

Legal Times 2002 Corporate Counsel Roundtable

Festo and the Future

Two intellectual property cases have reached the High Court, and the rulings may affect innovators for decades to come.

The Supreme Court is not often the arbiter of key intellectual property disputes. But the Court has two cases that have drawn the full attention, and divided loyalties, of innovators. On Feb. 27, *Legal Times* brought together five corporate counsel for a breakfast roundtable entitled "Festo and Beyond." Among other cases, the panelists discussed *Eldred v. Ashcroft*, which raises far-reaching questions about the role of copyright law in spurring innovation, and *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, which may alter the application of the doctrine of equivalents in patent cases. The event, which took place at the Crystal Gateway Marriott in Alexandria, Va., was sponsored by Covington & Burling and LawCorps. Covington partner David Ruschke introduced the session. (The editors at *Legal Times* selected the panelists, chose the questions, and edited the transcript.) This was the second session in the *Legal Times* 2002 Corporate Counsel Roundtable series. —The Editors

JONATHAN GRONER, EDITOR AT LARGE, LEGAL TIMES: The court of appeals in *Eldred v. Ashcroft* upheld copyright extensions that give creators control of their inventions for the life of the creator plus 70 years, whereas previously it was life plus 50 years. How would you respond to the argument that, if *Eldred* is reversed, this would tend to stifle the creation of new products and be harmful to the economy and creators of music, movies, et cetera?

JOSHUA SARNOFF, ASSISTANT DIRECTOR, GLUSHKO-SAMUELSON INTELLECTUAL PROPERTY LAW CLINIC, WASHINGTON COLLEGE OF LAW, AMERICAN UNIVERSITY: Let me try to put it in a broader context. There is language in the copyright clause in the Constitution which talks not only about the issuance of copyrights for limited times, but for limited times for the purpose of promoting the progress of science and the arts.

The premise is that you are granting rights as an incentive for additional production.

But by doing that, you also take things out of the public domain for use by others. You have created the right to exclude others from—in the case of copyright—

reproducing, displaying, and engaging in other forms of cultural production that advance science and advance our culture.

So another aspect of this case is that Congress has gone out of its way to extend for 20 years the copyrights that keep all this cultural product from falling into the public domain for common use. The harm to the public is obvious.

The question is: What do you get in terms of additional cultural production for the additional 20 years of protection?

Going forward, maybe one can make an argument that Congress has the balance right here—that the additional 20 years on top of a creative life span of 75 to 80 years provides very little economic value to creators.

But maybe the balance is a little bit wrong. One can then argue that's why the Supreme Court is reaching out to take this case, that the justices think Congress went out of its way to do something that was so aggressive that the Court is going to pull it back.

If one looks at the term extension retroactively, though, the incentive argument is almost ludicrous. For existing copyrights, it is not like you are going to go back 50 years and give creators an additional incentive to create new works.

Participants

Moderator: **JONATHAN GRONER**, editor at large, *Legal Times*

FRANKLIN FINK, counsel, AmericanGreetings.com

LAURA KASTER, general attorney, law and government affairs department, AT&T Corp.

CHRIS REESE, general counsel, SightSound Technologies Inc.

JOSHUA SARNOFF, assistant director, Glushko-Samuelsan Intellectual Property Law Clinic, Washington College of Law, American University

CLIFFORD SLOAN, vice president business affairs and general counsel, Washingtonpost.Newsweek Interactive

So those, I think, are the basic arguments. The other thing that might explain the Court's cert grant is the language of the D.C. Circuit, which went out of its way to say that copyright is categorically immune from First Amendment analysis.

One argument went that this type of extension of copyright should be subject to First Amendment scrutiny because it chills certain forms of expression. But the D.C. Circuit held that if the work is subject to copyright law, there's no First Amendment issue at all.

So there is some potential that the Court has reached out here, not only to look at the limited times language [in Article I, Section 8 of the Constitution], but also to reverse the D.C. Circuit that any type of copyright law is categorically [beyond First Amendment analysis].

LAURA KASTER, GENERAL ATTORNEY, LAW AND GOVERNMENT AFFAIRS DEPARTMENT, AT&T CORP.: I would like to point out an interesting sideline to this. Lawrence Lessig is the lawyer for the plaintiff in this case. He is also an advocate for shortening the length of patents and limiting the amount of patent protection. He was an advocate against business [method] patents.

There is an overarching issue here about the scope of protected monopolistic rights and fairness in the areas of

both patent and copyright. And we have to, of course, bear in mind the repeated fights in the music arena between the rights of business, the right of the creator, and the right of the public to have the material earlier. I think that that is the meat here.

That is an issue that you can't pin to any constitutional argument or any of the arguments that were actually raised in the case. But that is really what is underlying a lot of the concern—the balance between freedom of expression, freedom of thought, freedom of exchange of ideas in the scientific community, the level of importance of novel ideas and how fast they age in an Internet environment, and whether or not we really want to give inventors and copyright holders as much protection as we have been giving them.

So Lessig's participation is very interesting here. And I think it is not unknown to the Court that his positions are very well published.

FRANKLIN FINK, COUNSEL, AMERICAN-GREETINGS.COM: I would tend to agree with that. I think that Lessig has a huge problem in his argument, which is that Article I, Section 8 says that you can grant monopoly power for a limited time to promote the advancement of arts and sciences, but how long is that limited time?

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CHRIS REESE



LAURA KASTER



FRANKLIN FINK

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If you ask Jack Valenti [president of the Motion Picture Association of America], he would say it is forever minus one day. Lessig would say that it should be 14 years, as it was in 1790.

From an adjudicative standpoint, the problem is how does the Court decide what the appropriate limited time is? Does it remand to the District Court to have it hold hearings with experts, and everybody will opine on what a limited time is? Doesn't that sound like a legislative judgment? Isn't that what Congress does?

The fact of the matter is that this is a Court that hates to make legislative judgments.

SARNOFF: This Court has gone out of its way, particularly in the 11th Amendment sovereign immunity area, to draw exactly those types of fine lines and send it back to Congress to do it again without any sort of guidance. So I don't see it being particularly reluctant to jump in, if they think that Congress has gone too far, and say, "Try again."

CLIFFORD SLOAN, VICE PRESIDENT BUSINESS AFFAIRS AND GENERAL COUNSEL, WASHINGTONPOST, NEWSWEEK INTERACTIVE: But the question still remains: What kind of guidance? What is the basis for the Court's decision?

And Congress will need to know: At what point does it transgress the limits and what is the framework for assessing that?

Both sides may have some difficulty in fully articulating the framework. On the

one hand, the D.C. Circuit said, "Well, under the limited times language, Congress couldn't pass a perpetual term." And presumably, if Congress passed an 800-year term, at some point there is going to be judicial scrutiny.

But for those arguing that this particular statute transgresses that boundary under a clause that seems to suggest a tremendous amount of congressional discretion, what is the principle for coming to that conclusion? Unless one takes the categorical position—which those challenging the statute have been reluctant to do—that any extension of an existing copyright is inherently unconstitutional. And that position raises other problems.

GRONER: Chris, you've had some involvement in the music industry. You have worked with bands and major labels and so on. What is the perspective that creators are likely to take?

CHRIS REESE, GENERAL COUNSEL, SIGHT-SOUND TECHNOLOGIES INC.: This is more my opinion than knowing what the various artists would say, but I can't imagine any copyright not being created because the copyright is going to end 50 years after somebody created it.

Now the creator's estate would obviously want to own that copyright as long as possible. But if you are talking about the promotion of the creative process, I can't imagine any harm in allowing for 50 years, instead of 70 years, beyond the death of the creator.

As a consumer, I would rather it be not extended further. If I were a member of

Congress, I would certainly not vote for the extension.

As for the Supreme Court, I think it is a classic slippery slope story. When do they say an extension is too much constitutionally? It is probably [a situation where] they know it when they see it. So I don't know what they are going to do here.

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GRONER: Laura, I know that you are concerned about the retroactivity issue in *Festo*. Do you want to address that?

KASTER: I'd like to come back to the doctrine of equivalents. The argument [taken to a logical extreme] really is that we ought not to have the doctrine of equivalents. And there is some legitimacy to that position.

But the problem with the *Festo* decision is it arbitrarily divides the world into cases where the patent went through normal processes and was granted as originally drafted and submitted, and those patents in which no one knew at the time that if they were amending, they would lose the right to this doctrine of equivalents. So it divides the world in an arbitrary way as to which patents get the doctrine of equivalents and which do not.

That really is the fundamental problem with the issue before the Court. The real problem, the practical problem noticed by both sides of the aisle, is that people ought to know going in whether or not this doctrine applies.

Frankly, the doctrine came about in a situation where people were purposefully creating slight design differences in order

to take advantage of patents. And it's then broadened—and that's part of the problem also.

The Federal Circuit is reversing approximately 40 percent of the cases, so we have the problem of unpredictability.

That is not good for business. It's not good for the public. It's not good for anybody. We need to have rules. Sometimes rules are just good because they're rules.

Hopefully, the outcome of this case will be that we have some clear rules to go forward.

GRONER: Chris, you are part of a small company that holds several patents. What would be the outcome for companies like yours if there were a complete affirmation of the Federal Circuit in *Festo*?

REESE: Well, Laura's right that the arguments for affirming *Festo* basically are the same arguments you would make against the entire doctrine of equivalents.

The reason for the doctrine of equivalents is that someone shouldn't be able to steal the essence of someone else's invention by making an insubstantial change.

Now, it might be difficult to go through that analysis of what encompasses an insubstantial change, but you have to do that anyway, even post-*Festo*. You just do it in a smaller number of cases.

I don't think that this particular rule—applying a bright line to one subset of all of the issues you fight over in patent litigation—really is going to give people predictability. I can't imagine a patent litigation occurring where they don't argue

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CLIFFORD SLOAN



JOSHUA SARNOFF

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obviousness and nonobviousness, for example.

You already have a judge and a jury fighting over something that could not be more touchy-feely and fuzzy. So to say that for this one little area, we're going to have a bright-line rule, I really don't think it solves the problem of unpredictability in patent cases. It just makes you feel good at the time you make the decision.

I think that what the court has essentially done in the Federal Circuit is say, "We're going to put our thumb on the scale a little bit in favor of defendants."

And these are the defendants in patent litigation who have made insubstantial

changes. If they have made substantial changes to the invention, the doctrine of equivalents never applies.

You know, when a horrible movie comes out, it's kind of fun to read all the film critics. They relish the opportunity to show how much they dislike the movie. I get a little bit of that relish in some of these dissenting opinions in *Festo*. I think they all made very good arguments.

I would say that as a patent holder, what you want is to have an opportunity to protect your patent.

Arthur Hair is the inventor of our patent. He came up with an idea to distribute audio and video recordings over networks electronically, had the inklings of

the idea in 1986 when he was 25 years old. He is 41.

He has dedicated his life to this thing. It's not a cure for cancer, but his view is—and I think now it will be generally accepted—that this will be the future and it will be better, faster, and cheaper for the consumer.

If you want somebody like Art Hair to have a shot at changing an entrenched industry—and I think that describes the music and movie industry to a T—then you really need to let inventors have their opportunities to protect their patents. To weigh in on the side of people who are only making insubstantial changes to an invention, I think, is a mistake.

cylinder], or the extra seal at both ends of the tube. Now, it's true that the piston had to have some way of keeping clean. But to say whether that's insubstantial or not, one would have to say two rings mean one. And to say whether the magnetizable sleeve is an insubstantial change, one would have to say the magnetizable means not magnetizable.

That is why the competitor went out and sold its product. They looked at the patents and said, "We don't infringe."

What this means is that you always have substantial uncertainty, even on "insubstantial changes," whether you will be found to infringe even though the patent clearly says certain things.

FINK: I go along with what Chris says to a certain extent. But not completely, because I think there is a practical dimension for companies like, for example, AmericanGreetings.com. We have a patent portfolio. We also license patents. We also use technology. We are essentially a media company. We're not a technology company.

And to say that if you have made substantial changes then you don't have to worry about the doctrine of equivalents, I think misstates the practicality somewhat. When you are advising management about whether your art infringes on a certain patent, you've injected a good bit of uncertainty because of the doctrine of equivalents. Management gets very frustrated, because they feel like they can't get a straight answer out of their lawyers.

I know that intellectual property law is shot through with subjectivity. It is unavoidable. It's just inherent in the kind of law we practice.

And then you get this attack on the doctrine of equivalents. I don't think the doctrine of equivalents is going to go away in this case. I think it's always going to be with us for precisely the clear reason that Chris has mentioned.

But I think there is recognition in the Federal Circuit, and I think there is recognition in the Supreme Court, that the doctrine of equivalents means that every case may be nonfrivolously litigated through the Court of Appeals. That is a tremendous burden to place on the public, because it's not just patent holders and infringers. It's the public's interest that we're really looking after.

SARNOFF: I want to respond to three things. The first is this concept of insubstantial changes.

In *Festo*, the insubstantial change at issue was a magnetizable sleeve versus nonmagnetizable sleeve [of a rodless

The second problem is: What's the practical impact of this on companies when they're thinking about getting patents, as distinct from when they're trying to avoid infringement?

It may be a little bit unfair to change the rules in the middle of the game, but at the same time, no patent attorney would ever have relied on the doctrine of equivalents for how they drafted the claims.

That's witnessed by the fact that only four Federal Circuit cases in 2000 held solely on the doctrine of equivalents, rather than literal infringement. You always write your claims, if you're doing your job right, so that they literally cover the things you're concerned about. So this is really only about things that were either unanticipated, or about bad drafting and bad legal practice. That's not necessarily what we want to be concerned about.

Finally, how do we distinguish this from the Court upholding the doctrine of equivalents? You have to go back to the case law.

As clearly stated by the Supreme Court in 1942 in a case called *Exhibit Supply*, when you amend your claim to narrow the scope of coverage that you're seeking in your patent, you dedicate to the public everything between the original claim language and what you then end up claiming.

What the application of the doctrine of equivalents here would do is take that dedication of subject matter to the public and pull it back to the patentee. That is, in theory, different from when you articulate your claim in the first place and you don't make the affirmative step of saying, "Hey, we're giving up everything between what we first asked for and what we're asking for now." Usually, what we asked for has to be less because we found out there was prior art, and we aren't entitled to everything we asked for. ■

PHOTOS BY KEN CEDEÑO