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ABSTRACT

PATENT REFORM

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- *Patent law should promote innovation, not patents. Real patent reform must optimize innovation in all fields for which patents are available.*
- *The sheer volume of patenting in IT must be reduced. Patent reform must address the application stage as well as the litigation stage.*
- *Reasonable and modest reform proposals in Congressional legislation have been opposed by a variety of interests; however, progress has been made in litigation before the Supreme Court.*

***Background*:** Patents are often viewed as an end in themselves rather than a means to promote innovation. This has permitted narrow interests to drive an unwarranted expansion of the scope and scale of the patent system in recent decades. Although often touted as the only means of securing a return to innovation, patents are in fact only one of many means used to profit from innovation. The organized patent bar continues to advocate in favor of permissive standards, automatic injunctions, unlimited scope of patentable subject matter, and other legal standards that increase demand for patents.

IT products and services are complex, interconnected, and standards-dependent, which makes them especially vulnerable to assertions of patent infringement. A one-size-fits-all system optimized for the billion-dollar pharmaceutical industry threatens to divert investment away from IT into technologies for which the patent system works better.

***CCIA's Position*:** CCIA supports real patent reform. CCIA has fought for greater rationality in patent law to the Supreme Court with *amicus* briefs addressing the Federal Circuit's patent activism in *LabCorp v. Metabolite*, *eBay v. MercExchange*, *KSR International v. Teleflex*, and *Quanta v. LG Electronics*. CCIA filed an *amicus* brief before the Federal Circuit in *In re Bilski* urging the court to repudiate the reasoning behind the notorious *State Street* decision, which unleashed a flood of often broad and sweeping business method patents. While not explicitly overruling *State Street*, the *Bilski* court crafted a different test that drew on Supreme Court precedent to deny patentability to a pure business method.

While the Supreme Court has taken important steps in cutting back on certain excesses of the Federal Circuit, CCIA supports IT-industry consensus proposals for reform, including post-grant review with a second window as an alternative to litigation, calculation of damages based on the economic contribution of the patented technology, restrictions on the scope of willful infringement, and lowering the presumption of patent validity. Still, broader reforms are needed. We have proposed the following measures to address the roots of the patent crisis:

- **Tailor patent protection to reflect the diversity of innovation environments.** It is time to end the pretense that one-size-fits–all, and to encourage judges to do what they are already doing – apply patent laws in ways that reflect real-world conditions.
- **Raise the basic threshold: Eliminate the "ordinary" from patent law.** Changing "ordinary skill" to "recognized skill" as the benchmark for determining obviousness in 35 U.S.C. § 103(a) would raise the low standard that drives patent inflation.
- **Implement peer review for patent applications.** CCIA supports the efforts of the Patent and Trademark Office and leading patent holders in IT to experiment with peer review in patent examination. In the long run, peer review should become the norm, not the exception.
- **Reward submissions of prior art that invalidate defective patents.** Those who bear the costs of locating, documenting, and submitting prior art to the PTO should be rewarded. As it is, few bother to read the tens of thousands of published applications in IT, let alone oppose them.
- **Require registration of notice letters.** Vague notice letters alleging infringement are increasingly used so that plaintiffs can seek quick settlements, treble damages for "willful" infringement, and intimidate those who lack resources to defend themselves. Those granted patent rights should be required to deposit copies of such letters with the PTO and FTC.
- **Hold PTO accountable for quality.** The PTO needs adequate funds to do its job, but it must be held accountable to objective metrics for patent quality. We believe that present PTO management has taken important steps to improve quality, but that more rigorous and lasting measures are required.
- **Put PTO in the forefront of knowledge management and information science.** As an agency designed to promote innovation, PTO should be committed to research and development to support its core operations and enhance its own performance over the long term.
- **Stop the ambush of openly developed standards.** The IT sector is heavily dependent on standards that enable components and products to work together. Patent holders should be required to reveal patents that could hold publicly developed standards hostage, instead of hiding patents until standards implementers and users have made large irreversible investments.
- **Reengineer patent institutions to promote innovation, not patents.** Satisfying "customers," boosting patent counts, and "strengthening" patents have too often undermined the real goal of promoting innovation. Capacity for objective, independent economic analysis should be developed at PTO and NIST to ensure that the system produces intended economic benefits.

***Key Players and Positions*:** The high-tech industry, financial services industry, and many academics have called for strong patent reform, but key reforms have been opposed by the pharmaceutical and biotechnology industries, patent licensors, independent inventors, and the patent bar.

***Current Status*:** Somewhat weakened reform legislation has been reintroduced in both houses of Congress. As of this writing, the Senate version has been marked up by the Judiciary Committee, but only after further dilution including elimination of the proposed standard for damages, an issue of great concern to the IT sector. (In the previous Congress, a good reform bill passed the House of Representatives, but the Senate never voted on its version.)