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PATENT QUALITY IMPROVEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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**STATEMENT OF JOHN R. THOMAS, PROFESSOR OF LAW,
GEORGETOWN UNIVERSITY**

Mr. THOMAS. Thank you, Mr. Chairman. I am pleased to have the opportunity to testify today. I appear here in my personal capacity as a concerned observer of the patent system.

The Subcommittee has wisely identified the most pressing issue in contemporary patent administration. Persistent accounts suggest that patent quality stands at levels that are not socially optimal.

The PTO has proposed a number of reforms to patent acquisition procedures to address the issue. But given the PTO's limited rule-making authority, legislative reforms may be the best option.

As we approach the issue of patent quality, it is important to remember that patents are more important by any conceivable measure today than they were a generation ago.

Also, the PTO finds itself in an extremely difficult working environment. In this milieu, the imposition of modest increases in the responsibilities of patent applicants strikes many observers as a sound policy choice. Many of the proposals the Subcommittee considers today would do just that, and I believe they are worthy of extended consideration.

One of the proposals would ask applicants to perform a prior art search, and also to explain in some level of detail the references that they submit. I think this is a good idea, because it is a desirable reform in an era of diminishing PTO resources, and it comports with existing patent policies.

When I teach patent law, one of the messages to the students is libraries, not laboratories. We want technologists to look to existing proprietary technologies and the prior art, rather than engage in duplicative R&D that is more expensive. Having applicants perform a mandatory prior art search comports with this goal, because they should know what is out there.

Patent applicants already have to include such a statement when they submit foreign language references for which no translation is available. So this measure is really more of an extension of existing duties than a full fledged radical reform. Individuals have to perform due diligence when they file lawsuits, when they file SEC statements, when they ask the Government for other privileges. Why should the duty for patent applicants be any different?

Statements of relevance might also discourage the current counterproductive strategy of some patent applicants, in which they submit hundreds of references to the examiner, and leave the Patent Office to figure them out. I also believe that the increased receptivity of third party submissions will allow the U.S. PTO to take advantage of the increased knowledge of the public.

Also, there is wide agreement that *inter partes* reexamination has not successfully shifted patent challenges from the courts to the U.S. PTO. As originally enacted, its appeal provisions were too limited, its substantive scope too narrow, and its estoppel provisions excessive. Previous legislation has solved the problem of the appeal provision. Many commentators believe it is time to enhance the substantive scope of reexam, and also to limit the estoppel effects.

This proposal would do those things. I would encourage the Subcommittee to expand the substantive basis for *ex parte* reexamina-

tion to mirror that of inter parte reexamination. I am aware of such concerns about strategic behavior that some commentators believe would apply if this provision was enacted, but I would observe that many foreign patent offices have had similar provisions in place for years and these concerns have not been realized.

Now, the current proposal also states that any communication by a patent owner sufficient to create liability for a willful infringement would also create declaratory judgment jurisdiction. The apparent policy goal of this proposal was quite sound. Patent proprietors should not be able to cause concern over enhanced damages, without allowing the patent to be immediately challenged in court. However, declaratory judgment jurisdiction rests upon a constitutional basis, the requirement of a case or controversy. That is something this Subcommittee can legislate around very easily.

So if you want to pursue the policy goal, I would encourage taking the opposite tack, stating that unless the patentee makes a charge of infringement sufficient to invoke declaratory judgment jurisdiction, that then there can be no liability for willful infringement. I somewhat believe this is a second best solution, with the optimal solution being getting rid of any enhanced damages in the patent law.

I encourage the Subcommittee to continue thinking creatively about solutions to the patent quality problem. I believe that the extent of current patent quality problems as well as the increasingly difficult circumstances that the U.S. PTO finds itself today merit the establishment of an Office of Patent Quality Review. This office could develop measures of patent quality, both in terms of the process, the examination process, and the product, issue patents. I believe that such an office should not exist within the U.S. PTO, or even within the Department of Commerce but rather the Federal Trade Commission, an agency with experience and expertise in competition law and consumer affairs.

Thank you.

[The prepared statement of Mr. Thomas follows:]

PREPARED STATEMENT OF JOHN R. THOMAS

I am honored to have this opportunity to appear before the Subcommittee. I testify today on my own behalf as a concerned observer of the patent system.

The Subcommittee has appropriately identified patent quality as a crucial issue of contemporary patent administration. Government, industry, academia and the patent bar alike have long insisted that the USPTO approve only those patent applications that describe and claim a patentable advance. Quality patents are, in short, valid patents. Such patents may be reliably enforced in court, consistently expected to surmount validity challenges, and dependably employed as a technology transfer tool. Quality patents fortify private rights by making their proprietary uses, and therefore their value, more predictable. They also clarify the extent to which others may approach the protected invention without infringing. These traits in turn strengthen the incentives of private actors to engage in value-maximizing activities such as innovation or commercial transactions.

In contrast, poor patent quality is said to hold deleterious consequences. Large numbers of improvidently granted patents may create *in terrorem* effects on entrepreneurship, ranging from holdup licensing to patent thickets. They also create duplicative, deal-killing transaction costs, as potential contracting parties must revisit the work of the USPTO in order to assess the validity of issued patents. Poor patent quality may also encourage activity that is not socially productive. Attracted by large damages awards and a porous USPTO, rent-seeking entrepreneurs may be attracted to form speculative patent acquisition and enforcement ventures. Industry participants may also be forced to expend considerable sums on patent acquisition.

and enforcement. The net results appear to be reduced rates of innovation, decreased patent-based transactions, and higher prices for goods and services.

Unfortunately, despite extraordinary efforts by the USPTO to improve patent quality, the problem remains. Persistent accounts suggest that patent quality remains at less than optimal levels. Many of the causes of this state of affairs are beyond the control of the USPTO. Strict Federal Circuit standards for rejecting applications, soaring application rates, lean fiscal policies and an increasingly ambitious range of patentable subject matter are among the difficulties faced by the USPTO in achieving a rigorous level of review. Legislative reforms may to a long way towards increasing the stringency of USPTO review, to the ultimate benefit of industry and consumer alike.

In my view, the two most profitable mechanisms for improving patent quality involve: (1) a modest expansion of the responsibilities of patent applicants; and (2) increased engagement of members of the public. First, as the grant of a patent provides innovators with a powerful commercial tool, many of us believe that applicants should bear commensurate responsibilities. Second, the USPTO should be better able to employ "private patent examiners" to assist in examination tasks. Because the reforms considered today work towards these goals, I favor their serious consideration.

Promotion of Third Party Submissions and *Inter Partes* Reexamination. I believe that increased receptivity to third party submissions will allow the USPTO to take advantage of the knowledge of interested members of the public, and therefore support this proposal wholeheartedly. As well, there is widespread agreement that *inter partes* reexamination has not successfully shifted patent challenges from the courts to the USPTO. As originally enacted, its appeal provisions were too limited, its substantive scope too narrow, and its estoppel provisions excessive. Previous legislation has solved the problem of its appeal provisions; I agree that it is time both to include § 112 as a basis for provoking an *inter partes* reexamination, as well as to limit the potential estoppel effects of invoking this proceeding. I would also encourage the Subcommittee to consider expanding the substantive basis for *ex parte* reexamination to mirror that of *inter partes* reexamination.

Mandatory Prior Art Searches. A compelled applicant prior art search is not only a desirable reform in an era of diminishing USPTO resources, but one that comports with existing patent policies. The patent system aspires to send technologists to "libraries, not laboratories;" firms are encouraged to consult the prior art and patent literature before completing expensive R&D in order to see whether a desired technology already exists. A mandatory prior art search fully comports with this goal. Patent applicants already include such statements when submitting foreign language references for which a complete translation is unavailable,¹ so this proposal is not so much a sweeping reform but an expansion of existing duties. Statements of relevance must also discourage the current, counterproductive strategy of some patent applicants, in which they submit hundreds of references and leave the USPTO examiner to sort them out.

Preliminary Injunctions. I encourage clarification of this proposal. The four traditional preliminary injunction standards are:

- (1) whether the plaintiff will probably succeed on the merits;
- (2) whether irreparable harm to the plaintiff would result if the injunction is not granted;
- (3) the balance of harms between the plaintiff and defendant if the injunction is allowed; and
- (4) whether the injunction will have an impact on the public interest.

The current proposal would compel consideration of five additional factors, which currently are probably subsumed within the second, "irreparable harm" factor, and the fourth, "public interest" factors. It is not entirely clear whether this legislation would create a nine-factor test or simply flesh out the second and fourth factors. Although lists of factors in the law tend not to specify the exact relationship between the different factors—they are more a list of ingredients than a recipe—the fact that these factors are stated separately suggests that they are of equal dignity and worthy of equal consideration.

Declaratory Relief and Offers to License. The current proposal states that any communication by a patent owner sufficient to create liability for willful infringement would also create declaratory judgment jurisdiction. The apparent policy goal of this proposal is quite sound: patent proprietors should not be able to cause concern over enhanced damages without allowing the patent to be immediately chal-

¹37 C.F.R. § 1.98(a)(3)(iii).

lenged in court. However, declaratory judgment jurisdiction rests upon the constitutional requirement of an actual case or controversy, a standard that Congress cannot readily legislate around. I would encourage the Subcommittee to achieve the same policy goal by pursuing the opposite tack: unless the patentee makes a charge of infringement sufficient to invoke declaratory judgment jurisdiction, then there can be no liability for willful infringement.

Additional Reforms. I encourage the Subcommittee to continue thinking creatively about solutions to our patent quality problem. I believe that the extent of current patent quality problems, as well as the increasingly difficult circumstances the USPTO appears likely to find itself in the future, merit the establishment of an Office of Patent Quality Review. This office could develop measures of patent quality, both in terms of the examination process and issued patents. I believe that such an office should not exist within the USPTO or the Department of Commerce, but rather the Federal Trade Commission, an agency with experience and expertise in competition law and consumer affairs.

Thank you for the opportunity to testify today.

Mr. SMITH. Thank you, Professor Thomas. Thank you all for your comments today, as well as for your compliment of the Committee's work.

Let me address my first question to you all and ask you to really set priorities for us, because we are trying to decide which of these items to translate into legislation and we need some help with setting those kinds of priorities.

So what is the single most important action that the Subcommittee could take to improve patent quality, or maybe it is avoiding some action. But I am hoping it is affirmative and you all have recommendations as to which of these ideas that we have discussed today would be the most important to you.

And Mr. Van Horn, I would like to start with you.

Mr. VAN HORN. Thank you, Mr. Chairman. Well, I think the Subcommittee has taken the first and essential step toward solving this problem; that is, by enacting or hopefully enacting legislation that would prohibit fee diversion. This has many important ramifications for the PTO, primarily in their ability to hire, train, and effectively supervise patent examiners in their examination task.

To the extent they have to take shortcuts because of a lack of budget in these critical areas is ultimately going to lead to a decrease in the patent quality and the effectiveness of the job done by the patent examiner.

I think, secondly, that particular lack of resources also has an impact on the tools available for patent examination, and I refer primarily to the ability to automate the system and provide some relief to the significant administrative burdens that the office now has and applicants now have of chasing around missing papers and missing files. This is a significant detraction from the essential tasks of patent examination.

Mr. SMITH. Thank you. By the way, we all on the Committee feel strongly about the issue of fee diversion. We have yet to convince some of our friends on the Appropriations Committee that that is the right way to go, but we are working on it.

Mr. Kesslen.

Mr. KESSLEN. As I said before, I am here today on behalf of the Financial Services Roundtable, and I think if you polled the CEOs of the various financial service companies, they would like the fifth and sixth approach in your proposed bill, dealing with injunctive relief and frivolous claims.