Robin Feldman
Arthur J. Goldberg Distinguished Professor of Law
Director, Center for Innovation

UC Hastings Law | 200 McAllister Street | San Francisco, CA 94102
phone 415 565 4661 | feldmanr@uchastings.edu
https://www.uchastings.edu/academics/centers/center-for-innovation/

October 20, 2022

The Honorable Richard J. Durbin
United States Senate
Chair of the Committee on the Judiciary
Washington, DC 20510-6275

Dear Senator Durbin,

I am grateful for the opportunity to respond to questions for the record regarding the hearing entitled "Pride in Patent Ownership: The Value of Knowing Who Owns a Patent," held on Tuesday, October 19, 2021. Below are my thoughts:

Senator Patrick Leahy

1. There is an active antitrust discussion right now about how a few companies dominate the American economy at the expense of small businesses and ordinary Americans.

a. For antitrust purposes, can we understand a company's power within a market if we don't know what patents the company owns?

> Patents provide a valuable opportunity to obtain power in a market by excluding others from making, using, or selling a product. Ownership of a patent does not guarantee market power; there may be substitutes or the market may not value the invention. Nevertheless, the power to exclude others from the market can be extraordinarily valuable, providing billions of dollars in revenue.
>
> In modern markets, patents play an essential role in creating and supporting market power. One cannot understand a company's power within a market, as defined in antitrust terms, without understanding all sources of that power, including a company's patents.

Senator Marsha Blackburn

1. There is an idea that a registry of patent ownership interests can benefit patent licensees by creating transparency about who owns what patents. Despite concerns about compliance and privacy, could tracking patent ownership information ease commerce and perhaps avoid some litigation over licenses and rights?

> Ownership information reduces transaction costs in the system, helping market participants properly negotiate permission and maximize innovation efficiency. Lack of ownership information creates a drag on the system, leading to wasteful costs and needless litigation. As I have written in the past, "markets, like gardens, grow best in the sun."[1]

2. What are some reforms related to tracking patent ownership you would like to see? Are there any examples of systems in other countries that work well?

> I am not an expert on patent systems outside the United States. However, market participants ought to be able to rely on publicly recorded information at the United States Patent and Trademark Office (USPTO). Patent holders should be required to provide full and timely disclosure to the USPTO when transferring ownership. The agency could be directed to make that information public, just as most patent applications are released to the public.

Senator Thom Tillis

1. Please share your thoughts on our bill, Pride in Patent Ownership.

> American capitalism is founded on the precept that markets should be open and free. The Pride in Patent Ownership Act follows that precept. By ensuring the timely publication of patent ownership interests, the Act would help provide information that is essential for a more efficiently functioning market.

2. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?

> I am heartened by the bipartisan interest in the goal of transparency, as reflected in the Pride in Patent Ownership Act. In terms of the operative provisions of the bill, one could consider a stronger effect for failure to provide information to the USPTO, in the interests of encouraging disclosure. The current provision would allow companies to

[1] *See* Robin Feldman, *Perverse Incentives*, 57 HARVARD J. ON LEGIS. 303, 359 (2020).

wait until the eve of an enforcement litigation without consequence, which would fall short of the goal of full transparency. One would hope that companies will comply with the clear directive of the law to provide information at the appropriate time—certainly one could expect companies to do their best to comply with explicit legal requirements. Nevertheless, some might choose to ignore the directive and file only when the penalty would operate.

3. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?

Layers of shell companies can make it difficult for those who receive patent demands to determine if they already hold a license from a related entity or to challenge the appropriateness of the demand against them. As I noted in my testimony, one company involved in a lawsuit could not even determine who was asserting the patents.[2] Lack of information creates wasteful litigation and transaction costs, burdening the courts and market participants. Full and complete information, including the ultimate parent company, creates value by avoiding such waste.

4. Are there some interests that should be recorded, but not made public?

To the extent that the goal is to provide transparency for a more efficiently functioning market, information that is recorded but not made public would not serve the goal.

5. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?

In the American capitalist system, the ability to know who holds an asset and how to reach that party is an essential starting point for any market. Time spent chasing down ownership information or entangled in needless lawsuits is time spent away from the activities that fuel innovation, create jobs in this country, and boost the nation's economy.

6. Would it matter if ownership records would have to be kept up to date at the patent office but not disclosed publicly, or disclosed with certain restrictions, like registering an account?

I would have to understand the proposed restrictions. As a general matter, however, nonpublic information does not advance the goal of providing transparency for a more efficiently functioning market.

[2] *Id*. at 39–40 (citing No. 11-CV-0671 (N.D. Cal. filed Feb. 14, 2011)) (in which the company filed a declaratory judgment action challenging some of the patents asserted against it, but the judge dismissed some of the parties named on the grounds that the patent owners were really seven other shell companies associated with the aggregator, rather than the ones the company had named).

7. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?

> Regulation always requires a careful balancing to ensure that any burdens are minimized and appropriately placed. That principle is particularly important to small players in the system. In this case, the Pride in Patent Ownership bill properly locates the burden of failure to comply in a way that it is likely to fall on larger players. For example, if a small player transfers patent ownership, that transfer is likely to be to a bigger entity. The penalty for failure to comply with recordation is that the new patent owner will be unable to recover increased monetary damages in a patent action. Thus, the new patent owner—the big player—will have an incentive to ensure proper recordation. The burden will fall on the big player, not the small business or independent inventor.

8. Can you provide some specific examples of the various types of interests affecting patents that the USPTO should consider including in its recording system? Your written testimony addresses the need to consider including the transfer of the right to develop a product or assert the patent against others. What rights and interests beyond ownership should the USPTO consider requiring? Should there be different incentives for different rights and interests?

> In my view, the key additional information to consider, beyond ownership, is the right to assert the patent. Market participants should know both whom they can approach for a license and who has the right to approach them to insist on a license.
>
> The reference in my testimony to the right to develop a product was intended to indicate the vehicle for transferring ownership-like rights to assert a patent. It was not intended to suggest that one should record the transfer of a right to develop a product or any type of simple license.

9. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

> Human beings are not perfect. All agencies should provide a method for correcting errors in recordation, either those made by the parties or by the agency itself. Public posting of information also helps, providing the free and open flow of information that makes it more likely for errors to come to light.

Warmest regards,

Robin Feldman