



Briefing Paper (April 13, 2011)

U.S. patent reform and the case against expansion of prior user rights

During the past six years, leaders in Congress have wisely rejected a variety of proposals to expand “prior user rights”—proposals that would have undermined U.S. innovation and diminished the public benefits of our nation’s research enterprise. Now, as patent reform legislation nears completion, an attempt by proponents of prior user rights has been made to turn back the clock and enact language that would benefit a few at the expense of society. See H.R. 1249, section 4. See also Manager’s amendment to H.R. 1249.

Why would expansion of prior user rights create such lasting harm to scientific progress, public health and well-being, and constrain our nation’s capacity for innovation? The answer lies at the heart of the U.S. patent system, which is the envy of the world thanks to its inducements for public disclosure of discoveries. By establishing a system that rewards disclosure and creates incentives for investing in ideas, the U.S. patent system fosters dissemination of new ways of thinking and builds momentum for further advancement.

Explaining prior user rights

To understand why prior user rights run counter to the public interest, it is important to recognize the limiting nature of trade secrets and the lasting damage that results when those who infringe on patents do so without penalty.

Under current law, businesses may claim prior user rights as a limited defense against patent infringement when the patent in question involves a method of doing business and another party has invented the new method, but not yet filed a patent application for it. If that method of doing business is later patented, the prior user is not liable for infringement to the patent holder, although others will be. (See 35 U.S.C. § 273.)

However, starting in 2007, proponents of prior user rights relaunched a series of efforts to expand this common sense principle for a problematic area of patent law – business method patents – into a “free pass” for infringement on any patented product or process. Despite being rebuffed in the House and Senate in the past, several companies in the information technology industry continue to push for expansion of prior use rights through the Coalition for Patent Fairness, which succeeded in getting a prior user rights expansion proposal inserted in H.R. 1249. The provision erodes incentives for inventors, thwarts collaboration by rewarding secrecy and creates a significant burden for small businesses and start-ups that seek to protect investments in innovation.

The “free pass” not only allows trade secret owners to continue unabated use of their trade secret in the face of a patent that otherwise is infringed, it permits the trade secret owner to get a free ride on the patent owner’s monopoly. It also changes the “exclusive” rights of the patent owner to “non-exclusive” and gives the trade secret owner a continuing advantage over its competitors. The trade secret owner pays nothing for this advantage. It is a royalty-free license at the expense of the patent owner.

Expanding prior user rights at odds with constitutional principles and sound good public policy

Powerful constitutional and policy considerations weigh against expansion of prior user rights.

- Article I, Section 8, Clause 8, of the U.S. Constitution confers authority on the Congress to enact patent laws in a way that promotes the progress of science. The constitutional basis for U.S. patent law has, for

more than two centuries, been an exclusive right to inventors and authors for a limited period of time in exchange for a disclosure to the public. Article I serves as both a grant of authority and a limitation. Congress can only pass patent legislation that promotes the “progress of science” by securing to “inventors” the “exclusive right” to their respective discoveries.

- Any expansion of prior user rights would shift the constitutional principle of disclosure to a system favoring trade secrecy. By their very nature, trade secrets limit the dissemination of ideas, isolate scientific progress, and prevent society from sharing benefits that result from public investments in research.
- Secrecy clearly thwarts the underlying goals of publication and disclosure in patent law. Taken to its logical extreme, if large numbers of individuals and businesses opted for prior user rights, the strength of the U.S. patent system would be severely diminished.
- Secret prior user rights also would chill university technology transfer activities, one of the success stories in the American patent system, because transfer requires confidence between licensing parties.
- Because statutory change in this area would promote uncertainty, the expansion of prior user rights would spawn litigation. It also would create an environment ripe for abuse, fraud, delay, and cost escalation.
- The expansion of prior user rights would disproportionately benefit multinational and foreign corporations that have the wherewithal to maintain trade secrets at the expense of universities, small businesses, startups and independent inventors.

The Manager’s Amendment to H.R. 1249 does not resolve the above issues; it will create confusion, breed litigation, increase legal costs, and be ineffective.

- The Manager’s Amendment is silent as to where the reduction to practice and commercialization occurred. Therefore, striking the word “outside” does not close the defense door to countries with a significant degree of counterfeiting and piracy.
- The Manager’s Amendment is silent as to whether the “person” is an inventor. There is therefore no mention in Section 273 whether the person is an inventor or whether there was a prior invention.
- While the Manager’s Amendment clarifies that the defense cannot be used if derived from the patentee or someone in privity with the patentee, it could be that it was derived from another inventor.
- If enacted, H.R. 1249 (with the Manager’s Amendment) will dilute the exclusive rights of inventors, decrease the value of patents, and increase the costs of patent enforcement.
- Considered collectively, the prior user rights provisions in H.R. 1249 do not exist in any other country, and therefore harmonization arguments are unavailing. Furthermore, in a global marketplace, given the importance of patents to the U.S. economy and job creation, the U.S. should not harmonize downwards to meet lower levels that are prevalent in foreign countries.

Ultimately, businesses should remain free to develop products and processes via the trade secret route. But such freedoms should not be confused with statutory expansion of the prior use concept in a way that encourages compulsory licensing or dilutes exclusive rights of patent owners, so as to provide a free pass for patent infringement. Instead, attention must remain focused on preserving and enhancing opportunities for American innovation consistent with the fundamentally sound efforts already underway to modernize the U.S. patent system.

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