Proposes

Patent and Antitrust, Happy Together?

An FTC report makes 10 suggestions on how to reach a better balance between laws that promote competition and creativity.

1. Create post-grant opposition proceedings in the PTO.

Under the current ex parte system of patent examination, PTO examiners rely primarily on prior art submitted by the patent applicant. Access to competitors' potentially valuable knowledge of prior art is limited because they do not participate in the patent-granting process. The consequence has been that even late-filed infringement litigation, real questions about the validity of a patent can still be raised.

The FTC suggests that allowing competitors to challenge patent validity quickly through a new post-grant opposition process would timely resolve many validity questions.

The report lays out a structured procedure, overseen by an administrative law judge, in which challengers could cross-examine witnesses and conduct limited discovery. The FTC envisions that oppositions would be subject to strict time limits to protect patentees from harassment and undue delay.

2. Determine validity challenges based on a "preponderance of the evidence" standard.

The FTC finds that patent examination is tilted in favor of the applicants. In addition to having no access to competitors' knowledge, patent examiners are severely limited in time and other resources. They often spend less than 20 hours looking at an individual application.

Moreover, applicants start out with a great advantage: During examination, the burden does not fall on the applicant to demonstrate that her invention meets the statutory criteria. Instead, the PTO must demonstrate grounds for rejecting a patent. The FTC also notes that examiners receive financial incentives from the PTO to complete processing of applications.

Despite these real-world shortcomings in the review of applications, courts require challengers of issued patents to prove invalidity under a heightened standard of "clear and convincing evidence." The FTC maintains that the realities of patent examination state a compelling case against imposing the heightened standard. Thus, the report recommends lowering the proof of invalidity to a "preponderance of the evidence."

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March 15, 2008 / Legal Times
3. Tighten legal standards for obviousness.

Like the first two recommendations, this one is aimed at making it easier to challenge a patent's validity. In theory, an invention that is obvious (i.e., of ordinary skill in the art) cannot be patented. But under current Federal Circuit precedent, the PTO may reject an application for an otherwise obvious invention unless the PTO can point to specific and decisive prior art references showing a clear "motivation to combine" known elements to make the claimed invention.

According to critics, this requirement assumes that those of ordinary skill in the art lack the creativity and insight to see the obvious unless it is almost spelled out for them. Thus, the Federal Circuit's standard allows patentees to issue even when no specific art is "obvious." To render the invention obvious, the PTO must show that the invention is obvious in the prior art, the nature of the problem being solved, and the knowledge of one of ordinary skill in the art.

When the PTO determines that an invention is obvious, the patent applicant may rebut with objective evidence of nonobviousness. The applicant may do this by showing that invention is commercially successful (and therefore presumably new and different). However, the FTC notes that the "commercial success" test has diluted the obviousness inquiry, and recommends that courts evaluate this factor case-by-case.

4. Provide adequate funding for the PTO.

If there is one thing that the patent community agrees on, it is that the PTO does not have enough resources. Many argue that this "crisis" in funding seriously impacts the quality of issued patents. Inadequate funds make it difficult to hire staff and spend sufficient time examining patents.

Meanwhile, applications have doubled over the last 15 years, with the PTO receiving about 1,000 a day. Backlogs are building. The FTC strongly recommends that Congress increase funding to meet these demands.

5. Modify PTO rules on prior art citations and other procedures.

Patent applicants have a duty to candor to the PTO, and they must reveal all material prior art known to them. But the FTC notes that applicants typically "flood" the PTO with more prior art than can be adequately reviewed. Examiners with limited resources cannot afford to waste time wading through a quagmire.

So the FTC recommends that the PTO allow examiners to require applicants to submit "statements of relevance" regarding prior art references. Similarly, the FTC proposes that the PTO make better use of PTO Rule 105 examiner inquiries, whereby an examiner may request any additional information from the applicant.

The FTC also recommends that the PTO expand its use of "second pair of eyes" review, which allows examiners to flag issues to be further considered by a supervisor. The PTO began this program in 2000 in the emerging biotechnology area of business methods, where it has successfully decreased the number of questionable patents issued.

Finally, the FTC recommends that the PTO give a more prominent role to the examiner on the lower layer of the examiner hierarchy to cause examiners to treat applicants more fairly.

6. Consider harm to competition before extending patent term.

In 1996, the Federal Circuit held in State Street Bank & Trust v. Signature Financial Group that business methods cannot be patented. But many patentees in the FTC/BDI hearings argued that business methods patents, including those that do not publish their source code, are not enabling—that is, they do not teach the public how to make and use the invention. Witnesses also noted that examiners have difficulty in identifying nonpatent prior art in this field.

The FTC stops short of recommending judicial or legislative action to restrict the patentability of business methods. But in light of this criticism, the report says that courts should be wary of extending patent coverage into new fields.

7. Publish all patent applications 18 months after filing.

Before 1995, U.S. patent applicants were not published prior to patent issuance. This led to problems caused by "submarine" patents, whereby an applicant allowed its application to languish at the PTO while others made substantial inventions in technology that would infringe the yet-to-be-issued patent. Once the submarine patent issued, the applicant could then demand excessive royalties from established markets.

The American Inventors Protection Act of 1999 partially remedied this problem by requiring patent applicants to be published 18 months after filing. However, about 10 percent of applicants "opt-out" by certifying that their invention will not be the subject of a foreign patent application. The FTC recommends that this exception to the 18-month rule be eliminated.

8. Create intervenor and prior user rights to protect against continuing applications.

Even after a patent application is published, an applicant may continue to amend its claims. Frequently, applicants will broaden and change pending claims in a manner incompatible with previously issued patents. This manipulation of the continuing application process has been highly criticized. Indeed, the FTC states that many courts have found justifications for continuations to cover concepts' existing products.

Therefore, the FTC recommends legislation to prevent applicants who intentionally broaden their claims post-publication from asserting infringement against third parties with pre-existing or intervening rights.

9. Require actual notice or deliberate copying to establish willful infringement liability.

Currently, a company accused of infringing another's patent may be liable for willful infringement—and treble damages—if it knew about the patent prior to the infringing activity. Companies are thus discouraged from looking at patents in their industry. This undercuts the basis for otherwise acceptable business practices—particularly given the relatively small risks of a finding of willful infringement.

The FTC recommends that willful infringement be found only where actual written notice of infringement was given or deliberate copying occurred. This would allow competitors to review each other's patents without fear of treble damages.

10. Consider economics and competition concerns in patent law decision making.

The FTC's last recommendation aptly summarizes the critical theme of much of its report—that the patent system should encourage innovation above all. The report suggests that the PTO and the Federal Circuit can do a better job of ensuring this goal.

For example, a number of hearing witnesses testified that the Federal Circuit has often been receptive to economic arguments and does not give due credit to competition as a driver of creativity. The FTC notes that the court does not seem to view patent law as part of a "panoply of tools.

But patent law's constitutional mandate is to "promote the Progress of Science and useful Arts." In Graham v. John Deere Co. (1966), the Supreme Court warned that the patent monopoly must not be enlarged "without regard to the innovation, advancement or social benefit gained." Accordingly, the FTC recommends that the Federal Circuit and the PTO give much greater consideration to economic insights and the promotion of innovation as part of their decision making.