U.S. Patent Troll Bill Unsuccessful – What is the Situation in Canada?

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On Wednesday, May 21, 2014, a U.S. bill aimed at combatting patent trolling practices was pulled from consideration by the U.S. Senate Judiciary Committee. As a result, it is unlikely that any legislation addressing patent trolling practices will be passed in the United States this year.

What is patent trolling?

One way of monetizing a patent is to collect royalties from giving a license to another party to use the technology covered by that patent. In this case, the patent owner does not need to actually practice the technology covered by the patent. For example, technology transfer offices of universities can be said to operate on such a model.

“Patent Trolls”, also known as “Patent Assertion Entities” or “Non-Practicing Entities”, adopt a similar model, whereby they selectively acquire patents covering commercially important technologies and attempt to monetize these patents without practicing the covered technologies. The negative term “trolling” is being used because these entities are often associated with the use of more aggressive tactics.

One such aggressive tactic involves sending demand letters to various businesses, including many end-user small businesses. The demand letter will allege that a business is violating one or more patents owned by the patent troll and will ask that the business pay a fee in order to avoid further legal action being taken by the patent troll.

In some cases, a patent troll may go as far as initiating patent litigation. This is often done strategically by bringing the patent suit in a jurisdiction that is perceived as being friendly to patent holders, such as the Eastern District of Texas. The defendant may be unwilling to go through a lengthy litigation process and will choose to reach a settlement instead, which results in a payout for the patent troll.

While the practice of patent trolling is not new, they have become more prevalent in recent times. This may be in part due to easier access to information, which allows patent trolls to more easily locate relevant patents for acquisition. Another factor may be the recent rise of “business method” or “software” patents. For example, patent trolls are known to acquire and assert patents covering everyday operations of any business, such as printing, photocopying and communication over a network.

Unsurprisingly, the practice of patent trolling has been seen as having a negative impact on economic development.

Combatting patent trolling

For a traditional business (carrying out operations other than patent trolling), one of the risks of asserting one’s patent rights against another party is the possibility of a countersuit. For example, a company A that is contemplating initiating patent litigation against company B, has to be wary of the possibility that company B might assert that company A’s business operations infringes one or more of company B’s own patents. This risk acted as a deterrent against making claims that did not have a high likelihood of success. However, the risk of a countersuit does not act as a deterrent for a patent troll because the patent troll does not carry out any business operations other than patent assertion.
Several different legislative measures have been proposed so as to deter patent trolling practice. These measures include the following:

**Fee Shifting:** Fees are awarded to the prevailing party (i.e. the losing party has to pay fees associated to a patent suit) unless the non-prevailing party’s suit was reasonable.

**Transparency and disclosure of ownership:** A party bringing a patent suit must disclose all parties that have a financial interest in the suit. Patent trolls often use various shell companies to hide the true owner of a patent.

**Heightened Pleading:** A party sending a demand letter or bringing a patent suit must provide information relating to the alleged patent infringement, such as specifying the patent being alleged, which patent claims are infringed, and how infringement is occurring (e.g. model number of the alleged infringing article, where each element of the asserted claim is found in the alleged infringing article).

**Cracking down on bad-faith demand letters:** Making clear that sending fraudulent or misleading demand letters, in connection with the assertion of a patent, constitutes unfair and deceptive trade practice.

**Customer Stay:** A manufacturer can intervene in a suit brought against an end-user of one of the manufacturer’s products. As a result, the suit against the end-user can be temporarily put on hold.

**Discretionary Bonding:** In some circumstances, a party bringing a patent suit must post a bond sufficient to cover the defendant’s fees.

### The Anti-Patent Troll Bill in the U.S.

An initial bill, named the “Innovation Act”, was passed by the U.S. House of Representatives in December 2013 with a strong majority. This bill included fee shifting, heightened pleading, transparency and customer stay measures. It also mandated a study on demand letters sent in bad faith.

Following the passing of the “Innovation Act”, Senator Leahy then presented his companion bill, the “Patent Transparency and Improvements Act”, to the U.S. Senate Judiciary Committee. This bill included measures such as transparency, customer stay and defining what practices are considered as bad-faith demand letters. However, the bill was repeatedly put off from a vote at the U.S. Senate. Finally, this vote was pulled from consideration last Wednesday. It is believed that the bill was pulled due to disagreements over the issue of fee shifting.

Nevertheless, patent trolling is still seen as a serious problem for the U.S. patent system and there will surely be further legislative efforts to address it.

### The Situation in Canada

When compared to the United States, the practice of patent trolling is not as prevalent in Canada. Canada is home to several companies often accused of patent trolling practices, but these companies typically assert their patents abroad.

The fact that Canada is a smaller market than the United States does not present the same favourable environment for patent trolls. Furthermore, Canadian courts are more reluctant to grant injunctions – the threat of an injunction being used by patent trolls to leverage a settlement. Also, Canada’s court system already includes a certain degree of “fee shifting”. The Federal Court of Canada, where most Canadian patent cases are heard, has rules that allow a judge to award costs against the losing party.
Nevertheless, various organizations, such as the Intellectual Property Institute of Canada (IPIC), have been monitoring the state of patent trolling practices in Canada and have made various governmental bodies aware of the situation.

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