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## THE NEW DEVELOPMENT OF THE KNOWLEDGE REQUIREMENT OF INDUCED INFRINGEMENT UNDER THE AMERICAN PATENT LAW

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### ABSTRACT

The United States has the most pro-inventor patent system which provides a full range of remedies for patentees facing infringement. 35 U.S.C. § 271(b) provides, “Whoever actively induces infringement of a patent shall be liable as an infringer.” So, a person accused of active inducement does not infringe the claimed invention directly. Instead, another person directly exploits the claimed invention. In 2011, the Supreme Court in *Global-Tech Appliances, Inc. v. SEB S.A.* interpreted the knowledge requirement of § 271(b) to mandate that the plaintiff has to prove that an inducer knew the patent-in-suit and the patent infringement. The Supreme Court clarified that there is no negligent or reckless inducer. However, what was not clear is whether the “should have known” standard has been abrogated because the Supreme Court did not express that. After the Federal Circuit’s *Commil USA, LLC v. Cisco Sys., Inc.* in 2013, the “should have known” standard was finally removed from the knowledge requirement. After *Global-Tech*, there were several district court decisions applying *Global-Tech*. This article analyzed several early district court decisions and found no effect on the traditional practice of finding inducement.

Keywords: American patent law, inducement, *Global-Tech*, indirect infringement, patent infringement

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## I. Introduction

The United States has the most pro-inventor patent system which provides a full range of remedies for patentees facing infringement. The system was designed to encourage innovations and to keep the economy growing.<sup>1</sup> To encourage disclosure of an invention, the patent law grants to the inventor an exclusive right to prevent others from unlawfully exploiting her invention.<sup>2</sup> This exclusive right is vested in the statutes defining liabilities of unlawful exploitation of a claimed invention.

35 U.S.C. § 271 defines various forms of infringement.<sup>3</sup> One form is active inducement.<sup>4</sup> § 271(b) provides, “Whoever actively induces infringement of a patent shall be liable as an infringer.” So, a person accused of active inducement does not infringe the claimed invention directly. Instead, another person directly exploits the claimed invention.

When § 271(b) was codified in 1952, Congress intended to make liable contributory infringement of a patent developed by the case law.<sup>5</sup> Instead of creating a single provision to cover all infringing acts under the case law of contributory infringement, Congress provided two categories of contributory infringement.<sup>6</sup> One was in § 271(b), and the other was in § 271(c). § 271(c) states, “Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.” § 271(c) was intended to cover a specific act of contributory infringement, while § 271(b) was intended to cover a broad sense of contributory infringement.<sup>7</sup>

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<sup>1</sup> See Ping-Hsun Chen, *Should We Have Federal Circuit Law for Reviewing JMOL Motions Arising from Patent Law Cases?*, 1 NTUT J. OF INTELL. PROP. L. & MGMT. 1, 1 (2012).

<sup>2</sup> See F. Scott Kieff, *The Case for Registering Patents and the Law and Economics of Present Patent-Obtaining Rules*, 45 B.C. L. REV. 55, 61-62 (2003).

<sup>3</sup> About the history of section 271, please see Tom Arnold & Louis Riley, *Contributory Infringement and Patent Misuse: The Enactment of § 271 and its Subsequent Amendments*, 76 J. PAT. & TRADEMARK OFF. SOC’Y 357 (1994).

<sup>4</sup> See Timothy R. Holbrook, *The Intent Element of Induced Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 399, 399 (2006).

<sup>5</sup> See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 485-86 (1964).

<sup>6</sup> See *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1468-69 (Fed. Cir. 1990).

<sup>7</sup> See *Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478, 481 (Fed. Cir. 1985) (“The purpose of section 271 was to ‘codify in statutory form principles of contributory



In 1988, the Federal Circuit first interpreted § 271(b) to require that a person infringes a patent “by actively and knowingly aiding and abetting another’s direct infringement.”<sup>8</sup> The Federal Circuit particularly clarified “knowing” as an element because “the case law and legislative history uniformly assert such a requirement.”<sup>9</sup> The “knowing”/“knowledge” requirement requires “proof of a specific, knowing intent to induce infringement.”<sup>10</sup> But, the Federal Circuit did not require “direct evidence,” and confirmed that “circumstantial evidence may suffice.”<sup>11</sup>

The “knowledge” requirement had been ambiguous back then because of two conflicting opinions of the Federal Circuit in 1990.<sup>12</sup> In *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, the Federal Circuit held that “proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”<sup>13</sup> That is, causing infringement specifically is not required. Contrarily, in *Manville Sales Corp. v. Paramount Sys., Inc.*, the Federal Circuit held, “The plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.”<sup>14</sup> That is, knowledge of direct infringement is specifically required.

*Hewlett-Packard Co.* and *Manville Sales Corp.* provide two different standards. Prof. Lemley comments that the *Hewlett-Packard Co.* court is “a fairly lower standard of intent since most people do intend the natural consequences of their acts.”<sup>15</sup> On the other hand, he mentions that for the *Manville Sales Corp.* court, “it is the knowledge of the legal consequence – infringement – that matters.”<sup>16</sup> He also observes that the Federal Circuit and district courts applied either of these two standards and the Federal Circuit failed to reconcile the standards.<sup>17</sup>

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infringement and at the same time eliminate ... doubt and confusion. Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer.” (citing a Congressional report)).

<sup>8</sup> *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988).

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> See Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 238 (2005).

<sup>13</sup> *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).

<sup>14</sup> *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

<sup>15</sup> Lemley, *supra* note 12, at 239.

<sup>16</sup> *Id.* at 240.

<sup>17</sup> See *id.* at 240-41.

In 2006, the Federal Circuit resolved the conflicting case law through *DSU Med. Corp. v. JMS Co.*<sup>18</sup> that is an en banc decision on the issue of inducement.<sup>19</sup> The Federal Circuit chose the *Manville Sales Corp.* court as an ultimate standard for inducement.<sup>20</sup> It further held, “The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.”<sup>21</sup>

Although the standard for determining inducement is definite, the application of the standard is still confusing because a court looks to circumstantial evidence. A plaintiff may prove that the defendant actually knew the induced act was infringement. Or, a plaintiff may prove that the defendant should have known the induced act was infringement. All factual findings are based on circumstantial evidence. In 2010, the Federal Circuit took a bold step to loosen the standard of knowledge to find inducement with the evidence on hands.<sup>22</sup> The Federal Circuit created a “deliberate indifference” standard.<sup>23</sup>

In 2011, *Global-Tech Appliances, Inc. v. SEB S.A.*<sup>24</sup> is the Supreme Court’s first case related to the interpretation of 35 U.S.C. § 271(b). The decision responded to the Federal Circuit’s “deliberate indifference” standard. The Supreme Court clarified that § 271(b) requires the plaintiff to prove that the accused infringer not only knows the patent-in-suit but also has a specific intent to cause others to infringe the patent.<sup>25</sup> The Supreme Court also overruled the “deliberate indifference” standard.<sup>26</sup> While “actual knowledge” of both the patent and direct infringement is required for proving inducement, the Supreme Court introduced the willful-blindness standard as an alternative of proving “actual knowledge.”<sup>27</sup> The standard has two prongs.<sup>28</sup> First, “the

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<sup>18</sup> *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006).

<sup>19</sup> See David W. Roadcap, *Global-Tech Appliances, Inc. v. SEB S.A. and the Creation of a Flexible Blindness Standard for Induced Patent Infringement*, 13 N.C. J.L. & TECH. ON. 117, 122 (2011).

<sup>20</sup> See *DSU Med. Corp.*, 471 F.3d at 1304.

<sup>21</sup> *Id.*

<sup>22</sup> See *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360, 1376-78 (Fed. Cir. 2010).

<sup>23</sup> See Andrew Ward, *Inducing Infringement: Specific Intent and Damages Calculation*, 94 J. PAT. & TRADEMARK OFF. SOC’Y 1, 13-14 (2012).

<sup>24</sup> *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011).

<sup>25</sup> See Daniel Eric Gorman, Note, *Global-Tech Appliances, Inc. v. SEB S.A.: Invoking the Doctrine of Willful Blindness to Bring those Who Lack Knowledge of Induced Infringement within § 271(b)’s Prohibition*, 14 TUL. J. TECH. & INTELL. PROP. 397, 402 (2011).

<sup>26</sup> See Ward, *supra* note 23, at 20.

<sup>27</sup> See Jason A. Rantanen, *An Objective View of Fault in Patent Infringement*, 60 AM. U. L. REV. 1575, 1615-16 (2011).

defendant must subjectively believe that there is a high probability that a fact exists.”<sup>29</sup> Second, “the defendant must take deliberate actions to avoid learning of that fact.”<sup>30</sup>

The *Global-Tech* decision is a new beginning of inducement. Because this new legal standard is invented, it is necessary to observe how district courts apply the willful-blindness standard. This paper has two parts. Part II discusses the *Global-Tech* decision and background knowledge thereof, including key facts and lower courts’ opinions. Additionally, one recent Federal Circuit case that responded to the *Global-Tech* decision is discussed. Part III provides a survey of early thirty five district court decisions citing the *Global-Tech* decision and analyzes how district courts applied the willful-blindness standard or understood the *Global-Tech* decision. The district courts’ interpretations of the standard are reviewed. The opinions are analyzed in terms of different types of motion under the Federal Rules of Civil Procedure (“FRCP”), for example, Rule 12(b)(6) motions, Rule 56 motions, and motions for judgment as a matter of law (“JMOL”).

## **II. Global-Tech Appliances, Inc. v. SEB S.A.**

### **A. Procedural History**

The plaintiff in *Global-Tech* was the owner of a U.S. Patent No. 4,995,312 that claims an electrical deep fryer.<sup>31</sup> The plaintiff also made deep fryers and sold them through its distributor.<sup>32</sup>

The defendants were Montgomery Ward & Co., Inc., Global-Tech Appliances, Inc., and Pentalpha Enterprises Ltd.<sup>33</sup> Pentalpha Enterprises Ltd. was responsible for designing and selling the accused product, while Global-Tech Appliances, Inc. was a mother company of Pentalpha Enterprises Ltd.<sup>34</sup> Pentalpha Enterprises Ltd. sold the accused product to Montgomery Ward & Co., Inc. that owned a lot of retailer stores in the States.<sup>35</sup> Then, Montgomery Ward & Co., Inc. began to sell to customers the accused product.<sup>36</sup>

In August 1999, the plaintiff filed a law suit against those three defendants at the United States District Court for the Southern District of

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<sup>28</sup> See Ward, *supra* note 23, at 20.

<sup>29</sup> Rantanen, *supra* note 27, at 1603 (citing the *Global-Tech* decision).

<sup>30</sup> *Id.* (citing the *Global-Tech* decision).

<sup>31</sup> See *SEB S.A. v. Montgomery Ward & Co., Inc.*, 77 F. Supp. 2d 399, 400 (S.D.N.Y. 1999).

<sup>32</sup> See *id.*

<sup>33</sup> See *id.*

<sup>34</sup> See *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360, 1366 (Fed. Cir. 2010).

<sup>35</sup> See *SEB S.A.*, 77 F. Supp. 2d at 400.

<sup>36</sup> See *id.*

New York and asserted patent infringement.<sup>37</sup> On September 10, 1999, the plaintiff moved for preliminary injunction.<sup>38</sup> On November 15, 1999, the district court issued “a preliminary injunction against defendants’ continued sale of the fryer.”<sup>39</sup> The defendants then appealed to the Federal Circuit which affirmed the preliminary injunction on November 6, 2000.<sup>40</sup>

During the term of the preliminary injunction, the accused product was modified,<sup>41</sup> so the plaintiff moved for a supplemental preliminary injunction on August 3, 2000 to include the modified fryers as part of the original injunction.<sup>42</sup> Agreeing with the plaintiff, the district court later issued a new injunction on March 20, 2001.<sup>43</sup>

Long after the discovery was closed on October 30, 2001, the district court did not begin the trial until April 17, 2006.<sup>44</sup> After the jury heard all evidence, the defendants (not including Montgomery Ward & Co., Inc.) moved for judgment as a matter of law on inducement.<sup>45</sup> But, the district court denied the motion and let the jury try the case.<sup>46</sup> With respect to the issue of inducement, the jury found the inducement by the defendants.<sup>47</sup>

Among other motions, the defendants filed a post-trial motion for judgment as a matter of law on inducement.<sup>48</sup> But, the district court again denied the motion.<sup>49</sup> Then, the defendants appealed to the Federal Circuit which, among other things, reviewed the issue of inducement and affirmed the district court’s ruling as well as jury’s finding.<sup>50</sup>

The defendants later filed a petition to the Supreme Court which granted the petition for writ of certiorari on October 12, 2010.<sup>51</sup> The issue was specifically about inducement, and the defendants challenged the legal standard of inducement adopted by the Federal Circuit.<sup>52</sup> Unfortunately to

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<sup>37</sup> See *SEB S.A. v. Montgomery Ward & Co., Inc.*, 137 F. Supp. 2d 285, 286 (S.D.N.Y. 2001).

<sup>38</sup> See *SEB S.A.*, 594 F.3d at 1367.

<sup>39</sup> See *SEB S.A.*, 137 F. Supp. 2d at 286.

<sup>40</sup> See *id.*

<sup>41</sup> See *id.*

<sup>42</sup> See *id.* at 287.

<sup>43</sup> See *id.* at 285.

<sup>44</sup> See *SEB S.A.*, 594 F.3d at 1367.

<sup>45</sup> See *id.*

<sup>46</sup> See *id.*

<sup>47</sup> See *id.*

<sup>48</sup> See *SEB S.A. v. Montgomery Ward & Co., Inc.*, 2007 WL 3165783, at \*13 (S.D.N.Y. 2007).

<sup>49</sup> See *id.* at \*4.

<sup>50</sup> See *SEB S.A.*, 594 F.3d at 1374, 1378.

<sup>51</sup> See *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 458, 458 (2010).

<sup>52</sup> See *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2063, 2065 (2011).

the defendants, while the Supreme Court did not agree with the Federal Circuit's legal standard,<sup>53</sup> it eventually held the Federal Circuit's ruling because under a new standard developed by the Supreme Court, the circumstantial evidence supported the finding of inducement.<sup>54</sup>

## **B. Inducement Issue**

The key facts surrounding the inducement issue were about the product development of the accused products. Pentalpha Enterprises Ltd. designed the accused fryer in Hong Kong, China.<sup>55</sup> The design idea was not original, because Pentalpha Enterprises Ltd. simply copied the plaintiff's fryer sold in Hong Kong.<sup>56</sup> In 1997, Global-Tech Appliances, Inc. sold the accused products to Sunbeam Products, Inc. in the States.<sup>57</sup> Under the request of Sunbeam Products, Inc., Global-Tech Appliances, Inc. hired an American attorney to do a right-to-use study that was based on the analysis of twenty six patents and concluded that the accused product was not read on any claims of those patents.<sup>58</sup> But, Global-Tech Appliances, Inc. had never told the attorney that the accused product copied the plaintiff's fryer.<sup>59</sup>

When the district court heard the defendants' motion for judgment as a matter of law on inducement, the defendants specifically argued that it was insufficient to show the knowledge of the patent-in-suit by using the piece of evidence to show that the attorney was set up to avoid knowing the accused fryer simply copied the plaintiff's fryer.<sup>60</sup> But, the district court disagreed by stating that "the jury was free to consider whether key information was not disclosed to Levy in his patent search and whether that information would have allowed defendants to discover the patent."<sup>61</sup> The district court further recognized that the evidence of "copying" "was sufficient to establish "specific intent and action to induce infringement."<sup>62</sup> Thus, the jury's finding was upheld.

## **C. Analysis of the Federal Circuit Decision**

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<sup>53</sup> See *id.* at 2067, 2065.

<sup>54</sup> See *id.* at 2068-72.

<sup>55</sup> See *SEB S.A.*, 594 F.3d at 1366.

<sup>56</sup> See *id.*

<sup>57</sup> See *id.* I assumed that the mother company was responsible for selling products.

<sup>58</sup> See *id.*

<sup>59</sup> See *id.*

<sup>60</sup> See *SEB S.A.*, 2007 WL 3165783, at \*4.

<sup>61</sup> See *id.* at \*4.

<sup>62</sup> See *id.*

The debate of the inducement issue focused on the jury's finding related to inducement.<sup>63</sup> The key issue was whether all relevant evidence considered by the jury sufficiently supported a finding of knowledge of the patent-in-suit.<sup>64</sup> To resolve the issue, the Federal Circuit first elaborated the requirement of knowledge of a patent-in-suit.

The Federal Circuit case law requires that to constitute inducement, "the plaintiff must show that the alleged infringer knew or should have known that his actions would induce actual infringements."<sup>65</sup> This requirement "necessarily includes the requirement that he or she knew of the patent."<sup>66</sup> However, when the Federal Circuit dealt with the defendants' appeal, what was not defined was "the metes and bounds of the knowledge-of-the-patent requirement."<sup>67</sup> Although the defendants challenged the "should have known" standard, the Federal Circuit developed an even more loose standard for determining actual knowledge of a patent-in-suit.<sup>68</sup> It is a "deliberate indifference" standard which was later abrogated by the Supreme Court.

While again recognizing that "inducement requires a showing of 'specific intent to encourage another's infringement,'"<sup>69</sup> the Federal Circuit stated that "'specific intent' in the civil context is not so narrow as to allow an accused wrongdoer to actively disregard a known risk that an element of the offense exists."<sup>70</sup> This statement indicated the Federal Circuit's awareness of the fact of this case. Because the defendants intentionally hid the key information from their attorney when the attorney was doing a right-to-use study, the Federal Circuit seemed to condemn such behavior by developing a new standard for inducement in such case.

To support the "deliberate indifference" standard, the Federal Circuit cited sister Circuits' cases and stated the "the standard of deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge."<sup>71</sup> The Federal Circuit also gave an evidential definition of the "deliberate indifference" standard. First, the Federal Circuit distinguished the "should have known" standard and "deliberate indifference" standard by stating that the former standard "implies a solely objective test" and that the latter standard "may require a subjective

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<sup>63</sup> See *SEB S.A.*, 594 F.3d at 1373.

<sup>64</sup> See *id.*

<sup>65</sup> See *id.* at 1376.

<sup>66</sup> See *id.*

<sup>67</sup> See *id.*

<sup>68</sup> See *id.* at 1376-77.

<sup>69</sup> See *id.* at 1376.

<sup>70</sup> See *id.*

<sup>71</sup> See *SEB S.A.*, 594 F.3d at 1377 (quoting *United States v. Carani*, 492 F.3d 867, 873 (7th Cir. 2007); *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005)).

determination that the defendant knew of and disregarded the overt risk that an element of the offense existed.”<sup>72</sup> Second, the Federal Circuit recognized that “an accused infringer may defeat a showing of subjective deliberate indifference to the existence of a patent where it shows that it was genuinely ‘unaware even of an obvious risk.’”<sup>73</sup>

After defining the “deliberate indifference” standard as an ultimate standard for the present case, the Federal Circuit explained why “[t]he record contains adequate evidence to support a conclusion that [the defendants] deliberately disregarded a known risk that [the plaintiff] had a protective patent.”<sup>74</sup> The Federal Circuit quoted several pieces of evidence heard by the jury to support its conclusion. For instance, “[the defendant] purchased an [plaintiff-made] deep fryer in Hong Kong and copied all but the cosmetics.”<sup>75</sup> “[The defendant] hired an attorney to conduct a right-to-use study, but did not tell him that it had based its product on [the plaintiff’s] product.”<sup>76</sup> There were other facts that caused “[the] failure to inform [the defendants’] counsel of copying [to] be highly suggestive of deliberate indifference.”<sup>77</sup> First, the president of one defendant was well familiar with the American patent system and was one listed inventor of several U.S. patents.<sup>78</sup> In addition, the defendants had a prior business relationship with the plaintiff regarding the defendants’ patented steamer.<sup>79</sup>

The Federal Circuit also considered whether “proof of knowledge through a showing of deliberate indifference [was] defeated where an accused infringer establishes that he actually believed that a patent covering the accused product did not exist,”<sup>80</sup> and concluded it was not.<sup>81</sup> For example, while the plaintiff’s fryer copied was not marked with a U.S. patent number, the defendants did not “argue that it relied on the lack of a mark to come to a belief that the deep fryer was not patented.”<sup>82</sup> The Federal Circuit even required the defendants to explain “why one would expect an [plaintiff’s] deep fryer purchased in Hong Kong to have U.S. patent markings.”<sup>83</sup>

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<sup>72</sup> See *id.* at 1376.

<sup>73</sup> See *id.* at 1376-77.

<sup>74</sup> See *id.* at 1377.

<sup>75</sup> See *id.*

<sup>76</sup> See *id.*

<sup>77</sup> See *id.*

<sup>78</sup> See *id.*

<sup>79</sup> See *id.*

<sup>80</sup> See *id.* at 1378.

<sup>81</sup> See *id.*

<sup>82</sup> See *id.*

<sup>83</sup> See *id.*

While the defendants' behavior surrounding the accused fryer constituted inducement under the "deliberate indifference" standard, the Federal Circuit further cautioned that "[its] opinion does not purport to establish the outer limits of the type of knowledge needed for inducement."<sup>84</sup> Under a dictum made in this case, "a patentee may perhaps only need to show, ... , constructive knowledge with persuasive evidence of disregard for clear patent markings."<sup>85</sup>

In conclusion, the Federal Circuit created the new "deliberate indifference" standard while not limiting its knowledge theories for future development.

#### **D. Analysis of the Supreme Court Decision**

##### **1. Rejection of the "Deliberate Indifference" Standard**

The Supreme Court in *Global-Tech* expressly rejected the "deliberate indifference" standard and, contrary to the Federal Circuit, established a boundary of the knowledge requirement for inducement. To set aside the "deliberate indifference" standard, the Supreme Court specified the knowledge requirement of inducement under section 271(b).

Based on three reasons, the Supreme Court held that "induced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement."<sup>86</sup>

First, from the language of section 271(b), the Supreme Court explained "actively induces" and concluded that "the inducement must involve the taking of affirmative steps to bring about the desired result."<sup>87</sup> But, section 271(b), as the Supreme Court was confused, might be read to "require merely that the inducer lead another to engage in conduct that happens to amount to [direct] infringement,"<sup>88</sup> or to "mean that the inducer must persuade another to engage in conduct that the inducer knows is [direct] infringement."<sup>89</sup>

To resolve such ambiguity, the Supreme Court then looked to the case law before the indirect infringement clauses were codified, because the legislative history showed that sections 271(b) and (c) were intended to codify the case law of contributory patent infringement.<sup>90</sup> However, the Supreme Court found that there were two conflicting ways of how courts

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<sup>84</sup> *See id.*

<sup>85</sup> *See id.*

<sup>86</sup> *See Global-Tech Appliances, Inc.*, 131 S. Ct. at 2068.

<sup>87</sup> *See id.* at 2065.

<sup>88</sup> *See id.*

<sup>89</sup> *See id.*

<sup>90</sup> *See id.* at 2065-66.



viewed contributory patent infringement.<sup>91</sup> The pre-codification case law did not help. So, the Supreme Court relied on its recent precedent, which relates to contributory copyright infringement.<sup>92</sup> Citing its 2005 decision, *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*,<sup>93</sup> the Supreme Court stated again that “[t]he inducement rule ... premises liability on purposeful, culpable expression and conduct.”<sup>94</sup>

Last, because of no clue from the pre-codification case law, the Supreme Court relied on its precedent of interpreting § 271(c) to resolve the issue. In 1964, the Supreme Court in *Aro Mfg. Co. v. Convertible Top Replacement Co.* (“*Aro II*”)<sup>95</sup> interpreted § 271(c),<sup>96</sup> and concluded that “a violator of § 271(c) must know ‘that the combination for which his component was especially designed was both patented and infringing.’”<sup>97</sup> That is, “§ 271(c) requires knowledge of the existence of the patent that is infringed.”<sup>98</sup> Here, for some reasons, the Supreme Court held that the *Aro II* decision “compels this same knowledge for liability under § 271(b).”<sup>99</sup> First, the inducement under section 271(b) was considered part of contributory patent infringement prior to the codification.<sup>100</sup> Second, the phrase “knowing [a component] to be especially made or especially adapted for use in an infringement” in section 271(c) also could be read in two ways: “[ (1) ] a violator must know that the component is “especially adapted for use” in a product that happens to infringe a patent[; or (2)] the phrase may be read to require, in addition, knowledge of the patent's existence.”<sup>101</sup> Third, the Supreme Court felt “strange to hold that knowledge of the relevant patent is needed under § 271(c) but not under § 271(b).”<sup>102</sup>

It should be noted that the Supreme Court referred the “deliberate indifference” standard to “deliberate indifference to a known risk that a

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<sup>91</sup> See *id.* at 2066.

<sup>92</sup> See *id.* at 2066-67 (interpreting *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005)).

<sup>93</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

<sup>94</sup> See *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2067 (citing *Metro-Goldwyn-Mayer Studios Inc.*, 545 U.S. at 937).

<sup>95</sup> *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964).

<sup>96</sup> See *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2067

<sup>97</sup> See *id.*

<sup>98</sup> See *id.* at 2068.

<sup>99</sup> See *id.* at 2067.

<sup>100</sup> See *id.*

<sup>101</sup> See *id.*

<sup>102</sup> See *id.* at 2068.

patent exists.”<sup>103</sup> While the Supreme Court used “known risk,” the Federal Circuit actually emphasized “overt risk” or “obvious risk.”<sup>104</sup>

## 2. Creation of a “Willful-blindness” Standard

Although the newly-born “deliberate indifference” standard was overruled, the Supreme Court did not mean to free the defendants because it then created a new “willful-blindness” standard to hold that the behavior of the defendants constituted inducement under § 271(b).<sup>105</sup> The doctrine of willful blindness is a concept of criminal law.<sup>106</sup> The doctrine is applied to prevent “defendants [from] escap[ing] the reach of these statutes by deliberately shielding themselves from clear evidence of critical facts that are strongly suggested by the circumstances.”<sup>107</sup>

The doctrine of willful blindness was adopted because “defendants who behave in this manner are just as culpable as those who have actual knowledge.”<sup>108</sup> The Supreme Court considered “willful blindness” as a substitute for “actual knowledge.”<sup>109</sup>

Based on Circuit Courts’ case laws, the Supreme Court held the willful-blindness standard had “two basic requirements: (1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact.”<sup>110</sup> Alternatively, the Supreme Court held that “a willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts.”<sup>111</sup>

To distinguish the “willful-blindness” standard from the “deliberate indifference” standard, the Supreme Court first stated that “[the two basic] requirements give willful blindness an appropriately limited scope that surpasses recklessness and negligence.”<sup>112</sup> The Supreme Court characterized “a reckless defendant [as] one who merely knows of a substantial and unjustified risk of such wrongdoing”<sup>113</sup> and “a negligent defendant [as] one

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<sup>103</sup> *See id.*

<sup>104</sup> *See SEB S.A.*, 594 F.3d at 1376-77.

<sup>105</sup> *See Global-Tech Appliances, Inc.*, 131 S. Ct. at 2068.

<sup>106</sup> *See id.*

<sup>107</sup> *See id.* at 2068-69.

<sup>108</sup> *See id.* at 2069.

<sup>109</sup> *See id.*

<sup>110</sup> *See id.* at 2070.

<sup>111</sup> *See id.* at 2070-71.

<sup>112</sup> *See id.* at 2070.

<sup>113</sup> *See id.* at 2071.

who should have known of a similar risk but, in fact, did not.”<sup>114</sup> Thus, the proposition suggests that neither a reckless defendant nor negligent defendant can be held liable for inducement.

The Supreme Court also criticized the “deliberate indifference” standard in two ways.<sup>115</sup> “First, [the Federal Circuit’s standard] permits a finding of knowledge when there is merely a ‘known risk’ that the induced acts are infringing. Second, in demanding only ‘deliberate indifference’ to that risk, the Federal Circuit’s test does not require active efforts by an inducer to avoid knowing about the infringing nature of the activities.”<sup>116</sup>

But, the question remains whether the Supreme Court has abrogated the “should have known” standard. First, whether the “should have known” standard is equivalent to the Supreme Court’s “negligent defendant” is questionable. Second, “surpass” was used as a verb in comparing willful blindness with recklessness and negligence, while the Supreme Court did not expressly hold that the “negligence” standard is not applicable. So, the proposition that the “willful-blindness” standard is a better test seems not to mean that the “should have known” standard is inappropriate.

### **3. Application of the “Willful-blindness” Standard**

Although the defendants won on the issue of an applicable standard, the Supreme Court still held that “[t]he jury could have easily found that before April 1998 [the defendants] willfully blinded itself to the infringing nature of the sales it encouraged [a third party] to make.”<sup>117</sup> Several pieces of evidence were relied on. First, the Supreme Court found that the plaintiff’s fryer was an innovation and that sales of the fryer were expected to be growing for some time.<sup>118</sup> When the defendants developed the accused fryer for their American customer, they did a market research and collected as much information as possible.<sup>119</sup> The defendants believed that the advanced technology embodied in the plaintiff’s fryer was valuable to the U.S. market, because they decided to copy such advanced technology.<sup>120</sup> The defendants intended to copy the plaintiff’s fryer sold in Hong Kong.<sup>121</sup> The defendants knew their deep fryer was developed for the U.S. market.<sup>122</sup> The top

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<sup>114</sup> *See id.*

<sup>115</sup> *See id.*

<sup>116</sup> *See id.*

<sup>117</sup> *See id.*

<sup>118</sup> *See id.*

<sup>119</sup> *See id.*

<sup>120</sup> *See id.*

<sup>121</sup> *See id.*

<sup>122</sup> *See id.*

manager of the defendants was an inventor of many U.S. patents.<sup>123</sup> Last, the top manager decided not to tell their attorney that their deep fryer was a copy of the plaintiff's product when the attorney was producing a right-to-use report.<sup>124</sup>

The Supreme Court particularly questioned the motive of the top manager to hide the information that they copied the plaintiff's deep fryer. The Supreme Court stated that "we cannot fathom what motive [the top manager] could have had for withholding this information other than to manufacture a claim of plausible deniability in the event that his company was later accused of patent infringement."<sup>125</sup>

Based on the evidence surrounding the making of the right-to-use study, the Supreme Court held that it "was more than sufficient for a jury to find that [the defendants] subjectively believed there was a high probability that [the plaintiff's fryer was patented, that [the defendants] took deliberate steps to avoid knowing that fact, and that it therefore willfully blinded itself to the infringing nature of [a third party's] sales."<sup>126</sup>

It should be noted that the Supreme Court actually asked the defendants to provide some rebuttals, so the inference could be withdrawn. For instance, the defendants might answer "whether the attorney would have fared better had he known of [the plaintiff's] design."<sup>127</sup> That is, the defendants might have had a chance to provide a theory of why the attorney does not need to know that they copied the plaintiff's fryer. But, the defendants did not respond.<sup>128</sup>

## **E. Federal Circuit's Response**

While excluding a negligent defendant from inducement actions, the Supreme Court in *Global-Tech* did not explicitly overrule the "should have known" standard that has been adopted by the Federal Circuit. After *Global-Tech*, the Federal Circuit was occasionally confronted with inducement, but until 2013 it did not address the legality of the "should have known" standard.<sup>129</sup>

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<sup>123</sup> *See id.*

<sup>124</sup> *See id.*

<sup>125</sup> *See id.*

<sup>126</sup> *See id.* at 2072.

<sup>127</sup> *See id.* at 2071.

<sup>128</sup> *See id.* at 2071.

<sup>129</sup> *See e.g.*, *Meril Ltd. v. Cipla Ltd.*, 681 F.3d 1283 (Fed. Cir. 2012); *In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323 (Fed. Cir. 2012); *SynQor, Inc. v. Artesyn Techs., Inc.*, 709 F.3d 1365 (Fed. Cir. 2013); *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012); *Smith & Nephew, Inc. v. Arthrex, Inc.*, 502 F. App'x 945 (Fed. Cir. 2013).

In 2013, the Federal Circuit in *Commil USA, LLC v. Cisco Sys., Inc.*<sup>130</sup> confirmed that the “should have known” standard has been abrogated by the Supreme Court. In *Commil USA, LLC*, the appeal related to a jury instruction that told the jury to find inducement if the defendant “actually intended to cause the acts that constitute direct infringement and that Cisco knew or should have known that its actions would induce actual infringement.”<sup>131</sup> The Federal Circuit found this jury instruction was legally erroneous because a defendant that negligently induces the direct infringement may still be found liable under § 271(b).<sup>132</sup>

Drawing from *Global-Tech*, the Federal Circuit clarified the “knowledge” requirement in two aspects. First, showing either “actual knowledge or willful blindness” may prove the inducer’s knowledge of the patent-in-suit.<sup>133</sup> Second, § 271(b) requires a finding of two types of knowledge: knowledge of the patent-in-suit and knowledge of direct infringement.<sup>134</sup>

The Federal Circuit also provided an evidentiary aspect of how to determine an inducer’s knowledge. First, the level of supporting facts of “willful blindness” prevents a finding of knowledge based on either recklessness or negligence.<sup>135</sup> Thus, circumstantial evidence supporting a finding of knowledge based on recklessness or negligence cannot lead to a finding of knowledge based on “willful blindness.” Second, the “should have known” standard may accuse a finding of inducement based on an inducer’s recklessness or negligence.<sup>136</sup> Thus, a jury instruction reciting the “should have known” standard is erroneous.

Third, evidence of an inducer’s good-faith belief of invalidity of the patent-in-suit must be heard by fact-finders.<sup>137</sup> The Federal Circuit provided this proposition in response to the district court’s exclusion of the defendant’s evidence of a good-faith belief of invalidity, where the same district court recognized the Federal Circuit case law allowing evidence of a good-faith belief of non-infringement that may negate the prerequisite intent

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<sup>130</sup> *Commil USA, LLC v. Cisco Sys., Inc.*, 720 F.3d 1361 (Fed. Cir. 2013).

<sup>131</sup> *Id.* at 1366 (citing the jury instruction).

<sup>132</sup> *See id.* at 1367.

<sup>133</sup> *See id.* at 1366.

<sup>134</sup> *See id.* at 1367 (“A finding of inducement requires both knowledge of the existence of the patent and ‘knowledge that the induced acts constitute patent infringement.’”).

<sup>135</sup> *See id.* at 1366 (“The [Supreme] Court acknowledged that the facts that must be adduced to find willful blindness prevent such a finding on facts that support only recklessness or negligence.”).

<sup>136</sup> *See id.* (“[T]he present jury instruction plainly recites a negligence standard, which taken literally, would allow the jury to find the defendant liable based on mere negligence where knowledge is required.”).

<sup>137</sup> *See id.* at 1369.

required for finding inducement.<sup>138</sup> The proposition is based on a notion that “[i]t is axiomatic that one cannot infringe an invalid patent.”<sup>139</sup> Therefore, it is possible that “one could be aware of a patent and induce another to perform the steps of the patent claim, but have a good-faith belief that the patent is not valid.”<sup>140</sup> In addition, the importance of evidence of good-faith belief of invalidity is that it may “negate [a finding] of the specific intent to encourage another’s infringement.”<sup>141</sup> However, while holding that “evidence of an accused inducer’s good-faith belief of invalidity may negate the requisite intent for induced infringement,”<sup>142</sup> the Federal Circuit cautioned that “[t]his is, of course, not to say that such evidence precludes a finding of induced infringement.”<sup>143</sup>

Therefore, after *Commil USA, LLC*, the “should have known” standard is no longer a good law. The scope of the “knowledge” requirement is more definite.

### III. Early District Court Response

#### A. Overview

Since *Global-Tech*, there have been several district court decisions citing *Global-Tech*.<sup>144</sup> Among the cases issued by May 22, 2012, *Mikkelsen Graphic Eng’g Inc. v. Zund Am., Inc.*,<sup>145</sup> *ePlus, Inc. v. Lawson Software, Inc.*<sup>146</sup> (hereinafter, “*ePlus I*”), and *ePlus Inc. v. Lawson Software, Inc.*<sup>147</sup> (hereinafter, “*ePlus II*”), *Vasudevan Software, Inc. v. TIBCO Software Inc.*,<sup>148</sup> *Ill. Tool Works, Inc. v. MOC Prods. Co.*,<sup>149</sup> *Weiland Sliding Doors and Windows, Inc. v. Panda Windows and Doors, LLC*,<sup>150</sup> *Trading Techs.*

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<sup>138</sup> *See id.* at 1367.

<sup>139</sup> *Id.* at 1368.

<sup>140</sup> *Id.*

<sup>141</sup> *Id.*

<sup>142</sup> *Id.*

<sup>143</sup> *Id.* at 1368-69.

<sup>144</sup> The search date was done on Oct. 9, 2013. The database was Westlaw’s KeyCite.

<sup>145</sup> *Mikkelsen Graphic Eng’g Inc. v. Zund Am., Inc.*, 2011 WL 6122377 (E.D. Wis. Dec. 08, 2011).

<sup>146</sup> *ePlus, Inc. v. Lawson Software, Inc.*, 2011 WL 3584313 (E.D. Va. Aug. 12, 2011) (hereinafter, *ePlus I*).

<sup>147</sup> *ePlus Inc. v. Lawson Software, Inc.*, 2011 WL 4704212 (E.D. Va. Oct. 04, 2011) (hereinafter, *ePlus II*).

<sup>148</sup> *Vasudevan Software, Inc. v. TIBCO Software Inc.*, 2012 WL 1831543 (N.D. Cal. May 18, 2012).

<sup>149</sup> *Ill. Tool Works, Inc. v. MOC Prods. Co.*, 2012 WL 727828 (S.D. Cal. Mar. 06, 2012).

<sup>150</sup> *Weiland Sliding Doors and Windows, Inc. v. Panda Windows and Doors, LLC*, 2012 WL 202664 (S.D. Cal. Jan. 23, 2012).

*Int'l, Inc. v. BCG Partners, Inc.*,<sup>151</sup> *Minemyer v. R-Boc Representatives, Inc.*,<sup>152</sup> and *Walker Digital, LLC v. Facebook, Inc.*<sup>153</sup> are decisions that interpret the *Global-Tech* decision. This section is intended to explore these decisions to see how they viewed the *Global-Tech* decision.

### 1. Does the *Global-Tech* Decision Change the Elements of Inducement?

Some commentators stated that the *Global-Tech* decision changed the rules of inducement under section 271(b).<sup>154</sup> This observation from the *Global-Tech* decision may not be a case.

In *Mikkelsen Graphic Eng'g Inc.*, the district court stated that the *Global-Tech* decision “does not change the state-of-mind element for inducement.”<sup>155</sup> In *Vasudevan Software, Inc.*, to state a proposition where “[u]nder *Global-Tech*, to state a claim for inducement, the patentee must show that the alleged infringer had ‘knowledge of the existence of the patent that is infringed,’” the district court cited not only the *Global-Tech* decision but also one Federal Circuit’s en banc case, *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir.2006), and quoted: “the requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.”<sup>156</sup> This shows that the district court linked the *Global-Tech* decision to the existing Federal Circuit case law, indicating that the *Global-Tech* decision just affirms the existing case law.

In *Minemyer*, the district court stated that the Supreme Court “clarified the existing case law.”<sup>157</sup> While “clarified” was used, the district court still stated, “The Supreme Court’s holding confirmed long-established Federal Circuit law on inducement.”<sup>158</sup>

Maybe the knowledge requirement is refined by the *Global-Tech* decision. In *Trading Techs. Int'l, Inc.*, the district court confirmed that the *Global-Tech* decision required a plaintiff to prove that “the alleged infringer

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<sup>151</sup> *Trading Techs. Int'l, Inc. v. BCG Partners, Inc.*, 2011 WL 3946581 (N.D. Ill. Sept. 02, 2011).

<sup>152</sup> *Minemyer v. R-Boc Representatives, Inc.*, 2012 WL 527857 (N.D. Ill. Feb. 15, 2012).

<sup>153</sup> *Walker Digital, LLC v. Facebook, Inc.*, \_\_\_ F. Supp. 2d \_\_\_, 2012 WL 1129370 (D. Del. Apr. 04, 2012).

<sup>154</sup> See Yuan-Chen Chiang, “Willful Blindness” for Induced Infringement—Impacts of the U.S. Supreme Court’s *Global-Tech* Case on Taiwanese Companies, 1 NTUT J. OF INTELL. PROP. L. & MGMT. 114, 119 (2012) (“Now the standard is much stricter, and thus it’s harder for a plaintiff to prove induced infringement.”).

<sup>155</sup> *Mikkelsen Graphic Eng'g Inc.*, 2011 WL 6122377, at \*7.

<sup>156</sup> See *Vasudevan Software, Inc.*, 2012 WL 1831543, at \*6.

<sup>157</sup> *Minemyer*, 2012 WL 527857, at \*1 (emphasis added).

<sup>158</sup> *Id.*

must have knowledge of the patent at issue (or at least ‘willful blindness’ to the patent) and knowledge that the infringer’s product infringed on that patent.”<sup>159</sup> In *Walker Digital, LLC*, the district court cited the Global-Tech decision and stated that “[the plaintiff] must allege that [the defendants] had knowledge not only of the patent, but of the allegedly infringing nature of the asserted conduct under § 271(b).”<sup>160</sup> That is, there are two forms of knowledge. One is that a defendant has to know the patent-in-suit. The other is that a defendant has to know the existence of direct infringement.

## 2. What is the Willful-blindness Standard?

Two requirements of the Willful-blindness standard were defined by the Global-Tech decision. The district courts treat the two requirements as two elements for proving that a defendant willfully blinded himself from knowing the patent-in-suit.

Some opinions misunderstood the Supreme Court’s ruling. In *Illinois Tool Works, Inc.* and *Weiland Sliding Doors and Windows, Inc.*, the district court distinguished the willful-blindness standard from actual knowledge by stating, “The [Supreme] Court further held that under this standard actual knowledge is not required, but that the doctrine of willful blindness applies to inducement of infringement claims.”<sup>161</sup> However, the exact propositions made by the Supreme Court are, “The traditional rationale for this doctrine is that defendants who behave in this manner are just as culpable as those who have actual knowledge,”<sup>162</sup> and “It is also said that persons who know enough to blind themselves to direct proof of critical facts in effect have actual knowledge of those facts.”<sup>163</sup> The Supreme Court has never rejected that actual knowledge is not required but that the willful-blindness standard is an alternative for proving actual knowledge in the context of inducement.

## 3. Is There Any Alternative to the “Willful-blindness” Standard?

In *ePlus I*, the district court equaled “deliberately disregard” to “willfully blind.”<sup>164</sup> The defendant challenged the jury instruction read as “[k]nowledge of the patent may be established by a finding that Lawson had actual knowledge of the patent or that Lawson deliberately disregarded a

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<sup>159</sup> *Trading Techs. Int’l, Inc.*, 2011 WL 3946581, at \*3.

<sup>160</sup> *Walker Digital, LLC*, 2012 WL 1129370, at \*5.

<sup>161</sup> See, e.g., *Weiland Sliding Doors and Windows, Inc.*, 2012 WL 202664, at \*4; *Ill. Tool Works, Inc.*, 2012 WL 727828, at \*7.

<sup>162</sup> *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2069.

<sup>163</sup> *Id.*

<sup>164</sup> See *ePlus I*, 2011 WL 3584313, at \*4-\*5.



known risk that ePlus had a protective patent.”<sup>165</sup> The defendant asserted that the jury instruction adopted “a flawed, pre-*[Global-Tech]* standard for intent.”<sup>166</sup> But, the district court held, “This instruction comports with the Supreme Court’s discussion of willful blindness in *[Global-Tech]*.”<sup>167</sup> The holding was based on the fact that the difference between “deliberate indifference” and “deliberately disregard” was explained to the jury by the district court.<sup>168</sup>

In *ePlus II*, which followed *ePlus I*, the defendant again attacked the language “deliberately disregarded a known risk that ePlus had a protective patent” in the jury instruction.<sup>169</sup> In responding to that attack, the district court explained why “this language does not depart from the ‘willful blindness’ standard set out in *Global-Tech*.”<sup>170</sup> By citing one quotation in footnote nine of the *Global-Tech* decision, the district court held, “‘Deliberate disregard of a known risk’ implies that the Defendant ‘knew that criminal activity was particularly likely’ (the risk), and ‘intentionally failed to investigate’ (deliberate disregard).”<sup>171</sup> In addition, the distinction between “deliberate indifference” and “deliberately disregard” was made again. The district court stated, “Whereas disregard implies ‘deliberate actions to avoid confirming a high probability of wrongdoing,’ indifference does not.”<sup>172</sup> That is, in the district court’s view, “deliberately disregard” requires a defendant to take an action to not knowing the existence of a patent-in-suit or patent infringement. Therefore, the “willful-blindness” standard can be operated in a form of “deliberately disregard.”

## **B. Rule 12(b)(6) Motion Cases**

### **1. Rule 12(b)(6) Motions**

A Rule 12(b)(6) motion is a procedural tool for defendants to request the court to dismiss the complaint. In determining whether a Rule 12(b)(6) should be granted, many district courts have recognized two recent Supreme Court cases *Ashcroft v. Iqbal*<sup>173</sup> and *Bell Atlantic Corp. v. Twombly*<sup>174</sup> as a

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<sup>165</sup> *See id.* at \*5.

<sup>166</sup> *See id.* at \*4.

<sup>167</sup> *See id.* at \*5.

<sup>168</sup> *See id.*

<sup>169</sup> *See ePlus II*, 2011 WL 4704212, at \*3.

<sup>170</sup> *See id.*

<sup>171</sup> *See id.* In footnote nine of the *Global-Tech* decision, the quoted proposition is: “Ignorance is deliberate if the defendant was presented with facts that put her on notice that criminal activity was particularly likely and yet she intentionally failed to investigate those facts,” from *United States v. Florez*, 368 F.3d 1042, 1044 (8th Cir. 2004).

<sup>172</sup> *See ePlus II*, 2011 WL 4704212, at \*3.

<sup>173</sup> *Ashcroft v. Iqbal*, 556 U.S. 662 (2009).

<sup>174</sup> *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007).

legal standard. The *Ashcroft* Court reaffirmed the standard of reviewing Rule 12(b)(6) motions ruled in *Bell Atlantic Corp.*<sup>175</sup>

To survive a Rule 12(b)(6) motion, a complaint must state factual allegations sufficient to “allow the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.”<sup>176</sup> Reciting “the elements of a cause of action, supported by mere conclusory statements, do not suffice.”<sup>177</sup> To determine whether to deny a motion to dismiss, the court must conduct “a context-specific task [to] draw on its judicial experience and common sense.”<sup>178</sup> If factual allegations are well pleaded, the court “should assume their veracity and then determine whether they plausibly give rise to an entitlement to relief.”<sup>179</sup>

In the context of inducement, the ultimate question is “whether [the plaintiff] has plead sufficient facts ... for the [c]ourt to infer that the defendant[] had knowledge of [the patent at issue] and that [the defendant’s] products infringed on [the patent].”<sup>180</sup>

## **2. Plaintiff-won Cases**

### **a. Trading Techs. Int’l, Inc. v. BCG Partners, Inc.**

In *Trading Techs. Int’l, Inc.*, the district court denied the defendant’s motion to dismiss. The district court inferred the defendant’s knowledge of the patent-in-suit because of several main reasons.<sup>181</sup> First, the defendants were in the business related the patent-in-suit.<sup>182</sup> The plaintiff marked its products with the patent number.<sup>183</sup> The defendants were aware of the patent-in-suit through several law suits while continuing to sell the infringing products to the customers.<sup>184</sup> In addition, the district court considered other alleged facts, such as “press coverage, previously filed litigation, consent judgments entered in companion cases and complaints filed against other defendants in this consolidated proceeding.”<sup>185</sup>

The factual allegations related to knowledge of the patent-in-suit were presented as a competition game between the plaintiff and defendant. As the district court highlighted, because the defendant is a competitor with the

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<sup>175</sup> See *Ashcroft*, 556 U.S. at 677-79.

<sup>176</sup> *Id.* at 678.

<sup>177</sup> *Id.*

<sup>178</sup> *Id.* at 679.

<sup>179</sup> *Id.*

<sup>180</sup> *Trading Techs. Int’l, Inc.*, 2011 WL 3946581, at \*3.

<sup>181</sup> See *id.* at \*4.

<sup>182</sup> See *id.*

<sup>183</sup> See *id.*

<sup>184</sup> See *id.*

<sup>185</sup> *Id.*

plaintiff, the defendant “would be keeping an eye on patents issued to [the defendant] and other competitors.”<sup>186</sup> However, the district court in footnote 5 clarified that it did not require knowledge to be found “solely by pleading that the competitor would be monitoring the plaintiff’s patent filings and any patents issued to it.”<sup>187</sup> Nonetheless, the fact that the parties are in the same industry “makes knowledge of the patent at issue *more* plausible.”<sup>188</sup>

With respect to the defendant’s knowledge of direct infringement or specific intent to cause direct infringement, the district court relied on the factual allegations where “the defendants sold their products to customers knowing that they had no other use than one that infringed on [patents at issue] and showed them how to infringe on those patents with their websites and instructions.”<sup>189</sup> Therefore, “non-infringing use” might be a factor of knowledge of direct infringement.

#### **b. Weiland Sliding Doors and Windows, Inc. v. Panda Windows and Doors, LLC**

In *Weiland Sliding Doors and Windows, Inc.*, the district court found sufficient pleadings of inducement.<sup>190</sup> Regarding the defendant’s knowledge of the patent, the district court depended on two factual allegations. First, the plaintiff marked their products “with appropriate patent markings.”<sup>191</sup> Second, the plaintiff had sent a patent licensing opportunity letter that encloses a copy of the patent at dispute.<sup>192</sup>

Regarding the defendant’s knowledge of direct infringement, the district court pointed out the following allegations. First, the defendant possessed the patent and the plaintiff’s product.<sup>193</sup> The defendant’s product was identical to the plaintiff’s, so any non-infringing use was impossible.<sup>194</sup> The defendant had expressed his intent to copy the patented product.<sup>195</sup> The defendant had never sought a counsel opinion of non-infringement.<sup>196</sup> The on-line brochure, which advertises the allegedly infringing products and provides instructions of installation, was disseminated by the defendant.<sup>197</sup>

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<sup>186</sup> *Id.*

<sup>187</sup> *Id.* at \*4 n.5.

<sup>188</sup> *Id.* (emphasis in original).

<sup>189</sup> *Id.* at \*4.

<sup>190</sup> *See Weiland Sliding Doors and Windows, Inc.*, 2012 WL 202664, at \*6.

<sup>191</sup> *See id.* at \*4.

<sup>192</sup> *See id.*

<sup>193</sup> *See id.* at \*5.

<sup>194</sup> *See id.*

<sup>195</sup> *See id.*

<sup>196</sup> *See id.*

<sup>197</sup> *See id.*

Particularly, regarding the factual allegation that the defendant had failed to obtain a counsel opinion about infringement analysis after receiving a copy of the patent, the district court clarified that the patent licensing opportunity letter actually did not “alert [the defendant] to the potentiality of infringement,”<sup>198</sup> because the letter only expressed an offer for licensing the patent.<sup>199</sup> So, the district court refused to infer the intent to cause direct infringement from such allegation alone.<sup>200</sup>

**c. Apeldyn Corp. v. Sony Corp. (“Apeldyn I”)**

In *Apeldyn Corp. v. Sony Corp.*, the district court dismissed the defendant’s motion,<sup>201</sup> while it did not expressly speak about knowledge of direct infringement. This Rule 12(b)(6) motion was filed by Sony, which and Samsung co-owned a company manufacturing infringing products.<sup>202</sup> The district court found the defendant’s knowledge of the patent at issue because of several factual allegations.<sup>203</sup> First, the defendant’s in-house legal department routinely reviewed competitors’ patents.<sup>204</sup> A notice letter sent to Samsung mentioned that their products might infringe the patent at issue.<sup>205</sup> For the same patent, the plaintiff had filed a law suit against the defendant.<sup>206</sup>

**d. Walker Digital, LLC v. Facebook, Inc.**

In *Walker Digital, LLC*, the multiple defendants were in the e-commerce business.<sup>207</sup> Two defendants, Amazon, Inc. and Zappos.com, Inc., filed a motion to dismiss.<sup>208</sup> The district court denied both motions.<sup>209</sup> Like the *Apeldyn* court, the district court here did not specifically mention knowledge of direct infringement. With respect to knowledge of the patents-in-suit, the district court’s holding was based on the factual allegation that the plaintiff’s representatives had interacted with the defendants for infringement issues

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<sup>198</sup> *Id.*

<sup>199</sup> *See id.*

<sup>200</sup> *See id.*

<sup>201</sup> *See Apeldyn Corp. v. Sony Corp.*, \_\_\_ F. Supp. 2d \_\_\_, 2012 WL 1129371, at \*1 (D. Del. Apr. 4, 2012) (hereinafter, “*Apeldyn I*”).

<sup>202</sup> *See id.* at \*2.

<sup>203</sup> *See id.* at \*4.

<sup>204</sup> *See id.*

<sup>205</sup> *See id.*

<sup>206</sup> *See id.*

<sup>207</sup> *See Walker Digital, LLC*, 2012 WL 1129370, at \*1.

<sup>208</sup> *See id.*

<sup>209</sup> *See id.*

related to the patents-in-suit.<sup>210</sup> Those interactions led to the inference of the defendants' knowledge.<sup>211</sup>

**e. CyberFone Sys. LLC v. Cellco P'ship**

In *CyberFone Sys., LLC v. Cellco P'ship*, the district court dismissed the defendant's Rule 12(b)(6) motion.<sup>212</sup> The main dispute rested on the defendant's knowledge of the patent at issue. The district court based its holding on the factual allegation that at least the defendant began to know the patent at issue when the original complaint was filed.<sup>213</sup>

**3. Defendant-won Cases**

**a. Nazomi Commc'ns, Inc. v. Nokia Corp.**

In *Nazomi Commc'ns, Inc. v. Nokia Corp.*, the district court granted the defendant's motion to dismiss, while it also allowed the plaintiff to amend the complaint.<sup>214</sup> The district court held that the plaintiff did not specify particular facts related to inducement and that the plaintiff only made conclusory statements.<sup>215</sup>

**b. Aguirre v. Powerchute Sports, LLC**

In *Aguirre v. Powerchute Sports, LLC*, the district court dismissed the plaintiff's indirect infringement claims because the allegations did not touch the knowledge requirement of inducement.<sup>216</sup> In fact, the plaintiff had amended the complaint twice but had never specified the defendant's knowledge of either the patent in suit or direct infringement.<sup>217</sup> Nonetheless, the district court here still allowed the plaintiff to amend the complaint.<sup>218</sup>

**c. McRee v. Goldman (McRee I)**

In *McRee v. Goldman* (hereinafter, "*McRee I*"), the defendant who filed a motion to dismiss was a chairman of an association that allegedly directly

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<sup>210</sup> See *id.* at \*4-\*5.

<sup>211</sup> See *id.* at \*5.

<sup>212</sup> See *CyberFone Sys., LLC v. Cellco P'ship*, 2012 WL 1509504, at \*3 (D. Del. Apr. 30, 2012).

<sup>213</sup> See *id.*

<sup>214</sup> See *Nazomi Commc'ns, Inc. v. Nokia Corp.*, 2011 WL 2837401, at \*1 (N.D. Cal. July 14, 2011).

<sup>215</sup> See *id.* at \*3.

<sup>216</sup> See *Aguirre v. Powerchute Sports, LLC*, 2011 WL 3359554, at \*5 (W.D. Tex. Aug. 04, 2011).

<sup>217</sup> See, e.g., Complaint for Patent Infringement, *Aguirre v. Powerchute Sports, LLC*, 2010 WL 3430669 (W.D. Tex. Aug. 23, 2010); First Amended Complaint for Patent Infringement, *Aguirre v. Powerchute Sports, LLC*, 2010 WL 4951253 (W.D. Tex. Sept. 17, 2010).

<sup>218</sup> See *Aguirre*, 2011 WL 3359554, at \*5.

infringed the patent in suit.<sup>219</sup> The district court granted the motion because of two main reasons. First, while recognizing the plaintiff's allegation that the defendant had been notified of the infringement issue, the district court did not infer the defendant's knowledge of either the patent or the infringement made by the association.<sup>220</sup> Second, no allegation related to how the defendant induced his association to infringe the patent.<sup>221</sup> The plaintiff only asserted that the defendant took a photograph of himself with the alleged infringing product.<sup>222</sup>

**d. Wright Mfg. Inc. v. Toro Co.**

In *Wright Mfg. Inc. v. Toro Co.*, the district court granted the defendant's motion to dismiss because the complaint only included conclusory allegations.<sup>223</sup> The district court quoted one allegation that "Toro has known of [been aware of] [the patent] since at least 2008"<sup>224</sup> and concluded that "[m]ore is required."<sup>225</sup>

**e. McRee v. Goldman (McRee II)**

In *McRee v. Goldman* (hereinafter, "*McRee II*"), among other things, the district court granted to the same defendant in *McRee I* his motion to dismiss.<sup>226</sup> And, the district court allowed the plaintiff to amend the complaint again.<sup>227</sup> The *McRee II* decision was the following decision of the *McRee I* decision.<sup>228</sup> In *McRee II*, the defendant attacked the plaintiff's first amended complaint.<sup>229</sup> The district court agreed with the defendant because the plaintiff "fail[ed] to show the concurrence of knowledge and action necessary to establish [the defendant's] liability under § 271(b) for induced infringement."<sup>230</sup> The holding in *McRee II* is similar to that in *McRee I*. The plaintiff still could not make sufficient factual allegations.

The plaintiff alleged some facts. First, the defendant had seen a model of the infringing product before the defendant donated money to an association that was authorized by a local government to construct the infringing

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<sup>219</sup> See *McRee v. Goldman*, 2011 WL 4831199, at\*4 (N.D. Cal. Oct. 12, 2011).

<sup>220</sup> See *McRee I*, 2011 WL 4831199, at\*5.

<sup>221</sup> See *id.*

<sup>222</sup> See *id.*

<sup>223</sup> See *Wright Mfg. Inc. v. Toro Co.*, 2011 WL 6211172, at \*3 (D. Md. Dec. 13, 2011).

<sup>224</sup> See *id.* (modification in original).

<sup>225</sup> See *id.*

<sup>226</sup> See *McRee v. Goldman*, 2012 WL 929825, at \*1 (N.D. Cal. Mar. 19, 2012) (hereinafter, "*McRee II*").

<sup>227</sup> See *id.* at \*5.

<sup>228</sup> See *id.* at \*3.

<sup>229</sup> See *id.*

<sup>230</sup> *Id.* at \*5.

product.<sup>231</sup> Second, the local government's head had a meeting with the plaintiff before the construction of the infringing product began.<sup>232</sup> In the meeting, the plaintiff disclosed to the local government's head his patent application that later became the patent in suit.<sup>233</sup>

However, from these factual allegations, the district court could not "draw a plausible inference that [the defendant] knew of or was willfully blind to the existence of the [patent in suit] at the time of his charitable donation, nor that he knew his funds would be used to infringe the [patent in suit]."<sup>234</sup> Specifically, the district court gave an instructive comment that "[the plaintiff] fail[ed] to allege how or when this information was conveyed to [the defendant] in advance of his charitable donation to the [construction project]."<sup>235</sup>

#### **f. Vasudevan Software, Inc. v. TIBCO Software Inc.**

In *Vasudevan Software, Inc. v. TIBCO Software Inc.*, the district court granted the defendant's motion to dismiss but left the plaintiff to amend the complaint.<sup>236</sup> The plaintiff here applied the willful-blindness standard to willful infringement and inducement, both require a defendant's knowledge of the patent-in-suit and direct infringement.<sup>237</sup> The defendant tried to establish the defendant's willful blindness instead of approving actual knowledge.<sup>238</sup> However, the district court concluded that the plaintiff only made conclusory allegations.<sup>239</sup> The district court specifically criticized that the plaintiff had not pointed out "any affirmative actions taken by the defendant to avoid gaining actual knowledge of the [patent-in-suit]."<sup>240</sup>

### **C. Rule 56 Motion Cases**

#### **1. Rule 56 Motions**

A Rule 56 motion is also known as "a motion for summary judgment." A Rule 56 motion is granted, "when, drawing all justifiable inferences in the non-movant's favor, there exists no genuine issue of material fact and the

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<sup>231</sup> *See id.*

<sup>232</sup> *See id.*

<sup>233</sup> *See id.*

<sup>234</sup> *Id.*

<sup>235</sup> *Id.*

<sup>236</sup> *See Vasudevan Software, Inc. v. TIBCO Software Inc.*, 2012 WL 1831543, at \*1 (N.D. Cal. May 18, 2012).

<sup>237</sup> *See id.* at \*5.

<sup>238</sup> *See id.* at \*5-\*6.

<sup>239</sup> *See id.* at \*6.

<sup>240</sup> *Id.*

movant is entitled to judgment as a matter of law.”<sup>241</sup> To determine whether “a dispute about a material fact is genuine,”<sup>242</sup> a court looks to “if the evidence is such that a reasonable jury could return a verdict for the nonmoving party.”<sup>243</sup>

## 2. Plaintiff-won Cases

### a. **DataQuill Ltd. v. High Tech Computer Corp.**

In *DataQuill Ltd. v. High Tech Computer Corp.*, the defendant (HTC) moved for summary judgment of no indirect infringement, but the district court denied the motion.<sup>244</sup> Among other things, HTC argued that the plaintiff had not presented sufficient evidence to support the “specific intent” requirement.<sup>245</sup>

The suit was filed on March 24, 2008.<sup>246</sup> Two patents were alleged to be infringed.<sup>247</sup> Prior to the suit, both patents were subject to the reexamination proceeding.<sup>248</sup> On April 1, 2008, two non-final office actions were issued to reject all claims of those two patents.<sup>249</sup> On May 14, 2009, the district court stayed the action.<sup>250</sup> On October 27, 2009, one reexamination certificate was issued to one patent.<sup>251</sup> On April 13, 2010, one reexamination certificate was issued to the other patent.<sup>252</sup> Then, the district court lifted the stay because of the positive outcome.<sup>253</sup>

To prove the inducement, the plaintiff presented several pieces of evidence. First, before the suit was filed, the plaintiff had sent a letter to notify HTC of the patents-in-suit.<sup>254</sup> Second, the plaintiff had filed a law suit against HTC.<sup>255</sup> Third, both patents-in-suit survived the reexamination.<sup>256</sup> Fourth, the plaintiff had produced an expert opinion explaining the

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<sup>241</sup> *Toshiba Corp. v. Imation Corp.*, 681 F.3d 1358, 1361 (Fed. Cir. 2012).

<sup>242</sup> *Id.*

<sup>243</sup> *Id.* (quoting *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986)).

<sup>244</sup> *See DataQuill Ltd. v. High Tech Computer Corp.*, 2011 WL 6013022, at \*2 (S.D. Cal. Dec. 01, 2011).

<sup>245</sup> *See id.* at \*8.

<sup>246</sup> *See id.* at \*1.

<sup>247</sup> *See id.*

<sup>248</sup> *See id.*

<sup>249</sup> *See id.*

<sup>250</sup> *See id.*

<sup>251</sup> *See id.*

<sup>252</sup> *See id.*

<sup>253</sup> *See id.*

<sup>254</sup> *See id.* at \*9.

<sup>255</sup> *See id.*

<sup>256</sup> *See id.*



infringement made by the accused products.<sup>257</sup> Fifth, the plaintiff had presented HTC's "marketing materials and user guides related to the accused products."<sup>258</sup> With these facts, the district court held that a reasonable jury will reach a conclusion of inducement.<sup>259</sup>

HTC provided two arguments that were, however, rejected by the district court. First, HTC argued that the plaintiff only showed "evidence related to the issue of whether HTC had knowledge of the allegedly induced acts."<sup>260</sup> The district court disagreed and held that HTC "had knowledge of [the plaintiff's] contention that HTC was infringing these patents because [the plaintiff] had already filed the present lawsuit against HTC."<sup>261</sup> The second argument was that HTC "did not have the specific intent" either because all claims of the patents-in-suit were rejected in the non-office actions during the reexamination proceeding<sup>262</sup> or because HTC had "asserted substantial defenses to [the plaintiff's] claims through [the] litigation."<sup>263</sup> The district court, however, responded that these assertions "at best show[ed] that there is a triable issue of fact as to whether HTC is liable for induced infringement."<sup>264</sup> Specifically, the district court held that "no case law stand[ed] for the proposition that inducement can be foreclosed as a matter of law by rejections in a non-final office action or by the assertion of substantial defenses during litigation of the patents-in-suit."<sup>265</sup>

**b. Mformation Techs., Inc. v. Research in Motion Ltd.**

In *Mformation Techs., Inc. v. Research in Motion Ltd.*, the district court denied the defendant's motion for summary judgment regarding inducement.<sup>266</sup> The defendant argued that the plaintiff did not establish the knowledge requirement and the "specific intent" requirement.<sup>267</sup> Regarding the knowledge requirement, the district court held that there was a triable issue of whether the defendant knew the patent-in-suit.<sup>268</sup> This was because the plaintiff had shown that some employees of the defendant had knowledge of the patent-in-suit during "a series of disclosures made while [the plaintiff]

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<sup>257</sup> *See id.*

<sup>258</sup> *Id.*

<sup>259</sup> *See id.*

<sup>260</sup> *Id.* at \*10.

<sup>261</sup> *Id.*

<sup>262</sup> *See id.*

<sup>263</sup> *Id.*

<sup>264</sup> *Id.*

<sup>265</sup> *Id.*

<sup>266</sup> *See Mformation Techs., Inc. v. Research in Motion Ltd.*, 830 F. Supp. 2d 815, 2011 WL 6357804, at \*20 (N.D. Cal. Dec. 19, 2011).

<sup>267</sup> *See id.*

<sup>268</sup> *See id.*

was pursuing a potential partnership and license [sic] agreement with [the defendant]”<sup>269</sup> and that one employee of the defendant “was present at a working group meeting”<sup>270</sup> where the application for the patent-in-suit was disclosed.<sup>271</sup>

Regarding the “specific intent” requirement, the district court reached the same conclusion.<sup>272</sup> In addition to the evidence regarding the defendant’s knowledge of the patent-in-suit, the record also showed that the defendant intended to induce third parties’ infringement.<sup>273</sup> This was because the plaintiff had produced technical documents containing the instructions that teach consumers the infringing acts.<sup>274</sup>

### 3. Defendant-won Cases

#### a. *Apeldyn Corp. v. AU Optronics Corp. (“Apeldyn IP”)*

In *Apeldyn Corp. v. AU Optronics Corp.* (hereinafter, “*Apeldyn IP*”), two Taiwanese defendants filed a motion for summary judgment of no inducement.<sup>275</sup> One defendant won the motion because of no direct infringement.<sup>276</sup> The other defendant, AU Optronics Corp. (hereinafter, “AUO”), also moved for summary judgment of no inducement and won on the issues other than direct infringement.<sup>277</sup>

AUO focused on the fact that it did not know the patent-in-suit until the law suit was filed.<sup>278</sup> The plaintiff provided two theories to overcome AUO’s assertion, but the district court did not agree.<sup>279</sup> The first theory was the “transitive knowledge” theory.<sup>280</sup> The plaintiff produced evidence showing that a third party company licensed its intellectual property to AUO, that such third party company owned a patent that cites two other patents, and that both cited patents list the patent-in-suit.<sup>281</sup> With these facts, the plaintiff claimed the existence of AUO’s knowledge of the patent-in-suit. However, the district court held it was not, because the case law provided “no example of a finding of constructive knowledge based on the listing of a patent on the

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<sup>269</sup> *Id.*

<sup>270</sup> *Id.*

<sup>271</sup> *See id.*

<sup>272</sup> *See id.*

<sup>273</sup> *See id.*

<sup>274</sup> *See id.*

<sup>275</sup> *See Apeldyn Corp. v. AU Optronics Corp.*, 831 F. Supp. 2d 817, 820, 830-31 (D. Del. 2011) (hereinafter, “*Apeldyn IP*”).

<sup>276</sup> *See id.* at 830-31.

<sup>277</sup> *See id.* at 830-31

<sup>278</sup> *See id.* at 831

<sup>279</sup> *See id.* at 832.

<sup>280</sup> *See id.* at 831.

<sup>281</sup> *See id.*

face of another patent, twice removed.”<sup>282</sup> The district court further stated, “There is simply no indication that constructive notice is meant to embrace the hundreds, if not thousands, of listed patents that would be generated in many cases by such an extrapolation.”<sup>283</sup>

The second theory was based on the willful-blindness standard.<sup>284</sup> The plaintiff provided evidence showing that AUO was a large company with a lot of patents, that AUO had a big intellectual property group that is capable of monitoring patents, and that AUO’s intellectual property group did not collect competitors’ patents unless they were requested by AUO’s internal lawyers to do so.<sup>285</sup> Based on these facts, the plaintiff asserted that AUO willfully blinded itself from knowing the direct infringing acts.<sup>286</sup> However, the district court disagreed because these facts only showed that AUO was reckless or negligent.<sup>287</sup>

### **b. Ill. Tool Works, Inc. v. MOC Prods. Co.**

In *Ill. Tool Works, Inc.*, the district court denied the plaintiff’s motion for summary judgment for inducement.<sup>288</sup> The plaintiff made two arguments both of which were rejected by the district court.<sup>289</sup>

The plaintiff and defendant were competitors in a niche industry of products for cleaning automotive parts.<sup>290</sup> The plaintiff had one former employee who was one inventor of the patent-in-suit.<sup>291</sup> This former employee was later hired by the defendant to develop the accused product.<sup>292</sup> So, both parties did not dispute about the knowledge of the patent-in-suit. The focus was the knowledge of induced direct infringement.<sup>293</sup>

The first argument was based on the defendant’s admitted fact that the accused product has a technical feature claimed in the patent-in-suit. Two theories were asserted. The plaintiff’s first theory was that because the defendant knew that the accused product had a patented technical feature, the defendant also knew the accused product infringed the patent-in-suit.<sup>294</sup> The

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<sup>282</sup> *Id.*

<sup>283</sup> *Id.*

<sup>284</sup> *See id.*

<sup>285</sup> *See id.*

<sup>286</sup> *See id.*

<sup>287</sup> *See id.*

<sup>288</sup> *See Ill. Tool Works, Inc.*, 2012 WL 727828, at \*1.

<sup>289</sup> *See id.* at \*7-\*9.

<sup>290</sup> *See id.* at \*1.

<sup>291</sup> *See id.* at \*2.

<sup>292</sup> *See id.*

<sup>293</sup> *See id.* at \*7.

<sup>294</sup> *See id.* at \*8.

plaintiff's second theory was based on the willful-blindness standard.<sup>295</sup> The plaintiff asserted that the defendant took a deliberate action to avoid knowing the direct infringement.<sup>296</sup> First, the plaintiff's former employee was one inventor of the patent-in-suit and was responsible for developing the infringing product.<sup>297</sup> If the defendant had avoided the infringement, it should have done the test for the infringing product.<sup>298</sup>

Contrarily, the defendant argued that the plaintiff had known the sales of the accused product but had not informed the defendant of the infringement.<sup>299</sup> So, the defendant asserted that it "did not know and had no reason to suspect that use of its product infringed [the patent-in-suit]."<sup>300</sup>

While confirming that the knowledge requirement focuses on the defendant's mind not the plaintiff's inaction, the district court did weigh the plaintiff's inaction, because of "viewing the evidence in the light most favorable to [the defendant]."<sup>301</sup> The reasoning was that if the plaintiff had informed the defendant of the infringement of the patent-in-suit, the fact would suggest that the defendant subjectively believed a high probability of the infringement done by its product.<sup>302</sup> But, actually, the plaintiff had not done so.<sup>303</sup> On the other hand, when the defendant received the allegations of the infringement, it "redesigned its product and sought clearance from [the plaintiff's] attorney that its redesign was not infringing."<sup>304</sup> Thus, the district court held that "once [the defendant] knew of a high probability of infringement, it took deliberate action to avoid infringing, not to avoid discovering whether it was infringing."<sup>305</sup>

The second argument was based on the defendant's litigation strategy. The plaintiff asserted the non-infringement argument made for the inducement issue was not presented by the defendant for the issue of direct infringement.<sup>306</sup> When developing the infringing products, the plaintiff's former employee based his belief of non-infringement on the fact that the infringing product uses a particular nozzle that is allegedly not within the scope of the patent-in-suit.<sup>307</sup> However, when arguing the direct

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<sup>295</sup> *See id.*

<sup>296</sup> *See id.*

<sup>297</sup> *See id.*

<sup>298</sup> *See id.*

<sup>299</sup> *See id.*

<sup>300</sup> *Id.*

<sup>301</sup> *Id.*

<sup>302</sup> *See id.*

<sup>303</sup> *See id.*

<sup>304</sup> *Id.*

<sup>305</sup> *Id.*

<sup>306</sup> *See id.* at \*9.

<sup>307</sup> *See id.*

infringement issues, the defendant did not raise the nozzle issue to support the assertion of non-infringement.<sup>308</sup> Based on this litigation record, the plaintiff asserted that the defendant had known the direct infringement.<sup>309</sup>

The second argument was also rejected. The district court held that the defendant had “carried its burden to establish a genuine issue as to whether it had knowledge that the acts it induced were infringing.”<sup>310</sup> The district court also declined to “infer such knowledge from [the defendant’s] litigation strategy.”<sup>311</sup>

### c. **Mikkelsen Graphic Eng’g Inc. v. Zund Am., Inc.**

In *Mikkelsen Graphic Eng’g Inc.*, the district court was requested by the plaintiff to reconsider a summary judgment decision of finding that the defendant was not liable for inducement.<sup>312</sup> The request was made because the summary judgment of no inducement was followed by the Supreme Court’s *Global-Tech* decision.<sup>313</sup> The district court did not change its decision because it held that the *Global-Tech* decision did not change the existing elements of inducement.<sup>314</sup>

The summary judgment was in favor of the defendant because the language of the patent-in-suit was reasonably disputed. The district court held that “[t]he most that [the defendant] could have intended was to induce [others] to commit acts that would constitute patent infringement if the patent was, at some point in the future, construed in a particular way.”<sup>315</sup>

## D. **JMOL Motion Cases**

### 1. **JMOL Motions**

A motion for judgment as a matter of law is to request a court to decide factual disputes even though one party has demanded for jury trial. In determining a JMOL motion, as the Supreme Court held in *Reeves v. Sanderson Plumbing Prods., Inc.*, “the court should review all of the evidence in the record.”<sup>316</sup> The standard requires the court to “draw all reasonable inferences in favor of the nonmoving party [without making] credibility determinations or weigh the evidence.”<sup>317</sup> The court “must

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<sup>308</sup> *See id.*

<sup>309</sup> *See id.*

<sup>310</sup> *Id.*

<sup>311</sup> *Id.*

<sup>312</sup> *See Mikkelsen Graphic Eng’g Inc.*, 2011 WL 6122377, at \*1.

<sup>313</sup> *See id.*

<sup>314</sup> *See id.*

<sup>315</sup> *Id.* at \*7.

<sup>316</sup> *Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150 (2000).

<sup>317</sup> *Id.*

disregard all evidence favorable to the moving party that the jury is not required to believe.”<sup>318</sup> The ultimate rule is that “the court should give credence to the evidence favoring the nonmovant as well as that ‘evidence supporting the moving party that is uncontradicted and unimpeached, at least to the extent that that evidence comes from disinterested witnesses.’”<sup>319</sup>

A JMOL motion can be filed after the jury hears all evidence and before the jury returns its verdict.<sup>320</sup> This is a Rule 50(a) motion.<sup>321</sup> A JMOL motion can also be filed after the jury returns its verdict if the movant filed a JMOL motion under Rule 50(a).<sup>322</sup> A post-trial JMOL motion is also called a Rule 50(b) motion.<sup>323</sup> In addition to asking the court to reverse the jury verdict, a movant might request a new trial, but that will be a motion based on different rules.

## **2. Pre-trial JMOL Case—*Minemyer v. R-Boc Representatives, Inc.***

In *Minemyer*, three groups of the defendants filed a JMOL motion of no inducement.<sup>324</sup> The district court granted all three JMOL motions.<sup>325</sup>

### **3. Post-trial JMOL Cases**

#### **a. *ePlus, Inc. v. Lawson Software, Inc. (ePlus I)***

In *ePlus I*, the district court denied the defendant’s renewed motion for JMOL and renewed motion for new trial.<sup>326</sup> The defendant asserted that under the *Global-Tech* decision the jury should have not found that he had actual knowledge of the patent-in-suit before the law suit was filed.<sup>327</sup> But, the district court disagreed because several pieces of evidence had been considered by the jury.<sup>328</sup> First, the patents-in-suit “were marked.”<sup>329</sup> The patents “were publicized within the industry.”<sup>330</sup> Last, the plaintiff was known to the defendant as a competitor, though, less threatening.<sup>331</sup>

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<sup>318</sup> *Id.* at 151.

<sup>319</sup> *Id.*

<sup>320</sup> *See* Chen, *supra* note 1, at 3.

<sup>321</sup> *See id.*

<sup>322</sup> *See id.*

<sup>323</sup> *See id.*

<sup>324</sup> *See Minemyer*, 2012 WL 527857, at \*1.

<sup>325</sup> *See id.* at \*8.

<sup>326</sup> *See ePlus I*, 2011 WL 3584313, at \*1.

<sup>327</sup> *See id.* at \*4.

<sup>328</sup> *See id.* at \*1.

<sup>329</sup> *See id.*

<sup>330</sup> *See id.*

<sup>331</sup> *See id.*

**b. Versata Software Inc. v. SAP Am., Inc.**

In *Versata Software Inc. v. SAP Am., Inc.*, the district court denied the defendants' motion for JMOL and new trial regarding inducement.<sup>332</sup> The litigation here covered two separate jury trials of the same parties and the same patents.<sup>333</sup> There were two sets of infringing products.<sup>334</sup> The first trial related to the original infringing product, while the second trial related to the modified infringing product.<sup>335</sup> Both trials found inducement.<sup>336</sup> But, the defendants' motion was only for the second trial.<sup>337</sup>

While the defendants based their arguments on the *Global-Tech* decision, the district court, however, held that no different result would be made.<sup>338</sup> Three pieces of evidence were sufficient for the second jury's findings that the defendants knew the patent-in-suit and infringement.<sup>339</sup> First, the defendants "had long known of the [patent-in-suit] and the infringement issues related thereto."<sup>340</sup> Second, the defendants "had already been found liable for infringement when [they] made the [modified infringing product]."<sup>341</sup> Third, the plaintiff presented to the second jury that the modified infringing product did not remove or change [the technical feature at dispute] which is shown in the original infringing product.<sup>342</sup>

**E. Observations and Comments**

**1. Application of the Willful-blindness Standard**

After *Global-Tech*, few district court decisions applied the will-blindness standard. Based on the discussion above, two observations of the willful-blindness standard can be drawn. First, there is no affirmative duty to discover the patent-in-suit. The *Apeldyn II* court applied the standard and ruled in favor of the defendant. There, the plaintiff claimed that the defendant AUO willfully blinded itself from knowing the patent by push the court to impose a duty to discover the patent on AUO. AUO was a company with a large patent department that monitors patents or do patent prosecution. The plaintiff's assertion implied that because AUO had a large patent team,

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<sup>332</sup> See *Versata Software Inc. v. SAP Am., Inc.*, 2011 WL 4017952, at \*1 (E.D. Tex. Sept. 9, 2011).

<sup>333</sup> See *id.*

<sup>334</sup> See *id.*

<sup>335</sup> See *id.*

<sup>336</sup> See *id.*

<sup>337</sup> See *id.* at \*4.

<sup>338</sup> See *id.*

<sup>339</sup> See *id.*

<sup>340</sup> See *id.*

<sup>341</sup> See *id.*

<sup>342</sup> See *id.*

it should have been taking an affirmative action to find out the patent-in-suit instead of waiting for a request of an in-house counsel to perform a search. But, the district court rejected such implication.

The factual difference between *Apeldyn II* and *Global-Tech* is that AUO did not copy the plaintiff's product while the *Global-Tech* defendant did intentionally. Thus, the factor of no affirmative duty to discover the patent-in-suit might be weakened under other circumstances related to the defendant's culpable intent.

The second observation is that a defendant has to do something to avoid infringement. A defendant might design around the patent-in-suit. In *Illinois Tool Works, Inc.*, the defendant hired a name inventor of the patent-in-suit to develop the accused product. The district court there held that this fact alone cannot lead to a conclusion of knowledge of infringement. On one hand, the name inventor might be hired to avoid patent infringement. On the other hand, the defendant redesigned the product after receiving the notification of infringement. The redesign action was considered by the district court there as an affirmative action to avoid infringement. Therefore, to avoid being held willfully blind from knowing infringement, a defendant has to conduct design-around to establish a positive piece of evidence for inducement.

A defendant might acquire a credible assurance of non-infringement. The *Minemyer* court weighed the fact that, after knowing the patent marking, the defendant looked to the device supplier to check the patent issue and, therefore, received the supplier's assurance of no patent issue. Besides, such assurance was based on an attorney's analysis. Thus, a credible guaranty of no infringement might be a positive factor for a defendant when courts apply the willful-blindness standard.

## **2. Knowledge Requirements under the Existing Standard**

The *Global-Tech* decision reaffirmed the existing case law that requires knowledge of both the patent-in-suit and direct infringement. The first knowledge requirement is knowledge of the patent-in-suit. Marking a patent number on plaintiff's products helps meet the requirement. It works well particularly when the plaintiff and defendant are in the same industry. The examples are *Trading Techs. Int'l, Inc.*, *Weiland Sliding Doors and Windows, Inc.*, and *ePlus I*. Second, notifying a defendant of the patent-in-suit is another way to meet the requirement. This way is more direct. A plaintiff could initiate litigation about the patent-in-suit. The examples are *Trading Techs. Int'l, Inc., Inc.*, *Apeldyn I*, *Walker Digital, LLC*, *CyberFone Systems, LLC*, and *DataQuill Ltd*. In addition, a plaintiff could negotiate a licensing about the patent-in-suit. The examples are *Weiland Sliding Doors and Windows* and *Mformation Techs., Inc.*



The second knowledge requirement is knowledge of direct infringement. A plaintiff could file a law suit to make the defendant know direct infringement. The examples are *DataQuill Ltd.* and *Versata Software Inc.* A plaintiff could send a letter describing infringement, which is more direct to meet the requirement. *ePlus I.* is one example. Contrarily, a letter merely offering a licensing of the patent-in-suit is not enough. This rule is implied in *Weiland Sliding Doors and Windows, Inc.* In addition, a defendant's copying patented products with knowledge of the patent-in-suit might help prove knowledge of direct infringement. The example is *Weiland Sliding Doors and Windows, Inc.* However, evidence of knowledge of direct infringement could be rebutted. For example, a patent-in-suit has ambiguous claims. *Mikkelsen Graphic Eng'g Inc.* is one example.

### **3. Effects of Review Standards**

Courts apply different review standards to different motions. It is expectable that the same factual scenario might reach different results in different motions. In Rule 12(b)(6) motions, courts primarily look at a plaintiff's pleadings. Plaintiffs have more leeway to present factual allegations about inducement. For example, the plaintiff in *Apeldyn I* successfully made a case of inducement by alleging that the knowledge of direct infringement was acquired by the defendant through its joint-vendor partner.

On the other hand, in non-Rule 12(b)(6) motions, courts adjudicate a dispute in favor of the non-movant. So, either plaintiffs or defendants could win motion judgment. The above-mentioned Rule 56 motion cases all resulted in letting disputes be tried by jury. That means at most one party had made a triable issue through evidence of inducement. In addition, the JMOL motions showed that the proof that the defendant was informed of the patent-in-suit and infringement resulted in a judgment favorable to the plaintiff.

## **IV. Conclusion and Future Study**

The *Global-Tech* decision clarified the "knowledge" requirement under § 271(b). The Supreme Court required a plaintiff to prove the defendant's knowledge of both the patent-in-suit and direct infringement. To resolve the dispute in *Global-Tech*, the Supreme Court further created a new standard of knowledge as an alternative to prove actual knowledge. It is the willful-blindness standard which is a two-step test: (1) "the defendant must subjectively believe that there is a high probability that a fact exists;" (2) "the defendant must take deliberate actions to avoid learning of that fact."

According to early district court cases, the willful-blindness standard was applied to forming a ground of a decision. But, a few cases applied the standard to determine knowledge. Based on the cases reviewed by this study,

before more cases come out, the application of the willful-blindness standard cannot be predictable. However, some implications could be drawn from those cases. First, there is no affirmative duty to discover the patent-in-suit. It is better for a defendant has to do something to avoid infringement. A defendant might design around the patent-in-suit or acquire a credible assurance of non-infringement.

The dispute about the “knowledge” requirement was finally settled by the Supreme Court. However, a new dispute arose in 2012 because the Federal Circuit in *Akamai Techs., Inc. v. Limelight Networks, Inc.*<sup>343</sup> clarified the requirement of “direct infringement” with respect to method claims. Whether the new definition of the “direct infringement” requirement affects the determination of “knowledge” is worth being watched or studied in the future.

Finally, the evolution of the “knowledge” requirement after *Global-Tech* is on-going at the district court level. The Appendix of this paper lists several updated case names and categorizes those cases into four types: (1) Rule 12(b)(6); (2) Rule 56; (3) Rule 50 & New Trial; (4) Other motions.

#### Appendix

##### (1) Rule 12(b)(6)

MONEC Holding AG v. Motorola Mobility, Inc., 897 F. Supp. 2d 225 (D. Del. 2012).

Brandywine Commc’ns Techs., LLC v. Casio Computer Co., 912 F. Supp. 2d 1338 (M.D. Fla. 2012).

Brandywine Commc’ns Techs., LLC v. T-Mobile USA, Inc., 904 F. Supp. 2d 1260 (M.D. Fla. 2012).

Pacing Techs., LLC v. Garmin Int’l, Inc., 2013 WL 444642 (S.D. Cal. Feb. 5, 2013).

Versata Software, Inc. v. Callidus Software Inc., 2013 WL 2111672 (D. Del. May 16, 2013).

Fairchild Semiconductor Corp. v. Power Integrations, Inc., 2013 WL 1309413 (D. Del. Mar. 29, 2013).

E.I. Du Pont de Nemours and Co. v. Heraeus Holding GmbH, 2012 WL 4511258 (D. Del. Sept. 28, 2012).

Allergan, Inc. v. Watson Labs., Inc.-Fla., 869 F. Supp. 2d 456 (D. Del. 2012).

Gharb v. Mitsubishi Elec. Automation, Inc., 2012 WL 1986435 (N.D. Ill. June 4, 2012).

Cronos Techs., LLC v. Camping World Inc., 2013 WL 3936899 (W.D. Ky. July 30, 2013).

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<sup>343</sup> *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012).

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Nat'l Inst. for Strategic Tech. Acquisition and Commercialization v. Nissan of N. Am., 2012 WL 3600289 (E.D. Mich. Aug. 21, 2012).

Prism Techs., LLC v. McAfee, Inc., 2012 WL 5385210 (D. Neb. Nov. 1, 2012).

Silver State Intellectual Techs., Inc. v. FourSquare Labs, Inc., 2013 WL 5437363 (D. Nev. Sept. 26, 2013).

Rembrandt Social Media, LP v. Facebook, Inc., 2013 WL 2950342 (E.D. Va. June 12, 2013).

Radware, Ltd. v. A10 Networks, Inc., 2013 WL 5373305 (N.D. Cal. Sept. 24, 2013).

U.S. Ethernet Innovations, LLC v. Netgear, Inc., 2013 WL 4112601 (N.D. Cal. Aug. 12, 2013).

CreAgri, Inc. v. Pinnaclife Inc., 2013 WL 3958379 (N.D. Cal. Jul. 29, 2013).

Seoul Laser Dieboard Sys. Co. v. Serviform, S.r.l., 2013 WL 3761535 (S.D. Cal. Jul. 16, 2013).

Emblaze Ltd. v. Apple Inc., 2012 WL 5940782 (N.D. Cal. Nov. 27, 2012).

Infineon Techs. AG v. Volterra Semiconductor Corp., 2012 WL 3939353 (N.D. Cal. Sept. 10, 2012).

McRee v. Goldman, 2012 WL 3745190 (N.D. Cal. Aug. 28, 2012).

Proxyconn Inc. v. Microsoft Corp., 2012 WL 1835680 (C.D. Cal. May 16, 2012).

Guzik Technical Enters., Inc. v. W. Digital Corp., 2012 WL 1669355 (N.D. Cal. May 11, 2012).

Wistron Corp. v. Phillip M. Adams & Assocs., LLC, 2011 WL 4079231 (N.D. Cal. Sept. 12, 2011).

Potter Voice Techs. LLC v. Apple, Inc., 2013 WL 1325040 (D. Colo. Mar. 29, 2013).

E.I. Du Pont De Nemours & Co. v. Heraeus Precious Metals N. Am. Conshohocken LLC, 2013 WL 4047648 (D. Del. Aug. 8, 2013).

Telecomm Innovations, LLC v. Ricoh Co., 2013 WL 4017096 (D. Del. Aug. 6, 2013).

Gevo, Inc. v. Butamax(TM) Advanced Biofuels LLC, 2013 WL 3381258 (D. Del. July 8, 2013).

T5 Labs (Del.) LLC v. Gaikai Inc., 2013 WL 1400983 (D. Del. Apr. 5, 2013).

Intellectual Ventures I LLC v. Nikon Corp., 2013 WL 1298599 (D. Del. Apr. 1, 2013).

Stephenson v. Game Show Network, LLC, --- F.Supp.2d ----, 2013 WL 1226915 (D. Del. Mar. 27, 2013).

NETGEAR Inc. v. Ruckus Wireless Inc., 2013 WL 1124036 (D. Del. Mar. 14, 2013).

Pragmatus AV, LLC v. TangoMe, Inc., 2013 WL 571798 (D. Del. Feb. 13, 2013).

- Hand Held Prods., Inc. v. Amazon.com, Inc., 2013 WL 507149 (D. Del. Feb. 6, 2013).
- IpVenture Inc. v. Lenovo Group Ltd., 2013 WL 126276 (D. Del. Jan. 8, 2013).
- Pragmatus AV, LLC v. Yahoo! Inc., 2012 WL 6044793 (D. Del. Nov. 13, 2012).
- Aeritas, LLC v. Alaska Air Group, Inc., 893 F. Supp. 2d 680 (D. Del. 2012).
- Chalumeau Power Sys. LLC v. Alcatel-Lucent, 2012 WL 6968938 (D. Del. July 18, 2012).
- Pragmatus Telecom, LLC v. Ford Motor Co., 2012 WL 2700495 (D. Del. July 5, 2012).
- HSM Portfolio LLC v. Fujitsu Ltd., 2012 WL 2580547 (D. Del. July 3, 2012).
- IpVenture Inc. v. Lenovo Group Ltd., 2012 WL 2564893 (D. Del. June 29, 2012).
- CyberFone Sys., LLC v. Cellco P'ship, 2012 WL 1509504 (D. Del. Apr. 30, 2012).
- Netgear, Inc. v. Ruckus Wireless, Inc., 852 F. Supp. 2d 470 (D. Del. Mar. 28, 2012).
- EON Corp. IP Holdings LLC v. FLO TV Inc., 802 F. Supp. 2d 527 (D. Del. July 12, 2011).
- ParkerVision, Inc. v. Qualcomm Inc., 2013 WL 1277894 (M.D. Fla. Mar. 28, 2013).
- Ecolab Inc. v. Int'l Chemical Corp., 2011 WL 10702806 (M.D. Fla. Sept. 27, 2011).
- Merial Ltd. v. Ceva Animal Health LLC, 2013 WL 4763737 (M.D. Ga. Sept. 4, 2013).
- Mouldtec, Inc. v. Pagter & Partners Int'l B.V., 2012 WL 5966593 (N.D. Ill. Nov. 28, 2012).
- Intellect Wireless Inc. v. Sharp Corp., 2012 WL 787051 (N.D. Ill. Mar. 9, 2012).
- Wright Mfg. Inc. v. Toro Co., 2011 WL 6211172 (D. Md. Dec. 13, 2011).
- Sanofi-Aventis Deutschland GMBH v. Glenmark Pharms. Inc., USA, 2012 WL 1964559 (D.N.J. May 30, 2012).
- Worldwide Home Prods., Inc. v. Time, Inc., 2012 WL 6705876 (S.D.N.Y. Dec. 21, 2012).
- Pecorino v. Vutec Corp., 2012 WL 5989918 (E.D.N.Y. Nov. 30, 2012).
- Tranxition, Inc. v. Novell, Inc., 2013 WL 2318846 (D. Or. May 27, 2013).
- AntiCancer, Inc. v. Berthold Techs., U.S.A., LLC, 924 F. Supp. 2d 916 (E.D. Tenn. 2013).
- InMotion Imagery Techs., LLC v. Imation Corp., 2013 WL 1279055 (E.D. Tex. Mar. 26, 2013).

Achates Reference Pub., Inc. v. Symantec Corp., 2013 WL 693955 (E.D. Tex. Jan. 10, 2013).  
InMotion Imagery Techs. v. Brain Damage Films, 2012 WL 3283371 (E.D. Tex. Aug. 10, 2012).  
Lochner Techs., LLC v. AT Labs Inc., 2012 WL 2595288 (E.D. Tex. July 5, 2012).  
Driessen v. Sony Music Entm't, 904 F. Supp. 2d 1196 (D. Utah 2012).  
Execware, LLC v. Staples, Inc., 2012 WL 6138340 (D. Del. Dec. 10, 2012).  
Radiation Stabilization Solutions LLC v. Accuray Inc., 2012 WL 3621256 (N.D. Ill. Aug. 21, 2012).  
Select Retrieval, LLC v. L. L. Bean, Inc., 2012 WL 5381503 (D. Me. Oct. 31, 2012).  
Prism Techs., LLC v. Sprint Spectrum, L.P., 2012 WL 3867983 (D. Neb. Sept. 6, 2012).  
Prism Techs., LLC v. U.S. Cellular Corp., 2012 WL 3867995 (D. Neb. Sept. 6, 2012).  
Prism Techs., LLC v. Cellco P'ship, 2012 WL 3867997 (D. Neb. Sept. 6, 2012).  
e-Watch Inc. v. Avigilon Corp., 2013 WL 5231521 (S.D. Tex. Sept. 16, 2013).

(2) Rule 56

Bose Corp. v. SDI Techs. Imation Corp., 2012 WL 2862057 (D. Mass. July 10, 2012).  
Tarkus Imaging, Inc. v. Adobe Sys., Inc., 2012 WL 2175788 (D. Del. June 14, 2012).  
WesternGeco L.L.C. v. ION Geophysical Corp., 876 F. Supp. 2d 857 (S.D. Tex. 2012).  
Lutron Elecs. Co., Inc. v. Crestron Elecs., Inc., 2013 WL 4881570 (D. Utah Sept. 12, 2013).  
AntiCancer, Inc. v. Fujifilm Med. Sys. U.S.A., Inc., 2013 WL 947397 (S.D. Cal. Mar. 12, 2013).  
TV Interactive Data Corp. v. Sony Corp., 2012 WL 6020113 (N.D. Cal. Dec. 3, 2012).  
Gen-Probe Inc. v. Becton Dickinson and Co., 899 F. Supp. 2d 971 (S.D. Cal. 2012).  
Augme Techs., Inc. v. Yahoo! Inc., 2012 WL 3627408 (N.D. Cal. Aug. 21, 2012).  
Genentech, Inc. v. Trs. of Univ. of Pennsylvania, 871 F. Supp. 2d 963 (N.D. Cal. 2012).  
Alibaba.com H.K. LTD v. P.S. Prods., Inc., 2012 WL 1668896 (N.D. Cal. May 11, 2012).

Insituform Techs., LLC v. Cosmic Tophat, LLC, 2013 WL 4038722 (N.D. Ga. Aug. 9, 2013).

Avidyne Corp. v. L-3 Commc'ns Avionics Sys., Inc., 2012 WL 1067645 (D. Mass. Mar. 29, 2012).

Halo Elecs., Inc. v. Pulse Eng'g, Inc., 810 F. Supp. 2d 1173 (D. Nev. 2011).

MeadWestvaco Corp. v. Rexam PLC, 809 F. Supp. 2d 463 (E.D. Va. 2011).

Generac Power Sys., Inc. v. Kohler Co., 2012 WL 6562153 (E.D. Wis. Nov. 29, 2012).

Koninklijke Philips Elecs. N.V. v. Cinram Int'l, Inc., 2012 WL 4074419 (S.D.N.Y. Aug. 23, 2012).

### (3) JMOL & New Trial

Minemyer v. R-Boc Representatives, Inc., 2012 WL 2155240 (N.D. Ill. June 13, 2012).

On Site Energy Co., Inc. v. MTU Onsite Energy Corp., 2013 WL 3990919 (E.D.N.Y. Aug. 02, 2013).

Carnegie Mellon Univ. v. Marvell Tech. Group, Ltd., 2013 WL 5332108 (W.D. Pa. Sept. 23, 2013).

Conceptus, Inc. v. Hologic, Inc., 2012 WL 44237 (N.D. Cal. Jan. 9, 2012).

Halo Elecs., Inc. v. Pulse Elecs., Inc., 2013 WL 4458754 (D. Nev. Aug. 16, 2013).

Ericsson Inc. v. D-Link Sys., Inc., 2013 WL 4046225 (E.D. Tex. Aug. 6, 2013).

Internet Machs. LLC v. Alienware Corp., 2013 WL 4056282 (E.D. Tex. June 19, 2013).

SSL Servs., LLC v. Citrix Sys., Inc., 2013 WL 1680075 (E.D. Tex. Apr. 17, 2013).

VirnetX Inc. v. Apple Inc., 925 F. Supp. 2d 816 (E.D. Tex. 2013).

Saffran v. Johnson & Johnson, 2011 WL 4378030 (E.D. Tex. Sept. 20, 2011).

### (4) Other Motions

BASF Corp. v. Aristo, Inc., 2012 WL 2420999 (N.D. Ind. June 26, 2012) (motion for reconsideration).

Info-Hold, Inc. v. Muzak LLC, 2013 WL 4478950 (S.D. Ohio Aug. 20, 2013) (motion for reconsideration).

Pronova Biopharma Norge AS v. Teva Pharms. USA, Inc., 867 F. Supp. 2d 502 (D. Del. 2012) (Rule 52(a) judgment).

Acorda Therapeutics Inc. v. Apotex Inc., 2011 WL 4074116 (D.N.J. Sept. 6, 2011) (Rule 52(a) judgment).

Carnegie Mellon Univ. v. Marvell Tech. Group, Ltd., 2012 WL 5451475 (W.D. Pa. Nov. 7, 2012) (motion for excluding evidence).

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Toshiba Corp. v. Imation Corp., 2013 WL 1248633 (W.D. Wis. Mar. 26, 2013) (motion for excluding evidence).

Fred Hutchinson Cancer Research Ctr. v. Branhaven, LLC, 861 F. Supp. 2d 730 (E.D. Va. 2012) (specific jurisdiction).

Eon Corp. v. AT & T Mobility, LLC, 879 F. Supp. 2d 194 (D. Puerto Rico 2012) (specific jurisdiction).

Cited as:

Bluebook Style: Ping-Hsun Chen, *The New Development of the Knowledge Requirement of Induced Infringement under the American Patent Law*, 2 NTUT J. OF INTELL. PROP. L. & MGMT. 72 (2013).

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**TO USE OR NOT TO USE A TRADEMARK, THAT IS THE  
QUESTION—KEYWORD ADVERTISING AND THE LEGAL RISK  
OF TRADEMARK INFRINGEMENT**

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**ABSTRACT**

In keyword advertising disputes, “to be or not to be” may well be the question on which the life or death of a trademark hangs. The leading Taiwanese cases involving trademark disputes over keyword advertising are the cases of 2009-Ming-Shang-Sang-11 and 2010 Ming Shang Sang Geng (Yi) Zi No. 5 of the Taiwanese Intellectual Property Court, which outline why some instances of keyword advertising cannot constitute trademark infringement, but do constitute unfair competition. However, these case holdings not only ignore the legal risk for trademark-owning businesses and defendants, but also neglect to provide ways of managing them. This article attempts to fill the gaps left by the case holdings, and to go beyond the merely legal discussion of trademark by looking at their practical implications. In particular, this article focuses on the court’s judgment on trademark requirements as they relate to keyword advertising, the relevant Taiwanese Trademark Act articles, and foreign case law (e.g., the European Court of Justice’s *Louis Vuitton* case and the leading U.S. trademark case) to evaluate the legal risks of regulation and conflict and dispute resolution that affects businesses (trademark owners) and infringers. This article discusses managing the legal risk of trademark disputes regarding keyword advertising in two sections—one focusing on the public sector, examining the roles of legislative and judicial agencies; and the other focusing on the private sector, looking at the roles of businesses and Internet content providers. When both sectors play their roles well, the legal risk of keyword-advertising-driven trademark disputes are diminished.

Keywords: Keyword advertising, trademark, legal risk, public sector, private sector

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## **I. A Milestone Judgment on A Keyword Advertising and Trademark Dispute in Taiwan**

### **A. What is Keyword Advertising?**

Keyword advertising is no more than 20 years old. It is widely believed that Yahoo! Inc. pioneered keyword advertising in 1996.<sup>1</sup> This Internet marketing method is something completely new for businesses, including Taiwanese enterprises. There are many advantages to buying keyword advertising, especially for small corporations, including access to Internet marketing rate promotions and budget control. Buying keyword advertising allows businesses to expose more Internet users to their advertisements and to more widely sell their products.<sup>2</sup>

### **B. Trademark Disputes over Keyword Advertising**

Despite their marketing advantages for businesses, keyword advertising will trigger trademark disputes if they are identical or similar to registered trademarks. Keyword advertising (used herein to mean the keywords used in the specialized Internet marketing technique of strategic use and linking of keywords, or keyword advertising) may or may not pose issues with regard to trademark infringement. In other words, issues of keyword advertising not only are relevant to marketing methods at the Internet, but also are related to legal issues (trademark disputes) at the Internet.

Keyword advertising existed in foreign countries earlier than it did in Taiwan. The development of international case law concerning trademark disputes over keyword advertising was complete prior to their development in Taiwan. For example, a well-known trademark litigation involving a dispute over keyword advertising, *Louis Vuitton Moët Hennessey (LVMH) v. Google*, was recently decided by the European Court of Justice (ECJ) in March 2010.<sup>3</sup> In this case, LVMH had filed suit against Google for selling keyword advertising to LVMH's sponsors (rather than to LVMH exclusively). Google finally won the case, bringing this issue to the attention of the public.

In the cases of 2009-Ming-Shang-Sang-11 and 2010 Ming Shang Sang Geng (Yi) Zi No. 5, decided in 2010 and 2011 by the Taiwanese Intellectual

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<sup>1</sup> Wikipedia – Keyword Advertising, *available at* [http://en.wikipedia.org/wiki/Keyword\\_advertising](http://en.wikipedia.org/wiki/Keyword_advertising) (last visited May 25, 2013).

<sup>2</sup> Yahoo!, Inc. – Keyword Advertising : Our Four Advantages, *available at* <http://tw.emarketing.yahoo.com/ysm/aboutus/index.html> (last visited May 25, 2013).

<sup>3</sup> Scribd Home, Google France Sarl, Google Inc. v. Louis Vuitton Malletier Sa (C-236/08), Google France Sarl v. Viaticum Sa, Luteciel Sarl (C-237/08), and Google France Sarl v. Centre National De Recherche En Relations Humaines (Cnrrh) Sarl, Pierre-Altixis Thonet, Bruno Raboin, Tiger Sarl (C-238/08), *available at* <http://www.scribd.com/doc/28803312/lvmh-vs-google-pdf> (last visited May 25, 2013).

Property Court,<sup>4</sup> the Respondent used the Appellant's trademark, registered for use in restaurants and cafeterias from October 1, 2004, through October 31, 2014, in signboard and keyword advertising without the Appellant's permission. This led to disputes among the franchisees concerning the use of the Appellant's trademark on the signboard. Although there was no written "Franchisee Agreement" between the Respondent and the Appellant, the court held that the "Franchisee Agreement" need not be a literal document and that the "License Agreement" regarding the trademark was an effective substitute. Due to the rights transferred under the "License Agreement," no trademark infringement could be found in the Respondent's use of the Appellant's trademark in the signboard.<sup>5</sup>

This article discusses the legal risks in keyword advertising as demonstrated by the cases of 2009-Ming-Shang-Sang-11 and 2010 Ming Shang Sang Geng (Yi) Zi No.5 decided by the Taiwanese Intellectual Property Court. The judgments in these cases focused on: 1) whether or not buying keyword advertising itself constitutes the infringement of trademarks if the keywords used are identical or similar to registered trademarks; and 2) whether or not buying keyword advertising itself constitutes unfair competition if the keywords used in keyword advertising are identical or similar to registered trademarks. If buying keyword advertising is not itself use of trademarks, there can be no trademark infringement and no unfair competition when a business buys keyword advertising. Trademark infringements and unfair competitions do exist, however, if a business buys keyword advertising that are identical to or similar to registered trademarks.

Although the case of 2010 Ming Shang Sang Geng (Yi) Zi No. 5 was the relevant case of another, 2009-Ming-Shang-Sang-11, it was a case related to the Fair Trade Act,<sup>6</sup> rather than being a trademark dispute. In reality, keyword advertising leads to more disputes over trademarks in other countries,<sup>7</sup> and

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<sup>4</sup> The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts' Judgments, available at <http://jirs.judicial.gov.tw/Index.htm> (last visited May 25, 2013).

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

<sup>6</sup> The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts' Judgments, *supra* note 4.

<sup>7</sup> The case of *Playboy Enters., Inc. v. Welles*, Ninth Circuit, U.S. Court of Appeals, is a good example of keyword advertising leading to trademark dispute. Defendant Terri Welles was sued by Plaintiff, Playboy Enterprises, Inc. because the Defendant used the Plaintiff's trademarks, "PLAYBOY" and "PLAYMATE" as keywords on the Defendant's website. More detailed facts of the case are presented in section I.C.5 of this article. See Ching-Yang Lai & Yao-Shih Leng, *American Trademark Cases & Analysis* 47 (2008); Wikipedia, *Playboy Enterprises, Inc. v. Welles*, [http://en.wikipedia.org/wiki/Playboy\\_Enterprises,\\_Inc.\\_v.\\_Welles](http://en.wikipedia.org/wiki/Playboy_Enterprises,_Inc._v._Welles) (last visited Aug. 22, 2013); Finnegan, *Internet Trademark Case Summaries: Playboy Enters., Inc. v. Welles*,

unfair competition is one of the solution ways for Taiwanese courts to deal with the cases relevant to keyword advertising issues.<sup>8</sup> This article argues that it is more worthwhile to conduct legal risk analyses for trademark disputes than for unfair competition issues.

As a result, this article discusses trademark disputes over keyword advertising in three important steps. First, we ask how to differentiate keyword advertising from trademarks. This section will emphasize Articles 2, 6, 29, and 61 of the Taiwanese Trademark Act and the legal issues expressed in the case of 2009-Ming-Shang-Sang-11. Second, we discuss the risks in the regulation mandated by the current Taiwanese Trademark Act and the case at hand. Third, we try to solve the problems arising from the previous two topics and examine how businesses manage or reduce the legal risks of trademark disputes over keyword advertising.

## **II. How to Differentiate between Keyword Advertising and Trademarks**

If we want to discuss keyword advertising and trademarks, we have to distinguish one from the other as both terms are commonly used in business. Keyword advertising refers to specific words or phrases used for business advertising online.<sup>9</sup> Trademarks are logos used in products or packaging to distinguish those products from others when they are being purchased.<sup>10</sup> Trademarks, keyword advertising, and their relationships are complex, but we will try to introduce these issues step by step.

An understanding of trademark requirements and issues regarding the use of trademarks is important for grasping whether or not keyword advertising can constitute trademark infringement and the relationship between keyword advertising and trademarks. Thus, these issues form the main structure of this section and provide important foundations for understanding the legal risk issues regarding keyword advertising in trademark disputes.

### **A. Requirements of Trademarks**

As we know, trademarks are of significant value to businesses, and

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<http://www.finnegan.com/PlayboyEntersIncvWelles/> (last visited Aug. 22, 2013).

<sup>8</sup> For example, the Taiwan Intellectual Property Court cases, 2009-Ming-Shang-Sang-11 and 2011-Ming-Shang-Sang-7, are relevant to keyword advertising giving rise to trademark disputes in which Respondents set Appellants' trademarks as keywords on the websites of their restaurant and corporation, without Appellants' permission. More detailed facts of the cases are provided in note 16 and section I.C.1.3 of this article. *See* The Judicial Yuan of the Republic of China – Law and Regulations Retrieving System: Search for Courts' Judgments, *supra* note 4.

<sup>9</sup> Wikipedia–Keyword Advertising, *supra* note 1.

<sup>10</sup> WEN-YIN CHEN, TRADEMARK LAW 51 (3rd ed. 2005).

trademark laws are important in countries all over the world. The definitions of trademarks are important regulations in the trademark laws. Article 18 of the Taiwanese Trademark Act says that “A trademark shall refer to any sign with distinctiveness .... The term “distinctiveness” used in the preceding paragraph refers to the character of a sign capable of being recognized by relevant consumers as an indication of the source of goods or services and distinguishing goods or services of one undertaking from those of other undertakings.”<sup>11</sup>

In theory, there are “positive” and “negative” requirements of trademarkability in Taiwanese trademark law.<sup>12</sup> This article examines the “positive” requirements of trademarkability: “distinctiveness” and “secondary meaning.”<sup>13</sup> The “negative” requirements include prohibition of trademarks that propose “descriptive or generic terms” that are not distinctive, as regulated by Article 29 of the Taiwanese Trademark Act.<sup>14</sup> Article 30 of the Taiwanese Trademark Act forbids trademark applications that are identical or similar to a registered trademark, national symbol, or mark of a well-known foreign institution, or that violate public order or good morals.<sup>15</sup>

## **B. Is Keyword Advertising A Trademark?**

### **1. Examination of the “Positive” Requirements of Trademarkability in the Context of Keyword Advertising**

Once we understand the requirements of trademarkability, we turn first to examine how keyword advertising fits its “positive” requirement of “distinctiveness,” since consumers can identify the source of goods or services,

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<sup>11</sup> Ministry of Justice – The Working Group of the R.O.C. Laws & Regulations Database: Trademark Act, *available at* <http://law.moj.gov.tw/LawClass/LawAll.aspx?PCode=J0070001> (last visited May 25, 2013). From the perspective of comparative law approach, section 1052 of the U.S. Lanham Act states, “no trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature [barring some listed exceptions].” In other words, the definitions of trademarks as regulated by the trademark laws of civil and common law countries do not vary greatly. *See* BitLaw–Lanham (Trademark) Act (15 U.S.C.) Index, *available at* <http://www.bitlaw.com/source/15usc/> (last visited May 25, 2013).

<sup>12</sup> CHOU-FU LIN, *CASES OF TRADEMARK LAW* 58 (2d ed. 2012).

<sup>13</sup> “Secondary meaning” is a trademarkability requirement of “acquired distinctiveness.” It means that although a mark (logo, brand name, slogan, etc.) originally does not fit the requirement of “distinctiveness,” consumers can identify the source of goods or services and distinguish goods or services of one enterprise from those of another after its long-term use of that sign. *See id*; *see also* TU-TSUN WANG, *TRADEMARK LAW* 27 (3rd ed. 2012).

<sup>14</sup> Ministry of Justice–he Working Group of the R.O.C. Laws & Regulations Database: Trademark Act, *supra* note 11.

<sup>15</sup> *Id.*

and distinguish goods or services of one enterprise from those of another, through keyword advertising on the Internet. For example, it has been held that the names of celebrities (or other people) that are registered as trademarks may be used in keyword advertising on the Internet, because they do not fit within the trademark requirement of “distinctiveness”<sup>16</sup>

Another apparent contradiction arises when we examine the other “positive” requirement of trademarkability, “secondary meaning,”<sup>17</sup> in the context of keyword advertising. When we consider the requirement of “secondary meaning” because trademarks of famous stage names of actress or people’s names are used as keyword advertising on the Internet, and do not meet the “distinctiveness” test. According to “Examination Guidelines on Distinctiveness of Trademarks” of the Taiwan Intellectual Property Office (TIPO),<sup>18</sup> we should consider “the manner of the use of the trademark”<sup>19</sup> and “the use by competitors in the same trade”<sup>20</sup> as evidence of “secondary meaning.”<sup>21</sup> In this light, trademarked stage names (or other trademarked names) used as keyword advertising on the Internet are used for promoting the sales volume of buyers of keyword advertising, and they are used in the same way (with the same meaning), regardless of the trademark owners or their competitors.

## 2. Examination of the “Negative” Requirements of Trademarkability in the Context of Keyword Advertising

On the other hand, if we analyze the “negative” requirements of

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<sup>16</sup> These facts occurred in the case of 2011-Ming-Shang-Sang-7. A famous Taiwanese actor, Chuan-Chen Yeh, registered her stage name as a trademark. The corporation Cheng Yi Integrated Marketing Ltd. did not get her permission to use “Chuan-Chen Yeh” as keyword advertising for promoting its products. Appellant, Chuan-Chen Yeh, sued Appellee, Cheng Yi Integrated Marketing Ltd., for trademark infringement. The Taiwanese Intellectual Property Court argued that “Chuan-Chen Yeh” was used in keyword advertising on the Appellee’s webpage. Consumers only know “Chuan-Chen Yeh” as an actor’s name; thus, it cannot be considered as a trademark. As a result, using “Chuan-Chen Yeh” in keyword advertising on the Internet was found not to be using a trademark. *See* The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>17</sup> Meanings of the “Secondary meaning” is defined in note 13 of this article. *See* LIN, *supra* note 12, at 58; TU-TSUN WANG, TRADEMARK LAW 27 (3rd ed. 2012).

<sup>18</sup> Intellectual Property Office, Ministry of Economic Affairs R.O.C., Trademarks, Laws & Regulations: Examination Guidelines on Distinctiveness of Trademarks, *available at* <http://www.tipo.gov.tw/lp.asp?ctNode=6822&CtUnit=3316&BaseDSD=7&mp=2> (last visited May 29, 2013).

<sup>19</sup> Article 5.1(1) of the Guidelines. *See id.*

<sup>20</sup> Article 5.1(1) of the Guidelines. *See* Intellectual Property Office, Ministry of Economic Affairs R.O.C., Trademarks: Laws & Regulations, *supra* note 16.

<sup>21</sup> Wang, *supra* note 17, at 29.

trademarkability (prohibition of trademarkability for “descriptive or generic terms” in Article 29 of the Taiwanese Trademark Act and grounds for refusal of trademark registration in Article 30 of the Taiwanese Trademark Act), we see that keyword advertising can be viewed as a trademark.

So we can see, that in addition to famous stage names or other people’s names registered as trademarks that are used in keyword advertising on the Internet, keywords used in keyword advertising can generally be identified as a trademark, or not, by the examination of both “positive” and “negative” requirements of trademarkability.

### **C. Does Using Keyword Advertising Equal Using Trademarks?**

When we identify keyword advertising as a trademark through the examination of requirements of trademarks, we must ask the question of whether use of keyword advertising is the equivalent of using trademarks. The answer lies in the fact that trademarks can be registered and are physical logos used by enterprises to distinguish and promote their goods and services.

The global Internet population will reach 2.2 billion in 2013,<sup>22</sup> and search engines are becoming increasingly important as ways for businesses to promote goods and services. Thus, registered trademarks are used not only in physical packaging, but also in the keyword advertising of search engines (i.e., Google, Yahoo). From a legal perspective, keyword advertising that is “distinctive” and fits the criteria for the “negative” requirements of trademarkability in Articles 29 and 30 of the Taiwanese Trademark Act can thus be viewed as trademarks.

However, whether or not using keyword advertising equals to using trademark is a further question. This section will use keyword advertising and trademark dispute cases from Taiwan, the U.S., and Europe to examine this question.

#### **1. The Judgment in the Case of 2009-Ming-Shang-Sang-11**

The case of 2009-Ming-Shang-Sang-11 was the first Taiwanese court judgment regarding keywords used in keyword advertising as trademarks; the case of 2010 Ming Shang Sang Geng (Yi) Zi No. 5 involved the same case, but with the Appellant suing the Respondent for unfair competition under Article 24 of the Fair Trade Act.<sup>23</sup> The facts of both cases were simple: the Respondent used the Appellant’s trademark in its restaurant signboard without

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<sup>22</sup> Hsiao-Li Chen, *Internet Population will be 2.2 Billion People by 2013, of Which 43% will be in Asia*, FORREST (2009), available at [http://news.cnet.com/8301-1023\\_3-10291796-93.html](http://news.cnet.com/8301-1023_3-10291796-93.html) (last visited May 25, 2013).

<sup>23</sup> The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

permission, assuming that since she had paid franchisee fees of 1.05 million New Taiwan Dollars to the Appellant, she thus had a “Franchisee Agreement” with the Appellant. The Respondent argued that this agreement gave her the right to use the Appellant’s trademark for two years.<sup>24</sup>

In addition to using the Appellant’s trademark in the restaurant signboard, the Respondent purchased keyword advertising from Google that were identical to the Appellant’s trademark without obtaining the Appellant’s permission. Consumers could link to the Respondent’s websites through these keyword advertising, mistakenly believing that the Respondent’s restaurant had a Franchisee Agreement with the Appellant and that it was a branch of the Appellant’s company.

The question was whether the Respondent’s actions constituted trademark infringement (trademark dilution) pursuant to Articles 29, 61, and 62 (and the 2011 amendments, 35, 69, and 70) of the Taiwanese Trademark Act.<sup>25</sup> In judgment of the case of 2009-Ming-Shang-Sang-11, the court found that the keyword advertising were not being used as trademarks to promote sales. The court also held that it is not a trademark infringement for a keyword advertising to be identical to a registered trademark.<sup>26</sup>

## **2. The Judgment in the Case of 2010 Ming Shang Sang Geng (Yi) Zi No. 5**

Although facts of 2009-Ming-Shang-Sang-11 were the same with those of 2010 Ming Shang Sang Geng (Yi) Zi No. 5, the former was a trademark infringement dispute and the latter was an unfair competition case related to keyword advertising.

The Intellectual Property Court argued in 2010 Ming Shang Sang Geng (Yi) Zi No. 5 that the Respondent continuously infringed the Appellant’s trademark right with the conduct of unfair competition regulated in Article 24 of the Fair Trade Act.<sup>27</sup> Under Articles 30 and 31 of the Act, the Appellant

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<sup>24</sup> *Id.*

<sup>25</sup> The Judicial Yuan of the Republic of China–Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>26</sup> *Id.*

<sup>27</sup> Although keyword advertising issues are relevant to trademark disputes, it is also possible for them to be involved with violation of the Fair Trade Act. Because the Defendants’ keyword advertising causes trademark dilution, consumers would be attracted from them to purchase goods at the Defendant’s websites. The exposure rates and visited rates of the Defendant’s websites would rise. In this case, the Respondent did not get permission from the Appellant to use its trademark (“just eat”) in its keyword advertising, which led consumers to the Respondent’s restaurant website. Consumers would mistakenly conclude that the restaurants of the Respondent and the Appellant were the same or had a “Franchisee” relation. This conduct amounted to a free ride for the Respondent at the expense of the trademark

may demand the removal of the Respondent's use of keyword advertising that is identical to the Appellant's trademark, and the Respondent is liable for damages.<sup>28</sup> The Appellant argued for damages for the Respondent's intentional violation of Article 32 of the Act, and the court found the two times the damages claimed was an appropriate remedy,<sup>29</sup> totaling 557,644 New Taiwan Dollars.

### 3. The Judgment of the Case of 2011-Ming-Shang-Sang-7

This case differed from the former case, which was a trademark infringement action. The facts of this case were that a famous Taiwanese actor, Chuan-Chen Yeh, registered her stage name as a trademark, and the corporation Cheng Yi Integrated Marketing Ltd. did not get her permission to use "Chuan-Chen Yeh" in its keyword advertising for promoting its products at its website. Appellant Chuan-Chen Yeh sued Appellee Cheng Yi Integrated Marketing Ltd. for trademark infringement.<sup>30</sup>

The Taiwanese Intellectual Property Court concluded that the uses of "Chuan-Chen Yeh" in keyword advertising were not the uses of trademarks. This conclusion was reached because, although there were service fax

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owners' efforts, resulting in unfair competition. The conduct violated Article 24 of the Fair Trade Act, which provides that "[I]n addition to what is provided for in this Law, no enterprise shall otherwise have any deceptive or obviously unfair conduct that is able to affect trading order." See The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts' Judgments, *supra* note 4; Ministry of Justice—The Working Group of the R.O.C. Laws & Regulations Database: Fair Trade Act, <http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=J0150002> (last visited May 25, 2013).

<sup>28</sup> These facts relate to Articles 30 and 31 of the Fair Trade Act. Article 30 of the Fair Trade Act states that "[I]f any enterprise violates any of the provisions of this Law and thereby infringes upon the rights and interests of another, the injured may demand the removal of such infringement; if there is a likelihood of infringement, prevention may also be claimed." Article 31 of the Fair Trade Act rules that "Any enterprise that violates any of the provisions of this Law and thereby infringes upon the rights and interests of another shall be liable the damages arising therefrom." See *id.*

<sup>29</sup> These facts relate to Articles 32 of the Fair Trade Act. Article 32 of the Fair Trade Act states that "[I]n response to the request of the person being injured as referred to in the preceding article, a court may, taking into consideration of the nature of the infringement, award damages more than actual damages if the violation is intentional; provided that no award shall exceed three times of the amount of damages that is proven. Where the infringing person gains from its act of infringement, the injured may request to assess the damages exclusively based on the monetary gain to such infringing person." See The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts' Judgments, *supra* note 4; Ministry of Justice—The Working Group of the R.O.C. Laws & Regulations Database: Fair Trade Act, *supra* note 27.

<sup>30</sup> *Id.*



numbers, e-mails, bank account names or numbers, and good prices that indicated that the keyword of “Chuan-Chen Yeh” was used for the purpose of sales, the Appellee only used “Chuan-Chen Yeh” in its keyword advertising, and consumers did not identify “Chuan-Chen Yeh” as a trademark of the product.<sup>31</sup> In addition to “Chuan-Chen Yeh,” there were other additional keywords used in the advertising on the Appellee’s webpage, and “Chuan-Chen Yeh” was used for a stage name of an actor.<sup>32</sup> Its character and typeface was the same with other seven keywords, so consumers did not pay too much attention when they browse the Appellee’s website.<sup>33</sup> Although the Appellant registered “Chuan-Chen Yeh” as a trademark, consumers only know “Chuan-Chen Yeh” as an actor’s name and cannot view it as a trademark.<sup>34</sup> As a result, using “Chuan-Chen Yeh” as keyword advertising on the Internet does not infringe on trademark rights under Article 5 of the Taiwanese Trademark Act.<sup>35</sup>

#### **4. The Judgment of Rescuecom Corp. versus Google**

The facts of this case were that the search engine Google did not get Rescuecom’s permission to sell advertisers in keyword advertising. When Internet users search “Rescuecom” as a keyword, the advertisements of advertisers and relevant advertisements are shown in screens. Internet users could click the advertisements of advertisers, browse their information, and buy their products or services.<sup>36</sup>

Rescuecom argued that Google violated Articles 1114 and 1125 of the Lanham Act for trademark infringement and dilution.<sup>37</sup> The U.S. Court of Appeals for the Second Circuit decided in April 3, 2009 that using keyword advertising amounted to using of trademarks, for the following reasons: 1) Google did promote and sell the trademark “Rescuecom;” 2) When Google sold keyword advertising, it actually displayed, provided, and sold the trademark “Rescuecom” to consumers; and 3) Google encouraged others to purchase the trademark “Rescuecom” by the use of a “Keyword Suggestion

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<sup>31</sup> The Judicial Yuan of the Republic of China–Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>32</sup> *Id.*

<sup>33</sup> The Judicial Yuan of the Republic of China–Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>34</sup> *Id.*

<sup>35</sup> The Judicial Yuan of the Republic of China–Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>36</sup> CHAO-HUA CHEN, TRADEMARK LAW: THEORIES AND PRACTICES 190-191 (2013); Wikipedia, Rescuecom Corp. v. Google, Inc., *available at* [http://en.wikipedia.org/wiki/Rescuecom\\_Corp.\\_v.\\_Google\\_Inc](http://en.wikipedia.org/wiki/Rescuecom_Corp._v._Google_Inc) (last visited May 29, 2013).

<sup>37</sup> *Id.*

Tool System.”<sup>38</sup> As a result, Google’s conduct was not only for internal use, and fit the “use in commerce” clause in Article 1127 of the Lanham Act. Then the Second Circuit subsequently dismissed the original judgment and retrial by the district court.<sup>39</sup>

### **5. The Judgment of Playboy Enterprises, Inc. versus Terri Welles**

In this case, Plaintiff Playboy Enterprises, Inc. sued Defendant Terri Welles, who used as keyword advertising at the Defendant’s website “Playboy” and “Playboy Playmate of the Year,” which were registered trademarks of the Plaintiff.<sup>40</sup>

Defendant claims that the use of the trademarks “Playboy” and “Playboy Playmate of the Year” in keyword advertising are “indicative use” (nominative use),<sup>41</sup> for three reasons. First, it is difficult to succinctly identify her products without the use of the Plaintiff’s trademark. Second, the use of the Plaintiff’s trademark was limited to identify the Defendant’s products. Third, the Defendant did not in any way express or imply the Plaintiff’s support or authorization for the use of its trademark.<sup>42</sup>

The U.S. Court of Appeals for the Ninth Circuit decided in February 1, 2002 that the use of trademarks “Playboy” and “Playboy Playmate of the Year” in keyword advertising amounted to “indicative use.” Internet users enter these two keywords if they want to search Terri Welles.<sup>43</sup> As a result, the Defendant did not use the trademarks “Playboy” and “Playboy Playmate of the Year” as keywords at her website in violation of the Plaintiff’s trademark rights.<sup>44</sup>

### **6. The European Court of Justice (ECJ) Case of Louis Vuitton versus Google**

This article’s title, invoking the most famous line from *Hamlet*’s rhetorical soliloquy, “To be, or not to be, that is the question,”<sup>45</sup> points to the crucial

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<sup>38</sup> CHEN, *supra* note 36, at 190; Wikipedia, *Rescuecom Corp. v. Google, Inc.*, *supra* note 36.

<sup>39</sup> CHEN, *supra* note 36, at 191; *id.*

<sup>40</sup> LAI & LENG, *supra* note 7, at 49; Wikipedia, *Playboy Enterprises, Inc. v. Welles*, *supra* note 7; Finnegan, *Internet Trademark Case Summaries: Playboy Enters., Inc. v. Wells*, *supra* note 7.

<sup>41</sup> *Id.*

<sup>42</sup> LAI & LENG, *supra* note 7, at 49; Wikipedia, *Playboy Enterprises, Inc. v. Welles*, *supra* note 7; Finnegan, *Internet Trademark Case Summaries: Playboy Enters., Inc. v. Wells*, *supra* note 7.

<sup>43</sup> *Id.*, at 50.

<sup>44</sup> *Id.*

<sup>45</sup> WILLIAM SHAKESPEARE, *THE TRAGEDY OF HAMLET, PRINCE OF DENMARK* (1623).

legal question at issue in this article: whether keyword advertising are the uses of trademarks or not. This is the key question for the above courts' judgments that judging whether people or businesses who buy keyword advertising that are identical to registered trademarks from search engines are committing trademark infringements.

Although the criterion flowing from the "distinctiveness" requirement in Article 5 of the Taiwanese Trademark Act is not a new idea, it was the main element in the court's decision that the Respondent was not committing a trademark infringement in the case of 2009-Ming-Shang-Sang-11. Of course, this decision was handed down by a civil law court in Taiwan. The most important feature of civil courts is that they decide cases according to statutory law, not precedent. In this section, we will discuss another decision on the relationship between keyword advertising and trademarks disputes made by a court in the civil law tradition (the ECJ's *LMVH* decision) and examine its differences from the case of 2009-Ming-Shang-Sang-11. To describe the *LVMH* case, we will focus on three issues: the history of the case, the legal responsibilities of search engines, and the legal responsibilities of advertisers who purchase keyword advertising that are identical to trademarks.

In August of 2003, LVMH sued Google, Inc., because it found that some websites accessed by entering "LV" and other relevant keywords into the search engine were fake (sometimes belonging to rivals) and appeared prominently in Google searches because payments had been made by the websites to Google for that purpose. Since Google profits from these advertisements, LVMH contended that Google had not checked the legitimacy of the advertisers and had let them use LVMH's reputation and trademark to promote their products. Further, LVMH argued that Google had infringed its trademark rights. The French court hearing the case returned a primary judgment in 2006 in favor of LVMH, but Google appealed.<sup>46</sup>

In the appeal judgment of September 2009, ECJ Advocate General Miguel Poiares Maduro expressed his legal opinion that "Google has not infringed trademark rights by allowing advertisers to buy keywords corresponding to registered trademarks." Although Poiares Maduro's legal opinions are not binding on the ECJ, judges will adopt his opinions in the majority of cases decided by the ECJ. On this basis, The Times of London reported that "Google wins latest round in Louis Vuitton battle."<sup>47</sup>

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<sup>46</sup> Scribd Home, *Google France Sarl, Google Inc. V Louis Vuitton Malletier Sa* (C-236/08), *Google France Sarl v Viaticum Sa, Luteciel Sarl* (C-237/08), and *Google France Sarl v Centre National De Recherche En Relations Humaines (Cnrrh) Sarl, Pierre-Altixis Thonet, Bruno Raboin, Tiger Sarl* (C-238/08) (2012), *supra* note 3.

<sup>47</sup> Michael Herman, *Google Wins Latest Round in Louis Vuitton Battle*, The Times (2009), available at [http://business.timesonline.co.uk/tol/business/industry\\_sectors/technology/article6844929.ec](http://business.timesonline.co.uk/tol/business/industry_sectors/technology/article6844929.ec)

After a long-running, seven-year dispute, then, the ECJ favored Google regarding the use of LVMH's trademarked brand names in search-word advertising. The ECJ ruled that Google had not violated trademark law by allowing advertisers to buy keywords identical to their rivals' trademarks. However, the court also emphasized that companies that use trademarked brand keywords to push sales have to be more transparent about who the seller is.<sup>48</sup>

We can summarize the ECJ's judgment in two points: 1) LVMH can prevent the use of its trademark as a keyword without the consent of Google, and 2) LVMH cannot directly prevent the use of its trademark as a keyword by Google unless Google has "played an active role of such a kind as to give [Google] knowledge of, or control over, the data stored."<sup>49</sup>

It is very clear from the first point that LVMH can prevent trademark infringement through keyword advertising on Google. However, we cannot yet answer two key questions: 1) Are keywords equal to trademarks and, 2) if keywords become "generic terms" (e.g., aspirin, brassiere, escalator, Trampoline, and yo-yo),<sup>50</sup> are they protected by trademark law?

The second point also seems to allow Google and other search engines to sell keyword advertising to advertisers.<sup>51</sup> The following section discusses issues ignored by the judgments of the Taiwanese court and the ECJ, to wit, whether advertisers commit trademark infringement when they purchase generic terms as keyword advertising, and whether these terms (names) denote certain types of products to customers, though they may also be so successful as to have lost their trademarkability.<sup>52</sup>

## **7. The Case of L'Oreal SA and Others versus eBay International AG and Others**

If traders of online marketplaces (e.g., eBay) use keyword advertising, do their actions constitute the use of trademark?<sup>53</sup> In fact, these traders do not

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e (last visited May 25, 2013).

<sup>48</sup> Mark Sweney, *Google Wins Louis Vuitton Trademark Case*, THE GUARDIAN (2010), available at <http://www.guardian.co.uk/media/2010/mar/23/google-louis-vuitton-search-ads> (last visited May 25, 2013).

<sup>49</sup> Dai Davis, *Google vs Louis Vuitton: When Is A Trade Mark Not A Trade Mark?*, COMPUTERWEEKLY.COM (2010), <http://www.computerweekly.com/Articles/2010/03/23/240698/Google-vs-Louis-Vuitton-When-is-a-trade-mark-not-a-trade.htm> (last visited May 25, 2013).

<sup>50</sup> HANS ZEISEL & DAVID KAYE, PROVE IT WITH FIGURES: EMPIRICAL METHODS IN LAW AND LITIGATION 147 (1997).

<sup>51</sup> *Id.*

<sup>52</sup> ZEISEL & KAYE, *supra* note 50, at 147.

<sup>53</sup> CHEN, *supra* note 36, at 192.

assist sellers at their websites by promoting sales offers, but by their purchase of keyword advertising from search engines. After sales are made, the traders earn service fees from the sellers at their websites.<sup>54</sup>

In this case, seven Defendants sold infringed products through eBay, and these products from fourteen U.K.-registered trademarks (including L’Oreal) and two European Union (EU) trademarks. The Plaintiffs sued three subsidiary companies of eBay and seven natural persons for joint and several liability.<sup>55</sup> On May 22, 2009, the High Court of England and Wales issued a decision of explanations that were not relevant to EU laws and regulations, and stayed proceedings that were related thereto. Thus, the court made a claim of explanations for the European Court of Justice (ECJ).<sup>56</sup>

Where traders that operate online marketplaces purchase the use of marks that are identical to registered trademarks as keywords from search engines so that the marks are displayed to users by search engines in sponsored links to the websites of the operators of the online marketplaces, are displays of the signs in the sponsored links the “use” of the sign within the meaning of Article 5(1)(a) of [Directive 89/104] and Article 9(1)(a) of [Regulation No. 40/94]?<sup>57</sup>

The ECJ made an initial judgment that the services of online marketplaces include showing offers of sellers. When such offers of sellers include marks that are identical or similar to registered trademarks, those marks are automatically shown at the websites of online marketplaces. Such marks are certainly “used” at the websites, but such “uses” are not the “use” of the mark within the regulations of Article 5(1)(a) of Directive 89/104 and Article 9(1)(a) of Regulation No. 40/94.<sup>58</sup> The “use” of the mark within the meaning of Article 5(1)(a) of Directive 89/104 and Article 9(1)(a) of Regulation No. 40/94 is limited to users’ marks that are identical or similar to registered trademarks in their own commercial actions.<sup>59</sup> If one of the services provided by others causes sellers to show marks in commercial actions on websites,

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<sup>54</sup> *Id.*

<sup>55</sup> CHEN, *supra* note 36, at 193; InfoCuria-Case-law of the Court of Justice, List of results, available at <http://curia.europa.eu/juris/liste.jsf?pro=&lgrec=en&nat=&oqp=&dates=&lg=&language=en&jur=C%2CT%2CF&cit=none%252CC%252CCJ%252CR%252C2008E%252C%252C%252C%252C%252C%252C%252C%252Ctrue%252Cfalse%252Cfalse&num=324%252F09&td=ALL&pcs=O&avg=&page=1&mat=or&jge=&for=&cid=3635436> (last visited May 29, 2013).

<sup>56</sup> *Id.*

<sup>57</sup> CHEN, *supra* note 36, at 193; InfoCuria-Case-law of the Court of Justice, List of results, *supra* note 55.

<sup>58</sup> *Id.*

<sup>59</sup> CHEN, *supra* note 36, at 193; InfoCuria-Case-law of the Court of Justice, List of results, *supra* note 55.

such “uses” of service providers are not the “uses” of above regulations, as was concluded in the L’Oreal versus eBay case.<sup>60</sup>

In view of the cases of Rescuecom Corp. versus Google and 2010 Ming Shang Sang Geng (Yi) Zi No. 5, we can see that using keyword advertising does not equal to the use of trademark no matter whether the infringers are search engines, traders of online marketplaces, or advertisers. Different courts represent different legal systems and cultures. Taiwanese courts focus on examining the requirements of the use of trademarks with regard to their use in keyword advertising, especially whether or not consumers could view keywords in advertising as trademarks. The U.S. courts emphasize whether or not search engines and advertisers take positive action in keyword advertising, including the sales of the Plaintiff’s trademarks and sponsor links,<sup>61</sup> for judging the use of keyword advertising as the use of trademarks. The European courts judge the uses of keyword advertising as the uses of trademarks by questioning whether or not search engines and traders of online marketplaces use keyword advertising that is identical or similar to registered trademarks for the uses of their own products.

Section II has described the legal issues regarding trademark and keyword advertising in theory and case law, as well as the issues related to analysis of the statutes and case law on determining whether or not the uses of keyword advertising equal to the uses of trademarks. Section III will now discuss keyword advertising issues from the perspective of legal risk.

### **III. Legal Risk in Keyword Advertising and Trademark Disputes**

#### **A. Definition of Legal Risk**

Defining legal risk requires an understanding of the meaning of risk and its relationship to the law. This section attempts to analyze the concept of legal risk, from the perspective of both law and risk management.

##### **1. From the Perspective of Solution Models for Legal Problems**

In theory, there exist models for solutions to legal problems. The first model resolves legal conflicts by judgments of authority agencies, such as court judgments based on law or case precedents.<sup>62</sup> The second model solves legal conflicts by negotiation or mediation. Generally speaking, this model is an effective solution for the subject legal conflicts. In order to avoid complicated, costly, and protracted litigation, an increasing number of

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<sup>60</sup> *Id.*

<sup>61</sup> CHEN, *supra* note 36, at 194.

<sup>62</sup> Su-Mei Tang, *Introduction: The Concepts of Legal Risk Management and Their Establishment*, in LEGAL RISK MANAGEMENT 1, 3 (Su-Mei Tang ed., 2011).

plaintiffs and defendants seek to address civil litigation through this model.<sup>63</sup>

The third model is referred to as the “Preventive Law” model, and is based on the concepts of prevention, management, and control to effectively address potential risk by means of contracts, regulation, and legal education/training. This model is a legal risk management tool for future possible liability or legal responsibility.<sup>64</sup>

“Preventive Law” was first proposed by lawyer Louis M. Brown, and stresses proposal and planning for professional legal knowledge of maintaining regular contact and meetings between lawyers and clients in order to lower risk.<sup>65</sup> Lawyers are not only defenders of litigation, but also professional legal counsel for planning and controlling legal responsibilities.<sup>66</sup>

In traditional legal education, students are trained by studying the application of legal principles and conducting logical analyses of legal cases. Based upon principles of management and control, the direction of legal education should be opened to train students to solve legal problems using the second and third models, especially the model of “Preventive Law,” which is based on the concept of “Legal Risk Management.”<sup>67</sup>

The concept of “Legal Risk Management” emphasizes legal responsibilities and cross-disciplinary integration.<sup>68</sup> Thus, future potential legal liability and compensation is prevented through various means. The purpose of “Legal Risk Management,” which is a developing concept, is to avoid risk before the occurrence of damages, in order to avoid long-term litigation.<sup>69</sup>

## **2. From the Perspective of Risk Management**

Because risk is an abstract concept, it is difficult to define.<sup>70</sup> The academic definition views risk as describing a possible future in ways that can be measured and managed.<sup>71</sup> Such a definition indicates that risks are potential losses to individuals and businesses, uncertain probabilities, or scales of potential losses and benefits.<sup>72</sup> Consequently, our understanding of risk should focus on two points: 1) uncertain future outcome, and 2) potential personal

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<sup>63</sup> *Id.* at 3.

<sup>64</sup> Tang, *supra* note 62, at 3-4.

<sup>65</sup> *Id.* at 4.

<sup>66</sup> Tang, *supra* note 62, at 4.

<sup>67</sup> *Id.*

<sup>68</sup> Tang, *supra* note 62, at 5.

<sup>69</sup> *Id.* at 6.

<sup>70</sup> KU-CHU TENG, RISK MANAGEMENT 24 (2005).

<sup>71</sup> *Id.* at 25.

<sup>72</sup> Teng, *supra* note 70, at 25.

and property liability, damages, or benefits.<sup>73</sup>

Under this definition, legal risk can be categorized as risk to states and governments,<sup>74</sup> but also as uncertain future outcome and property loss due to litigation (e.g., litigation fees and damage awards). Above all, legal risk is a critical factor for individuals and businesses, especially legal risk resulting from keyword advertising related not only to individuals' or businesses' trademark rights, but also to possible litigation.

## **B. Legal Risks Concerning Keyword Advertising Issues**

Let us outline the two possible types of legal risks arising from these matters.

### **1. Risk of Regulation**

These risks arise from the uncertainty, change, and shortage of legal regulations.<sup>75</sup> The major risks stemming from legal regulations include interpretation problems, which can imply complicated legal issues.<sup>76</sup>

Although the keyword advertising issues discussed here are relevant to trademark rights, there are regulatory gaps in the current *Taiwanese Trademark Act* that could lead to such interpretation problems. In particular, there is no specific "computer law" or "information law" regulating keyword advertising in Taiwan. Thus, there are regulation risks regarding keyword advertising that could result in complex legal issues.

### **2. Risk of Conflict and Dispute Resolution**

These risks arise from litigation or arbitration issues such as uncertainty related to the existence of evidence, retention of adequate legal support, and the ability to persuade judges or arbitrators.<sup>77</sup> Employing skilled, professional legal counsel helps to manage these "procedural risks."<sup>78</sup> In other words, because disputes over keyword advertising are resolved in courts, businesses need solid evidence to win litigation. It thus goes without saying that businesses should use professional legal counsel whereby specialists may collaborate whenever businesses encounter these legal risks.

## **C. Legal Risk Management for Keyword Advertising and Trademark Disputes**

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<sup>73</sup> *Id.*

<sup>74</sup> TENG, *supra* note 70, at 6.

<sup>75</sup> CHANG-FA LO ET AL., MANAGEMENT MANUAL OF LEGAL RISKS IN BUSINESSES 3 (2001).

<sup>76</sup> *Id.* at 4.

<sup>77</sup> LO ET AL., *supra* note 75, at 4-5.

<sup>78</sup> *Id.*



As mentioned in Sections II.C.1 and II.C.2, the legal cases of 2009-Ming-Shang-Sang-11, 2010 Ming Shang Sang Geng (Yi) Zi No. 5, 2011-Ming-Shang-Sang-7, Rescuecom, Playboy, *LVMH*, and L’Oreal SA all focus on the regulation risks, that is, those stemming from uncertainty in interpretation of statute or case law. For example, the Taiwanese Intellectual Property Court addressed the following legal risks arising under Articles 2 and 6 (the 2011 Amendment Article 5) of the Taiwanese Trademark Act in its decision of the 2009 case. First, the court addressed whether using keyword advertising is equal to using trademarks in promoting sales of products or services. It then turned to whether consumers will confuse the promoted products or services provided by the fake websites with the real ones (thus possibly constituting trademark infringement).

The ECJ decided the *LVMH* case based on whether *LVMH* could prevent use of its trademark as a keyword advertising by Google. The legal questions inherent in Google’s legal responsibilities in the *LVMH* judgment were uncertainty as to the definition of “active” and the degree of “knowledge of” or “control over” the search results that Google must have had to have played an “active” role.

Why do these legal risks occur? The simple reason is that current laws (including statutory and case law) lack appropriate regulation to mitigate this risk of uncertainty in meaning. Hence, courts have very wide latitude in interpreting statutory and case law because of the unresolved contemporary and future legal issues. Better legal risk management for possible keyword advertising and trademark disputes requires the enactment of clear and unambiguous laws. Professional legal counsel is also important for businesses; it is a human resource that can reduce both the risks of regulation and the risks of conflict and dispute resolution. The following section will discuss how keyword advertising and trademark disputes can be divided into public and private sectors.

#### **IV. Possible Ways to Manage Keyword Advertising Trademark Disputes**

The foregoing section discussed keyword advertising and trademark disputes from the perspective of legal risk management. Discussing legal risk management requires an understanding of risk management. Risk management includes the concept of risk management, the theory of risk management, risk management procedures, and risk management implementation strategies.<sup>79</sup>

When applying issues of legal risk management, we wonder both which legal risks could be lowered to the greatest extent possible (the concept of

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<sup>79</sup> TENG, *supra* note 70, at 9-11.

legal risk management) and which legal risks could be reduced through logic or mathematics (the theory of legal risk management).<sup>80</sup> In general, risk management focuses on a set of risk management procedures and implementation strategies<sup>81</sup>; so should legal risk management in particular. Of course, legal risk management implementation strategies for keyword advertising issues should be designed to avoid more general legal risks as well.<sup>82</sup>

As different people, businesses, and sectors encounter different legal risks related to keyword advertising, they have to adopt various strategies to manage these legal risks. Sections IV.A and IV.B discuss two different sectors, public and private, and explore the strategies each should adopt.

## **A. Public Sector**

Concerning the public sector, we will discuss how to manage the legal risks of keyword advertising from two perspectives, the roles of legislative agencies and the roles of judicial agencies, and determine which strategies they should adopt to manage these risks.

### **1. The Roles of Legislative Agencies**

As we know, law is the final mechanism for dispute resolution in society, but it is also the outcome of democratic compromise between many emerging perspectives. In particular, intellectual property laws are enacted following technology trends and demonstrate a compromise among competing interests.

For example, smartphone patent disputes among multinational corporations show that patents not only protect broad categories of technology but also serve to enable market entry into industries like the technology industry.<sup>83</sup> Moreover, keyword advertising is a new kind of e-commerce, which can be considered in terms of online trademarks. Therefore, intellectual property laws should be frequently amended given the constant emergence of new technological innovations. However, majority rule is the byword of democracy - legislators must seek consensus and compromise when passing laws in a representative democracy.<sup>84</sup>

From the perspective of legal risk management, the slow pace of the

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<sup>80</sup> *Id.* at 9-10.

<sup>81</sup> TENG, *supra* note 70, at 9-10.

<sup>82</sup> *Id.*

<sup>83</sup> Patent Wars Change the Smartphone Markets, STPI, available at [http://cdnet.stpi.org.tw/techroom/market/eetelecomm\\_mobile/2011/eetelecomm\\_mobile\\_11\\_030.htm](http://cdnet.stpi.org.tw/techroom/market/eetelecomm_mobile/2011/eetelecomm_mobile_11_030.htm) (last visited May 25, 2013).

<sup>84</sup> Anthony J. McGann, *The Tyranny of the Super-Majority: How Majority Rule Protects Minorities*, ESCHOLARSHIP (2002), available at <http://escholarship.org/uc/item/18b448r6> (last visited May 25, 2013).

passage of new intellectual property laws by legislative agencies, especially in civil law countries, has resulted in higher legal regulation risk for businesses because competitors can hire more lawyers or consultants to persuade judges or arbitrators under the current statutes when they encounter litigation or arbitration. Most of the economic costs to business of winning litigation and arbitration are personnel costs (i.e., hiring lawyers or consultants), but this does not include other related costs, including litigation costs, damages, or compensation.<sup>85</sup>

Thus, this article argues that laws enacted by legislative agencies are relevant to the legal risks and economic costs to business, and that those legislative agencies should play an important role in diminishing the legal risks and economic costs in the following ways.

**a. Solutions to the Legal Regulation Risk Inherent in Interpreting “the use of a trademark” in Article 5 of the Taiwanese Trademark Act and Relevant Case Law**

If we want to know whether using keyword advertising is equivalent to using trademarks, we must first determine the following: 1) “whether or not keyword advertising includes in infringement of the right of trademark in Article 68 of the Taiwanese Trademark Act;”<sup>86</sup> 2) “whether or not keyword advertising indicates ‘any other representation’ in Article 70 of the Taiwanese Trademark Act;” and 3) “whether or not Article 70 of the Taiwanese Trademark Act addresses keyword advertising cases that are not identical or similar to famous trademarks.”<sup>87</sup> These issues are relevant not only to the

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<sup>85</sup> CHUNG ET AL., *ECONOMICS: THEORY AND PRACTICE* 27 (5th ed. 2004).

<sup>86</sup> Article 68 of the Taiwanese Trademark Act regulates that “Any of the following act, in the course of trade and without consent of the proprietor of a registered trademark, constitutes infringement of the right of such trademark: (1) using a trademark which is identical with the registered trademark in relation to goods or services which are identical with those for which it is registered; (2) using a trademark which is identical with the registered trademark and used in relation to goods or services similar to those for which the registered one is designated, and hence there exists a likelihood of confusion on relevant consumers; or (3) using a trademark which is similar to the registered trademark and used in relation to goods or services identical with or similar to those for which the registered one is designated, and hence there exists a likelihood of confusion on relevant consumers.” *See* Ministry of Justice–The Working Group of the R.O.C. Laws & Regulations Database: Trademark Act, *supra* note 11.

<sup>87</sup> Article 70 of the Taiwanese Trademark Act rules that “Any of the following acts, without consent of the proprietor of a registered trademark, shall be deemed infringement of the right of such trademark: (1) knowingly using a trademark which is identical with or similar to another person’s well-known registered trademark, and hence there exists a likelihood of dilution of the distinctiveness or reputation of the said well-known trademark; (2) knowingly using words contained in another person’s well-known registered trademark as the name of a company, business, group or domain or any other name that identifies a business entity, and

difference between keyword advertising and trademarks but also to the issue of whether use of identical keyword advertising constitutes trademark infringement.

Of course, the principle of the clarity and definiteness of the law (*Rechtsbestimmtheitsprinzip*) is important in guiding legislation. *Interpretation No. 491* of the Judicial Yuan states that “where the causes for a disciplinary decision are stipulated in abstract concepts by the law, their meaning shall be intelligible for and foreseeable by the regulated civil servants, and shall be verifiable by the courts in judicial review, in order to be in accordance with the principle of clarity and definiteness of law.”<sup>88</sup>

Moreover, laws enacted by legislative bodies should be “intelligible,” with “foreseeable” consequences, and “shall be verifiable by the courts in judicial review.”<sup>89</sup> From the perspectives of Article 68 and Clause 2, Article 70 of the Taiwanese Trademark Act, these statutes must be intelligible, be foreseeable in its effects, and be verifiable by the courts in judicial review. Furthermore, keyword advertising fall within the regulations of Article 68 of the Taiwanese Trademark Act and the term “any other representation” of Clause 2, Article 70 of the Taiwanese Trademark Act<sup>90</sup> only if the use of keyword advertising is “distinctive” in order to promote the sale of products or services that are trademarked. The use of distinctive keyword advertising identical to other trademarks constitutes trademark infringement. Article 70 of the Taiwanese Trademark Act should be applied to handle keyword advertising cases that are not identical or similar to famous trademarks.

The new 2011 amendment contained in Article 5 of the Taiwanese Trademark Act is intelligible but does not have foreseeable consequences and is not verifiable by the courts in judicial review on keyword advertising issues. Regarding foreseeability of consequences, trademark owners cannot judge whether Internet users can identify the source of keyword advertising and cannot determine whether users know that the keyword advertising are trademarks. This will cause the kind of confusion mentioned in Article 5 of the

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hence there exists a likelihood of confusion on relevant consumers or a likelihood of dilution of the distinctiveness or reputation of the said well-known trademark; or (3) manufacturing, possessing, displaying, selling, exporting or importing labels, tags, packaging or containers that have not been applied in relation to goods or services, or articles that have not been applied in relation to services, knowing that such articles would likely infringe trademark rights as prescribed in Article 68.” *See id.*

<sup>88</sup> Judicial Yuan—Justices of the Constitutional Court: J. Y. No. 491, *available at* [http://www.judicial.gov.tw/constitutionalcourt/en/p03\\_01.asp?expno=491](http://www.judicial.gov.tw/constitutionalcourt/en/p03_01.asp?expno=491) (last visited May 25, 2013).

<sup>89</sup> *Id.*

<sup>90</sup> Ministry of Justice—the Working Group of the R.O.C. Laws & Regulations Database: Trademark Act, *supra* note 11.

Taiwanese Trademark Act. Thus, keyword advertising using trademarks would not be liable for infringement under Article 68 and Clause 2 of Article 70 of the Taiwanese Trademark Act.<sup>91</sup>

With regard to verification by the courts through judicial review, litigation in court and in administrative agencies will produce different judgments on the same keyword advertising issues. The Taiwanese Intellectual Property Court held in the case of 2009-Ming-Shang-Sang-11 that Internet users do not think online keywords are provided by the proprietors of the trademarks and that they are thus not confused. Contrariwise, Decision No. 098133 of the Fair Trade Committee (an administrative agency) held that companies that use keyword advertising identical to trademarks not only confuse Internet users but also falsely identify products or services to be those of their competitors, thus harming the proprietors' trademark rights.<sup>92</sup>

In sum, these disparate holdings indicate different perspectives on the law and highlight the possible legal risks left open by the need to interpret "the use of a trademark" in Article 5 of the Taiwanese Trademark Act.<sup>93</sup> Thus, these examples indicate that legislative agencies must not only amend intellectual property laws (i.e., trademark laws) following current trends but must also follow the principle of the clarity and definiteness of the law in doing so.

#### **b. Solutions to the Legal Regulation Risk Inherent in Interpreting the "Activeness" of the Role Played by Search Engines in Relation to Article 14 of Directive 2000/31/EC of the European Parliament and Council**

The ECJ definition of "active" is significant to the question of whether search engines are liable under the given circumstances. The ECJ stressed that "active" is not "neutral," referring to "conduct [that] is merely technical, automatic and passive, pointing to a lack of knowledge or control of the data which [the search engine] stores."<sup>94</sup> However, this contradicted statements elsewhere in the same ECJ judgment that "Google processes the data entered by advertisers, and the resulting display of the data is made under conditions

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<sup>91</sup> *Id.*

<sup>92</sup> Jui-Sen Tsai, *Keyword advertising Do Not Constitute Trademark Infringements*, BILMONTHLY OF LEE AND LI. (Sep. 2010), available at <http://www.leeandli.com/web/bulletin/artical.asp?id=4433> (last visited May 25, 2013).

<sup>93</sup> Ministry of Justice—The Working Group of the R.O.C. Laws & Regulations Database: Trademark Act, *supra* note 11.

<sup>94</sup> *Scribd Home, Google France Sarl, Google Inc. V Louis Vuitton Malletier Sa (C-236/08), Google France Sarl v Viaticum Sa, Luteciel Sarl (C-237/08), and Google France Sarl v Centre National De Recherche En Relations Humaines (Cnrrh) Sarl, Pierre-Altixis Thonet, Bruno Raboin, Tiger Sarl (C-238/08) (2012), supra* note 3.

which Google controls.”<sup>95</sup>

Even though the ECJ judged that “concordance between the keyword selected and the search term entered by an internet user is not sufficient of itself to justify the view that Google has knowledge of, or control over, the data entered into its system by advertisers and stored in memory on its server,”<sup>96</sup> this article argues that the case law is not rational in that the courts have imposed subjective judgments over objective actions by search engine providers. Thus, damages against proprietors’ trademark rights have been caused no matter what the order of the search results.

The principle of equal protection states that public powers cannot allow unfair treatment without reasonable cause. As we know, this principle mainly restricts the operations of administrative powers, and legislative powers should not be bound by such due to the principle of “separation of powers.”<sup>97</sup> However, the principle of equal protection should be referenced by legislative agencies in treating each intellectual property law equally, no matter whether it is the copyright laws or trademark laws that are in question. For instance, Article 87, Section 1, Clause 7, and Section 2 of the Taiwanese Copyright Act are good examples for legislative agencies to imitate when enacting laws concerning keyword advertising. Article 87, Section 1, Clause 7 of the Copyright Act states that:

Any of the following circumstances, except as otherwise provided under this Act, shall be deemed an infringement of copyright or plate rights... 7. To provide to the public computer programs or other technology that can be used to publicly transmit or reproduce works, with the intent to allow the public to infringe economic rights by means of public transmission or reproduction by means of the Internet of the works of another, without the consent of or a license from the economic rights holder, and to receive benefit therefrom.<sup>98</sup>

Section 2 of the same Article stipulates that “a person who undertakes the actions set out in subparagraph 7 above shall be deemed to have ‘intent’ pursuant to that subparagraph when the advertising or other active measures

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<sup>95</sup> *Id.*

<sup>96</sup> *Scribd Home, Google France Sarl, Google Inc. V Louis Vuitton Malletier Sa (C-236/08), Google France Sarl v Viaticum Sa, Luteciel Sarl (C-237/08), and Google France Sarl v Centre National De Recherche En Relations Humaines (Cnrrh) Sarl, Pierre-Altix Thonet, Bruno Raboin, Tiger Sarl (C-238/08) (2012), supra note 3.*

<sup>97</sup> GARY GOODPASTER, *LAW OUTLINES: CONSTITUTIONAL LAW 5-2* (2000).

<sup>98</sup> Ministry of Justice–The Working Group of the R.O.C. Laws & Regulations Database: Copyright Act, *available at* <http://law.moj.gov.tw/Eng/LawClass/LawContent.aspx?PCODE=J0070017> (last visited May 25, 2013).

employed by the person instigate, solicit, incite, or persuade the public to use the computer program or other technology provided by that person for the purpose of infringing upon the economic rights of others.”<sup>99</sup>

In short, this article argues that it is not necessary to discuss whether or not search engines are “active” because the European Union (EU) legislation not only impacts proprietors’ trademark rights but also lets search engines escape their responsibilities. On the other hand, legislative agencies could imitate legislation such as Article 87, Section 1, Clause 7, and Section 2 of the Copyright Act by enacting relevant laws regarding keyword advertising. This would make it hard for search engines to escape their responsibilities and would not produce any new regulation risks.

## 2. The Roles of Judicial Agencies

If we want to understand the development of keyword advertising and trademark infringement in trials, looking at the number of court cases is a good way to do this.

The data shows that trademark cases have been increasing since the establishment of the Intellectual Property Court on July 1, 2008.<sup>100</sup> In addition, trademark infringement cases regarding use of representations confusing to consumers of goods or services as covered by Articles 68 and 70 of the Taiwanese Trademark Act have also increased, from 6 to 11 after the Intellectual Property Court was established.<sup>101</sup>

Most importantly, the number of keyword-advertising-as-trademark-infringement cases has not changed since the establishment of the Intellectual Property Court in 2008.<sup>102</sup> No matter the number of keyword-advertising-as-trademark-infringement cases, judicial agencies (courts) play an important role by filling gaps in the contemporary statutory laws, though Taiwan is a civil law system. For instance, the case of 2009-Ming-Shang-Sang-11 was a good starting point for understanding that there are hidden regulation risks in keyword-advertising-as -trademark disputes.

### B. Private Sector

We will now discuss how to manage the legal risks of keyword advertising in the private sector from two perspectives—the roles of businesses and the roles of Internet content providers—and determine the strategies they should

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<sup>99</sup> *Id.*

<sup>100</sup> The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>101</sup> *Id.*

<sup>102</sup> The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

adopt to manage these risks.

### 1. The Roles of Businesses

Since the purpose of business is to pursue profit maximization,<sup>103</sup> it is very important for businesses to reasonably assess benefits and costs to control all kinds of legal risks, including keyword advertising issues. With regard to keyword-advertising-as-trademark disputes, businesses will encounter “risks of regulation” and “risks of conflict and dispute resolution.”<sup>104</sup> On the surface, the *LVMH* case is related to “whether or not an Internet referencing service provider’s storing a sign identical with a trademark and organizing the display of advertisements on the basis of that keyword constitute ‘use’ of that sign per Articles 5(1)(a) and (b) of Directive 89/104 and Article 9(1)(a) and (b) of Regulation No. 40/94” and “whether or not Google has played an ‘active’ role of such a kind as to give it knowledge of or control over data stored and can be liable for the data that it has stored at the request of an advertiser in the regulations of Article 14 of Directive 2000/31/EC of the European Parliament and of the Council.” These are relevant to regulation risks due to of problems of legal interpretation.<sup>105</sup>

Article 68 of the Taiwanese Trademark Act defines conditions of trademark infringements for which there are no trademark owners’ permissions, whether these conditions are involved with famous trademarks or not. Although there is an ambiguous loophole in Article 70 of the Taiwanese Trademark Act, any other representation, to include keyword advertising trademark infringements. However, Article 70 of the Taiwanese Trademark Act governs conditions of trademark infringements in which infringers use marks that are identical or similar to “famous” trademarks.

We can find that keyword advertising issues are relevant to Article 68 of the Taiwanese Trademark Act addressing trademark infringements, but there is no regulation about types of infringements that might include keyword advertising. Besides, keyword advertising issues are also addressed in Article 70, but only with regard to infringements of famous trademarks. As a result, “whether or not keyword advertising is included in infringement types under Article 68,” “whether or not keyword advertising indicates ‘any other representation’ in Article 70 of the Taiwanese Trademark Act,” and “whether or not Article 70 of the Taiwanese Trademark Act could handle keyword

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<sup>103</sup> CHING-SHENG MAO ET AL., *BASIC ECONOMICS* 84-85 (2007).

<sup>104</sup> LO ET AL., *supra* note 75, at 5.

<sup>105</sup> *Scribd Home, Google France Sarl, Google Inc. V Louis Vuitton Malletier Sa* (C-236/08), *Google France Sarl v Viaticum Sa, Luteciel Sarl* (C-237/08), and *Google France Sarl v Centre National De Recherche En Relations Humaines (Cnrrh) Sarl, Pierre-Altixis Thonet, Bruno Raboin, Tiger Sarl* (C-238/08) (2012), *supra* note 3.



advertising issues that keywords are not identical or similar to famous trademarks.” Above all, because of loopholes in current statutory laws and their legal interpretations, these are relevant to discussion of the “risks of regulation.”

In addition, relevant case laws, such as the Taiwanese Intellectual Property Court decisions in 2009-Ming-Shang-Sang-11 (which found that the contents of keyword advertising were not ‘used’ for the sales of products or services)<sup>106</sup>; 2010 Ming Shang Sang Geng (Yi) Zi No. 5 (which found that consumers are mistakenly directed by identical keyword advertising, in violation of the Fair Trade Act)<sup>107</sup>; the case of 2011-Ming-Shang-Sang-7 (which found that using keyword advertising does not equate to using trademarks, because consumers only know the particular keywords as a name rather than a trademark of product, even though the keyword advertising was identical or similar to the stage name of an actor that is registered a trademark)<sup>108</sup>; and Decision No. 098133 of the Fair Trade Committee (holding that consumers are falsely directed by identical keyword advertising, leading to business losses),<sup>109</sup> are also related to “risks of regulation” due to legal interpretation issues.

In fact, the major responsibility of business is not amending laws (including case law) but rather prevention of the legal risks related to keyword-advertising-as-trademark-infringement or keyword-advertising-unfair competition-infringement cases, thus preventing the “risks of conflict and dispute resolution.” The risks of conflict and dispute resolution are actually prevented or resolved by employing powerful legal support<sup>110</sup> consisting of experts in trademark laws or fair trade laws. From the experience of Taiwanese case law, businesses will find it easier to seek relief for keyword advertising disputes through fair trade laws than through trademark laws.<sup>111</sup> Because Taiwan is a civil law system, courts follow statutory laws in reaching decisions, and the area of keyword advertising does

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<sup>106</sup> The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>107</sup> *Id.*

<sup>108</sup> The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>109</sup> Tsai, *supra* note 92.

<sup>110</sup> LO ET AL., *supra* note 75, at 12.

<sup>111</sup> In addition to Decision No. 098133 of the Fair Trade Committee that consumers are falsely directed by identical keyword advertising, which causes losses of business through unfair competition, the case 2010 Ming Shang Sang Geng (Yi) Zi No. 5 of the Intellectual Property Court involved the violation of Article 24 of the Fair Trade Act, because consumers were mistakenly directed by identical keyword advertising to browse the website of the competitor restaurant, and even eat at the competitor’s restaurant. *See*: The Judicial Yuan of the Republic of China—Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4; Tsai, *supra* note 92.

not readily fit the strict requirements of trademark regulation under the Taiwanese Trademark Act.

Of course, persuading judges and arbitrators in keyword-advertising-as-trademark cases is an important task for businesses. In other words, the risks of conflict and dispute resolution are procedural risks, and the way to manage procedural risk is to find the professional legal counsel that is adept at managing it.

## **2. The Role of Internet Platform Providers (IPPs)**

Article 2, Clause 2 of the “Internet Rating Regulation” stipulates that the term “Internet Service Providers (ISPs)” includes “Internet Access Providers (IAPs),” “Internet Platform Providers (IPPs),” and “Internet Content Providers (ICPs).”<sup>112</sup> The concept of ISPs, and the services of the Internet are so diverse, that the former “Government Information Office” has classified ISPs as IPPs. IPPs provide services for saving room in hardware, setting websites regarding information announcements, and hyperlinks.”<sup>113</sup>

Under this definition, keyword advertising is relevant to IPPs, since is a service related to online information, announcements, and hyperlinks provided by the IPPs.<sup>114</sup> As a result, when addressing the role of ISPs, we should limit the discussion to IPPs,<sup>115</sup> including the risk of regulation and conflict, as well as resolution of existing disputes involving the IPPs. In particular, this section focuses on discussing criminal, civil, and administrative liability of IPPs, liability of search engines, and analyses of risk concerning regulations and conflict related to IPPs.

### **a. Criminal Liability**

As mentioned above, there is no specific “computer law” or “information law” addressing the liability of IPPs. However, we can rely upon the Criminal Code, the Civil Code, and other laws to deal with criminal liability.

There are two statutes in the Criminal Code that could be used to establish the liability of IPPs: 1) Article 29 states that “[a] person who solicits another to have committed an offense is a solicitor. A solicitor shall be punished according to the punishment prescribed for the solicited offense;”<sup>116</sup> and 2) Article 30 rules that “[a] person who aids another in the commission of a crime

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<sup>112</sup> CHIH-CHIEH YANG, INFORMATION LAW 301 (2011).

<sup>113</sup> CHIH-CHIEH YANG, INFORMATION LAW 320 (2d ed. 2007).

<sup>114</sup> *Id.*

<sup>115</sup> YANG, *supra* note 113, at 320.

<sup>116</sup> Ministry of Justice–The Working Group of the R.O.C. Laws & Regulations Database: Criminal Code of the Republic of China, available at <http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=C0000001> (last visited Aug. 22, 2013); YANG, *supra* note 113, at 321.

is an accessory notwithstanding that the person aided does not know of the assistance. The punishment prescribed for an accessory may be reduced from that prescribed for the principal offender.”<sup>117</sup>

In short, while these two Articles do not punish the IPPs themselves because they are not natural persons, they do punish representatives of the IPPs through the criminal offenses of soliciting and aiding another to commit crimes.

### **b. Civil Liability**

Article 185 of the Civil Code is the statute that could be used for establishing civil liability of IPPs. This Article rules that “[i]f several persons have wrongfully damaged the rights of another jointly, they are jointly liable for the injury arising therefrom. The same rule shall be applied even if which one has actually caused the injury cannot be sure. Instigators and accomplices are deemed to be joint tortfeasors.”<sup>118</sup>

In this context, it is important to understand what “instigators” and “accomplices” are. In the case of 2010-Tai-Sang-Zi-1207 of the Taiwan Supreme Court, the court indicated that subjectively, instigators and accomplices have intention and negligence, and their objective conduct has causes and effects, and consequences, in soliciting or aiding another to perpetrate jointly tortious acts.<sup>119</sup>

In sum, civil liability regulated by Article 185 of the Civil Code is similar to the criminal liability defined in Articles 29 and 30 of the Criminal Code for criminal offenses that spring from soliciting and aiding another to commit crimes, with two major differences. First, the former are relevant to civil liability of IPPs, while the latter are related to criminal liability.

Second, criminal laws traditionally are applied following the “Modesty Principle”<sup>120</sup> and the “Principle of Crimes and Punishment Stipulated by Law.”<sup>121</sup> Thus, criminal laws should be applied to punish someone’s offenses within the necessary, reasonable, and narrow scopes under the “Modesty Principle.”<sup>122</sup> Most importantly, law enforcement cannot punish someone’s

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<sup>117</sup> *Id.*

<sup>118</sup> Ministry of Justice–The Working Group of the R.O.C. Laws & Regulations Database: Civil Code, *available at* <http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=B0000001> (last visited Aug. 22, 2013); YANG, *supra* note 113, at 321-322.

<sup>119</sup> The Judicial Yuan of the Republic of China–Law and Regulations Retrieving System: Search for Courts’ Judgments, *supra* note 4.

<sup>120</sup> Tien-Kuei Kan, *Modesty Principle of the Criminal Law*, <http://lawyer.get.com.tw/learning/subject/scm003.pdf> (last visited Aug. 22, 2013).

<sup>121</sup> SHAN-TIEN LIN, *CRIMINAL LAW: GENERAL PROVISIONS* 67 (10th ed. 2008).

<sup>122</sup> Tien-Kuei Kan, *Modesty Principle of the Criminal Law*, *supra* note 120.

offenses under criminal laws if the offenses are not prohibited by law, according to the “Principle of Crimes and Punishment Stipulated by Law.”<sup>123</sup> As a result, the liability of IPPs are practically regulated in and punished by civil law, rather than under criminal law, even though criminal liability provisions may have more effective deterrence than civil liability provisions do.

### c. Administrative Liability

The current legal system has no complete and effective provisions for establishing and enforcing liability against IPPs.<sup>124</sup> However, three statutes concerning administrative liability of IPPs are enforceable, under the Consumer Protection Law, the Fair Trade Act, and the Child and Youth Sexual Transaction Prevention Act.

First, Section 1, Article 23 of the Consumer Protection Law rules that “[I]f a media business operator engaged in publishing or reporting advertisements knows or should have known that the contents of the advertisements are inconsistent with the facts, it shall be jointly and severally liable to consumers for their reliance upon such advertisements.”<sup>125</sup>

Second, Section 4, Article 21 of the Fair Trade Act states that “[w]here any advertising medium communicates or publishes any advertisement that it knows or should have known to be likely to mislead the public, it shall be jointly and severally liable with the principal of such advertisement for the damages arising therefrom. Where any endorser provides any testimonials that he knows or should have known to be likely to mislead the public, he shall be jointly and severally liable with the principal of such advertisement for damages arising therefrom.”<sup>126</sup>

Third, Article 33 of the Child and Youth Sexual Transaction Prevention Act holds that “[I]f advertisements, publications, broadcasting, television, electronic signals, computer network or any other media spreads, broadcasts or issues the news and information which may seduces, makes a match of, suggests or by any other ways has a person to engage in sexual transaction, the competent authority of the respective target enterprises shall fine them not less than 50,000 but not more than NT\$600,000. The competent authority of the news industry shall issue the news and declare the news to the public for those

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<sup>123</sup> LIN, *supra* note 121, at 67.

<sup>124</sup> YANG, *supra* note 113, at 322.

<sup>125</sup> Ministry of Justice–The Working Group of the R.O.C. Laws & Regulations Database: Consumer Protection Law, *available at* <http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=J0170001> (last visited Aug. 22, 2013); *id.*

<sup>126</sup> Ministry of Justice–The Working Group of the R.O.C. Laws & Regulations Database: Fair Trade Act, *supra* note 27; YANG, *supra* note 113, at 322.

medium violated the provisions of the preceding paragraph.”<sup>127</sup>

One legal scholar classifies the first and the second statutes on administrative liability as “knows or should have known” liability.<sup>128</sup> Only the IPPs “know or should have known” whether keyword advertising is identical or similar to other registered trademarks causing consumers to be misled. In this way, IPPs, their representatives, and advertisers are liable under Section 1, Article 23 of the Consumer Protection Law and Section 4, Article 21 of the Fair Trade Act.<sup>129</sup> On the other hand, IPPs or their representatives are punished through the regulations under Article 33 of the Child and Youth Sexual Transaction Prevention Act no matter whether they “know or should have known”<sup>130</sup> that keyword advertising is identical or similar to other registered trademarks.

#### **d. Liability of Search Engines**

From the previous statutory interpretations of the liability of IPPs, we see that their focus is on liability related to indirect infringements of IPPs (or search engines). We sometimes overlook the role of search engines, which are important since keyword advertising is displayed by and bought from them in the private sector. Thus, the question “How do search engines prevent the contents of keyword advertising from constituting trademark infringements?” is significant for further research about the liability of IPPs. For example, whether an “active” role was played by the search engines is crucial to determining legal responsibility in the ECJ’s *LVMH* case.

Moreover, search engines can usually control Internet content in advance, by deciding whether to let advertisers purchase keyword advertising.<sup>131</sup> American law places a heavy legal burden on these search engines in the form of “strict liability” for their actions.<sup>132</sup> Search engines only have a lower legal burden if they cannot control Internet content or do not have “know or should have known” liability,<sup>133</sup> which means that they are held responsible for anything they know or should have known.<sup>134</sup>

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<sup>127</sup> Ministry of Justice–The Working Group of the R.O.C. Laws & Regulations Database: Child and Youth Sexual Transaction Prevention Act, *available at* <http://law.moj.gov.tw/Eng/LawClass/LawAll.aspx?PCode=D0050023> (last visited Aug. 22, 2013); *id.* at 322-323.

<sup>128</sup> YANG, *supra* note 113, at 322.

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

<sup>130</sup> *Id.* at 323.

<sup>131</sup> YANG, *supra* note 112, at 304.

<sup>132</sup> *Id.* at 306-307.

<sup>133</sup> *Id.* at 306-307.

<sup>134</sup> *Id.*

**e. Analyses of Legal Risk Related to Regulation and Conflict of IPPs**

Of course, it is not difficult to solve the purely legal issues, but it is a challenge to manage the legal risks of keyword advertising relating to IPPs (or search engines), when there are no unified and certain legal regulations on keyword advertising or the legal responsibilities of search engines.

This article argues that legislative agencies should enact statutory laws as soon as possible, according to the principle of clarity and definiteness of the law as stated in the *Interpretation No. 491* of the Judicial Yuan.<sup>135</sup> In particular, search engines have no choice but to face possible trademark lawsuits concerning keyword advertising. Thus, this article not only indicates the importance of conflict and dispute resolution, but also concretely argues that search engines should hire more legal experts (e.g., lawyers, attorneys, consultants) and develop human resources familiar with the currently fragmented legal regulations. This would help search engines to argue persuasively through litigation for clearer interpretations of the existing laws, and would increase the probability of winning related lawsuits.

**V. Conclusion**

When William Shakespeare wrote *Hamlet* in the 16<sup>th</sup> century, conveying the young prince's inner turmoil with such an elegant turn of phrase, he could hardly predict that the now-famous words "To be, or not to be, that is the question" would be widely quoted and used to discuss keyword advertising and trademark disputes. Since keyword advertising has been broadly used by enterprises for cost and benefit reasons, discussions about the relationship between keyword advertising and trademark infringement are important and useful in the Internet era.

In 2009-Ming-Shang-Sang-11 of the Taiwanese Intellectual Property Court, the use of keyword advertising was found to be unlike the use of trademarks; it was also found that consumers would not mistakenly identify identical keyword advertising as those of the trademark owners. In the ECJ's *LVMH* case, the question of whether Google "played an active role of such a kind as to give [Google] knowledge of, or control over, the data stored" was answered, determining whether LVMH could directly prevent use of its trademark as a keyword by Google. The foregoing cases not only fail to help us decide whether generic terms used as keyword advertising constitute trademark infringement, but also are unhelpful in discussions of the legal risk involved in using keyword advertising.

Keyword advertising and trademark disputes are related to "risk of regulation" from the uncertainty, change, and shortage of regulations and "risk

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<sup>135</sup> Judicial Yuan—Justices of the Constitutional Court: J. Y. No. 491, *supra* note 88.

of conflict and dispute resolution” from litigations or arbitrations of uncertainty regarding the existence of evidence, retention of adequate legal support, and the ability to persuade judges or arbitrators. Therefore, managing these risks is important to individuals and businesses. This article has attempted to separate the public sector from the private sector in order to discuss ways of managing keyword advertising and trademark disputes.

In the public sector, legislative agencies should enact clear and specific laws following the principle of the clarity and definiteness of the law. Future legislation would ideally consider four possible directions: 1) use of keyword advertising should be considered to be equivalent to use of trademarks, which should be clearly and definitely regulated under Article 5 of the Taiwanese Trademark Act; 2) trademark infringements occurring through keyword advertising should be included in Article 68 of the Taiwanese Trademark Act; 3) Article 70 of the Taiwanese Trademark Act should not stop short of governing “famous” trademark infringement types, and keyword advertising that is not identical or similar to “famous” trademarks should also be included; and 4) trademark infringement should not focus solely on the subjective considerations of trademark infringers. In addition, judicial agencies can play the important role of filling loopholes in current legislation, even though Taiwan is a civil litigation system.

In the private sector, businesses and IPPs (or search engines) should focus on avoiding the risks of conflict and dispute resolution. Businesses should hire experts (e.g., attorneys, consultants) and develop human resource personnel who are familiar with the relevant statutory laws. For instance, search engines are subject to criminal, civil, and administrative (knows or should have known) liability, although there is no unified law for such liability. Of course, search engines or their representatives should also hire professional experts and develop human resources to ensure their knowledge of this subject matter is sufficient to persuade judges, in order to win relevant cases. In this way, businesses, search engines, their representatives, and advertisers would be better protected in the event of legal action.

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## **HUMAN STEM CELL RESEARCH IN EUROPE AND THE U.S.A.: POST *BRÜSTLE* AND *SHERLEY*, ETHICS ISSUES AND PATENT QUAGMIRE**

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### **ABSTRACT**

Patent protection of human stem cell inventions (HSCI) has substantial challenges ahead in Europe. Regarding human embryonic stem cell (hESC) research recent European Court's decision narrows down the scope of the research and patent. This paper addresses the existing areas of lack of uniformity for the intellectual property right (IPR) protection of HSCI. A comparative picture between Europe and the U.S.A. regarding the recent legal and policy environment of human stem cell research (HSCR) and patent scope is drawn and the future complications which may arise is focused. One repercussion of present move of the European Court will be denial of patent protection in hESC inventions and rejection of patents obtained from other continents. However, in the national level, European States have perceived and implemented the patent laws relating to HSCI in a diverse manner. National patent remains in the hands of the countries. Recent 'Unitary Patent' is an added layer over the European Patent which would create lack of coordination and more divergence. One effect of diversity in protection tool of HSCI between the countries could be enforcement failure. The U.S.A. does not have uniform State level laws and policies for HSCR and patent, but there are fewer complexities than in Europe. The paper measures the appropriateness of patenting HSCI and encounters many ethical debates. This article calls for a balanced IPR protection framework unique to invention that uses human biological

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material while finding that patent as a protection tool is not the most appropriate one for the HSCI.

Keywords: Human stem cell research (HSCR), human stem cell invention (HSCI), patent, ethics

## I. Introduction

Patent system was framed to define and ensure the rights of the “inventors.”<sup>1</sup> But as the time passes by, now we have both “inventor” and “patent owner” or the “assignee.” Both can be same person or can be different persons or entities. Patent, at this time of the history, is an exclusive property right that works in favor of the owner of the right. Behind a patent protection there are scientific, economic and ideological issues. The noble objective of patent protection was to set a mechanism to provide incentive for innovation. Patent is granted in all fields of technologies. Life science as patentable technology and living things as inventions, enabling a patent protection was identified and recognized first by the Court.<sup>2</sup> The judiciary both in Europe and U.S.A. have played substantial role in shaping the patent system for the life science. Legislators have framed laws around the societal, economic and technological goals of the patent system and patent offices have tested the compatibility between the legal provisions and the inventions. However, some authors have identified that other stakeholders, like “lobbyist, trade groups, patent lawyers” have also played a role to shape the patent system as it exist today.<sup>3</sup> Life science is different from other fields of technology for the reason that it is fast changing and raises ethical concern. Patent involving living human biological material such as stem cells faces challenge not only to rationalize the appropriateness of patent’s commercial aspect but also embarks into serious ideological debates. Research and invention in human stem cells have quite a good number of varieties. Stem cells differ in their potencies and means of collection. While some of the researches and inventions relating to human stem cell are accepted, some has stuck in ethics debate. Opinions of scientists and ethicist have been different. These differences have been reflected in the judicial decisions.

The paper articulates possible repercussions of the judgment of the Court of Justice of the European Union (hereinafter, CJEU) in patent scope involving human stem cell inventions (hereinafter, HSCI) in Europe, outlines the recent changes made in the U.S.A. and predicts implications of following different directions by two major competing continents. The objective of this paper is to revisit the current patent policies of Europe and U.S.A. for HSCI,<sup>4</sup> identify the differences in attitude of patent protection by the

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<sup>1</sup> See Steven W. Usselman & Richard R. John, *Patent Politics: Intellectual Property, the Railroad Industry, and the Problem of Monopoly*, 18(1) J. POL’Y. HISTORY 96, 99 (2006), available at [http://muse.jhu.edu/journals/journal\\_of\\_policy\\_history/v018/18.1usselman.pdf](http://muse.jhu.edu/journals/journal_of_policy_history/v018/18.1usselman.pdf).

<sup>2</sup> See *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (the first case where living things got recognition to be protected under the umbrella of patent system).

<sup>3</sup> See Usselman & John, *supra* note 1, at 121.

<sup>4</sup> Patent protection typically sought for in the case of HSCI is both for the stem cell itself and the process of isolation or differentiation.

countries and what are the shortcomings of the patent system for protecting HSCI. This paper revisits some of the contemporary judicial and administrative decisions regarding human stem cell research (hereinafter, HSCR). The paper attempts to find out why the current patent law framework is inappropriate for the HSCI. It is worth mentioning that the paper recognizes the need for the protection of HSCI and advocates for the intellectual property right through a commercial but humane and functional mechanism.

The paper is organized in the following way. Part I is the introduction. Part II revisits the latest state of the art in HSCR in Europe and the U.S.A.. It explores the prevailing ambiguities in the judicial, legislative and administrative fora of Europe. It outlines that despite there is divergence in State level laws of the U.S.A., an environment more conducive to HSCR exists than in the Europe. *Brüstle* case<sup>5</sup> has been reviewed from the economic and scientific point of view and has been compared with *Costa and Pavan* case and *Sherley* case. The efficiency of present and future of patent as a tool of IPR protection in Europe for HSCI is eloquently discussed. Part III formulates a ground taking some of the prevailing legislation as example, that why patent is inappropriate for HSCI. The interplay between ethical issues and patenting HSCI are highlighted. While discussing the latest conditions of European patent system, this part stresses that the recent patent framework is inappropriate for the HSCI. Part IV is conclusion by way of recommendation. For the completion of the paper, large number of contemporary literature i.e., books, journals, newspapers, magazines, cases, legal texts, policy documents and relevant web sites on the subject are consulted.

## **II. Human Stem Cell Research and Patent in Europe and U.S.A.: Recent Legal and Policy Environment**

European Union, in one hand funding and lending support for stem cell research, on the other hand it excludes from funding the projects that are believed by the European Parliament to be contrary to the EU legislation.<sup>6</sup> Views of European Parliament and of the Court of Justice for the European Union (hereinafter, CJEU) with respect to HSCR and HSCI are different

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<sup>5</sup> Case C-34/10, *Oliver Brüstle v. Greenpeace e.V.*, Judgment of the Court (Grand Chamber) of Oct. 18, 2011, *available at* <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-34/10> (last visited Nov. 21, 2012).

<sup>6</sup> See CATHERINE GANZLEBEN ET AL., PROCEEDINGS OF THE WORKSHOP ON STEM CELL RESEARCH AND PATENTING (Brussels, Mar. 19, 2012) 7 (Brussels, European Union 2012), *available at* <http://www.europarl.europa.eu/document/activities/cont/201205/20120524ATT45764/20120524ATT45764EN.pdf> (last visited Nov. 16, 2012).

from each other. The differences can be well observed from difference of the language of Biotech Directive and its interpretation of CJEU in the *Brüstle* case.<sup>7</sup> The approach of the European Court of Human Rights (hereinafter referred to as ECHR) and the CJEU are completely opposite. I would like to refer to the *Costa and Pavan* case<sup>8</sup> in this context. The European Court of Human Rights referring Art. 8 of the European Convention on Human Rights of 1950 has found that the Italian Law No. 40 of 2004 has resulted to discrimination to the carrier of sexually transmitted diseases and unjustifiably deprived them from selecting healthy embryos by conducting Preimplantation Genetic Diagnosis (PGD) in order to prevent the virus to be transmitted to the offspring.<sup>9</sup> The Court granted PGD for the applicant. This judgment came few months after the *Brüstle* case. The two judgments represent complete different ideologies. The *Costa and Pavan* decision is a very pragmatic one. It shows that there is necessity of application of technology to ensure human rights. This decision came when Italy took a conservative approach to the use of PGD as technique for the people who intend to screen the embryos and select the healthy ones to prevent disease transmission. It seems like the CJEU in the *Brüstle* case, which would be discussed afterwards, has probably chosen the same Italian law as role model which is one of the most conservative one amongst all the European national laws regarding HSCI. In Italy, Art. 13(3) of the Rules on Medically Assisted Procreation prohibits “production of human embryo for research,” and Art. 13(2) says, “The clinical and experimental research on each human embryo is permitted provided that they pursue diagnostic and therapeutic purposes which are exclusively associated with it for the protection of health and development of the embryo itself.”<sup>10</sup> This provision has been ideologically imitated in the decision of the *Brüstle* case to ban patentability of HSCI and

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<sup>7</sup> The interpretation that could normally be drawn from the Art. 6(2)(c) of the Directive 98/44/EC has been made wider in favor of exclusion from patent protection by the Court. This provision of the Directive has been interpreted by States like U.K., Belgium and Sweden to allow broader scope of HSCR. But now CJEU has given direction that only invention that can be patentable is the therapeutic gain over the defected embryo, and therefore, the scope of research and patent has narrowed down. So the legislators’ perception behind framing the Directive and CJEU’s interpretations of the exclusion provision seems to be different.

<sup>8</sup> *Costa and Pavan v. Italy*, application no. 54270/10, Judgment of the European Court of Human Rights (Second Section) of Aug. 28, 2012, available at <http://hudoc.echr.coe.int/sites/eng/pages/search.aspx?i=001-112993> (last visited Nov. 18, 2013).

<sup>9</sup> *See id.*

<sup>10</sup> Art. 13(2) of the Rules on Medically Assisted Procreation, Act No. 40 of Feb. 19, 2004, <http://www.ieb-eib.org/en/pdf/loi-pma-italie-english.pdf>.

keeping only one exception of patenting “for the benefit of embryo itself.”<sup>11</sup> CJEU’s decision seems to have been influenced by this Italian law and the ECHR rejects this same law’s conservative approaches. Therefore, the ECHR and CJEU have chosen very different legal and moral standing regarding uses and research of human embryos.

However, the Proposal for a Regulation of the European Parliament and of the Council establishing Horizon 2020-the Framework Programme for Research and Innovation (2014-2020) embodies the ambition of Europe, its desire to lead in science, technology and business, to encourage industrial and entrepreneurial activities, to maintain standard of ethics, to create a healthy life and society contains an article on “ethical principles” which is worth giving attention.<sup>12</sup> Article 16, paragraph 3(c) mentions one of the research fields that shall not be funded which would “intend to create human embryos solely for the purpose of research.”<sup>13</sup> It does not talk about ‘embryo research’ from other sources e.g., if the embryos were created for reproductive purposes and no more required and donated voluntarily for research would that be also the area outside of the purview of funding. Then Article 16, Paragraph 4 contains contrary directions which says that “[r]esearch on human stem cells, both adult and embryonic, may be financed” subject to some conditions and then it says that if the activity is forbidden in the Member State, it would not be funded.<sup>14</sup> This drafting came after the *Brüstle* case and seems like has deliberately leaves certain gray spaces of interpretation. Making the funding subject to national prohibition is a clear acknowledgement of existing differences in the national legal frameworks by the European policy making forum. However, on Feb. 19, 2013, 24 EU Member States signed an Agreement on a Unified Patent Court (hereinafter, UPt Agreement).<sup>15</sup> Before that on Dec. 11, 2012 the European Parliament approved patent package for the 25 EU Member States which is

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<sup>11</sup> Case C-34/10, *Oliver Brüstle v. Greenpeace e.V.*, Judgment of the Court (Grand Chamber) of Oct. 18, 2011, recital 44 (quoting clause 42 of the preamble to the Directive 98/44/EC of the European Parliament and of the Council of July 6, 1998 on the Legal Protection of Biotechnological Inventions, 1998 O.J. (L 213) 13-21).

<sup>12</sup> See *Commission Proposal for a Regulation of the European Parliament and of the Council to Establish Horizon 2020-The Framework Programme for Research and Innovation (2014-2020)*, at 19, COM (2011) 809 final (Nov. 30, 2011) (Article 16), available at

[http://ec.europa.eu/research/horizon2020/pdf/proposals/proposal\\_for\\_a\\_regulation\\_of\\_the\\_european\\_parliament\\_and\\_of\\_the\\_council\\_establishing\\_horizon\\_2020\\_-\\_the\\_framework\\_programme\\_for\\_research\\_and\\_innovation\\_\(2014-2020\).pdf#view=fit&pagemode=none](http://ec.europa.eu/research/horizon2020/pdf/proposals/proposal_for_a_regulation_of_the_european_parliament_and_of_the_council_establishing_horizon_2020_-_the_framework_programme_for_research_and_innovation_(2014-2020).pdf#view=fit&pagemode=none) (last visited Nov. 18, 2013).

<sup>13</sup> See *id.*

<sup>14</sup> See *id.*

<sup>15</sup> See Council Doc. 16351/12 (Jan. 11, 2013).

called “Unitary Patent” to be enforced by the Patent Court established under the abovementioned agreement. Moreover, Regulation 1257/2012 of the European Parliament and of the Council of Dec. 17, 2012 for enhancing cooperation for the unitary patent protection gives some instructions about how the unitary patent system would function.<sup>16</sup> None of these documents make any express reference to human stem cell (hereinafter, HSC) patent or even biotechnology patent. I shall discuss on the viability and functionality of unitary patent package for HSCI in chapter III. However, as I have indicated in the beginning of this chapter that in Europe between legislator and judiciary and between CJEU and ECHR there is no real uniformity of ideology exercised regarding the practice of embryo research and ascribing it legitimacy. Keeping in mind that the priorities of different European States are diverse, it remains a difficult goal to achieve a uniform patent system, particularly for HSCI.

There is an environment more conducive to HSCR and patent in the United States than in Europe at this moment. At the Federal level, there exists good research and funding opportunities. There is no federal law that completely bans or prohibits HSCR but the Dickey-Wicker Amendment, 1995 had put restriction on availability of Federal Funding for research encompassing destruction of embryo, which is recently interpreted by the Court in *Sherley v. Sebelius* to be not an embargo for granting Federal Funding for stem cell research that “utilize already derived” embryonic stem cells.<sup>17</sup> The NIH Grants Policy Statement asserts supports for “responsible, scientifically worthy human stem cell research.”<sup>18</sup> HSCR using donated embryos can be conducted with NIH Grants provided that they have been approved by the NIH according to its guidelines.<sup>19</sup> According to the guideline some of the experiments are prohibited that includes introduction of human embryonic stem cell (hereinafter, hESC) “into non-human primate blastocysts.”<sup>20</sup> Therefore, despite the plain reading of the text of the guidelines gives vague picture, taking into account the practice at the state level and the decision of the Court in the *Sherley* case, it is clear that HSCR in the U.S. is now more open than it was in recent past and more liberal than Europe in general.<sup>21</sup> Moreover, aborted fetus properly donated can be used

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<sup>16</sup> See Regulation (EU) No. 1257/2012, O.J.E.U. Vol. 55 (Dec. 31, 2012).

<sup>17</sup> See *Sherley v. Sebelius*, No. 11-5241, Slip op. at 8 (D.C. Cir. Aug. 24, 2012).

<sup>18</sup> NATIONAL INSTITUTES OF HEALTH, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES [NIH], NIH GRANTS POLICY STATEMENT IIA-22 (Oct. 1, 2012) (Part II, Subpart A, Chapter 4.1.13).

<sup>19</sup> See *id.* at IIA-22-IIA-23.

<sup>20</sup> *Id.* at IIA-23 (Chapter 4.1.13.1).

<sup>21</sup> Some of the countries in Europe have ample scope of HSCR which are UK, Sweden and Belgium. Creation of embryo for research is allowed in those countries, despite creation

for conducting “research on transplantation of human fetal tissues.”<sup>22</sup> However, there are some thin lines drawn in many countries of Europe including U.S. between “supernumerary embryos donated from the IVF<sup>23</sup> process” and “embryos created for research” for the purpose of justifying the legitimacy from the ethical point of view. While ascribing the status of “legal” HSCR, some countries have allowed the use of the “redundant donated embryo” from the IVF process.<sup>24</sup> U.S.A. is not exception when it comes to frame an overall policy guideline. The NIH Grants Policy Statement prohibits the funding for research that uses hESC derived from “IVF embryos created for research purposes.”<sup>25</sup> But as I have already indicated that the ethical and legal framework in U.S. varies in the state level, fifty U.S. states have different laws for the HSCR, but most of them are liberal and many of them are open to HSCR by using supernumerary embryos donated from the IVF process and some are permissive to Somatic Cell Nuclear Transplantation (hereinafter referred to as SCNT). Some of the States would allow HSCR quite openly. As for example, the New Jersey Senate Bill No. 1909 says that “[i]t is the public policy of this State that research involving the derivation and use of human embryonic stem cells, human embryonic germ cells and human adult stem cells [from any source], including somatic cell nuclear transplantation, shall [] be permitted in this State.”<sup>26</sup> Some of the states like California,<sup>27</sup> New Jersey,<sup>28</sup> and Illinois<sup>29</sup>

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of embryo for research faces large scale prohibition in many countries. *See* LISELOTTE HØJGAARD & MARJA MAKAROW, HUMAN STEM CELL RESEARCH AND REGENERATIVE MEDICINE: A EUROPEAN PERSPECTIVE ON SCIENTIFIC, ETHICAL AND LEGAL ISSUES, Science Policy Briefing 38 (May 2010) (European Science Foundation 2010) (Annex 1), *available at* [http://www.esf.org/fileadmin/Public\\_documents/Publications/SPB38\\_HumanStemCellResearch.pdf](http://www.esf.org/fileadmin/Public_documents/Publications/SPB38_HumanStemCellResearch.pdf) (last visited Feb. 27, 2013).

<sup>22</sup> NIH, *supra* note 18, at IIA-24 (Chapter 4.1.14.1).

<sup>23</sup> IVF stands for “In Vitro Fertilization.”

<sup>24</sup> The redundant embryos from IVF process are meant to embrace the destiny called “destruction.” If they are not utilized for the fertilization purpose and the donors retreat themselves to care about the material, they would not be preserved by the fertility clinics forever. One day those embryos would inevitably be destroyed, if not used for alternative purpose such as “embryo research.” There is not much ethics debate around this destruction. The destruction issue comes to the forefront of the debate when those embryos are manipulated or used and destroyed for other inventions. *See generally* EVE HEROLD, STEM CELL WARS: INSIDE STORIES FROM THE FRONTLINES 128 (Palgrave Macmillan 2006).

<sup>25</sup> *See* HØJGAARD & MAKAROW, *supra* note 21.

<sup>26</sup> *See* New Jersey Senate Bill No. 1909 (Sep. 30, 2002), [http://www.njleg.state.nj.us/2002/Bills/S2000/1909\\_R1.PDF](http://www.njleg.state.nj.us/2002/Bills/S2000/1909_R1.PDF) (last visited Nov. 18, 2013).

<sup>27</sup> *See* Article 35 of the California Constitution, [http://www.leginfo.ca.gov/const/article\\_35](http://www.leginfo.ca.gov/const/article_35) (last visited Nov. 18, 2013).

<sup>28</sup> *See* New Jersey Senate Bill No. 1909 (Sep. 30, 2002).

have very open and supportive HSCR environment.<sup>30</sup> States like Arkansas<sup>31</sup> and Virginia<sup>32</sup> prohibit human cloning but do not make express prohibition on HSCR. However, in most of those states, reproductive cloning is expressly prohibited.<sup>33</sup> Oklahoma is one of the rare states that have restrictive policy, but it would also allow research on embryonic stem cell lines created before August of 2001.<sup>34</sup>

#### A. Europe: Aftermath of the *Brüstle* Case

Though it is too early to measure the impacts of the judgment of *Oliver Brüstle v. Greenpeace e.V.*,<sup>35</sup> the following implications one might anticipate:

- (a) Legal purview of HSCR involving use and destruction of human embryo might have to be restrained;
- (b) Some of the existing human embryonic stem cell lines shall not remain valid within the legal parameter;
- (c) Policies of patenting HSCI in some European countries might have to be changed;
- (d) The legislators have to rethink about the policy goals they should determine;
- (e) EU States have to formulate national laws compatible with the judgment;

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<sup>29</sup> See Section 5 of the Stem Cell Research and Human Cloning Prohibition Act of 2007, <http://www.ilga.gov/legislation/fulltext.asp?DocName=&SessionId=51&GA=95&DocTypeID=SB&DocNum=4&GAID=9&LegID=26958&SpecSess=&Session=> (last visited Nov. 18, 2013).

<sup>30</sup> See, e.g., Article 35 of the California Constitution; New Jersey Senate Bill No. 1909; Section 5 of the Stem Cell Research and Human Cloning Prohibition Act of 2007.

<sup>31</sup> See Arkansas Senate Bill 185 (Mar. 24, 2003), <http://www.arkleg.state.ar.us/assembly/2003/R/Acts/Act607.pdf> (last visited Nov. 18, 2013).

<sup>32</sup> See § 32.1-162.22, Chapter 5.2, Title 32.1, Code of Virginia, <http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+32.1-162.22> (last visited Nov. 18, 2013).

<sup>33</sup> Prohibition of reproductive cloning finds support in many international legal instruments, e.g., UNESCO Universal Declaration on the Human Genome and Human Rights, 1997; Art. 1 of the Additional Protocol to the Convention for the Protection of Human Rights and Dignity of the Human Being with Regard to the Application of Biology and Medicine, on the Prohibition of Cloning Human Beings, 1998; Art 3(2) of the Charter of Fundamental Rights of the European Union, 2000. Therefore, there is no much debate, rather a consensus in favor of complete ban on reproductive cloning exist in both the Europe and U.S.A.

<sup>34</sup> See § 2B(2) of the Advancement in Stem Cell Cures and Therapies Act of the State of Oklahoma, ENR. H. B. NO. 3126 (2008), <http://ssl.csg.org/dockets/2011cycle/31Abills/2130b11okstemcellresearch.pdf> (last visited Nov. 18, 2013).

<sup>35</sup> See the *Brüstle* case, *supra* note 5.



- (f) There might be decrease in research and invention, which could be economic disadvantage for the Europe;
- (g) Future health care services that will have therapeutic application of HSCI will be hindered; and
- (h) Position of Europe in the global race of HSCR could be after U.S.A. and may be after some of the Asian countries.

If the judgment is considered as adequate instruction model and guideline for the HSCR, European countries shall enjoy very limited opportunity of diverse interpretation. Where the judgment has defined “embryo” in clear words and pointed out when the human life beings, countries shall have little choice to interpret the same notion otherwise. If that presumption is conceived as correctly drawn then countries that have provided hESC patents are supposed to revoke and nullify the patents that already have been granted.<sup>36</sup> It is a natural hypothesis that if the German Patent DE197586864 of Prof. Dr. Oliver Brüstle<sup>37</sup> is nullified, then other patents embracing same grounds of disqualification should follow the same consequences. Therefore, it is worth watching the actions of the U.K. patent office who has already granted many patents of stem cell lines that use hESC. However, it seems that U.K. has a different goal of research than most other European countries when it comes to patenting stem cell product. Being in the European Union and EPO member state it had interpreted many of the stem cell research guidelines differently from the other EU countries. U.K. has “provided about 100 patents on hESC based invention”<sup>38</sup> by now.

The approach of the European Patent Office and the interpretation of the CJEU regarding the patentability of stem cell inventions are seem to be similar to each other. The decision of the Enlarged Board of Appeal in WARF<sup>39</sup> excluded from patenting products that encompasses the destruction of human embryo which in principle seems to be identical to the decision in *Brüstle* case. The *Brüstle* case just went further into details of moral issues. EPO and CJEU do not appear to be going to take a contradictory position. Therefore, EPO does not seem to be granting patent on hESC inventions that would involve destruction human embryo or even when it is used as base material. Heil Pihlajamaa, Director of Patent law, European Patent Office in her presentation at a workshop mentioned that practice of EPO and approach

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<sup>36</sup> See Clara Sattler de Sousa e Brito, Stem Cell Patents: Legal Aspects (June 18, 2012), <http://www.eurostemcell.org/commentanalysis/stem-cell-patents-legal-aspects> (last visited Nov. 22, 2012).

<sup>37</sup> Professor of Reconstructive Neurobiology, University of Bonn, <http://www.uni-ulm.de/en/home2/alumni/interesting-alumni/seperate-portraits/medicine/prof-dr-oliver-bruestle.html> (last visited Nov. 21, 2012).

<sup>38</sup> See GANZLEBEN ET AL., *supra* note 6, at 8.

<sup>39</sup> G 0002/06, Decision of Nov. 25, 2008.

of CJEU are in line with each other.<sup>40</sup> It may be presumed that since EPO is not bound by the decision of CJEU it might grant a patent on hESC invention, which I find unlikely to happen.<sup>41</sup>

Professor Aurora Plomer has identified this judgment as “flawed” from the legal perspective.<sup>42</sup> The *Brüstle* case does not define or outline the conditions for patentability or patentable subject matter is depth but gives a definition of embryo which could be one of many definitions of embryo that exist in different jurisdictions. A perfect definition of “human embryo,” “human body” and “human life” acceptable both from scientific and ethical perspective has not been formulated for lack of scientific clarification and disagreement on ethical grounds. But the CJEU chooses a definition which is very strict and curtails the scope of embryo research. The court does not expressly define the term like “morality” and did not give a list of non-patentable subject matter by which specific scientific research works could have been declared illegal *ab initio*.<sup>43</sup> The Judgment also does not explain why destruction of human embryo or their commercial application or embryo research is a threat to *ordre public*. Destruction of embryo is considered by some ethicists as against human dignity and also the embryo is considered to have life the termination of which is perceived as morally wrong no matter how early it is. In a typical “ethics vs. science” debate, ascribing the status of “human life” to an embryo invokes arguments and counter arguments and does not produce a result. There is no universally applicable conclusive definition of “morality” and there is no defining moment of “beginning of human life.” Therefore, a conclusion saying that “destruction of embryo is destruction of human life” and so “destruction of embryo is unethical” would not be well accepted from all quarters and stakeholders.

### 1. Absence of Economic Considerations

Until now, patent system has been offering a protection tool for the HCSI. The patentees are not concerned about ‘patent’ they are rather concerned

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<sup>40</sup> See GANZLEBEN ET AL., *supra* note 6.

<sup>41</sup> But see Brian A. Donahue & Terri Shieh-Newton, *Legal Implications and Business Considerations for Technologies Involving Human Embryonic Stem Cells in Europe and U.S.*, 2012(Summer) MORRISON AND FOERSTER QUARTERLY NEWS 1, 4 (2012), available at <http://www.mofo.com/files/Uploads/Images/120627-Intellectual-Property-Quarterly-Newsletter-Summer-2012.pdf>.

<sup>42</sup> See Aurora Plomer, *EU Ban on Stem Cell Patents is a Threat Both to Science and the Rule of Law*, THE GUARDIAN, Dec 12, 2011, available at <http://www.guardian.co.uk/science/blog/2011/dec/12/eu-ban-stem-cell-patents> (last visited 22 Nov. 2012).

<sup>43</sup> See generally Aurora Plomer, *After Brüstle: EU Accession to the ECHR and the Future of European Patent Law*, 2(2) Q.M.J.I.P. 110, 110-35 (2012).

about a protection mechanism that would ensure their return of investment. The beneficiaries of inventions are concerned about availing the blessings of science at a reasonable means. Commercial incentives encourage investment and invention. Private sector investment would depend on how secure the return is. Patent rejection would be a kind of disincentive and curtailed research freedom is an added impediment. So after the *Brüstle* case, the two major areas of concerns are-(1) legitimacy and scope of the HSCR and (2) appropriate protection tool for HSCI.

Economic considerations are very important issue for the assignee. Most of the people who advocate for facilitating the scientific progress find their rationale in economic and social realities. Enrico Bonadio shows in his paper that “cost benefit analysis” plays a visible role for one section of the advocates in the HSCR debate.<sup>44</sup> The recent European trend in HSCR, if the *Brüstle* case is considered as the protagonist of the story, seems like a moral styling of science which ignored the economic realities. There still can be public funded research and university inventions but private biotech and pharmaceutical companies are major players that cannot be totally ignored.

If a ban on patentability becomes barrier to IPR protection on HSCI then many privately funded research projects and scientists may move from Europe to other continents where these researches could be validly undertaken and inventions would get intellectual property protection. The attractive alternative can be anywhere who is pursuing the same research with different interpretation to the ethical aspects in collection of stem cell lines, their destruction, utilization, preservation and commercialization than in Europe at present. Therefore, the scientists and the academic community in Europe have posed the most resistant reactions in these circumstances. Many scientists, academics and patient advocates have been expressing their opinion in favor of facilitating the research and emphasizing on intellectual property protection, and also for increasing the research budget in “Horizon 2020.”<sup>45</sup> The legal quandary might have delayed many of the invention to reach the market or may make the treatment available in specific countries

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<sup>44</sup> See Enrico Bonadio, *Biotech Patents and Morality After Brüstle*, 34(7) E.I.P.R. 433, 436-374 (2012).

<sup>45</sup> “Horizon 2020” is a programme that would put in place a visionary goal for Europe in scientific research, investment, creating more job opportunities, securing Europe’s competitive advantage and a healthy life in a good society. For more information, please see [http://ec.europa.eu/research/horizon2020/index\\_en.cfm](http://ec.europa.eu/research/horizon2020/index_en.cfm) (last visited Dec. 1, 2012). ALL European Academics (ALLEA) and Academia Europaea and European Academies Science Advisory Council (EASAC) in a joint note dated Nov. 13, 2012 wrote, while giving support for raising funds for research, “It is not only the creation of new knowledge that is at stake but benefits for citizens and their environment in this and future generations.” See <http://www.allea.org/Pages/ALL/33/507.bGFuZz1FTkc.html> (last visited Dec. 1, 2012).

not all. Therefore, medical tourism is likely to rise in the next few years. And cost of the treatment seems to depend on its mode of IPR protection.

## 2. Implications in Progress of Science

The divergent practices adopted by the member countries within the Biotech Directive's purview shall have to be unified, at least at one point that by destruction of human embryos, there cannot be patent. However, after *Brüstle* case, conducting the research that involves destruction of human embryo is also not allowed, but research from the laboratories cannot be practically wiped out although patent protection may be denied. Steve Connor writes, "Scientists expressed their dismay at the decision [of the *Brüstle* case], saying the ban will act as a huge disincentive for investment in a critical area of research that promises to revolutionize medicine in the coming decades."<sup>46</sup> However, according to the judgment of CJEU in the *Brüstle* case, one use of hESC can be patented that is inventions for "therapeutic and diagnostic purposes which are applied to the human embryo and are useful to it", subject to non destruction of human embryos.<sup>47</sup> There are alternative means being explored by scientists to derive hESC without destruction of embryo which can be implanted soundly.<sup>48</sup> Using induced pluripotent stem cells (iPS) as substitute of hESC to avoid ethical objections could be an idea but they are not exact substitute of each other for the purpose of potency. The application of alternative techniques might be a bypass to mitigate the ethical crisis to some extent but the appropriate protection tool for the HSCI remains an issue. However, other stem cell inventions e.g., from adult stem cell and iPS are patentable.

It is a fact that there is no plenty of examples of successful application in humans of hESC inventions and most of them are at the trial stage now.<sup>49</sup> Some of them had been successfully tested over animals in laboratories. However, despite debates and hurdles, fast progress is taking place in the

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<sup>46</sup> Steve Connor, *Medicine Thrown into Crisis by Stem Cell Ruling*, THE INDEPENDENT (London), Oct. 19, 2011, available at <http://www.independent.co.uk/news/science/medicine-thrown-into-crisis-by-stem-cell-ruling-2372562.html> (last visited Nov. 28, 2012).

<sup>47</sup> See *Commission Proposal for a Regulation of the European Parliament and of the Council to Establish Horizon 2020-The Framework Programme for Research and Innovation (2014-2020)*, at 19, COM (2011) 809 final (Nov. 30, 2011) (Article 16).

<sup>48</sup> The biotech company, Advanced Cell Technology, Inc., has pioneered a technology called "Blastomere Technology" which uses single-cell biopsy technique for derivation of hESC where the process does not require the destruction of embryo but is similar to the cell lines collected by destruction of the embryos. See Advanced Cell Technology, ACT's Blastomere Technology, <http://www.advancedcell.com/patients/act-technology/> (last visited Dec. 6, 2012).

<sup>49</sup> For safe application of stem cell therapy transparency, accountability and strict application of safety guidelines should be followed.

application of hESC in human. Advanced Cell Technology on Oct. 22, 2012 announced that it has successfully experimented a hESC treatment over a patient of a genetic eye disease called “Stargardt’s Macular Dystrophy” (SMD) which causes blindness and the results appear to be promising.<sup>50</sup> Neither the scientists nor the patients have lost hopes that hESC inventions will soon be able to cure many genetic and terminal diseases.

### **B. U.S.A.: After *Sherly v. Sebelius***

In 2009, President Obama, while acknowledging the potential benefits of HSCR, removed existing barrier from research activity by issuing an Executive Order for allowing the research and to make National Institutes of Health (NIH) funding available for the human stem cell projects.<sup>51</sup> There was growing frustration among the scientists’ community during the previous regime of President Bush for restraining the federal funding for HSCR which has surfaced in many writings.<sup>52</sup> However, the Executive Order of President Obama categorically supported “responsible” and legally permissible research on hESC.<sup>53</sup> Accordingly, NIH issued “Guidelines for HSCR”<sup>54</sup> and as of now NIH has approved 184 stem cell lines eligible to be used for its funding.<sup>55</sup> But the NIH funding and its functioning had not been so smooth in the last few months. Its actions were challenged in a Court case by adult stem researchers and the litigation managed to get a preliminary injunction in 2010 putting halt on the Federal Funding on hESC research and the United States Court of Appeals for the D.C. Circuit then granted an emergency stay.<sup>56</sup> But interestingly enough, the NIH funding for hESC research was not challenged for ethical reasons, rather it was challenged by

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<sup>50</sup> See Advanced Cell Technology, ACT’s European Clinical Trial Advances to First Patient Treatment with Higher Dosage of Embryonic Stem Cell-Derived Retinal Pigment Epithelial Cells, <http://www.advancedcell.com/news-and-media/press-releases/actandrsquo-s-european-clinical-trial-advances-to-first-patient-treatment-with-higher-dosage-of-embryonic-stem-cell-derived-retinal-pigment-epithelial-cells/index.asp> (last visited Nov. 18, 2013).

<sup>51</sup> See Exec. Order No. 13505, 74 Fed. Reg. 10667 (Mar. 11, 2009).

<sup>52</sup> See, e.g., George Q. Daley, Foreword, *in* STEM CELL WARS: INSIDE STORIES FROM THE FRONTLINES xi-xviii (written by Eve Herold) (Palgrave Macmillan, 2006).

<sup>53</sup> See *id.* (Sec. 2).

<sup>54</sup> NIH, National Institutes of Health Guidelines for Human Stem Cell Research, 74 Fed. Reg. 32170-75 (July 7, 2009).

<sup>55</sup> [http://grants.nih.gov/stem\\_cells/registry/current.htm](http://grants.nih.gov/stem_cells/registry/current.htm) (last visited Dec. 11, 2012).

<sup>56</sup> See *Sherley v. Sebelius*, 610 F.3d 69 (D.C. Cir. 2010). See generally Ryan P. O’Quinn, *Sherley v. Sebelius: Stem Cells and the Uneasy Interplay Between the Federal Bench and the Lab Bench*, 2011 DUKE L. & TECH. REV. 002 (2011), available at <http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1216&context=dltr> (last visited Dec. 11, 2012).

stem cell researchers who conduct research on adult stem cell over the ground of competitive disadvantage.<sup>57</sup> On August 2012, the preliminary injunction is vacated by the D.C. Circuit<sup>58</sup> which again made the functioning and funding of the NIH available for the hESC projects. As already mentioned before, this decision also made a way out to avoid the restrictions put by the Dickey-Wicker Amendment in 1995.

### III. Europe and U.S.A.: Ambivalence, Ethics Debate and Patent Quagmire

Patent system as a tool for the protection of HSCI has many limitations and has embarked on endless complications. In this part I would like to draw attention to the fact that patent as a tool of protection for HSCI is not the most appropriate one at this moment. And some of my arguments shall follow taking the examples from the U.S.A. and Europe. I believe if HSCR is to be encouraged some more pragmatic and humane approach is needed. Patent is not an evil but it is evident that it is becoming gradually complex, multilayered and more of a commercial engine.

Human stem cell patent in Europe is an area where vagueness prevails due to interpretation differences of common European legislations. European Union States have diverse approach of implementing unified rules, regulations and judgments that they are all supposed to apply in their domestic laws in a coherent manner.<sup>59</sup> When it comes to implementation of a European legislation, e.g., any Directive, there is tendency to interpret the same provision in different manner which produces obvious different consequences.<sup>60</sup> This proposition can be suggested after witnessing the recent past that reveals sequence of actions of the European States when it came to interpretation of Article 6 of the Biotech Directive, the provision that excludes certain inventions from patentability on the grounds of *ordre public* or morality.<sup>61</sup> European States have interpreted the same provision as

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<sup>57</sup> See *Sherly v. Sebelius*, No. 11-5241, Slip op. (D.C. Cir. Aug. 24, 2012).

<sup>58</sup> See *id.*

<sup>59</sup> See generally Rosario M Isasi & Bartha M Knoppers, *Towards Commonality? Policy Approaches to Human Embryonic Stem Cell Research in Europe*, in *EMBRYONIC STEM CELL PATENTS: EUROPEAN LAW AND ETHICS* 29-56 (Aurora Plomer and Paul Torremans eds., Oxford University Press 2009).

<sup>60</sup> See generally Josef Kure, *Human Embryonic Stem Cell Research in Central and Eastern Europe: A Comparative Analysis of Regulatory and Policy Approaches*, in *EMBRYONIC STEM CELL PATENTS: EUROPEAN LAW AND ETHICS* 57-84 (Aurora Plomer and Paul Torremans eds., Oxford University Press 2009).

<sup>61</sup> According to Article 6(2)(c), human embryo used for commercial purposes shall not be considered for a patent on the ground of morality. See Directive 98/44/EC of the European Parliament and of the Council of July 6, 1998 on the Legal Protection of Biotechnological Inventions, 1998 O.J.L. (213) 13-21 (July 30, 1998). However, a more

differently as they wanted to make it suitable to their scientific, economic and moral ambitions and ideologies and hence, the policies of UK are different from that of Germany.<sup>62</sup> Asa Hellstadius finds in a study that there is “plurality of views” existing in Europe regarding the interpretation of the exclusion from patentability on the ground of morality.<sup>63</sup>

Alternative to patent protection for HSCI are continuously explored and suggestions are made time and again. The European Group on Ethics in Science and New Technologies to the European Commission in 2002 explored feasibility of trade secret as alternative to patent protection for HSCI; but they finally opined to keep the patent protection with some changes.<sup>64</sup> Trade secret as protection tool is not affective for the invention in life science for two reasons, firstly, the trade secret continues without any specific term of protection and therefore, the invention does not enter into public domain; and secondly, reverse engineering is very likely in HSCI, therefore, there would be no protection once the product or process is in the market. For the commercial application of the inventions, trade secret is potentially failed tools at this age of technology.

A patent has aggravated some of the ethical concerns for its own characteristics. A patent is an exclusive right to commercially exploit the invention.<sup>65</sup> When the invention involves human biological material like stem cells and embryos, commercial application of patent system brings more ethical concerns than commercial application of human biological material through HSCI could normally have done. Industrial application is one of the universal preconditions of patent system and it commercializes inventions. Those who argue that embryo is human life, directly links the phases of actions and raises the ethical concern saying “HSC patent commercializes life.” I would argue that HSCI does not commercialize human “life or body.” The early stages of development of the cells following the immediate fertilization are so different from the human body that despite they contain the genetic information and exist at an early juncture of human

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general exclusion provision is contained in Article 53 of the 1973 European Patent Convention regarding morality which does not make reference to the HSCI though.

<sup>62</sup> See generally Asa Hellstadius, *A Comparative Analysis of the National Implementation of the Directive’s Morality Clause*, in *EMBRYONIC STEM CELL PATENTS: EUROPEAN LAW AND ETHICS* 117-139 (Aurora Plomer and Paul Torremans eds., Oxford University Press 2009).

<sup>63</sup> See *id.* at 119.

<sup>64</sup> See VAN OVERWALLE, *STUDY ON THE PATENTING OF INVENTIONS RELATED TO HUMAN STEM CELL RESEARCH* 81-82 (Luxembourg, European Communities 2002), available at [http://ec.europa.eu/bepa/european-group-ethics/docs/publications/stud\\_vanoverw\\_en.pdf](http://ec.europa.eu/bepa/european-group-ethics/docs/publications/stud_vanoverw_en.pdf) (last visited Nov. 18, 2013). The study was conducted at the request of the EGE.

<sup>65</sup> See Usselman & John, *supra* note 1, at 98.

body; an embryo itself is not a human body or human being.<sup>66</sup> Article 5(1) of the Directive 98/44/EC states, “The human body, at the various stages of its formation and development ... cannot constitute patentable inventions.” “Human body” and “human body at various stages of development” are not same things. When it is used legitimately for fertility purposes it is not considered as human body, rather just a healthy embryo with potential to be human body. The Directive’s language is also contributing to build the perception that those human biological materials are different stages of human body and, therefore, deserves the status of human body. This legal text also contributes to create the hypothesis that “destruction and commercial application of embryo is destruction and commercialization of life” for the purposes of HSCI. According to this provision many HSCI are not patentable invention as patent is a commercial engine. I believe that embryos used for research would have been considered just as sensitive human biological material, if they were protected under a less exclusive, less commercial and more humane mechanism and the benefits were easily accessible by the people at large at a cheaper price, and therefore, there would have been less ethical objection and more acceptances to HSCR. But patent system is completely incapable to offer those concessions. It is possible to secure the safe return of the investment through a commercial exploitation mechanism not as exclusive as patent. Therefore, patent being one of the factors that invokes “commercialization of life debate,” it is not as appropriate tool for the protection of HSCI as it is for other types of inventions.

However, opinions against patent protection of HSCI does not always rely on the ethical<sup>67</sup> or religious grounds but sometimes lack of typical requirement of conditions of patentability and patentable subject matter is also argued to be a reason of exclusion.<sup>68</sup> The difference between the above two reasons against patent protection is that those who argue exclusion from patent protection for ethical reasons discourage the HSCR itself, particularly

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<sup>66</sup> Much of the experiments are conducted on non human creatures. The available knowledge on the moment of conceptions and beginning of life is more philosophical than biological. *See generally* EVE HEROLD, *STEM CELL WARS: INSIDE STORIES FROM THE FRONTLINES* 131 (Palgrave Macmillan 2006); *see also* Maureen L. Condic, *Preimplantation Stages of Human Development: The Biological and Moral Status of Early Embryos*, in *IS THIS CELL A HUMAN BEING? EXPLORING THE STATUS OF EMBRYOS, STEM CELLS AND HUMAN-ANIMAL HYBRIDS* 30, n.8 (Antoine Suarez & Joachim Huarte eds., Springer-Verlag Berlin Heidelberg 2011).

<sup>67</sup> *See generally* Sina A. Muscati, “Some More Human Than Others”: *Assessing the Scope of Patentability Related to Human Embryonic Stem Cell Research*, 44 *JURIMETRICS J.* 201, 201-27 (2004).

<sup>68</sup> *See* Leeron Morad, *Stemming the Tide: On the Patentability of Stem Cells and Differentiation Process*, 87 *N.Y.U.L. REV.* 551, 574-82 (2012).



hESC research. The other opinion that HSCI should not be protected under the patent law argues that it lacks the technical requirements of patent but does not necessarily deny the necessity of the research itself.<sup>69</sup>

Inside the United States, there exists different standard of research environment in the state level. Despite the federal policies are in recent months encouraging some forms of HSCR and making way for their patent protection, all the states in the U.S.A do not have same legal framework which I have discussed earlier. There are some differences in the patentability requirement between the U.S.A. and Europe. But the ethical issues also make differences between the two continents. For example the *Brüstle* case was challenged in Europe on ethical grounds and the *Sherley* case was contested in the U.S.A. on the grounds of competitive disadvantage. However, there are territoriality issues, issues of denial of recognition and enforcement of foreign judgments between Europe and the U.S.A. Respective States have authority to reject or grant a patent and it is a kind of discretion of the granting State.<sup>70</sup> This poses difficulties for commercialization of inventions and because the patent systems are not largely harmonized, the enforcement of right is a challenge. When the TRIPS Agreement was enacted it was believed to ensure effective mechanism for protection and enforcement of intellectual property rights. But, Article 27(2) could be a contrary example of this thought and rather indicates that signatories to TRIPS acknowledge that “you might have a patent in your country or several countries but I may deny to enforce your patent right because it is necessary to protect my *ordre public* or morality.” Article 27(2) makes contradictory suggestions, such as, countries may exclude patentability if the commercial exploitation of the invention is against their concept of morality and it is not excluded only because the commercial exploitation is illegal according to their law.<sup>71</sup>

There are some differences in the national patent systems from country to country. As I have already mentioned in previous discussion that in order to bring uniformity in the patent system in general among the European States

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<sup>69</sup> *See id.* at 551-89.

<sup>70</sup> Art. 4bis(1) of the Paris Convention for the Protection of Industrial Property of Mar. 20, 1883, as amended on Sept. 28, 1979 contains a provision that has established the notion that patents are independent of the one granted or denied in another country. According to this provision countries are not required to grant or reject a patent application by considering that it has been granted or rejected in another country. It is the law of each country that would evaluate the merit of the application and decide if the invention is patentable according to the law of that specific country.

<sup>71</sup> It can be interpreted that, under Art. 27(2) of the TRIPS Agreement, in order to be excluded from patent protection, something has to be grossly immoral, not just that the commercial exploitation is illegal for any discomfort that might be caused to the country.

the “unitary patent package” was declared. After the entry into force of the Agreement on a Unified Patent Court,<sup>72</sup> in Europe there shall be a multi-layered patent protection system. It does not create a hierarchical system; rather there shall be parallel exercise of jurisdiction. 25 EU Member States shall be party to the unitary patent (hereinafter, UP), if they ratify, 38 Member States are party to the European Patent under the EPC and the national patent system remains in force. So the party to the UP shall approach to the UP Ct. One can take UP and also European Patent. This patent package and the Regulation<sup>73</sup> has been critiqued by the Max Planck Institute for Intellectual Property and Competition Law as “hybrid” and ‘imbalanced’ which would have various problematic aspects, e.g., create fragmentation of internal market, making discriminatory effect by creating divergent standard amongst the applicants and lacking legal enforcement certainty.<sup>74</sup> This Regulation has made licensing as discretion of the patentee.<sup>75</sup> Compulsory licensing is absent; rather this issue is left to be dealt under the national jurisdiction. Article 7 of the Regulation<sup>76</sup> mentions unitary patent as an object of property and these wordings would bring more commercialization into the HSCR and make it look like more commodification of human biological material than it is perceived now. It does not attempt to create a uniform balanced patent system appropriate to all forms of technologies and inventions, rather it would help big enterprises to enforce a patent right in a bunch of country at a relatively reduced cost which would not ensure the goal of HSCI unless areas like compulsory licensing and overlapping of jurisdictions are addressed. Now Europe has more layers of a patent cake which is devoid of simplicity and uniformity as a protection tool. However, Spain has decided to remain outside of the UP patent package.

#### **IV. Conclusion and Recommendation**

This paper revisits the recent developments in patent law encompassing HSCI in Europe and the U.S.A. and finds that practice of patent protection is divergent both within Europe and U.S.A. and also between Europe and U.S.A. The recent trend in U.S.A. is towards creating HSCR environment liberal and making patent protection available under certain circumstances.

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<sup>72</sup> See Council Doc. 16351/12 (Jan. 11, 2013).

<sup>73</sup> Regulation (EU) No. 1257/2012, O.J.E.U. Vol. 55 (Dec. 31, 2012).

<sup>74</sup> See RETO M. HILTY ET AL., THE UNITARY PATENT PACKAGE: TWELVE REASONS FOR CONCERN (The Max Planck Institute for Intellectual Property and Competition Law 2013), available at [http://www.ip.mpg.de/files/pdf2/MPI-IP\\_Twelve-Reasons\\_2012-10-17\\_final3.pdf](http://www.ip.mpg.de/files/pdf2/MPI-IP_Twelve-Reasons_2012-10-17_final3.pdf) (last visited Nov. 18, 2013).

<sup>75</sup> See *id.* at 3.

<sup>76</sup> See HILTY ET AL., *Supra* note 74.

European position regarding embryo research is a tug of war within and between its different fora. There is absence of uniform understanding of the concept of morality in Europe itself, though it is one continent.<sup>77</sup> The opinions of CJEU in *Brüstle* and the opinion of ECHR in *Costa and Pavan* are evidently contrary in embryo related matters. The most recent unitary patent package results creating a multilayered protection model that declares patent as ‘property’.<sup>78</sup> It is complex and not a uniform system. Experts also identified that there is “incompatibility of the Unified Patent Court with EU law.”<sup>79</sup> In recent months, Europe has banned hESC patents, defined embryo in most narrow sense, widened the scope of the exclusion from patentability whereas U.S.A. has recognized the need of hESC research, allowed use of donated embryo for hESC research which was created for reproductive reasons and defined embryo in a broader sense.<sup>80</sup> However, in the United States also all kinds of research using human embryo is not allowed<sup>81</sup> and NIH prohibits certain kinds of uses of hESC even if the embryos are donated following proper guidelines.<sup>82</sup> *Sherley* case also has directed a way to avoid previously existing restrictions. Therefore, the ethical framework in U.S.A. is different from Europe but not non-existent. There is always an apprehension of failure of recognition of rights and legal battles between European and non European States under the divergent conditions of patent protection.

Regarding HSCR, countries are divided and motivated by the political, religious, social and economic conditions prevailing in their own territory. Therefore, there is no uniformity in the ideology and practice of patent protection in the field of HSCI. How appropriate patent as a tool for protection of HSCI, is a timely question due to existing quandary in

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<sup>77</sup> See A M Viens, *Morality Provisions in Law Concerning the Commercialization of Human Embryos and Stem Cells*, in EMBRYONIC STEM CELL PATENTS: EUROPEAN LAW AND ETHICS 87-89 (Aurora Plomer and Paul Torremans eds., Oxford University Press 2009).

<sup>78</sup> Offering exclusive property right in favor of a patentee in life science many times gives rise to a debate around “treating life forms as property.”

<sup>79</sup> HILTY ET AL., *supra* note 75, at 5.

<sup>80</sup> In the *Brüstle* case, the CJEU defines human embryo as, “any human ovum after fertilisation, any non-fertilised human ovum into which the cell nucleus from a mature human cell has been transplanted, and any non-fertilised human ovum whose division and further development have been stimulated by parthenogenesis constitute a ‘human embryo.’” See GANZLEBEN ET AL., *supra* note 6. On the other hand the NIH Grants Policy Statement mentions, that “[a]lthough hESCs are derived from embryos, such stem cells are not themselves human embryos.” NIH, *supra* note 18, at IIA-22-IIA-23.

<sup>81</sup> NIH Grants Policy Statement says that “NIH funding for research using hESCs derived from other sources, including somatic cell nuclear transfer, parthenogenesis, and/or IVF embryos created for research purposes, is [...] prohibited.” See HØJGAARD & MAKAROW, *supra* note 21.

<sup>82</sup> See HØJGAARD & MAKAROW, *supra* note 21.

patenting and research in HSC. The irreconcilable differences among philosophical interpretations regarding the legitimacy of HSCR and protection of the inventions among countries would be a driving factor for searching alternative to patent protection. There are various reason for which patent is not the most appropriate protection tool for the HSCI. Apart from ethical objections,<sup>83</sup> patent itself invokes certain feature into the issues relating to HSCR. Amongst them most noticeable is proprietary nature of the patented technology and commercialization of the invention without much considering the advantage the society should be able to materialize.<sup>84</sup> In this paper, I recommend for a protection model that would allow more inexpensive access to medication and therapies of future health care by the people in one hand, and ensure the return of the investment on the other hand. It should have a balanced approach to the protection of HSCI. If the protection tool makes less profit than the patent does for HSCI, there would be more acceptance and less rejection from the society. The compulsory licensing should be set in the protection model as a prerequisite of application for protection and the merits of the application should be judged on a case by case basis. I recommend a humane protection tool to be developed within IPR's framework for the inventions in life science that uses human biological material. My proposed protection tool would embody the idea of protection of the rights of the assignee and save the interest of the society by allowing less exclusive commercial exploitation for limited term of protection. I recommend that after the invention is put to the market for commercial exploitation, it would take into account the reactions of the health care receiver and shall bring changes in the means of exploitation according to the public reactions of that territory. Under the patent system, in a territory all the patentees enjoy same rights and obligations. Under this idea of protection tool each assignee shall be granted a protection license which would have certain common compulsory features and some additional unique rights and obligations applicable for the commercial exploitation of that particular invention. It would be universal in the sense that it would have same term of protection and provision for compulsory licenses in all jurisdictions. At the same time it would be a kind of 'personalized license' for the reason that certain rights and obligations would be imposed after revisiting the public response and public needs and that would be applicable for the exploitation of that invention in that territory only. However, public reactions can be received online. Public Office responsible for health care

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<sup>83</sup> iPS cells and some of the reprogrammed stem cells are free from ethical objections although they are not exact substitute of the hESC.

<sup>84</sup> Some authors criticized patent protection in general for its ability to create monopoly. See Usselman & John, *supra* note 1, at 116.

services can monitor the impacts of the inventions over the patients from public reactions. Coordination between intellectual property office, health care department and assignee is needed for ensuring that maximum advantage of the invention is utilized. A system that takes into account of people's opinion would be more acceptable form of protection for HSCI from all perspectives; the opportunity typical patented inventions do not offer to the people.

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