

STATEMENT OF
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**UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE**
BEFORE THE
**SUBCOMMITTEE ON INTELLECTUAL PROPERTY,
COMPETITION AND THE INTERNET
COMMITTEE ON THE JUDICIARY
U.S. HOUSE OF REPRESENTATIVES**
“Prior User Rights”
FEBRUARY 1, 2012

Introduction

Chairman Goodlatte, Ranking Member Watt, and Members of the Subcommittee:

Thank you for this opportunity to discuss the issue of the “prior user rights” defense and the report prepared by the United States Patent and Trademark Office (USPTO) pursuant to section 3(m) of the Leahy-Smith America Invents Act (AIA).

The AIA represents the most significant – and necessary – modernization of our patent laws in many decades. Mr. Chairman, you and the members of the Judiciary Committee deserve special praise for your tireless and successful efforts over multiple Congresses toward enactment of the AIA. We have already taken a number of steps necessary to implement the new law including issuing proposed rules and completing two of the seven studies required to evaluate the provisions in the new law.

Among the many important components of the AIA are the expansion of the “prior user rights” defense to infringement and the broadening of the classes of patents that are eligible for the new defense. The prior user defense protects third parties who can demonstrate that they were commercially using an invention for at least one year prior to the filing date of a patent application by another relative to that invention. As I’ve said in previous testimony in front of this committee, I believe that expanding the prior user defense is pro-manufacturer, pro-small business, and, on balance, good policy, so I was happy to see that a compromise was reached and that a prior user right defense was included in the final version of the AIA.

U.S. law already provided, prior to the AIA, a prior user rights defense to patent infringement that was limited to patents directed to methods of doing or conducting business. The AIA extends the prior user rights defense to patents covering all technologies, not just business methods. At the same time, the AIA includes several limitations and exceptions to the prior user rights defense, including a prohibition against license, assignment or transfer of the defense, other than in connection with an assignment or transfer of the entire business to which the defense relates. The defense is geographically limited to cover only those sites where the invention was used before the critical date. And, finally, there is an explicit exception to

the defense for patents owned by or assigned to universities or affiliated technology transfer organizations. These limitations and exceptions address the equitable interests of patentees, universities and affiliated organizations.

In response to concerns expressed during the legislative debate about the impact of an expanded prior user rights defense on the patent system and innovation in general, section 3(m) of the AIA directed the USPTO to study and prepare a report on specific, relevant issues including: the operation of prior user rights in the industrialized world; impact on innovation and small business; impact on trade secret law; and the relationship with a first-inventor-to-file patent system.

Outreach to Stakeholders

Pursuant to the Congressional directive, the USPTO held a public hearing and solicited written comments from interested parties to complement its own independent research on the issue of prior user rights. USPTO is following a similar model of outreach to stakeholders for each of the studies required under the AIA. Additionally, the USPTO consulted with, and obtained input from, the Office of the United States Trade Representative (USTR), the Department of Justice (DOJ), and the Department of State (DOS).

The USPTO heard testimony from six witnesses at the hearing and received 19 written comments from a broad spectrum of foreign and domestic stakeholders, including industry organizations, universities, bar associations, and individuals. Most of the comments supported the AIA's prior user rights defense, though several expressed concerns about the effect such a defense could have on patent valuation and the prompt disclosure of new innovations. In this respect, a number of comments discussed the interaction between patents and trade secrets as a business strategy for protecting inventions. While a few comments took a view that prior user rights may have the consequence of promoting secrecy over disclosure to the detriment of the patent system, by far most comments noted that the ability to maintain trade secrets is vital to American competitiveness and job growth, and that a limited prior user right defense is an appropriate complement to a first-to-file system.

Findings

Based on analysis and review of the stakeholder comments, USPTO's own research, and input provided by USTR, DOJ, and DOS, the USPTO made the following findings:

1. The AIA strikes the right balance by limiting the prior user rights defense to those parties that can prove commercial use at least one year prior to the filing date of the patent application by clear and convincing evidence.
2. The scope of the prior user rights defense includes limitations on the type of continued activities, the transfer of personal rights, and the enforcement of said rights, such that the patentee's rights are not unjustly impinged and the university community may benefit, since the defense is not available in patent actions by universities.
3. There is no substantial evidence that prior user rights as established in the AIA will have a negative impact on innovation.
4. There is no substantial evidence showing that prior user rights as established in the AIA will have a disproportionately negative impact on venture-capital investments to small businesses and startups.

5. There is an insufficient basis to recommend a change to the scheme chosen by Congress with respect to the application of prior user rights to universities.
6. There is no substantial evidence that the limited prior user rights defense as established by the AIA will have a negative impact on small businesses or independent inventors.
7. A prior use defense to patent infringement is both Constitutional and lawful and the defense is consistent with the Constitution and Supreme Court precedent recognizing that trade secret law and patent law can, and do, legally co-exist in the United States, and indeed have co-existed since our Constitution was created.
8. Trade secret protection is of considerable value to United States businesses and the United States economy, and as such, there are compelling economic and policy justifications for providing a prior user rights defense to patent infringement.
9. Providing limited prior user rights in a first-inventor-to-file system addresses the inherent inequity such a system creates between an earlier commercial user of the subject matter and a later patentee. A prior user rights defense is pro-manufacturing and pro-jobs, as it rewards businesses that put new technology promptly into commercial use, and provides protection for early commercial use when challenged by the later filing of patent applications by other entities.
10. Because the availability of a prior user rights defense to patent infringement is a fundamental aspect of many patent regimes throughout the industrialized world, there is a strong preference that United States businesses be afforded the same advantages in terms of prior use protections in the United States that their competitors enjoy abroad.

Recommendations

Consistent with its findings, the USPTO made the following recommendations:

1. The prior user rights defense provisions set forth in the AIA are generally consistent with those of major trading partners and need not be altered at this time.
2. The prior user rights defense under the AIA should be maintained with no change at the present time because there is no substantial evidence that it will have a negative impact on innovation, venture funding, small businesses, universities, or independent inventors.
3. The USPTO should reevaluate the economic impacts of prior user rights as part of its 2015 report to Congress on the implementation of the AIA, when better evidence as to these impacts might be available.
4. United States patent law should provide for a prior user rights defense as an appropriate balance between trade secret protection and patent protection, which legally co-exist to provide competitive advantages for United States businesses.
5. United States patent law should provide for a prior user rights defense to patent infringement in order to address a systemic inequity inherent in a first-inventor-to-file system and to ensure United States businesses are (1) able to protect their investments in the event of a later issued patent and (2) placed on similar footing as competitors in other jurisdictions.

Conclusion

The availability of a prior commercial use as a defense for alleged patent infringement is a fundamental aspect of many patent regimes throughout the industrialized world and the characteristics of the prior use defense in these countries are fairly consistent from country to country. The policy reasons for adopting a prior use defense are also fairly universal - prior user rights remedy the unfairness in holding an “earlier” commercial user liable for patent infringement.

The recently enacted AIA incorporates a carefully crafted prior use defense consistent with the prior use defense found in many industrialized countries of the world. While the USPTO report generally supports the balance struck by the AIA in the commercial use requirement, we note that the one year limitation is significantly more restrictive than the approach used in any other country. It may be that this one year limitation unnecessarily prevents use of the defense by U.S. manufacturers and that some future statutory change might be desirable. Such a change could improve the law by replacing the one-year limitation with a “substantial preparation” requirement which would be more harmonized with the approach taken successfully by other countries and more in keeping with modern commercial reality.

In addition, while not raised in the public comments summarized in the report, some USPTO stakeholders have also questioned the intended scope of the subject matter covered by the provision in the Act. It appears that the intent of this language, similar to other regimes around the world, was to capture all subject matter that otherwise meets the criteria. However, the language here could be clearer if there is a future opportunity to make a technical clarification.

The prior user rights defense as set forth in the AIA is narrowly tailored and not expected to be asserted frequently in patent litigation. There is no substantial evidence that prior user rights will negatively impact innovation, start-up enterprises, venture capital, small businesses, universities or individual inventors. The USPTO will, however, reevaluate the economic impacts of prior user rights as part of its 2015 report to Congress on the implementation of the AIA when better evidence as to these impacts might be available.

A prior use defense to patent infringement, and specifically the one set forth in the AIA, is neither unconstitutional nor unlawful, as the defense is consistent with the Constitution and Supreme Court precedent recognizing that trade secret law and patent law can and do legally co-exist in the United States as they have for hundreds of years. Trade secret protection is of considerable value to United States businesses and the United States economy, and as such, there are compelling economic and policy justifications for providing a prior user rights defense to patent infringement. Providing a suitably limited prior user rights defense in a first-inventor-to-file system is an appropriate response to an inherent inequity such a system creates as between an earlier commercial user of the subject matter and a later patentee. Additionally, there is a strong preference that United States businesses be afforded the same advantages in terms of prior use protections in the United States that their competitors enjoy abroad.

Mr. Chairman, again, thank you for this opportunity to share our views on this important issue, and thank you for your continued strong support for the employees and operations of the USPTO.

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