

**FOURTH BIENNIAL PATENT SYSTEM
MAJOR PROBLEMS CONFERENCE
PRIOR USER RIGHTS: INTRODUCTORY COMMENTS
[n.a1]**

Sylvie Strobel

Bedford, New Hampshire,

Saturday May 22, 1993.

Since the time allotted does not enable me to give a comprehensive survey of prior user rights, I would like to address a few salient points about prior user rights in principle and the particular manner in which they are envisaged in European jurisdictions.

NOVELTY AND PRIOR USER RIGHTS

Apart from the obvious differences stemming from the first-to-invent as opposed to the first-to-file patent systems, there are vital differences in the manner in which the novelty requirements are framed in the United States and in Europe under the European Patent Convention. These differences are relevant, since there is a fundamental link between the novelty requirement and the principle of prior user rights.

In Europe, the novelty test is objective: to negate novelty, a prior use must constitute an enabling disclosure. In the United States, the rules on whether a prior use invalidates or not are arguably more complex, and may at times involve an appraisal of subjective elements such as whether the prior use has deliberately and successfully been kept secret, and whether it has conferred a benefit upon the public.

The mechanism in Europe, reduced and simplified, is such that if a prior use does not invalidate, it may give rise to prior user rights. This, of course, provides a State with increased flexibility in the definition *208 of the novelty requirement, because the latter is no longer the first line of defense in protecting the competing interests of the applicant's rivals. A good example of this interaction was provided by Britain when it harmonized its law with that of the rest of Europe in 1977 upon joining the European

Patent Convention (EPC). Prior secret use was a ground of invalidity under section 32(1)(1) of the 1949 Patents Act. Under the new system, such a use no longer invalidates, but it may give rise to prior user rights. Of course, whether the relaxing of the novelty requirement is desirable from a policy perspective is another matter. However, at least in Europe, part of the reason for which prior user rights are not considered an intolerable encroachment on the patent "monopoly" is that many of the patents affected by such rights are patents which might be invalid under more stringent conditions of validity. Instead of throwing the market open to all, the patentee is allowed a more sheltered market, where generally there is no market failure, since most prior users will have either research and development (R&D), licensing or invention acquisition costs which they will want to recoup.

CONTRASTING APPROACHES IN EUROPE AND IN THE USA

Although there is no consensus on either the scope or the conditions of the rights within the Member States of the EPC, and every jurisdiction defines these rights differently, there is no question that prior user rights are unanimously recognized in principle as just and desirable in a first-to-file system. The rights are argued to be justified on grounds of both fairness and efficiency. They prevent the destruction of existing investments, which is in the public interest, and they give a measure of protection to the vested interests of those who have learned nothing from the disclosure of the invention in the patent application. However, probably as a result of the prevailing consensus in principle, the European discussion of the issue of prior user rights has not spawned in-depth considerations of the impact of prior user rights on the patent system itself, and particularly on its incentive function.

One reason for this European lack of concern is the difference in the construction of the incentive function of the patent system. The subjective assessment of the trade secret prior user's intent and behavior, which one finds in American patent literature on this topic, is conspicuously absent from discussions on the issue in Europe. The *209 exploitation of a trade secret by a prior user is not stigmatized as socially reprehensible behavior in continental Europe. Trade secret protection is construed as a legitimate form of protection which the user chooses at his own risk. Whether the invention exploited as a trade secret was patentable or not, whether the prior user had doubts about the invention's patentability and whether the prior user had the intent to patent are not considered to be relevant factors in the determination of the protection of his interests.

In contrast, in the United States, the discussion of this topic is focused on the compatibility of prior user rights with the Constitutional purpose. The main issue in recent debates appears to be whether prior user rights affect the patent's incentive to disclose. However, the promotion of the Progress of Science and the useful Arts also encompasses incentive to engage in the costly process of R&D in the first place. One could argue intuitively that the prior user right might produce significant effects at this earlier stage. It could be queried whether companies might undertake R&D projects which would otherwise have been deemed too risky, secure in the knowledge that they

will not be precluded from further using any successful research results obtained and used prior to the critical date.

Public interest arguments in the United States tend to fall on the side of the patentee, with the preservation of a strong, exclusive patent as a desirable goal. However, in this respect, it might be observed that we are not in the presence of two groups of interests. Prior users and patentees are in fact one and the same interest group: that of participants in the ongoing process of R&D. In that sense, opposition to prior user rights entails that one assume that one will always be the winner in the R&D race. Experience suggests that this will not always be true and the interests of a single participant in the R&D process with respect to the issue of prior user rights may change from time to time on a case by case basis.

THE DEARTH OF LITIGATION

It has been observed that in jurisdictions where prior user rights clauses do exist, there appears to be very little litigation. This has led to the double-barreled assumption that these clauses are either unimportant because the situations where such rights would arise are few, or alternately, that the clauses do not work, because they fail to play a significant role in the defence of alleged prior users accused of infringement.

*210 It is suggested that the lack of litigation is not necessarily indicative of the importance of prior user rights within a patent system. Litigation, after all, reflects the pathology of commercial and legal relations. It is submitted that the most important effect of well drafted clauses is the redefinition of the bargaining positions of the respective parties. Thus, intuitively, it may well be that the most important effect of the existence of prior user rights may be the promotion of the conclusion of mutually advantageous licensing agreements, resulting in less infringement litigation. Moreover, the dearth of litigation could mean that a given prior user rights clause is well drafted and clearly determines the respective rights of the parties.

THE DEFINITION OF THE PRIOR USER RIGHT

The belief that should a prior user right exist, its scope should be carefully circumscribed to protect the patentee against undue encroachment on his monopoly, merits serious review. There are three levels at which the degree of potential intrusion on the patentee's monopoly may be controlled: the conditions of acquisition, the scope of the rights bestowed, and the restrictions on transferability and multiplication of the right. It may be argued that it is far better to exercise maximum control at the level of the acquisition of prior user rights, coupled with adequate restrictions on the transfer of the right, rather than have laxer acquisition requirements and then attempt to belatedly hamstring the prior user by imposing restrictions on act-shifting, or quantitative or qualitative limitations on continued use, which are likely to be difficult to determine and monitor. If both the conditions of access to the right and the burden of proof are stringent

enough, then only those bona fide prior users who have investments (and, in some jurisdictions, vested rights) worthy of protection will benefit from the clause, and arbitrary limitations on the exercise of the right become more difficult to justify. In Europe, generally, the rights allotted are geared to allow the prior user to remain competitive in the market although the scope of prior user rights varies from jurisdiction to jurisdiction. The rationale is that if the prior user right is going to be progressively rendered useless, then there is little point in going through the trouble of creating it in the first place.

IMPACT OF THESE RIGHTS ON THE PATENT SYSTEM

The first consideration which should be of a nature to gladden patriotic hearts is that the introduction of prior user rights in the United *211 States would tend to favor American inventors over foreign patentees. For prior user rights to exist, the acts relied upon must occur within the jurisdiction. Since in the case of new inventions, the first prior use which occurs is likely to take place within the framework of R&D programs, one could see how the prime beneficiaries of such rights are likely to be those companies who pursue R&D in the United States, most of which are American.

Finally, I would like to make a more general comment about the influence of prior user rights on the functioning of patent systems as a whole. Although prior user rights appear *prima facie* to favor the interests of third parties at the expense of patentees, it might be argued that the net effect of such a clause in most European national patent systems is actually quite the opposite. As noted, the novelty requirement may be relaxed. Arguably, this may simultaneously increase the certainty of the patent right. Prior use cannot be searched for in the patent office, and any limitation of the effects of unknown quantities on the validity of the patent enhances the certainty of the patent right. The latter effects very clearly serve the interests of patentees, and may be argued to contribute to the incentive value of the patent.

[n.a1]. Editor's Note:

Due to an oversight for which we apologize, the transcript of the following comments made at the Fourth Biennial Patent System Major Problems Conference on May 22, 1993, was published without the usual editorial revision in 34 IDEA 67, 118-122 (1994). The correct version is reproduced here.