September 17, 2024

The Honorable Richard J. Durbin
Chairman
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

The Honorable Lindsey Graham
Ranking Member
Committee on the Judiciary
United States Senate
Washington, DC 20510

Dear Chairman Durbin and Ranking Member Graham,

The organizations joining this letter represent the nation's leading microchip and technology manufacturers, generic and biosimilar manufacturers, automotive companies, financial services providers, Main Street retailers, construction companies, grocers, hotels, and restaurants, as well as leading think tanks and civil society groups focused on intellectual property policy. We employ tens of millions of American workers and invest hundreds of billions of dollars each year in research and development and make products that are critical to the economic security and well-being of the American people and of the nation as a whole. We represent the core of the U.S. economy.

Unfortunately, we are also heavily affected by patent litigation that leverages invalid patents against U.S. businesses. The United States Patent and Trademark Office issues more than 350,000 patents a year and, historically, more than 40% of challenged U.S. patents have been found to be invalid when challenged. Review proceedings before the experts at the USPTO's Patent Trial and Appeal Board ("PTAB") often are the *only* reliable and accurate check on a patent's validity. PTAB review is critical to the American manufacturing economy, to the integrity of the U.S. patent system, and as an affordable alternative to defending against frivolous lawsuits in the courts.

We strongly urge you to oppose the Promoting and Respecting Economically Vital American Innovation Leadership Act (the "PREVAIL Act"), which was recently placed on the markup agenda. This bill would further weaken protections against abusive patent litigation, create unjustified obstacles to PTAB review, substantially degrade the performance of the PTAB, and significantly reduce patent quality and the ability of the patent system to promote technological progress. Perhaps most troublingly, erecting artificial barriers to PTAB review would primarily benefit foreign businesses and domestic shell companies that do not make or sell any products and contribute little or nothing to the U.S. economy: a majority of U.S. patents are granted to foreign entities (with China having the highest growth rate in U.S. patent grants); and about 60% of patent litigation is brought by non-practicing entities. This is aptly illustrated by a recent example in which the USPTO's decision to arbitrarily bar access to PTAB review allowed a foreign hedge fund to obtain over $2 billion in damages verdicts against America's leading chipmaker based on patents that the agency has since been found to be invalid.

Simply put, strengthening the ability of foreign competitors and patent assertion entities to profit from the assertion of invalid patents at the expense of domestic businesses and

consumers can only harm U.S. competitiveness, innovation, and economic growth. The PREVAIL Act proposals that would substantially harm U.S. businesses and consumers include:

- **Blocking parties who are harmed by a patent from seeking review.** Limiting PTAB review only to companies that have been sued or threatened with a suit will mean that a small business that receives a letter demanding royalties for a widely adopted technology, such as Wi-Fi or document scanning, could not seek review if the letter was sufficiently vague and did not threaten suit. A manufacturer whose customers are sued for using its product could not seek review, which harms both manufacturers and consumers. A public interest group could not challenge a drug patent that threatens patients' access to a life-saving treatment, and a trade association could not initiate a review to protect its members against an abusively asserted patent.
- **Creating arbitrary limitations that prevent effective review.** Except in rare cases, PREVAIL requires a challenge to be filed in a single petition. Some patents, however, have over 100 claims, include complex limitations, or have disputed priority dates. *See*, *e.g.,* U.S. Patent No. 6,684,189, with 887 claims. Combined with agency rules that limit petitions to 14,000 words, PREVAIL makes it impossible to effectively challenge many patents.
- **Prohibiting consideration of prior art that was never evaluated by the USPTO.** If the PTAB is forced to reject any petition that relies on prior art that was previously "presented" to the USPTO, regardless of whether it was actually evaluated, this will not only preclude completely distinct, non-duplicative challenges based on prior art that was never actually considered by the agency, but it would also allow patentees to launder prior art by citing it in a document dump of hundreds or even thousands of references that are unlikely to be meaningfully considered by an examiner.
- **Applying punitive estoppels to a defendant because the *plaintiff* refuses to stay litigation.** Most district courts will stay infringement litigation if the USPTO finds a "reasonable likelihood" that a patent is invalid and institutes a PTAB review. In a few plaintiff-friendly jurisdictions, however, the court will allow a parallel trial to go forward if the plaintiff will not agree to a stay. Decrying such "duplicative proceedings," proponents propose to bar the defendant in such parallel district court or ITC cases from raising prior art defenses. This badly distorts the litigation, allowing the patent owner to misrepresent an incremental invention as a pioneering one and to argue for aggressive claim constructions. But most importantly, this proposal punishes the *defendant* because of the *plaintiff's* insistence on going forward with a parallel trial. If the proponents are concerned about duplicative proceedings, they should instead require all district courts and the ITC to stay their cases pending PTAB review of a patent.

- **Preventing the USPTO from correcting its own mistakes.** Proposals to impose a "clear and convincing" standard that would force the PTAB to defer to an examiner's earlier decision to grant a patent are also ill-advised. While such deference is required of generalist district court judges in recognition of the USPTO's technical expertise, in PTAB proceedings, the patent is being reviewed by three technically trained judges from the same expert agency, based on a more complete record, and with the benefit of an adversarial proceeding. In contrast, the *ex parte* decision to issue a patent is generally made by a single examiner, operating under severe time constraints that limit examination time to 19 hours on average and without the benefit of evidence or arguments from third parties. Because a determination of patentability by a three-judge PTAB panel is in every way more rigorous, transparent, and accurate than the unilateral decision of a single examiner that was based on an incomplete record, it would be nonsensical to prevent the PTAB from correcting examiner mistakes by requiring deference to the initial examination decision.
- **Adopting one-sided procedural rules that would unfairly benefit the owners of invalid patents.** PREVAIL proposes to preclude any PTAB judge that participates in an institution decision from being a member of the panel that renders a final written decision. Under this rule, a patent that was unilaterally granted by a single examiner could be cancelled only upon two separate decisions in favor of the patent challenger rendered by six different technical judges, each of whom would be required to presume the patent to be valid. Tellingly, advocates of this rule do not support applying it to district court litigation or even to other types of PTAB proceedings. Rather, this rule would apply *only* in the subset of PTAB proceedings in which it would unduly disadvantage petitioners.

We are deeply concerned about these and other aspects of the proposed legislation that would have the foreseeable effect of shielding invalid patents from cancellation by the PTAB. These aspects of the proposed legislation would primarily benefit foreign and non-practicing entities to the detriment of American businesses and consumers. Indeed, in 2015, when Congress considered similar restrictions on PTAB review, the Congressional Budget Office determined that the policy would cost U.S. taxpayers over $1 billion solely because of the impact on drug prices. Beyond increasing the cost of all types of products and services in the U.S., the changes proposed would reverse much of the $3 billion in benefits to the U.S. economy that a recent economic analysis found were created by PTAB review.

The proposed legislation would damage U.S. industry, discourage commerce, and place further inflationary pressure on the prices that Americans pay for goods and services—principally for the benefit of shell companies, foreign patent owners, and litigation investment funds. We would urge you to reconsider these harmful provisions and strongly oppose their enactment by Congress. Instead of dismantling the process for correcting errors in the issuance of patents, we would respectfully suggest that Congress's efforts would be more productive if they focused on preventing those errors from occurring in the first place.

Sincerely,

ACT | The App Association
Alliance for Automotive Innovation
Association for Accessible Medicines
Bank Policy Institute
BSA | The Software Alliance
Computer and Communications Industry Association
Consumer Technology Association
Electronic Frontier Foundation
Electronic Transactions Association
Engine
High Tech Inventors Alliance
National Retail Federation
Public Innovation Project
Public Interest Patent Law Institute
R Street Institute
Retail Industry Leaders Association
Software & Information Industry Association
United for Patent Reform
US MADE
Quality Patent Coalition
Washington Retail Association

ACT The App Association

ALLIANCE FOR AUTOMOTIVE INNOVATION

aam Association for Accessible Medicines

bpi BANK POLICY INSTITUTE

The Software Alliance BSA

ccia Computer & Communications Industry Association Tech Advocacy Since 1972

Consumer Technology Association CES

ELECTRONIC FRONTIER FOUNDATION EFF

eta ELECTRONIC TRANSACTIONS ASSOCIATION

Engine

High Tech Inventors Alliance

NRF National Retail Federation

PIP Public Innovation Project

Public Interest Patent Law Institute

R Street Free markets. Real solutions.

RETAIL INDUSTRY LEADERS ASSOCIATION

SIIA

UNITED for PATENT REFORM

US MADE

QUALITY PATENTS COALITION

WR WASHINGTON RETAIL ASSOCIATION

UNITED *for* PATENT REFORM

United for Patent Reform is a broad coalition of diverse American businesses, small and large – from national construction companies, automobile manufacturers, and technology businesses to Main Street retail shops, REALTORS®, hotels, grocers, convenience stores, and restaurants – advocating for a patent system that enhances patent quality, advances meaningful innovations and protects legitimate American businesses from abusive patent litigation.

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