Patent System for the 21\textsuperscript{st} 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?