



20 August 2018

Federal Trade Commission  
Office of the Secretary  
600 Pennsylvania Avenue, NW  
Suite CC-5610 (Annex C)  
Washington, DC 20580

Via: <https://www.regulations.gov/docket?D=FTC-2018-0055>

Re: Competition and Consumer Protection in the 21st Century Hearings,  
Project Number P181201

Dear Secretary Clark:

Intellectual Property Owners Association (IPO) appreciates the opportunity to respond to the Federal Trade Commission's request for comments in the *Federal Register* concerning the role of intellectual property and competition policy in promoting innovation.

IPO is an international trade association representing companies and individuals in all industries and fields of technology who own, or are interested in, intellectual property rights. IPO's membership includes about 200 companies and close to 12,000 individuals who are involved in the association either through their companies or as inventor, author, law firm, or attorney members. IPO membership spans over 30 countries.

IPO advocates for effective and affordable IP ownership rights and offers a wide array of services, including supporting member interests relating to legislative and international issues; analyzing current IP issues; providing information and educational services; and disseminating information to the public on the importance of IP rights.

We understand that the FTC seeks comments primarily concerning issues beyond those addressed in prior guidance and action, to consider as topics for future public hearings. Many are concerned that U.S. intellectual property rights have been weakened by changes made to the patent system over the past decade, including those as a result of certain Supreme Court decisions and the implementation of the 2011 Leahy-Smith America Invents Act (AIA). In fact, earlier this year the U.S. patent system fell to 12<sup>th</sup> place in the U.S. Chamber of Commerce's annual world ranking. The IPO Board of Directors has prioritized identifying policy changes that will address this erosion of IP rights. Drawing on that work, we discuss below three contemporary patent law and litigation issues that might affect competition policy and might be of interest to the FTC.

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## I. The Scope of Patent Subject Matter Eligibility Under 35 U.S.C. § 101

In a series of decisions culminating in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*,<sup>1</sup> the U.S. Supreme Court significantly expanded judicially-created exceptions to patent-eligible subject matter and created a new test for eligibility. This new test is doctrinally unsound in that it conflates patent eligibility with the statutory “conditions of patentability” for judging novelty, nonobviousness, and the sufficiency of disclosure in the specification and claims and reintroduces an “inventive concept” requirement similar to an “inventiveness” standard that was rejected by Congress in 1952.

This development of the law has created uncertainty that undermines the rights of both patentees and the public and makes determining when and how to apply the exceptions difficult for courts and the U.S. Patent and Trademark Office. This is discouraging investment in future innovation in areas ranging from the life sciences to software. Some further argue that the ambiguity of the Supreme Court’s test and defendants’ ability to easily obtain invalidity determinations by summary judgment or dismissal under Federal Rule of Civil Procedure 12(b)(6) encourages more “efficient infringement,” where companies disregard existing patent rights and litigate when sued to avoid the expense of licensing others’ innovations. Still others say the Supreme Court has improved innovation by making it easier to discard patents that should not have been granted.

U.S. Patent and Trademark Office Director Andrei Iancu has identified this as one of the most important issues in patent law, and one of the most frequently raised issues by patent examiners. He has noted that the significant amount of confusion the Supreme Court’s section 101 jurisprudence has created takes the USPTO’s time and attention away from other important topics. The USPTO has begun to engage in this area, and Director Iancu has noted that the USPTO plans to issue guidance to provide clarity, but he has stated that there is only so much the USPTO can do given that it must operate within the *Alice* framework.

IPO is extremely concerned about the impact the current state of the law will have on U.S. innovation and competitiveness in the global economy. The system must work to incentivize innovation in this area, and confidence in the U.S. patent system must be restored. As Director Iancu noted in remarks earlier this year, “when patent owners and the public have confidence in the patent grant, inventors are encouraged to invent, investments are made, companies grow, jobs are created, and science and technology advance.”

To that end, the IPO Board of Directors adopted a legislative proposal, authored in collaboration with the American Intellectual Property Law Association, that would more clearly define the scope of eligible subject matter, excluding from the eligibility analysis matters already addressed elsewhere in the patent statute, and return the scope of eligibility to that originally envisioned by Congress. The proposal would amend 35 U.S.C. § 101 as follows:

### **Eligible Subject Matter**

- a) Whoever invents or discovers, and claims as an invention, any useful process, machine, manufacture, composition of matter, or any useful improvement thereof,

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<sup>1</sup> 573 U.S. \_\_\_, 134 S. Ct. 2347 (2014).

shall be entitled to a patent therefor, subject only to the conditions and requirements set forth in this title.

**Sole Exceptions to Subject Matter Eligibility**

- b) A claimed invention is ineligible under subsection (a) if and only if the claimed invention as a whole (i) exists in nature independently of and prior to any human activity or (ii) is performed solely in the human mind.

**Sole Eligibility Standard**

- c) The eligibility of a claimed invention under subsections (a) and (b) shall be determined without regard to:
  - (i) the requirements or conditions of sections 102, 103, and 112 of this title;
  - (ii) the manner in which the claimed invention was made or discovered; or
  - (iii) whether the claimed invention includes an inventive concept.

The current legislative proposal is an update of a proposal originally published in 2017. When IPO's initial proposal was made public, IPO published a comprehensive report discussing the history of patent subject matter eligibility and the problems with the Supreme Court's *Alice* test. That report is attached to this submission for additional information.

**II. USPTO Post-Grant Review Proceedings Created by the AIA**

The enactment of the AIA made a number of significant changes to U.S. patent law. Perhaps the most significant was the creation of three new post-grant review proceedings that were intended to be accessible, efficient, speedy, and meaningful alternatives to litigation to test patent validity in a proceeding in the USPTO. The Inter Partes Review (IPR) and the Transitional Program for Covered Business Method Patents (CBM) proceedings have become extremely popular. The Post Grant Review (PGR) system has been used somewhat less frequently, which was to be expected given that the program is available only for challenging patents issued under the AIA and its more exacting estoppel provision.

Despite the popularity of the proceedings, they have been the subject of great discussion in the six years since the first petitions were filed. Some patent owners have concerns that the proceedings create opportunities for abuse against patent owners as a result of procedural imbalances built into the proceedings that fundamentally disadvantage patent owners as compared to litigation in the federal courts. Other companies argue that the proceedings provide a necessary check on the quality of patents issued by the USPTO, and benefit the system by invalidating patents that should not have been granted, without expending judicial resources.

USPTO Director Iancu has become actively engaged in assessing the effectiveness and fairness of these proceedings. In May, the USPTO issued a proposed rulemaking that would replace the current claim construction standard used by the USPTO's Patent Trial and Appeal Board (PTAB) in IPR, PGR, and CBM proceedings with the standard used in civil proceedings before federal courts. IPO has long supported this change. As IPO noted in comments to the USPTO

on the proposal, “[e]mploying the same standard in IPR, PGR, and CBM proceedings and federal court proceedings reduces the possibility of inconsistent claim construction determinations by the PTAB and federal courts, increases the predictability of patent validity disputes, and promotes confidence in the patent system.”

Another concern IPO has expressed with regard to post grant proceedings is that the patent owner’s ability to amend claims has been largely illusory. This might be changing, albeit slowly, following the Federal Circuit’s December 2017 opinion in *Aqua Prods., Inc. v. Matal* that the USPTO may not place on the patent owner the burden of persuasion regarding the patentability of proposed substitute claims in a motion to amend. The USPTO issued updated guidance on motions to amend immediately following the opinion and might propose further changes to streamline the process for patent owners and make the opportunity to amend more meaningful.

Another major development came in April 2018, when the U.S. Supreme Court issued its opinion in *SAS Inst., Inc. v. Iancu*, holding that the USPTO is required to decide the patentability of every claim challenged in a petition for IPR. The Supreme Court found that the plain meaning of 35 U.S.C. § 318(a), which says that the USPTO “shall issue a final written decision with respect to the patentability of *any patent claim challenged by the petitioner*,” supplies the “ready answer” that “the agency cannot curate the claims at issue but must decide them all.” The Court rejected the USPTO’s argument that the Director “retains discretion to decide which claims make it into an inter partes review and which don’t,” stating that “nothing in the statute says anything like that” and that “if Congress wanted to adopt the Director’s approach it knew exactly how to do so.” The holding was consistent with the argument in IPO’s amicus brief that “[t]he plain language of the AIA requires the PTAB to issue a final written decision that addresses every claim challenged in the petition.”

The USPTO immediately issued guidance concerning the impact of the decision on pending trials and specifying that for newly-filed petitions, final written decisions will address “all patent claims challenged by the petitioner and all new claims added through the amendment process.” It remains to be seen whether this change will affect rates of institution at the USPTO and stays of co-pending district court litigation, and whether the resulting more extensive application of 35 U.S.C. § 315(e)’s estoppel provision will disincentivize some petitioners.

In addition to these issues, IPO has made a number of recommendations to the USPTO concerning the rules of practice governing post-grant proceedings, with the intent of ensuring fairness to all parties. Most recently, IPO recommended that the USPTO engage in rulemaking to establish a clearer and more consistently applied standard for denying the institution of follow-on petitions that can limit a patent owner’s ability to obtain quiet title. We also recommended that the USPTO engage in rulemaking to establish a clearer and more consistently applied legal standard for determining whether additional discovery is in the interests of justice pursuant to 37 C.F.R. § 42.51(b)(2). We will continue to work with the USPTO to make additional recommendations as we reassess how the proceedings are functioning and as the UPSTO issues proposals for additional rule changes in the future.

### **III. State Legislation Regulating Patent Demand Letters**

Beginning with Vermont in 2013, many states have adopted laws regulating patent demand letters. To date, over 30 states have adopted this type of legislation. IPO has opposed patent demand letter legislation at the state level because, among other things, it creates a patchwork system of non-uniform requirements for demand letters among various jurisdictions and increases compliance costs for legitimate businesses. IPO specifically opposed state legislation that created a private right of action against patent holders based on insufficient information in a patent demand letter communication and required onerous mandatory disclosures that could interfere with legitimate patent owners' ability to communicate with potential licensees and alleged infringers in good faith.

IPO has supported federal legislation to make the high volume sending of bad faith demand letters, to end users who are not resellers, a deceptive act or practice within the meaning of section 5(a)(1) of the Federal Trade Commission Act, provided that such legislation is carefully tailored to differentiate between abusive activity and legitimate, lawful activity. However, the FTC is actually empowered under current law to regulate deceptive and misleading communications for the purpose of protecting consumers—and has done so when appropriate.

IPO believes that federal law should preempt states in this area. The federal government is better equipped than states to set forth requirements for what must be disclosed and to identify acts or practices that would deceive recipients during the course of appropriately enforcing patents, which are exclusively a matter of federal law. The FTC, in particular, is better suited to differentiate abusive behavior from legitimate and long-established practices in business-to-business communication.

We again thank the FTC for permitting IPO to provide comments and would welcome any further dialogue or opportunity to provide additional information.

Sincerely,



Mark Lauroesch  
Executive Director