

State Security vs. Inventors' Rights

Balancing inventors' property rights and
the State's right to impose secrecy orders

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Secrecy (Restriction of Activities) Orders

- Chapter 6 of the Israeli Patent Law
- Inventions of weapons or in the field of nuclear energy, etc.
- "freezing" the process
- Permit is required for submission abroad
- The State is entitled to exploit the invention

Submission of application

First publication

Examination

Acceptance

Second publication (detailed)

Opposition

Grant

Unique Features of the Israeli Patent System

- No 18 Months Publication (yet)
 - Pre-Grant Opposition
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Compensation

- Restriction of Activities Orders → Damages
 - Exploitation of Invention → Royalties
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Compensation

□ Compensation for restriction of activities

107. If an order was made under section 94 or 99 or if a permit was not granted under section 98 or 103, then the Treasury shall pay to the owner of the invention compensation at the rate set by agreement between the parties or – in the absence of agreement – by the compensation and royalties committee established under section 109.

□ Royalties for use of patents by the State

108. If a permit was granted under sections 104 or 105, then the State Treasury shall pay to the owner of the invention, to the patent holder or to the holder of an exclusive license, as the case may be, royalties set by agreement between the parties or – in the absence of agreement – set by the compensation and royalties committee.

□ Guidelines for determination of royalties

110. When it is about to determine royalties, the committee shall also consider the scope and character of the permitted exploitation, and it may take into account royalties stipulated in licenses, the conditions of which are similar to those of the permitted exploitation.

Request for Damages



Statutory Damages?

□ Article 107:
"If an order was made... than the Treasury shall pay to the owner of the invention compensation [...]".

□ 107. ניתן צו לפי סעיף 94 או 99 או לא ניתן היתר לפי סעיפים 98 או 103, **ישלם אוצר המדינה לבעל האמצאה פיצוי בשיעור שנקבע בהסכם בין הצדדים, ובאין הסכם – על ידי הועדה לעניני פיצויים ותמלוגים שהוקמה לפי סעיף 109.**

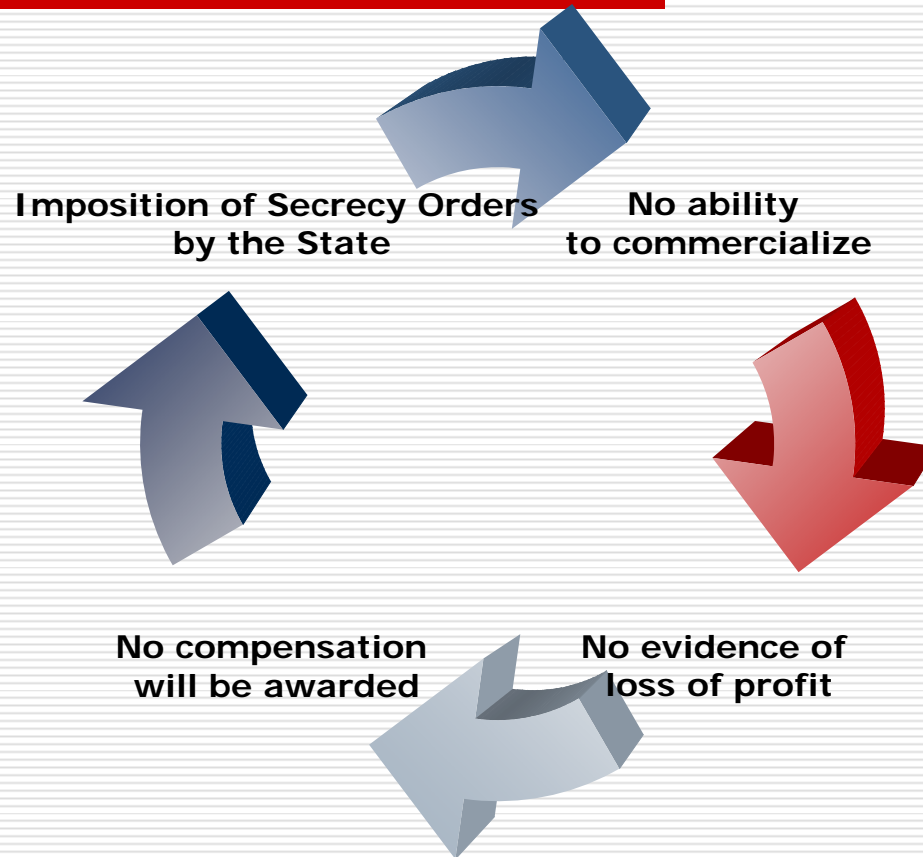
The Difficulty of Awarding Compensation

- No actual exploitation
 - Inability to commercialize
 - Limited market
 - Legal limitations on exportation
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Gary L. Hausken (1988), THE VALUE OF A SECRET:
COMPENSATION FOR IMPOSITION OF SECRECY ORDERS
UNDER THE INVENTION SECRECY ACT,
119 Military Law Review 201, 251:

“Where activity to further develop the patent is halted by imposition of the secrecy order the question of injury arises. Under such circumstances, whether the invention can successfully be produced in commercial quantities and at a competitive price is speculative. Imposition of the secrecy order denies the inventor the right to engage in this gamble. It prevents him from profiting, but equally protects him from losing money. Under these circumstances, no compensation is due; whether damage exists is a matter of speculation.”

The Applicant's Dilemma



The Case

- ❑ 2 patent applications of military nature
 - ❑ Secrecy orders are imposed
 - ❑ The Ministry of Defense refuses to compensate, claiming inventions are worthless
 - ❑ The applicant files a claim for compensation to the Damages and Royalties Committee
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The Case

- ❑ Patent applications are confidentially examined, and deemed patentable
 - ❑ No publication, no opposition
 - ❑ Delay in the process
 - ❑ The Ministry of Defense cancels the orders
 - ❑ The applicant decides not to go on with the application process
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Applicant's Claims

- ❑ Automatic right for compensation – Statutory Damages
 - ❑ Criteria for compensation – loss of potential profit
 - ❑ Inventions had a market potential estimated at \$22,000,000
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Ministry of Defense's Counter-Claims

- Inventions are not useable
 - No market potential
 - The applicant could apply for an export permit or appeal the decision to impose the order
 - No proof of damage
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Final Decision by the Committee

- No proof of a tort
 - Tort Law doctrines:
 - Administrative tort
 - Decreasing chance
 - Evidentiary damage
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Final Decision by the Committee

- ❑ No violation of right of property – inchoate right
- ❑ Black's dictionary (6th edition):

Inchoate right: *In patent law, the right of an inventor to his invention while his application is pending which matures as "property" when the patent issues.*

Final Decision by the Committee

- ❑ Interpretation of Article 107 – no automatic right for compensation
 - ❑ Symbolic compensation on the basis of investment
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Appeal to the High Court of Justice: Applicant's Claims

- ❑ Violation of a property right – the right to register a patent on one's invention
 - ❑ Basic Law: Human Dignity and Liberty
 - Article 3: *“There shall be no violation of the property of a person.”*
 - Article 8: *“There shall be no violation of rights under this Basic Law except by a law befitting the values of the State of Israel, enacted for a proper purpose, and to an extent no greater than is required.”*
 - ❑ Burden of proof in constitutional cases
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Appeal to the High Court of Justice: the State's Counter-Claims

- ❑ The right to turn to the Compensation and Royalties Committee is the balance between the State's security interests and the applicant's rights
 - ❑ Applicant bears the burden of proof, and must show actual damage
 - ❑ Minister acted according to Law
 - ❑ Law is about to be amended
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The Bill

| Present Situation | Proposed Changes |
|------------------------------------|--|
| No time limit to orders | 2 year initial period + additional 1 year periods |
| Complete restriction of activities | Parallel, limited and confidential process of examination, notification and opposition |

The Bill

| Present Situation | Proposed Changes |
|---|---|
| Decision on compensation: 1. Ministry of Defense 2. Quasi-Judicial Body | Decision on compensation: 1. Committee of Experts 2. Administrative Court |
| No deadline for Committee's decision | 3 months deadline |

The Bill

| Present Situation | Proposed Changes |
|---|---|
| No guidelines for determination of compensation | Guidelines for determination of compensation |
| Compensation under Article 107 - ? | Compensation under Article 107 is not mandatory |

Proposed Article 107

"The Committee shall determine whether the applicant suffered any damages as a result of the imposition of the restriction of activities order, or as a result of the decision not to give the permit [to submit the application abroad], and the rate of compensation that he is entitled to; if the Committee determined that the applicant is entitled to compensation, the Treasury shall pay him the amount as determined by the Committee."

Explanatory Note

"[...] the purpose of the proposed amendment is to prevent speculative discussion of the compensation that should be given for the damage caused by the imposition of the secrecy order, in cases where the application is not even considered patentable. But even if the application is considered patentable, there is no certainty that it also has an economic value. Therefore, the Committee's role is to examine if damage was suffered, and only if the applicant is entitled to damages, it shall determine the rate of compensation.

Proposed Article 110(b)

"When it comes to decide on the right to compensation and on its rate, the Committee shall consider, among other things, the economic and commercial value of the invention at the time it became eligible for the consideration of compensation, had there not been a restriction of activities order in place [...]"

Property right in a patent application?

1. Intellectual Property as property
 2. Patent application as property
 3. Scope of the monopoly
 4. Remedies for violation
 5. Unjust enrichment
 6. “Moral rights”
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The End.
