



**Summary of Commentary at the Intersection of Competition Policy and Patent
Policy Symposium
May 26, 2010**

I. Background

On May 26, 2010, the U.S. Patent and Trademark Office (PTO) joined the Antitrust Division of the Department of Justice (DOJ) and the Federal Trade Commission (FTC) in hosting several panels of economists, attorneys, entrepreneurs, and other government and private industry specialists for a day-long symposium on the intersection of competition and patent policy. Following opening remarks from the leaders of the PTO and of DOJ-Antitrust, as well as from the U.S. Chief Technology Officer, three separate panels of specialists convened on the following topics: (1) the patent application backlog; (2) permanent injunctions in the district courts and the International Trade Commission (ITC); and (3) standard setting, patent rights, and competition policy. The standard setting panel was introduced by remarks from an FTC Commissioner. The final panel of the day, introduced by the Department of Commerce General Counsel, provided closing remarks from the Chief Economists of the three agencies.

II. Summary of Commentary

A. Opening Remarks

Mr. David Kappos, Director of the PTO, Ms. Christine Varney, Assistant U.S. Attorney General for Antitrust, and Mr. Aneesh Chopra, the U.S. Chief Technology Officer with the Executive Office of the President, kicked off the symposium by providing opening remarks. These leaders noted that the symposium represented the first event that had ever been jointly hosted by the PTO, DOJ and FTC. A jointly hosted event was entirely appropriate, however, because these organizations have the common goal of “promoting American economic progress through innovation.” The leaders emphasized that innovation is an essential element not only of economic growth but “of human progress.” In addition, patent and antitrust policies must work together to promote innovation. This type of collaboration, the speakers pointed out, is directly in line with the President’s call for more collaboration within the executive branch as well as the President’s Strategy for American Innovation, which was unveiled in September 2009.

Furthermore, the panel on intellectual property and standard setting represented a first public discussion in the Administration's inter-agency process that aims to examine how the federal government can best partner with private sector standard-setting organizations (SSOs) to harness the technologies needed for urgent government initiatives in areas such as health care, cyber security, and clean energy.

B. Patent Application Backlog Panel Discussion

The panel on the patent application backlog discussed the effects of and reasons for the current patent backlog, as well as approaches to reducing that backlog. Panelists agreed on the negative effects of a long pendency period. The two entrepreneurs on the panel commented on the uncertainty caused by long-delayed patent applications and on the negative effects of that uncertainty for the eventual commercialization of technology. These practical experiences were supported by the statistical findings of one panelist that there is a direct correlation between the clarification of patent rights (through a notice of allowance) and the eventual commercialization of technology through licensing.

Panelists expressed differing opinions on reasons for the current patent backlog. Some blamed inefficiencies at the patent office while others blamed the number and quality of patents being prosecuted and allowed. Regarding potential inefficiencies at the PTO, panelists collectively recognized that the time to allowance may vary immensely among individual examiners and whole technology groups within the PTO, yet observed that this is an inherent detriment of the necessarily individualistic examination process. Panelists pointed to high turnover among examiners as a factor that aggravated PTO delays. One panelist expressed his opinion that the centralized and bureaucratic nature of the current patenting regime, though once revolutionary, accounts in large part for the patent backlog. Finally, panelists agreed that the diversion of funds from the PTO to other government programs aggravates backlog problems.

Regardless of the posited root cause for the backlog, all panelists agreed that the patent system is an important lever the government has at its disposal to effect significant improvements in the economy. Therefore, any attempts to reduce the patent backlog should not adversely affect the quality of patent examination nor the quality of the corresponding patents produced by the system.

Regarding potential solutions to the backlog problem, panelists agreed that the PTO should be more experimental in its approach to reducing the backlog and to the examination and allowance of patents overall. As an example, panelists praised the green-technology prioritization pilot program within the PTO as creative experimentation. Some criticized the program, however, for having a goal of reducing the process only to one year, rather than months or weeks.

In terms of specific solutions, one scholar – who saw excessive numbers of patents as the problem – argued for increased prosecution fees (either up front or renewal), stricter claim drafting rules, categorical exclusions of certain categories of inventions (such as business method patents), as well as limits on potential judicial remedies as potential means to reduce the patent backlog. This panelist further noted that it would make sense for innovators to want to pay more to support a better staffed Patent Office. He also hypothesized that reducing the number of applications or patents would not necessarily lead innovators into secrecy (citing the recent prevalence of open

innovation initiatives). Several of the panelists disagreed with a focus on reducing the number of patent applications. Some noted that a proper application of the definiteness and non-obviousness requirements for patenting could help ensure the quality of patents in the system. In addition, these panelists criticized the categorical exclusion of certain types of inventions, noting that certain technologies, if not disclosed through patenting, would otherwise be held as trade secrets or simply not practiced due to lack of investment in non-protectable ideas.

The panel concluded by discussing applicant selection of optimal prosecution time as a way to address the backlog problem. The panel was largely in agreement that such a system would be beneficial in reducing the patent backlog and increasing the value of the patent system. The entrepreneurs on the panel remarked that they and their clients would likely be in favor of paying a premium for a faster examination of certain applications. Other panelists indicated that in the realm of startup companies, the few patents filed shortly after incorporation are usually the most significant. Therefore, a fast track system would particularly benefit these types of businesses. One panelist warned, however, that fast track system that required payment of a premium fee might pose problems for those without access to capital. Finally, panelists agreed that a major portion of the current period from patent application to allowance can be traced to the common practice among patent prosecutors of using the full allotment of time to reply to patent office actions. Panelists agreed that any fast track system should also place some of the time shifting responsibility on inventors, agents, and attorneys through shortened deadlines for reply to PTO office actions on fast tracked applications.

C. Permanent Injunctions in the District Court and ITC Panel Discussion

The second panel of the day discussed the judicial options available to patent owners facing infringement by imported goods, namely: filing suit in the International Trade Commission (ITC) or filing suit in a U.S. federal district court with appropriate jurisdiction over an infringing defendant. Panelists explored the effects on innovation and competition of having these two alternative and potentially simultaneous tracks for patent litigation with different remedies available to litigants. As a matter of background, panelists explained that the original purpose of the ITC was to provide a special forum to deal with the importation of infringing products wherein the jurisdictional burdens of district court were eased by allowing for *in rem* as opposed to *in personam* jurisdiction. Over time, the ITC has been used more broadly. Modern ITC suits are now often brought by foreign companies with U.S. patents against domestic companies who manufacture abroad and import products into the U.S. The panel explained that the reason for this shift has been a gradual relaxation of the domestic industry requirement of the ITC to the point that currently, any patentee engaged in some domestic use of a U.S. patent can file suit in the ITC.

After providing background on the historical underpinnings and the current state of litigation with respect to infringing imports, the panel discussed the differences between the two available forums and why litigants might choose one over the other. Regarding remedies, district courts, since the *eBay v. MercExchange* decision, use equitable standards in determining whether to grant injunctions. By contrast, the ITC

follows its statutory mandate, 19 U.S.C. §1337 (Section 337 or §337). Section 337 provides for a special exclusion order remedy, which if awarded, blocks infringing imports regardless of source. Both fora afford the opportunity for out of court settlements, although one panelist noted that settlements are less frequent at the ITC since damages are not awarded in that forum. Procedurally, panelists noted that ITC cases take an average of 16 months to be resolved, as opposed to the 2-3 year average of federal district courts cases. In addition the ITC does not seat juries, an option available to litigants in district court. Finally, since the ITC through §337 is a trade related government agency, trade policy comes into play in ITC decisions. Panelists noted that the potential for shorter litigation in the ITC can lead to cost savings and to faster attainment of legal certainty, thereby attracting many litigants who may otherwise be able to bring suit in district court.

The panel went on to discuss the recent rise in ITC litigation and debated the reasons for this rise as well as connections to Non Practicing Entities (NPEs). Several panelists pointed out that the increase in ITC litigation is likely, at least in part, related to the overall increase in both the number of foreign U.S. patent holders, as well as patent cases in general in the past decades. In addition, the relaxed domestic industry requirement, coupled with the recent limitations placed on federal courts by the *eBay* decision, has increased the attractiveness of the ITC. Regarding the domestic industry requirement one panelist observed that §337 defines “domestic industry” very broadly such that anybody that has significant investment in exploiting a patent, including investment in licensing, can qualify as a domestic industry. As such, one panelist remarked that NPEs are allowed to file suit in the ITC as an alternative to district court and thereby extract fees from practicing entities through the threat of an exclusion order. While a majority of panelists agreed that such occurrences are possible and do take place, several panelists warned that it can be very difficult to enunciate a bright line rule against such practices since it is difficult to define bad actors categorically.

Panelists agreed that the relaxed domestic industry standard and the lure of broad exclusion orders created the potential for abuse of the ITC as a forum choice. In terms of potential solutions to this problem, panelists pointed to language in §337 which requires consideration of public interest determinations prior to granting exclusion orders in the ITC. Panelists noted that §337 mandates consideration of public interest factors at two points in ITC litigation: (1) When the ITC is determining whether relief should be granted and (2) During the presidential review process. Although the panel agreed that to date the ITC has not used these considerations to strike down an exclusion order, the ITC has sent strong signals that it is going to start to observe and apply public interest considerations with greater scrutiny in the near future.

D. Standard Setting Panel Discussion

The final panel discussion involved competition concerns that may arise when patented technologies are incorporated in privately set standards. FTC Commissioner Edith Ramirez provided introductory remarks for this panel in which she noted that standard setting is generally good for consumers, industries, and society but that it is not without risk. For example, consensus standard setting can lead to the risk of hold-up, occasions when a patent holder seeks higher returns than it might have gotten by

competing with alternative technologies before a standard is set. Some SSOs mitigate this risk by setting policies that impose a duty to disclose essential patents or licensing terms, or to commit to licensing essential IP on reasonable and nondiscriminatory terms. Commissioner Ramirez commented that standard-setting agreements should not be subject to rigid government regulation but that, at the same time, they should not be allowed to shield otherwise illegal activities. Regarding the international dimensions of standard setting, Commissioner Ramirez noted that in a global economy consumers may derive great benefit from the adoption of technical standards that cut across international borders, but warned that the adoption of such standards may be hindered by differing national policies in the SSO realm.

Taking note of the importance of standards to the U.S. economy, the panel grappled with defining the scope of hold-up relating to standards. They discussed how SSOs try to mitigate the risk of patent hold-up by setting rules that encourage stakeholders to provide information to SSO members regarding what intellectual property needs to be licensed and from which entities. The rules set by SSOs vary widely among different markets and technologies. Thus, panelists argued, a free-market approach that permits different strategies is proper in the realm of standard setting. Two panelists suggested that improving patent quality and limiting damages in infringement actions to the value contributed by the infringed invention would significantly reduce opportunities for hold-up generally.

Panelists remarked that increasing the amount of information about essential patents available in standards bodies and providing greater clarity regarding existing standards practices --both to standard-setting participants and to the marketplace generally --would be beneficial to all stakeholders affected by standard setting activities. To this end, one panelist noted that in terms of disclosure it is most important to know who has the patents that are likely to be essential. That way, the parties will know early on who to talk to and whether their terms may or may not be acceptable. However, several panelists warned that requiring too much information can be counter-productive and may provide incentives for blanket disclosures, which can flood the market with unnecessary information. Another panelist remarked that in developing policies it may be more advantageous to reward participation rather than to punish non-participants after the fact. Panelists generally agreed that no single policy is likely to be best for all SSOs.

Panelists also raised concerns about the ability of patent holders who do not participate in standard-setting activities to hold up manufacturers of standardized products. Two panelists urged exploring mechanisms for clearing standards against non-participants' patents -- possibly through the use of laches or estoppel principles or a government-imposed rule -- .in order to shield SSO participants from patent hold-up. Recognizing that non-participants should be able to choose not to contribute their patents to standards, others debated the extent to which certain strategic behaviors can or should be constrained. The panel concluded by discussing the impact of different approaches to standard setting internationally. Foreign jurisdictions that eschew the market-based solutions favored in the United States may exercise a high degree of control over domestic SSOs, mandating that patents be licensed in ways that significantly reduce the return to foreign rights holders. One panelist suggested that U.S. public policy identify certain minimum protections for IP rights while maintaining the U.S. approach of

promoting competition between SSOs in the development of diverse solutions in order to mitigate the effects of strategic gamesmanship by patent holders.

E. Wrap-Up Discussion

The wrap-up discussion consisted of remarks by Mr. Cameron Kerry, the General Counsel of the U.S. Department of Commerce, as well as contributions by the Chief Economists of the three hosting organizations. Mr. Kerry stressed the important role of innovation in restoring the U.S. economy and commented on the Department of Commerce's commitment to fueling innovation through reduction of patent backlog, improvement of quality, and global harmonization of patent prosecution and examination practices.

The three Chief Economists of the hosting organizations, Dr. Stuart Graham of the PTO, Dr. Carl Shapiro of the DOJ Antitrust Division, and Dr. Joseph Farrell of the FTC provided closing remarks. Dr. Graham began by remarking that though this was the first event of its kind, these organizations will work together to ensure it is not the last. He also discussed the ongoing research at the PTO related to each of the panel discussions. Dr. Farrell discussed standard-setting practices and warned that SSO participants may not fully guard against patent hold-up when they are able to pass higher costs on to consumers. Dr. Shapiro discussed the importance of basing a reasonable royalty commitment on the value of the patent before the standard was implemented and noted that SSO rules may not be designed to benefit consumers. He also noted the potential role of prior user rights as a defense to infringement in the face of patent hold-up.

Arti Rai, Director of the Office of External Affairs for the PTO, concluded the day by noting that the panel on patent backlog would bear upon the PTO's thinking in this area and that the panel on IP and standard setting would feed into the Administration's inter-agency process.