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Introduction

Mr. Chairman, Ranking Member Watt, distinguished members of the Committee, my name is Dan Burk, and I am a Professor of Law at the University of California at Irvine. It is an honor to appear before you today to discuss the Committee's efforts in the area of patent reform. As an academic scholar, I have no personal or business stake in a particular outcome from the patent reform process. My scholarly conclusions are my own. I speak here only for myself, but am pleased to have the opportunity to share my research findings with the Committee.

This hearing comes at an auspicious time in the conversation surrounding patent reform. I congratulate you Mr. Chairman, for the leadership that you and your colleagues on the Committee have shown in engaging this important topic. I particularly congratulate you for the foresight you have shown in holding this hearing to consider which issues of patent reform might already have been addressed, and which are currently being addressed, by means of judicial decisions. Many of the current issues that have been identified as requiring a change in the patent statute have in fact been addressed by means of that very statute as it currently stands. In most instances, this kind of judicial response is the fastest and most efficient way to address emerging issues faced by innovators.

Why do I say that a judicial response is often the fastest and most efficient way to address emerging issues? The economic and business reality of innovation is that it is fluid, dynamic and often unpredictable. The patent needs of innovators are constantly changing. It is neither practical nor desirable for the members of this Committee to return to the patent statute year in and year out, trying to adjust it to meet the latest needs and challenges in the business of innovation.

Instead, the optimal approach is for Congress to provide statutory tools that allow courts to adapt patent law to the changing needs of innovators in an ongoing, responsive manner. In order to foster innovation, our patent statute must be dynamic, flexible, and capable of dealing with rapidly developing business needs that were never foreseen. Recent judicial decisions in the areas of inequitable conduct, damages, injunctive relief, and venue show that Congress has in fact provided the necessary statutory tools, and those tools are being used to address the issues that have prompted calls for patent reform.

The Changing Needs of Innovators

The changing and diverse needs of innovators has been nowhere more manifest than in the current discussions regarding patent reform. The present round of patent reform legislation has been under discussion for more than seven years. Why has the process for patent reform been so difficult, protracted, and contentious? From the beginnings of this discussion it was clear that different industries had different expectations, different needs, and different views as to how the patent system might be improved. Reforms that were proposed by one industry were opposed by another. Some industries argued that the patent system was irretrievably broken, while others argued that it was functioning well and needed only minor adjustments. Ironically, as time has passed and the reform proposals have been modified, these stakeholders have to a large extent switched places, with some who called for major reform now arguing for only minimal changes, and those who rejected the initial proposals now embracing the current bills.

What is clear from this history is that these different stakeholders have very different business models, very different innovation profiles, and consequently very different views of the patent system. The cost and time for innovation in the pharmaceutical industry is radically different than that in the software industry. The cost and time for innovation in the semiconductor industry is radically different from that in either the pharmaceutical or software industries. The role that patents play in each of these industries is therefore different. Like the ancient story of the blind men touching and describing an elephant, each of these industries has experienced the patent system differently and so has a different perception of what it might take to improve or reform the system.

In our recent book, *The Patent Crisis and How the Courts Can Solve It*, my co-author Professor Lemley and I discuss in detail the economic and empirical literature documenting the differences among patent holders in different industries. Indeed, the intellectual property needs of even a single given industry will surely change over time. In our book, Professor Lemley and I detail how the economic, innovation, and intellectual property profile of the early software industry differed radically from that of the mature software industry of today. In the 1990s, Bill Gates famously declared that Microsoft would never hold software patents. Clearly that position has changed, as both his company and the industry in which it is situated have changed.

How can a single patent statute possibly accommodate such diverse needs, not only in diverse existing industries, but in industries that do not yet exist, whose technologies are now under development or whose development lies in the future? The answer is that the statute must be flexible enough to apply to many different industries in many different situations. The statute must include dynamic standards that allow an adjudicator – primarily the court system – to vary the availability, breadth, and strength of patents according to changing needs.

Let me give one example from the statute. The standard for granting a patent requires that the patented technology be a significant advance over the prior art – that the invention be non-obvious. The statute mandates that non-obviousness should be measured according to the knowledge possessed by a person of ordinary skill in the art. That is to say, patentability in each technological field is measured according to the state of the art in that particular field. The courts and the Patent Office are instructed by the statute to make patents more available or less available in different technological areas according to the inventive practices in those areas. Rather than attempting to determine what is appropriate for patenting in each technology, Congress has instructed the courts and the Patent Office to make that determination for different technologies at different times.

The Role of the Courts

The great genius of the American constitutional system is that it provides for three branches of government, each structured and adapted to a different role in the regulation and oversight of society. Congress creates the broad framework which courts, and in some cases the Patent Office, can apply to the changing needs of new, evolving, and established industries. Congress sets the goals for the patent system, Congress charts the course for the patent system, but it is the other branches of government, most especially the courts, that adapt the statute on a continuing basis to the changing environment of innovation.

We have recently seen dramatic examples of just this process at work. As you are aware, Mr. Chairman, much of the push toward patent reform legislation has been driven by the activity of “non-practicing entities” or NPEs, whom some have dubbed “patent trolls.” These are firms that invest in a portfolio of patents, or sometimes even a single patent, from which they hope to derive an income stream through licensing, but the firms are not themselves engaged in new research or development of technological products.

There is nothing illegal, nor even necessarily undesirable in such a business practice – patents are a form of property, and in many cases we would applaud an entrepreneur who puts property, such as real estate, mineral rights, water rights, or patents, to productive social use. However, there was a legitimate concern that at least some NPEs were obtaining permanent injunctions on the basis of their patents in order to “hold up” or impede the work of innovators who were actively engaged in new research and development. As a consequence, many stakeholders felt that Congress should intervene and adjust the patent statute, adjust the standard for permanent injunctions, in order to deal with this business challenge.

What happened instead? Even as discussions were ongoing about a legislative intervention, the Supreme Court reviewed the permanent injunction situation in its decision in *eBay v. mercExchange*. The Supreme Court in that case noted that the statute as enacted by Congress requires courts to grant permanent injunctions only on considerations of equity. Such equitable considerations, the Court reminded lower courts, include a determination as to whether monetary damages are an adequate remedy, a consideration of the public interest in the injunction, and an assessment of the hardships that might be imposed by such an injunction.

The results of that decision have been substantial. As patent scholars have empirically documented, the lower courts have implemented that ruling and the number of injunctions issued to NPEs has fallen dramatically. Why has this occurred? Because the needs of NPEs – to obtain a revenue stream from the patents that they hold – can be adequately met by providing monetary damages as a remedy. There is no need for the extra “strong medicine” of a permanent injunction in order for NPEs to be adequately compensated for any infringement of their patents.

At the same time, innovators who are engaged in active production, research, and development have continued to receive permanent injunctions where appropriate, because their goal is not simply to obtain a monetary reward, but to create new markets and new products. Although changes in the patent statute had been proposed to address this set of concerns, no changes were needed. All that was required was for the courts to take the direction given by Congress in the statute, and apply it to the current situation.

A similar process is ongoing with regard to other concerns that have been expressed in the calls for patent reform. Concerns have been expressed about the doctrine of inequitable conduct, concerns have been expressed about excessive

damages, concerns have been expressed about the proper venue for filing a patent suit – but these patent doctrines have all been the subject of recent decisions by the United States Court of Appeals for the Federal Circuit and by other courts. It is clear that the courts are addressing these issues, using the tools and the guidance that Congress has provided in the patent statute in order to adapt the law to the current needs and concerns of innovators. The process of adaptation takes some time, but the necessary tools to make the needed changes are already provided in the statute as it exists today.

The Role of the Legislature

Is this a recipe for so-called “judicial activism,” that is, for the judiciary to take into their own hands the role properly reserved for the legislature? By no means. Rather, this understanding of the statute recognizes that the courts have been given the task of implementing the patent policies set by Congress, and that judges can and should apply their expertise and practical experience toward achieving the goals outlined in the patent statute. The courts are well aware of their responsibility follow the course charted by the legislature. In my experience, the members of the federal judiciary take that duty very seriously, and are committed – indeed, perhaps sometimes may be over-committed – to following the course set by Congress. If anything, it appears that the courts may sometimes be overly cautious in exercising the latitude that they have been granted under the current statute.

Are there issues of patent reform that should not be left to the common law interpretive process, but that may require intervention by Congress? Certainly, if it becomes desirable to make fundamental changes to the structure of the patent system, those are decisions that must be made in Congress and implemented through appropriate legislation; such changes cannot and should not be made by the judiciary.

An example of such a change currently under consideration might be the proposal to shift the United States patent application system from a “first to invent” system to a “first to file” system. Such a change would be enormously disruptive to nearly 200 years of settled patent law in this country. The costs of such a change would be very substantial. Such a change should only be made after a determination that the very considerable costs are worth the potential benefits. That determination must be made by Congress. Neither the courts nor the Patent

Office are authorized under the current statute to make such a change to American patent law, and neither should they be.

Similarly, the implementation of new forms of post-grant administrative review, as has been proposed in the current discussions of patent reform, is a structural change that cannot be made by the courts, but must rather be made by Congress. But in this example it is important to exercise some caution. Although the creation of post-grant opposition proceedings must be a legislative act, many of the reasons for considering such a change -- such as the fear of too many bad patents, or the fear of excessive damage awards -- need not be the subject of legislative intervention. It is important to recognize that the courts, together with the Patent Office, applying the provisions of the current patent statute, can already address many of the underlying causes that have led to the call for post-grant oppositions.

Conclusion

In conclusion, Mr. Chairman, patent reform is an ongoing, dynamic process. To match the pace of innovation, patent reform must literally occur week in and week out, year after year. That can only be accomplished by the application of a flexible statute to new economic and technological situations as they arise, primarily in the context of the court system. You and the distinguished members of this body, together with your predecessors, have already done much of the work of patent reform by providing the courts with a flexible, robust statute that can accommodate the ongoing changes in a volatile global economy. Recent judicial decisions addressing the issues driving patent reform demonstrate that this process is working as it should. I congratulate you for conducting this hearing today to consider this important issue, and I look forward to answering any questions you may have.