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Dynamic nature of patent law

AND WHY IT'S KEY TO VALLEY

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When Silicon Valley's semiconductor industry was getting started in the 1970s, patents were the last thing on anyone's mind. Companies were innovating so rapidly that they often didn't bother patenting things they were going to replace with the next version in a few months.

Twenty years later, an obscure inventor from Southern California showed up with a patent on the microprocessor, shocking the chip companies that believed they had invented it. Eventually, the patent was overturned, but by then, patents had become a central concern of the high-technology industry.

They still are. Congress is working on the Patent Reform Act of 2007, which contains provisions to limit damage awards and would allow anyone to oppose a patent grant during a period following the grant, and courts are taking steps to protect businesses from unreasonable patent claims. Both those issues are of keen interest to tech firms.

Paul Goldstein, a Stanford law professor, has written a new book on the subject. Despite its title, "Intellectual Property" (Portfolio, Penguin Group) is an easy read and a good guide for anyone starting or operating a company involved with patent, trademark and copyright issues. And is there any other kind?

Goldstein is also a novelist. His next novel, "A Patent Lie," (Doubleday) will be published in June. It's about a patent lawyer who takes on a Silicon Valley patent infringement case involving an AIDS vaccine only to find himself swept up in case of high-stakes intrigue and possibly murder.

Goldstein sat for an interview recently with Mercury News Staff Writer Pete Carey in his office at Stanford Law School.

Q Your book, "Intellectual Property" is subtitled "The Tough New Realities That Could Make or Break Your Business." What are they?

A The realities center around the volatility of intellectual property law - not just patents, but copyrights, trademarks and trade secrets. An abrupt change in any of these areas of law can make or break your business.

Q By "abrupt change," you mean. . . ?

A An example: In the early 1970s, Kodak looked at the instant photography business that Polaroid monopolized, thanks to its patents. Kodak had expert counsel, relying on existing patent law which imposed a high standard, telling it that these patents were invalid, under existing standards.

So Kodak invested $600 million, relying on these expert opinions. Well, by the time the product came out, the Court of Appeals for the Federal Circuit had lowered the patent standard, and suddenly patents that looked invalid when Kodak made its investment were now valid. Once you count the damages levied against Kodak, their loss was over a billion dollars, just because the legal standard changed.

Q Can a company protect itself against something

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like that?

A There are cycles of high and low protection for each form of intellectual property. In the book, I identify the dynamics that indicate where on these cycles we are today with each area of law and what companies can expect to happen.

For example, patents were on a huge upswing starting in 1980s through the end of the century. Now the pendulum is swinging in the opposite direction.

Q Where else are we in this cycle?

A Trademark is in a long-term upswing. It has, over a 100-year period, expanded from a narrow remedy aimed at protecting consumers from confusion to a robust property right. Look at the polo player on the Ralph Lauren shirt, or the name Calvin Klein - these names and brands have taken on a value of their own, almost like a product or a song.

That's been a huge expansion of trademark, and there's no sign it's going to slow down.

Copyright, on the other hand, is in a more modest way encountering the same cutbacks as patents, most notably in the courts.

One thesis of the book is that these changes occur because of public sentiment. In 1998 Congress extended the term of copyright by 20 years. It was a move of no great prospective economic consequence. But it served as a lightning rod in this country for people who said this was a greedy move to monopolize the public domain. As a result, you'll find courts today carving out exceptions to copyright to a degree that we've never seen before.

Q Are you suggesting that courts are swayed by public opinion?

A Courts deciding intellectual property cases are extremely sensitive to public sentiment, more so, ironically, than the U.S. Congress.

Q Why can't the pharmaceutical and electronics industries agree on patent reform?

A The problem is we have a patent system that's one size fits all, designed in the 19th century when we were talking about mechanical inventions such as plows.

Now we have at least two different sets of interests around patents, and one size fits all creates friction. That's the standoff, and the main reason the Patent Reform Act is tied up in Congress.

One significant tool for resolving it was a Supreme Court decision, eBay vs. MercExchange in 2006, where the court said that injunctive relief (an order requiring someone to stop infringing) under the Patent Act should be discretionary rather than automatic. Justice (Anthony) Kennedy suggested that if your patent is on an invention that is just a small part of the infringer's product, a court might withhold the injunction and just give damages measured by whatever value the patented invention added. That pretty much addresses the problem of the electronics industry.

But where the infringing work is virtually identical, and that's all there is, and it's a big patent, a major advance, then you give the injunction. That pretty much describes pharmaceutical blockbusters. So, just by the astute

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management of injunctive relief, a court can begin to custom-fit the Patent Act. It's an important step toward resolving these two equally valid claims.

Q What's the prognosis for copyrights on the Internet? Are the two even compatible?

A That is a profoundly complex issue, ultimately more complex than patent reform, particularly because of the Internet's global reach. The Internet makes it so incredibly easy to copy, yet so difficult to detect copies. Internet companies are increasingly taking copyright licenses, but that's just an intermediate solution.

Whatever kinds of licensing arrangements are reached, there are going to be pockets of the world where somebody can make a lot of money by setting up a peer-to-peer pirate network. This can be done anywhere, and could be a tremendous drain on authors' rights worldwide.

Q Would you include China in the group of responsible actors?

A Over time, China's enforcement will rise to the level required by the major international treaties for the simple reason that it's going to be in China's best economic interest for this to happen.

Today, the comparative advantage of investing in research and development in the United States is its strong intellectual property system. But the U.S. could lose that comparative advantage.

I think Asia is going to be a huge source of intellectual assets in this century, and there could over time be a seismic shift in the balance of intellectual asset trade. The fact that the U.S. was a net importer of intellectual property in the 19th century, and only became a net exporter in the 20th century, tells you that things change.

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