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Patent Proposal Puts Property and Innovation at Risk

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The Congress shall have the power to...promote the progress of Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive right to their respective writings and discoveries

—Article I, Section 8,
The Constitution of the United States

Patent reform is once again a hot topic in Congress. At the beginning of this decade, it seemed as if current patent law—little changed since 1952—needed updating to accommodate innovations like home computers, satellite dish television, iPods, BlackBerry smartphones, Astroturf, and ATMs. But in the intervening years, the Supreme Court and Federal Circuit have changed patent law in several important areas, including standards of patentability, remedies, and venue, all to the benefit of patent users. At the same time, the Patent Office has taken a variety of steps to tighten up pre-grant examination and post-grant reexamination. As a result, much of the original rationale for patent “reform” earlier in the decade no longer applies.

Nonetheless, the U.S. Senate (S. 515) and the U.S. House of Representatives (H.R. 1260) are currently considering proposals to alter the American patent system. While some components of these bills are positive, or at least uncontroversial, key elements serve to undermine the very purpose of patent protection. Due to a misguided focus on the costs of patent litigation, these proposals overlook the much larger long-term costs that the U.S. would incur if

Talking Points

- Strong intellectual property (IP) protections are especially important to economic recovery and growth. Moving IP farther from the real property paradigm endangers American innovation.
- The Senate’s patent “reform” bill would weaken fundamental principles of patent protection. Specifically, it would introduce uncertainty into all patent rights, diminishing the value of all patents and reducing incentives to innovate and develop new technologies.
- The bill includes a massive expansion of opportunities for post-grant challenges that would invite repeat challenges, delaying tactics, and other abuses.
- Congress should reject attempts to allow patent challengers multiple bites at the apple, put a strict time limit on post-grant proceedings, put protections in place to block frivolous and abusive challenges, and maintain the presumption that a patent, once granted, is valid.
- More broadly, Congress should consider whether there is actually a need for additional post-grant review procedures and, if so, how to implement them without increasing the Patent Office’s enormous backlog.

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patent rights were fundamentally weakened. At the same time, these bills give short shrift to the real institutional problems within the Patent and Trademark Office (USPTO), such as lack of reliable funding, that jeopardize the quality and efficiency of patent examination.

Strong intellectual property (IP) protections are especially important to economic recovery and growth—a critical consideration, given the current economic climate. Congress should remember that patents are, at base, property, and that moving intellectual property farther from the real property paradigm endangers American innovation.

IP Matters

In Article 1, Section 8 of the U.S. Constitution, the Framers expressly recognized the importance of protecting intellectual property in order to reward original ideas, nourish innovation, incentivize investment, promote a robust economy, and enhance the nation's quality of life.

In *The Noblest Triumph: Property and Prosperity Through the Ages*, Tom Bethell traces the history of property ownership through Western civilization. From the Roman establishment of monopoly ownership of property rights through the British establishment of a Rule of Law throughout its Empire to protect those rights, the history of property protection demonstrates that justice, liberty, order, and prosperity are all enhanced in civilizations that have strong legal property protections.

Patent protection, just like protection of other property rights, provides owners with predictability and security. Spending enormous time, energy, and resources in developing a product makes sense only if the inventor is protected from those who would steal the creation. Furthermore, only with the protection offered by patents would a banker lend money to an inventor to refine his or her invention or build a factory to mass-produce it for popular consumption.

Consumers also reap great benefits from the patent system. Beyond simply enabling innovation, patent protection has helped to make important technologies—from seatbelts and penicillin to all manner of labor-saving devices—readily avail-

able to the public at large. Mass production of everything from the Model T to laptop computers has driven down prices, increasing prosperity and boosting quality of life.

Significant Shortcomings

The corollary to having a strong intellectual property system that provides such enormous and widespread benefits is that those benefits can be placed at risk when that system is modified. In particular, changes that move patent protection further away from the tangible property paradigm pose the greatest risk.

Several provisions of the Senate's legislation would weaken fundamental principles of patent protection. In its current form, the bill would diminish the value of patents in general and remove incentives for inventors and investors alike to discover, refine, develop, and fully exploit new technologies. By altering incentives in this way, the legislation stands to put U.S. inventors at a disadvantage in the global marketplace.

Particularly troubling are the unnecessary expansion of *inter partes* reexamination—an administrative proceeding by which any party can challenge the validity of a patent—and the creation of a new post-grant opposition system. When these changes were first proposed, *inter partes* reexamination was rarely used and thought to be ill-equipped to deal with patent quality issues. Since that time, however, there has been a dramatic increase in *inter partes* filings, and a high percentage of disputed patents—nearly 75 percent—have been invalidated through reexamination.

These trends, combined with judicially revised standards of obviousness and patent eligibility, which make more patents vulnerable to validity challenges, call into question the need for expanded post-grant procedures and the wisdom of weakening safeguards against abuse and harassment. Indeed, if anything, Congress should be working to improve the efficiency of *inter partes* reexamination and to discourage wasteful and potentially abusive uses of the system as a tactical weapon. Instead, however, the Senate's patent legislation moves the law in the wrong direction.

The first problem is that S. 515 would promote abuses of *inter partes* reexaminations. Under current law, these expensive and often complex proceedings allow parties to submit prior art to challenge a patent's claims. Typically, they are used as a defensive tactic to undermine a patent or at least throw into question its validity and delay its enforcement—indeed, according to USPTO estimates, 63 percent of *inter partes* challenges are filed for defensive purposes. This should come as little surprise, since reexamination takes an average of three to four years, during which enforcement litigation is usually stayed.

The House and Senate bills would remove the few protections of the current system. Parties would be able to file successive attacks on patents, dragging out the process indefinitely and imposing great costs on the patent holder. At the same time, the House bill would broaden the scope of permissible challenges, currently limited to prior art, to include validity challenges on the grounds of prior public use or sale. This is especially problematic because these kinds of challenges are fact-intensive and cannot be fairly resolved without discovery, cross-examination, and the other evidentiary procedures of litigation—none of which are available in the reexamination process. Further, all patents, not just those issued since 1999, as under current law, could be subject to this vague and wide-ranging procedure. Finally, these challenges would have only a limited estoppel effect (a means of blocking repetitive legal actions) allowing a party to file subsequent challenges in court.

Similar problems are evident in the legislation's post-grant opposition provision. That provision would permit an attack on a patent to be filed up to 12 months from the date of issuance. Attacks could be initiated by asserting any "substantial question of patentability," an uncertain but seemingly low standard that would block few challenges, even those based on issues already considered or frivolous claims. Given that the USPTO admits 95 percent of reexamination requests under the higher "substantial new question of patentability" standard, this new standard would block few, if any, challenges.

Moreover, the proposed post-grant opposition system would eliminate the statutory presumption of patent validity that normally accompanies issued patents and allow challengers to invalidate patents by meeting a substantially lower burden of proof (a "preponderance" of the evidence) than in judicial proceedings (clear and convincing evidence). And compared to the bill's amended *inter partes* reexamination system, the post-grant opposition system would provide even weaker protection against successive challenges, whether in the USPTO, the International Trade Commission, or the courts, blocking only those that do raise the same grounds as in the post-grant opposition. This would give competitors, as well as potential infringers, limitless opportunity to get a patent struck down, injecting great uncertainty into patent rights.

The result of these features would be to stack the deck against patent holders and in favor of challengers. With such favorable rules, an enormous increase in the number of post-grant challenges is likely, overwhelming the Patent and Trademark Office and further undermining security in patent rights. Since the bill provides no additional funding to the USPTO, it is likely that the additional burden of carrying out the post-grant review provisions of S. 515 would come at the expense of other examination activities, thereby further increasing pendency rates.

Improvements Needed

The Senate should take the following steps to maintain the strong property-rights paradigm that underlies the U.S. patent system, encourage innovation, and discourage endless legal maneuvering:

1. **Reject attempts to allow challengers multiple bites at the apple.** The Senate bill's provisions for *inter partes* reexamination and post-grant opposition are subject to abuse because they allow multiple challenges by parties seeking to invalidate patents, delay their enforcement, reduce royalties, or simply impose costs on patent holders. The solution, in both cases, is a robust estoppel effect. Specifically, Congress should retain the feature of current law that precludes challenges based on any issue that could have been raised at a *inter partes* reexam-

ination requested by the challenger. Post-grant opposition should result in a similar estoppel effect. Without this protection, both systems will be frequently abused, subjecting even prevailing patent holders to multiple expensive and lengthy legal proceedings.

2. **Put a time limit on *inter partes* proceedings.** Property rights depend on certainty; uncertainty prevents the efficient exploitation of property rights and may, in the case of IP, result in less property (i.e., innovation) overall. Unless *inter partes* reexamination is completed within a reasonable and defined period after the challenge commences—12 months should be sufficient—patents will always exist under a cloud of uncertainty about their enforceability and value. A firm deadline would also prevent some abuses—especially delaying tactics.
3. **Block frivolous and abusive challenges.** Low thresholds to launch *inter partes* reexaminations and post-grant reviews will encourage more legal challenges. In particular, adopting a *de minimis* new standard of any “substantial question of patentability” would be virtually meaningless and invite frivolous challenges and delaying tactics. This would, in turn, stretch the already thin resources of the Patent Office, while again imposing unjustified legal expenses on patent holders. To prevent such consequences, Congress should craft a robust threshold that serves to separate frivolous and abusive challenges from those that are filed in good faith and present substantial issues.
4. **Maintain the presumptive validity of patents in post-grant opposition proceedings.** Without a presumption of validity for patents that have already been reviewed and granted, post-grant proceedings would devalue U.S. patents. Reasonable balance and protections of patent owners promote stability of patent rights and incentivize innovation and invest-

ment in new products. A *de novo* free-for-all, combined with multiple post-grant challenge opportunities, reduces patent rights to little more than expensive option contracts.

More broadly, Congress should consider whether there is actually a need for additional post-grant review procedures and, if so, how to implement them without increasing the USPTO’s enormous backlog. One possibility would be to condition implementation of any new or expanded post-grant review procedures on additional funding, thereby ensuring that the USPTO is capable of handling these new responsibilities.

Preserve Prosperity

Intellectual property protection and real property protection do have differences, but both sets of laws are designed to encourage efficient investment in and use of the property that is their subject. Strong patent rights promote prosperity and protect the fruits of man’s labor, and when they are weakened, the consequences threaten to be severe.

For that reason, Congress should be especially wary of any proposal that moves patents farther away from real property by undermining their certainty. Doing so would also put American companies at a disadvantage to their foreign competitors. It would also multiply the costs of hiring attorneys to protect and enforce patents—a particularly perverse result for a reform package premised on the idea of reining in litigation and legal fees. The result would be less investment, less innovation, and less efficient usage of existing technologies, to the detriment of all Americans who benefit from the rapid democratization of new technologies.

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