PATENT REFORM LEGISLATION

No final cut for examiners

By Stephen Haber, Scott Kieff & Troy Paredes

CONGRESS RECENTLY took up patent reform, with several hearings during the past few months and a joint House-Senate bill offered in April. Unfortunately, several bad ideas seem to be taking hold, while some good ones may be overlooked. We hope the situation can be improved through amendments to the present bill or entirely new hearings and bills. The costs to the United States of going the wrong way are significant: less innovation, slower growth and fewer jobs.

A common theme of most proposed changes is to make it more difficult to obtain or keep a patent by granting a government administrator or judge greater authority and discretion in numerous procedures designed to determine whether a patent should issue or remain in force. These procedures go by various names, such as enhanced examination, opposition, re-examination and second-window review. In addition, the U.S. Supreme Court just raised the bar for obviousness in the KSR case. The common goal is to make it easier for decision-makers to reject patents, usually on the basis of what is technically known as “prior art”—whether the claimed invention was previously known. At first glance this proposed change may seem like a good idea: Its proponents claim that it will cut costs and eliminate patents on things that are already being done. But on closer inspection, this change creates more problems than it solves.

All of these changes shift more authority and discretion to government decision-makers to decide what the prior art teaches. For example, examiners would be able to block patents on the basis of their own assertions about what the state of the art was at a particular time in history, without having to rely on the factual proof, such as documents and sample products, that has long been required. This idea relies upon two false premises. First, beefing up the patent examiner’s resources will help her find the key prior art. Of course, our examining corps should have good access to Internet databases and ample time and training to peruse them. But no amount of time and training will help an examiner at her desk obtain the laboratory notebook of an individual researcher at some company or university or an obscure student thesis on the bookshelf of a foreign library, which is where the key prior art is often found.

It also would be folly to think that giving the examiner a pass from having to get this hard evidence would come without a serious cost. This raises the second false premise: that decisions made on the basis of discretion, rather than facts, can be immune from political and other pressure. Asking a decision-maker whether a particular document, such as a lab notebook, bears a particular date, leaves little room for discretion. Asking her what she thinks the state of the art was at a particular time in history gives her greater discretion. Because large firms have fatter lobbying and litigation budgets than smaller innovators, such discretion converts the patent system into a tool for suppressing competition by making it much easier for big firms to tie up any patent owned by a small innovator. Courts can be helpful here as long as they are constrained by the facts.

Proposals that should be made

While some bad changes are being proposed, some good ones are not receiving appropriate attention. One reform is to clarify that a patent holder has the right to exclude infringers by getting a court-ordered injunction. Last year, the Supreme Court, in the eBay case, weakened a patentee’s injunctive remedy. The court got it wrong. The power of patents to spur innovation and its commercialization is blunted when patentees cannot exclude infringers. A patent can be the essential slingshot that allows David to enter and compete against Goliath.

A second reform mentioned by some witnesses is the publication of all patent applications 18 months after filing. Publication would alert competitors to avoid investing where a patent could soon be granted. This reform would prevent resources from being misallocated.

A third reform is to make it easier for the system to deal with patents likely to be invalid on the basis of prior art. These patents are pernicious because they allow patentees to threaten expensive litigation against competitors. Under the present system, an issued patent is presumed valid, which makes the litigant challenging validity have to prove it by a higher standard of proof than usually prevails in civil cases. Dialing down this presumption of validity would decrease this bad effect and would allow alleged infringers to collect attorney fees from a patentee who brings an infringement case having been warned, for example, about particular prior art that would cause a court to hold the patent invalid. This practice would match the present rules that allow patentees to get fees from infringers who should have known about infringement but failed to avoid it. Such symmetry in fee shifting would encourage parties to exchange information and resolve disputes before getting deeply into expensive litigation.

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