

A Four-Part Series on Patent Reform

By

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Defining Ideas

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Defining Ideas

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DEFINING IDEAS

The Perils of Patent Reform

by **F. Scott Kieff** (Ray and Louise Knowles Senior Fellow and member of the Property Rights, Freedom, and Prosperity Task Force)

Congress should vote down the America Invents Act.

Editor's note: This is the first installment in a series of four essays by the author on the ongoing efforts in Congress to reform the U.S. patent system. The second essay, "Welcome to Patent Purgatory," can be found [here](#). The third essay, "Patent Reform Goes Haywire," can be found [here](#). The fourth essay, "File First, Invent Later," can be found [here](#).

In each of its past several sessions, Congress has been hotly debating significant changes to our patent system. Implementation may now be drawing near, with the America Invents Act having passed the full Senate on March 8, 2011, by a vote of 95–5, and a similar version having passed the House Judiciary Committee on April 14, 2011, by a vote of 32–3. But despite significant support from both parties, in both the Senate and the House, there's still a good chance that the bill will not pass—and it should not.



Illustration by Barbara Kelley

Purported to be a tool for streamlining the patent system, the America Invents Act will at best gum up the patent system and at worst turn it into a system for protecting the largest entrenched players at the expense of market challenging competitors. The bill would frustrate the ability for small and medium sized innovators to bring innovations to market, and block the opportunities they would create for capital formation and jobs.

AN UNFOUNDED CALL TO UPDATE

Congress is constantly barraged with calls to update our laws to better deal with the many unanticipated changes that confront our society over time. After all, the power to create patents in the U.S. was established at the nation's founding, in the Constitution, itself; and the first head of the U.S. patent system was none other than Thomas Jefferson.

But the patent system is one area of law where a call to update is least apt. Every patent lawyer will tell you that the patent law doctrine known as "anticipation" works, by design, to ensure that anticipated technologies are not patentable. Patent law is entirely directed towards those technologies that are unanticipated.

It's easy, for instance, to envision our nation's founders sweating out drafting sessions over long summers in Philadelphia's Independence Hall, with the then-un-anticipatable aid they could have enjoyed from central air-conditioning, or other modern marvels like the Internet, cell phones, airplanes, automobiles, telephones, and television, all of which were brought to market through patents.

Critics of the modern patent system tell countless ghost stories of the fear inflicted on everyone from basic scientists to large corporations by the demon artfully named a patent troll. Yet when asked to precisely define who this ogre is in reality, it often boils down to whoever successfully sued some sympathetic defendant or whoever is presently suing the speaker. While the ever-present threat of patent enforcement is said to be causing immense gridlock in our economy, we are never told what exactly is so precarious about this state of affairs and why some patent lawsuits would disrupt it.

After all, a few airplanes do regrettably crash once in a while and yet the airline sector still does business. And while driving has many benefits over flying, data do not support the idea that travel safety is one of them. That's why serious policy makers looking for sound basis for making a policy shift to improve overall travel safety don't point to the many people who invoke flight safety as their reason for electing to drive over taking commercial

flights.

The America Invents Act will protect large, entrenched companies at the expense of market challenging competitors.

Indeed, each of those just recited modern marvels of technology—including the airplane—was rich with patents. Some of those patents were basic, broad, blocking patents, and many were narrower, downstream patents, too. Consider just one of the inconvenient truths facing advocates of the features in the present bill designed to shift our patent system towards one that awards patents based on who was the first to file the patent application rather than first to invent the technology. There was a lengthy court battle fought over the initial patent rights in the telephone and only one of the sides in it was expert in the underlying technology and had the now familiar name of Bell. The other side looked in most respects like the demonized patent trolls regularly trotted out by proponents of the present bill.

PREDICTABLE PATENTS BRING COMMERCIALIZATION AND COMPETITION

Stylized talking point memos in debates about patents often cartoon each other. Some say that strengthening patents will bring a flood of patent lawsuits, grinding to a halt the wheels of future commerce. And others say that weakening patents will make them so worthless that nobody will bother to get them except to hang on a vanity wall next to graduation diplomas.

But this is just the result of the ordinary drive by spin-doctors and masters of messaging on K Street and Madison Avenue to get sound-bite clarity. And that kind of clarity happens to starve the public debate of the hard complex analysis needed to make a well-reasoned choice about how things are likely to play out in reality.

Changes of the type that are the focus of modern debates about patent reform won't lead to either of these caricature outcomes. They won't lead to a big increase or decrease in rates of invention, or even patenting. In fact, it's notable that many of the loudest critics of strong patents are some very large companies, like IBM, which are famously associated with massive portfolios of patents.

Nor will such changes lead to a big shift in the ability for large established firms to do business successfully. Big business can pick up some easy short-term tactical benefits from the changes they are urging as well as some serious long-term strategic opportunities. The changes they propose will lead to subtle but important shifts in the commercialization of new technologies and the overall competitive landscape. But it is exactly those shifts that are both privately good for only these large established players and at the same time socially bad for our overall markets and innovation ecosystem.

Recent history has given us at least two striking natural experiments about how this works. One tells the story of the presence of patents as a key to increased competition and commercialization. The other tells the story of the absence of patents as a key to monopoly.

In the software industry, the absence of patents led to the development of a monopoly.

Before 1980, the U.S., Europe, and Japan all had slid into the view that patents in the area of basic biotechnology were somehow against a range of vaguely defined so-called "public policy" notions. As a result, patents on basic biologicals were not reliably available or enforced. Patents on pharmaceuticals were. Then, thanks to the 1980 Supreme Court *Chakrabarty* decision, basic biologicals suddenly got to enjoy meaningful patent protection for both products as well as testing methods and devices; but this was only in the U.S., and only after that 1980 change in the case law. The result was remarkable: only in the U.S. was there a drastic increase in the number of small and medium-sized biotechnology companies and a drastic increase in the number of new drugs and new medical devices brought to market.

All of this happened while the steadily growing worldwide success of big pharmaceutical firms persisted, as did rates of invention. And all this happened despite worldwide access to capital and relevant technical skills and know-how.

The software industry offers a similar story from the other side of the coin, where the absence of patents was linked with the development of a monopoly. The U.S. courts had allowed themselves to slide into the view that patents on computer software and methods of doing business were similarly against a range of vaguely defined so-called "public policy" notions from 1972 Supreme Court *Benson* decision up through the 1980's and into the 1990's. That's when we got Microsoft. And it was only after the 1994 appellate court *Alappat* decision that the single biggest Microsoft competitor—Google—was able to come to market in the U.S., relying on strong patents and trade secrets.

ODD POLITICAL BEDFELLOWS

Both sides of today's debates about patent reform have some odd bedfellows. Those focusing on the importance of strong patents have included unions, many Republicans, small businesses, and some large pharmaceutical companies. Those focusing on the problems of over-enforcement of patents have been many Democrats joined by a number of big businesses from the high technology sector including Microsoft, Google, IBM, and Cisco, as well as some other large pharmaceutical companies. Similarly, in many of the recent Supreme Court patent cases, some of the most vocal patent critics have included Justice Scalia, a Republican appointee, as well as Justice Breyer, a Democratic appointee.

But debates in this area have long been a mismatch for the typical left/right and Democratic/Republican divides. Our present patent system remains largely based on the 1952 Patent Act, which was strongly endorsed by leading jurists from all sides of the political aisle including Giles Rich who was an Eisenhower appointee, Learned Hand who is generally viewed as a centrist, and Jerome Frank who is generally viewed as a populist.

Similarly, the creation of the U.S. Court of Appeals as a court to strengthen the patent system in 1980 was a major domestic policy initiative of

President Carter, a Democrat, and was signed into law with much fanfare by President Reagan, a Republican. And in the recent Supreme Court *eBay* decision, the voices that spoke out in favor of strong patents included Chief Justice Roberts, a Republican appointee, as well as Justice Ginsburg, a Democratic appointee.

PATENTS CAN LEAD TO BOTH GOOD AND BAD MARKET COORDINATION

Those who pushed the 1952 Patent Act urged us to focus not only on the way that patents can provide incentives to invent, but also on the way they can help get inventions put to use after the invention is made. Getting inventions put to use, or commercialized, requires coordination among complementary users of the invention, such as investors, managers, marketers, laborers, owners of other inventions, etc. When patents facilitate this good coordination they help new companies compete by providing them with the metaphorical slingshots they need to take on larger established Goliaths. That's how patents can be both powerful anti-monopoly weapons and essential tools for bringing new inventions into the hands of consumers.

Patents play this good coordination function only when everyone in the market thinks they can be enforced. Predictable enforcement lets patents stand like beacons in a dark room, drawing to them all those who are interested in the technology and in finding others with the same interest. It also encourages these many complementary users of the invention to enter into the complex contracts with each other that are needed to commercialize the underlying invention.

When patents facilitate good market coordination, they foster competition and innovation.

Everyone in those conversations brings to the table a set of assets—such as labor, lab space, personal connections, and so forth. The complex contracts they elect to strike with each other allow them value those contributions however they want to up front. That's why these patent contracts usually take many pages of single spaced text. If they were only about money they'd be a single sentence, having the patent number, the dollar amount, and, perhaps to facilitate goodwill, a clause agreeing to wish each other a nice day.

Today's patent critics say they aren't against remedies for patent infringement, but complain that damages in patent cases are just too high. But the reality is that every one of the cases held up as emblematic of excessive patent damages is one in which the patent at issue was found to have been actually valid, actually infringed, and often the infringement was found to have been willful, which means without any good reason for thinking the patent was not valid and infringed.

The key advantage of having courts enforce patents with damages awards that take into account the particular subjective interests of each of the parties involved in the patents and related contracts is that it encourages these parties to either enter into these contracts or avoid infringement, such as by designing around the patent. This saves courts from having to trace the values of all of the many complementary inputs to the process of commercializing the invention. Instead, it encourages parties to make their own best efforts at negotiating for contractual mechanisms to get at this value up front.

But weak enforcement of patents is bad not only because it undermines this good form of coordination. It also is bad because it facilitates a bad form of coordination.

The techniques for weakening patents that are proposed in the present bill are several, and quite complex. They include: new procedures for continually challenging a patent's validity; new rules on what counts as prior art against a patent; special preferences for certain categories of patents, like those favoring "green tech"; and special treatment for patents on methods that do business to further challenge their validity, even after they have been tested in court.

One form of bad coordination is among two or more large established players in a market. Consider how such large players might like to talk directly to each other. Doing so raises two key problems for them: trust and antitrust. But if they each have large numbers of patents and know that all patents will be only weakly enforceable in court, then they may be able to significantly mitigate both of their problems.

For example, if two large companies find themselves against each other in a number of patent litigations, then decisions to push hard on some battle lines while yielding on others will be more credible in this venue than during direct conversations when it comes to foundational topics like which parts of the overall market space each company really wants for itself and which parts it can cede to the other. Meanwhile the terabytes of data and countless sworn depositions they swap during litigation only increases the bandwidth and fidelity of the communication channels provided by these patent suits. And then, when they resolve all of these lawsuits, mostly of course by settlement, they will have done so in front of federal judges, tried and true, which essentially eliminates the intent element needed to prove any criminal antitrust action. So if antitrust regulators do ask them to rejigger any of the deals they have struck, the executives won't face jail time and their shareholders won't face treble damages. At the same time, because all patents can only be weakly enforced, both of these large coordinating players can rest assured that no David will show up to meaningfully threaten a Goliath.

It's no wonder so many large established market players are unified behind today's bill. But what's good for big business is often not good for business overall. That's why we should focus on time tested good ideas and practical problem solving, not compromise among loudest voices.

At this point, you might be wondering what exactly is so bad about the patent reforms proposed in the America Invents Act? Several of the act's biggest problems are explored in some detail in our next three installments.

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including entrepreneurship, corporate governance, finance, economic development, intellectual property, antitrust, bankruptcy, property rights, contracts, and dispute resolution.

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Welcome to Patent Purgatory

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The America Invents Act beleaguers inventors with endless process and politics.

Editor's note: This is the second installment in a series of four essays by the author on the ongoing efforts in Congress to reform the U.S. patent system. The first essay, "The Perils of Patent Reform," can be found [here](#). The third essay, "Patent Reform Goes Haywire," can be found [here](#). The fourth essay, "File First, Invent Later," can be found [here](#).

The first installment of this series explored the basic analytical framework behind debates about patent reform. The details of the patent system that are being discussed in Congress are not likely to lead to important large shifts in overall rates of invention and patenting. Rather, the America Invents Act—pending in Congress—will likely impact the rate at which inventions are actually brought to market—commercialized—and the extent to which the large successful firms in our economy will be joined by, and face competition from, large numbers of small and medium-sized firms.



Illustration by Barbara Kelley

THE PATENT OFFICE: WHERE LESS IS MORE

Many good and hard working people work in the patent offices of the world, including our own. They are public servants doing important work. It may even make sense to give the Patent Office more control than it presently has over its own financial operations—a topic called fee-setting authority in the bill presently before Congress.

But a celebration of the true wonders of our Patent Office—both its examining corps and its leadership—does not mean it should be beefed up, as the pending bill would allow. Even a patent office brimming with Einsteins—remember, he actually started his career in one—would be no more effective even if it were allowed to deploy ten times the number of hours it presently does to examining patent applications. What is worse, it would do great harm.

To give some context, consider this convenient comparison: even taking into account the depths of the 2008 economic crash, our securities markets are the largest in human history and yet their flagship regulatory body, the U.S. Securities and Exchange Commission (SEC), has long operated with about half the staff and half the budget as the U.S. Patent Office. Despite the SEC's important duties to protect a vast base of inexpert lay consumer investors, even the populist FDR administration expressly rejected suggestions that the agency should do searching examinations of its filings. Our securities system is premised on disclosure, not merit review.

Patents are most certainly not directed at unsophisticated, lay, consumer audiences. They are for technological, legal, and business experts. These experts look to the Patent Office to merely conduct a decent first pass at assessing patent validity while maintaining a clear, centralized, and easily searchable repository of the patent records.

It makes little sense for society to invest heavily in the vast expenses it would take to conduct factually complete examinations of patent applications, as proponents of the pending bill could be contemplating. Most patents do not matter to anyone and it often takes years for anyone in society to make good decisions about which patents will matter to any significant degree. But even for those patents that do matter, it makes most sense for decisions about the validity of those patents to be made in federal court litigations, rather than in the byzantine and politically influenced administrative procedures of the Patent Office. While the patent system of today already has too many bad procedures for challenging the validity of a patent, the

proposed bill adds even more.

A patent should be challenged in court, not in the U.S. Patent Office.

Challenging a patent in court is a process that makes sense, because that's where actual historical and technological facts can be tested in front of a jury with the aid of fair and established rules of evidence and procedure. While bad faith litigation can be a serious problem, a direct way to mitigate that problem, which is noticeably absent from the present bill, would be to allow courts to award attorneys fees and other actual damages against a party, on either side, who presses an argument in court that he has no good faith basis for thinking should win. These damages could even be trebled in egregious cases.

Alleged infringers rightfully worry about the *in terrorem* impact of the high cost of baseless litigation and the way it can allow plaintiffs with bogus patents to shake down large companies for large numbers of expensive settlements. And small inventors rightfully worry that baseless arguments about invalidity could bleed patentees dry through years of litigation costing millions of dollars per year.

Such a system of bad-loser-pays is used with some success in several other areas of U.S. law., and in many areas of law in the U.K. There are good reasons to think it would directly address serious concerns voiced by those on both sides of the patent debate. It shouldn't be expected to decrease the frequency of litigations; but it should reasonably be expected to decrease their overall length and cost. That's because when both sides elect to file in court, it triggers the rules governing evidence and procedure that allow the parties to exchange the appropriate evidence with their opponents while putting them on notice that continuing on the same path brings with it real risk.

Even in the allegedly pro-patent days of the key U.S. court of appeals that heard patent cases—the "Federal Circuit,"—that court did not resist awarding fees against patentees, their trial lawyers, and their appellate lawyers when appropriate, as in the 1997 *Judin* decision. That court also did not resist calling out by name those lawyers who engaged in bad faith approaches to litigation by writing and then citing to baseless opinions of counsel, as in the 1998 *CellPro* decision.

In addition to litigation, the existing patent system has two other infamously dysfunctional administrative procedures for testing the validity of an issued patent. In so-called *ex parte* reexamination, patentees are king because they are the only ones who get to participate in the process. Unsurprisingly, patentees are notorious for using this procedure to try to white wash their own patents; and infringers are routinely advised to save their killer evidence of the prior art for other proceedings.

In response to these concerns, Congress passed a so-called *inter partes* reexamination proceeding that is adversarial in nature, allowing both the patentee and the party challenging validity to participate. And unsurprisingly, this procedure has been abused as well. Alleged infringers routinely dig up new proxy parties and new arguments, while evidence about prior art can especially keep the best patents in a purgatory of perpetual reexamination.

A politicized patent system will further entrench those companies with the largest lobbying shops on K Street.

Shockingly, the proposed bill not only keeps these old administrative procedures in place, it also adds at least two additional ones, known as post-grant review and supplemental examination. One of the so-called selling points of these administrative procedures is that they are faster and less expensive than civil court litigation. This of course reveals the true agenda of those behind the pending bill. The mechanism they use to increase speed and decrease cost is to depend less on the very time consuming and expensive process of getting factual evidence about the prior art, such as particular lab notebooks and sample products. Rather, the proposed procedures would allow the administrative judges and examiners to rely on their own technological expertise to simply assert what they view the historical record to be in a given area of technology.

Under established principles of administrative law, the more an administrative agency gets such substantive adjudicatory power, the stronger its claim for special administrative deference is, if its decisions are ever challenged in court. That means the new procedures are more than just new procedures. They seriously bolster the claim that the Patent Office has been pursuing for several years now, which is for its decisions to be given the type of high deference we reserve to the political agencies designed to implement executive policy.

However supportive or critical one may be of the politicking of executive branch agencies, the role of politics in the patent setting is particularly suspect for at least two key reasons. First, even if you think politics is great, it changes with administrations. That kind of change fundamentally erodes the long term investing we all want to see in property rights. This brings up the second key reason why politics and patents shouldn't mix: property rights are at their worst when they swing with the political winds. In such a scenario, the only type of investors they will draw will be those who are the most politically influential.

Fears about pure political influence driving outcomes at the Patent Office are not without foundation in recent history, under both Democratic and Republican administrations. The elimination of effective patent protection for computer software through the Supreme Court's 1972 *Benson* decision was the direct result of intensive influence wielded by Nicholas Katzenbach, who became general counsel of IBM in 1969, over the U.S. Department of Justice, which he formerly ran as Attorney General during the Kennedy/Johnson Administration. And a similar influence was applied, albeit ultimately unsuccessfully, during the first Bush administration, in the lead up to the 1994 appellate court *Alappat* decision. The Patent Office Commissioner had made the decision to reconstitute the office's internal Board of Appeals to hold a rehearing before a specially packed Board designed to reject the patent on a type of software.

The bill expedites patent applications for innovations that are in the public interest, like so-called "green

technology."

The bill now pending before Congress contains explicitly political components. One provision shamelessly offers expedited processing of patent applications for those technologies deemed by a given administration to be more in the public interest than others. The current administration has already announced that this means a preference for so-called "green technology"—but just imagine the outrage when a Republican administration favors, say, the technologies of the defense or oil industries.

Proponents of the pending bill sell these provisions in the name of helping small businesses get more tailored examination rates to suit their particular needs. But in any system of limited resources, expediting the examination of one entire class of applications will only slow the process down for other classes. Also, why would anyone versed in even rudimentary political economy expect that in a commercial area of law like patents, a government bureaucracy would bend mostly toward the will of the smallest market participants over the largest? Besides, the patent holdup nightmares that those same large industrial players complain about would only worsen in a system that increases the delays within the Patent Office for large classes of applications.

A politically enhanced patent system is one that will further entrench those companies with the largest lobbying shops on K Street. That turns a body of law designed to promote competition into one that frustrates it.

Having already explored many reasons to be skeptical of Congress' reform efforts, you might be wondering whether the rest of the America Invents Act continues in the same bad direction. Regrettably, the perils of the pending bill's approach to patent reform continue, as studied in our next installment.

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DEFINING IDEAS

Patent Reform Goes Haywire

by **F. Scott Kieff** (Ray and Louise Knowles Senior Fellow and member of the Property Rights, Freedom, and Prosperity Task Force)

Pending legislation undermines property rights and international trade.

Editor's note: This is the third installment in a series of four essays by the author on the ongoing efforts in Congress to Reform the U.S. patent system. The first two essays, "The Perils of Patent Reform," and "Welcome to Patent Purgatory" can be found [here](#) and [here](#). The fourth essay, "File First, Invent Later," can be found [here](#).

The first installment in this series began with the basic analytical framework behind debates about patent reform. Strong patents can facilitate a socially constructive coordination that brings new inventions to market while weak patents lead to a socially destructive coordination among large, established market players in a way that decreases competition. The second installment then explored the ways in which some important provisions of the America Invents Act, now pending in Congress, will inject unending process and undue politics in the systems for testing a patent's validity.

This installment continues the critique of the America Invents Act by showing how some of the bill's proposed procedures undermine both property rights and international trade.



Illustration by Barbara Kelley

The proposed bill includes a new administrative procedure for challenging the validity of patents. The procedure targets only one class of patents it calls "business method patents." This proposed new form of post-grant review subjects these particular patents to ongoing invalidity challenges even after their validity has been thoroughly tested in the existing administrative reexamination proceedings as well as in full civil litigation before a court. Under the provisions of the bill now pending in Congress, these patents can be either tied up in unending process or trashed by an erroneous administrative rejection that then will be especially hard to overturn in court due to the enhanced deference principles of administrative law.

There are many examples of existing property rights in business method patents that have already enjoyed extensive adjudications that covered the myriad aspects of patent validity and infringement after lengthy federal court litigations. For these, the newly proposed administrative process constitutes a taking of fully adjudicated property rights by exposing them to the real risk that these new fangled procedures will wipe them out. One would have to entirely suspend bedrock principles of finality in adjudication to see the administrative erasure of a fully adjudicated property right as a net nullity, legally speaking. And yet, this is the position that some proponents of the pending bill appear to have taken, seeing it as a logical extension of the view that anything the administrative agency giveth, the agency can also taketh away without consequence.

Long established Constitutional doctrine prevents administrative agencies from such takings of property rights without providing their owners just compensation. Congress should seriously consider whether it makes sense to take these property rights at all; but even if it decides to proceed it must recognize that doing so exposes the already huge government deficit to additional billions of dollars in liability. In the case of some of these business method patents, the adjudicated damages that would be wiped out are already in the billions of dollars per patent.

The bill wreaks havoc on property rights, and predictable property rights are essential for economic growth.

What is more, these new procedures can reach any patentee who owns a patent that is sufficiently related to business that it can be called a "business method patent." The scope is enormous and almost any method patent can qualify.

This is bad for any small business that has method patents; and as a result it's bad for business over all. But it is particularly dangerous in that it seriously undermines the extensive efforts our country has long exerted to ensure predictable enforcement of intellectual property rights overseas.

Especially now, when the economy's infirmities loom so large, we must focus on the central lesson taught by leading thinkers on both sides of the political aisle: predictable property rights are essential for economic growth, including investment, innovation, and jobs. This is a central message of the work of Nobel Prize winning economists Douglass North and Milton Friedman, who are embraced by Democrats and Republicans, respectively.

Predictable enforcement of intellectual property rights also has been a lynchpin of U.S. trade policy. Such enforcement gave the U.S. the moral authority and bargaining power to bring other countries a great distance in trade negotiations towards enforcing property rights around the world. This was during the extensive negotiations over the treaty known as TRIPS (Trade Related Aspects of Intellectual Property). One central obligation of TRIPS, which is subject to only a few special exceptions, is to treat all patents the same, regardless of the area of technology. The one provision of that treaty that allows for exceptions requires that they be limited to extreme matters like the protection of the public order.

When word gets out that intellectual property rights are not being taken seriously in the U.S., especially for any class of patents that can be a convenient political target of powerful, well-healed interest groups like banks, our voracious international competitors will pounce. Countries like Argentina, Brazil, China, and India have long been pushing compulsory licenses for drug patents and easy piracy for copyrights in the software and entertainment industries. These countries and others often explicitly seize upon practices in the U.S. that they see as derogating from intellectual property rights. They argue that otherwise narrow exceptions in international treaties allow them to strip away entire areas of intellectual property rights.

If America weakens its patent enforcement at home, it will set a dangerous precedent overseas.

For example, they rely on the narrow exception in TRIPS Article 31, which refers to cases "of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use," to support their arguments in favor of the wholesale stripping away of patents rights in particular cases. While those words in TRIPS Article 31 speak only of a very narrow exception, both the Thai and Brazilian governments have argued that even the slightest weakening in America's domestic patent enforcement, such as the denial of an injunction in particular cases after the Supreme Court's *eBay* decision, should be treated as a precedent for their imposition of compulsory licensing for drug patents at rates so low as to be confiscatory.

The major argument that the U.S. has used in response is that we enforce property rights in our country in practically all cases. In the extreme cases when our government does seize property rights, we at least ensure that property owners are paid just compensation.

Making the patents of any industry subject to a new perpetual administrative purgatory at the whim of the large established players will only help our major opponents in international trade do the same for whichever U.S. patent rights they would like to target in their own backyards. This would severely damage the important interests of those components of the U.S. economy that rely heavily on enforcement of intellectual property internationally.

In this installment, we explored some of the features in the America Invents Act that undermine domestic property rights and international trade. Our next installment covers some additional reasons why Congress should kill this bill.

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by **F. Scott Kieff** (Ray and Louise Knowles Senior Fellow and member of the Property Rights, Freedom, and Prosperity Task Force)

The America Invents Act turns the patent system into a lottery.

Editor's note: This is the fourth installment in a series of four essays by the author on the ongoing efforts in Congress to Reform the U.S. patent system. The first three essays, "The Perils of Patent Reform," "Welcome to Patent Purgatory," and "Patent Reform Goes Haywire" can be found [here](#), [here](#), and [here](#).

Our final installment explores how the America Invents Act would inject massive uncertainty into the patent system in the name of trivial predictability.

One of the seemingly boring measures of the pending bill is sold as an effort to improve the predictability and efficiency of the U.S. patent system by trying to harmonize it with those of other countries. It would do so by shifting the U.S. system from being based on a first to invent approach to being based on a first to file approach. Whenever two or more teams of inventors claim to have invented the same thing, a patent system must develop a way for deciding who will get the patent that covers the invention. The U.S. presently makes that determination using a quasi-litigation procedure called an interference, in which the team that can be shown to be the first to invent is awarded the patent.

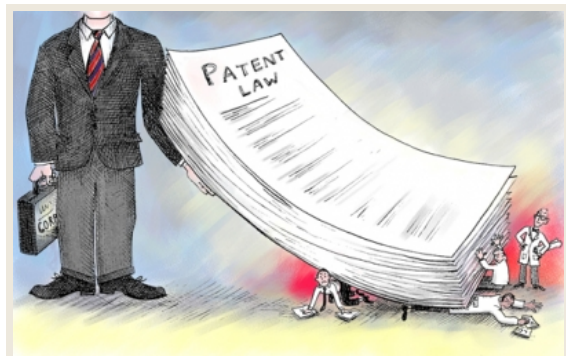


Illustration by Barbara Kelley

Proponents of the proposed bill think that the tiny number of times that these contests arise casts too dark of a cloud of uncertainty over every issued patent. They further fret about the differences between the first to invent approach presently followed in the U.S. and the first to file approaches followed elsewhere in the world.

Bill proponents offer their first to file system as a faster and easier method for determining who should win in these contests. They even invoke the disturbingly Orwellian maneuver of labeling the new approach as "first inventor to file," rather than merely "first to file."

One central problem with the proposal is that while first to file may sound like an easy determination, it turns out not to be. The rest of the world follows essentially a first to file approach, but in every one of those patent systems there is a vast amount of highly evolved law on what counts in the question: first as compared to what? It's very common to have thoughts before writing them down and to write them down before filing them with some patent office. It's also very understandable, if not laudable, to want to test out inventions before drafting and filing patent applications on them. And it's even more possible that while one person may be kicking around an idea in her own head or on her own drawing board, a different person might make it work and file a patent on it.

Every patent system in the world has to establish benchmarks about what types of activities will count as prior art before someone files a patent. And while there are large similarities in this area of the law across the many patent systems of the world, including the present U.S. one, there also are countless differences among all of those following the first to file approach. That is why achieving actual harmonization would be illusory.

So too are the purported efficiency gains. Section 102 of our present Patent Act is a carefully designed, very detailed statute with many subsections that are each meant to search out the types of verifiable evidence on which some party might have reasonably relied in thinking that he would remain free from the patent rights of another. Simply put, it stops patents from issuing on technologies for which we have good evidence to think that somebody other than the patent applicant is already practicing. The prior art provisions of our present patent system are not merely based on some cobbled together theories about which patents are worth having. They are highly attentive to which categories of prior art are of the type that are so

likely to already be the object of serious investment that they should be protected from patents.

The America Invents Act would inject massive uncertainty into the patent system.

If we shift to a first to file approach, then we will have to do some very careful thinking about all of this very quickly. But the pending bill has done a very bad job of it. It is zany on its own terms because it doesn't realize how hard it is to draw lines and what the lines are supposed to rule in or out. For example, one big category to rule out from "prior art" is that which today is not subject to the so-called "statutory bars" against patents in situations of public use and public sale. Activities that satisfy a number of legally complex criteria are treated as not triggering these statutory bars to patentability. One of the key criteria is a particular window of time, which is why these so-called "bars" also are known as "grace periods." Under certain circumstances, they give an inventor time to do testing and other such activities before rushing to file.

Studies of similar grace periods around the world show that those countries that say they don't have a grace period actually do in practice and those who say they have big grace periods actually have much smaller ones in practice. The reality is that every country has to make its own determinations about what will count as activity that will trigger the start of a grace period, and also the end of one. This all takes lots of thinking and lots of policy choices. That usually means years and years of case law. Indeed, the present U.S. grace periods evolved over about two hundred years.

The quick fix of the proposed statute tries to wipe out all of this with just a "file first" command, but nobody thinks that it will mean what it says. Some grace period will remain and the ambiguities around it will last decades. That amount of uncertainty far eclipses the tiny percentage of interferences that occur today due to our first to invent approach.

The pending bill also purports to create so-called prior user rights for certain activities. Under the existing patent system, if prior use meets certain conditions, like it was in public or it was the source from which the patentee derived the claimed invention, then that prior use counts as prior art that destroys the validity of the relevant patent. That makes sense because in those cases there is good evidence someone has relied on those uses and allowing a patent would let the patentee hold up any investments made in reliance on that prior use.

"Grace periods" give an inventor time to do testing and other such activities before rushing to file.

Under the proposed bill, both the patentee and the prior user are allowed a form of exclusivity over everyone else in society, even those who may have relied on the existence of that prior use as a reason to think no patent would surface. Big companies love this provision because it gives them a good chance to ride along with every patent. The chances a little player will get prior user rights are tiny. The chances a big company will have done something that entitles them to at least a colorable chance at prior user rights is huge.

A final big problem with the proposed bill's shift to first to file is that, not surprisingly, a first to file approach creates a serious incentive to rush to file. That's a problem because rushing a filing causes the technological disclosure in that filing to be anemic for all but those huge companies with teams of lawyers on call just waiting to make rich filings. Not only is this just another provision of the bill that favors large players at the expense of smaller ones, it also is likely to have the practical effect of stripping the U.S. patent system of those patents that might otherwise have been of a broad scope.

Every major patent system in the world, including our present one, has a set of patent validity requirements known as disclosure requirements, which are quite different from the prior art rules. Under the disclosure requirements, the scope or breadth of an issued patent is limited by the extent of the technological disclosure made at the time the patent application was filed. The rush to file quickly under a first to file regime significantly decreases the chance that a broad patent will issue. That's one big reason why the U.S. has long been unique in the world for having a decent number of significantly broad patents. These pioneering patents were key to the successful commercialization of many of the world's most important technological advances from television, to the gasoline distillation process, to the catalysis of modern plastics.

The patent bill now pending in Congress is a bill that a surprisingly coordinated set of large established companies can get behind. That alone is a reason to reject it—it will stifle, not foster competition. The bill also is one of those rare examples of legislation that has made it so far without much to commend it and lots to condemn it. For all of the reasons explored above, which are representative of the even larger number of infirmities in the proposed bill, the House of Representatives should vote down the America Invents Act.

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