

Why the U.S. Patent Reform Act of 2007 Matters to Israel

(H.R. 1908 and S.1145)

Summary

The United States has the strongest patent system in the world. Inventors from small nations, such as Israel, secure U.S. patents as a means of protecting their creations. In 2007, Israeli inventors filed 3,600 U.S. patent applications, up 600 percent since 1990.

A small group of global Big Tech corporations, that are the defendants in hundreds of anti-trust and patent infringement lawsuits, have mounted a well-funded lobbying campaign to weaken U.S. patent protections and reduce the damage awards imposed on them for infringement. The Big Tech legislation was enacted by the House of Representatives in September 2007 and awaits a vote by the U.S. Senate. Although this legislation is complicated, the details of its provisions are of profound economic significance for they will hamper patent-related investment and job creation in both the United States and Israel in the following four ways.

1. Change award of a patent from the first-to-invent to the first-to-file.

Since 1790, the United States has awarded a patent to the first-person-to-invent the creation. The proposed legislation would adopt the standard used in all other nations and award the patent to the first-person-to file an application. Taken together with the publication at 18 months (see below), first-to-file would impose a heavy burden on small companies and individual inventors who lack the financial or legal resources to compete with the large companies in a race to file.

Today, U.S patent applicants are not under pressure to be the first to file an application at the Patent Office, as is the case in Europe, Japan and China. Instead, they are urged to refine and perfect their applications. This greatly improves the quality of U.S. patent applications. Today, The U.S. Patent Office has a backlog of 800,000 applications. The proposed change will result in poorer quality applications and further clog a system with a three-year backlog.

2. Publication at 18-Months from Earliest Filing Date

U.S. patent applicants can choose not to have their applications published on the Internet, if they agree not to seek patents in other nations. Today, 40,000 applicants exercise this option annually, about two-thirds of which are small entity inventors. Under this no disclosure option, the Patent Office is required to keep secret application materials and destroy them if a patent is denied, allowing the applicant to resubmit or use their creation as a trade secret. S.1145 would eliminate this opt-out option and mandate publication of all applications. Today,

the average processing time for an application is 32 months, which means that if publication were required, an application would be made public worldwide for more than a year before enjoying any patent protections. The information in applications that are denied a patent become part of the public domain and is prior art. [Note: Israel does not publish patent applications.] Already, competitors from South Korea and China mine the published applications made available by the Japanese patent office. The same is happening at the USPTO, though the Patent Office neither monitors nor documents such searches.

3. Apportionment of Damages

Today, the U.S. Courts use a long established, widely understood 15-factor procedure to determine damages from infringement. Infringers through a well-established appeals process, moreover, can challenge court awards if they are thought to be “excessive.”

S.1145 changes these long-standing procedures. The Senate bill would require the court to select a method of determining damaged based on either (a) entire market value of the product; (b) marketplace licensing values or (c) the value of infringing product attributable to the invention’s specific contribution over prior art, a complex process of subtracting all values from the whole. This latter provision will cause many years of confusion in courts until language is clarified and result in lower awards to patent owners. There is no precedent to support these proposed changes so no court will know how to apply the law. More significant, no one has proven that there is a crisis in damage awards; the current rules seem to be working just fine. Reality a small group of very large companies are seeking to lower their costs of infringing by changing U.S. patent laws.

4. Post-Grant Opposition

The Senate bill would adopt the European system of post-grant review and challenge. For 12-months after a patent is granted, it would be presumed to be invalid and be challenged in proceedings at the Patent Office. The burdens of proof of invalidity would be weaker (preponderance of evidence standard) versus that used in U.S. federal courts (clear and convincing). Europe has a litigation rate of 5.4 percent of all patents issued vs. 1.8 percent in the U.S. Existing U.S. ex parte and inter partes procedures now work well. If replaced by this new provision, the U.S. will experience a major increase in patent litigation at the post-grant level. By creating uncertainty about a patent’s validity, venture investment in patent-based enterprises will be reduced, thereby thwarting innovation and new job creation.

Japan abandoned this same post-grant system in 2004. One reason is the Government of Japan concluded that large corporations were gaming the system: filing challenges for the purpose of either extorting an inexpensive license or to slow a competitor. Such gaming of the system is common in the European Union.