

Patent System for the 21st Century: Update

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Getting the balance right

- Patent system tradeoff
 - Encourages invention and innovation via the grant of a temporary monopoly to inventor or his/her assignees
 - May also help entities with few tangible assets to secure financing
 - Publication of invention contributes to knowledge for subsequent inventors (in contrast to trade secrecy)
- But things are not so simple.....where there are rents available, rent-seeking activity will take place
 - Tech. change and some innovative business models have revealed some problems with the way the system operates, upsetting this balance

Overview

- The prior STEP report issued in 2004
- Since then, an important bill through Congress -- America Invents Act (2011)
 - Switch from first-to-invent to first inventor-to-file (eliminates interferences)
 - Introduce post-grant review
 - Best mode requirement unenforceable
 - Prior user rights defense
 - USPTO given fee setting authority.
 - USPTO satellite offices
 - Third-party submission of prior art
- How effective have the AIA and several important legal decisions been in fixing some of the things we identified?
- What new problems have arisen?

Our recommendations (1-3)

1. Preserve an open-ended, unitary, flexible patent system
 - Is unitary still the right goal?
2. Reinvigorate the non-obviousness standard
 - Both USPTO and courts have made progress here. Is this enough?
3. Institute a post-grant open review procedure
 - Done, how has it worked out?
 - Considerable take-up, in parallel with litigation, so cost reduction may not be as great as anticipated

Our recommendations (4-6)

4. Strengthen USPTO capabilities
 - Fee setting freedom
 - Patent quality initiative
 - Satellite offices (Dallas, Denver, Detroit, San Jose)
 - Chief economist office, data access
5. Shield some research uses of patented inventions from infringement liability
6. Limit the subjective elements of patent litigation
 - Best mode requirement removed by the AIA
 - Finding of willful infringement made somewhat more difficult by Fed Circuit decisions 2007, 2012

Our recommendations (7)

7. Harmonize the US, European, and Japanese patent examination systems
 - Two more systems added due to their importance: Korean and Chinese, now referred to as IP5
 - Patent prosecution highway in the mid-2000s, expanded 2014
 - Allows fast-track examination if at least one claim allowed in another office (IP5, many European offices, bilateral with some LA countries)
 - First inventor-to-file moved us closer to harmonization, but remaining issues:
 - Grace period
 - 18 month publication of all applications
 - Treatment of conflicting applications
 - Prior user rights

“Trolls”

- Patent assertion entities or non-producing entities
 - Controversial definition - includes universities and independent inventors
 - Difficult to countersue non-producers for infringement (cross-licensing solution not available)
 - Cost of settlement ex post far less than cost of going to trial, leading to settlement even if patent unlikely to survive trial
 - Fighting benefits all potential “infringers”, but cost borne only by one
 - Implication: low quality patents are just as enforceable as high quality
- Some facts about PAEs:
 - Increased since 2000, now over half of suits filed (counted either by suits or by defendants)
 - Concentrated in software, business methods including financial
 - Patent typically embedded in a good whose value is created elsewhere
 - Much more likely to lose if they go to trial (but this happens rarely)

SCOTUS response

- Court decisions:
 - eBay v MercExchange (2006) – weaken injunction threat – four factor test for plaintiff:
 1. that it has suffered an irreparable injury;
 2. that remedies available at law are inadequate to compensate for that injury;
 3. that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted;
 4. that the public interest would not be disserved by a permanent injunction.
 - Alice v CLS Bank (2014) – weaken ability to obtain software/business method/financial patents
 - Implementing claims on a computer not enough to transform abstract idea into patentable subject matter.
 - Confirming Mayo (2012) decision (method of diagnosis)

Legislative response

- H.R.9 (Innovation Act)
 - Amendment to title 35, United States Code and the AIA
 - Aim: reducing patent trolls, lengthy IP litigations and frivolous attempts by legal holders of patents through limitations on Post Grant Reviews.
 - Change fee requirements so plaintiff financially responsible for such attempts
 - May 2015 – approved by House Judiciary Committee, sent to floor
 - Feb 2016 - Senate Committee on Small Business and Entrepreneurship held a hearing and approved it for consideration
- S.1137 (Patent Act)
 - Another amendment to title 35, United States Code and the AIA
 - Similar aim as H.R.9 - addresses the disclosure of financial interests and technical details by the patent holder.
 - Requires patent owners to supply specific information on the type and extent of the patent claim before filing suit in a district court.
 - Jun 2015 - approved for advancement to the House and Senate floor after a markup session was held.
- Both appear to have gone nowhere

The Venue bill (2016)

- Amends the federal judicial code to allow patent actions to be brought only in judicial districts where:
 - the defendant has its principal place of business or is incorporated;
 - the defendant has committed an act of infringement of a patent in suit and has a physical facility that gives rise to the act of infringement;
 - the defendant has agreed or consented to be sued;
 - an inventor named on the patent conducted R&D that led to the application for the patent in suit; or
 - a party has a regular and established physical facility and has managed significant R&D for the invention claimed in the patent, has manufactured a tangible product alleged to embody that invention, or has implemented a manufacturing process for a tangible good in which the process is alleged to embody the invention.
- Replaces current venue laws that allow patent actions to be brought in the district where the defendant resides or where the defendant has committed acts of infringement and has a place of business.

Some questions

- Does Mayo/Alice reduce incentives for research into personalized medicine?
- What are the implications of 3D printing in manufacturing?
- How will the DTSA (just signed this week) interact with patent law?
- Is a brightline software patentability test possible?
- How can we shift costs appropriately to reduce nuisance suits and holdup?
- Would the market for innovative assets be helped by more transparency in litigation settlements?