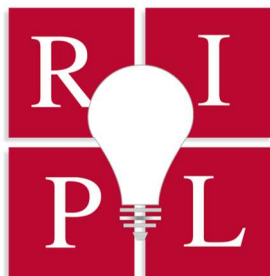


# UIC REVIEW OF INTELLECTUAL PROPERTY LAW



FORMER CHIEF JUDGE PAUL MICHEL'S KEYNOTE ADDRESS AT THE 64TH ANNUAL INTELLECTUAL PROPERTY CONFERENCE AT THE UIC JOHN MARSHALL LAW SCHOOL — *THE ARC OF AMERICAN PATENT LAW: BALANCE AND REBALANCE AND REBALANCE INTELLECTUAL PROPERTY POLICY*

HON. PAUL R. MICHEL (RET.)

## ABSTRACT

On November 13, 2020, Former Chief Judge of the United States Court of Appeals for the Federal Circuit Honorable Paul R. Michel delivered the keynote address at the 64<sup>th</sup> Annual Intellectual Property Conference at the UIC John Marshall Law School. The law school's Center for Intellectual Property, Information & Privacy Law hosted the conference on a virtual platform, where attendees, speakers, and panelists presented and interacted via video conferencing software. The text of Judge Michel's keynote address appears here.

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BALANCE AND REBALANCE AND REBALANCE INTELLECTUAL PROPERTY  
POLICY*

HON. PAUL R. MICHEL (RET.)\*

PAUL MICHEL: Good morning, everyone, and welcome to the UIC John Marshall Law School Annual IP Conference. This is Judge Paul Michel, retired from the Federal Circuit, speaking, and I am going to provide initial remarks to try to set the stage for this extremely well-planned conference, which covers so much nationally and internationally. If my remarks were to have a title, I would suggest that the best title would be the following: "Balance and Rebalance and Rebalance Intellectual Property Policy."

Let's start with patents. Obviously, there are at least four areas of major difficulty with regard to patents, particularly in the United States.

The number 1 problem is Section 101 on eligibility that is so unpredictable, difficult to apply, yields inconsistent results, and so forth.

Number 2 is the problem of injunctions, which are now much more difficult to get, particularly for certain parties.

The Number 3 problem is the Leahy-Smith America Invents Act (AIA) reviews at the newly expanded Patent Trial and Appeal Board (PTAB) and the procedures and

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\* Hon. Paul R. Michel was appointed as a Circuit Judge to the United States Court of Appeals for the Federal Circuit by President Ronald Reagan in 1988. On December 25, 2004, after 16 years on the court, he assumed the duties of Chief Judge. Chief Judge Michel served as Chief Judge from 2004 until 2010. Chief Judge Michel retired from the Federal Circuit in 2010. Chief Judge Michel has written over 300 opinions in patent, trademark, takings, contract, tax, veterans' rights, international trade and government personnel cases. He is the recipient of the Eli Whitney Prize, the Katz-Kiley Prize, and the Jefferson Medal for "outstanding contribution... to the progress of science and useful arts." In 2003, he was named by Managing Intellectual Property magazine as one of the 50 most influential people in the world in intellectual property. Prior to his appointment to the court, Chief Judge Michel served in the executive and legislative branches of government for 22 years. Following graduation from Williams College in 1963 and the University of Virginia Law School in 1966, he served as Assistant District Attorney and Deputy District Attorney for Investigations in Philadelphia under Arlen Specter; as Assistant Special Watergate Prosecutor under Leon Jaworski responsible for the Howard Hughes-Bebe Rebozo investigation; and under Dick Thornburgh as Deputy Chief of the Justice Department's Public Integrity Section directing the "Koreagate" investigation. In 1978 he was appointed by Benjamin Civiletti as Associate Deputy Attorney General, helping to supervise United States Attorneys, the FBI, and the Marshals Service. From April 1981 until his appointment to the court in March of 1988, he served on Senator Arlen Specter's staff, including as Chief of Staff. Since October 2005, he has been a member of the Executive Committee of the Judicial Conference of the United States, the governing body of the Judicial Branch. He has taught at George Washington and other law schools, made many presentations to various city, state, national and international bar associations and participated in the training of judges of other nations. With two co-authors, he helped produce a casebook for law students, entitled, Modern Patent Litigation and Strategy. He has published many articles on appellate advocacy.

burdens and balances there that may, at least historically and to some extent presently, be unduly tilted against the patent owner and in favor of the challenger.

Number 4, costs of litigation, not only in dollars but in delay and uncertainty and the disruption from massive discovery and so forth.

The important perspective is that the circumstances in commerce keep changing, the progress of science keeps evolving rapidly, and of course case law also changes. The need to continually adjust legal regimes to match commercial and scientific reality presents a great challenge and, in my view, it is not being well enough met, at least not in the United States.

The changes are almost constant and continual, and they result in legal regimes, particularly court precedents, often lagging very far behind realities on the ground.

In the United States, for example, it is less clear than ever before whether a patent right is even a property right — or, as termed in a Supreme Court case called *Oil States*,<sup>1</sup> merely a “public franchise,” revokable by almost anybody for any reason at any time. If and to the extent that view holds, a patent becomes little more than a piece of paper — not a right to exclude, but a right to file a lawsuit.

Now this raises questions about whether many patent owners can even afford to enforce their patents by prosecuting a lawsuit all the way to the finish. That can often take five-to-eight years and cost \$5-to-\$10 million. The outcomes can be very uncertain, the risk of invalidation is high both at the PTAB and then later in the district court or at the International Trade Commission (ITC).

In the last century, there was what I would consider an honor system. In the 1990s, patents were licensed on a grand scale with very little litigation — that was the norm. The norm today is quite different. Some people call it “efficient infringement.” The reality is that it is now the standard practice of many large corporations to not voluntarily take a license, to wait to be sued, to fight the suit for a decade or so, and to take a license or pay up only at the end of that long process.

With regard to injunctions that once gave the patent owner considerable leverage, that leverage is now largely gone because, as I mentioned, injunctions are now so much more difficult to get, particularly for nonmanufacturing entities. So leverage has gone down.

So has the value of patents on average in recent years because of legal changes, including the Patent Trial and Appeal Board, Supreme Court cases on eligibility, and related developments.

If we compare the patent regime to the trademark regime, I would suggest that trademarks work much better. The suits tend to be much faster, less costly, and finally decisive, very often settled on summary judgment. The result then is either a voluntary settlement at a very early date at a relatively low cost or a quick injunction that then prompts a settlement. So that regime looks quite good.

The copyright regime, in my view at least, may be not quite as efficient and effective as the trademark regime, but is still quite good and much better than the patent regime in terms of producing practical, beneficial results.

There are, of course, some areas of substantial lack of clarity concerning the extent of the fair use doctrine, and even copyrightability, as is exemplified by the current *Google v. Oracle* case.

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<sup>1</sup> *Oil States Energy Servs., LLC v. Greene's Energy Group, LLC, et al.*, 138 S. Ct. 1365 (2018).

Of course, the fourth IP regime is trade secrets. They are now federally enforceable as well as in state courts. But in either forum I expect that trade secrets may prove more illusory than real because the trade secret owner has to prove that it took reasonable precautions to protect the secrecy, and that is going to be difficult to do in an era where virtually all computers are hackable, most have been hacked, and, therefore, it raises questions about whether if you put your trade secrets on even an internal company computer, are you taking adequate precautions or not.

All four intellectual property right regimes are dynamic, not static. We often forget that. They are constantly changing both at the legal level and at the practical, commercial, and scientific levels.

This raises a question, at least to me, with respect to the three branches of American government — I will leave out the Executive Branch for the moment, although of course that is where the Patent and Trademark Office resides — and the question is: What is the comparative advantage of Article III courts versus the Congress? What are the proper roles for each? And the same could be asked about what the proper role is for the Patent and Trademark Office or related entities in the Executive Branch.

As a former judge, I am very aware of the fact that court precedent is fixed and very difficult to change. In the Federal Circuit there is a case called *Newell*,<sup>2</sup> which says that any prior panel decision settles the law unless changed by Congress, the Supreme Court, or an *en banc* decision of the Federal Circuit. As a practical matter, that means most panels and most cases are locked in to precedent, and the precedent of course is backward-looking, it is slow to evolve to catch up with changing realities, it is typically out of date, obsolete — not wrong, but obsolete, or at least obsolescent. A couple of examples.

The troll narrative of the prior decade had some truth to it — I would suggest that it was highly exaggerated by interested parties — but it was a second-order problem even then, and it has been replaced by a first-order problem, efficient infringement. There was a lot of talk in the prior decade about the theory of holdup, and that has obviously, in my view, been replaced by the reality of holdout as the more typical and more threatening problem.

Contrary to the courts, Congress is inherently forward-looking, not backward-looking. Statutes usually are effective only prospectively.

The America Invents Act was passed in 2011, so we have had nine years of experience under that regime with no adjustment. Meanwhile, we have had four Supreme Court cases<sup>3</sup> in the current decade after the AIA that revolutionized the law of eligibility, so it raises questions about whether Congress doesn't need to revisit the Patent Act and make adjustments in recognition of problems created by those eligibility cases.

Similarly, the implementation of *eBay*,<sup>4</sup> although a decision from 2007, in the prior decade, has been greatly affected by recent cases at the Federal Circuit in the current decade, and also in the district courts.

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<sup>2</sup> *Newell Cos., Inc. v. Kenney Mfg. Co.*, 864 F.2d 757 (Fed. Cir. 1989).

<sup>3</sup> *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208 (2014); *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 569 U.S. 576 (2013); *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66 (2012); *Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, 139 S.Ct. 628 (2019).

<sup>4</sup> *eBay Inc. v. MercExchange, LLC*, 547 US 388 (2006).

With regard to PTO implementation of the three types of AIA reviews, especially *inter partes* review (IPR), there were huge developments in the era of 2014–2018. In the view of many, the procedures and burdens were stacked against the patent owner and needed adjustment, but Congress has not revisited those regimes created in 2011.

The present PTO Director has made some adjustments, some by regulation — like changing the claim construction standard from the so-called “broadest reasonable interpretation” to the court metric of “correct or plain meaning construction” — and, on a more informal level, the Director has tried to curtail some of the repetitiveness of challenges, often two, three, four, five attacks on the same patent even by the same party, not to mention others.

Of course, informal policy set by the current PTO Director can be changed by the next Director, and it seems likely there will be a new Director sometime perhaps in 2021. But, whether by regulation or by informal guidance, the PTO Director's hand is heavily stayed by the fact that many of the changes that might be needed can only be done by Congress.

For example, the burden of proving invalidity Congress set at “a mere preponderance” and in court it requires “clear and convincing evidence,” but to change the AIA standard to the court standard would require changing the AIA and, therefore, needs Congress.

The same thing with regard to standing. Courts require standing before a party can challenge a patent. The Patent Office does not because the AIA said so.

Third, in court there is a clear, strong presumption of validity of an issued patent, and that is less true, if it is true at all, in the Patent Trial and Appeal Board. Again, that would take congressional action.

Injunctions and eligibility also require legislation to be adjusted, at least as a practical matter.

In the eight years since the *Mayo* case upended eligibility law, the Supreme Court has rejected something like fifty cert. petitions asking it to revisit and revise the *Mayo/Alice* regime.<sup>5</sup> It has turned down every single one.

At the Federal Circuit, of course, their hands are tied by the Supreme Court cases and by their own panel precedents, many in number. With regard to injunction law, the Federal Circuit is also trapped by *eBay* and its own prior precedents. So it is not in a position to make big adjustments; therefore, once again, only Congress can make the big fixes.

With regard to Section 101, efforts by many in the patent community to have eligibility reform were opposed in 2019 by certain companies, particularly big tech and big banks and some allies, and that reform effort stalled out.

Similarly, the STRONGER Patents Act, which addressed the problems with regard to injunctions and Patent Trial and Appeal Board *inter partes* reviews, also was similarly stalled because of opposition from some of the same corporate interests.

It looks to me like the need for legislative adjustment is acute. If you compare it to tax law, the Congress revises the tax law practically every year, or at least every Congress, but here we are, essentially a decade later than the AIA, with no adjustment despite intervening developments of great consequence in the courts, not to mention in commerce and in the progress of science. The leaders of these reform efforts,

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<sup>5</sup> *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66 (2012); *Alice Corp. v. CLS Bank Int'l*, 573 U.S. 208 (2014).

Senators Tillis and Coons, have just been reelected to terms in the Senate, so perhaps there will be some more action in the ensuing period, but it is very difficult to predict.

I want to also draw attention to what I mentioned briefly before, and that is in the United States the cost of litigation is just enormous. It is almost impossible to get a grip on how difficult it is. Even in a case settled ultimately by summary judgment or partial summary judgment, the costs and delays and disruption occasioned by the vast discovery regime still extant in the United States are very high. And a case that has to go all the way through final judgment after a jury trial of course is vastly more expensive, and I mentioned some of the multimillion-dollar/multi-year figures earlier.

One of the consequences of these cost issues is that many patent owners actually cannot afford to realistically enforce their patents through district court litigation, or in the International Trade Commission for that matter, so have they become second-class patent owners? Are they forced to accept whatever royalty, if any, is voluntarily offered by an implementer?

Patent litigation is sometimes referred to by wags as “the sport of kings.” It works okay for vastly wealthy companies — like Apple’s fight with Samsung — but for the average patent owner, for a startup, for a university, for a small or middle-sized or emerging company, it is a very daunting prospect to try to enforce a patent in court. Of course, that is going to almost always follow one or more petitions and a couple years of delay and added cost in the Patent Trial and Appeal Board as AIA reviews wend their way through the process.

There is also a similar problem of whether we have created two classes of patent owners with regard to injunctions. Currently, a nonpracticing entity almost never can get an injunction. Occasionally, a university can get one, but other nonpracticing entities almost never get an injunction. Manufacturers, on the other hand, routinely get injunctions, readily get injunctions. So have we created a second-class citizen of smaller companies that do not manufacture products with regard to injunctions?

And there are other questions that this conference and its vast array of very expert speakers will be addressing.

I expect one is whether the litigation of patents in Germany or England, or even China, is preferable to litigating in the United States because the results there are much faster, much cheaper, much more predictable, and more advantageous in other ways. For example, in Germany an injunction after proving infringement is almost automatic — there are exceptions, and they are being expanded somewhat, as you will hear — but still, compared to the United States, it is much more reliable that you can get an injunction if your patent is infringed. The same thing in China, where injunctions are routine although damages have been lower but they may soon rise. So a lot of questions about where the best place is to litigate. Maybe the United States has gone from, despite being a big market, the number one place to further down the list.

There is another big question the conference and all of you should consider, and that is whether our unitary patent system works well enough for all the different technological areas. Some people suggest that it should work differently for pharma companies than Internet companies. But then the question is: Is it even practical, feasible, to Balkanize the patent system according to different technological areas?

Yet another question is: Does the copyright system work as well for the useful arts as it does for the creative arts? Again, the *Google v. Oracle* case is an example of how that is playing out.

Yet another question is whether any of the four intellectual property right regimes creates enough incentive to spur the innovation we need. For example, vaccines are generally not very profitable for companies and so they tend not to undertake the research and the long development cycle needed and they get a lower priority. Might the United States need to find some way to work around that problem in order to have vaccines in advance and not be trying to play catch-up, as we are now?

There is a lot of research-and-development money provided by the federal government, but the figures are clear that the private investment vastly outstrips the public investment — and the public fisc is running out of money because of Covid-19, because of all kinds of problems — so the importance of private investment is huge and constantly growing.

The final dimension I would offer to you is the reality of globalism. Commerce and science are global, they are evolving fast, they are becoming more global every year. Courts, as I mentioned, tend to be too slow to adjust to realities, particularly beyond U.S. borders. Few U.S. judges even really have a deep understanding of commerce, investment, or science.

I want to suggest too that the main objective of intellectual property rights is actually not so much to incentivize creative people to create. As long as they can make some kind of a living, they will try to create the best they can.

The more important function of intellectual property rights is to incentivize the usually huge investments that are needed. Because these investments are highly risky, slow to mature, and very, very costly, the incentives have to be high or the money is not going to be there; it will be invested instead in entertainment or hospitality or making movies or building casinos or something like that. So really the main targets of the intellectual property right regimes are venture capitalists and bankers.

Of course, in other countries companies can be subsidized massively by the government — China does a lot of that, as I understand — but here there is almost no subsidization of private companies by the government. Therefore, once again, the private sources of capital become the critical factor.

There is also the competitive dimension. China has announced its intention to surpass the United States in the ten or so advanced technologies of the current century by 2025, only four years away.

What is the response of the United States — or for that matter England or Germany or Japan or other major markets and jurisdictions — to that challenge?

It seems to me the U.S. Congress, like the courts, is too slow to act, not well understanding the real underlying dynamics, and to me that suggests that many speakers at this fine conference and peers elsewhere need to make more input and educational effort. Scholars, judges, and especially practitioners, including investors and inventors, need to educate the Congress, educate the courts, educate other public actors, because right now they do not understand the link between intellectual property rights and investment incentives, at least not well enough.

This conference is a great start to focus on those kinds of issues and to try to help public authorities give us a more successful and efficacious intellectual property rights regime.

Thank you for your attention.

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