>111</sup> we have a precedent which immunizes states by virtue of their sovereign immunity, transcendent of the 11th Amendment, that renders them entirely immune, should they so choose to be, from any damages award for infringement or taking of intellectual property, with the only possible remedy being an injunction.<sup>112</sup> And I would suggest to you that that is a grossly unfair outcome even if I'm committing Federalist Society heresy by criticizing the decision of Justice Scalia and Chief Justice Rehnquist in the latter two cases.

JUDGE KAVANAUGH: Well, why don't we take the last two here. If anyone else has one, please jump up, but we'll take these two and ask the panelists.

AUDIENCE PARTICIPANT: Two questions. One quickly for Scott Kieff. You talked about the correlation in last two years between great software development and more explicit recognition of software patents, and I wonder if you're inviting us to steal a base, or maybe several, by inviting us to infer that that's a causal connection when so many other things and going on as well.

And then my question is for Mr. Tepp, and this kind of builds off of what Scott talked about. I thought Scott was pretty persuasive when he talked about the transaction costs that are present in enforcing patents kind of prevent a lot of the enforcement that might worry us. So we don't really need research exemptions in patent law, Scott would seem to be arguing, because people just aren't going to kind of enforce those. They're going to be interested in commercializing their patents, you know, and so going after

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<sup>109</sup> *Alden v. Maine*, 527 U.S. 706 (1999).

<sup>110</sup> *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666 (1999).

<sup>111</sup> *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627 (1999).

<sup>112</sup> See Eugene Volokh, *Sovereign Immunity and Intellectual Property*, 73 S. CAL. L. REV. 1161 (2000).

people who are making money off of them. So that seems somewhat compelling at least and kind of putting aside worries about the kind of rule of law undermining from widespread disobeying of the law even if it's only civil liability.

But, Mr. Tepp, you talked about the U.S. being in favor of more criminalization of copyright infringement,<sup>113</sup> and I wonder if you would respond to kind of Scott's insights on the patent law because it seems to me a potential problem in copyright as far we might want criminal liability for people who are printing thousands of DVDs of Hollywood movies, we might want to do that because we might kind of make an agreement, you know. China, you kind of enforce our people's I.P. rights; we'll enforce yours in our country. It's more efficient than having them go overseas and sue. That might make sense. But it should be limited at least to this kind of widespread commercial kind of infringement so that things like fair use, things like *de minimis* use, so that users, even though it's unlikely they would have criminal law enforced against them, maybe their use is really chilled so that we get less use of copyright materials than we otherwise would get? We don't have this kind of efficient breach kind of system in copyright that Scott seems to say we haven't patents.

JUDGE KAVANAUGH: Thanks. Let's have the other two questioners ask their questions.

AUDIENCE PARTICIPANT: Thanks. The panelists talked a bit about the issue of certainty, but I'd like to ask them to focus on that issue a little bit more. And Professor Kieff raised an interesting distinction between copyright law and patent law in that with copyright law, there's a tremendous amount of uncertainty in the enforcement regime because the fair use test is very discretionary and very difficult to apply, whereas in patent law there's a lot of certainty about what your rights are. But on the other hand, in copyright law there is a tremendous amount of certainty as to what the actual underlying work generally is. Whereas, in patent law

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<sup>113</sup> See 17 U.S.C. § 506 (2008) (US Code amended in 1982, by way of The Piracy and Counterfeiting Amendments Act of 1982, to include criminal penalties for anyone who "willfully infringes copyright" with "purposes of commercial advantage or private financial gain"); Intellectual Property Enhanced Criminal Enforcement Act of 2007, H.R. 3155, 110<sup>th</sup> Cong. (2007) (designed to increase civil and criminal penalties while creating a new crime of "attempt and conspiracy" to infringe copyright).

there is a certainty in what your rights are but there is uncertainty in was nicely covered by the patent and, you know, what is being claimed as the property right.

So, under the topic of American exceptionalism I'm wondering if the panelists could address whether they believe that America is doing better than foreign countries or worse with regard to creating certainty, which is very important in a copyright system, and if we're doing better or worse, what are the specific things that we're doing to create more certainty or things that we're failing to do that create less?

AUDIENCE PARTICIPANT: (Off mic.)

JUDGE KAVANAUGH: Thanks. Scott, there was a question about software development and whether you were making a causal point. Do you want to respond to that?

PROFESSOR KIEFF: Yeah, so, David, and you called that, am I stealing base by trying to imply that through correlation we have causation? No. I'm trying to make a very, very express statement about where I think we should go, which is from first base to second base. We should do the research to determine whether we can get there. I am announcing a hypothesis, and I think that the hypothesis is reasonable, and I think that it is an alternative explanation than the explanation that we've been hearing in the antitrust halls, which is that regulating Microsoft created Google.<sup>114</sup> I don't think regulating Microsoft created Google.

I think Google is the creation of a lot of really smart folk structuring some really great deals, and getting deals done, I think, is what creates competition. And the hypothesis is that the presence of the ten-year window of meaningful patent protection in the so-called software and business method space from '96 to 2006,<sup>115</sup> I

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<sup>114</sup> Steven Pearlstein, *How Much More Should It Be Allowed to Grab?*, WASH. POST, Apr. 22, 2007, at F03 ("Consider this: There may never have been a Google without the government's antitrust suit that prevented Microsoft from crushing upstart rivals. By the same principle, isn't it time to begin restraining Google to increase the odds another Google will come along?").

<sup>115</sup> See generally *State Street Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1377 (Fed. Cir. 1998) (abolishing the so called "business method" exception to patentability and holding that business methods may be patentable, to be adjudged by the same standards as any patent on a process).

think is so closely correlated with that competition effect that I am hypothesizing that's where we should look for the behavior.

JUDGE KAVANAUGH: Steve, there was a question to you talking about the U.S. being in favor of more criminalization of copyright infringement and went on from there. Can you respond that?

PROFESSOR TEPP: Sure. I'd be happy to. Actually, I got about three questions, I think, so if you're all right with it, I think I'll try and tackle them all but in reverse order.

On the issue of state remedies for infringement in *Florida Prepaid*,<sup>116</sup> as far as the copyright law is concerned, no, there are none because there is federal preemption explicit in the federal Copyright Act.<sup>117</sup> However, let me take that as an invitation to take a swipe at Shubha because in your initial remarks you cited the constitutional Copyright and Patent Clause<sup>118</sup> as evidence of an intent to create a national market and avoid the multitude of state laws. But in fact, notwithstanding the present law, before 1978 -- the '76 Act came into effect in '78 -- there were a multitude of state laws for all unpublished works, from 1798 to 1978.<sup>119</sup> And indeed, Congress need not enact either a copyright or a patent law if it so chose.<sup>120</sup> So I'm not sure that substantiates the point you were going after there.

With regard to certainty and fair use, no, fair use does not provide certainty, and there's a trade-off there. The immense power and impressive wisdom, I think, of fair use is that it was initially a judicial doctrine from the mid-19th century, articulating an exception to copyright protection.<sup>121</sup> The fact that the doctrine still remains as useful today in the age of instantaneous Internet transmissions and digital data, as it did when the cutting-edge technology of the day was piano rolls tells me that this is a doctrine of law we ought not easily jettison.

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<sup>116</sup> *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 628 (1999).

<sup>117</sup> 17 U.S.C. § 301 (2007).

<sup>118</sup> U.S. CONST. art I, § 8, cl. 8.

<sup>119</sup> See Robert A. Gorman, *An Overview of the Copyright Act of 1976*, 126 U. PA. L. REV. 856, 857-866 (1978) (discussing the interplay between the Copyright Act of 1909 and state copyright law and the significance of publication).

<sup>120</sup> *Id.*

<sup>121</sup> See William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1661-1663 (1988) (discussing the origins of the judicially made "fair use" doctrine).

There are numerous countries around the world that do not have fair use.<sup>122</sup> In fact, that is perhaps an example of American exceptionalism. There are few examples of fair use. Many countries have something called fair dealing,<sup>123</sup> which more specifically enumerates the types of exceptions and types of activities that are eligible for those exceptions. The drawback there is that while enumerated exceptions provide greater certainty in specifically outlining what may or may not be done, they must be constantly updated for changes in technology that occur, which results in a constant challenge in applying of copyright law.

That is a good segue into the final question about the criminalization of copyright and why Scott was completely wrong in his opening remarks. Let me note in passing that the two examples Scott gave were perhaps not the best. The poor lady in Minnesota to which he referred is Jamie Thomas, who was found by a jury of her peers to have willfully infringed 24 copyrights<sup>124</sup> -- somewhat less sympathetic, I think, than perhaps you might have initially thought. Similarly, in the case of the dreaded FBI warning and the approximately ten seconds of Scott's life that he doesn't get back --

(Laughter.)

PROFESSOR TEPP: -- watching the FBI warnings, I can tell you that that deals less, and in fact not at all, with pure copyright law but rather with a provision of the Digital Millennium Copyright Act prohibiting the circumvention of access controls.<sup>125</sup> That act, in addition to containing several exceptions,<sup>126</sup> also provides for a triennial rulemaking process to be conducted by the Copyright Office.<sup>127</sup> And in fact, a request was made of the Copyright Office in the 2003 process to create an exemption specifically for the purpose

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<sup>122</sup> See Ruth Okediji, *Toward an International Fair Use Doctrine*, 39 COLUM. J. TRANSNAT'L L. 75 (2000) (discussing at length the differences between United States and international "fair use" as well as the effect that international treaties have had upon the doctrine).

<sup>123</sup> *Id.* at 115-119.

<sup>124</sup> See Jeff Leeds, *Label Wins Suit Against Song Sharer*, N.Y. TIMES, Oct. 5, 2007, at C1.

<sup>125</sup> 17 U.S.C. § 1201(a) (2007).

<sup>126</sup> 17 U.S.C. § 1201(d)-(j) (2007).

<sup>127</sup> 17 U.S.C. § 1201(a)(1)(C) (2007).

of fast-forwarding through the FBI warning.<sup>128</sup> The Copyright Office concluded that ripping all protection against piracy from an entire motion picture was probably overkill in response to that ten-second inconvenience.<sup>129</sup>

Now getting back – sorry, I'm taking a long time – to the central question about criminalization and whether copyright law over-criminalizes. I think first and foremost you need to remember that criminal remedies do not attach to copyright infringement unless they are willful.<sup>130</sup> Therefore we are, by definition, not talking about an instance where a good-faith effort was made to consider whether a particular use was fair and, oops, it turns out you were wrong. No criminal penalties are available in a situation like that. Similarly, commonsense prosecutorial discretion, as well as the tremendously limited resources of the Justice Department in this area– and I don't mean this as a criticism of the Department of Justice, just a reality that they have bigger fish to fry and the number of copyright prosecutions they take per year – suggests they're not going to take a case of that nature.<sup>131</sup>

Copyright does provide for substantial penalties even on the civil side.<sup>132</sup> I think those are justified. There are substantial limitations for the awards where the infringer is proven to have been an innocent infringer.<sup>133</sup> There are limits to the availability of all remedies depending on whether the work was timely registered with the Copyright Office. A copyright owner who fails to register in a timely manner may lose their ability to come into court with a presumption that they are the right holder in that work and that the work is protected by copyright. In addition, they may lose their opportunity to request statutory damages or attorneys fees.<sup>134</sup> So, I

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<sup>128</sup> Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 68 Fed. Reg. 62011, 62015-62016 (Oct. 31, 2003)(to be codified at 37 C.F.R. pt. 201).

<sup>129</sup> *Id.*

<sup>130</sup> 17 U.S.C. § 1204 (2006).

<sup>131</sup> See Rick Boucher, *Justice Department as Antipiracy Shill?*, CNET NEWS, Oct. 30, 2003, <http://www.news.com/2010-1028-5099583.html> (last visited Mar. 17, 2008).

<sup>132</sup> 17 U.S.C § 1203 (2006).

<sup>133</sup> 17 U.S.C. § 504(c)(2) (2006).

<sup>134</sup> See 17 U.S.C. § 409 (2006).

would suggest that the copyright law has created a better balance than perhaps Scott would believe.

JUDGE KAVANAUGH: Let me have the three professors make comments on American exceptionalism in terms of creating certainty and then any other final comments they want to make. These will be the last comments.

PROFESSOR GHOSH: Just to respond to the Federalism point -- I mean I don't have much time I'll make up for my other comments -- but I don't think it's a contradiction to say that there can be state regulation in certain areas. I certainly believe preemption should be a little bit stronger than it is under current I.P. law, but that's another matter. But sure, you can have contracts that protect things. If Congress doesn't protect sound recordings, as it didn't before 1972,<sup>135</sup> then the state can have various laws. I think that's part of the competitive process. A lot of states also didn't protect those things,<sup>136</sup> so I don't view that as a contradiction with what I said. It's just the way in which the markets are structured for those types of works.

As far as -- certainly I've been trying to toy over this. I think somebody asked to make -- the questioner asked to kind of make a comparative point, and I think the underlying answer has to be that the U.S. system probably has, probably is more uncertain than other I.P. systems for the various reasons that have been raised, but I want to make the point that that's probably a good thing. I think that uncertainty is probably showing that we're still having a very active debate about how we want to structure markets and how we want to structure property rights to promote innovation, and I view it as then healthy sign overall; not in all instances, but overall.

JUDGE KAVANAUGH: Adam.

PROFESSOR MOSSOFF: On the exceptionalism point, I agree with Shubha that I think there is also greater uncertainty in the U.S. patent system, but that's also agreeing with Shubha about the advantages of the U.S. patent system. The U.S. patent system has broken new ground - in permitting patents on biotech and pharmaceutical products and in the computer industry - in ways

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<sup>135</sup> Sound Recording Amendment of 1971, Pub. L. No. 92-140, 85 Stat. 391 (1971).

<sup>136</sup> All state copyright laws were abolished through preemption as of January 1, 1978. See 17 U.S.C. § 301(a) (2006).

that other countries have not, and so we've pushed those boundaries outward in terms of what type of new innovative products can be patented.<sup>137</sup> In doing so, you obviously will enter into areas where there's greater uncertainty as to what's happening when you're dealing with brand-new innovation, which cannot even be captured necessarily in our pre-existing language.

As people are wont to often say, the one thing we know with certainty about innovation is that it's totally unpredictable and uncertain about where it's going to go and what it's going to be. The Internet itself is a huge example of that. And with that I think that property serves as a wonderful conceptual framing device for understanding what's going on in the patent system because we often think of the property system as being this wonderful model of certainty in the real property context, but it's not. For someone who teaches property, you know that there are many doctrines where there is uncertainty in property law, from nuisance to the applicable doctrines involving the scope of easements, to restrictive covenants, to adverse possession.<sup>138</sup> These are doctrines that involve lots of fact sensitive, multifactor considerations, and you have the exact same type of situation, the exact similar type of doctrines in patent law as well.<sup>139</sup>

So, we shouldn't create a false foil of certainty by which to evaluate the patent system.

JUDGE KAVANAUGH: Scott, some final comments?

PROFESSOR KIEFF: This has just been really fun, and I really appreciate Steve's comments. I think this is a great example, I hope, of kind of tough questions and tough analysis. I don't know that we disagree with each other as much as we might. I don't know that we agree with each other as much as we might, but I love the way you describe the difference. Yeah, there is some light between us on that one, but let's notice what it is. It's a discussion

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<sup>137</sup> The U.S. patent system has been pushed forward in part through aggressive patent litigation in cases involving cutting-edge technology. See, e.g., *Sicom Sys., Ltd. v. Agilent Tech., Inc.*, 427 F.3d 971 (Fed. Cir. 2005) (dealing with patents for a type of digital signal transmission channel monitor).

<sup>138</sup> See, e.g., Stewart E. Sterk, *Property Rules, Liability Rules, and Uncertainty About Property Rights*, 106 MICH. L. REV. (forthcoming 2008), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1016168](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1016168).

<sup>139</sup> See *id.*

about likelihoods of error rates, magnitudes of the error -- under-enforcement, over-enforcement, the cost of over-enforcement, under-enforcement -- and those are tough questions.

And I would say that as long as, collectively, we're engaged in that kind of analysis, on average we're going in the right direction, and I do think that it is an American exceptionalism story. It's a story of analysis and mechanisms, analyzing the facts and developing legal mechanisms that will help people in the marketplace interact with each other to get deals done. So, I think that's actually a really good thing.

And then I'll just end by saying, as an advertisement I guess, but also as an invitation, we've got a new project at the Hoover Institution at Stanford on commercializing innovation, and we're on the web now at [Innovation.Hoover.org](http://Innovation.Hoover.org),<sup>140</sup> and we're looking at the set of the legal and business relationships that can help get deals done in this area: intellectual property, antitrust, bankruptcy, corporate governance, property rights and, you know, please, let's continue this conversation. We're really happy to host it. We're really happy to write about it. And thanks so much.

JUDGE KAVANAUGH: Thanks to the audience members for being here. Thanks again to the Federalist Society leadership for organizing and running such an extraordinary conference. Let's thank these four great panelists for a superb discussion today.

(Applause.)

(Panel concluded.)

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<sup>140</sup> Hoover Project on Commercializing Innovation, <http://innovation.hoover.org/> (last visited Feb. 28, 2008).