

No, pools should not be testing for validity

By Jeffrey Blumenfeld

HEVC Advance is often asked why patent pools do not test for invalidity as they do for essentiality. The question implies – and at times the questioner flat out states – that not doing this shows an intent to hide bad patents. But, argues Jeffrey Blumenfeld, while such criticism may have some superficial appeal, it is fundamentally wrong

O As a legal matter, analyses of patents pools by antitrust authorities begin with the proposition that they include only valid patents; antitrust analysis, and patent law, do not countenance the request for royalties, or the enforcement of patent claims, for patents that are not valid. Knowingly including invalid patents can threaten the legal standing of the pool, injuring the pool itself and all the pool licensors, as well as the pool licensees.

As a practical matter – and a very compelling one in a patent pool – licensors would not join, or remain in, a pool in which royalties were being allocated to “bad patents”. This is unassailable for a very simple and obvious reason: any revenue being allocated to “bad patents” takes money away from all of the other licensors (and their “good patents”).

An accurate understanding of how patents are issued and treated in well-managed patent pools, and of the business and legal issues around testing for validity, show that patent pools have struck the right balance and have both the intent and incentive to include only valid patents in their pool.

Let’s start by looking at the facts of how patents are issued and the process by which they are included in patent pools.

In all major patent-issuing jurisdictions, an entity believing it has an invention deserving of patent protection submits an application, along with extensive technical support, to a government body specifically equipped and authorised to determine if the submitted invention is entitled to such protection.

The patent authorities, of course, do not just take the submitter’s statements at face value. Rather, they go through a process of examination that involves professional patent examiners analysing the claims of the potential patent, comparing them against patents already issued in the field in which the invention is claimed, asking the submitter for additional support and engaging in interactive discussions of the claims with

the submitter. That process is both expensive and time-consuming. For example, it commonly takes about 12 to 18 months in the United States and, on average, about four years in South Korea.

At the end of that process, the patent office may reject the submission or limit the scope of the claims in a narrower patent than the applicant had hoped to achieve.

A patent is issued only if – and only in the form in which – the applicant’s claims survive that process. Put another way, a patent is issued only if the expert government agency charged with making the determination in fact determines that the patent is valid. That is the reason issued patents are presumed to be valid.

As a first order response to the criticism, therefore, a well-managed patent pool like HEVC Advance relies on the determination of validity made by the issuing patent authority.

Implementers have the right and the ability to challenge the validity of any patents they believe are not valid. Patents are subject to post-grant challenge in patent offices or related administrative proceedings, as well as in courts. Any patent in the HEVC Advance patent pool can be challenged for validity at any time. HEVC Advance removes from its pool any patent that has been finally determined to be invalid by a court or other appropriate tribunal.

Some critics point to the percentage of challenged patents that are found invalid as proof that there is little or no basis for the presumption of validity of an issued patent. But that criticism is a fundamental error of logic. Challenging a patent requires analysis and decision: deciding if the challenge is likely enough to succeed and that it is worth the time, effort and cost of the challenge. As a result, the patents challenged for validity are those the challenger believes are most likely to be held invalid. Therefore, only a very small portion of issued patents are ever challenged for validity, because the vast majority of issued patents would be affirmed as valid in any challenge.

There are significant practical problems in the implicit proposal by critics that patent pools should make their own determinations of validity.

The most significant is also the most obvious: few patent owners would join a patent pool if the first step were a re-examination of each patent in which the owner had already invested considerable time and expense in the long process of examination by the patent agency. The result would be fewer pools, each with fewer licensors (patent owners) and therefore less extensive patent coverage. This would be a very poor trade-off for

the supposed benefits of pool determinations of validity.

The damage caused by that trade-off would be widespread, including on the implementers, who would have to negotiate many more bilateral licences, and on consumers, who would see a slower and less broad adoption of new technology, as well as higher prices caused by the implementers' higher expenses and lower volumes. Thus, implementers would almost certainly suffer, not benefit, from pools determining validity.

In the event HEVC Advance has a credible basis for concern about a patent's validity despite the patent office's action, it investigates further. However, unless that investigation's result conclusively proves the patent is invalid, or the patent holder agrees to withdraw the patent from the pool and not assert it against pool licensees, there are legal risks to both pool licensees and pool administrators in withdrawing (or excluding) the patent.

For example, the owner of a patent excluded on the basis of a pool's validity determination would have the right to sue an implementer for infringing that patent, because the implementer would not be covered for that patent by the pool licence. The implementer would then be forced to litigate a patent infringement case for a patent that would otherwise have been included in the pool licence. And while the licensee could raise the validity issue in the infringement litigation (or in a parallel post-grant review), that would only add to the expense and time of defending the claim.

The bottom line is clear: patent pools should not test for validity as they do for essentiality. They should continue to rely on the expertise of government agencies to determine the validity of issued patents and on the expertise of courts and other government authorities that conduct post-grant reviews. Such a balanced approach provides the largest overall benefit of pool licensing to both patent implementers and patent owners alike.

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