

December 18, 2024

The Honorable Chris Coons
Chairman
Senate Judiciary Committee
Subcommittee on Intellectual Property
Washington, District of Columbia 20510

The Honorable Thomas Tillis
Ranking Member
Senate Judiciary Committee
Subcommittee on Intellectual Property
Washington, District of Columbia 20515

Dear Chairman Coons and Ranking Member Tillis:

Thank you for the opportunity to provide a statement for the record for the Subcommittee's December 18, 2024, hearing titled "The RESTORE Patent Rights Act: Restoring America's Status as the Global IP Leader." ACT | The App Association (the App Association) is the leading trade group representing small businesses in the app economy. Today, the App Association represents an ecosystem valued at approximately \$1.8 trillion and is responsible for 6.1 million American jobs.¹ Our members are innovators that create the software bringing your smart devices to life. They also make all the connected devices that are revolutionizing healthcare, agriculture, public safety, financial services, and virtually all other industries. They propel the data-evolution of these industries and compete with each other and larger firms in a variety of ways, including on privacy and security protections.

The notion that American global leadership in intellectual property (IP) must be restored is misguided. The United States Supreme Court clarified in *eBay v. MercExchange* that a four-factor test is required to ensure that patent holders are not attaining injunctions against American innovators that harm the public interest. The *eBay* test contributes to the United States' leading patent system that supports innovation and fosters competition and technological progress. We write to urge the Subcommittee to consider the key perspective our innovative community brings forward here, and to oppose the Realizing Engineering, Science, and Technology Opportunities by Restoring Exclusive (RESTORE) Patent Rights Act in support of American small businesses.

The U.S. patent system fosters competition and drives technological progress

The United States has maintained its position as a leading innovator in the global economy since pre-*eBay* times and continues to be the world's strongest intellectual property (IP) system based on the U.S. Chamber of Commerce 2024 International IP Index.² U.S. leadership in IP rights and protections is attributed to a variety of mechanisms, including the Patent Trial and Appeal Board (PTAB), and sector-specific rights and protections.³ The U.S. approach can and should be contrasted with other countries, such as the People's Republic of China (PRC),

¹ ACT | The App Association, *State of the U.S. App Economy: 2023*, <https://actonline.org/wp-content/uploads/APP-Economy-Report-FINAL-1.pdf>

² See *2024 International IP Index*, U.S. Chamber of Commerce (February 22, 2024), available at <https://www.uschamber.com/intellectual-property/2024-ip-index>; see also *Global Innovation Index 2024 Unlocking the Promise of Social Entrepreneurship*, WIPO (2024), pg. 18 https://www.wipo.int/web-publications/global-innovation-index-2024/assets/67729/2000%20Global%20Innovation%20Index%202024_WEB2.pdf.

³ *Id.*

which is known for issuing the most patents in the world, yet has one of the weakest IP regimes globally.⁴ Notably, China utilizes an “essential facilities doctrine” to require granting access to patents deemed essential (outside the standardization context) and employs ambiguous regulatory approval processes that enable the government to access IP and other data from market participants.⁵ Unlike U.S. courts, Chinese courts grant permanent injunctions in about 90 percent of patent infringement cases.⁶ Other countries like Brazil have a persistent practice of granting preliminary injunctions, yet similarly have a weak IP system.⁷ This evidence indicates that the strength of an IP system must weigh the value of existing IP rights and protections against developing and competing innovation. Accordingly, the persistent awarding of injunctions in patent infringement disputes without first considering factors like those captured in *eBay* is a hallmark of countries with weak IP frameworks.

U.S. patent law requires patent rights to be deliberate and balanced to maintain innovation, advancement, and social benefit

Congress never intended to presume injunctive relief in patent disputes. The U.S. Patent Act empowers Congress to give inventors the right to exclude others from commercial use of their protected inventions.⁸ Historically, patent enforcement was limited to actual damages and subject to equity principles, with Congress initially withholding equitable jurisdiction from federal courts in patent cases. This changed in 1819 when Congress granted federal courts equitable jurisdiction in patent matters.⁹ The Patent Act of 1952 retained federal courts' authority to apply both legal and equitable remedies, leading to a common practice of granting injunctive relief in patent disputes. This approach was further solidified in 1982 with the establishment of the U.S. Court of Appeals for the Federal Circuit, which presumed injunctive relief following a finding of infringement and validity, unless there was a sound reason for denial.¹⁰

The Federal Circuit's interpretation of equitable jurisdiction in patent cases lasted until 2006 with the Supreme Court decision in *eBay v. MercExchange*.¹¹ The Supreme Court unanimously rejected the Federal Circuit's general rule for equitable relief in patent cases, stating that the four-factor test to determine the proper awarding of a permanent injunction similarly applies to disputes arising under the U.S. Patent Act.¹² The four-factor test requires a plaintiff seeking permanent injunction to show that: 1) plaintiff has suffered an irreparable injury; 2) remedies

⁴ *Id.*

⁵ Stephen Crosswell, Isabella Liu, et. al., *Hong Kong: SAIC Publishes Landmark Antitrust Regulation for Intellectual Property Rights*, Global Compliance News (April 27, 2015), <https://www.globalcompliancencews.com/2015/04/27/hong-kong-saic-publishes-landmark-antitrust-regulation-for-intellectual-property-rights/>.

⁶ *When Plaintiffs Win in Chinese Patent Cases, Injunction Grant Rates Are High, Regardless of Party Nationality*, RPX (December 11, 2019), <https://www.rpxcorp.com/data-byte/when-plaintiffs-win-in-chinese-patent-cases-injunction-grant-rates-are-high-regardless-of-party-nationality/>.

⁷ See *supra* note 41.

⁸ See U.S. CONST. art. 1, § 8, cl. 8; see also 35 U.S.C. § 271 (1952).

⁹ James Ryan, *A Short History of Patent Remedies*, 6 Mitchell Hamline L. Rev. 152, 161 (2015), <https://open.mitchellhamline.edu/cgi/viewcontent.cgi?article=1052&context=cybaris>.

¹⁰ See The Federal Courts Improvement Act, 96 Stat. 25 (1982); see also *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F. 3d 1142, 1148 (Fed. Cir. 2011)(citing *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir.1989)).

¹¹ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

¹² *Id.* at 390 (2006).

available at law, including monetary remedies, are inadequate to compensate for that injury; 3) considering the balance of hardships between the parties, a remedy in equity is warranted; and 4) the public interest would not be disserved by a permanent injunction.¹³ This framework importantly ensures that court-awarded remedies make the plaintiff whole rather than penalize the accused infringer, in line with the sentiments of the U.S. Patent Act.¹⁴

The Court in *eBay* noted that patents hold “attributes of personal property,” yet this is qualified with the U.S. Patent Act’s express provision that injunctions “may” issue in accordance with the principles of equity and the Court’s longstanding position to refrain from diverging from the same.¹⁵ Under the Supreme Court’s clarified rule, practicing patent holders continue to receive injunctions at a similar rate as they did pre-*eBay*.¹⁶ The shift in the landscape is felt primarily where the proportional remedy for a patent holder’s injury is a monetary remedy. This is often the case where a patent holder’s business model is predicated on receiving licenses for their patents.

One study points to the drop in injunctive relief grants after *eBay* as attributed to courts finding that non-practicing entities (NPEs) that operate to license and monetize their patents are sufficiently made whole through compensation, with an injunction grant rate dropping from 88.8 percent pre-*eBay* to 62.5 percent post-*eBay*.¹⁷ This drop in injunctive relief is likely also attributable to a decrease in requests for injunctive relief by NPEs from 52.9 percent to 29.6 percent.¹⁸ The decrease in requests for injunctive relief by NPEs can be starkly contrasted by practicing entity requests that merely dropped from 56.6 percent to 44.1 percent.¹⁹

eBay appropriately brought needed balance to patent disputes in recognition of demonstrated hold-up tactics, where patent holders use the threat of an injunction to extract royalty fees for their patented invention in excess of its value.²⁰ Where monetary relief is an adequate remedy, the patentee is entitled to reasonable royalties.²¹ Where a rights holder is ultimately seeking monetary compensation, particularly where regulatory mandates or industry standards force industry participants to infringe, a damages-based approach is more likely to lead to an outcome that aligns with the longstanding jurisprudence regarding patent value and apportionment.²² If injunctive relief is presumed, the patent holder is enabled by law to use exclusionary conduct likely inconsistent with the societal goal of the mandate. Due to *eBay*, a court must examine factors, including whether “the public interest would not be disserved by a permanent injunction.”²³ A presumption of injunctive relief would not anticipate where the government changes structures within the patent landscape due to unanticipated societal concerns, including health and safety risks.

¹³ *Id.* at 391.

¹⁴ Helmers & Love, *supra* note 7; see Storm, *supra* note 3 at 36 -7 (“...the 1952 Act’s new ‘no event’ language also reflects Congress’s intent to make reasonable royalty calculations procedurally available in every case where the plaintiff has suffered injury-in-fact.”).

¹⁵ *eBay* 547 U.S. at 391-392 (citing precedent). See 35 USC §§ 261, 283

¹⁶ Josh Landau, *Much Ado About Injunctions*, Patent Progress (August 1, 2019), <https://patentprogress.org/2019/08/much-ado-about-injunctions/>.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

²¹ 35 USC §§ 284.

²² *Id.*

²³ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

Critics of *eBay* often misleadingly cite studies indicating that injunctive relief was granted in most pre-*eBay* patent infringement disputes while a significant number of cases have been denied injunctive relief post-*eBay*.²⁴ These statistics do not suggest that the pre-*eBay* awarding of injunctions exemplified a positive situation for U.S. inventors who were seeking to avoid hold-up tactics. Where hold-up practices are stronger, U.S. inventors would have less of an incentive to invest significant resources into patentable developments that are likely to be targeted by monetization schemes enforcing older, broader, and potentially invalid patents. This is particularly true for small business developers that face information and resource asymmetries. The U.S. patent landscape includes important mechanisms to combat issuing overly expansive patent claims and enables entities to challenge such patents post-issuance.²⁵ Still, broad patents exist.

The *eBay* test enables a court to recognize a scope of concerns, leaving the award of injunction to practicing patent holders virtually unchanged, while significantly decreasing the grant of injunctions to non-practicing holders.²⁶ This makes sense considering courts often find that monetary damages are appropriate to compensate NPEs for infringement since they prefer to monetize their patents through licensing rather than excluding competitors from relevant markets.²⁷ *eBay* has largely worked as the Court intended, with firms that had greater exposure to patent litigation before *eBay* obtaining more patents and increasing their investments in the research and development of patentable claims after *eBay*.²⁸ This has led to a greater rate of balanced and appropriate outcomes for injunctive relief.

The RESTORE Patent Rights Act intends to turn back the clock before *eBay* revoked the presumption of injunctive relief for valid and infringed U.S. patents. This effort comes at a time where global threats to the strength of American innovation are heightened, leading to varying views on how equitable remedies can be used for and against good faith U.S. inventors. Efforts to abrogate *eBay* in the past have faced significant criticism. Former Congressman Trey

²⁴ Ryan T. Holte, *The Misinterpretation of eBay v. MercExchange and Why: An Analysis of the Case History, Precedent, and Parties*, 18 Chap. L. Rev. 677, 719 (2015), <https://www.chapman.edu/law/files/publications/clr-18-holte-revised.pdf>; Chien, Colleen V. and Lemley, Mark A., *Patent Holdup, the ITC, and the Public Interest* (July 2, 2012). 98 Cornell Law Review 101, 109 (2012), <https://ssrn.com/abstract=2022168> (“Based on our review of district court decisions since *eBay*, courts grant about 75% of requests for injunctions, down from 95% pre-*eBay*”).

²⁵ See 35 U.S.C. 101; see Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat.(2011).

²⁶ See Dr. Kristina M.L. Acri née Lybecker, *Injunctive Relief in Patent Cases: the Impact of eBay*, Harv. J.L. and Tech. 1 - 11, (Colorado College Working Paper, Paper 2024-01), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4866108 (Data in Table 2 indicates that pre-*eBay* operating companies received permanent injunctions in 198 cases and had them denied in 19. That amounts to a permanent injunction grant rate of **91.2%** and post-*eBay* operating companies received permanent injunctions in 249 cases and had them denied in 31, for a permanent injunction grant rate of... **88.9%**, while NPE assertions went from an **85% to 47%** success rate on permanent injunction requests pre- and post-*eBay*).

²⁷ Helmers & Love, *supra* note 7.

²⁸ *Id.* at 5. (“In particular, Mezzanoti (2021) finds that firms with greater exposure to patent litigation pre-*eBay* obtained more patents and increased R&D expenditures following the decision. Otherwise, existing studies tend to show no significant effect. Mezzanoti and Simcoe (2019) present empirical evidence that *eBay* did not affect patenting, R&D investment, productivity, or venture capital investment, and Galetovic et al. (2015) find that *eBay* had no effect on quality-adjusted prices in industries that rely heavily on standardized technologies.”).

Gowdy has explained that RESTORE will make it easier for “patent trolls to pursue frivolous cases, leaving American companies no choice but to accept unfair settlements.”²⁹

Presumed permanent injunctions can enable patent abusers to leverage their bargaining position to exclude or pressure American small businesses into unreasonable licenses that harm supply chains and U.S. consumers.

Patent enforcement practices have changed significantly in the past few decades, where some entities obtain patents solely to seek licensing revenue. Others may hold, and wield, patents in ways that also harm U.S. economic and national security. For example, where a vital supply chain contains choke points, unfairly awarded permanent injunctions on patents held by foreign adversaries can serve as a means for shutting down that supply chain. It is vital that this Subcommittee recognize that the RESTORE Act would make it easier for those adversaries to impair and disrupt supply chains using U.S. courts.

Notably, other patent holders contribute their patents to critical technical standards (e.g., USB and Wi-Fi). Technical standards provide an alternative path to modern invention that differs from general exclusive patenting. The goal of establishing technical standards is to create an efficient and interoperable foundation for technology development that can be used by any industry participant who is willing and able to fairly compensate the relevant standard-essential patent (SEP) holder. The SEP holder understands and agrees that, by voluntarily contributing to the standardization process, it cannot unduly exclude competitors from a standard past requiring a fair, reasonable, and non-discriminatory (FRAND) license. Opportunistic SEP holders have distorted this system by taking advantage of standard-setting organization (SSO) policies that have ambiguous definitions of FRAND to manipulate a fair licensing negotiation process by, for example, threatening or seeking national injunction to force locked-in standards users into a license under unreasonable terms and excessive fees. Since SSOs facilitate access to technical standards that touch various industries, these opportunistic SEP holders plague many verticals, always looking for the next market from which to extract additional and unrelated value for their SEP. The anticompetitive harms experienced in the SEP licensing ecosystem disrupt fair usage of technical standards that support efficient innovation. The SEP licensing ecosystem provides a prime example of a scenario where it is consistent with the interests of U.S. innovators to limit the ability of SEP holders, particularly foreign entities with U.S. patents, from receiving injunctions from a U.S. court against American inventors. Abusive SEP licensing practices provide one significant scenario in which American companies and their ability to develop patentable products is harmed by easily accessible injunctions sought against them by foreign entities holding U.S. patents.


Conclusion

In conclusion, we urge the Subcommittee to oppose consistent attempts to overturn the *eBay* precedent, including the the Realizing Engineering, Science, and Technology Opportunities by Restoring Exclusive (RESTORE) Patent Rights Act. Small business innovators depend on a

²⁹ Trey Gowdy, *American manufacturers cannot afford more patent abuse*, Washington Examiner (September 10, 2024), <https://www.washingtonexaminer.com/restoring-america/faith-freedom-self-reliance/3147620/american-manufacturers-cannot-afford-more-patent-abuse/>.

patent system that is supported by the checks and balances that a proportionality test provides to ensure that good faith patent holders receive injunctive relief, while those that seek to deplete American leadership in critical innovation are stopped. We appreciate your consideration of these recommendations and look forward to continued collaboration to support American small businesses in rapidly evolving global technology markets.

Sincerely,

A handwritten signature in black ink that reads "Morgan Reed". The signature is written in a cursive style with a light gray rectangular background behind it.

Morgan Reed
President
ACT | The App Association