

The Manufacturing Policy Project

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Mr. Jon P. Santamauro
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Subject: Request for Comments on International Efforts to Harmonize Substantive Requirements of Patent Laws: (Docket No. PTO-C-2007-0018)

I am an economist and author who studies development issues. My book Hot Property (Knopf 2005) examined the history of the U.S. patent system and its role in national development. My other works have examined the question of "patent reform," and include studies for the U.S.-China Economic and Security Review Commission and the Small Business Administration. I offer the following comments.

(1) Priority of Invention.

John J. Sullivan, General Counsel of the U.S. Department of Commerce (DOC), presented to Congress the Department's views and that of the U.S. Patent and Trademark Office on this issue to the Congress in a letter of May 16, 2007 to Chairman Howard Berman, Chairman of the Subcommittee on Courts, the Internet, and Intellectual Property, Committee on the Judiciary, U.S. House of Representatives. A copy of that letter is attached.

The position of the DOC and USPTO presented to the Congress was,

*"While DOC recognizes the potential benefits of a first-to-file system, we do not support immediate conversion to first-to-file via this legislation." ...
"In this regard, we believe that any U.S. commitment to convert to first-to-file should be contingent on*

significant progress and international agreement in those harmonization discussions (with other nations).

I concur. I conclude that this position best serves U.S. interests. In my attached study for the Small Business Administration, I document many reasons that the first-to-invent system works best for U.S. inventors, particularly small entity inventors.¹ As I note, half of all patent applications today come from abroad. All those applications come from nations with a first-to-file system. Obviously, the two existing systems coexist well.

More important, half of all U.S. patent applications today come from U.S.-origin inventors. Of these, approximately 28 percent are from small entity inventors, which receive annually about 31 percent of all patents granted. **Only 36 percent of U.S.-origin patent applications at the USPTO file for a foreign patent.** Overwhelmingly, these are large entity organizations that are experienced and at ease in filing first-to-file applications in other nations.

Put another way. **Almost two-thirds of U.S.-origin patents are not filed in another nation.** If the U.S. changes systems, the overwhelming majority of America's small entity inventors would be unskilled in the new procedures, creating a substantial waste of resources for inventors and virtually guaranteeing a massively increased burden on USPTO examiners, at precisely the moment the USPTO has a massive backlog. It would be the USPTO version of the State Department's passport backlog. The transition would be akin to the frustrating and time-consuming experience that a Macintosh computer user has when forced to use a computer that only runs Microsoft software. This is a challenge that USPTO does not need.

More important, the existing first-to-invent system is superior.

In a recent study of whether small or large entities are advantaged or disadvantaged by the first-to-invent approach, former Commissioner of Patents and Trademarks Gerald J. Mossinghoff did a statistical analysis of what happens when two parties claim to have invented something at nearly the same time, a process called interference

¹ "The Global Publication of U.S. Patent Applications & Select Patent Reforms." Pat Choate, a part of a larger report, "The Crisis in Intellectual Property Protection and China's Role in that Crisis," Terence P. Stewart, ESQ. Stewart and Stewart, Project Director/Co-Author. A project funded by a grant from the Small Business Administration under Grant Number SBAHQ-06-I-010.

cases or two-party decisions.² If there were problems in the first-to-invent system, many such interference cases would exist.

Remarkably, in the 22-year period 1983-2004, Mossinghoff found there were only 3,253 two-party decisions, a period when the USPTO received 4.5 million applications and granted more than 2.4 million patents. Thus, there were on average only such 155 such cases per year.

Mossinghoff also found that the number of small entities advantaged in that 22-year period by the interference process was 286 and the number disadvantaged was almost the same (289), a strong statistical suggestion that the USPTO was ably managing the process.

Mossinghoff's data provides a strong argument for not changing from a first-to-invent to a first-to-file patent system. Specifically, the supposed disadvantage of the present approach is that it leads to confusion and conflicts. Yet, as Mossinghoff's data reveals, the number of interference cases in the 22 years analyzed was administratively trivial. His data also reveals that small entities were involved in only 17.6 percent of these two-party cases, although they generate 45 percent of all patent applications. The overwhelming majority of those interference cases (82.4 percent) were between large entities fully capable of financing their advocacy.

Mossinghoff's data reveals that small entity inventors affected by interferences occurs only with one of every 7,800 applications.

The U.S. is the only nation that uses the first-to-invent system. Three patent systems – the USPTO, Japanese Patent Office (JPO) and the European Patent Office (EPO)– issue 85 percent of the patents granted worldwide. With fewer than 200 interferences a year out of more than 400,000 applications, the U.S. should be advocating that the JPO and EPO change to our superior approach. It would benefit both U.S. and foreign inventors.

The request for comment implicitly suggests that Group B+ will be unable to reach an agreement on a limited package

² The Honorable Gerald J. Mossinghoff, Small Entities Pat Choate, "The Global Publication of U.S. Patent Applications & Select Patent Reform Proposals," Part of The Crisis in Intellectual Property Protection and China's Role in that Crisis, The Trade Lawyers Advisory Group, Terence P. Stewart of Stewart and the "First to Invent" Patent System: An Empirical Analysis, Washington Legal Foundation, 2005.

of "prior art" issues until this issue is "resolved." Hopefully, this is not a hint that USPTO has decided to resolve this as per the desires of the other Group B+ members and that this request for comments is perfunctory. It is perfectly acceptable for other nations to be disappointed. Alternatively, they could adopt our system.

The question of whether to so radically change a system that has worked so well for more than two centuries (long before Japan, Germany, and other leading industrial nations even had a patent system) is a fundamental policy issue for Congress to decide with legislation. USPTO can advise, but only Congress should decide this issue

(10). Eighteen-Month of Publications of Patent Applications.

The May 16, 2007 letter from the General Counsel of the DOC to the Congress on the provisions of H.R. 1908 advises,

Section 9(a) of the bill eliminates the current opt-out provision for publication of patent applications. Current law permits an applicant to request upon filing that his or her application not be published at 18-months if a certification is made that the invention disclosed in the application has not and will not be the subject of an application filed in another country that requires such publication.

DOC is hesitant to support this provision at this time considering that the current opt-out provision is a result of the careful balancing and sensitive negotiations that took place during the legislative process that led to the enactment of the American Inventors Protection Act of 1999. It addresses the serious concerns expressed then and now by independent inventors and small entities that large entities and foreign interests may misappropriate their inventions upon disclosure and prior to issuance of a patent.

I concur with the position of the DOC and USPTO. A change in the present position would harm U.S. technology policy and the interests of U.S.-origin inventors.

But first, I bring to your attention that a vital part of the description in this request for comments is factually wrong and very misleading. It says,

The publication requirement is considered by many to be an important transparency mechanism for the patent system and to prevent the occurrence of so-called "submarine" patents that may be pending in the Patent Office for an extended period of time and then are granted, potentially affecting the good faith actors in the relevant field.

The "submarine patent argument" was developed in the late 1980s and refined in the 1990s by the Japanese development ministry to persuade the U.S. to make its system like the Japanese. Yet, USPTO has testified before Congress that between 1971 and 1993, only 627 patent applications out of 2.3 million could be classified as submarine patents. At least a third of those were U.S. government military secrets. In the late 1970s, moreover, the Patent Office established a system to prevent submarine patents and not one had been issued since.

The 18-month publication is a solution to a nonexistent problem. It was urged on the U.S. Congress by companies/governments that wanted a look at leading U.S. technologies before U.S. inventors had a patent.

The request for comment also says,

"The United States currently provides eighteen publication for the large majority of patent applications filed in the United States."

I note that this misleads by what is omitted. The actual number is that 90 percent of all patent applications at the USPTO are published. The key fact, however, is that half of those are foreign-origin applications from nations that automatically publish the application at 18-months from filing. Unlike U.S. inventors, the foreign applicants have no choice in those countries.

The other half of all patent applications at the USPTO is of U.S.-origin. Of these, roughly 20 percent opt-out from a publication. In my paper, I calculate that almost half of all small entity inventors (31 percent of all applications) chose not to publish and agree not to file for a patent in any other nation. Such a large number reveals how vital this opt-out provision is to this nation's small entity inventors.

The opt-out is their best, if not only, protection against foreign pirates and counterfeiters during the patent review process. The fact that they can sue an infringer in the foreign country is irrelevant as most small entity inventors lack the funds needed for lawyers.

Today, the average pendency rate for U.S. patent applications is 31 months. Thus, on average, a patent application will be shared by USPTO with the rest of the world via the Internet while it is unprotected by a patent for 13 months. And if a patent is not granted, as now happens half the time, the inventor/applicant loses the right to resubmit an improved application or apply the innovation as a trade secret.

I also note that the USPTO has chosen as policy to publish the full application of patents, though U.S. international obligations do not require that all that information be released. This policy requires a re-examination.

For two centuries, U.S. policy was the USPTO did not release any information about an inventor's patent application until a patent was granted. Disclosure for protection was the social compact. If an application was rejected, the information was kept a secret and then destroyed by USPTO. Keeping the 18-month opt-out is in that long established tradition.

In a world of blatant piracy and counterfeiting, the publication of U.S. inventors' most valuable secrets on the Internet before a patent is granted is a policy mistake of historic proportions. Congress did it in 1999 without knowing what it was doing. The issue merits study by USPTO and hearings by the U.S. Congress.

Finally, I would note that Congress created the opt-out provision by legislation in 1999. Congress is considering new legislation at present. The USPTO should not negotiate any changes in the opt-out provision with other nations

unless and until Congress explicitly grants negotiating authority to the Executive Branch for such discussions and provides the appropriate guidelines.

I hope these thoughts, and these two attachments, are helpful.

Sincerely,

(Original signed)

Pat Choate

Attachments

DOC General Counsel (May 16, 2007)
"The Global Publication of U.S. Patent Applications &
Select Reform Proposals"