Prepared remarks of

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Hearings on
Competition and Intellectual Property Law and Policy
In the Knowledge-Based Economy
"Cross Industry Perspectives on Patents"

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Good morning. My name is Mary U. Musacchia. I am Counsel to the President/CEO and Director, Government Relations & Public Policy for SAS Institute Inc. Founded in 1976, SAS is the world's largest privately held software company, with world headquarters in Cary, NC. Its core technology was developed in the 1960's at North Carolina State University. SAS now has over 8,000 employees in 202 offices worldwide. Its software is used at more than 38,000 business, government and university sites in over 118 countries. In 2000, SAS invested 30% of its income into its R & D.

On behalf of SAS, I commend the Federal Trade Commission and the Department of Justice for seeking the views of the business community through these hearings and welcome the opportunity to appear today to present our perspective. My comments will focus exclusively on the controversy surrounding business method patents, or BMP's as they are commonly called.

SAS is concerned that the public perception of the patent system has suffered with the introduction and rapid growth of the filing and granting of business method patents. Whether it is a patent on a Dutch auction, a one-click shopping experience, or techniques to pictorially train "cleaners of facilities", the public eye has been turned in this direction and the question asked: "What is the value of a patent system that grants monopolies on such 'innovations'"?

The historical justification of patents, as set forth in the U.S. Constitution, empowers Congress to create a system "to promote the progress of science and useful arts by securing for limited times to . . . inventors exclusive right to their respective . . . discoveries". In exchange, the inventor makes full disclosure of the invention. The economic theory of patents is that the disclosure of the innovation will stimulate competition and further innovations. By virtue of disclosure, society is invited to invent design-arounds and further technological advances are made, augmenting the storehouse of human knowledge.

In industries such as manufacturing and electronics, history proves that this is so. For every new microchip or carburetor, the disclosure of the new invention spurs competition to design improvements. It is also recognized that in some industries, such as the pharmaceutical, a

financial recovery incentive is required because of the expense associated with the original discovery. Society's value to granting this limited monopoly thus must be based upon either a disclosure that would encourage subsequent innovations or encourage expenditures for discoveries by creating a plausible payback mechanism.

It has been in the last several years that the scope of patent protection has been enlarged, resulting in a dramatic increase in the number of patents, both filed and issued. Certainly, not an insignificant portion of that growth can be attributed to BMP's that have emerged from the use of the Internet by businesses. These hearings are valuable because they seek to look at the impact of this change on the economy and as a matter of public policy.

Many business method patents simply take a commercial brick and mortar business process and articulate it as an Internet or electronic application. Having minimal or no physical component, business method techniques cross the line into abstractions, mere shadows of innovation. And while mechanical processes have been patented, BMP's are not in keeping with the historical and publicly held belief that patents have an innovative and technical character.

For example, when an electronic device is patented, the disclosure of the new circuit in the text of the patent is expected. With a business method, since the business is already active in the marketplace, there is no incentive to the filer to disclose within a patent. In many instances, the business process, by its nature, is public. Most typically, the underlying technology that is used in the process, the actual lines of code, is not part of the patent filing. What is seen most often is a broad, non-illuminating description of an already public technique. Thus, without information on the technical mechanism, the disclosure of a business method patent fails to augment public knowledge. In effect, there is no longer a quid pro quo -- the creation of an intellectual property right and its protection in exchange for public disclosure.

In the marketplace, business methods are developed not in a research laboratory in a series of sequential improvements upon past technology, as in the manufacturing and electronic industries, nor in repeated breakthroughs, as in the pharmaceutical industries, but in an arena of competition. Interactive emulation, such as Internet advertising and commerce, transferring brick and mortar techniques to the Internet, or "systematizing human transactions" appear to be the focus of business method changes. A competitive marketplace between similar or only slightly different businesses is all that is truly necessary to spur improvements, not the carrot of monopoly power. Ignoring this quality of business methods leads to failure to achieve the proper balance originally contemplated as part of the patent system.[i]

Some argue there is a need for patents, including BMP's to prevent free riding. To the extent free-riding acts as a disincentive to innovation, this could be a basis for government

granted monopoly power. However, in the area of business processes, does this position hold-up? Traditionally, improved business methods are their own reward. They depend in strong measure on the social structure within a company utilizing them, on compensation schemes, lines of reporting, supervising policies and other business factors, both internal and external. In addition, the first mover advantage is a strong incentive, in many cases ensuring adequate returns to compensate for the cost of the implementation of the process. The government does not need to intervene where the market works.

We live in a world that is growing increasingly smaller. It has been the practice for the USPTO to work with its counterparts in both Japan and Europe to harmonize the patent laws. We agree that harmonization is necessary, but as harmonization would apply to BMP's, the United States should move toward the European Patent Office and the Japanese Patent Office approach; not the reverse.

Neither the EPO nor the JPO grant patents on business methods, per se. Instead the EPO requires that an invention have an "industrial" application and the JPO requires an invention be "industrially applicable".

Recently, the EPO evaluated its position on software patents, business method patents, and industrial application. A proposed Directive makes clear the EPO's stance on requirements for patentability, and calls for the additional requirement that an invention have a "technical contribution", *i.e.*, the invention must contribute to the "state of the art" in the technical field concerned. Thus, a computer-implemented invention in which the contribution to the prior art does not have a technical character would be considered to be unpatentable. [ii]

Last spring the United Kingdom's e-minister, Patricia Hewitt, announced her government's decision to not recognize business method patents, stating, "Our key principle is that patents should be for technological innovations." [iii]

The JPO requires that an invention be "industrially applicable" and further limited by the requirement that "inventions liable to contravene public order, morality or public health shall not be patented." [iv] These two requirements have resulted in the JPO refusing to grant patents for new medical treatments, methods of typhoon control and business methods. [v]

According to the Japanese, the "systemization of existing human transactions" "would not be deemed patentable because it would be obvious to a person of ordinary skill in the art." The industrial application requirement in the EPO and the JPO, along with their requirement that patentable inventions have a technical character, limits the extent of patent protection that may be received for inventions of an economic nature, [vi] a BMP. "By explicitly including industrial application as a prerequisite to even entering the realm of patentability, the possibility of

protecting processes solely involving economic or personal utility, such as a method of training janitorial staff…"[vii] or of swinging a golf club, [viii] is significantly reduced. [ix]

In a global marketplace, business method patents may also introduce an artificial constraint on the competitive process and should be evaluated for possible impact to the U.S. economy. Query: If the JPO and EPO continue their restricted approach to recognizing BMP's, will patent seekers flock to the United States to obtain a protected monopoly, constraining behaviors in the U.S., while leaving the rest of the global marketplace free of impediments? The dynamics are probably too new to really know how this will play-out, but it is worth considering. If history provides a basis for judgement, there is little to suggest that the previous lack of monopoly protection for business methods, on any significant scale, hurt the growth of U.S. businesses from the time our Founding Fathers authorized Congress to create the patent system over two centuries ago.

Throughout the course of these hearings, numerous suggestions have been made as regards BMP's. SAS has been a proponent of full funding of the USPTO. This will help improve the quality of the work, benefit those that use the system and cease to be an indirect tax on inventors who have contributed the most to the growth of the US economy over the last two hundred years. However, full funding should not be considered a cure to the fundamental flaw that exists by granting patents for business methods.

It has been suggested that reducing the life of the patent for BMP's to three years would be desirable. While this would be an improvement on where we stand today, it again does not address the underlying public policy issue. If BMP's can be defined clearly enough to have the patent life reduced, they can be defined clearly enough not to be granted. Whatever action may be considered, it should be conducive to harmonization on a global basis, and careful consideration should be given to moving toward the positions of the EPO and JPO on this subject.

I thank you for affording SAS the opportunity to participate and I look forward to the remainder of the morning.

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[i] Leo J. Raskind, Symposium: The State Street Bank Decision: The Bad Business of Unlimited Patent Protection for Methods of Doing Business, *10 Fordham I. P., Media & Ent. L.J. 61* (1999).

[ii] *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the patentability of computer-implemented inventions.* See http://www.europa.eu.int/comm/internal_market/en/indprop/com02-92en.pdf

[iii] Pamela A. MacLean, Patent Medicine, Congress tries to limit business-method patents., House Counsel, May/June 2001.

[iv] Japan Patent Law, Law No. 121 of 1959, art. 32.

[v] John Richards, Recent Patent Law Developments in Asia, *7 Fordham Intell. Prop. Media & Ent. L.J. 599, 619* (1997).

[vi] Brian P. Biddinger, Limiting the Business Method Patent: A Comparison and Proposed Alignment of European, Japanese and United States Patent Law, *69 Fordham L. Rev. 2523* (2001).

[vii] U.S. Patent No. 5,851,117 (issued Dec. 22, 1998).

[viii] U.S. Patent No. 6,071,199 (issued June 6, 2000).

[ix] Brian P. Biddinger, Limiting the Business Method Patent: A Comparison and Proposed Alignment of European, Japanese and United States Patent Law, *69 Fordham L. Rev. 2523* (2001).