

## Letter to Congress

September 10, 2019

To Members of the United States Congress:

We, the undersigned, are economics, business and legal scholars who study innovation, intellectual property law, and policy. We write to explain the critical role that the Inter Partes Review (IPR) program established by the America Invents Act of 2011 plays in the patent system and express our opposition to the STRONGER Patents Act of 2019.

The patent statutes enacted by Congress, and the patent rights they create, reflect the need to strike a “careful balance” between the benefits from incentivizing innovation and the costs imposed by exclusive rights that can stifle both competition and further innovation.<sup>1</sup> Of these statutes, the requirements that an invention be new and non-obvious reflect Congress’s judgment that exclusive rights in information that is already publicly available or can be easily determined from publicly available information should not be granted because it would disserve the Constitution’s goal of a patent system that will “promote the progress of science and the useful arts.”<sup>2</sup>

The Patent Office has primary responsibility for insuring only warranted patents issue, and the burden of doing so lies with patent examiners. Unless a patent examiner can prove that a patent application does not satisfy the requirements of the patent statutes, a patent will issue. For years, the Patent Office has operated under tremendous workload pressure. In 2018, the Patent Office received over 640,000 patent applications and allowed over 360,000 patents.<sup>3</sup> Patent examiners on average have only nineteen hours to examine patent applications.<sup>4</sup> With such high throughput, the potential for error is great.

As a result, inevitably, invalid patents emerge from the Patent Office, some of which may be asserted in litigation. There is a large body of evidence indicating that the net effect of patent litigation is to raise the cost of innovation and inhibit technological progress, subverting the very purpose of the patent system. And while patents can be invalidated in the context of litigation, it is costly to do so. Even for the lowest-stakes category of patent lawsuits (in which less than \$1 million is at risk), median

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<sup>1</sup> *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

<sup>2</sup> U.S. Const. art. 1, § 8.

<sup>3</sup> U.S. Patent and Trademark Office, Performance and Accountability Report FY 2018, at 178.

<sup>4</sup> Michael D. Frakes and Melissa F. Wasserman, *Is the Time Allocated to Review Patent Applications Inducing Examiners to Grant Invalid Patents? Evidence from Microlevel Application Data*, *The Review of Economics and Statistics* 2017 99:3, 550-563.

litigation costs are \$500,000. And for the highest-stakes lawsuits (in which more than \$25 million is at risk), median litigation costs rise to over \$3 million.<sup>5</sup> Faced with these costs, defendants charged with infringement of an erroneously granted patent may simply settle the case without having its validity tested by the court. These settlements can impose substantial costs, particularly on small and innovative firms, and numerous studies have shown that these costs have tended overall to reduce R&D, venture capital investment, and firm startups.

IPR beneficially allows the Patent Office to correct examination errors and determine whether a patent should have been granted. In doing so, IPR has helped to remove hundreds of invalid patents, many already involved in litigation. As an improvement to the previous form of post-grant review, which was rarely used given its long duration and many inefficiencies, an IPR proceeding reaches a final written decision within one year from institution, and is conducted by a panel of technically-trained administrative patent judges. To date, it has proven to be a robust and efficient check on patent validity, and has had a positive impact across industries, including high-tech, Main Street, and pharmaceuticals, where invalid patents can keep drug prices high.

The STRONGER Patents Act would undermine the IPR program and limit its use, potentially leading to increases in patent litigation and unmerited settlements based on patents the PTO should have never granted. Among the most significant changes in the bill is the limitation of one challenge per patent claim, which ignores the realities of patent litigation in which numerous parties can be sued by the same plaintiff. This change would foreclose future defendants from the ability to administratively challenge an asserted patent, leaving them with no choice but to litigate or (more likely) settle.

The changes to IPR set forth in the STRONGER Patents Act are not necessary, given the Patent Office's discretion over decisions of whether or not to institute IPR proceedings. That discretion allows the PTO to handle the highly fact-specific issues that arise in IPR proceedings on a case-by-case basis to address concerns that might arise about potential abuses of the IPR process. The bright line provisions of the STRONGER Patents Act are both unnecessary and unwise.

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<sup>5</sup> AIPLA 2017 Report of the Economic Survey, <https://www.aipla.org/detail/journal-issue/economic-survey-2017>.

Sincerely,\*

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