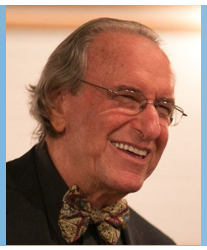
THE EXPIRED PATENT ROYALTY BAN



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Many of us take for granted the lawful monopoly afforded to owners of US patents. This monopoly right arises directly from the patent and copyright clause of article I, section 8, clause 8 of the US Constitution, and underlies what can be considered a 'bargain' made between the US government and inventors. In return for making a full disclosure of one's invention(s) in the form of an issued published patent, a patent owner enjoys what is an exclusive monopoly covering these inventions.

Since June 8, 1995, the term of this monopoly is 20 years, measured from the earliest effective filing date of the patent application on which a patent filed thereafter is based. Once the patent expires, this monopoly right expires such that the invention enters the public domain, with the public able to enjoy practising the invention free and clear of any patent claims.

The importance of the expiration of a patent's monopoly term cannot be overemphasised. It is an essential element in the 'bargain' just described. In general, monopolies are discouraged, and US anti-competition laws have been adopted in order to discourage and make unlawful a party's effort to create a monopoly. Monopolies give the monopoly-holder the ability to fleece the purchasing public, since there is no free market competition to keep pricing within a reasonable range. The holder of a monopoly covering essential types of goods, such as pharmaceuticals, may be in a position to charge exorbitant amounts from those segments of society least able to afford them.

"THE IMPORTANCE OF THE EXPIRATION OF A PATENT'S MONOPOLY TERM CANNOT BE OVEREMPHASISED."

Exceptions to the rule

While generally the term of a US patent cannot be extended beyond the 20-year term, there are a few exceptions to this law. They include the following: patents that require approval from the US government may result in a period of time during which their owners are unable to sell their product. Medical devices, for example, may require Food and Drug Administration approval, requiring extensive testing over a long period of time before approval is forthcoming.

Similarly, additives used in food preparations fall into this category. Such patents may be eligible for an extension of their terms under the US Hatch-Waxman Act. Yet another basis for the US Patent and Trademark Office (USPTO) granting a patent term adjustment may be because of a delay caused by the USPTO itself during the patent prosecution process due to the backlog of patent applications being examined.

As expected, there will always be those who will seek to circumvent the limitations of the patent monopoly, such as by crafting agreements that avoid these limitations. Licensing agreements that call for royalty payments to continue after the expiration of patent and IP rights are barred under the current state of the law in the US.

However, this has not stopped companies from trying creatively to achieve the same result in an effort to get around this ban, which was established in the 1964 case of *Brulotte v Thys*. We have seen this occur in the toy and pharma industries, for example. Companies have utilised techniques such as attempting to spread royalty payments over longer periods, or bundling patents with other licensed IP rights, such as trade secrets, copyright, trademarks and trade dress.

Efforts to obliterate the *Brulotte* ban were dealt a significant blow on June 22, 2015. Justice Elena Kagan, writing for the 6-3 majority of the Supreme Court in the case of *Kimble v Marvel Enterprises*, made clear that the justices found no compelling reason not to be bound by precedential stare decisis establishing the ban. Abandoning the legal principle of stare decisis requires special justification, which the court obviously found lacking in *Kimble*.

The *Kimble* re-statement of the *Brulotte* ban will certainly set back efforts by those seeking greater freedom to contractually avoid the ban, but will probably not eliminate the tension between ban and anti-ban activists. Given the Supreme Court's *Kimble* decision, it will be up to the US Congress to relax the constitutional mandate that the patent monopoly shall exist only for a limited duration. Existing US patent policy conforms to these limitations.

Until that may occur, which is highly unlikely, there is an upside to the predictability afforded to both patentees and licensees under the present law. Seasoned patent and IP practitioners will continue to craft licensing agreements which will allow for post-patent expiration royalties. ■

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