

STATEMENT OF
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**UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE**
BEFORE THE
**SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY
Committee on the Judiciary**
U.S. House of Representatives
“Committee Print Regarding Patent Quality Improvement”
APRIL 28TH, 2005

Introduction

Chairman Smith, Ranking Member Berman, and Members of the Subcommittee:

Thank you very much for inviting me to testify today. I commend you for holding this hearing and last week’s hearings on improving the patent system. This is a particularly appropriate time to reflect upon the incredible success of invention and of our patent system in the United States. It was 215 years ago this month that our young nation adopted its first patent statute. On April 5, 1790, your predecessors in Congress passed the final version of the statute, and President George Washington signed it into law on April 10.

Strength of our Patent System

The benefits of our patent system have always been obvious to Americans. You are familiar with Article I, Section 8, Clause 8, of the U.S. Constitution, granting Congress the power “to promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” James Madison wrote in one of the Federalist Papers, “The utility of this power will scarcely be questioned.” He was right. That clause was adopted into the Constitution without a dissenting vote -- without even any recorded debate.

The need for a statutory system to examine and grant patents was just as obvious. President Washington signed the first patent statute 215 years ago -- before our Nation even had its 13th state. History has repeatedly affirmed the wisdom of this decision of our Nation's founders. The tremendous ingenuity of American inventors, coupled with an intellectual property system that encourages and rewards invention, has propelled our nation from a small agrarian society to the world's preeminent technological and economic superpower.

The flexibility and strength of our patent system have helped entire industries flourish, rather than perish. Everyone has benefited from the innovative products encouraged by this system. And all of the technology encouraged by the patent system finds its way to the public domain within 20 years -- freely available to any and all.

The success of the patent system is not limited to the United States. It is the basis for economic development in nations throughout the world. Unfortunately, a growing chorus of critics is asking if the fundamental patent system that has been so critical to the growth of innovation and economic success in the United States and other nations will enhance or hinder development in their nations.

Today, many of the nations questioning the efficacy of an intellectual property system have become hotbeds for the manufacture and export of counterfeit goods. Unsurprisingly, some of the nations that allow their citizens to counterfeit and pirate others' intellectual property are the very ones questioning a system that encourages and rewards invention, and discourages copying and free riding.

The USPTO Today and Prominent Issues

In the last several years, intellectual property (IP) assets have become an ever more essential ingredient of economic vitality. In the past, raw materials and other tangible goods were the main drivers of an economy. Today, economic success depends increasingly on intangible, information-based assets, such as the creativity of employees and the knowledge gained from research. As a result, intellectual property-based industries, such as biotechnology and entertainment, now represent the largest single sector of the U.S. economy. In fact, IP industries export more American value to the world than the automobile, automobile parts, agricultural, and aircraft industries combined.

As the clearinghouse for U.S. intellectual property rights, the USPTO is an important catalyst for U.S. economic growth. Through the grant of patents and the registration of trademarks, the USPTO promotes the economic vitality of businesses and entrepreneurs, paving the way for investment capital, research and scientific development.

We are proud of our 200-year-old legacy of partnership with America, providing the tools for our nation to become a technological and economic giant. **To continue this partnership, we must remain the best patent-examination system in the world. To ensure ongoing success, the USPTO must focus on improved quality and productivity. To ensure timely grant of rights, we must reduce our backlog of**

patent applications by increasing our efficiency and taking advantage of our automation efforts.

The improvement of the patent system for the 21st century has several components: Some require legislation, while others can be accomplished by the USPTO through rule making. Several initiatives in the committee print were also part of our Strategic Plan, including expanding the early publication of patent applications at 18 months and assignee filing. We appreciate these being included in your legislative draft.

General Patent Reform

As part of the intense interest in patent reform, there is considerable discussion about “patent quality” and “patent litigation reform.” A threshold question is, of course, “Is reform necessary?” While we have much of which to be proud about our system, we believe the answer is a qualified “Yes.” For example, we believe the best form of litigation relief may be a robust **post-grant review** system, which permits a less expensive and more expeditious route of reviewing patents than through district court litigation. Because of the importance we place on post-grant review, I would like to elaborate on this particular reform area.

The Review of Issued Patents

Currently, the USPTO has only a limited role in reconsidering patentability decisions after we have issued a patent. The USPTO does **post-grant reviews** of patent claims only under certain circumstances, including,

- (1) when a patentee files an application to reissue a patent to correct at least one error in the patent,
- (2) when an applicant and a patentee claim the same invention, and an interference is declared between the patentee and the applicant, and the applicant seeks judgment based on unpatentability of patent claims, and
- (3) when a patent owner or third-party requests the reexamination of a patent.

Congress has incrementally added to the range of proceedings under the USPTO’s jurisdiction under which third parties can obtain an Office review of issued patents. It introduced *ex parte* reexamination in 1980, under which a third party can petition for reexamination of the patent.¹ In 1984, section 135 of the Patent Act was amended to allow issues of patentability, as well as priority, to be included in interference proceedings.² In 1999, Congress, as part of the landmark patent reform, the American Inventors Protection Act (AIPA), created *inter partes* reexamination, whereby a third party can participate in the reexamination proceeding and appeal to the USPTO’s administrative Board of Patent Appeals and Interferences.³ And the AIPA’s *Inter Partes*

¹ Pub. L. No. 96-517, § 1, 94 Stat. 3016 (1980).

² Pub. L. No. 98-622, 98 Stat. 33831 (1984).

³ Intellectual Property and Communications Omnibus Reform Act of 1999, S. 1948, Pub. L. No. 106-113 (1999).

reexamination practice was expanded in 2002 to afford third parties the right to appeal to the U.S. Court of Appeals for the Federal Circuit.⁴

Although, through these amendments, the USPTO's role in helping guarantee the efficacy of the patent system after patent issuance has grown, none of these procedures alone or collectively have proved sufficient to optimize the USPTO's post-grant capability. Although a patentability challenge can be raised on all grounds in interferences interference proceedings only lead to challenges of patents when a pending application raises a priority issue as to a recently issued patent. Further, a third party may file a protest in a reissue proceeding; however, that is rare, and the third party has very limited participation. Apart from interferences and a reissue protest, a third party may challenge the patentability of patent claims in the Office only based on certain prior art references, namely, patents or printed publications via reexamination. In addition, except in interferences, a third party cannot conduct discovery and develop evidence necessary to challenge patentability, nor can the third party challenge patent owner evidence by cross-examination.

Some potential challengers also regard *ex parte* reexamination as an insufficient mechanism because, after the proceeding has begun, the third party's participation is limited to one reply, which is available only if the patent owner files a pre-examination statement. As a result, *ex parte* reexamination has not been used by third parties to the degree anticipated. The *inter partes* reexamination procedure established in 1999 was intended to address this defect; however, limitations on that process have led to it being rarely used. In particular, patentees understandably insisted, and Congress legislated, that a challenger in an *inter partes* proceeding be bound by its result by way of estoppel, including in subsequent litigation. However, the lack of such procedural mechanisms as discovery and cross-examination that would be available in litigation appears to mean that challengers have been unwilling to invoke *inter partes* reexamination and risk its estoppel effect. In fiscal year 2003, for example, the USPTO received approximately 355,000 patent applications and issued approximately 160,000 patents. Over the past five years, we have received approximately 1,600,000 applications and issued approximately 900,000 patents.⁵ Yet, the total requests for *inter partes* reexamination during the nearly five years for which the procedure has been available, is a mere 85.⁶

Last November, pursuant to the requirement under the AIPA, the USPTO issued a report concerning the "inequities" of the *inter partes* reexamination system. Our report called for some relatively minor changes, and the USPTO recommended three amendments to the Patent Act to improve *inter partes* reexamination, the first two of which require some legislative activity:

⁴ 21st Century Department of Justice Appropriations Authorization Act, Pub. L. No. 107-273, 116 Stat. 1758, 1899-1906 § 13202 (2002).

⁵ U.S. PATENT AND TRADEMARK OFFICE PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2003. <http://www.uspto.gov/web/offices/com/annual/2003/index.html>.

⁶ These *inter partes* reexamination requests included 43 patents from mechanical technologies, 20 in electrical arts, and 22 in the chemical arts.

- Maintaining, but clarifying, the *inter partes* estoppel provisions.
- Permitting the requester additional opportunities to provide input on Office actions.
- Extending the requester’s 30-day comment period by permitting the USPTO Director to set the period for response by rule.

Post-Grant Review

It is important to consider that, if parties will be estopped at any level by the result of a post-grant proceeding in the Office, they will generally demand that the proceeding offer a full and fair opportunity to litigate. Viewed in this light, *inter partes* reexamination cannot be a true alternative to district court litigation. As part of our Strategic Plan, we proposed a legislative initiative – Post-Grant Review – to address patent quality, as well as the badly needed patent litigation reform that is being advocated in many quarters. We believe our proposal promotes invention by ensuring that the patent system is fair to all. By “fairness,” we mean it promotes a patent system where flaws in issued patents can be quickly and expertly revealed, without exposing a patent holder to frivolous or even mischievous review and uncertainty.

Post-grant review will give the public another vehicle for identifying possible problems in issued patents. Post-Grant Review has great support among all groups, including the bar, technology companies, academicians, and others seeking patent reform. However, I wish to highlight several of the key areas where the Administration’s proposal differs from some of the association proposals and how the USPTO’s proposal contains special safeguards against the harassment of independent inventors and small businesses:

Timing for open challenge to any issued patent. The USPTO proposal would give the public one year from the day a patent issues to petition for review of that patent. One year is the appropriate length. It gives potential challengers time to learn of the existence of issued patents, study the claims, consult with legal counsel, and gather the necessary research to decide whether or not they want to challenge the patent.

Other proposals set the public challenge period at nine months—based on the European model. The USPTO proposal would require a petitioner to submit a very rigorous initial showing, with all relevant evidence necessary to meet a substantial initial threshold. Only with such a requirement can the Office hope to resolve these cases in the expedited fashion that all those advocating post-grant review seek. We are concerned that nine months may be too short a time for a potential petitioner to prepare the initial showing that would be necessary for this proceeding to be truly expeditious. Moreover, the current period under U.S. law in which a patent may become subject to an interference in the Office is one year. For both reasons, the USPTO would propose that the initial period in which any member of the public may seek review of a patent be one year.

Timing for challenge to issued patents requiring standing. The USPTO has also proposed that after the first year a person who has been threatened on the basis of a patent be able to challenge that patent in post-grant review.

This aspect of the proposal expands post-grant review from being primarily a quality check on the Office to a means of addressing high litigation costs. The principal objections to this aspect of the USPTO's proposal concern whether the caseload level would be too high. Any such proposal should give the Office some flexibility in determining the showing that a petitioner would be required to make before it could establish standing to bring a post-grant review action after the initial period. An effective post-grant regime that includes the possibility of challenge throughout the life of the patent would allow Congress to abandon, rather than seeking to fix, the intrinsically less effective *inter partes* reexamination process.

Scope of the Proceeding. In order for post-grant review to truly be effective, it must be used. The USPTO proposal is robust enough to give petitioners and patentees surety that patentability issues can be put to rest in one proceeding. The USPTO proposal allows the Office to examine every aspect of patentability (e.g., novelty (§ 102), non-obviousness (§ 103), written description (§ 112, paragraph 1)), while leaving equitable considerations largely for the U.S. district courts. Including all bases for patentability for review is an absolute necessity if this new proceeding is to truly reduce litigation costs and improve patent quality.

Threshold Showing. The USPTO would require the challenger to present sufficient grounds to proceed before instituting post-grant review. This is more than a substantial new question of patentability, the reexamination standard, in most cases requiring the challenger to present evidence that if unchallenged would establish unpatentability. We anticipate under this standard the Board would dismiss many petitions without any input from the patent owner. This is one safeguard against abusive or disingenuous filings designed to harass patent owners.

Estoppel. Another mechanism to prevent abuse is to ensure that the Real Party disclosed faces consequences for failing to demonstrate unpatentability. The USPTO proposal would make the results of the proceeding binding on the parties, both of whom would have right of appeal to the Federal Circuit Court of Appeals. During the public challenge period, the petitioner should be bound by the Office's decision regarding unpatentability based on any grounds the petitioner raised. After the public challenge period—when the stakes are known and litigation is a genuine alternative—the petitioner should be bound by the Office's decision based on any grounds the petitioner raised or could have raised.

We look forward to working closely with the Subcommittee as the Committee print moves forward, especially since the USPTO will be the Federal agency responsible for conducting these proceedings.

The USPTO and Tomorrow

The Committee print includes other proposals, from many sources, focusing on ways in which to improve the patent system.

As noted above, we believe that some type of post-grant review will improve the overall character of our patent regime. It is also important to underscore that many of the specific reform proposals addressed by the Committee print are not new. In fact, several of the proposals suggested reflect ideas that have been previously identified and considered by the USPTO.

At the USPTO, we have had experts working on patent-reform issues for decades. We welcome the discussion of many of these initiatives as part of a legislative package that you may introduce later this year.

Conclusion

Let me reiterate to you, the Members of the Subcommittee, that we share your commitment to ensure that our practices and policies promote invention and dissemination of new technologies. While we work to improve our system by internal reform of USPTO operations, we realize that additional measures within the domain of Congress can also make invaluable contributions.

The overwhelming evidence of the history of the U.S. patent system suggests that strong intellectual property protection supports, rather than impedes, innovation. Indeed, for more than 200 years, our patent system has helped American industry flourish, creating countless jobs for our citizens. Advanced technologies have been - and continue to be - nurtured and developed in our Nation to a degree that is unmatched in the rest of the world. In many instances, the availability of patent protection has been integral to these advancements.

In this regard, the USPTO and the Administration look forward to continuing to work with you and the Members of the Subcommittee as you develop reform legislation to ensure that the U.S. patent system remains the world leader.

Thank you, Mr. Chairman.