
FTC Recommends Sweeping Changes in the Balance between Competition and Patent Law

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As previously discussed in our [June 12, 2002 Internet Alert](#), last year the FTC and the Department of Justice jointly held hearings focused on the current balance of competition and patent law and policy. The hearings spanned more than 24 days, involving more than 300 panelists and 100 separate written submissions. The first tangible by-product of those sessions occurred on October 28, 2003 with the release of a 266-page [FTC report](#) containing specific recommendations for the patent system (the Patent Report). A second, joint report with DOJ, containing specific recommendations for antitrust, is promised for the future.

The Patent Report begins with a general discussion of the common aims of both competition and patent law and policy. Competition stimulates innovation by spurring the innovation of new or better products or more efficient processes. Patent policy also can stimulate innovation by rewarding the innovator with a right to exclude others from making, using or selling the invention claimed by the patent. As the FTC sees it, the two systems are not inherently in conflict, but any failure to strike the appropriate balance between the two systems can harm innovation.

Although "for the most part" the patent system achieves a proper balance with competition policy, the Patent Report concludes that in some ways that system is "out of balance." As a result, a number of specific recommendations

for the legal systems, procedures and institutions of the patent system are made in the Patent Report. Most, but not all, of the proposals would require enabling legislation. In summary, those recommendations include the following:

1. A poor quality or questionable patent is one that is likely invalid or contains claims that are likely overly broad. Those patents can cause competitors to forgo R&D in the areas the patent improperly covers, can increase the practice of "defensive patenting," contribute to the "patent thicket" and create licensing complexities and costs. In order to reduce the number of questionable patents issued, the Patent Report recommends a variety of changes in the existing patent system.

The first change would be legislation to create a new administrative procedure to allow post-grant review of and opposition to patents. This procedure would be designed to allow for meaningful challenges to patent validity short of federal court litigation.

The second change would be legislation to modify the legal standard governing challenges to the validity of a patent from the present "clear and convincing evidence." to a "preponderance of the evidence." According to the Patent Report, the existing circumstances surrounding the issuance of a patent by the PTO suggest that an overly strong presumption of a patent's validity is inappropriate.

The third recommended change is a general tightening in the legal standards used to evaluate whether an invention is "obvious" or not in order to better assure that a development is significant enough to merit a patent.

Lastly, the Patent Report proposes that the PTO be provided with more adequate funding necessary to address issues of patent quality, and that various PTO procedural rules and regulations be modified to enable it to improve the process of patent issuance.

2. Legislation should be enacted to require the publication of all patent applications 18 months after the filing of the application. During the time that otherwise passes between the filing of a patent application and the issuance of a patent, an applicant's competitor could have invested substantially in designing and developing a product and bringing it to market, only to discover, once the patent had finally issued, that it was infringing. Relatively recently the law was changed to require the publishing of all patent applications except those filed only within the United States. The Patent Report recommends the elimination of this exception to publication, in the interests of increasing business certainty and promoting rational planning.
3. Legislation should be enacted to create intervening or prior user rights to protect parties

from infringement allegations that rely on patent claims first introduced in a continuing or other similar application. The Patent Report concludes that, if the patent applicant uses procedures such as continuing applications to extend the period of patent prosecution, the potential for anticompetitive hold-up increases. Intervening or prior user rights should shelter inventors and users that infringe a patent only because of claim amendments following a continuation, provided that the sheltered invention was developed and used before the amended claims were published.

4. Legislation should be enacted to require, as a predicate for liability for willful infringement, either actual, written notice of infringement from the patentee, or a showing of deliberate copying of the patentee's invention, knowing it to be patented. According to the Patent Report, this would allow firms to read patents for their disclosure value and to survey the patent landscape without risking liability for willful infringement.
5. Finally, the FTC promises to take steps to increase communication between the antitrust agencies and the patent institutions. These steps will include the filing of amicus briefs in important patent cases, asking the PTO Director to reexamine questionable patents that raise competitive concerns and establishing a Liaison Panel between the FTC, the DOJ and the PTO.

Obviously, many of these recommendations would result in significant changes to both patent law and practice, affecting a wide variety of industries. Whether Congress shares the FTC's concerns, and is ready to enact major legislation to address those concerns, remains to be seen.

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