Public Interest
Patent Law Institute

March 24, 2023

RE: **Intellectual Property and Strategic Competition with China: Part I**

Dear Members of the Subcommittee on Courts, Intellectual Property and the Internet,

We write to ensure the record of the hearing on *Intellectual Property and Strategic Competition with China: Part I* accurately reflects the state of patent eligibility law in the United States; its importance to small businesses, technology creators, and consumers in the U.S.; and its impact on our country's ability to innovate and compete with China. Thank you for your work and consideration of the public's interest in these important issues.

Debunked Myths about Patent Eligibility

Many criticisms of patent eligibility rely on claims that have been proven false. For example:

False: Patent eligibility law prevents the issuance of U.S. patents.

A 2017 paper by Kevin Madigan and Adam Mossoff[1] making this point has been resoundingly debunked. In fact, the data they used demonstrates how *rarely* patent eligibility law prevents patents from issuing. That paper identified 1,694 U.S. patent applications that purportedly did not issue as patents because they were rejected as ineligible for patent protection. According to a detailed study[2] of a statistical sample of Madigan and Mossoff's data, 24% of the applications in their dataset *never* received eligibility-related rejections. Another 61% received numerous rejections based on other deficiencies (such as obviousness) before they were abandoned. Only 15% received a sole, eligibility-related rejection when they were abandoned, and of those, 22% are the basis for applications that are still pending. This means a patent claiming the same or an overlapping invention has or could still issue.

False: Patent eligibility limits disadvantage U.S. inventors.

Critically—and often overlooked—is the fact that many patent applications have little to no connection to domestic innovation. Madigan and Mossoff's data demonstrate that patent eligibility rejections *overwhelmingly* affect foreign entities. The case study discussed above[3] found that 75% of the applications were assigned to foreign entities. That number climbs to 85% for the 15% of applications that were rejected only for ineligibility before being abandoned. Notably, the entity that appeared most often on the list of assignees with rejected and abandoned applications was Huawei.

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[1] Kevin Madigan & Adam Mossoff, *Turning Gold to Lead: How Patent Eligibility Doctrine is Undermining U.S. Leadership in Innovation*, 24 Geo. Mason L. Rev. 939 (2017).

[2] Abby Rives, *A Brief Case Study in Policy-Relevant Empirical Assessments: The Shortcomings of Counting Patent Grants by Country to Inform Patent Eligibility in the U.S.,* Oct. 12, 2021, https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/6165c59179b6af76135e53cf/1634059665361/2021.10.12_Case+Study+on+Patent+Data.pdf.

[3] *Id.*

Foreign Patent Owners and Litigation Funders Can Weaponize U.S. Patents against U.S. Interests

U.S. patents give their owners the right to stop others from making, using, or selling whatever their patent covers, but only in this country. Patent eligibility limits ensure businesses (and consumers) in the U.S. are only liable for infringing patents on genuine inventions. Importantly, these protections apply *exclusively* to businesses, innovators, and consumers operating in the U.S.

No such limits apply, however, to the exclusive rights patents confer. U.S. patents can be asserted against entities in the U.S. by anyone, including foreign entities. Foreign entities acquire U.S. patents both by applying for them directly, as discussed above, and by buying them from others.

Regardless of how they are acquired, U.S. patents allow foreign entities to sue U.S. businesses in U.S. courts. Foreign entities frequently assert their patents against domestic businesses. For example, Huawei has used its U.S. patents to sue numerous U.S. companies directly, including Verizon, HP, and Cisco.[4] These lawsuits make companies vulnerable to litigation costs, injunctions, and huge damages awards, but also to court-ordered disclosure of confidential information in discovery.[5]

Foreign entities are also involved in U.S. patent litigation indirectly—and often secretly—for example, by funding litigation brought in the name of companies organized domestically. Foreign litigation funders can be private as well as government-controlled foreign entities. For example, VLSI Technologies sued Intel for allegedly infringing a number of U.S. patents, winning over $4 billion in damages from two Texas juries. In a separate Delaware case, VLSI was ordered to publicly disclose its litigation funders, which include an unspecified foreign sovereign wealth fund.[6] When ordered to disclose additional details about that (and other) entities funding its litigation, VLSI chose to settle the case without receiving any payment.[7]

The involvement of foreign sovereign wealth funds raises especially grave concerns. As the Government Accountability Office's recent report on litigation funding recognizes, sovereign wealth funds may fund litigation in the U.S. "to further foreign policy or military goals."[8] Concerns about foreign governments using U.S. patents to harm U.S. entities and achieve their own policy or military goals must not be overlooked. To protect U.S. companies and consumers from abusive patent assertion by foreign entities, we must require greater transparency about patent ownership and patent litigation funding.

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[4] Arjun Kharpal, *Chinese telecoms giant Huawei sues Verizon for patent infringement*, CNBC, Feb. 6, 2020, https://www.cnbc.com/2020/02/06/huawei-sues-verizon-for-patent-infringement.html.

[5] Hilbert Hagedoom, *Huawei files patent lawsuits against Verizon, HP, Cisco*, The Guru of 3D, July 21, 2020 https://www.guru3d.com/news-story/huawei-files-patent-lawsuits-against-verizonhp-and-cisco.html. *Id.* ("Huawei is seeking royalty payments for hundreds of patents. In particular, sources claimed that this event could also be exploited by the Chinese company to compel courts to uncover confidential information from Verizon and its suppliers.").

[6] Public Interest Patent Law Institute, *When Judges Court Transparency and Integrity,* Dec. 12, 2022, https://www.piplius.org/news/when-judges-court-transparency-and-integrity.

[7] Michael Shapiro, *Intel, VLSI Agree to End $4.1 Billion Delaware Chip Patent Case*, Bloomberg Law, Dec. 28, 2022, https://news.bloomberglaw.com/ip-law/intel-vlsi-agree-to-end-4-1-billion-delaware-chip-patent-case.

[8] GOV. ACCOUNTABILITY OFFICE, *Third-Party Litigation Financing: Market Characteristics, Data, and Trends*, GAO-23-105210, Dec. 23, 2022, at 21 n.52 (citing Maya Steinitz, *Follow the Money? A Proposed Approach for Disclosure of Litigation Finance Agreements*, UC Davis Law Review, vol. 53, no.2 (2019): 1103-110), https://www.gao.gov/assets/gao-23-105210.pdf.

American Innovation and Competition Are Stronger Because of Patent Eligibility Law

Patent eligibility law is vital to American innovation, competition, and economic growth. The Supreme Court's decisions confirming this law applies to genetics, diagnostic medicine, and software have made these technological fields more advanced, competitive, and accessible.

For example, in 2013, the Supreme Court held in *Association for Molecular Pathology v. Myriad Genetics, Inc.*, that patents on genetic mutations which are highly correlated with breast, ovarian, and prostate cancers, were ineligible, and therefore invalid.[9] The day the decision issued, five laboratories announced they would make tests for those mutations available to patients, significantly reducing the cost and improving the efficacy testing.[10] Senate testimony from Sean George, CEO of Invitae, further confirms that innovation and access to genetic testing increased because of the *Myriad* decision, with overall investment increasing from $6.21 billion in 2013 to over $17 billion in 2018, and new tests for a wide range of genetic conditions becoming available.[11]

In 2014, the Supreme Court held in *Alice v. CLS Bank*, that patents combining basic ideas with networked computers were not eligible patent protection without more.[12] In its "Saved By Alice" initiative, the Electronic Frontier Foundation collected numerous stories of creators and small businesses that thrived because of that decision.[13] For example, an army veteran named Justus Decher started a telehealth business that was saved from a patent assertion entity's exorbitant demands after its patent was held invalid under *Alice*.[14] While *Alice* saved Justin's business, it came too late for others. One example is David Bloom, whose online food delivery business went bankrupt trying to defend itself against a patent that was invalidated under *Alice* a few years later.[15]

Conclusion

For over a century, patent eligibility law has been the backbone of our economy, innovation, and patent system. We need it now more than ever. But to ensure Americans have the freedom they need to create, compete, and thrive, we must also strengthen our patent system by requiring more transparency about patent owners and litigation funders.

Sincerely,

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[9] *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.,* 569 U.S. 576 (2013).

[10] Andrew Pollack, *After Patent Ruling, Availability of Gene Tests Could Broaden*, N.Y. Times, Jun. 13, 2013, https://www.nytimes.com/2013/06/14/business/after-dna-patent-ruling-availability-of-genetic-tests-couldbroaden.html.

[11] *The State of Patent Eligibility in America: Pt. II Before the S. Subcomm. on Intellectual Property*, 116th Cong. (2019), https://www.judiciary.senate.gov/imo/media/doc/George%20Testimony.pdf.

[12] *See Alice*, *supra,* note 1.

[13] *Saved by Alice,* Electronic Frontier Foundation, https://www.eff.org/alice.

[14] Electronic Frontier Foundation, *Alice Saves Medical Startup from Death by Telehealth Patent*, https://www.eff.org/alice/alice-saves-medical-startup-death-telehealth-patent.

[15] Electronic Frontier Foundation, *Alice Arrives too Late to Save a Startup*, https://www.eff.org/alice/alice-arrives-too-late-save-startup.