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ABSTRACT

PATENT REFORM

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- *Patent law should promote innovation, not patents. Real patent reform must optimize innovation in all fields for which patents are available.*
- *The sheer volume of patenting in IT must be reduced. Patent reform must address the application stage as well as the litigation stage.*
- *Reasonable and modest reform proposals in Congressional legislation have been opposed by a variety of interests; however, progress has been made in the courts. Real reform must build upon the first steps taken by the judiciary to ensure that we have a patent system which benefits the entire economy, rather than a handful of industry sectors.*

***Background*:** Patents are one of many means used to profit from innovation. In some industries, such as pharmaceuticals, they are extremely important. Individual patents are less important in IT because an IT product or service can contain tens of thousands of patentable functions. IT products and services are complex, interconnected, and standards-dependent and, therefore, are especially vulnerable to assertions of patent infringement. Today, our one-size-fits-all system is optimized for billion-dollar drugs and threatens to divert investment away from IT and into other industries where the patent system works better.

With a direct economic interest in expanding the scope and scale of the patent system, the Patent Bar has consistently argued for permissive standards, harsher remedies, unlimited scope of patentable subject matter, and other legal standards that increase demand for patents. With the inauguration of the Court of Appeals for the Federal Circuit in 1982, patent institutions effectively dominated policy and legal debate up through the notorious *State Street* decision in 1998. Beginning with the extended FTC/Justice hearings of 2002, the consequences of an overextended patent system have become increasingly apparent, especially in IT where the troll phenomenon has gained considerable attention. The Supreme Court has since taken an unusual number of patent cases and reversed Federal Circuit law in a number of high-profile cases. The Patent and Trademark Office dropped its "help customer get patents" mission, and appears to have tightened its standards.

Patent reform legislation was introduced in Congress in 2005 and in subsequent Congresses. The IT and services sectors have pushed hard for modest reforms, but other interests, including pharma, biotech, patent departments in mature industries, independent inventors, universities, as well as the patent bar, have resisted. From the IT perspective, key issues include: post-grant review with a second window as an alternative to litigation, calculation of damages based on the economic contribution of the patented technology, restrictions on the scope of willful infringement, lowering the presumption of patent validity, venue reform that limits the flood of cases to the Eastern District of Texas, and additional rule-making authority for the PTO.

However, the industry consensus is overly focused on the back end of the systems – i.e., litigation and damages. Broader reforms are needed to address the structural problems of overpatenting, notice failure, and "rational ignorance" towards patents.

***CCIA's Position*:** CCIA has fought for greater rationality in patent law with *amicus* briefs filed in the *LabCorp v. Metabolite*, *eBay v. MercExchange*, *KSR International v. Teleflex*, and *Quanta v. LG Electronics* cases – all of which the Supreme Court favored our side. CCIA filed an amicus brief before the Federal Circuit in *In re Bilski* urging the court to repudiate the reasoning behind the *State Street* decision, which unleashed a flood of broad and sweeping business method patents.

CCIA issued a white paper, *Patent Reform for a Digital Economy*, in November 2006 analyzing the structural, competitive and institutional problems that patents present to the IT sector.[1] The report made a number of recommendations beyond the industry-consensus position many of which are under consideration in reform efforts, including:

1. **Tailor patent protection to reflect the diversity of innovation environments.** The newly announced PTO research agenda will investigate the reality of multiple systems under a "unitary" patent system. The issue was extensively addressed in *The Patent Crisis And How the Courts Can Solve It* by Dan Burk and Mark Lemley (University of Chicago Press, 2009).
2. **Raise the basic threshold: Eliminate the "ordinary" from patent law.** The benchmark for determining obviousness in 35 U.S.C. § 103(a) should change from "ordinary skill" to "recognized skill." The Supreme Court's decision in *KSR International v. Teleflex* (2007) effectively raised the existing standard. The PTO research agenda will address different definitions of "quality."
3. **Implement peer review for patent applications.** CCIA supports the efforts of the PTO and leading patent holders in IT to experiment with peer review in patent examination. In the long run, peer review should become the norm, not the exception. The Peer to Patent Project concluded a successful two-year experiment in 2009, and the PTO supports making it permanent.
4. **Reward submissions of prior art that invalidate defective patents.** Those who bear the costs of locating, documenting, and submitting prior art to the PTO should be rewarded. Reform legislation consistently supports giving a larger role to third-part submissions, but there has been no movement on bounty systems.
5. **Require registration of notice letters.** Vague notice letters alleging infringement are increasingly used so that plaintiffs can seek quick settlements and treble damages for "willful" infringement by intimidating those who lack resources to defend themselves. Those granted patent rights should be required to deposit copies of such letters with the PTO and FTC. The Supreme Court's decision in *Medimmune v. Genentech* (2007) made it easier for letter recipients to file declaratory actions, and the Federal Circuit's decision in *Seagate* (2007) decreased the risk to tech innovators posed by non-specific allegations of infringement.

[1] http://www.ccianet.org/CCIA/files/ccLibraryFiles/Filename/000000000081/CCIA_WP_PatReformDigEcon.pdf

6. **Hold PTO accountable for quality.** The PTO needs adequate funds to do its job, but it must be held accountable to objective metrics for patent quality. There has been a sea change in PTO's posture in the past few years as a result of complaints about patent quality, and statistics show a substantial decline in allowances.
7. **Put PTO in the forefront of knowledge management and information science.** As an agency designed to promote innovation, PTO should be committed to R&D to support its core operations and enhance its own performance over the long term. In line with the administration's Open Government Initiative, the PTO has taken major steps to improve the handling and dissemination of its own data, including issuing an RFI for a no-cost "Data Dissemination Solution" in September 2009.
8. **Stop the ambush of openly developed standards.** The IT sector is heavily dependent on standards that enable components and products to work together. Patent holders should be required to reveal patents that could hold publicly developed standards hostage instead of hiding patents until standards implementers and users have made large irreversible investments.
9. **Reengineer patent institutions to promote innovation, not patents.** Satisfying "customers," boosting patent counts, and "strengthening" patents have too often undermined the real goal of promoting innovation. Capacity for objective, independent economic analysis should be developed at PTO and NIST to ensure that the system produces intended economic benefits. PTO hired its first Chief Economist in March 2010, and recently announced a three-prong evidence-based research agenda on patent utility, the "unitary" patent system, and the relationship between PTO practice and economic effect.

***Current Status*:** Somewhat weakened reform legislation was introduced in both houses of Congress in 2009. The Senate version was marked up by the Judiciary Committee in the spring, but only after further dilution, and included elimination of the proposed standard for damages, an issue of great concern to the IT sector. In March of this year, the managers in the Senate Judiciary Committee proposed an amendment by way of a substitute that retreats further from the original bill. In response, CCIA issued a new paper, *"Legalizing" Innovation*, describing the structural problems in IT – specifically, the phenomenon of overpatenting and how it favors patents over products.[2]

[2] http://www.ccianet.org/CCIA/files/ccLibraryFiles/Filename/000000000344/CCIA-Patent-Reform.pdf