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Patent trolls and patent-busters

By Matthew Rimmer

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Once upon a time, Abraham Lincoln famously said that the patent system was intended to secure "to the inventor, for a limited time, the exclusive use of his invention; and thereby added the fuel of interest to the fire of genius, in the discovery and production of new and useful things."

In recent times, there have been concerns that the patent system been abused by opportunistic companies known by the phrase "patent trolls". It has been alleged that such entities have stunted innovation and spurred unnecessary patent litigation.

There have been particular fears about the rise of "patent trolls" in the field of information technology. Peter Dekin, an assistant general counsel at Intel, first popularised the phrase "patent troll" to describe firms, which acquired patents only to extract settlements from companies on dubious infringement claims: "A patent troll is somebody who tries to make a lot of money off a patent that they are not practising and have no intention of practising and in most cases never practised."

In 2000, the developers of the Blackberry, Research in Motion, were sued for patent infringement by a Virginia-based patent holding company called NTP Incorporated. After much litigation, Research in Motion agreed in 2006 to pay the company \$US612.5 million in a full and final settlement of all claims. There was much debate as to whether NTP Incorporated was a legitimate holder of valid patents or a "patent troll".

In 2005, Joe Beyers, a vice president of intellectual-property licensing at Hewlett-Packard, complained: "Any company that has suffered a troll attack knows how the menacing fear and uncertainty threaten the investment in



There have been particular fears about the rise of "patent trolls" in the field of information technology. (File photo) (AAP: Tracey Nearmy)

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innovation, customers' peace of mind, even the survival of a business." He contends that "the industry must band together to stop trolls by undermining the trolls' ability to obtain unfair value for their patents".

There has been a similar concern about the rise of "patent trolls" in the field of biotechnology. In his autobiography, *A Life Decoded*, J Craig Venter has lamented that most gene patents were worthless: "Of the twenty-three thousand or so human genes, fewer than a dozen have generated real value for the businessman or the patent." In such an environment, patent holding companies have sought to extract patent licence fees in respect of genetic research in the fields of agriculture, medicine, and the environment.

Not everyone fears "patent trolls". James McDonough of Emory University School of Law prefers to use the euphemism, "patent dealers in the ideas economy". He has argued that, contrary to popular belief, "patent trolls" actually benefit society: "Patent trolls provide liquidity, market clearing, and increased efficiency to the patent markets - the same benefits securities dealers supply capital markets." He maintains that "patent trolls" are a useful intermediary in the marketplace.

Others question the very existence of "patent trolls", suggesting that they are little more than mythological creatures designed to frighten the executives of technology companies at night.

Patent busters

In reaction to the rise of "patent trolls", there has been an emergence of "patent-busters", which seek to challenge the validity of patents of dubious novelty, inventiveness, and utility.

The Public Patent Foundation is a not-for-profit legal services organisation that "represents the public's interests against the harms caused by the patent system, particularly the harms caused by undeserved patents and unsound patent policy." The organisation has observed: "Undeserved patents injure the public because they can be used by private actors to preclude activity that would otherwise be permissible, if not desirable".

The foundation has sought to represent the larger public interest in patent law through legal representation, public education and advocacy. The group has had some success in filing requests for re-examination of patents at the United States Patent and Trademark Office.

In 2004, the foundation presented prior art which invalidated Microsoft Corporation's patent on the FAT File System, which was promoted as "the ubiquitous format used for interchange of media between computers, and, since the advent of inexpensive, removable flash memory, also between digital devices."

In 2006, the foundation filed formal requests with the patent office on behalf of the Foundation for Taxpayer and Consumer Rights to revoke three patents owned by the Wisconsin Alumni Research Foundation in respect of stem research. The patent office rejected all claims of each of the patents on March 30, 2007.

In 2006, the foundation filed formal requests with the patent office to revoke four patents owned by Monsanto in respect of agricultural biotechnology. In 2007, the patent office issued complete rejections of all four patents.

However, there are limits to the "patent-busting" of the foundation. The not-for-profit legal services organisation has only had the time and resources to challenge a number of noteworthy patents. Other jurisdictions - such as Australia - lack such public-spirited "patent-busting" entities.

Patent law reform

There has been a push for procedural and substantive reform of patent law in both legislatures and the courts to address the problem of "patent trolls" in a more systematic way.

First, there should be greater efforts to modernise and streamline the administration of the patent system. In the United States, the Patent Reform Bill 2007 (US) seeks to revise provisions governing patent review proceedings and patent infringement litigation. The legislation has passed the House of Representatives and has entered into the Senate of the United States Congress. The Advisory Council on Intellectual Property has held an inquiry in Australia as to whether there should be post-grant examination of patents.

Second, there is a need to revise the threshold standards of innovation required for patent protection - the requirements of novelty, inventive step and utility in the patent system. Justice Kennedy of the Supreme Court of the United States has noted in the 2007 case of *KSR International Co v Teleflex Inc*: "As progress beginning from higher levels of achievement is expected in the normal course, the results of ordinary innovation are not the subject of exclusive rights under the patent laws." He added: "Were it otherwise patents might stifle, rather than promote, the progress of useful arts."

Third, there is a need to provide a broad and flexible research exemption to protect experimental researchers from the predatory behaviour of "patent trolls". As recommended by the Australian Law Reform Commission, there should be a broad statutory defence in respect of experimental use. The commission noted that the lack of a research exemption "has the potential to result in under-investment in basic research; and to hinder innovation if researchers become concerned that their activities may lead to legal action by patent holders."

Fourth, there is a need for courts to be judicious in providing remedies. In the 2006 case of *EBay Inc v MercExchange LLC*, Justice Kennedy of the Supreme Court of the United States expressed his concerns about the rise of so-called "patent trolls". He observed: "An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." The judge observed: "For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licences to practice the patent." Justice Kennedy suggested: "When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest."

Finally, there should be greater penalties in respect of patent holders who make unjustified threats of legal proceedings. "Patent trolls" should not be allowed to flourish and to hold public and private investors in research and development to ransom.

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