

# Perils of Patent Reform: Flexibility's Achilles Heel

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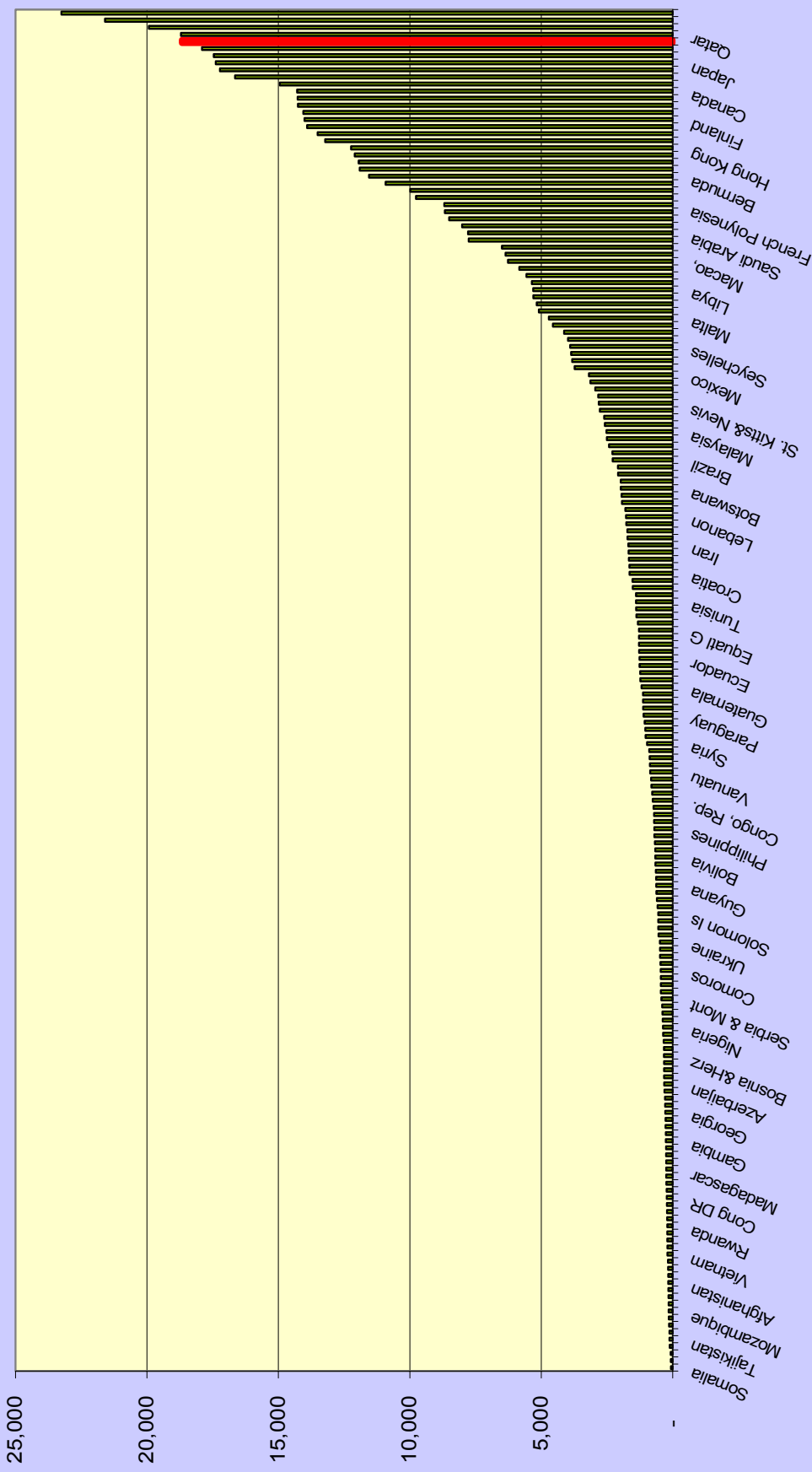


# Specific Topics

- Finance and Economic Development
  - Property rights in developing economies
  - Sarbanes-Oxley & SEC’s hedge fund regulations
  - Recent Supreme Court cases like *Billing & Charter*
- IP and Antitrust
  - Recent Supreme Court cases like *eBay & KSR* \*\*\*\*
  - Patent “reform”
  - Abrogating patents in the name of world health
  - Increased use of discretion for antitrust in US, EU, etc.

# Why Is the U.S. So Rich?

GDP Per Capita 2005, US\$



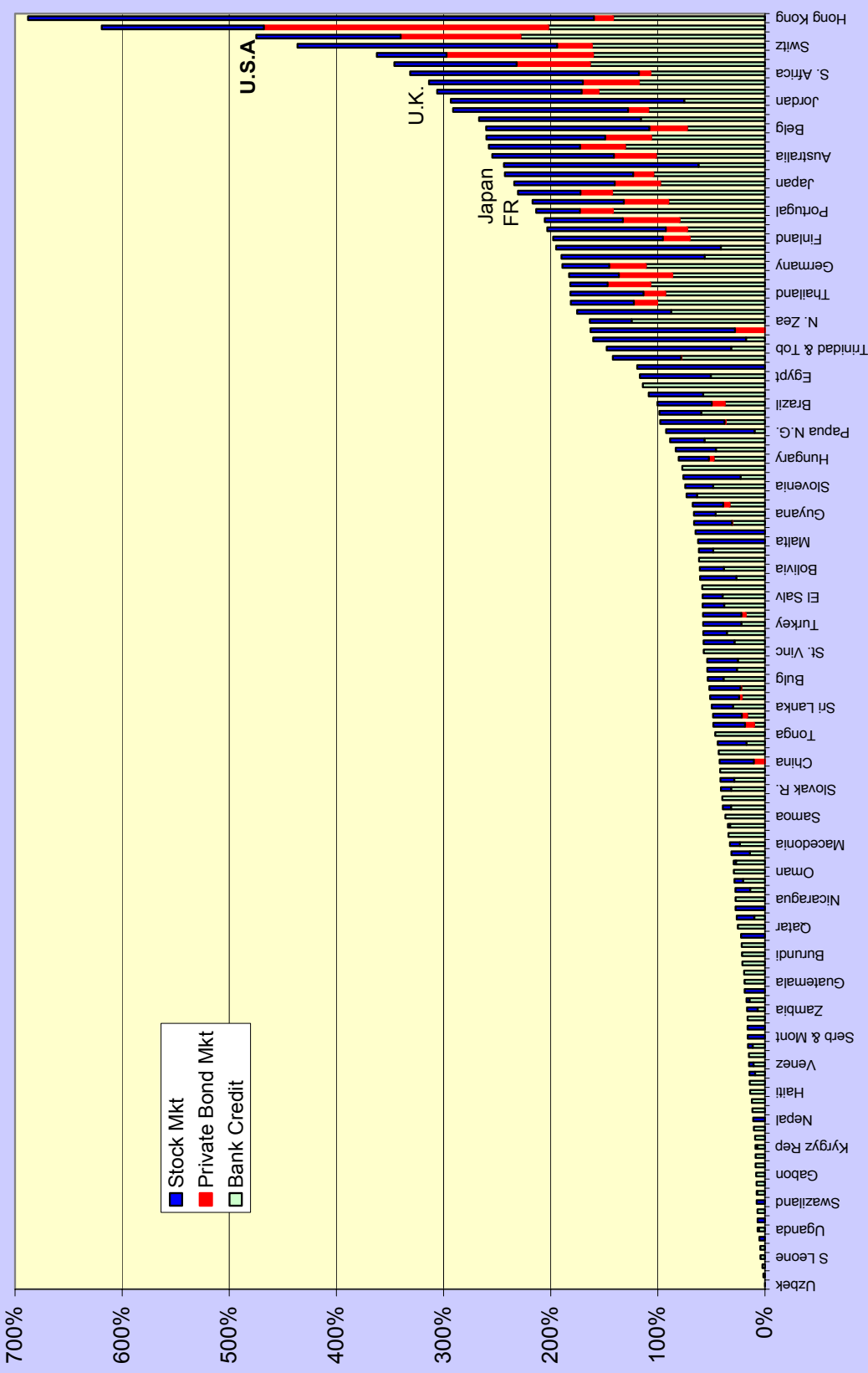
SOURCE WDI 2006

# How Can Property Rights Help Private Ordering?

- Far more than homes and land
- Modern economic growth is about intangibles
  - Property rights in contracts
  - Property rights in capital
  - Property rights in intellectual assets
  - By “property rights” we mean:
    - predictable and enforceable version of what law calls property and contract
    - more property-based and less regulatory-based
- Not about protecting the wealthy, it’s about fighting poverty

# U.S. Financial System is Huge

Financial System as % of GDP



(Source World Bank Financial Structure Database)

(Again, maybe it's private ordering)

# Example from Finance

- Consider how banking works
  - Depositors vs. banks
  - Banks vs. debtors
  - Minority shareholders vs. insiders
  - Banks vs. governments
- Compare Mexico
  - No property rights
  - Almost no banking system
- Around 18,000 home mortgages in entire country last year
- That's fewer than in Santa Clara County by Stanford

# U.S. Intellectual Property System is Huge

- Intellectual Property-based companies make up largest sector of the U.S. economy
- U.S. Intellectual Property is worth over \$5 trillion
- U.S. Intellectual Property is almost half U.S. GDP
- Greater than the GDP of almost any other nation in the world

(Source U.S. Patent Office Director Jon W. Dudas April 19, 2007)



# Property Rights in IP Are Key to Innovation and Competition

(See Kieff, *Coordination, Property & Intellectual Property: An Unconventional Approach to Anticompetitive Effects & Downstream Access*, 56 Emory L.J. 327 (2006))

- Increase innovation
  - Not just incentives to invent
  - Get inventions put to use
  - By facilitating coordination among complementary users of the invention (investors, managers, marketers, laborers, owners of other inventions, etc)
  - The D part of R&D
- Help new companies compete
  - Anti-monopoly weapons
  - Vital slingshot for David against Goliath
- History: Hon. Giles Rich, 1952 Patent Act – don't focus on inventing!

# Patent “Reform”: Lofty Goals

- New patent bill in Congress
  - Core changes focus on what patent lawyers call the “prior art”
  - Today a court adjudicates as a question of fact, based on evidence like lab notebooks or printed theses
  - Proposals would defer to government examiner’s discretion about what the state of some art was on some date
- Compare recent *KSR* case on more discretion for obviousness
- Compare recent *eBay* case on more discretion for injunctions

# Patent “Reform”:

## Unintended Consequences?

- Problems of discretion – flexibility’s Achilles Heel
  - Influenced by political pressure and lobbying
  - Big guys win, which turns a law designed to help competition into one that hurts competition
- Example: IBM & Kennedy/Johnson/Katzenbach
  - Discretion to reject any software patent, and eventually all
  - Absence of property rights lead to monopoly

# Biotechnology Counter-Example

- Before 1980, U.S., Europe, & Japan all had NO patents in basic biotechnology, like DNA
- After 1980, only the U.S. has patents in biotech
  - Large increase in number of new drugs & devices actually commercialized
  - Large pool of ~ 1,400 small & medium biotech companies

(Source 2003 Hearing at House Energy & Commerce Committee, Health Subcommittee, Statement of Stanford Associate Dean Phyllis Gardner)

# KSR and the Facts

- SCT case law before 1952 had two main threads
  - Hotchkiss and focus on facts about the state of the art
  - A&P and focus on synergism
- 1952 Act's §103 picked only one of these
- *Graham* Trilogy, *Black Rock*, *Sakraida* have not varied the approach
- Key judges and PTO leaders recognized this (Judge Rich, Judge Hand, Judge Frank, Commissioner Dann, MPEP)
- KSR doesn't change things either
  - Fed Cir decision in *KSR* was not even precedential
  - *KSR* leaves alone Fed Cir cases pre *KSR* SCT decision but post *KSR* cert
  - *KSR* recognizes TSM is “a helpful insight”
  - *KSR* warns against “mere conclusory statements” and requires “articulated reasoning”
  - *KSR* reminds us to consider “when prior art teaches away”
  - All claims combine old elements (must/can you invent elements to invent claims?)
  - 2+2 will always equal 4 (in the real world)

# KSR and the Risks

“When there is

Who invents  
for no reason?

When is anything  
not finite?

a design need or market pressure to solve a problem and there are a finite number of identified, predictable solutions,

Aren't these conclusions?

a person of ordinary skill has good reason to pursue the known options within his or her technical grasp.

Aren't these conclusions?

If this leads to the anticipated success,

Isn't this also a conclusion?

it is likely the product not of innovation but of ordinary skill and common sense. In that instance the fact that a combination was obvious to try might show that it was obvious under § 103.”

Having concluded X, then X

# Targeted Solutions to Specific Problems

- Real problem for patents is threat of litigation over bad patents that are presumed to be valid
- So dial down the presumption of validity
- Brings symmetry to fee shifting for baseless cases
  - Today, patentee wants to tell infringer about patent to get attorney fees
  - While the alleged infringer plugs his ears and hides
  - Tomorrow, the alleged infringer would want to tell patentee about prior art
- Helps parties avoid or settle cases sooner