April 26, 2023

The Honorable Darrell E. Issa
Chairman, Subcommittee on Courts,
Intellectual Property, and the Internet
U.S. House of Representatives
2108 Rayburn House Office Building
Washington, DC 20515

The Honorable Henry "Hank" C. Johnson
Ranking Member, Subcommittee on Courts,
Intellectual Property, and the Internet
U.S. House of Representatives
2240 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Issa and Ranking Member Johnson,

The organizations joining this letter represent the nation's leading microchip and technology 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 nearly 100 million Americans, invest hundreds of billions of dollars each year in research and development, and make products that are critical to the health and well-being of the American people. We represent the core of the U.S. economy.

We are heavily affected by patent litigation that leverages invalid patents against U.S. industry. The United States Patent and Trademark Office issues over 350,000 patents a year and historically, more than 40% of U.S. patents have been found to be invalid when challenged. A majority of U.S. patents are issued to foreign entities, and 60% of patent litigation is brought by parties, including foreign litigation investors, that do not practice the invention. Review proceedings before the experts at the USPTO's Patent Trial and Appeal Board often are the *only* reliable and accurate check on a patent's validity. PTAB review is critical to the American manufacturing economy and to the integrity of the U.S. patent system.

We are thus alarmed by the nature and scope of the new restrictions that the USPTO proposes to impose on these proceedings in its April 20 notice. These new rules would make it impossible for American businesses to seek PTAB review in a large portion of the cases where they are sued on invalid patents and would seriously degrade the proceedings. In addition, much of what has been proposed violates the agency's statutory mandate. Simply put, the proposed rules are against the law and would gut PTAB review to the detriment of American businesses and consumers. Indeed, in 2015, when Congress considered *less* severe restrictions on PTAB review than what the USPTO is now proposing, the Congressional Budget Office determined that the policy would cost U.S. taxpayers over $1 billion solely because of its impact on drug prices.

The USPTO's proposed rules go beyond the agency's statutory authority. Examples include:

- **Rewriting the statutory deadline for filing a petition:** In the America Invents Act, Congress enacted a deadline that a PTAB petition must be filed within "1 year after . . . the petitioner is served with a complaint" alleging infringement of the patent. 35 U.S.C. § 315(b). The USPTO now proposes to shorten the default deadline to six months unless the petitioner falls within certain safe harbors. Six months is the same time period that Congress considered and expressly *rejected* as the statutory deadline in 2011.

- **Rewriting Congress's rules for who can file a petition:** In early versions of the AIA, Congress contemplated imposing a "standing" requirement for PTAB proceedings, but it ultimately decided not to do so. The USPTO now proposes "limitations on nonmarket competitors" that impose a similar requirement.

- **Rewriting the AIA's standard for instituting review:** Congress set a "reasonable likelihood" threshold for instituting PTAB review and a "preponderance of the evidence" standard for final validity determinations. The USPTO now proposes in many situations to exercise its discretion to deny institution of a petition unless the petitioner satisfies a non-statutory "compelling merits" test for instituting review—which it concedes is a higher threshold than even the standard for the final determination.

- **Rewriting the statutory estoppel:** Congress chose to bar a petitioner in a PTAB proceeding from raising prior-art defenses in other fora only *after* the PTAB proceeding has "result[ed] in a final written decision under section 318(a)." 35 U.S.C. § 315(e). Congress also expressly *repealed* previous rules that made district court determinations a bar to USPTO review—it concluded that the reliability of such determinations was insufficient to allow them to serve as the final word on patent validity. The USPTO now plans to apply estoppel in many (or even all) instances at the *beginning* of a PTAB proceeding and to make *any* district court determination a bar to PTAB review absent an extra-statutory "compelling merits" showing.

The USPTO's proposed rules cannot be reconciled with the laws enacted by Congress.

In addition, much of what is proposed in the ANPRM would be deeply damaging to the patent system and to the American economy. Among the most problematic proposals are:

- **A "substantial relationship" test that will ensnare entire industries.** The ANPRM proposes to block a party from seeking review if a different party with which it has a "substantial relationship" was sued earlier and brought an unsuccessful challenge. The different companies in an industry routinely have an *infinite* number of "relationships" and contracts with each other and their customers. This extra-statutory rule will invite a tidal wave of discovery over ancillary matters and will routinely prevent defendants from challenging an invalid patent simply because someone else was sued earlier.

- **A carve out that will block challenges to patents asserted by abusive litigants.** The USPTO proposes to bar validity review if a patent is owned by a "small business" that is attempting to "commercialize" the patented invention. Patent-assertion entities *already* operate through shell companies and nominal plaintiffs and take de minimis steps to portray themselves as "start ups." The USPTO lacks the competence or resources to investigate such matters—this loophole will be widely exploited by abusive litigants.

Ultimately, it is the American people and the U.S. economy that will pay for these ultra vires policies. When the USPTO previously arbitrarily blocked access to PTAB review, its actions allowed a foreign hedge fund to obtain over $3 billion in damages verdicts against America's leading chipmaker—based on patents that the agency has since acknowledged are very likely invalid. A recent economic analysis also found that PTAB review has brought almost $3 billion in benefits to the U.S. economy, particularly in the manufacturing sector.

The USPTO's PTAB rules 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 urge Congress to reject the USPTO's proposed rules and insist that the USPTO follow the statute. Instead of dismantling the process for correcting errors in the issuance of patents, the agency should focus on preventing those errors from occurring in the first place.

Sincerely,

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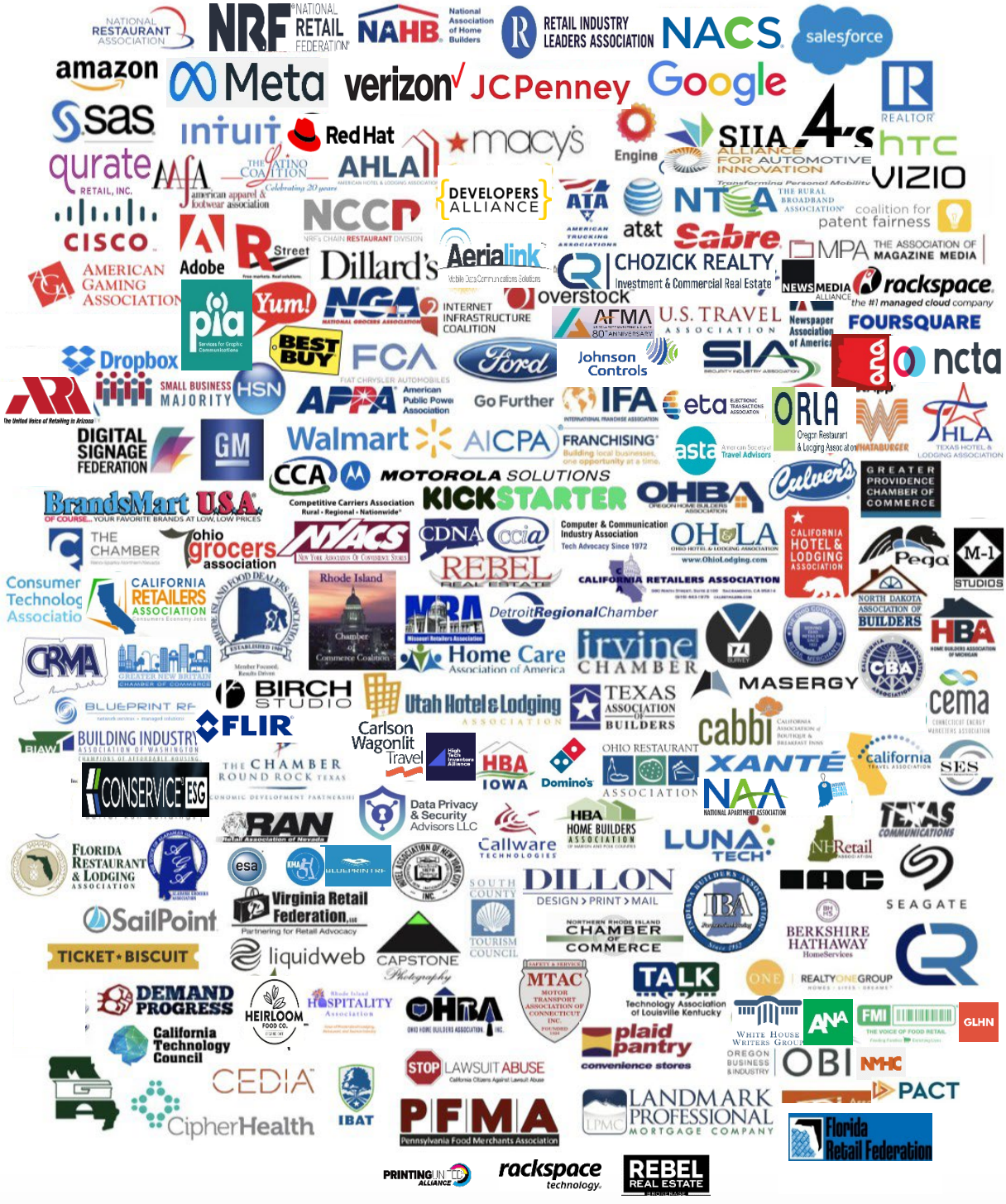

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