

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

May 24, 2007

The Honorable John Conyers
Chairman, Judiciary Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Lamar Smith
Ranking Member, Judiciary Committee
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Conyers and Representative Smith:

The United States has been and continues to be the most important source of innovation and invention in the world. Our greatest inventors are found across a broad spectrum of constituencies. Some work independently; others work for small businesses, universities, start-up enterprises and multinational corporations. The patent system needs to work well for inventors regardless of circumstance or affiliation. The recently introduced Patent Reform Act of 2007 addresses some of the issues that impede the patent system from reaching its full potential as an engine for creating innovation – and the jobs and wealth that innovation produces. However, at the same time, it introduces new impediments to an effectively functioning patent system.

On behalf of the undersigned companies, we have critical concerns with issues that must be addressed in order to ensure the pending legislation (1) balances the interests of patent holders and patent challengers, (2) is fair to both these constituencies and the interests of the broader public, and (3) is comprehensive enough to address legitimate criticisms of the operation of today's patent laws. We do not believe that this can happen unless the bill addresses – to the fullest extent possible – the major legislative recommendations of the National Academies of Science.

The bill needs changes in at least the following respects to address these concerns:

1. The legislation does not eliminate “subjective elements” from the patent system. The president of Yale University, co-chair of the National Academies’ study, Dr. Richard Levin, said it best on the key issues of “best mode” repeal and addressing the “inequitable conduct” defense, “I support repeal of the best mode requirement which adds relatively little to the information disclosed in a patent application. ... There is wide agreement that claims of inequitable conduct have ... been abused as a defense I recommend that any ... legislation remove this issue from litigation entirely”
2. The legislation contains problematic aspects in its implementation of a first-inventor-to-file system. It neither creates an optimal “grace period” for protecting inventors who publish an invention before filing for a patent nor simplifies “prior art” by limiting it to “publicly accessible” information. Since 2001, all major IP constituencies that have examined how best to implement a first-inventor-to-file system have supported both

creation of an optimal “grace period” for protecting inventors who make pre-filing public disclosures and elimination of the so-called “forfeiture provisions” that result in secret pre-filing activities being used to invalidate otherwise valid patents. As one recent example, earlier this month the ABA IPL Section reiterated its support for a “public accessibility” standard for prior art by urging that Congress enact “the consensus ‘best practices’ for implementing a first-inventor-to-file system,” including “eliminating certain ‘loss of right’ conditions for patentability that will be rendered unnecessary.” The ABA IPL Section specifically cited its support for consensus positions set out by National Association of Manufacturers, Biotechnology Industry Association, Intellectual Property Owners Association, and the American Intellectual Property Law Association.

3. Post Grant Review: The legislation does not provide the needed predicates (set out in the preceding two paragraphs) for implementing the type of post-grant review of issued patents by the USPTO as recommended by the National Academies. In addition, the bill would allow potentially unlimited challenges on all issues of patent validity to be brought throughout the life of a patent. The bill fails to encourage prompt challenges to questionable patents and, as a result, creates uncertainty for the patent holder from costly, repetitive challenges and for the public. As Biotechnology Industry Association recently observed: “The post-grant review provision in the bill would be a dramatic departure from domestic and international norms, casting a cloud of uncertainty over issued patents.”
4. Reasonable Royalty Damages: The legislation sets out new rules that will substantially reduce the amounts that may be collected by inventors to compensate them for unauthorized uses of their inventions. Under current law, the amount of reasonable royalties awarded is determined by considering what the infringer would have agreed to pay the patent owner for the use to be made of the invention, had they negotiated a license for that use at the time the infringement began. In connection with this negotiation, it is assumed that the patent is valid and infringed, and that both the patent owner and the infringer were willing to enter such a license. Using this approach, current law permits consideration of all the relevant commercial considerations that would have led the parties to arrive at mutually satisfactory terms. Instead of respecting this well established approach, however, the legislation mandates the use of an unprecedented “prior art subtraction” methodology, never used in actual practice, that removes from consideration all of the component parts of the invention that were themselves previously known. Because, at some level, essentially all inventions are combinations of old elements, this approach mandates a devaluation of the invention that has no basis in commercial reality. Yet, the value of a license to use an invention has nothing to do with its relative use of known components, but rather the overall value of using the combination as opposed to commercially available, non-infringing alternatives.

Not surprisingly, this aspect of the legislation is widely opposed as being unfair, unworkable and unwise. Its approach is opposed by the Intellectual Property Owners Association, The American Intellectual Property Law Association, The Biotechnology Industry Association, The National Association of Manufacturers, the Innovation Alliance, the American Bar Association, and many others. The Association of American

Universities recently tagged this provision as “unnecessary” and said it “should be deleted.” The Department of Commerce similarly concluded that it “does not believe a sufficient case has been made for a legislative provision.” Chief Judge Paul Michel of the Court of Appeals for the Federal Circuit recently noted that this provision would mean that “courts would be inundated with massive amounts of data, requiring extra weeks of trial in nearly every case” and “hardly seems within the capability of already burdened district courts.”

5. Interlocutory Appeals: The legislation authorizes interlocutory appeals of rulings on the interpretation of patent claims by district court judges that will obstruct the ability to move many patent trials to a speedy and just conclusion. Chief Judge Michel has pinpointed the serious problems with this provision: “Trial court delays in patent cases are already typically two-to-three years. The new provision could double that delay.”
6. USPTO Rulemaking Authority. The National Association of Manufacturers, a group that has long advocated for progressive patent reforms, recently announced that “NAM is opposed to H.R. 1908 in its current form” in part because the bill “would give the director of the U.S. Patent and Trademark Office substantive rule-making authority.” This new rulemaking authority would be ceded to the USPTO on topics that would include what types of inventions are and are not validly patentable. The same is true for determining the value of patents that have been infringed. Even the USPTO has stated that “[w]e have concerns about unbounded discretion, and therefore want to be certain that any grant is not overbroad” and has indicated it supports only authority “necessary to promulgate regulations to ensure an efficient and quality-based patent examination process.” While some additional authority might be granted to the Office to prescribe affirmative disclosure requirements for patent applicants – assuming elimination of the “inequitable conduct” defense – no justification exists for the wholesale assignment of the administration of Title 35 to the Office.

As you move this legislation through the full House Judiciary Committee, we would like to work with you and other stakeholders to resolve these and other issues, *e.g.*, venue. By addressing the issues above, we can work together to continue fostering innovation and employment in the United States, avoid diminishing the value of valid U.S. patents, and encouraging our trading partners to increase worldwide respect for and protection of intellectual property.

On behalf of the Coalition for 21st Century Patent Reform,

Gary L. Griswold

cc: The Honorable Howard Berman, Chairman, Subcommittee on Courts, the Internet and Intellectual Property; The Honorable Howard Coble, Ranking Member, Subcommittee on Courts, the Internet and Intellectual Property; Members of the House Committee on the Judiciary

THE COALITION FOR 21ST CENTURY PATENT REFORM

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YALE UNIVERSITY

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July 19, 2005

The Honorable Orrin Hatch
Chairman
Subcommittee on Intellectual Property
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Chairman Hatch:

I understand that the Senate Subcommittee on Intellectual Property may soon begin drafting patent reform legislation. I am writing to offer several observations that may be helpful as you write a bill. My comments build on the testimony that I gave in late April.

Post Grant Opposition Procedure. I am encouraged that the proposed post grant opposition procedure has gained wide acceptance among industry and the patent bar. As I noted in my testimony before the Subcommittee earlier this year, patent quality should be a priority for Congress. A timely opposition procedure would be one of the most significant measures to eliminate low-quality patents and reduce uncertainty in the market. A post grant opposition procedure would provide an effective means of affirming, soon after a patent is issued, whether a patent should stand. I recommend that this provision be a central element of the Subcommittee's bill.

First Inventor to File. Switching to a first inventor to file system would, in my view, yield substantial gains through elimination of costly patent interferences and harmonization with other major patent systems. It may require universities to seek patent protections more promptly, but that should not pose a significant challenge for large research universities. The more important issue for universities would be the maintenance of a grace period to ensure that recent publications of a faculty inventor or her collaborators do not count as prior art.

Reducing the Cost of Litigation. It would be helpful for the Senate to reduce the role of highly subjective factors that contribute to the high burden and cost of patent litigation. I support the repeal of the best mode requirement which adds relatively little to the information disclosed in a patent application.

I also recommend that your Subcommittee repeal the doctrine of willful infringement entirely. The doctrine does not provide a significant deterrent effect; it creates perverse incentives for inventors to avoid reading others' patents; and it contributes significantly to the cost of litigation.

The Honorable Orrin Hatch
July 19, 2005
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There is wide agreement that claims of inequitable conduct have also been abused as a defense against claims of infringement. I recommend that any Senate legislation remove this issue from litigation entirely and give the PTO adequate authority to develop and enforce rules concerning duty of candor.

Injunctions. I recommend that you avoid the controversial provisions concerning injunctive relief. The National Research Council Committee that I chaired did not see this as a problem requiring intervention at this time. We recognized that the software and computer industries are unusual in the high number of patents in those fields, but we were confident that courts could address those issues through careful application of current law requirements about balancing of equities and apportionment of damages.

In addition, I am concerned that efforts to raise the bar for issuance of injunctions once infringement has been found would diminish the scope of the property right implied by a patent.

I would make the additional observation that this provision, which is opposed by a significant share of industry and the patent bar, could become an obstacle to enactment of patent reform legislation. In my view securing the enactment of reforms which do enjoy substantial support is more important.

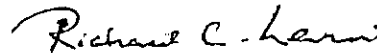
Determination of Damages. It is not clear that courts require additional guidance about determination of damages when the infringement involves only part of a complete product. Judges have adequate discretion in awarding damages and I would urge caution in trying to codify guidelines that have been developed in case law.

Submissions of Prior Art. I suggest that you consider a provision that would authorize submissions of prior art by third parties after a patent application is published. This option would inform patent examiners' understanding of relevant prior art and improve the quality of patenting decisions.

Thank you for taking up this topic. Congress has the opportunity to make fundamental reforms that would help to promote innovation and economic growth. I look forward to further conversations about the legislation.

With best regards,

Sincerely yours,



Richard C. Levin

RCL:mg