



**PATENT PLEDGES: A BRIDGE
BETWEEN EXCLUSIVITY OVER
PATENTED
INVENTIONS AND PROMOTING
INNOVATION**

By Sayee Tandale

From Symbiosis Law School, Pune

Abstract

It is increasingly opined that patents are slowing down rather than speeding up innovation. With an objective to encourage innovation, several companies, particularly in the technology and software sector, such as Google, Tesla and Red Hat have issued patent pledges. Patent Pledges are declarations made by companies to the effect that all or certain particular patents of the company, as mentioned in the said pledge, are open for use by the public and no legal action shall be instituted unless the conditions mentioned in the pledge are violated.

Pledges tend to be vague to provide for maximum interpretation in the patent holder company's favour. Issuing pledges is a mechanism for a company to achieve dichotomous aims simultaneously, those being encouraging innovation and enjoying the rights given to the patentee by virtue of the invention patented.¹ Pledges attract more prospective licensees than the traditional mode of licensing of patents would have.

This article aims to explain the theory on which the concept of patent pledges is based. The merits and demerits of patent pledges

will also be discussed. Patent pledges issued by companies will then be analysed. Defences available to licensees being sued for infringement by companies which have issued such a pledge will be explained. Since this is a developing concept, relevant recommendations from existing scholarship on this subject which may enhance the effectiveness of patent pledges will be discussed. The paper will conclude with recommendations of the author on how a balance can be struck between exclusive property rights and fast innovation.

Keywords: *patent portfolio, patent pledge, defensive patenting, open source.*

I. Introduction

A patent is a mechanism which allows an inventor to have exclusive rights over the patented invention for a fixed period of 20 years. However, technology is developing rapidly and the invention not being in the public domain for such a long time is bound to slow down technological development. There exists a school of thought that finds patents slow down rather than speed up innovation, and are, in other words, a hindrance to the development of technology.

Companies wish to promote innovation while also retaining the exclusivity over their patented inventions. This is achieved by issuing a patent pledge, which is a promise by the company that legal action shall not be instituted against any party which uses its patents in accordance with the conditions in the pledge.

¹ *Contreras, J. L. (n.d.). Patent Pledges. Arizona State Law Journal.*



Patent pledges tend to be vague in order to create maximum scope for their interpretation in favour of the patent-holder company. Also, they may not be legally enforceable. Their enforceability depends on the language of the pledge.

This article aims to explain the concept of patent pledges and analyse some pledges issued by companies. Patent pledges are a way for companies to invite and excite prospective licensees. The author shall conclude with recommendations as to how to make patent pledges a more effective mechanism, and how companies can achieve both the aims of exclusivity over their patented inventions and encouraging innovation.

II. Objectives:

1. To understand the concept of patent pledges.
2. To analyse patent pledges issued by certain companies.
3. To recommend ways in which a company can achieve the aims of encouraging fast innovation while also enjoying the exclusive rights bestowed upon it by virtue of its invention being patented.

III. Methodology:

Secondary data shall be used for the purpose of this paper.

IV. Literature Review

1. **Understanding Patent Pledges: An Overview of Legal Considerations²:** This article provided an insight into the legal theories on which patent pledges are based, particularly doctrine of equitable estoppel.

These theories also serve as defences to the users of such licenses.

2. **Contreras, J. L. (n.d.). Patent Pledges. Arizona State Law Journal:** This paper provided valuable insight to the author into the concept of patent pledges. The paper provides important recommendations to make patent pledges a more effective tool. Particularly, it recommends the establishment of a Patent Pledge Registry and Database, which have been further elaborated upon by the author in the context of the Indian legal regime related to patents.

Analysis

A. Basis of the Concept of Patent Pledges

Equitable Estoppel: Equitable estoppel, in patent law, is a defence to a party accused of infringement. It can be adopted when the party alleging infringement adopts a manner of conduct which is misleading to the accused party. Particularly with regard to patent pledges, the issuer promises not to sue the said prospective licensee. This is misleading if the said prospective licensee relies on the statement and uses the patent according to the terms laid down in the pledge, but is sued. If sued, this doctrine is a defence which may be availed by him.

Since the patentee company which issues the pledge makes such a statement of non-assertion of legal proceedings against any party, albeit based on certain conditions, such as good faith, it can be said that the concept of patent pledges is derived from this doctrine. It is to be noted that not all pledges contain misleading non-assertion statements.³

² *Open Source Development Labs, I. (2006). Understanding Patent Pledges: An Overview of Legal Considerations.*

³ *Supra, note 2.*



B. Advantages and Disadvantages of Patent Pledges

I. Advantages:

- a) They encourage more licensees to obtain licenses. Patent Pledges are issued most commonly over the Internet, and thus have a wider reach over a short period of time as compared to the traditional approach of directly approaching the company, which is a comparatively inconvenient and time-consuming process. Even when Patent Pledges are issued, prospective licensees have to comply with the terms mentioned in the pledge and approach the company. However, under the traditional process of licensing, fewer applications were received by companies as compared to the number of applications that can be received by issuing a Non-Assertion Pledge.
- b) Patent Pledges speed up innovation while also allowing the company issuing the pledge to retain the rights, to some extent over its invention that it has been granted by virtue of the patent.
- c) Patent Pledges help to reduce patent litigation. The main clause in a patent pledge is the non-assertion clause, whereby the issuer company promises that it shall not initiate legal action against any user provided that the conditions laid down in the pledge are not contravened. One important condition which usually exists is that the user should not institute an infringement action against the issuer company. If the user does so, the issuer company gains the right to sue the licensee. To avoid this, licensees generally do not take action against the issuer company, leading to a reduction in patent litigation.

II. Disadvantages of Patent Pledges:

- a) **Compromise on exclusive rights over the Patent:** Even though patent pledges enable

companies to achieve both their aims of encouraging innovation and exercising their rights over their invention, issuing such pledges inadvertently leads to a compromise in exercising their exclusive rights. When a pledge is issued, the company limits the exercise of its rights over the invention, in the interest of innovation and development. This is due to the fact that it is understood by companies which issue such pledges that issuing pledges with numerous conditions attached impedes innovation. There is no restriction as to the conditions which can be imposed by issuer companies in their patent pledges, but an increasing number of entities are willing to sacrifice, to some extent, their exclusive rights over their invention. Both these aims cannot be achieved simultaneously without compromise.⁴

- b) **Formation of Patent Pools:** Patent pledges may lead to the formation of patent pools. Patent pools are formed when two or more companies enter into a contract with each other to allow each other to use their patents with a promise of not initiating legal action against each other. In this way, patents can also be licensed to third parties on certain conditions, subject to the violation of which legal action is promised not to be initiated. They may form through patent pledges when there is a condition that any patents developed by the user also impliedly belong to the company issuing the pledge. Patent pools may indulge in anti-competitive practices such as restricting the entry of smaller entities into the market.

C. Analysis of Pledges Issued by Companies

1. Tesla:

The Non-Assertion Pledge issued by Tesla via its blog reads thus, "Tesla will not initiate

⁴ *Supra note 1*



patent lawsuits against anyone who, in good faith, wants to use our technology.”⁵

There are several lacunae in this pledge, some of which are highlighted below:

- i) The term “good faith is left undefined. Therefore, it is reasonable to assume that the clause will be interpreted in favour of the company, and the user can be sued whenever the company is of the opinion that his action is not in good faith. Another probable interpretation of this clause is no act is done in good faith, unless done with the approval of Tesla. Therefore, it can be understood that if a prospective licensee wished to license a patent belonging to Tesla, he would have to approach the company and obtain a license, since no terms are mentioned in the pledge. In other words, the prospective licensee is at risk of being sued for infringement no matter what he or she does with the patent. What constitutes good faith and what does not is completely at the discretion of the company and it is not disclosed in the pledge. This pledge is an inducement inviting prospective licensees. It should not be misconstrued as an announcement of patents being licensed unconditionally.
- ii) Whether or not the pledge is legally enforceable is unclear. In this case, it is safest to presume that it is legally actionable.

2. Google

The Non- Assertion Pledge⁶ issued by Google has the following characteristics:

- i) It specifies that the patent pledge applies only to its patents related to Free Open Source Software (FOSS). The pledge does not apply to any other patents.

It also clearly states that Google will not institute legal proceedings on a Pledge recipient or user of the patents, so long as such user does not initiate legal action against Google and does not violate the terms of the pledge.

It is expressly provided that the pledge is legally enforceable and binding.

The pledge also states that it is not an assurance that any of the activities covered under the pledge, namely development, use, sale, manufacture, offer for sale, lease license, exportation, importation or distribution of any Free or Open Source Software will not infringe the patents or other intellectual property rights of a third party.

This is a questionable clause. A licensee cannot be sure if the patent licensed infringes any third party’s rights. It may deter licensees from obtaining licenses from Google for the patents pledged in this manner.

Google has a procedure laid down for all licensees to follow. It requires any party to which pledged patents are sold to agree in writing to obey the terms of the pledge. If such patents are subsequently transferred to another party from the licensee, they are also required to do the same. This helps Google maintain a record of all licensees and better track instances of contravention of the terms of the pledge.

3. IBM:

IBM was one of the earliest companies to issue a non- assertion pledge. It pledged non-assertion against 500 US Patents in the development, use and distribution of Open Source Software specified in the pledge⁷, and

⁵ <https://www.tesla.com/blog/all-our-patent-are-belong-you>

⁶ <https://www.google.com/patents/opnpledge/pledge/>

⁷ *List of patents in respect of which the patent pledge was issued by IBM as well as the text of the pledge*

can be accessed here:
<https://www.ibm.com/ibm/licensing/patents/pledgedpatents.pdf>



their equivalents which were filed in different countries. Some important features of this pledge are:

- i) The fact that it is legally binding and enforceable is expressly mentioned.
- ii) The meaning of Open Source Software is clearly defined.
- iii) It states that if a licensee takes legal action against IBM, asserting his or her patent or any other intellectual property right against Open Source Software, thereby restricting the ability of other parties to innovate and develop Open Source Software, IBM reserves the right to terminate the pledge with such licensee. This helps to reduce the costs of litigation.
- iv) The pledged patents only are Open Source. Infringement proceedings can be instituted by IBM if any of its patents other than those listed in the pledge are infringed by a licensee or a third party.
- v) It does not specify the procedure to be followed by the licensee to obtain a license. There has, however, been an instance where IBM has almost violated this pledge. An Open Source Software developer, TurboHercules, was sent a notice by IBM threatening legal action on account of infringement of a list of 106 patents and 67 patent applications, two of which were pledged by IBM in this very pledge.⁸ The use of the patent by TurboHercules was for the development, use and distribution of Open Source Software, within the conditions laid down in the pledge. It had also not asserted any of its patents against IBM. IBM sent a letter with a notice threatening the institution of infringement proceedings against TurboHercules. They did not pursue legal

action in this case. Had they instituted an infringement action, it would be valid only with respect to those patents which were not pledged. TurboHercules could have taken the defence of promissory estoppel with respect to infringement of the pledged patents, because it was misleading to the licensee.

D. Defence available to users of Pledged Patents, If Sued

Equitable Estoppel: As mentioned earlier, this theory forms the basis of the concept of patent pledges, and can be employed as a defence in infringement actions initiated by the company which has issued the pledge against the licensee. The licensee is required to prove that:

- a) The language in the pledge was misleading; and
- b) The pledge was relied upon by the licensee.

If both these conditions are proven, the licensee will have a strong defence.

Recommendations:

1. Patent pledges issued by companies should be drafted clearly, outlining all the terms so as to prevent the interpretation of the pledge by the company in its favour, at the time of infringement by a licensee, and so that they are not misconstrued by licensees.
2. Contreras⁹ recommends the establishment of a government registry for patent pledges. Therefore, information related to patents issued by companies in this manner shall be easily available for the public to refer to. Registries will also keep a check on unethical transactions involving the patents pledged by companies¹⁰ and reassure companies of their

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http://en.swpat.org/wiki/IBM_v._TurboHercules_in_2010

⁹ *Supra note 1.*

¹⁰ *Parmochovsky, A. B. (2016). Of Property and Information. Columbia Law Review.*



title to the said pledged patents. This is crucial because when a company issues a patent pledge it is not surrendering any of its patents. It still has title over the said patents. Thus, establishing registries for patent pledge registrations will encourage more entities to license their patents via patent pledges, while also helping in more efficient administration of patent pledges issued by companies. This is a very important recommendation in existing scholarship pertaining to this subject. The author recommends that such a registry be established under the aegis of the patent office, too facilitate easy co-ordination.

3. Another important recommendation in existing scholarship, by Contreras¹¹ is that a Patent Pledge Database should be created, managed by the Patent Pledge Registry as recommended. The registry should be managed by the patent office, so that patent records can be linked. Soft copies (PDFs) of patent pledges which have been registered should be stored in this database. Contreras also provides that any changes made to the pledge or new pledges issued should also be recorded on the database.

The author would like to elaborate this recommendation further. At the time of registration of the pledge, each company can be given a unique identification number. In this way, they will be able to keep a record of all the pledges made. As a safeguard, they should be uploaded by the registry authorities after approval. Companies should communicate the pledge to the public only after approval of the registry is received. The pledges would also be openly accessible by using the identification number.

4. The author recommends that every patent pledge registered should have a serial number after the identification number of a company, so that it is easy to track the number of pledges registered by one entity. For example, if 1234 were the unique identification number of a company, the first pledge registered should be numbered 123401, and so on.

5. If any changes are made to registered pledges, they should be registered again to avoid confusion. Pledges should be enforceable from the date of approval, when they are communicated by the company to the public.

6. Companies should keep a record of all licensees.

7. Issuing patent pledges should be made mandatory in the Indian legal regime pertaining to patents. This will reduce licensing costs for firms, as the issuance of a pledge can have a wider reach than keeping licensing terms confidential between the licensee and the issuer company. Also, issuing patent pledges will introduce transparency in the licensing process, as all the conditions subject to which the patent is to be licensed to prospective licensees by the issuer company is known to the public. Furthermore, companies issuing patent pledges will be able to initiate legal proceedings against those who breach the conditions of the pledge easily. The fact that a pledge is registered lends an enforceable, legal character to the document.

8. As the number of licensees increases by virtue of the patent pledge issued, it will be difficult for the companies to track contraventions, if any, of the terms of the

¹¹ *Supra note 1*



pledge by parties. Companies should be mandated by the registry established as recommended above, to maintain records of all the parties to which the patents are licensed.

9. The registry of patent pledges, if established as previously recommended can also specify certain clauses which must form a part of the patent pledge to be issued by companies, in the absence of which such pledges will not be registered. For example, one compulsory clause could be the legal enforceability clause. Contreras¹² also recommends that all patent pledges must be legally enforceable. The author believes registration of the pledges with the registry as recommended will serve as proof of them being legally binding and enforceable in nature.
10. If patent pools are formed as a result of issuance of patent pledges, companies earning above a certain benchmarked amount of turnover, or holding more than a benchmarked percentage of the market share must be subject to scrutiny by the Competition Commission of India to prevent any market malpractices, such as restricting new entrants of a smaller size from becoming members of the patent pool. Patent pools must be regulated under competition law to prevent distortion of competition.
11. Observing the current trend that entities are willing to limit their proprietary rights over their patents in the interest of fast innovation, it is the opinion of the author that the duration of patent protection should be reduced from the current twenty years. Taking into account the fast pace of technological development, this is vital. Having this long a period of protection will hinder rather than speed up innovation.

¹² *Supra*, note 1.

VII. Conclusion

Patent Pledges or Non-Assertion Pledges are declarations issued by companies to the effect that all or some of their patents are open to the public, subject to some conditions. If these conditions are violated, the company can initiate legal action against the other party. It is a form of licensing. They enable a company to retain, to some extent, its exclusive rights related to the patent, and encourage innovation by making it freely available to the public. Pledges have a wide reach and can encourage more licensees to apply for licenses. It makes more people aware that patents are available for licensing. They reduce litigation costs. Pledges should have clear terms. A registry should be established, as recommended, for administrative convenience and proper maintenance of records. Since there is a general trend that companies are willing to sacrifice their exclusive rights to some extent, in the interest of fast innovation, the time period for patents should be reduced by international consensus. Implementing the recommendations herein discussed will help to speed up innovation and exercise one's rights by virtue of one's invention.

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