



Statement of

DOUGLAS K. NORMAN

PRESIDENT

INTELLECTUAL PROPERTY OWNERS ASSOCIATION

Before the

HOUSE COMMITTEE ON THE JUDICIARY

**SUBCOMMITTEE ON INTELLECTUAL PROPERTY, COMPETITION, AND THE
INTERNET**

on

**“HOW AN IMPROVED U.S. PATENT AND TRADEMARK OFFICE CAN CREATE
JOBS”**

Tuesday, January 25, 2011
1:30p.m.

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO)

Mr. Chairman and Members of the Committee:

My name is Douglas K. Norman. I appreciate the opportunity to be here today to speak on behalf of Intellectual Property Owners Association (IPO). I am the President of the association.

IPO is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in intellectual property rights. IPO's membership includes more than 200 companies and over 11,000 individuals primarily involved through their companies or law firms. Our corporate members represent a broad spectrum of large and mid-sized companies in industries ranging from information technology to consumer products to pharmaceuticals and biotechnology. We also have small business and independent inventor members. In addition to our legislative interests, we comment frequently on U.S. Patent and Trademark Office (PTO) issues and file *amicus* briefs in cases of interest to our members. IPO is active in international intellectual property activities as well and often comments on activities and policies of the Chinese, European and Japanese patent offices.

IPO believes that a system of effective and affordable intellectual property rights is a key to innovation and job creation. We thank the Committee for taking the time to address such an important issue in the context of PTO operations, and appreciate the opportunity to discuss it with you today.

We believe patent rights granted by the PTO provide critically important incentives for inventors and businesses to invent, to invest in research and development, and to commercialize technology. The literature is filled with evidence that inventions are a major contributor to economic growth. Industries that are innovation-intensive have a much stronger record of creating manufacturing and service jobs than industries that are less innovative. Such jobs produce competitive products and services for the domestic and export markets. Each year, many of our corporate members spend millions on R&D – some spend hundreds of millions – some spend billions.

Trademarks registered by the PTO also contribute to job creation by protecting brand names that are used to identify and promote new and existing products and services. The trademark side of the PTO is operating very effectively, in our judgment, so we will direct our

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comments today primarily to the PTO's patent operations, where there are more opportunities to make improvements to boost job creation.

At the outset we want to congratulate PTO Director David Kappos, who incidentally was Vice President of IPO until he was appointed to head the PTO in 2009. Mr. Kappos by all accounts has brought a high level of creativity and energy to the efforts to improve the PTO. Neither Mr. Kappos nor anyone else, however, can make the needed improvements without adequate funding to operate the agency.

PTO FUNDING

Since the 1990's the PTO has collected approximately \$800 million in patent and trademark fees from our members and other PTO users that it has been unable to spend because of limitations in congressional appropriations acts. The inability to gain access to all of its collected fees has taken a considerable toll on the agency. While fiscal year 2010 production by the PTO's patent examining units set a new record, the pendency times for patent applications in the office will remain at unacceptably high levels for years to come if the office is unable to hire more patent examiners and make other much-needed infrastructure investments.

We appreciate the bipartisan efforts of members of the House and Senate Judiciary Committees and the leaders of the Commerce, Justice, Science Appropriations Subcommittees last year to support supplemental appropriations for the PTO to make total appropriations equal to fee collections. Some success was achieved with the enactment of a \$129 million supplemental appropriation, but we understand that the PTO collected about \$50 million in user fees by the end of the fiscal year on September 30, 2010 that could not be spent. We also appreciate the efforts to obtain an exception (a so-called "anomaly") for the PTO last fall in the continuing resolution that funded the government temporarily at the fiscal year 2010 level, including a letter by Chairman Smith and Ranking Member Conyers. The case for an exception in the continuing resolution for the PTO was quite simple. The PTO deserves different treatment because it is funded entirely by patent and trademark fees. No general taxpayer funds are used.

In large part because of the Judiciary Committee's support, adequate PTO funding was provided for in the original House fiscal year 2011 appropriations bill. Unfortunately PTO funding was caught up in larger government funding issues.

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As the members of this subcommittee are well aware, March 4, 2011 is the next deadline Congress faces for resolving fiscal year 2011 government funding issues, including whether or not to provide adequate funding for the PTO. IPO urges Congress to include PTO-specific provisions in whatever government funding legislation is passed by March 4. IPO strongly supports:

- Raising the spending limit (i.e., the money “appropriated”) for 2011 to allow the PTO to spend all of its 2011 estimated fee collections,
- Including a “buffer” in the legislation to allow the PTO to spend \$100 to \$200 million more than estimated fee collections, if actual fee collections in 2011 exceed estimates, and
- Imposing a 15 percent surcharge on major patent fees during the remainder of 2011, provided the spending limit is raised to insure that the PTO can spend the extra income generated by the surcharge.

These three items were in the 2011 appropriations bills that were supported by the House and Senate Appropriations Committees, but were not passed by Congress. With regard to the 15 percent fee surcharge, patent fee levels traditionally have been a matter for the Judiciary Committee. IPO can support the 15 percent fee surcharge only if the PTO is guaranteed the ability to spend the extra income generated by the surcharge. Since that guarantee can be given only by raising the level of appropriations, as we understand it, the fee surcharge needs to be in an appropriations bill. We encourage the Judiciary Committees to work with the Appropriations Committees on the fee surcharge as they did last year.

The importance of obtaining adequate funding for the PTO for the rest of the fiscal year cannot be overemphasized. By March 4 the PTO will have had its 2011 funding restricted to a lower level than the level of fee collections for 5 months of the fiscal year. Originally the PTO was planning to hire about 1,000 patent examiners in fiscal year 2011. We doubt that much of the hiring plan can be salvaged if the PTO continues to be restricted to the 2010 spending level after March 4.

IPO also continues to strongly support permanent legislation to allow the PTO full access to patent and trademark fee collections every year. Just like any business, the PTO needs to

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make long range plans to enable it to hire examiners, to invest in information technology, and make other infrastructure improvements. Long term planning is difficult when the PTO is subject to the same appropriations process that is used for agencies funded by general taxpayer revenues. So far, no proposals have met with the approval of the Appropriations Committees for permanent legislation, but IPO stands ready to work with the Judiciary and Appropriations Committee members to continue the search for an arrangement that will assure long term stable PTO funding.

PATENT QUALITY AND TIMELINESS

IPO fully endorses the broad mission-focused goals in the PTO's 2010-1015 Strategic Plan, which are to:

- Optimize Patent Quality and Timeliness
- Optimize Trademark Quality and Timeliness
- Provide Domestic and Global Leadership to Improve Intellectual Property Policy, Protection and Enforcement Worldwide

Patent timeliness and quality in particular are relevant to job creation in the U.S. and deserve comment.

Timeliness

As noted, the current average time to grant a patent is about twice as long as the goals of 18 to 20 months that have long been recommended by IPO and others. Delay in granting patents, or in deciding not to grant them, weakens the incentives that a healthy patent system provides for job creation. Early determination of the legal rights in technology is important for patent owners in many industries. Early determination of rights is also important to give notice to competitors in the patent owner's industry who may be considering investments in the same or similar technologies. Business people put a high value on "legal certainty." Delay in granting patents inevitably means legal uncertainty that directly stymies investment.

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We appreciate that the PTO has been experimenting with ways to accelerate certain classes of patent applications, such as those relating to green technology, at the request of the applicant, or to make accelerated examination available on payment of an extra fee that would support the cost of hiring extra examiners. Programs have been proposed to give applicants control over the timing of examination of their applications. We believe, however, that the only way to provide legal certainty is to examine all applications within a reasonable time.

IPO has opposed systems for deferred examination of patent applications that have been used in some countries to permit applicants to delay examination, typically from 3 to 7 years after filing. Deferred examination causes legal uncertainty and experience has shown that countries with deferred examination still have backlogs of unexamined applications.

Some recent PTO proposals or programs would increase legal uncertainty. IPO commented unfavorably on the proposal for a “three track” examination system, in part because of legal uncertainty. IPO also has concerns about the “missing parts” pilot program, under which an applicant can file a provisional application, as permitted by the statute, followed by a regular application, and seek to delay completion of the regular application for up to another year. This program permits the applicant to delay submitting a full set of claims until after the patent application is published, 18 months after the first filing date. The public’s inability to learn of the claims that are being sought at the time of publication causes a lack of transparency and contributes to legal uncertainty.

Another program proposed recently for singling out certain applications for special treatment would provide transferrable vouchers for accelerated reexamination of patents for a patent owner providing access to “humanitarian technologies.” One of several IPO concerns with this idea was that it might accelerate some reexaminations of patents at the expense of other parties seeking reexamination. The statute calls for handling all reexaminations with “special dispatch.” In addition, IPO does not want to see the creation of artificial markets where vouchers granting procedural rights are traded amongst patent applicants or owners.

In the final analysis, it seems to us that the only way to achieve optimal legal certainty at an early date for patent rights is to hire enough patent examiners to examine every application reasonably promptly. This requires stable and increased funding for the PTO.

Quality

“Quality” of patents granted by the PTO is the other key to maximizing incentives for job creation. A patent owner needs confidence that patents will be upheld in court if challenged, before investing in R&D or new products or services where the competitive edge provided by patent rights is important to making the investment. If the patent owner does not have a high degree of confidence that it can rely on the patent, incentives provided by the patent system are diminished. Quality is much more difficult to define and measure than timeliness, but quality nonetheless must be given high priority both by the PTO and applicants who are seeking patents.

On December 27, 2010, IPO in cooperation with three other associations – the American Intellectual Property Law Association, BusinessEurope, and the Japan Intellectual Property Association – submitted recommendations on patent quality to the PTO, the European Patent Office, and the Japan Patent Office. Our letter defined a quality patent as a patent that satisfies all of the legal patentability requirements. We provided a number of nuts and bolts suggestions (1) for applicants preparing a quality patent application, (2) for patent offices and courts, and (3) for members of the public submitting information to patent offices and assisting in training patent examiners.

We do not have adequate information to characterize the current level of quality of patents being granted by the PTO except to say most IPO members believe quality can be improved. Quality improvement has been an objective of patent reform legislation considered in the last three Congresses. The PTO recently has developed new quality metrics. One new PTO program that we endorse as likely to improve both quality and productivity is hiring of examiners with previous industry or law firm experience. Traditionally the PTO had hired mainly new engineering graduates. We believe examiners with previous relevant work experience are likely to produce quality work at the PTO more quickly and are more likely to stay with the PTO. Retention of examiners is essential for quality and production.

In December, legislation was signed into law that opened the way for the PTO to greatly expand its telework program by eliminating the requirement for examiners and other employees residing more than 50 miles from the PTO to go to the PTO offices twice every two weeks. The enactment of this legislation gives the PTO the possibility of having a “nationwide workforce.”

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In January the PTO announced plans to open its first satellite office in Detroit, which initially is expected to employ about 100 examiners. Additional details of the programs are still to come.

We have no objection in principle to telework and satellite offices, but we recommend that the Subcommittee monitor these programs closely. It is essential that patent examiners be available for interviews with attorneys representing patent applicants. It has been shown that interviews shorten the pendency time of patent applications. Interviews probably improve quality as well. The new programs also should be monitored to assure adequate supervision and training of examiners working at home or in satellite offices. The relevance of supervision and training to patent quality requires no explanation.

PTO-RELATED PATENT REFORM LEGISLATIVE ISSUES

Patent reform legislation as a whole is outside the scope of this hearing, but we would like to take the opportunity to endorse a few patent reform proposals from the last Congress that directly affect the PTO. IPO supports patent reform legislation that will improve patent quality, allow early determination of rights, encourage international harmonization of laws, and reduce patent litigation.

A central feature of the patent reform bills that we support in principle is a new post-grant review proceeding. A post-grant review proceeding of appropriate scope can serve as a useful check on the quality of patents after they are granted by the PTO. We also support the legislative proposals to expand the opportunities of third parties to submit prior art information to the PTO before patent grant, another quality measure.

We recommend further analysis of the staffing requirements for the PTO to implement post-grant review before final passage of post-grant review legislation. Given the severe staff shortage, it may be advisable to implement post-grant review gradually. A related matter that has not been explored to date, to our knowledge, is the possible need to add more judges to the U.S. Court of Appeals for the Federal Circuit to handle appeals from post-grant review proceedings. Patent reform bills probably do not need to add more judges to the court, because the effect on the court would not be felt for years, but long range planning is recommended to prevent future problems.

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For 20 years IPO has supported the conversion of the U.S. patent system to a first-inventor-to-file system. This is another central feature of patent reform bills. First-inventor-to-file will increase legal certainty for patent rights. It will also simplify proceedings in the PTO and open the way to further simplification through international harmonization of patent law.

A final provision of patent reform directly affecting PTO operation is clarification of the inequitable conduct doctrine. IPO supports appropriate legislation to address the problems caused for the PTO and patent applicants and owners by the current judicially-created doctrine. There has been a huge increase in the number of court cases in which inequitable conduct has been pleaded. In order to minimize the opportunity for allegations of inequitable conduct, patent practitioners now regularly disclose to the PTO anything that could be alleged to be material, regardless of the relevance. Practitioners are also reluctant to make statements about cited references, which may later be characterized in litigation as material representations. The result of this “cite everything, say nothing” practice forced upon applicants by the current inequitable conduct law is that examiners are frequently overwhelmed with irrelevant references. The productivity of examiners declines, and the whole patenting process slows down. We note that the Federal Circuit is currently reconsidering the inequitable conduct doctrine *en banc* in *Therasense, Inc. v. Becton, Dickinson & Co.*

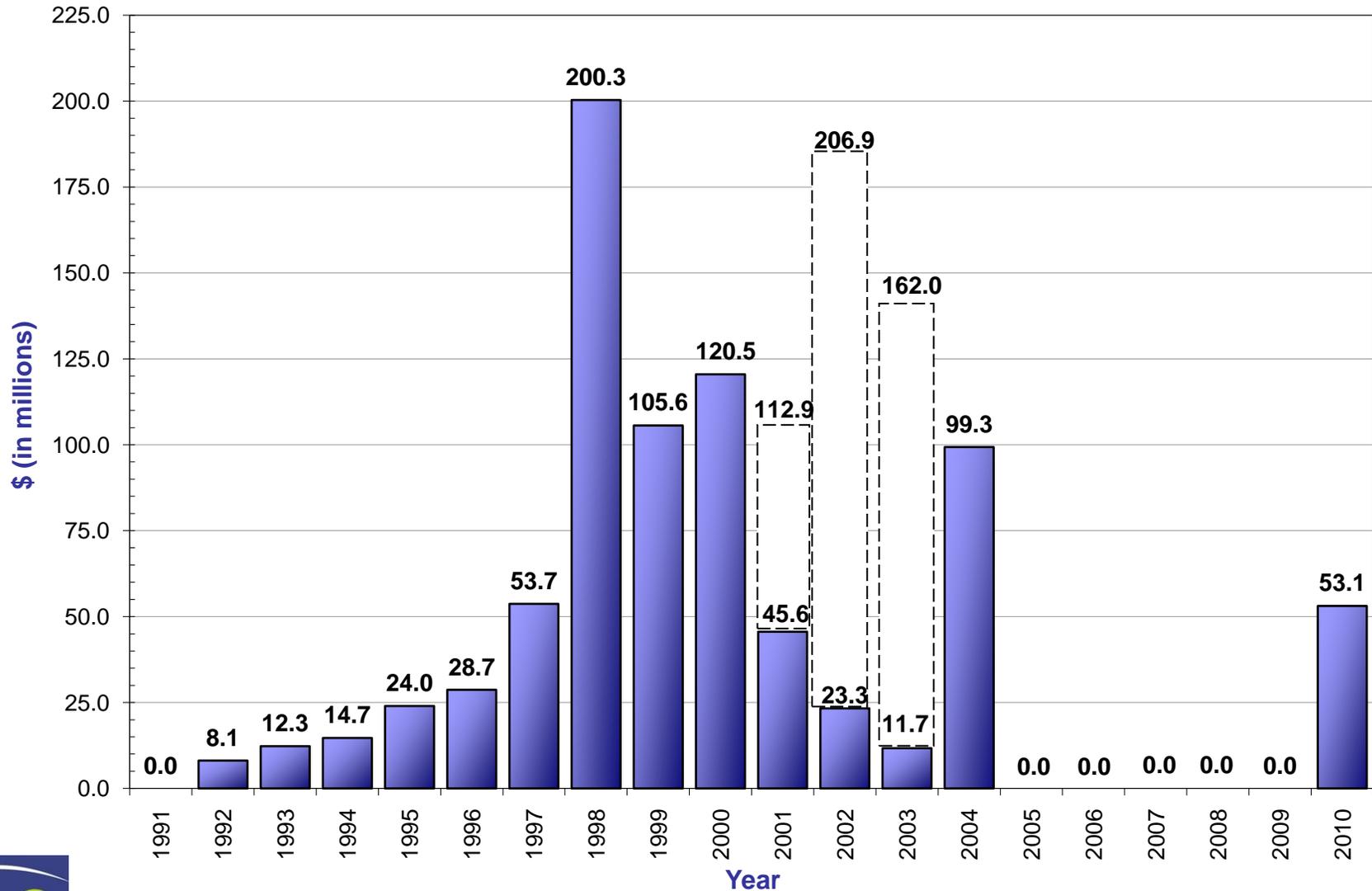
* * *

Thank you for the opportunity to appear here today. I will be pleased to answer any questions or supply additional information for the record.

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO)

APPENDIX

**User Fees Withheld from the U.S. Patent and Trademark Office (USPTO)
1991 - 2010 (estimate)**



Sources: USPTO & OMB

Planned amounts of fee withholdings from 2001 to 2003, as projected in the PTO's annual budget requests to Congress, are shown by the dotted lines. (Rev. 10/2010)

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO) -- APPENDIX 2



July 14, 2010

The Honorable Gary Locke
Secretary
Department of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

We are writing to express views shared by our three organizations concerning resources available to the U.S. Patent and Trademark Office in the coming months and years. In this regard we would like to discuss two specific issues relating to PTO funding. One is the OMB June 8 Memorandum on Fiscal Year 2012 Budget Guidance. The other is the unavailability to the PTO of an estimated \$200,000,000 of user fees actually collected in the current fiscal year.

For almost 20 years, the PTO has been fully funded by user fees. The fact that all funding for the Office is provided by the Office's customers is reason enough to not consider the PTO for inclusion in the initiative to reduce discretionary spending by 5% in each Department or Agency. However, an even more important reason is the mission of the PTO.

Our nation's patent system is a critical component of the engine that drives the U.S. economy and contributes greatly to United States world leadership in innovation and technological advancement. However, the efficiency and effectiveness of that system is threatened by a substantial and growing shortfall in funding and resources.

The Office has over 1.2 million pending patent applications, three-quarters of a million of which have not received a first office action. Average pendency from application to final action is 35 months. In some critical technologies, it is substantially longer. For example, in Workgroup 2190 that is responsible for patents relating to software development, average pendency to first office action is 46.4 months, and total pendency is 55.5 months. In the steps that the Department might take to meet the objective of a 5% reduction in spending, OMB Director Orszag's June 8 Memorandum lists first the elimination of low-priority programs that have the lowest impact on the mission of the Department. We strongly believe that the PTO cannot be considered to be a low priority program, and should not be considered for a reduction in funding to meet the OMB objective.

Secondly, and for the same reasons, we strongly support the Administration's July 12th request to Congress for a supplemental appropriation to make available to the Office the fees collected which are in excess of the current 2010 annual appropriation.

(http://www.whitehouse.gov/omb/assets/budget_amendments/amendment_07_12_10.pdf).

We agree with President Obama that these additional funds are vital to "support efforts to reduce backlogs in processing patent applications – by spurring innovation and reforming U.S. Patent and Trademark Office operations to make them more effective." Our patent system is suffering from the lack of these funds, and they should be made available to the Office to avoid further damage. We urge you to continue with these efforts and stand ready to help encourage Congress to enact the supplemental quickly.

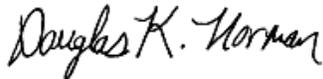
Sincerely,



Don. W Martens, Chair
ABA Section of Intellectual Property Law



Alan J. Kasper, President
American Intellectual Property Law Association



Douglas K. Norman, President
Intellectual Property Owners Association

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO) -- APPENDIX 3



September 29, 2010

The Honorable Barbara Mikulski
Chairwoman
Subcommittee on Commerce, Justice,
Science and Related Agencies
Committee on Appropriations
142 Dirksen Senate Office Building
Washington, D.C. 20510-6025

The Honorable Richard Shelby
Ranking Member
Subcommittee on Commerce, Justice,
Science and Related Agencies
Committee on Appropriations
125 Hart Senate Office Building
Washington, D.C. 20510-6025

The Honorable Alan B. Mollohan
Chairman
Subcommittee on Commerce, Justice,
State and Related Agencies
Committee on Appropriations
The Capitol Room H-309
Washington, D.C. 20515-6015

The Honorable Frank R. Wolf
Ranking Member
Subcommittee on Commerce, Justice,
State and Related Agencies
Committee on Appropriations
Longworth HOB Room 1001
Washington, D.C. 20515-6015

RE: SUPPORT FOR FUNDING THE USPTO

Dear Chairwoman Mikulski, Ranking Member Shelby,
Chairman Mollohan and Ranking Member Wolf:

We are writing to express views shared by our three organizations concerning resources available to the U.S. Patent and Trademark Office. In this regard, we understand and note with disappointment that the Continuing Resolution does not include a provision to make available to the USPTO an estimated \$70 million of user fees actually collected in the current fiscal year.

During last week's Patent Public Advisory Committee, the USPTO reported that collections for this fiscal year will exceed their current appropriations by approximately \$70 million and those funds would not be available to the USPTO without being addressed in the Continuing Resolution. The USPTO has been reporting for months the possibility that collections would likely exceed their projected appropriations. The unavailability of funds paid as fees to the USPTO is the paramount issue to our members, and we therefore strongly support finding some mechanism to make these funds available to the PTO by whatever means you might find appropriate.

Our nation's patent system is a critical component of the engine that drives the U.S. economy and job creation, and contributes greatly to United States world leadership in innovation and technological advancement. However, the efficiency and effectiveness of the patent system is threatened by a substantial and growing shortfall in funding and resources for the USPTO.

While we greatly appreciate your efforts this year in providing the USPTO access to additional funds through the Supplemental Appropriation, we urge you to work with the Administration to make available to the USPTO all of the fees collected. We are committed to a strong, efficient, and predictable patent system, and we pledge to work with you to find a constructive approach to address this problem. Our patent system is suffering from the lack of these funds, and they should be made available to the USPTO to avoid further damage.

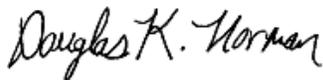
Sincerely,

A handwritten signature in black ink, appearing to read "Marylee Jenkins", with a long horizontal line extending to the right.

Marylee Jenkins, Chair
ABA Section of Intellectual Property Law

A handwritten signature in black ink, appearing to read "Alan J. Kasper", written in a cursive style.

Alan J. Kasper, President
American Intellectual Property Law Association

A handwritten signature in black ink, appearing to read "Douglas K. Norman", written in a cursive style.

Douglas K. Norman, President
Intellectual Property Owners Association



President
Douglas K. Norman
 Eli Lilly and Co.

Vice President
Richard F. Phillips
 Exxon Mobil Corp.

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Timothy Crean
 SAP AG
Robert DeBerardine
 Sanofi-Aventis
Barl Eppenaue
 Microsoft Corp.
Mark Farber
 Covidien
Scott M. Frank
 AT&T
Michael L. Glenn
 Dow Chemical Co.
Bernard J. Graves, Jr.
 Eastman Chemical Co.
Krish Gupta
 EMC Corporation
Jack E. Haken
 Koninklijke Philips Electronics N.V.
Dennis R. Hoerner, Jr.
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Jennifer K. Johnson
 ZymoGenetics, Inc.
Philip S. Johnson
 Johnson & Johnson
George William Johnston
 Hoffmann-La Roche Inc.
Lisa Jorgenson
 STMicroelectronics, Inc.
Dean Kamen
 DEKA Research & Development Corporation
Charles M. Kinzig
 GlaxoSmithKline
David J. Koris
 Shell International B.V.
Michelle Lee
 Google Inc.
Carey Levitt
 Dow Corning Corp.
Richard J. Lutten, Jr.
 Apple Inc.
Scott McDonald
 Mars Incorporated
Jonathan P. Meyer
 Motorola, Inc.
Steven W. Miller
 Procter & Gamble Co.
Jeffrey L. Myers
 Adobe Systems Inc.
Sean O'Brien
 United Technologies, Corp.
Kevin H. Rhodes
 3M Innovative Properties Co.
Mark L. Rodgers
 Air Products & Chemicals, Inc.
Manny Schecter
 IBM, Corp.
David Simon
 Intel Corp.
Dennis C. Skarvan
 Caterpillar Inc.
Russ Slifer
 Micron Technology, Inc.
Wayne Sobon
 Accenture Ltd.
Daniel J. Staudt
 Siemens Corp.
Brian K. Stierwalt
 ConocoPhillips
Thierry Sueur
 Air Liquide
James J. Trussell
 BP America, Inc.
Danise van Vuuren-Nield
 Coca-Cola Co.
Roy Waldron
 Pfizer, Inc.
Michael Walker
 DuPont
BJ Watrous
 Hewlett-Packard Co.
Stuart Watt
 Amgen, Inc.
Paul D. Yasger
 Abbott Laboratories

Executive Director
Herbert C. Wamsley

November 24, 2010

Chairman Alan Mollohan
 Committee on Appropriations
 Subcommittee on Commerce,
 Justice, Science, and Related Agencies
 Room H-310, The Capitol
 Washington DC 20515

Ranking Member Frank Wolf
 Committee on Appropriations
 Subcommittee on Commerce,
 Justice, Science, and Related Agencies
 Room H-310, The Capitol
 Washington, DC 20515

RE: Full 2011 Funding for the U.S. Patent and Trademark Office – An Urgent Jobs Issue

Dear Chairman Mollohan and Ranking Member Wolf:

Intellectual Property Owners Association (IPO) urges prompt passage of the House fiscal year 2011 Commerce-Justice-Science appropriations bill or an amendment to the continuing resolution to allow the U.S. Patent and Trademark Office (USPTO) to spend all user fees it collects from our members and other members of the public. The continuing resolution in effect since October 1 limits USPTO spending to the 2010 appropriations rate, *about \$1.5 million per day less than the President's 2011 budget request*. We appreciate your past support for funding the USPTO at a level equal to fee collection estimates and ask you to take immediate action to enable the USPTO to spend all 2011 fee collections. In our judgment, this is critically important to the health of the U.S. economy.

The membership of IPO includes more than 250 companies and 11,000 individuals involved in IPO through their companies or law firms or as individual members. We constitute approximately one-third of the domestic users of the USPTO. Our members span the information technology, pharmaceutical, biotech and traditional manufacturing industries. Members all agree that the United States needs an effective USPTO to keep our nation competitive, encourage innovation and create new jobs.

We support the 2011 appropriations language for the USPTO that has been approved by your Committee. The language will:

- Impose a 15 percent surcharge on major patent user fees during 2011, which we support provided the fee collections will be available to the agency. (Including the surcharge in an appropriations bill or continuing resolution with an appropriate spending authorization makes the surcharge funds available.)
- Increase appropriations significantly - to \$2.322 billion - to allow the USPTO to hire badly-needed patent examiners to attack the backlog of unexamined patent applications and to make other improvements in USPTO operations.

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- Provide a \$100 million “buffer” in addition to the base \$2.322 billion to allow spending of fees received in excess of estimated collections.

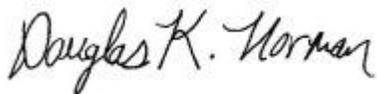
As we understand it, the USPTO is constrained to spending at the rate of \$2.016 billion per year under the existing continuing resolution. The 15 percent surcharge would likely generate an additional \$262 million in fee collections if in effect for the entire fiscal year. (With two months of the year already gone, actual additional collections will be less.) USPTO officials gave an estimate to the Trademark Public Advisory Committee yesterday that in 2011 *the USPTO will likely collect about \$400 million in excess of the existing spending limit*, taking into account the surcharge and a larger number of application fees and other fees being paid to the agency. Four hundred million dollars can be the difference between success and failure for the agency in stimulating the economy and creating American jobs. As you know, no general taxpayer dollars are at stake. The USPTO is 100 percent funded by user fees.

As stated, we support your Committee’s bill. In addition, we urge updating the appropriations in the bill to match the latest collection estimates and increasing the buffer to \$200 million so that if the actual collections exceed the estimates, the agency will still be able to use all of the fees it collects. We believe a \$200 million buffer is reasonable, given that the USPTO’s fee estimates for 2010 turned out to be nearly \$200 million understated.

The funding problem is urgent and needs to be addressed this calendar year. If Congress opts to pass a new continuing resolution extending into the new calendar year instead of passing the 2011 Commerce-Justice-Science appropriations bill, it is imperative to include an amendment or “anomaly” for the USPTO. Precedent exists for an exception for the USPTO in a continuing resolution. In Public Law 110-5, covering fiscal year 2007, the USPTO was given authority to spend at the rate of estimated collections. The same should be done now.

Again, we appreciate and support the Committee’s hard work to ensure that the USPTO can access its user fees so it can best support American innovation and job creation. We stand ready to assist the Committee in any way we can.

Sincerely,



Douglas K. Norman
President

cc: Members of Appropriations and Judiciary Committees

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO) -- APPENDIX 5



Hon. Benoit Battistelli
President
European Patent Office

Hon. Yoshiyuki Iwai
Commissioner
Japan Patent Office

Hon. David J. Kappos
Director
United States Patent and Trademark Office

28 December 2010

Dear President Battistelli, Commissioner Iwai, and Director Kappos:

RE: Industry Trilateral Recommendations on Patent Quality

The Industry Trilateral includes the American Intellectual Property Law Association (AIPLA), BUSINESSEUROPE, Intellectual Property Owners Association (IPO), and the Japan Intellectual Property Association (JIPA). Since its founding in 2004, the Industry Trilateral has held a great interest in and has supported the implementation of policies and procedures that can produce high quality patents at reasonable costs and with reasonable pendency.

The Industry Trilateral recognizes that applicants have an important role to play in improving the efficiency and cost-effectiveness of the overall patenting process, including timeliness and legal certainty. As the incoming patent application is the starting point of the process within a patent office, it is important that the application is presented in such a way as to facilitate searching and examination by the office.

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Patent offices, courts and third parties also have important roles in improving efficiency and cost effectiveness, of course. We should consider the issue of improvement of patent quality from a broad perspective.

With this aim in mind, the Industry Trilateral has drafted the appended set of recommendations. We would welcome any comments the Office Trilateral or the individual offices may have on these recommendations.

We strongly believe that improvements to the patenting process in all jurisdictions will result not only from separate efforts by offices and by applicants, but even more from cooperation as close as possible between offices and applicants. Efforts on each side must be seen over time to make a difference on the other side, which requires a regular exchange of experience and feedback.

For its part, the Industry Trilateral is determined to continue its efforts in this direction and will welcome the opportunity to discuss them with the Office Trilateral.

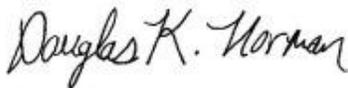
Yours sincerely,



Philippe de Buck
BUSINESSEUROPE Director General



Fumihiko Moriya
President of JIPA



Douglas K. Norman
President of IPO



David W. Hill
President of AIPLA

Appendix attached

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APPENDIX:

INDUSTRY TRILATERAL RECOMMENDATIONS ON PATENT QUALITY

INTRODUCTION

Definition of Quality

A “quality patent” or “quality patent right,” for purposes of this paper, is a patent that satisfies all of the legal patentability requirements. Patentability requirements include, for example, novelty, inventive step (non-obviousness), and description requirements. Claims of a quality patent will be found valid if subsequently reviewed by a patent office or a court. Patent quality or validity often is determined separately for each claim of a patent.

When a patent is granted with one or more claims that fail to satisfy one or more of the patentability requirements, such claims may be found to be invalid, and the patent can be said to have low quality. Where this paper recommends ways to “improve” quality, it is recommending ways to increase the likelihood that a patent’s claims will be valid, and to increase the number of patents wherein all of the claims will be valid.

We should consider the issue of improving patent quality from a broad substantive perspective. The number of low quality patents will be reduced if applicants improve the quality of their patent applications and file patent applications that fully satisfy the applicable patentability requirements. The number of low quality patents also will be reduced if patent office examiners find all of the prior art relevant to the claimed inventions within a reasonable time and expense, and if patent offices and courts keep judgments at a uniform level with regard to issues such as inventive step (non-obviousness), clarity of claiming and adequacy of description.

Patent applicants invest substantial amounts of money during the process from filing a patent application through obtaining a patent and enforcing it. From the applicants’ standpoint, their investment will be wasted if their patent applications are rejected by patent offices because the applicants prepared their applications relying on non-uniform levels of examination. Their investment also will be wasted if their patent rights, after grant, are invalidated for reasons relating to novelty or inventive step because of prior art found only after patent grant. In this respect, it is important for patent rights to have high legal stability.

With all of these points in mind, the Industry Trilateral views the concept of “patent quality” or “quality patent right” as including the quality of the patent application, the quality of the search and the quality of the examination. The quality of a patent right also

includes the concepts of predictability and legal stability of the patent right. Patent quality must be distinguished from the monetary value of a patent.

We also should consider the issue of improved patent quality from a broad procedural perspective. Practices, procedures and policies that result in inefficiencies, inaccuracy and piecemeal prosecution should be avoided. Further, efforts should consistently be made to enhance the efficiency and accuracy of the prosecution process, through cooperative efforts among offices and with the input of users and other stakeholders.

Quality, both substantive and procedural, can be judged at various stages during the prosecution of a patent application and after the patent is granted. The measures of quality will vary over time, and those measures should be uniform, clearly defined and, to the greatest extent possible, accepted by offices and users worldwide.

Appropriate Metrics

The metrics for measurement of appropriate indicia of patent quality, as well as their collection, reporting, review and analysis, are fundamental to evaluating the success of patent systems in issuing quality patents. Well-defined metrics can provide an essential resource for gauging quality at several stages in the patenting process. Moreover, through appropriate feedback mechanisms, they can provide a basis for implementing changes to processes, procedures, regulations and practices, and even for redefining the relevant metrics as experience is gained. Preferably, the results reported by an office would be verifiable from the outside so that conclusions can be more readily understood.

Shared Responsibility

The Industry Trilateral accepts the concept of “shared responsibility” as part of the discussion of patent quality. From the time an invention is created and it moves into the patent granting process until it reaches the enforcement process, it passes through several stages. The inventor/applicant and their patent attorney and many other parties are involved, including patent offices, courts, and third parties.

The Industry Trilateral has studied the actions that each party should take at each stage in the course from the creation of an invention through the patent grant process and through the exploitation process. The Industry Trilateral believes that all parties must do what they need to do to improve patent quality.

I. RECOMMENDATIONS TO APPLICANTS FOR PREPARING A QUALITY PATENT APPLICATION

- Before drafting a patent application, the applicant and the applicant's patent attorney should analyze the prior art that it has at its disposal, either from its own knowledge or through a search the applicant has conducted or requested. The applicant should use this analysis to decide whether the applicant has a patentable invention, thus minimizing the chances of wasting time and money on patenting.
- Applicants should draft patent applications as far as possible in a standard format, preferably that approved by the PCT and additional common format requirements agreed on by patent offices, such as the common application format (CAF) that has been adopted by the Trilateral Offices. This will make it easier for the examiner to process the application.
- Applicants should avoid being prolix, repetitive or inconsistent in the language used to draft a patent specification. Not only will this avoid unnecessary cost, but it will also avoid adversely affecting the scope or usefulness of the protection that may be granted. Applicants should draft the specification and claims in light of the known prior art. This will help frame the scope of the invention, and allow a faster examination at the patent office.
- An application should state clearly what the invention is and what makes it a patentable invention over the prior art cited in the application. For prior art only available on the Internet, the details of source and date should be clearly given. The application should use consistent language throughout the specification to identify particular items. "Inventing" new words should be avoided as this will only serve to confuse the examiner and anyone reading the claim. Each numbered feature in each drawing should be clearly explained and, if necessary, defined. Reference numbers can be used in claims to point out where elements are explained in the specification and drawings. Specificity and clarity avoid unnecessary cost; in contrast, poor drafting may adversely affect the scope or usefulness of the protection that will be granted.
- The specification should set out clearly the features of the invention with enough specificity to provide an explicit basis for any claims that are drafted. In addition, the ordinary practitioner in the technical field to which the application relates needs to be able to understand and reproduce, without undue effort, the full scope of the invention claimed, so in general more explanation is needed for broader claims. The applicant should work on the assumption that the applicant will not be able to supplement the information after filing. The addition of subject matter will lead to revocation or invalidation of the patent in some jurisdictions.
- Wherever possible, the applicant should provide data in the specification showing how the invention works. If it is available, data should be provided across the whole scope of the invention (especially with respect to preferred features).

However, extra exemplification should not be provided simply for effect. Disclosure of the best features of the invention should not be avoided by supplying sub-optimal exemplification. In some jurisdictions this can prove fatal to the patent.

- The applicant should ensure that any data provided are sufficiently complete to be intelligible to and repeatable by an ordinary practitioner in the technical field to which the invention relates. The emphasis should be on drafting the specification to comply with the PCT requirement (*see* Article 5) that the invention can be carried out by a person skilled in the art. The amount and kinds of data to be included will depend on the technology involved.
- The application should be drafted with clear and unambiguous independent claims. Vague and ambiguous language in the claims should be avoided. Words should not be used in a claim if they are not found in the specification, as this could create uncertainty in the basis for the examination and ultimately adversely affect the scope of protection. To reduce excess claim fees, confining sub-claims to those features that are inventive over the subject matter of the independent claims should be considered, while using multiple dependencies only with the greatest care. Multiple dependent claims should be used judiciously, to give flexibility "within" the same invention to claim more embodiments, but claiming (and consequently, asking the patent office to search) more than one "invention" should be avoided. If the application includes more than one independent claim, it should be recognized that the patent application may have to be divided up later unless the patent office can be convinced that the independent claims relate to a single inventive concept. Divisional applications can be a major source of unplanned extra cost, but may be necessary in some instances.
- Applications should be checked thoroughly before filing for typographical errors, missing text and incorrectly labeled drawings. These may be difficult to correct later unless what the applicant intended was completely clear.
- During prosecution, the applicant should endeavor to address all objections and rejections raised by the examiner.
- Patent applications are complex legal documents. The services of a qualified and experienced patent attorney are essential. In the long term, use of the best-qualified personnel will reduce costs for the applicant and make the job of patent offices easier.

II. RECOMMENDATIONS TO PATENT OFFICES AND COURTS FOR IMPROVING PATENT QUALITY

- Patent offices should insure an independent search and examination. They should not depend solely on the applicant's search or analysis.
- Patent offices should share results with other patent offices in real time and to the extent possible make use of the work done by other patent offices to avoid duplication of effort.
- Patent offices must provide incentives for quality work by examiners. Examiner incentives should be shifted toward quality so that goals are not base purely on productivity targets. However, the parallel goal of compact, rather than piecemeal, prosecution also should be emphasized. Productivity incentives should not encourage examiners to force applicants to file successive applications on the same invention.
- New examiners should be highly qualified individuals who can reasonably be expected to stay as examiners for a significant period of time. Patent offices should recruit more examiners with prior experience in industry as attorneys or agents and as scientists or engineers, especially those with some IP training.
- Examiners must have training in new technologies and in developments in court decisions. The amount of training and guidance given to new examiners should be increased over current levels.
- Patent offices should adopt examining procedures and tools that make it easier to improve the end result:
 - Assign related applications to the same examiner.
 - Permit face-to-face interviews with examiners including interviews before the first action.
 - Search for equivalent patent families of the application under examination, and review search reports in such patent family members.
 - Implement a checklist to ensure that examiners have thoroughly reviewed the specification.
 - Provide examiners with tools available to assist in examination, such as the Lexis Patent Optimizer, which allows the examiner to identify terms in claims not referenced in the specification, terms used inconsistently from one claim to the next, and terms in the specification not identified in the drawings.

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- Consider new search engines and more patent subject matter reclassification projects.
- Patent offices should provide rejections or allowances that are well reasoned, thorough and clear. The written record of granted patents should make clear what took place during the course of the prosecution, including during interviews.
- Patent offices should strive for inclusion of the Patent Law Treaty requirements in their internal practices to harmonize and streamline formal procedures, pending a formal ratification of that Treaty in their country/region.
- Patent offices should develop and rely on meaningful measures of the quality of work of individual examiners that can improve the end result. Offices should share such measures with other offices and the public. They can review examination of rejected patent claims that are later ruled patentable on appeal within the office, and review examination of patent claims that are later invalidated by the courts. The percentage of patent applications allowed as patents ordinarily is not a good indicator of quality. Rejecting patentable claims should be viewed as an indication of poor examiner performance. The Industry Trilateral is interested in helping patent offices develop meaningful measures of quality and examiner performance.
- Patent offices should view applicants as part of the solution, not the problem. They should maintain and improve relationships with the user community.
- Courts should render clear and explicit decisions in patent cases. Decisions on validity should be precise and provide guidance to applicants and the offices that is clear and consistent. Litigation should be controlled, particularly in terms of the time to trial and the cost of the proceedings.
- Courts should seek to stabilize doctrines of patent invalidity and reviews of patent office decisions.

III. RECOMMENDATIONS FOR ACTIONS BY THE PUBLIC TO IMPROVE PATENT QUALITY

- Companies should cooperate with the patent offices on training programs for examiners in new or complex technologies, such as technology explanations, demonstrations of new products. Training courses should be taught by industry scientists and engineers.
- Members of the public should submit prior art to patent offices during time periods when such submissions are permitted, before or after patent grant.

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- Companies should consider donating databases of non-patent prior art publications, such as scientific and technical journal articles, in fields in which companies have built collections of prior art publications.
- Patent offices should adopt programs to improve the examination procedure to widely collect prior art information from the public, such as “peer-to-patent” programs offered by certain patent offices, which permit industry and members of the public to have input on the patentability of claims in pending applications when the applicant has volunteered to publish its application for peer review.

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