

THE U.S. PATENT SYSTEM FROM THE PERSPECTIVE OF THE U.S. IP LAW COMMUNITY

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ABSTRACT

In the past decade, many in the U.S. have recognized the need for significant reform of the U.S. Patent System, however, a deep and seemingly unbridgeable divide has separated segments of the IP Law Community and prevented legislative action to date. Nonetheless, in recent years, many of the outstanding issues that motivated the calls for reform, particularly the standards for patentability and the scope of patent enforcement, have been addressed by the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit. Yet, true patent reform that would support innovation and a resurgence of the economy, including new industries and more jobs, seems to be held hostage by the continuing differences between industries with respect to their vision for an optimal U.S. patent system. While stakeholders wait for the U.S. Congress to act, the USPTO has acted to gain the confidence of the user community and the legislature with respect to its ability and willingness to address many of the quality, pendency and efficiency issues that face the agency. A new, corporate-styled management has taken control of the USPTO and has been aggressive in changing policies, procedures and attitudes within the Office in an effort to make the patenting process more transparent, collaborative and efficient. Many interesting proposals are made, and some have potential to work while others require further consideration and revision. However, the overall approach has built a level of confidence and support within the user community for the USPTO that has not been seen for some time. Changes will continue to be introduced, but the foundation for unprecedented cooperation and success in shaping an effective U.S. patent system already has been created.

The United States was founded more than 230 years ago by representatives of 13 very unique colonies whose economic interests ranged from the highly industrial in the north to deeply agricultural in the south, and whose sociological philosophies varied widely with regard to human rights. Notwithstanding these divergent interests, the representatives of the people that inhabited these states were able to agree on a Constitution that established a democratic government with fundamental checks and balances among legislative, judicial and executive branches. Included among the principles that the Founders considered most important was the need to protect and promote "sciences and the useful arts" through intellectual property laws and a patent system.¹⁾ The patent system is defined by the underlying Patent Laws, their interpretation by the courts and their

application by the agency responsible for their administration, the U.S. Patent and Trademark Office. Over the past two centuries, and especially during the latter half of the 20th Century, the Patent Laws of the United States have served inventors, industry and the U.S. economy well by driving remarkable scientific and technological progress. Nonetheless, divergent interests remain in U.S. society and its economy that create tensions, generate debate and, as a result of compromise or stalemate, often result in intellectual property law policies that do not serve the best interests of all in the U.S. or globally.

The Role of AIPLA

It is with the perspective of rising above parochial

1) Article II, Section 8: "The Congress shall have Power ...To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

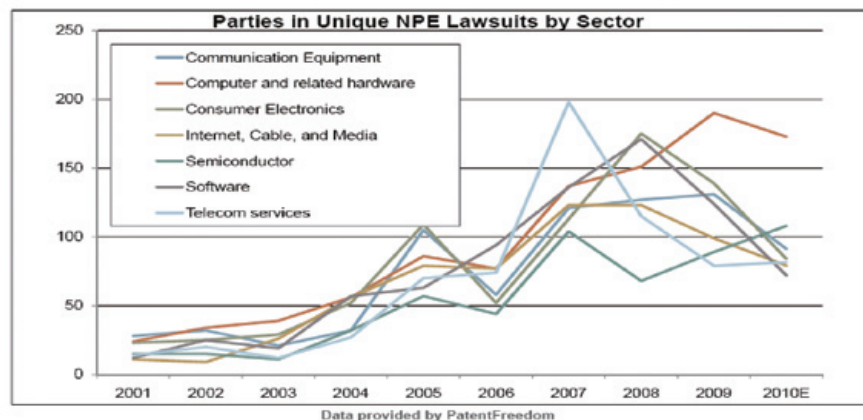


interests and promoting "best practices" for the protection of inventions and other intellectual property rights that AIPLA, since its founding in 1887, has actively participated in the shaping of IP policy on the national and international stages. AIPLA is a national bar association whose more than 16,000 members are primarily lawyers and other patent practitioners in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. AIPLA's members represent both owners and users of intellectual property, and are active in more than 50 committees, including a committee dedicated solely to practice in Japan, to provide the educational services, the policy advocacy and the networking opportunities for which the Association is famous²⁾. Its membership is open to anyone in the U.S or another country who is registered to practice before their national Patent Office, such as Japanese patent attorneys,³⁾ and its meetings can be attended by members and non-members alike⁴⁾.

The Diverse U.S. IP Community

The diverse membership of AIPLA is representative of the distinctly different interests and opinions that exist today within the U.S. IP community. Until recently, when the industrial age of the last century reached its maturity following dramatic growth in the chemical, electrical and manufacturing sectors of the economy, there was uniformly strong support across all industries for a patent system that provided broad protection for inventions and offered ample opportunities for injunctive relief and substantial damage awards against infringers. However, as the industrial age evolved into the information and bio/pharma age at the end of the last century, the requirements for domestic and global patent protection have diverged. Nothing better exemplifies this separation than the debate over Patent Reform that has raged in the United States for the past seven years.

Benevolent proposals for an improvement in the U.S. patent system that stemmed from the extensive studies of the National Academy of Sciences⁵⁾ and the Federal Trade Commission⁶⁾ were embodied in several legislative proposals in the 109th Congress⁷⁾ between 2005 and



- 2) AIPLA provides an independent and frequent voice on issues that arise in the courts, the Congress and the USPTO by filing of amicus briefs, providing testimony and submitting written or oral comment. For example, in a recent public "roundtable" on the proposed three track system, AIPLA voiced concerns that were raised by Japanese applicants about a feature that would defer examination of all U.S. applications that claimed priority from a foreign application.
- 3) Additional information about the activities of AIPLA is available on its website (<http://www.aipla.org>).
- 4) AIPLA has three stated meetings, including an Annual meeting in October, a mid-Winter meeting at the end of January and a Spring meeting in May, that have substantial educational content over a three-four day period. The IP Practice in Japan Committee has a special one and one half day "pre-meeting" at the Annual and mid-Winter meetings at which representatives from various Japanese IP organizations attend.
- 5) NAS Report "A Patent System for the 21st Century" (2004).
- 6) Federal Trade Commission, *To promote Innovation: The proper Balance of Competition and Patent Law and Policy* (2003).
- 7) HR 2795 (Smith), HR 5096 (Berman) and S3818 (Leahy & Hatch).

2006. However, the impact of several high damages awards and the easy availability of injunctive relief against the IT and telecommunications industries, particularly from a rising threat of patent litigation from non-practicing entities as illustrated in the accompanying graph⁸⁾, led to the formation of coalitions that sought to use the pending legislation as an opportunity to weaken those threats.

These industries, whose products rely upon rapidly developing technologies and are quickly placed into obsolescence, saw less value in strong patent protection and favored a system that provided smaller risk of damages, weaker injunctive relief and greater difficulty in bringing suit, particularly on the basis of patents with questionable quality.

Other sectors that rely heavily on strong patent protection, such as the biotech and pharmaceutical industries that to date do not have a large population of non-practicing entities (other than universities), vigorously registered their opposition to any legislation that would enable infringers to easily copy their products, which typically require significant investments in research and development and have the potential for substantial value for the entire life of the relevant patents.

An over-arching economic perspective on the value of the U.S. patent system was provided earlier this year in a U.S. Department of Commerce Department "White Paper⁹⁾" that argued for a stronger patent system through patent reform because innovation is a leading driver of economic growth and produces high paying jobs in a developed economy like that in the U.S. The paper focused on the pharmaceutical industry and noted that "surveys of CEOs and R&D managers have shown that patents are among the most important means for securing competitive advantage¹⁰⁾" and broadly observed that "over the past several decades, the empirical

evidence showing technological innovation as the leading driver of economic growth has become irrefutable" and patent reform "is likely to expand the Nation's innovative output while adding \$0 to the Federal deficit.¹¹⁾" The paper concluded that "this deficit-neutral form of stimulus presents an economic opportunity that should be seized."

Clearly, in today's economic environment that is characterized by strong IT/telecom and biotech/pharma components, one patent system does not seem to fit the needs of all potential users. Thus, between these two extremes are organizations like AIPLA who favor reform from the perspective of "best practices" without favoring one side or the other, so that the effectiveness of patents can be strengthened, the costs of patent acquisition and enforcement reduced by eliminating unnecessary subjective elements, and global harmonization of patent laws more easily achieved. The proposed legislation that is pending today¹²⁾ and is supported by AIPLA and the 21st Century Coalition,¹³⁾ as well as a few representatives of the IT community,¹⁴⁾ would meet those goals.

However, the strong disagreement that exists between diverse economic interests in the U.S. presently stands in the way of easily achieving desirable reforms, even those that would implement "best practices." Moreover, the need for many of the proposed reforms appears to be diminishing as a result of decisions by the courts since the turn of the century.

The Role of the U.S. Courts

Much of the criticism of the U.S. patent system stems from the assertion by industry representatives that non-practicing entities and competitors are asserting patents with "questionable validity." The ease with which patent owners could obtain an injunction against a defendant company often led to high royalty settlements,

8) "An Update and Considerations to Reduce Risks Posed by NPE's" July 9, 2010, PatentFreedom (www.patentfreedom.com), as reported in *Corporate Counsel*, August 2, 2010 (www.law.com).

9) "Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High Paying Jobs", Arti Rai, et al, April 13, 2010.

10) *Id* at page 4.

11) *Id* at page 8

12) S515 (Leahy & Hatch) in the Senate and HR 1260 (Conyers & Smith) in the House of Representatives.

13) AIPLA is a member of the Coalition for 21st Century Patent Reform, which is comprised of over 40 companies and organizations that favor improvements to the patent system (www.patentmatter.com).

14) Microsoft and IBM have openly supported the legislation embodied in S515.



despite the patents being characterized as having "low quality." On the other side of the coin, the frequency with which defendants attack patents on the basis of "inequitable conduct" because of an applicants failure to comply with the duty of disclosure has been called a "plague" on the patent system because of the frequency with which such charges are made in litigation¹⁵⁾.

Over the past decade, the U.S. Supreme Court has tightened the standard for obviousness (*KSR*¹⁶⁾) and has made it more difficult to obtain injunctions (*E-Bay*¹⁷⁾), while making it easier for accused infringers to successfully file for a declaratory judgment of invalidity or non-infringement (*Medimmune*¹⁸⁾). The Court's recent decision in the *Bilski*¹⁹⁾ case has confirmed that a narrower scope of subject matter is available for patent protection. The Court of Appeals for the Federal Circuit, the single appellate court for patent law issues, has placed restrictions on the amounts of recoverable damages (*Lucent v Gateway*²⁰⁾) and has tightened the basis for claims of willful infringement (*Seagate*²¹⁾). The Court is scheduled soon to decide an important case involving inequitable conduct and is likely to narrow the basis for that defense.

For some in the IP Community, these decisions by the U. S. courts have reduced the need for legislation and may have convinced many that it is better to block legislation and allow the courts to continue along their current path towards reforming patent practice by interpreting the existing Patent Laws and their application to patent procurement and infringement litigation. Others still believe that legislation is needed, particularly if harmonization of patent laws, at least by the adoption of a first inventor to file standard, is to be achieved.

A Common View On USPTO Operations - Quality and Timeliness

While there are clear and entrenched differences within the IP Community with regard to the need for Patent Reform legislation, there is a uniform consensus with regard to the need for a stronger, highly efficient, financially secure and well staffed USPTO.

The Commerce Department White Paper²²⁾ observed, on the basis of surveys, that innovative venture capital-backed startups rely on timely patents because patents are important to funding decisions. The White Paper also noted that "delay, uncertainty and poor quality at the front end ultimately make private investments in innovation less likely and undermine the potential for economic growth and job creation." Citing a recent report funded by the UK Intellectual Property Office²³⁾, the White Paper asserted that the delay caused by backlogs "could lead to 'foregone innovation,' costing the economy billions of dollars annually." The Paper also observed that low quality patents "that is , patents that are obvious, overly broad or unclear in the inventive territory that they cover - also hinder innovation" because it is more expedient to avoid their technology than to challenge them in litigation. On the basis of such detriments to the economy due to low quality and delay in issuing patents, the Paper stated strong support for an adequately funded and staffed USPTO.

These views from the U.S. Commerce Department are shared by a broad segment of the IP user community in the United States. Recently , strong support for adequate funding of the USPTO, so that quality and backlog issues can be addressed through additional hiring, training and IT infrastructure improvements, was stated in a joint letter to the U.S. Department of

15) Mammen, Christian, *Controlling the 'Plague': Reforming the Doctrine of Inequitable Conduct* (2009), Berkeley Tech Law J. Forthcoming. Available at SSRN: <http://ssrn.com/abstract=1339259>.

16) *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).

17) *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

18) *MedImmune v. Genentech et al.*, 549 U.S. 118 (2007).

19) *Bilski v. Kappos*, 561 U.S. ____ (2010).

20) *Lucent Technologies Inc. v. Gateway Inc.*, Fed. Cir., No. 2008-1485, 9/11/09.

21) *In re Seagate Tech. LLC*, 497 F3d. 1360 (Fed. Cir 2007 (en banc)) cert denied (2008).

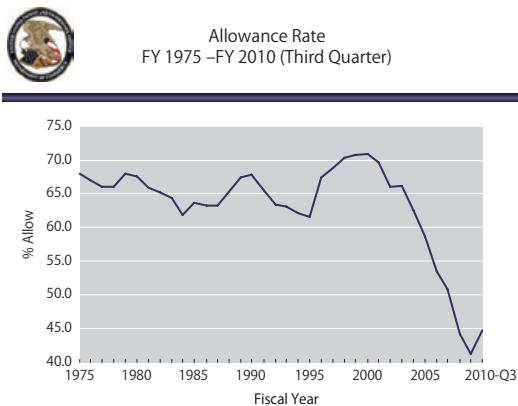
22) Rai, fn 10 supra at 3.

23) London Economics, *Economic Sturdy on Patent Backlogs and a System of Mutual Recognition - Final Report to the Intellectual Property Office* (2010), available at <http://www.ipo.gov.uk/p-backlog-report.pdf>.

Commerce by AIPLA, IPO and the American Bar Association IPL Section²⁴⁾.

Quality Does Not Equal Rejection

Quality of issued U.S. patents has long been a concern, particularly with the rise of litigation by non-practicing entities, as already noted. The previous USPTO administration, believing that quality is achieved by repeated rejection of pending applications, implemented policies that were designed to drive down the number of issued patents as an indication of improved quality. The result of that policy, as indicated by the accompanying chart, also reduced the revenue for the USPTO.



Clearly, the strategy of the previous USPTO administration through the beginning of 2009 was antithetical to the view of the present administration, as expressed in the White Paper, that patents are a driver of the economy and that quality does not equal rejection - instead, quality patents come from a quality examination. To this end, under David Kappos, current Director of the USPTO and Under Secretary of Commerce, the USPTO published for public comment a Draft FY 2010-2015 Strategic Plan²⁵⁾ that stated as a primary goal to "Optimize Patent Quality and Timeliness," and acknowledged that it is critical that the examination capacity of the USPTO, the timing for obtaining a patent and the quality of issued

patents must be improved. The Strategic Plan identified a number of initiatives to "re-engineer" the patent process in order to increase efficiencies and strengthen effectiveness including:

- * Institutionalize compact prosecution initiatives so that all relevant issues can be quickly identified and resolved early in prosecution, and patentable subject matter promptly identified through use of the interview process, including the first action interview program;
- * Improve the patent examination process by requiring examiners to be pro-active and work with applicants to efficiently identify patentable subject matter and to have it clearly stated in claims;
- * Prioritize work by adopting a multi-track examination process, including enhanced accelerated examination options;
- * Improve the classification system by "building on the best practices of our partners in foreign IP offices" so that mutual confidence in work sharing, which is a "key priority" of the USPTO, can be achieved; and
- * Re-engineer the examiner count system so that appropriate incentives are provided to examiners for a more efficient and high quality examination process.

These examination initiatives would be accompanied by initiating an "end to end" IT project that will maximize usage of automation and leveraging of work sharing from other offices. Also proposed is an increased use of the PCT and PPH programs coupled with enhanced efficiencies through Trilateral Office and IP5 programs.

Reliable Metrics of Patent Quality Are Being Defined

Early in the Kappos administration, the need for appropriate and comprehensive metrics to measure patent quality was recognized. A "quality task force" that was led by a member of the Public Patent Advisory Commission²⁶⁾ was promptly established and public comment on quality, at open roundtables and in written comment, was solicited. Numerous suggestions were made but the need for multiple measures of quality, from the beginning of the examination process to issue, and

24) Letter dated July 14, 2010. AIPLA also submitted a letter to the Congress on July 28, 2010 supporting a proposed supplemental funding for the USPTO.

25) Federal Register Notice of July 9, 2010 (75 Fed. Reg. 39493).

26) Mark Adler, previously President of IPO and Chief Patent Counsel of Rohm & Haas.



the shared responsibility of applicants, the Office and the public to achieve quality, was recognized²⁷⁾. The Office has stated its plan to continue to work with stakeholders in the definition and implementation of metrics for improved quality and the draft Strategic Plan states the commitment of the USPTO to "undertake to improve quality and to reengineer its patent quality measurement and management program [which will] require significant public input and revamping metrics for measuring quality."

Public Input and Transparency

A cornerstone to the Kappos administration that differentiates it from its predecessor is the openness with which it communicates with stakeholders and the transparency to which it is committed. The Draft Strategic Plan highlights that commitment by establishing as a strategic priority to "Improve IT Infrastructure and Tools" so that the USPTO can establish cost-effective, transparent operations and processes. Not only will the USPTO generate more data with finer granularity, it will make that data easily accessible to USPTO customers, partners, industry and the public through an improved website, by adopting XML and by establishing "partnerships with customers, industry and other IPOs²⁸⁾."

This commitment to transparency has been evident since the early days of the Kappos administration with a number of initiatives, including:

- * Establishment of a Director's Blog;
- * Multiple Public Appearances - nationwide;
- * Holding of Multiple Roundtables
 - Appeals Roundtable
 - Quality Roundtable
 - Deferred Examination Roundtable
 - PCT Roundtable
 - Worksharing Roundtable;
- * Issuing Multiple Notices Requesting Public Comment - prior to implementation of new rules or practices; and

* Initiating a Web-based Interactive Model Predicting Average Patent Pendency vs. Staffing and Filing Levels.

Further, the commitment to permitting greater public input to the improvement and functioning of the examination process has been seen in several other initiatives, including the implementation of the Ombudsman Program and the rescission of the highly criticized Claims/Continuations Rules Package from the previous administration.

Lastly, a significant effort has been made to established a "TEAM" attitude from the top to the bottom of the USPTO organization, leading to a rapid culture change that is evident from the outside to users and the public in general, typically in the spirit of cooperation that is demonstrated by examiners²⁹⁾. An important part of the culture change is the recent emphasis on cooperation and collaboration between examiner's and users, supported by frequent Email messages to examiners and staff from the Director. In addition, innovative initiatives have been undertaken with the Examiner's union in order to gain support for programs that are designed to provide improved performance, quality and efficiency.

User Community Reaction to the USPTO

Although the patent user community is diverse and, often, in disagreement on any number of issues, such as patent reform, there does appear to be one area of concurrence. At least with respect to the plans and operation of the USPTO, the overwhelming impression of applicants, user groups and bar associations is that the USPTO currently is on the right track and is properly focused on enhancing the effectiveness, quality and efficiency of the application examination and patent grant process. The Draft Strategic Plan is extremely ambitious and has garnered wide support, although suggestions for improving the Plan also have been provided³⁰⁾. For example, a three-track examination proposal has raised

27) AIPLA, IPO and ABA, as well as corporations and inventors in all segments of industry participated in the roundtables and contributed written comments.

28) Similar transparency has been evident in the constructive and open working relationship that has been established within the Trilateral and between the Trilateral and the Industry Trilateral (JIPA, Business Europe, IPO and AIPLA).

29) This change has resulted in a reduction of the USPTO backlog of unexamined applications to under 740,000.

30) Support, suggestions and comments on the Strategic Plan were submitted by AIPLA on August 2, 2010 and additional favorable comments were submitted by IPO, the ABA/IPL section and other entities having an interest in the U.S. patent system.

concerns with respect to the impact of a deferred examination track, the resulting effect on patent term extension calculations and the impact on US-second filers of a delayed examination of their applications until an office action is issued in an office of first filing. Nonetheless, it is expected that, as with other earlier initiatives over the past year, the Kappos administration will carefully consider and evaluate those comments and will revise and improve the Plan to meet the needs of the Office, to remove the concerns of stakeholders and to enhance the performance and quality of the U.S. patent system as a whole.

Many of the reforms, from the hiring of additional examiners to the procurement of modern IT facilities and the implementation of enhanced services, will cost money. Notwithstanding the challenging economic times that we all face, users of the U.S. Patent system seem willing to accept increases in fees, so long as the quality and timeliness is improved and the money collected goes only to running the USPTO. The users are practical in this regard, and given the progress made to date, are willing to support even the grant of fee setting authority to the USPTO, so long as the fees collected stay with the USPTO and are not diverted to other government purposes.

Conclusion

Today, the U.S. legal community is more optimistic about the future health and effectiveness of the nation's patent system, and the opportunities for global protection for patentable inventions, than ever before. Notwithstanding the impediment of a massive backlog of almost 740,000 unexamined patent applications in the U.S., there is a firm belief that Kappos administration is working hard to modify and streamline the patent application examination process in the U.S. and to partner with Offices in other countries to achieve greater efficiencies through worksharing and harmonized policies, procedures and IT infrastructure and tools. There is a belief that a twenty-month pendency goal is achievable. Moreover, there is increased confidence that greater patent quality can be obtained and ensured through the implementation of enhanced metrics, improved data granularity and greater transparency and public participation in examination policy and protocol

formulation. Finally, there also is a hope, though tempered by some measure of frustration with the US political process, that patent reform can be achieved in the near term and that the U.S. can move forward with more relevant standards for patentability, stronger bases for predicting the scope of patent rights and greater certainty for patent owners and third parties alike.

In short, from the perspective of the U.S. IP law community, the future is bright for the U.S Patent System in the years to come.

profile

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