Change in US Patent Law creates $100M windfall

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The US recently changed the length of the US patent term to comply with GATT. To Canadians, this may seem of interest only to patent nerds. But in the US it was a big, emotional issue that caused a show-down between President Bill Clinton and the possible next president, Bob Dole.

Why did it matter? Partly because of money. A change of a few months in patent terms resulted in a windfall of hundreds of millions to some. But, as well, Americans, unlike Canadians, have deep feelings about patents, akin to how they feel about Mom, apple pie, and saluting the flag. Patents are part of the American Way.

Inventors such as the Wright brothers, Thomas Edison and Henry Ford are part of American folklore. Abraham Lincoln litigated patents, and himself held a patent (the only president to do so). Many of the writers of the US constitution were inventors. Benjamin Franklin advanced the science of electricity with a key hanging on a kite string, and also invented bifocals and the Franklin Stove. The first U.S. Patent Commissioner was Thomas Jefferson, who drafted the first US Patent Act of 1790. The contraptions Jefferson invented are still to be seen at Monticello, his house in Virginia.

Avoidance of patents is also part of the American Way. Early silent movie-makers originally set themselves up in Pittsburgh, but ran into patent infringement problems, so around 1912 they moved to Hollywood, an obscure town in remote and half-civilized California, where patent attorneys were less able to harass them. Conveniently, the Mexican border was nearby, providing an easy escape in the event of patent litigation.

Henry Ford also had patent problems, arising from what is known as a “submarine” patent - a recurrent problem in US patent law, and relevant to the Clinton/Dole fight over patents (which I’m getting to). A submarine patent is one that is delayed many years in the application process, and then, after a technology has become common, suddenly issues, like a submarine unexpectedly surfacing. The patentee is then in a position to collect royalties from an entire industry, although everyone had previously thought the technology was in the public domain.

What happened to Henry Ford is that a patent lawyer/inventor named George Selden in 1879 filed a patent application for basic automobile technology using an internal combustion engine. Under US patent law, the patent term was seventeen years from the date of grant. Selden was a crafty fellow, and managed, through one stratagem and another, to ensure that the application spent 16 years submerged in the Patent Office, and then finally issued in 1895 as Patent No. 549,160. Selden got rich collecting royalties from early car makers, and then took on the biggest and most successful of them all, the Ford Motor Company, in a massive lawsuit. In the end, he lost, when a court in 1911 narrowly construed the claims to find Ford had not infringed.

There have been other notorious submarine patents. Jerome Lemmelson's patent on a widely-used flaw detection system spent 38 years in the Patent Office until surfacing in 1992. Lemmelson is now collecting $100 million a year in royalties. A patent for a commonly-used method of searching for information on a computer database issued to Compton's New Media in 1992, which entitled Compton's to collect royalties from the entire multimedia industry (a storm of controversy caused the Compton's patent to be re-examined by the patent office).

Despite the submarine patent problem, Americans were by and large happy with a seventeen-year-from-date-of-grant term, even though hardly any other country had it. In fact, they were downright attached to it. Almost everywhere else in the world, the term was twenty years from application. Most countries preferred this, partly because the submarine patent problem does not arise: if a patent term starts ticking when someone first applies, it is obviously not in his or her interest to delay the application process.

All of which leads us back to the fight between Bill Clinton and Bob Dole. Under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement, part of the GATT negotiations, concluded in April, 1994, trade negotiators from around the world agreed to adopt harmonized rules for intellectual property. They naturally settled on the international twenty-year-from-date-of-application-term as the standard, and not the US's oddball seventeen-years-from-date-of-grant term.

This meant that the U.S. had to change its long-standing law to comply with its international treaty obligations. In late 1994, President Clinton therefore sought to amend the US Patent Act so that all patents would have the twenty-year-from-date-of-application term, applying to all patents in force or applied for as of June 8, 1995 i.e. to all patents out there, right away.

This caused a furor. The change would have meant that any US patent that issued more than three years after its application date would be reduced in length. Small inventors, those worthy successors of Jefferson and Edison, would sometimes get less patent protection (although sometimes they would get more). Congressmen from both parties opposed the change. Newspapers ran outraged editorials about the effect on small inventors and innovation All this took place in the context of the November, 1994 mid-

term elections in which the Newt Gingrich Republicans seized majorities in both the House and Senate.

Clinton's GATT amendment bill went before the Democratic-controlled "lame duck" Congress in the immediate aftermath of the mid-term elections. Bob Dole, about to become Majority Leader, opposed the change on the grounds it would hurt inventors. A deadlock between Clinton and Congress appeared likely.

In the end, a deal was made was made. Dole would ensure the bill passed, in return for the President's promising not to veto a further amendment so that the term would be twenty-years-from-date-of-application or seventeen-years-from-date-of-grant, whichever is longer for patents in force or applied for by June 8, 1995 (Patents applied for after that date would always have a twenty-years-from-date-of-application term, so the optional seventeen year term was a transitional provision that would one day no longer apply).

As a result, the US now has a curious "either this or that" patent term for the next twenty years or so, not found anywhere else in the world.

Now we get to the windfall part. For many patentees, the GATT amendments resulted in a patent term extension. If the application process was less than three years, then patentees are suddenly entitled to an increase in term, varying in length up to about two years. The value of this, in some cases, is mind-boggling. Bristol Myers, a drug company, happened to have a drug called Capoten which got a few months of extra exclusivity, resulting in a windfall reputed to be about $300 million. Glaxo Wellcome, another drug company, had a patent on a drug called ranitidine due to expire in December 1995 under the old 17 year term, but suddenly got an extension by virtue of the GATT extension to July 1997, resulting in a bonus in the hundreds of millions.

Because the old seventeen-year-term-from-date-of-grant continued as one of the options, the submarine patent problem still potentially existed. To deal with this, the amendments provided that patent applications must be published by the U.S. Patent and Trademark Office after 60 months (5 years), instead of being kept confidential, as they had previously been. This means that someone in Henry Ford's position would at least be able to check and see if any submarine patents were expected to surface one day, and plan accordingly.

None of this happened in Canada when Canada changed from a seventeen-year-from-date-of-grant term to a twenty-year-from-application term in 1987. Partly, this is because our change was more gradual. The new term applied only for applications filed after October 1, 1989. Therefore, twenty-year-from-application patents won't begin to expire in Canada until well after 2009. Our change did not effect patents in force, which still have the old term, so there were no sudden and dramatic windfalls or reductions in patent terms.

But as well, although we Canucks love over hockey, pine trees, the Mounties, et cetera, patents are just not something we get excited about.