



Answers That Matter.

Statement of  
Robert A. Armitage  
Senior Vice President and General Counsel  
Eli Lilly and Company, Indianapolis, Indiana

Before

The United States House of Representatives  
Subcommittee on Intellectual Property,  
Competition and the Internet of the  
Committee on the Judiciary

On

“Prior User Rights:  
Strengthening U.S. Manufacturing and Innovation”

Wednesday  
February 1, 2012

Chairman Smith, Ranking Member Conyers, and Members of the Subcommittee:

Mr. Chairman and Ranking Member Conyers, my name is Robert Armitage. Most of my four decades of professional experience has been as a patent lawyer. I served several years as general patent counsel at Lilly before becoming Lilly's general counsel in 2003. Prior to joining Lilly, I was a partner at Vinson & Elkins engaged in the practice of patent law. For the preceding 20 years I worked as a patent attorney and then as chief patent counsel for The Upjohn Company in Kalamazoo, Michigan.

During these past four decades, I have represented individual inventors, small businesses and universities, as well as multinational corporations. I have worked with clients seeking to stop infringement on their patent rights, as well as clients engaged in defending against allegations of patent infringement. Most of my career, however, has been as an advocate for a strong patent system. I have done so for good reason. For the last three decades, enforceable patent rights have been the core of the business model that allows companies such as Lilly to invest in the creation of new medicines.

I have also served in a variety of leadership positions over the past three decades in bar and industry trade associations. Currently, I serve as chair of the Section on Intellectual Property Law of the American Bar Association. These positions have afforded me the opportunity to work for improvements in the operation of the U.S. patent system.

The heart of a strong and effective patent system lies in crafting an appropriate balance between the need for effective protection of meritorious inventions and the need for limits on the reach of a patent, whether such limits be directed to the term of protection, the scope of protection, or the acts and circumstances constituting an infringement on the patent rights.

One long-term focus of my efforts has been to assure that the United States recognizes, in a fair, balanced and effective manner a "prior user" defense to patent infringement. I first proposed changing U.S. patent law to recognize rights based on prior use in 1982, as part of a wider ranging proposal, urging a coordinated set of reforms to U.S. patent law, including adoption of the first-inventor-to-file principle found in the Leahy-Smith Act.<sup>1</sup>

Thus, it is an honor for me to again appear before this Committee, especially given the profound accomplishment of this Committee earlier in this Congress in leading the effort to bring the Leahy-Smith America Invents Act into being. The historic,

---

<sup>1</sup> See Robert A. Armitage, "Reform of the Law on Interference: A New Role for an Ancient Institution in the Context of a First-to-File System," *Journal of the Patent Office Society*, December 1982, pp. 663-698. This paper laid out the case for adopting the first-inventor-to-file principle as part of reforms providing mandatory publication of patent applications at 18 months from initial filing and a patent term that provided patents would expire at 20 years from the initial patent filing. This paper was based on work undertaken as Patent Interference Committee chair for the American Intellectual Property Law Association, then the American Patent Law Association.

perhaps global, significance of this new patent law is difficult to overestimate. In the immediate aftermath of its enactment, I noted that:

The Leahy-Smith America Invents Act, the world's first truly twenty-first century patent act, contains all the elements needed for a patent system to operate effectively, efficiently, economically, and equitably. If the decade ahead yields greater international patent cooperation and harmonization among patent systems around the world, the starting point for that effort should lie in the incorporation of its provisions into patent laws across the globe.”<sup>2</sup>

Among the notable accomplishments of the Leahy-Smith Act was to expand the defense to infringement that is available to persons who have commercialized in an invention before a competitor has sought to patent the invention. This provision by itself, even without any of the other reforms contained in the Leahy-Smith Act, represented a major improvement to U.S. patent law. This provision of law will act to protect American manufacturing jobs and U.S. innovators.

### ***The Prior User Defense and Its Two-Decade Gestation***

I first had the opportunity to testify in support of a “prior user defense” nearly 20 years ago, when a joint House-Senate hearing was held on the “Patent System Harmonization Act of 1992.” At that hearing, I appeared on behalf of the National Association of Manufacturers, as chair of its Intellectual Property Committee. The thrust of the hearing centered on the advisability of moving forward with a first-inventor-to-file system in the United States. One important aspect of my 1992 testimony included the following observations on the desirability of a defense to infringement based on prior domestic commercialization, which I firmly believe to be as valid today as it was during my testimony then:

Prior user rights represent an important and essential feature of this legislation. These rights are needed to assure that investments in U.S. manufacturing facilities are not compromised by later-filed patents. Without prior user rights, the United States would be at a competitive disadvantage in attracting investment in new manufacturing facilities relative to other industrialized countries, all of which recognize such rights.<sup>3</sup>

---

<sup>2</sup>Robert A. Armitage, “LEAHY-SMITH AMERICA INVENTS ACT: WILL IT BE THE NATION’S MOST SIGNIFICANT PATENT ACT SINCE 1790?”, Washington Legal Foundation Legal Backgrounder, Vol. 26, No. 21 (September 23, 2011), available at:

[http://www.wlf.org/Upload/legalstudies/legalbackgrounder/09-23-11Armitage\\_LegalBackgrounder.pdf](http://www.wlf.org/Upload/legalstudies/legalbackgrounder/09-23-11Armitage_LegalBackgrounder.pdf).

<sup>3</sup> Joint Hearing Before the Subcommittee on Patents, Copyrights and Trademarks of the Senate Committee on the Judiciary and the Subcommittee on Intellectual Property and Judicial Administration of the House Committee on the Judiciary, 102<sup>nd</sup> Congress, Second Session, on S. 2605 and H.R. 4978, April 30, 1992, S.N. J-102-57 (Senate) and S.N. 122 (House), p. 190.

I had the privilege on October 26, 1995 of returning here to testify again on the issue of a prior-user defense during my tenure as the president of the American Intellectual Property Law Association. The subject of the 1995 hearing was exclusively focused on the Prior Domestic Commercial User Rights Act, H.R. 2235, 104<sup>th</sup> Congress.

The position of the AIPLA was that the United States should change its patent laws to include a prior commercial user defense, even if the United States did not (as Congress has now done under the Leahy-Smith Act), enact the first-inventor-to-file principle into U.S. patent law. On the merits of a prior user defense, my testimony was crystal-clear:

The American Intellectual Property Law Association has long supported the introduction of “prior user rights” into the U.S. patent laws. During the 102nd Congress AIPLA endorsed prior user rights in the context of adopting a so-called “first-to-file” system as part of a proposed Patent Law Treaty, we subsequently supported legislation in the 103rd Congress that would have introduced a form of prior user rights into our current patent law, and, today, we are pleased to support the H.R. 2235 as introduced in the 104th Congress.

The sum and substance of our support can be captured in a few words: fairness and balance. Our threshold requirement for support of any proposal for prior user rights is that it maintain adequate and effective exclusivity for the patent owner. H.R. 2235 was carefully constructed to assure that patents, and the full incentives under the patent system, will remain essentially undiminished. We further regard H.R. 2235 as embodying a simple idea of fairness: if in good faith a domestic manufacturer has made an investment in plant and equipment – and employment of American workers – patents applied for after commercial use has begun should not affect such a prior commercial user. Finally, the provisions of H.R. 2235 assure balance between the right to continue in commerce and the underlying patent right.<sup>4</sup>

The decoupling of AIPLA’s support for a prior user defense from a first-inventor-to-file transition as far back as 1995 was tied to a fundamental change to the U.S. patent system enacted as part of the Uruguay Round Agreements of 1994. *The United States*

---

<sup>4</sup> Statement of Robert A. Armitage, President, American Intellectual Property Law Association before the Subcommittee on the Courts and Intellectual Property of the Committee on the Judiciary, 104<sup>th</sup> Congress, First Session, on H.R. 2235 (Prior Domestic Commercial Use Act of 1995), October 26, 1995. Testimony is attached as Appendix A.

*committed itself, beginning in 1996, to recognizing foreign-origin invention proofs in all proceedings before the Patent and Trademark Office and the courts – thus, no longer limiting such proofs to activities that had taken place in the United States. The increased ability of foreign-origin patent applicants to secure and defend patents directed to shutting down manufacturing activities conducted in the United States led to AIPLA’s call for a level playing field – giving U.S. manufacturers the same type of defense against patent infringement charges from foreign-based competitors as the foreign-based competitors have when charged with patent infringement by U.S. manufacturers.*

My most recent testimony touching on prior user rights was in April 2006, during the early days of the legislative effort that produced the Leahy-Smith Act. In that testimony, on behalf of Eli Lilly and Company, I noted that a comprehensive effort at U.S. patent reform should:

*Expand the right of a prior inventor who commercializes an invention in the United States to continue using the invention, even if someone else subsequently seeks and obtains a patent on that invention. Patent owners today can seek and enforce patents on technology that another inventor is ready to place or has already placed into commercial use in the United States. “Prior user rights” reforms afford such inventors, as well as those that they authorize to work their inventions, an expanded defense to infringement that can allow these commercial users (including those who have completed substantial preparations for commercial use) to commence or continue that use without liability to the patent owner.<sup>5</sup>*

The case for an effective and balanced provision dealing with infringement charges leveled against a “prior user,” more specifically a prior domestic commercial user, remains undiminished. Indeed, in an era when U.S.-based manufacturers are increasingly challenged by foreign-based competitors, protecting the prior domestic commercial user from charges that subsequently-sought patents can infringe such a previously-established commercial effort has never been more compelling. A strong “prior user” defense acts to support American manufacturing jobs.

***The “Prior User” Defense Under the Leahy-Smith Act Was a Fair and Balanced Provision Addressing the Competing Interests Of the Prior Domestic Commercial User of an Invention and the Owner of a Subsequently-Filed Patent on the Invention***

Across the globe, patent systems provide – and have long provided – “prior user” defenses. Under a typical such defense, a person who has engaged in commercial activities in a particular country gains immunity from infringement under that country’s domestic patent laws, but only if the patent that issued in that country was *originally*

---

<sup>5</sup> Hearing Before the Subcommittee on the Courts, Internet and Intellectual Property of the Committee on the Judiciary, 110<sup>th</sup> Congress, Second Session, on H.R. 2795, April 27, 2006.

*sought* after the accused infringer’s domestic commercialization commenced. Indeed, as the defense exists in its most effective form, the completion of any substantial preparation for commercialization is all that is needed to secure such immunity from subsequently-sought patents. Moreover, as the defense is most effectively implemented under foreign laws, the defense exists irrespective of the nature of the patent or type of patent claim that forms the basis for the allegation of infringement.

Because of the inherently limited nature of a balanced and effective defense, it *potentially* impacts only a *tiny percentage* of patents. Thus, an effective “prior user” defense never materially impairs the overall strength and effectiveness of the patent system as a whole.

What constrains the operation of the defense such that the overwhelming majority of patents that issue can never be subject to the defense?

First, for almost all patents that are granted, the patented inventions have not yet been commercialized – by anyone – at the time the patent for the invention is initially sought. Thus, the threshold requirement for asserting the defense, that there has been a *prior domestic commercial use*, cannot be satisfied.

A prior user defense cannot arise except in situations where the patented invention has been independently created by at least two persons – the inventor/patent owner and the accused infringer/prior commercializer. Thus, the number of patents where one person will have developed an invention for commercialization without seeking a patent and a second person will have independently developed the same invention and then subsequently sought to patent the invention *is at most some small fraction of one percent of all patents issuing*.

Second, in most cases where there is a potential conflict between prior domestic commercialization and a later-sought patent, the defense never needs to be asserted. Why? In the vast majority of situations where this type of contemporaneous, independent development and commercialization has taken place, the prior user’s prior commercialization activities will result in a prior *public* disclosure of the patented invention.

In these situations the prior user defense will be secondary to a patent invalidity defense. For example, whenever an invention is *publicly accessible* under the new provisions of 35 U.S.C. §102(a)(1), the patent in question can be readily invalidated on this ground – no specific defense to its infringement is needed.

The upshot of all this, therefore, is that the defense at issue arises and has a substantive impact on a patent owner solely when prior *secret* domestic commercial activities qualifying for the defense fall within the realm of someone else’s independent discovery of the same technology, for which a patent on behalf of the independent discoverer is subsequently sought and issued.

This necessary invalidity of a patent that arises from any “prior use” that is publicly accessible gives rise to an important corollary observation. Congress could simply have eliminated the need for a prior user defense to infringement altogether by providing in the patent statute that *any* prior domestic commercialization of a claimed invention by someone other than the patent owner would be sufficient by itself to constitute “prior art” to the later-sought patent. In that case, the activity in question would not constitute a “prior user” defense to infringement but a “prior art” defense to invalidity of the patent. Without validity, there can be no infringement and the invention becomes open for use by any member of the public.

Thus, any discussion about the fairness of the defense to the patent owner – and whether it appropriately balances the competing interests as between patent owner and an independent developer’s prior commercialization of the patented subject matter – needs to consider that Congress stepped back from enacting a provision mandating that a patent would be invalid if a prior commercial use could be established. Instead, it prescribed a vastly more limited consequence. In the case of a prior domestic commercial use, the patent remains valid, but the prior user itself is accorded a personal defense to infringement.

Viewed in this light, is the “prior user” defense an ill-considered derogation from what should be “exclusive rights” accorded the patent owner? Does less than perfect exclusivity for the inventor make the provision constitutionally suspect? Is the defense some new and undesirable form of “compulsory license”?

It is difficult to answer any of these questions in the affirmative knowing that Congress would have been clearly within its authority under the Constitution to simply prescribe that a patent cannot be valid if the patented invention had already been commercialized domestically by a rival inventor before the patent was sought.

Indeed, it can hardly be argued that there are compelling, much less absolute, equities in favor of declaring that an invention may be validly patented, and entitled to categorically exclusive rights, if a competitor had already made the invention independently and then took steps to place the invention into domestic commercial use before the patent for the invention was originally sought. As an example, for more than a century, Congress provided that a prior domestic invention (whether or not placed into a prior commercial use) was all that was required to create “prior art” to invalidate a later-sought patent of a foreign-based inventor directed to the invention.<sup>6</sup>

Thus, it is in light of this congressional forbearance, in declaring that only when commercialization has rendered a patented invention publicly accessible that the patent must be regarded as invalid, that the fairness of the “prior user” provision in the Leahy-Smith Act to patent owners must be judged.

---

<sup>6</sup> The United States was forced to abandon this ground for invalidating patents held by foreign-based inventors only when the Uruguay Round Agreements Act of 1994 took effect, bringing the United States into compliance with its obligations under the TRIPs agreement.

As the balancing point between the competing interest of prior domestic commercial user and subsequently-filing patent owner, Congress wisely chose to sustain the validity of the patent, but afford a personal infringement defense to the prior user. The “public accessibility” standard that will limit patent-invalidating “prior art,” *i.e.*, under the “otherwise available to the public” limitation found in new §102(a)(1) of the patent statute, was universally supported within the patent bar and among other proponents of the Leahy-Smith Act, notably the Coalition for 21<sup>st</sup> Century Patent Reform.

The “public accessibility” standard provides inventors a high degree of assurance that their patents, once secured, are valid ones because of the transparency of the standard. If subject matter cannot be found from sources available to the public, the validity of the patent cannot be attacked on grounds of lack of novelty or obviousness. However, just because the patent is valid, notwithstanding the prior domestic commercialization by a competitor, cannot mean that Congress did not act both wisely and appropriately by providing that a prior use can provide the prior user itself a defense to infringement of a patent that Congress clearly could have – but did not – decree to be an invalid one.

In the final analysis, those in the patent-owning community who have spoken out against the Leahy-Smith Act’s “prior user” defense on the ground that patent owners ought to have pristine “exclusive rights,” or that such a defense amounts to a “compulsory license,” certainly would not wish to see their arguments in this respect wholly demolished by having Congress amend the limiting phrase “or otherwise available to the public” in the new patent statute amended to read, “whether or not available to the public.” This final observation, for the vast majority of the patent-holding community, suffices to explain the widespread support for the “prior user” defense as a fair and balanced exercise of congressional authority.

***The Prior User Defense Supports the Public Policy of Affording Domestic Manufacturers Competitive Advantages Available Through Trade Secret Protection and Supports U.S. Manufacturing Jobs***

Companies that make the decision to establish manufacturing facilities in the United States typically face many competitive challenges. For one, they often compete against firms operating foreign-based facilities. U.S. wage and benefit costs may be greater. U.S. environment regulations may be more stringent. Key suppliers and important sources of raw materials may be located offshore – within easier reach of their foreign-based competition.

These competitive challenges can be offset, in some substantial measure, because the United States maintains strong, effective intellectual property protection. We strive for a strong patent system in which valid patents can be effectively enforced. The Leahy-Smith Act, once fully implemented, will greatly improve the prospect that a valid patent can be successfully enforced.

Similarly, the availability of trade secret protection and the ability to seek judicial redress for misappropriation of trade secrets are of vital importance. Maintaining certain types of manufacturing technology as trade secrets can afford U.S.-based manufacturers competitive advantages over foreign-based producers. The competitive advantages from trade secret protection can make it feasible to locate facilities in the United States that might otherwise be more economic to operate outside the United States. Technology is maintained as a trade secret in an array of circumstances where the alternative of seeking patent protection would not simply be futile, but would be affirmatively counterproductive.

Why so?

Patenting technology means making the technology publicly available to competitors globally. Indeed, it means making the technology *freely available* to competitors throughout the world *unless* global patents on the technology can be successfully sought, secured, and enforced.

In some key markets, patents are very difficult and very expensive to enforce. In some situations, the available patent protection is very narrow and easy for a competitor to circumvent. Finally, many trade secrets are incremental – represented by an array of separate, small advantages that would require an unaffordable multiplicity of patents – sought globally – to even attempt to protect.

When patent protection is unavailable, limited in scope, or uneconomic to secure, the only option for protection of competitively valuable technology is maintaining the technology as a trade secret. It becomes, thus, a public policy imperative not just to secure the viability of trade secret protection, but to make certain that protecting technology through trade secrets is not unduly frustrated. A potential source of frustration arises if trade secret technology that has been engineered into a new plant that is headed into commercialization operation, or already in commercial use, can be frustrated by belatedly sought patents.

Is it good public policy to secure for domestic manufacturers the ability to practice new technology in secret?

A few commentators have suggested that an effective, balanced prior user defense is bad public policy because it can unduly encourage secrecy in preference to public disclosure of important new technology. In my view, they are both wrong as a matter of good policy and wrong as a matter of good economics for the United States.

Any policy perspective that would encourage public disclosure at the expense of securing trade secrecy, whatever possible theoretical merit, should carefully weigh the practical impact. Investors seeking to locate new manufacturing facilities must weigh the advantages and disadvantage locating manufacturing activities domestically given the well-documented benefits from picking sites abroad.

A fair, balanced and effective prior user defense removes a competitive disadvantage to commercializing secret technology domestically, given the ready availability of such rights in foreign jurisdictions. In considering this provision, policymakers must take into account the positive benefits that accrue to American workers and U.S. economy by adopting policies that appropriately respect domestic manufacturing jobs and facilities undergirded by U.S. innovation. The advantages that foreign jurisdictions would have without an effective domestic “prior user” defense are worth detailing.

### ***The Implications of an Effective Prior User Defense for U.S.-Based Manufacturers***

A fair, balanced, and effective defense to infringement based upon a prior domestic commercial use has a collection of implications:

#### *Prophylaxis Against Nefarious Use of the Patent System*

Countries outside the United States have long recognized that not every global competitor in a particular market plays by the rules of high integrity at all times. Companies have been known to hire key employees from their competitors for the wrong reasons – in hopes of gaining access to the competitor’s secrets that can then be exploited. Industrial espionage is not unknown as a means to the same end.

Companies operating facilities in the United States are not immune from such nefarious activities. The scientific and engineering talent at many U.S.-based manufacturing facilities is global talent. Key scientists and engineers may have been born in Europe, educated in Asia, and hired to work here in North America, before going off-shore to work for a competitor.

One provision of law that protects European-based and Asian-based manufacturers against the possibility that their commercially important trade secret technology might nefariously find its way into later-sought patents taken out by their foreign-based competitors (to then be asserted against them!) is the “prior user” defense. Simply placing the defense into the patent law renders efforts at this type of nefarious patenting futile.

This prophylaxis against a company’s purloined trade secret technology being patented by someone else and asserted against it exists everywhere across the globe, except in the United States. The Leahy-Smith Act has a potential crucial deficiency in this regard. It allows technology thieves a 1-year “grace period” in which to complete their thievery and seek a patent on subject matter already in commercial use by someone else in the United States.

#### *Simplification of Patent Clearance for New Technology*

Another significant impact of affording a fair, balanced and effective “prior user” defense is its impact on due diligence efforts. Manufacturers making investments in the

millions to billions of dollars to construct a single manufacturing plant that may employ hundreds to thousands of U.S. workers need to assure that the technology to be employed in the plant is free from infringement of its competitors' patents. The due diligence process needed to arrive at that conclusion is simplified if an effective "prior user" defense is in place.

As new technology is examined to determine if it can be commercialized or its commercialization can legally continue, the availability of a "prior user" defense means that patents sought after commercialization has begun – or substantial efforts to commercialize have been completed – need not be reviewed or considered. It means that, once a new plant is in operation, further such due diligence efforts are unnecessary.

In a similar vein, an effective "prior user" defense is especially attractive for smaller enterprises that have established commercial activity and are seeking new investors or new financing. A patent attorney's due diligence report provided to a possible investor need not consider patents sought post-commercialization and, moreover, can be clear that no new patents can impact the enterprise's freedom to operate. Less "patent risk" means greater security that the investment will not be futile and lower financing or borrowing costs to see it to completion.

*Discourages Efforts to Patent Technology Best Kept Secret*

A public benefit of effective laws against misappropriation of trade secret technology, coupled with an effective "prior user" defense to infringement to protect the trade secret holder should a competitor secure a patent on the trade secret technology, is that overuse of the patent system is affirmatively discouraged.

For technology where trade secret protection provides the greatest competitive advantage for the creator of the technology, it makes little policy sense to compromise the effectiveness of trade secret protection by drafting the patent laws to create a potential conflict with the commercialization of the trade secret. Indeed, if the conflict with the patent system could only be resolved by foregoing trade secret protection, in favor of making use of the patent system, the result would be protection for the investor in commercialization that, in virtually every circumstance, would be far inferior to trade secret protection. In this situation, two unfortunate consequences emerge.

First, the creator of the new technology forced into the patent system has vastly increased costs to secure protection, and then run the risk that the inability to enforce its patents would amount to a give-away of the competitive advantages it hoped to secure through its use of the new technology.

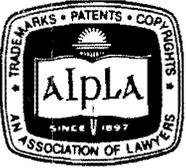
Second, the USPTO is obliged to devote resources to the examination of these patent applications, rather than focus its work on inventions where a prompt, high-quality patent examination is integral to bringing a new product or service to market – indeed, securing a patent that may be essential to securing the investments needed to develop the product to the point of commercialization.

Employing the patent system for inventions where patents are important to commercialization, and making the investments needed to secure commercial development, represents its highest and best use. Using trade secret protection for discoveries ill suited to effective patenting, and for which securing competitive advantages best comes from protecting that secrecy, is the *raison d'être* for the law of trade secret misappropriation. An effective “prior user” defense allows each of these two intellectual property regimes to operate at its best in the public interest.

### ***Conclusions***

The Committees on the Judiciary of the House and the Senate should take justifiable pride in shepherding an historic patent reform bill through Congress. One of the significant achievements in that legislation was the reform of the patent law as it related to the “prior user” defense. In enacting this reform, it provided fair and balanced benefits for prior domestic commercial users of technology in the situation where competitors have subsequently sought and secured patents. With this historic achievement secured in U.S. law, Congress now has the opportunity to develop a consensus on three areas in the law that would benefit U.S.-based manufacturers: *opening the defense to patent claims of all types, eliminating the 1-year “hold back” period before the defense can be established, and permitting the completion of substantial preparations for commercialization to be a sufficient trigger for asserting the defense.* U.S. patent law should give those who choose the United States as the place to invest in manufacturing facilities – and creating jobs for American workers – the same immunity from charges of patent infringement that investors who create jobs here would enjoy had they instead invested in creating foreign-based manufacturing plants. Let’s develop the consensus needed to get this done forthwith.

February 1, 2012  
Indianapolis, Indiana



# AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

2001 JEFFERSON DAVIS HIGHWAY, SUITE 203, ARLINGTON VIRGINIA 22202-3694

STATEMENT OF

ROBERT A. ARMITAGE, PRESIDENT

AMERICAN INTELLECTUAL PROPERTY  
LAW ASSOCIATION

FOR THE

SUBCOMMITTEE ON COURTS AND  
INTELLECTUAL PROPERTY

COMMITTEE ON THE JUDICIARY  
UNITED STATES HOUSE OF REPRESENTATIVES

OCTOBER 26, 1995

ON THE

H.R. 2235, PRIOR DOMESTIC COMMERCIAL USE ACT OF 1995

## Summary

The American Intellectual Property Law Association has long supported the introduction of “prior user rights” into the U.S. patent laws. During the 102nd Congress AIPLA endorsed prior user rights in the context of adopting a so-called “first-to-file” system as part of a proposed Patent Law Treaty, we subsequently supported legislation in the 103rd Congress that would have introduced a form of prior user rights into our current patent law, and, today, we are pleased to support the H.R. 2235 as introduced in the 104th Congress.

The sum and substance of our support can be captured in a few words: fairness and balance. Our threshold requirement for support of any proposal for prior user rights is that it maintain adequate and effective exclusivity for the patent owner. H.R. 2235 was carefully constructed to assure that patents, and the full incentives under the patent system, will remain essentially undiminished. We further regard H.R. 2235 as embodying a simple idea of fairness: if in good faith a domestic manufacturer has made an investment in plant and equipment — and employment of American workers — patents applied for *after* commercial use has begun should not affect such a prior commercial user. Finally, the provisions of H.R. 2235 assure balance between the right to continue in commerce and the underlying patent right. H.R. 2235 requires that the prior user be a prior inventor and limits the extent of the rights of a prior user based on the extent of the actual prior commercial activity.

Prior user rights exist under patent laws throughout the industrialized world and have long been an integral part of foreign patent systems. Experience with foreign prior user right provisions has demonstrated the following:

- *Prior user rights exist without significantly impacting on patent exclusivity.* Prior user rights typically derive from the use of secret manufacturing technology on which a subsequent inventor later seeks a patent. Such cases arise with relative infrequency. Moreover, the rights arising from a prior use only affect patents in the country in which the prior use was undertaken. Hence, they cannot undermine or provide disincentives for using the patent system.
- *Prior user rights tend to selectively protect established domestic industries against foreign patent owners.* All prior users are domestic prior users; most patent owners in most countries are foreign entities. The result is that prior user rights commonly operate in a “protectionist” mode. They represent a means for preventing mostly foreign-owned patents, filed after the public has the benefits of the invention, from stopping an established domestic manufacturer.
- *Prior user rights avoid a “give away” of valuable manufacturing technology.* Many patentable inventions cannot be economically patented; others, even if patented, cannot be effectively enforced. If prior commercial users are forced into seeking incomplete or ineffective patent protection, they simply forfeit their technology rights. U.S.-made technology will be copied abroad where patents are not in force or where they cannot be effectively enforced.

We support H.R. 2235 as a tailored, targeted legislative response to a real and pressing problem for the creators of new domestic technology, new American industries and new American jobs.

Mr. Chairman:

I appreciate the opportunity to appear before the Subcommittee today to present the position of the American Intellectual Property Law Association (AIPLA) on H.R. 2235, the "Prior Domestic Commercial Use Act of 1995."

The American Intellectual Property Law Association is a 9,400 member national bar association, whose membership primarily consists of lawyers in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property.

The AIPLA supports the enactment of H.R. 2235. This bill provides a carefully crafted defense right to a charge of patent infringement to a person who has made a good faith, commercial use of the subject matter of the patent, or effective and serious preparation for such use, prior to the earliest effective filing date of that patent. The Association supported similar legislation in the 103rd Congress. The bill which you have introduced for yourself and Mrs. Schroeder in this Congress contains a number of new provisions which even more carefully define the scope of the prior use defense, thereby ensuring that it will be available only in circumstances where the equities favoring a prior user over a later-filing patent owner are compelling.

Before addressing the details of H.R. 2235, I would like to offer a few comments to place the support of the AIPLA into the proper perspective.

Prior user rights are a common feature of patent laws outside the United States. Most foreign patent systems are deliberately structured to balance the protection afforded a prior domestic user with the rights granted under a subsequently filed patent. Under these systems, the commercial activities of a prior user cannot be used to invalidate a patent that is subsequently applied for and issued. Similarly, an established prior use cannot be stopped by an inventor who applies for a patent after the prior use is commenced. Prior user rights produce a “win-win” outcome in the sense of recognizing both the validity of the late-filed patent and continued viability of domestic investments in plant and equipment previously made in good faith.

In most countries, prior user rights have an undeniably “protectionist” function. Our major trading partners benefit from the prior user rights in their domestic patent laws because they assure that domestic manufacturers in those countries, but not foreign manufacturers, can qualify as “prior users.” In most countries around the world, domestic inventors hold the minority — sometimes a tiny minority — of patents that are issued. Thus, a common situation in which the prior user right applies is to protect the investment of a domestic manufacturer against a foreign patentee.

Instead of this “win-win” outcome for both the inventor and the prior user, the current U.S. patent law provides the potential for a “lose-lose” situation for the domestic manufacturing company. First, the relative number of U.S. patents that are being granted to foreign-based inventors has steadily increased over the past several decades. Simple mathematics indicates that U.S. patents granted to foreign inventors may pose an increasing challenge to domestic manufacturing enterprises unless the U.S. recognizes prior user rights. The United States patent system, absent the adoption of prior user rights, can be expected to exhibit an increasingly

“reverse-protectionist” tilt against domestic manufacturing entities and in favor of foreign patentees.

Second, the GATT TRIPs legislation will shortly strengthen the hand of the foreign inventor in enforcing patents against U.S. manufacturing enterprises. Up until now, a foreign inventor who applied for a patent after the U.S. invention date of a prior domestic manufacturer could not enforce the patent against the domestic manufacturer (unless the invention was “abandoned, suppressed or concealed”). The Uruguay Round Agreements Act greatly complicates even this limited protection for a domestic manufacturer. Beginning on January 1, 1996, a foreign inventor will be able to rely on earlier foreign activities to counter any U.S. invention date proofs. Again, the reverse tilt in the U.S. patent law works against the domestic manufacturer by enhancing the enforceability of foreign patents.

While thirty years ago the arguments for a statutory “prior user” right in the U.S. patent law might have been made in trade-neutral terms, this is no longer the case. As the United States grants more patents to foreign-based inventors and enhances the enforceability of those patents against prior domestic manufacturers, the time has clearly come for Congress to act. We urge that the Congress recalibrate the balance between rights of the prior domestic user and rights afforded under a subsequently sought patent.

For the great majority of inventions, effective protection can only be realized through the patent system. While protection under trade secret law is available for certain manufacturing processes and equipment, most inventions cannot be protected effectively as trade secrets. They can be reverse engineered and copied once they are placed on the market or are otherwise publicly disclosed. Moreover, because trade secret laws generally provide no exclusivity of the

type available under patent law, protection under trade secret laws is seldom chosen where enforceable patent rights are readily and economically available.

There are a number of reasons, however, why it is not feasible or even possible to patent every invention which could be patented. First and foremost is the relationship between enforceability and cost. The costs of seeking and obtaining patent protection around the world are high. These costs, as well as the costs of enforcing patents country-by-country, have become so high that large U.S. companies must carefully prioritize which inventions they seek to patent. The burden imposed by such costs fall even more heavily on smaller U.S. firms, and especially on independent inventors, who are frequently limited to seeking to patent only their most important inventions.

Where patents on manufacturing technology cannot be obtained and enforced on a global basis, the effect of seeking limited protection in the United States is simply to give valuable U.S. technology to foreign companies for use where corresponding foreign patents were not obtained.

The practical inability of U.S. manufacturers to patent their manufacturing-related inventions globally because of these high costs constitutes no less than a free gift of technology for all of those inventions. Where only a U.S. patent is sought, it would fully disclose to competitors how to make the inventions—including the invention's "best mode"—and would permit competition with the innovator in the United States and in foreign markets.

Even if patents are sought and obtained, enforcement represents a second practical problem. Identifying a competitor's use of such a patented process can be extremely difficult in the United States and utterly impossible in foreign countries. Even in the case of products made abroad and later imported into the United States, it is very difficult to prove that the imported

products were made by a particular process that infringes a patent in the United States or the country of origin.

A prior user defense should prove especially useful for the computer software industry. Historically, many inventors have been dissuaded from seeking patents on computer-implemented inventions because of uncertainties over the availability of such patents. For example, the Patent and Trademark Office has only reluctantly accepted the patentability of many types of computer-implemented inventions. Instead of seeking patents, many inventors have relied on trade secret protection. Recently, however, the attitude of the Patent and Trademark Office appears to have changed. The Office has issued Proposed Examination Guidelines for Computer-Implemented Inventions that suggests that the door is now open to greater patent protection. A prior user right would assure that a legion of prior commercial users would not now be subject to newly filed and issued patents that are sought pursuant to the Office's new guidelines. Hence, during the expected transition to a greater reliance on patent protection, H.R. 2235 would serve an additional salutary purpose.

For these and other practical reasons, many U.S. companies and especially smaller U.S. companies are forced to forego patenting of many inventions. In the case of manufacturing-related technology, these companies seek to protect their technology under trade secret law. This creates the possibility that a second, later inventor may obtain a U.S. patent on technology already being commercially used, but which has not been publicly disclosed. This later-filing inventor could then obtain an injunction and prevent the U.S. manufacturer from further use of the

invention, even though the U.S. manufacturer had made the full benefits of the invention available to the American public through its commercial use of the invention.

Foreign inventors and manufacturers, though confronted with the same cost and enforceability problems as their American counterparts, have greater inherent flexibility. They do not face the possibility that a later-filing inventor can obtain a patent and disrupt their home-country based manufacturing operations. As noted earlier, this is because virtually all industrialized countries protect their domestic manufacturers with a prior user right (see Keith M. Kupferschmid, *Prior User Rights: The Inventor's Lottery Ticket*, 21 AIPLA Quarterly Journal No. 3 (1993).

Thus, while a Japanese or German company with a U.S. patent may preclude the use of an industrial process by a U.S. company which had been utilizing that process as a trade secret for years before the patent application for the process was even filed, the reverse is not the case. American inventors holding patents in any of our major trading partners could not preclude use of the patented invention by a company which had begun its use of the invention before the American inventor filed a patent application. When 45% of all U.S. patents are being granted to foreign firms, this unbalanced playing field is, of itself, a strong economic argument in support of H.R. 2235.

The laws of the United States should give weight to legitimate forms of protection for American jobs and businesses.

The AIPLA support of H.R. 2235 is predicated on the fact that it does not compromise effective protection for patent owners. The limitations of H.R. 2235 ensure that U.S. patentees will continue to enjoy their full, exclusive patent rights except in certain rare situations where an

earlier-started, domestic, commercial enterprise will be allowed to continue under restricted circumstances. We have every confidence that the proposed prior use defense cannot be easily abused or misused. This confidence stems from actual experience in other countries having prior user right provisions which are more readily available than those which would be established under H.R. 2235 (see Lise Osterborg, *Towards a Harmonized Prior User Right Within a Common Market System*, 12 Intl. Review Indus. Prop. and Copyright 447 (1981)).

Unlike its predecessor in the 103rd Congress which provided a prior use defense to a person who commercially used, or made effective and serious preparation to use, a patented invention before its effective filing date, H.R. 2235 requires that the commercial use or a reduction to practice of the invention must occur more than one year before the effective filing date. The term "commercially used" means that a person asserting the prior user defense must have used the invention in the United States in the design, testing or production of a product or service which is sold or otherwise transferred in commerce. The invention used need not be accessible or otherwise known publicly. Thus an industrial process or tool which is used as a trade secret to produce a product in commerce would be deemed to have been commercially used.

H.R. 2235 also tightens the requirements with respect to what constitutes "effective and serious preparation." Under H.R. 2235, "effective and serious preparation" will only give rise to a prior use defense with respect to inventions which cannot be commercialized without a significant investment of time, money, and effort. This is further qualified by the requirements that a person asserting a prior use defense must have:

- reduced the invention to practice in the United States more than one year prior to the effective filing date of the patent;

- completed a significant portion of the total investment necessary to commercially use the invention and have made a commercial transaction in the United States in the preparation to use the invention prior to the effective filing date of the patent; and
- diligently completed the activities and investments necessary to commercially use the invention and promptly began its commercial use after the effective filing date of the patent.

Should the person asserting a prior use defense have abandoned commercial use of the invention, he or she can only rely on activities occurring after the effort to commercially use the invention is resumed.

There are a number of other limitations on the establishment of a prior use defense under H.R. 2235. First, the burden of proving that a person is entitled to the defense is always on the person asserting the defense. Should an infringer claiming the defense fail to demonstrate a reasonable basis for such assertion, the court shall award attorney's fees to the patentee.

Moreover, the prior use defense established by H.R. 2235 is not a general license under all of the claims of the patent in issue. It is a defense only to the claim or claims in the patent which the person asserting the defense had commercially used or made effective and serious preparations to use. An improvement by the prior user reduced to practice less than one year before the effective filing date of the patent that would infringe an additional specifically claimed subject matter would not benefit from a prior use defense. Only improvements that do not infringe additional claims and variations in the quantity or volume of the qualifying prior use would be permitted.

The prior use defense could not be licensed, assigned or transferred to a third party except in connection with the good faith assignment or transfer of the entire portion of the business to which the defense relates.

Finally, a person may not assert a prior user defense based on information that was derived from the patentee or those in privity with the patentee. Thus, if a patentee demonstrates that the person asserting a prior use defense had access to information from the patentee or reasonably could have obtained such information that likely accounted for the original acquisition of the invention by that person, then there would be a rebuttable presumption that the person derived the information and is not entitled to the defense. The person asserting the defense would have to establish that the invention was independently obtained from a source other than the patentee to rebut such a presumption.

In light of the need for a prior use defense to place American businesses on an equal footing with their foreign competitors, the AIPLA supports enactment of H.R. 2235 with its carefully crafted limitations and safeguards against abuse. Although the prior use defense of H.R. 2235 will seldom be available, we believe there is a need to establish it promptly.