

STATEMENT OF

HON. GERALD J. MOSSINGHOFF
SENIOR COUNSEL, OBLON, SPIVAK, MCCLELLAND, MAIER & NEUSTADT

PRESENTED TO THE

FEDERAL TRADE COMMISSION
&
DEPARTMENT OF JUSTICE

IN HEARINGS ON

COMPETITION & INTELLECTUAL PROPERTY LAW AND
POLICY IN THE KNOWLEDGE-BASED ECONOMY

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Mr. Chairman, Members of the Federal Trade Commission and Officials of the Department of Justice:

I appreciate this opportunity to testify during these important hearings.

My name is Gerald J. Mossinghoff. I am Senior Counsel to the Arlington intellectual property law firm of Oblon, Spivak, McClelland, Maier & Neustadt. In addition to that, I teach intellectual property law at the George Washington University Law School and at the George Mason University School of Law.

During President Reagan's first term, I served as Assistant Secretary of Commerce and Commissioner of Patents and Trademarks. During that time, we were able to achieve significant progress in the protection of intellectual property. With bipartisan support across the three Branches of Government:

- ! We enacted realistic user fees for the U.S. Patent and Trademark Office ("USPTO") that led to the Office being self-sufficient (tragically, over the past several years, the Office has been forced to become much more than self-sufficient).
- ! We set goals — ultimately achieved — of reducing the average time of patent pendency to 18 months and trademark pendency to 13 months.
- ! Concrete steps toward automating the USPTO's enormous data bases — leading to the goal of a "paperless" Office — were undertaken.
- ! The Court of Appeals for the Federal Circuit was established to hear all patent appeals nationwide.

- ! We established a formal Trilateral Cooperation arrangement with the European Patent Office and the Japanese Patent Office. That Trilateral Cooperation — which next year will celebrate its 20th Anniversary — has proven to be very useful in fostering cooperation and harmonization among the three major patent offices of the world.
- ! The penalties for illegal counterfeiting were significantly increased and effective enforcement measures established.
- ! The Computer Chip Protection Act was enacted.
- ! We laid the foundation that led to the United States joining the Berne Copyright Convention.
- ! And we began the steps that led to multinational intellectual property norm setting being conducted in the GATT instead of the World Intellectual Property Organization. This resulted in the landmark agreement on the Trade-Related Aspects of Intellectual Property, or TRIPS, in the World Trade Organization.

I am convinced that the progress we made was the direct result of the close cooperation during that period between the Antitrust Division of the Department of Justice — then under the leadership of Assistant Attorney General William Baxter — and the USPTO.

This afternoon I will focus on three subjects:

- (1) The critical importance of an adequately financed USPTO to technological and human progress throughout the world,
- (2) The Court of Appeals for Federal Circuit and the key role it is playing in the coherent development of U.S. patent law, and
- (3) The suggestion sometimes heard that there are too many patents being granted and that somehow we should "raise the bar."

THE USPTO MUST BE ADEQUATELY FINANCED

Central to the effective and appropriate patent protection of new technology is the USPTO and the *quality* and *timeliness* of examinations of patent applications.

Quality depends upon the skill and dedication of the approximate 3000 patent examiners, properly trained, supervised and mentored and with effective administrative and technical support. For it to do its job properly, the Office must have the latest in "e-government" support, but apparently fiscal constraints will deprive the Office of the capability to move to electronic filing and processing of the more than 300,000 patent applications filed each year.

Timeliness depends upon adequate resources to the USPTO, and this is an area of great concern. For the past several years, more than \$850 million in user fees paid by patent applicants and patentees to support the USPTO have been diverted to other totally unrelated government programs. And as could have been guaranteed, the Office is falling alarmingly behind in being able to cope with its increasing workload.

My "back-of-the-envelope" calculations are that — if the current funding of the USPTO remains constant in real dollars, increasing only by cost-of-living adjustments — in five years it would take more than three years for an applicant to receive a first Office Action, and the overall time of pendency would increase to an average of over four years! There would be a total of two and one-half million patent applications pending in the Office, with each examiner having a "docket" of more than 750 applications

compared with current dockets of under 100 now. In short, the Office would be swamped. Under Secretary Rogan can confirm whether these dire predictions are accurate. I believe they are accurate, and steps must be taken now to ensure that they are not realized.

THE FEDERAL CIRCUIT COURT OF APPEALS IS AN UNQUALIFIED SUCCESS

The Court of Appeals for the Federal Circuit was established in 1982 in a bipartisan effort to bring certainty and stability to U.S. patent law. Based upon a key recommendation of President Carter's Domestic Review on Industrial Innovation, a centralized national court with exclusive appellate jurisdiction over patent-related cases was viewed in that Review as "a vehicle for ensuring a more uniform interpretation of the patent laws and thus contributing meaningfully and positively to predicting the strength of patents."¹

One of my highest priorities as a newly appointed Commissioner of Patents and Trademarks in 1981 was to recommend that the Reagan Administration support that initiative of the Carter Administration. That was by no means assured given the strong opposition of the American Bar Association to the creation of such a "specialized" federal court.

At that time I was teaching patent law at the American University's Washington College of Law and was all too familiar with the chaotic situation that business executives and their counsel faced in deciding how — and most significantly *where* — to enforce their patents. A leader in the

¹Hearings on H.R. 6033, H.R. 6934, H.R. 3806 and H.R. 2414 before the Subcommittee on Courts, Civil Liberties and the Administration of Justice, House Committee on the Judiciary, page 797, 96th Cong., 2d Sess. (1980).

research-based pharmaceutical industry summed up that industry's support for the Federal Circuit quite succinctly: "to eliminate geography-dependent patent opinions."² Prior to the creation of the Federal Circuit, an analysis of most patent issues would depend on what federal circuit one would assume would decide the case, and such an assumption would often be more significant than the facts themselves.

The Reagan Administration did strongly support the creation of the Federal Circuit based, among other things, upon the recommendation of then-Secretary of Commerce, the late Malcolm Baldrige. Having served as the very successful Chief Executive of Scovill Industries, Secretary Baldrige often expressed the view that successful business executives are able to "manage around" adversity; they cannot handle uncertainty. And as the several federal circuits drifted farther and farther apart in their interpretations of key sections of the patent code, the inevitable uncertainty actually called into question the viability of an effective U.S. patent system for protecting new technology.

The beneficial results of the creation of the Federal Circuit were immediate and felt throughout America's high-technology industries. Forum shopping --- or more accurately *circuit shopping* — is a thing of the past. Although in no field of law as dynamic as patent law can there be 100% assurance of the outcome of any case, business executives and their counsel can now look to a coherent and consistent body of case law to guide their

²Statement of Dr. P. Roy Vagelos, then-President, Merck, Sharp & Dohme Research Laboratories, Hearings on H.R. 6033, H.R. 6934, H.R. 3806 and H.R. 2414, *supra* note 2, at page 72.

fundamental research and development decisions.

DON'T CHANGE THE NONOBVIOUSNESS REQUIREMENT OF THE PATENT CODE

An assertion is sometimes made that there are too many U.S. patents being granted, or that the patents are "overbroad." This leads to an idea, usually vaguely defined, that we should change the nonobviousness standard somehow to "raise the bar." That would be most unwise in my view.

Nonobviousness is the most important patentability requirement and perhaps the most difficult to apply. Section 103(a) provides:

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.

The enactment of §103 in 1952 was a reaction to a line of Supreme Court cases in which U.S. patents were held to be invalid because they lacked "invention." In one celebrated case, Justice William O. Douglas went so far as to state that for a new device to be patentable, it "must reveal the flash of creative genius."³ The Supreme Court's anti-patent bias during the period leading up to 1952 was so pronounced that Justice Robert H. Jackson in a dissent complained "that the only patent that is valid is one

³*Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U.S. 84, 91 (1941). That case specifically prompted Congress to add a sentence to §103 that "Patentability shall not be negated by the manner in which the invention was made."

which this Court has not been able to get its hands on." ⁴

In his *Commentary on the New Patent Act*, Mr. P. J. Federico, a senior official of the U.S. Patent Office and one of the principal authors of the 1952 Act, stated as follows:

There has been some discussion as to whether section 103 modifies the so-called standard of invention (which itself is an unmeasurable quantity having different meanings for different persons) in the courts and it may be correct to state that the printed record does not show an explicit positive command to the courts. While it is not believed that Congress intended any radical change in the level of invention or patentable novelty, nevertheless, it is believed that some modification was intended in the direction of moderating the extreme degrees of strictness exhibited by a number of judicial opinions over the past dozen or more years; that is, that some change of attitude more favorable to patents was hoped for. This is indicated by the language used in section 103 as well as by the general tenor of remarks of the Committees in the reports and particular comments. ⁵

The Supreme Court did not reach the issue of the proper interpretation of §103 until 1966, when the Court decided three patent cases, often referred to as the *Graham Trilogy*. ⁶ As stated by one leading patent law scholar:

In *Graham*, the Court pointedly confirmed that Section 103 *codified* the judicially developed nonobviousness requirement. Congress did focus

⁴*Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 571 (1949) (dissenting opinion).

⁵P.J. Federico, *Commentary on the New Patent Act*, reprinted in 75 *Journal of the Patent and Trademark Office Society* 161, 183 (1993).

⁶*Graham v. John Deere Co. and Calmar, Inc. v. Cook Chemical Co.*, 383 U.S. 1 (1966); *Adams v. United States*, 383 U.S. 39 (1966).

inquiry on objective obviousness and, in effect, directed abandonment of 'invention,' which the courts had previously used to encapsulate the obviousness standard. 'Invention' had led to conceptual confusion. But, according to the Court, Section 103 did not, and constitutionally could not, 'lower' or fundamentally alter the patentability standard. On the merits, the Court held two of three patents invalid; it held a third patent valid, emphasizing that the invention, a battery that provided strong current with the addition of a water electrolyte, was met with initial skepticism by experts but later was used extensively by the United States government.⁷

In *Graham* — still the leading case interpreting §103 — the Supreme Court directed the lower courts and the Patent and Trademark Office to apply the following test:

Under § 103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or nonobviousness of the subject matter is determined. Such secondary considerations as commercial success, long felt but unsolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented. As indicia of obviousness or nonobviousness, these inquiries may have relevancy.

This is not to say, however, that there will not be difficulties in applying the nonobviousness test. What is obvious is not a question upon which there is likely to be uniformity of thought in every given factual context. The difficulties, however, are comparable to those encountered daily by the courts in such frames of reference as negligence and scienter, and should be amenable to a case-by-case development. We believe that strict observance of

⁷CHISUM ET AL. UNDERSTANDING INTELLECTUAL PROPERTY LAW 2-57 (Matthew Bender 1997 Reprint).

the requirements laid down here will result in that uniformity and definiteness which Congress called for in the 1952 Act. ⁸

Notwithstanding this guidance, the regional Circuit Courts of Appeals were all over the lot in interpreting the requirements of §103. One of the issues was whether "synergism" in some form or another was required to satisfy the §103 requirement. As noted by one patent law scholar, "prior to Federal Circuit analysis of the issue, confusion reigned among lower federal courts as to the proper role of synergism in evaluating nonobviousness." ⁹

One of the principal areas of concern that led to the creation of the Federal Circuit was §103 and the differences in its interpretation throughout the regional circuits. Although there are clear differences among the several judges serving on the Court of Appeals for the Federal Circuit in other areas of patent law, there are no major differences in the interpretation of §103. In one celebrated case, the Federal Circuit relied upon §103 when it vacated the Seattle District Court's Preliminary Injunction against BARNESANDNOBLE.COM on February 14, 2001. ¹⁰

Thus, with respect to §103 regarding nonobviousness, three factors have resulted in a workable standard of patentability both in the Patent and Trademark Office and in the courts: (1) the enactment of the section in

⁸383 U.S. @ 17.

⁹PETER D. ROSENBERG, PATENT LAW BASICS 9-48 (Clark Boardman Callaghan 1995).

¹⁰AMAZON.COM, Inc. v. BARNESANDNOBLE.COM, Inc., 239 F.3d 1343 (Fed. Cir. 2001).

1952, (2) the authoritative interpretation of the section in the *Graham Trilogy* of cases, and (3) the creation of the Federal Circuit, which is doing an excellent job of interpreting §103 on a case-by-case basis. There are now more than 700 Federal Circuit cases interpreting §103 in dozens of technological contexts. If patent claims are said to be "overbroad," I assume that means that they would not be valid under 35 U.S.C. § 103 or § 112, as those sections are now written. Otherwise, I would have no idea what "overbroad" means.

To attempt now to amend § 103 to "raise the bar" — whatever that may mean in a given case — would, at the very least, result in a generation or two of uncertainty and confusion. Such an attempt would, in my view, be met with appropriate, vigorous and successful opposition by high technology industry, inventor groups and the organized patent bar.

The number of patents being granted by the USPTO has increased significantly, but I seriously doubt whether the increase has kept pace with the nation's investment in research and development. In the research-based pharmaceutical industry, for example, R & D expenditures have increased more than ten-fold in the past 20 years — from \$2.3 billion in 1981 to more than \$30 billion in 2001. And patents granted in the pharmaceutical field (USPTO classes 424 and 514), although substantially increased, have not kept pace. In 1981, 2,017 such patents were granted, compared with 6,751 patents in the year 2000. Of course, many of those patents cover new life-saving and life-enhancing medications that would not have been invented except for the incentives provided by the U.S. patent system. I am certain

that the pattern of the research-based pharmaceutical industry is repeated in many other important fields of technology. One way to decrease the number of patent applications filed, of course, would be for the government to discourage privately funded research and development, a step which hardly anyone would seriously recommend.

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Mr. Chairman, that concludes my prepared statement. Mr. James J. Kulbalski, a partner at the Oblon Spivak firm, is submitting a statement in connection with these hearings on patent pooling and technical standards. I hope that his paper and my comments will be helpful to you as your hearings continue.