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Sincerely,

Victor J. Hertz
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The Greatest Changes of the U.S Patent System in the Last 50 Years

By Yongshun Cheng and Li Lin

Brief Introduction

The bill passed in the House of Representatives last September is going to make the greatest changes to the U.S. patent system in the last 50 years. Therefore, as soon as the bill was introduced into the House and the Senate, it has drawn great attention not only from the U.S., but also worldwide. Could this bill achieve the expected aim of encouraging innovation, and benefiting both inventors and the whole economy? This article will analyze the issues in the debate in relation to the current Chinese patent law system.

On April 18, 2007, Rep. Howard Berman, a Democrat from California, and Rep. Lamar Smith, a Republican from Texas, jointly proposed a bill to the House of Representatives, entitled "Patent Reform Act, 2007" (hereinafter referred to as "The Bill"). On September 7, the U.S. House of Representatives adopted the Bill by 220 votes in favor and 175 votes against. A bill similar to this Patent Reform Act along the same lines is awaiting a vote by the whole House in the U.S. Senate.

This bill is supported in the U.S. by most large high-tech companies in the U.S., such as Apple and Microsoft. They claimed that this bill could help maintain U.S. leadership in the field of innovations, reduce the number of low quality patents, reduce the number and cost of litigation, and balance the rights of patentees and the rights of defendants. At the same time, we have also learned that this bill faces strong opposition coming from various quarters. The opponents include pharmaceutical, medical technology, and biotechnology companies, such as Bistol-Myers Squibb, Amgen, as well as the venture capital community. The opponents believe that this legislation will weaken the patent protections in the U.S. What makes this bill so controversial? This article will answer this question on the basis of the main provisions included in the bill with the reference of Chinese patent law system.

Changes on the Review Process of Patent Applications

Firstly, this bill changes the U.S. patent system from the "first to invent" rule to the "first to file" rule, makes it easier for the assignees to apply for a patent under the circumstance when the inventors do not cooperate, and eliminates the best mode as the basis for an invalidity action in either litigation or as part of a post-grant opposition procedure. These changes are in conformity with the rest of the world.

One of the main purposes of this patent law reform is to improve the quality of granted patents. Several provisions are proposed in the bill for this purpose, such as allowing a third party to submit relevant prior art within 6 months from publication, requiring patent

applicants to submit a search report and other information relevant to patentability, and providing a new post-grant review procedure to invalidate a patent before the USPTO.

This bill created a new post-grant review procedure before the USPTO, which allows a third party to file a request within 12 months from the date of granting a patent to review the validity of the patent, instead of bringing litigation before the courts. The reason for these provisions is that there are currently two ways to cancel a patent, either by litigation or inter partes reexamination. The newly created post-grant review procedure is alleged to provide an economic and fast way to challenge a patent before litigation becomes necessary. However, the proposed post-grant review procedure would also enable infringers to easily subject legitimate patents to consecutive attacks, creating much expense and uncertainty for the patent holder and those investing in the patent holder's business.

The non-application of 'presumption of validity' under the post-grant review procedure is also an important amendment. Presumption of validity means that all issued U.S. patents are presumed to be valid; therefore the patentee in court does not need to provide evidence that the patent is valid and the burden of proof to show that the patent is wrongly granted by 'clear and convincing' evidence is placed on the accused infringer. However, if there is no presumption of validity in the post-grant review procedure, the patentee will need to prove the validity of the patent, which will increase the burden of proof for the patentee. On one hand, the new post-grant review procedure might be helpful to increase the quality of granted patents. On the other hand, it might be abused by the competitors and result in damages to patent owners, because the burden of proof under post-grant review procedure is different from that in litigation, the new procedure lowers the burden of proof from "clear and convincing" to "preponderance of evidence" standard. By the post-grant review, it is much easier and cheaper for the third party to challenge the granted patents. This will also bring great side effects. Because the burden of proof of the petitioner is less than that in courts, this provision is very easy to be utilized by the competitors, which will surely increase the time and cost for the patentees greatly if they have to raise litigation after this procedure as well as increase the uncertainty, and delay the exploitation of the patent.

Under the current Chinese patent law, there is only an invalidation procedure to challenge the validity of a patent, and the Patent Reexamination Board of the State Intellectual Property Office is in charge of the examination of invalidation requests. Today, there are a lot of invalidation requests made during the patent infringement cases. After the invalidation decision was made, the Patent Reexamination Board could act as one party in the following administrative litigations on invalidation decisions. Practically, the invalidation procedure allows the public to challenge a patent at anytime after it is granted to ensure the patentability and to supervise the legitimacy of issuance; However, once the patentees raise the infringement cases in courts, the invalidation procedure is always used by the defendants as a defensive strategy, even abused in some cases. Since the invalidation decision made by the Patent Reexamination Board might be changed by court during the administrative litigation, the time for confirming the patentability of a

patent, and that for litigating a patent infringement would be prolonged. Recently when considering the third amend of Chinese patent law, many people believe that a new system similar to German or Japanese Patent Court should be created to deal with the validity issue of the patent, which can link up the invalidity procedure and litigation.

Changes on Litigation Procedure

The bill revises the current venue provisions that apply to patent infringement suits. The bill prevents a plaintiff from manufacturing venue, as well as other limitations on defendant venue and infringement act venue. The new provisions limit the patent litigation into a limited exercise before special courts, which are obviously friendlier to the large corporate defendants and will unfairly prejudice patent holders seeking to enforce their patents.

The bill contains a provision creating a right to interlocutory appeal of trial court decisions in patent cases on “determining construction of claims” and mandating that the action in the trial court be stayed. This provision is made to change the high appellate reversal rate of claim construction rulings and the resulted uncertainty. However, interlocutory appeal can do nothing with the reasons for the relatively high reversal rate. The claim construction process is not always a single episode in patent cases; under some circumstance it might be revisited and revised many times. The interlocutory appeal will only pass the cases, which could be handled by trial courts, to the Federal Circuit. Therefore, interlocutory appeal and mandatory stay will not only increase the Federal Circuit's workload, but also lengthen the cases. The prolonging of a suit will result in that patentee can not obtain the remedy in time and the cost for litigation will be increased greatly.

Changes on Patent Infringement Damages

The change on the patent infringement damage calculation method is one of the main subjects of this reform. As the damage calculation will affect both the patentees and the infringers greatly, the provision pertaining to this subject is also a very contentious one, and warrants some detailed discussion.

The current U.S. patent law requires that the claimant be awarded adequate compensation for the infringement, which should not be lower than a reasonable royalty. Under 284 U.S. Patent Law, it is said that, “upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.”

The current law of damages is amended substantially in the bill. According to the bill, the damage should be based on market value which is attributed over prior art by the patent. There are two principal ways to evaluate the effect of different factors on the royalty in courts, namely “entire market value rule” and “apportionment.” If the patented feature is the basis for customer demand for the entire product or process, the patent infringement damages should be based on the full value of the infringing product or process. However some portion of the realizable profit would be subtracted by “apportionment” from the damages, such as the improvement made by the infringers, non-patent factors, and the risks of manufacture and business. The bills change the damages under the 284 US Patent Law greatly, limiting the interest of the patentee to “the economic value properly attributable to the patent’s specific contribution over the prior art” by the new, untested method of prior art subtraction, The damage should only base on the market value of the infringing features in the product, instead of the whole market value of the infringing product. Under the bill, by using the language like “the patent’s specific contribution over the prior art”, the bill enforces the use of apportionment and precludes the usage of entire market value rule in most of the cases. The idea behind apportionment is that customer demand for the infringing product may partly come from the contribution by the infringers, and it is not fair to reward this part to the patentee. However, when all of the marketability to a specific article can be credited to a patented feature, it is appropriate to use the entire market value to reward the inventor. Otherwise it will only encourage the inventors not to file patent applications and delay the disclosure of innovation. In view of operation, it is very difficult to determine the additional value added by the invention over the prior art. Almost all the inventions are made up of combinations of old features to some extent. The determination of the value of the invention is not as simple as one plus one is equal to two. The emphasis of the apportionment will decrease the damages greatly in many cases, if not eliminated totally, therefore reduce the remedies to the patentees.

However, although there are arguments about this prior art subtraction, it is advisable to make it clear in the law about how to determine the damages. There is no detailed provision both under the current Chinese Patent Law and its implementing Regulations. The general provision under the Chinese Patent Law about damage reads as “the amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the losses suffered by the patentee or the profits which the infringer has earned through the infringement. If it is difficult to determine the losses which the patentee has suffered or the profits which the infringer has earned, the amount may be assessed by reference to the appropriate times of the amount of the licensing royalty.” Because this provision is not operable, the courts can exert a great discretion on determining the damages. The US law could be used as reference when we made the third amendment of Chinese patent law.

The Interest Groups behind the Reform

From the analysis above, we can see that the bill will weaken the right of patentees greatly, increase their burden, and reduce the remedies for infringement. Therefore, it encounters strong opposition from many groups. However, even facing such a strong opposition, it was still passed by the House of Representatives.

The reason for this is partly because it was supported by some of America's largest and most influential companies, which carry much political clout with the US Congress. These companies have organized themselves into several lobbying groups. Many of these companies have been trying to reform the patent law for more than 5 years. They say that they are facing more and more patent infringement litigations and paying increasing amounts of damages in these years. For these companies, a weaker patent system, or one that benefits companies that do not rely on patent protection to obtain market dominance serves their interests.

However, the patent reform should not only benefit a small group, but promote the patent protection as a whole. To apply the same way on products other than software may result in an unfair outcome. For example, it will be very difficult for the biotechnology companies to get investment without patent protection. It takes a long time to make a new medicine, which is normally covered by a single patent. The same is true for start up companies in other market sectors. Therefore the patent is crucial for the patent owners to market and profit from their invention. On the contrary, the IP companies need less time to develop new products, which always combine a great number of features in single products. What is more as the products will become out of date after a short time, the patent protection is relatively less important to them.

There are some provisions in the bill which are consistent with the trend of patent harmonization. However, it is friendlier to the infringers than to the patentees in general as it will make the patent less reliable, easier to be challenged and cheaper to be infringed. It is not bad news for developing countries which have fewer patents. Many of the Chinese companies are not patent owners in the U.S. market and their products are often excluded from the market because of patent infringement accusations. This bill will give the companies from developing countries more freedom and flexibility to challenge the relative US patent for doing business in US and make it less costly to infringe.

The bill passed in the House will weaken the patent protection, and it conflicts with the attitude of the US Government of pressuring the Chinese Government to strengthen the protection on IP rights.

(Mr. Yongshun Cheng used to be the Deputy Director of IP division of Beijing High People's Court, Senior Judge)