

PUBLIC PATENT FOUNDATION

Representing the Public's Interests in the Patent System

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VIA EMAIL

Gowers Review of Intellectual Property
Zone 4/E1
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

Re: Response to Call for Evidence

Dear Sir or Madam:

The Public Patent Foundation (“PUBPAT”) is a United States based not-for-profit legal services organization that represents the public's interests in the patent system, and most particularly the public's interests against the harms caused by wrongly issued patents and unsound patent policy. We do this by contesting wrongfully issued patents and advocating for sound public policy. Our work is funded primarily through grants from philanthropic foundations. As PUBPAT's Executive Director and a registered patent attorney in the United States, I respectfully make the following comments in response to the call for evidence made by the Gowers Review of Intellectual Property.

Despite what the public is led to believe, patent systems have extremely far reaching effects on all people. Specifically, wrongly issued patents and unsound patent policy harm the public by making products and services more expensive, if not completely unavailable, by preventing scientists from advancing technology, by unfairly prejudicing small businesses, and by restraining civil liberties and individual freedoms. Although the public can indeed benefit from a properly functioning patent system, since patents are government sanctioned restraints on freedom and competition, the public can also be severely harmed by errors within patent systems. For that reason, patent policy should be crafted with full knowledge of all of the effects, both positive and negative, patent systems have on all people.

Unfortunately, however, it is too often the case that not all of the interests affected by patent systems are adequately represented in patent policy discussions. Specifically, the interests of the non-patent holding public are almost always absent from

any meaningful participation in decision making about patent systems, despite the fact that they bear the brunt of their burdens. This lack of representation of the public's interests is due in part to the fact that the patent community culture tends to dismiss the opinions of those it sees as outsiders, but it is mostly a result of the public not fully realizing how patent systems affect them.

Regardless, patent policy should always be made with consideration of all of the public's interests, not just the specific interests of patent offices, patent holders, patent practitioners, and large commercial actors. As such, PUBPAT is pleased to provide these comments in order to represent those otherwise unrepresented interests. We strongly urge that all affected interests always be adequately represented in patent policy discussions as it is critically important to the success of any patent system that it take into account all of the effects it has on all citizens and that it have sufficient oversight structure built in to ensure that it remains fair and democratic.

The public interest in patent policy has traditionally been underrepresented in both litigation and legislation. Patent law and policy is a highly technical subject. Whereas public libraries have provided a surrogate and advocate for the interests of public in copyright, there is no analogous institution for patent.

While copyright issues are litigated on general principles, patent litigation is generally highly fact-specific and costly. There is no institutional home for the public interest. The public cannot count on competition to address the proliferation of questionable patents, because there are strong incentives not to challenge patents. Because an invalidated patent can not be enforced against *anyone*, a company that successfully challenges a wrongfully issued patent benefits all its competitors at its own risk and expense. The costs and risks are disproportionately greater, often prohibitive, for small companies. At the same time, the public's interest in invalidating defective patents is unfocused and diffuse. Yet the aggregated abundance of overbroad, obvious or otherwise defective patents may have an enormous impact on competition, use of technology and the health and economic welfare of a public that depends increasingly on technology.

Unlike copyright practice, the practice of patent law is a specialty with unique requirements and credentials. As documented in the American Intellectual Property Law Association biannual survey, practitioners of patent law are able to command very high fees that rose an additional 50% from 1999 to 2003 in a seller's market.

The result is a well-resourced, highly motivated interest group that benefits from the overall volume of the patent system and the scale of patent-related activity, including licensing and litigation. Patent professionals benefit however their clients use patents,

offensively or defensively, win or lose. They benefit from policies and laws that make patents easier to get, easier to enforce, more powerful and available for any subject matter.

This is a classic situation in which the agent's interests do not align with the principal's interests, but the principal feels bound to defer to the agent's expertise. Even within firms, patent departments gain as patenting grows as a strategic weapon. Their status within the firm rises and they can point to higher salaries of outside patent attorneys to justify raises in their own compensation.

As patents become a major factor in business decisions, tension between the principal and the agent surfaces. While business leaders have generally been critical of business method patents, their patent departments, acting through their *de facto* trade association, the Intellectual Property Owners Association, have been supportive – to the extent of telling Congress to keep hands off.¹ This problem even appears within higher education, as witnessed in June 2005 when university presidents (Association of American Universities) and university tech transfer officers (Association of University Technology Managers) took radically different positions on patent reform.

In *Innovation and its Discontents*, a landmark study of the institutional problems of the U.S. patent system, Harvard Business School Professor Josh Lerner and economist Adam Jaffe, warn that “burgeoning patent litigation is increasingly making lawyers the key players in competitive struggles rather than entrepreneurs and researchers.” They are accordingly skeptical of self-interest masquerading as policy expertise:

When issues of patent policy are considered by the courts, the Congress, and the Executive branch, you can be sure that the opinions of patent lawyers and patent holders will be heard. While their arguments will often be couched in terms of the public interest, at bottom their interest is in their own profits and livelihoods, not in designing a patent system that fosters the overall rate of innovation.

Similar incentives also drive the growth of patent agencies, such as the EPO and the USPTO, that are funded by the fees they collect. While application fees may not fully cover the costs of patent examinations, the deficit is recovered by the maintenance fees paid

¹ Compare Committee for Economic Development, *The Digital Economy: Promoting Competition, Innovation, and Opportunity* (2001) with Statement of Ronald E. Myrick, President, Intellectual Property Owners Association, before the House Judiciary Subcommittee On Courts, The Internet, and Intellectual Property, 4 April 2001, http://www.house.gov/judiciary/myrick_040401.htm;

periodically over the life of the patent. In fact, the prospect of maintenance fees, which come in at no cost to the agency, creates an incentive to grant patents. Performance rewards to examiners on the basis of dispositions also favor granting patents, since dispositions are more easily accomplished by allowing patents to issue rather than continuing to contest applications.²

The patent side of the USPTO adopted a customer service rather than public service orientation even adopting as its mission, “to help customers get patents,”³ while evaluating its performance under the Government Performance and Results Act based on surveys of “customer” satisfaction. By comparison, the EPO has maintained a stronger public service orientation in part because it manages opposition proceedings, whereas the USPTO does not come into contact with those aggrieved by the patents it has granted. Like other patent agencies, the USPTO does not interact with researchers, R&D managers, and other real innovators in industry, but unlike other agencies it has appeared uniquely susceptible to capture by the professional bar that it oversees. The effects are not limited to patent examination, but have colored its policy development function, especially at the international level. For example, the USPTO passionately espoused the cause of business method patents at the WIPO Substantive Patent Law Treaty negotiations, arguing (without reference to the great controversy that business method patents have created in the U.S.) that it was “best practice” not to limit patents to fields of technology.⁴

The situation is worse in the court system. In 1982, the United States implemented a dramatic change in its patent system by creating the U.S. Court of Appeals for the Federal Circuit to hear all appeals in patent cases. The Federal Circuit hears both appeals from USPTO patent denials and appeals from trial court patent infringement litigation. Almost twenty-five years of U.S. experience with the Federal Circuit demonstrate the danger of setting up a specialized appellate court in patent law.

The most salient danger associated with a specialized court – particularly one that is rarely subject to generalist review and hence often has the final say over questions of patent law and policy – is bias. As numerous empirical studies have demonstrated, the Federal Circuit is far more likely to affirm trial court determinations of validity (and reverse trial court determinations of invalidity) than were predecessor generalist courts of appeals.⁵ Many

2 Robert M. Merges, *As Many as Six Impossible Patents for Breakfast: Property Right for Business Concepts and Patent System Reform*, 14 BERKELEY TECH.L.J. 578 (1999).

3 See, e.g., U.S. Patent and Trademark Office, Corporate Plan – 2000, 20. In contrast, the primary business of the trademark side is specified as: “to apply the provisions of the Trademark Act of 1946 in the examination and registration of trademarks.” *Id.* at 38.

4 See World Intell. Prop. Org., Report of the Seventh Session of the Standing Committee on the Law of Patents ¶¶ 159-173 (2002), available at http://www.wipo.org/scp/en/documents/session_7/pdf/scp7_8.pdf.

5 See, e.g., Glynn S. Lunney, *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11

commentators, including Jaffe and Lerner, have argued that the Federal Circuit has a pro-patent bias. As a doctrinal matter, the Federal Circuit has clearly made it very difficult for patent examiners, or trial courts, to enforce the patent law requirement of inventive step, or non-obviousness. Indeed, in many areas of biotechnology, the Federal Circuit has effectively replaced the non-obviousness requirement with a requirement of mere novelty⁶. The Federal Circuit's substantial liberalization of the non-obviousness standard is the subject of a recent petition for Supreme Court review in the case of *KSR v. Teleflex*. Many prominent "Fortune 500" firms are joining KSR in arguing that the Federal Circuit's non-obviousness jurisprudence violates Supreme Court precedent. This year, the Supreme Court has already heard argument in cases involving two other areas where the Federal Circuit's efforts to make patents easier to secure and enforce are in tension with either Supreme Court precedent or statutory language – the areas of patentable subject matter and injunctive relief. The Supreme Court's efforts to redress the excesses of the Federal Circuit may, however, come as too little, too late.

A related danger of a specialized appellate court is power arrogation. As many legal commentators have noted, the Federal Circuit has taken away from the USPTO and trial courts the control the latter two institutions have traditionally had over scientific and technical fact-finding.⁷ The Federal Circuit has deemed many scientific and technical determinations to be reviewable entirely *de novo*. Through such power arrogation, the Federal Circuit has been able to exert its own views. Not surprisingly, these views have often been inaccurate: even in cases where the Federal Circuit is not biased, it is institutionally incapable of doing intensive scientific and technical fact-finding.⁸ The Federal Circuit's exercise of *de novo* review has also made patent litigation more uncertain and expensive. Various empirical studies have shown, for example, that the Federal Circuit consistently uses *de novo* review over patent claim construction to reverse trial court constructions.⁹ The result of such reversal is often relitigation of the entire case.

As Jaffe and Lerner describe it, the establishment of the Federal Circuit as a specialist appeals court combined with the decision to put the USPTO on a self-funding basis created the "perfect storm." The consequence is that:

SUPREME COURT ECONOMIC REVIEW 1 (2004); Glynn S. Lunney, *E-Obviousness*, 7 MICH. TELECOMM. & TECH. L. REV. 363 (2001); Matthew D. Henry and John L. Turner, *The Court of Appeals for the Federal Circuit: Impact on Patent Litigation*, __ J. LEG. STUD. __ (2006).

6 *In re Deuel*, 51 F.3d 1552 (Fed. Cir. 1995)

7 See generally Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035 (2003)

8 See *Id.*

9 See, e.g., Christian A. Chu, *Empirical Analysis of the Federal Circuit's Claim Construction Trends*, 16 BERKELEY TECH.L.J. 1075 (2001).

[I]n the space of less than a decade, we converted the weapon that a patent represents from something like a handgun or a pocket knife into a bazooka, and then started handing out the bazookas to pretty much anyone who asked me for one, despite the legal tests of novelty and non-obviousness. The result has been a dangerous and expensive arms' race, which now undermines rather than fosters the crucial process of technological innovation.

In addition, patents became available for any subject matter, because an aggressive Federal Circuit took it upon itself to “discover” that when Congress enacted the Patent Act of 1952 it had intended to abolish limits on patentable subject matter.¹⁰ Indeed, this questionable decision upended the long history of free competition among methods of doing business. Very tellingly, the judge who authored this opinion was one of the patent lawyers commissioned by Congress to draft the Patent Act of 1952, so he should have known what Congress intended, yet his earlier writings contradict the idea that any such change was intended.¹¹

Given the insular, expert-driven nature of patent policy, legislative intent often gets mischaracterized or misremembered. When Congress created the Federal Circuit and put the USPTO on self-funding basis, its intent was to strengthen the institutions of the patent system, not to change patent law and policy. But by empowering patent institutions it unintentionally facilitated capture of the agency and the judicial oversight of the system. As a respected intellectual property treatise recently noted: “Workloads increase and regulatory authority expands when new industries become subject to the appropriations authorized by the patent law. Noticeably absent from the private, administrative and judicial structure is a high regard for the public interest.”¹²

Unfortunately as well, the capture phenomena tends to amplify across levels from private bar to patent agency to specialist court – and on to the international arena, where it often operates outside of democratic purview. For example, the U.S. position in WIPO in support of requiring patents on non-technical subject matter was never made explicit or public announced in the U.S., despite the endorsement of patent organizations present as observers. Accepting the Federal Circuit’s position on business method patents is one thing. Presenting it as best practice and attempting to impose on the rest of the world is another matter. In this case, the position taken by the U.S. and its patent organizations was so extreme that it attracted no support from other delegations.

10 *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

11 Computer & Communications Industry Association, amicus brief in support of Petitioner in *Labcorp v. Metabolite*.

12 Roger E. Schechter and John R. Thomas, *INTELLECTUAL PROPERTY*, West Hornbook Series, 314 (2003).

Furthermore, the phenomenon has been complicated by industry capture at different points. At one level, this is the influence of the large customers of the patent system that enjoy plenty of opportunity to learn how to exploit of limits of an *ex parte* system and seek to maintain the advantages inherent in accumulated against future competition. However, it is also the disproportionate influence that is ultimately accorded to the industries that value patents the most, have the most well-defined and acutely felt policy interests and that are most willing and able to invest resources in influencing policy.

Perhaps the most egregious example is the so-called “nondiscrimination” clause in Section 27.1 of TRIPS. Along with standard provisions prohibiting discrimination based on the nationality of the inventor and country of the product’s origin is a provision proscribing discrimination on the basis of field of technology. This provision, which looks innocuous in its immediate context, was inserted simply because the pharmaceutical industry wanted it. There was no suggestion at the time that it applied to the exceptions and customization already built into U.S. law or the European Patent Convention.

Nonetheless, a broad interpretation of this stealth provision was frequently trotted out during the debates on the software patent directive in Europe to provide cover for diplomatic consensus against legislative action to limit the expansion of patent practice into software. From a policy perspective, this was not only a reprehensible effort by self-interested firms and experts to radically constrain democratic oversight of the patent system, but fundamentally hostile to any empirical study of patent effects and an assault on evidence-based policy development. Presented as an “international obligation,” it would straitjacket any attempt to fine-tune the patent system to better promote economic development and public welfare within the growing diversity of environments in which innovation takes place.¹³ Citing TRIPS, the U.S. Government took a position against the European Parliament’s efforts to address interoperability and reverse engineering in the directive.¹⁴ Again, this was a position that was not public developed or announced in the U.S., was manifestly at odds with other government policies promoting interoperability and competition and was undoubtedly instigated by private interests having the wherewithal and motivation to maximize the market power of their patent portfolios.

Today, the consequences of this conceptual “straitjacket” are playing out in the debate over patent reform in the U.S. Instead of coming to grips with the failings of the system

13 A conference on this subject is planned for September 29-30 at the University of Michigan:
<http://patentsanddiversity.com>.

14 U.S. Mission to the European Union, “U.S. Comments on the Draft European Parliament Amendments Regarding the Proposed European Union Directive on the Patentability of Computer-Implemented Inventions” (submitted following a meeting between U.S. officials and Mr. Wim van Velzen, member of the European Parliament, on August 21, 2003), Parts II B. and II C., available at www.aplf.org/mailler/USCommentsPatentCompImplInv.pdf

at a pragmatic level, a deep fissure has emerged with discrete-product industries pitted against complex-product industries. The Information and Communication Technology (ICT) sector (comprised of complex-product industries) wants stronger reforms that address the structural problems of over patenting and especially the rising threat from patent trolls than does the pharmaceutical sector (comprised of discrete-product industries).¹⁵ So far, the well-intentioned and publicly beneficial efforts of the ICT sector to reform the patent system have failed, which is but yet another consequence of the capture of the U.S. patent system by special interests that is causing the public extreme harm.

We hope these comments are helpful in ensuring that all of the public's interests are adequately represented and considered by the Gowers Review of Intellectual Property.

Sincerely,



Daniel B. Ravicher

¹⁵ These include provisions on continuation applications, proportionality of damages, injunctive relief, and a second opportunity for oppositions.